

PP14767/09/2012(030761)

UMW Oil and Gas Corporation Bhd

“Awards for NAGA 7”

UMW Oil and Gas Corporation Bhd (UMW-OG) is ready to deploy its NAGA 7 to serve a new contract for Petronas Carigali Sdn Bhd (PCSB) after its previous contract was terminated by Frontier Oil Corp. (FOC). However, we remain cautious on the outlook of the company as several of its asset still remains off-charter. We value UMW-OG at RM0.90 and the stock is a SELL.

- **Detail of the awards.** UMW-OG has received a Letter of Award (LOA) from PCSB for the provision of a jack-up drilling rig and UMW-OG will assign its NAGA 7 asset for this. The contract period has started from 15 October 2015 involving the drilling of 7 firm wells with extension option of 1 plus 1 well (estimated duration of minimum 1 month for each well). Recall that Naga 7 previous contract was worth USD19.2 million to be deployed in offshore Philippines but got terminated by FOC.
- **Challenging condition.** We are positive on the new contract wins for NAGA 7 in the tough condition of oil and gas industry due to the weaker oil price. At this stage, we expect the outlook for UMW-OG to remain challenging due to the plunge in daily charter rate coupled with several of its jack-up rigs still remain off-charter including NAGA 2, NAGA 3, NAGA 5 and NAGA 6.
- **Delivery of NAGA 8.** On the latest development, UMW-OG has formally taken the delivery of new jack-up rig, NAGA 8 from Keppel FELS Limited (Keppel FELS) in September 2015. NAGA 8 is a premium jack-up drilling rig capable of operating in water depths of up to 400 feet and drilling to a total depth of 30,000 feet sub-sea. It is currently being prepared to be mobilised for a potential client in Southeast Asia.

Friday, October 30, 2015

SELL (TP: RM0.90)

Current Price (RM)	RM1.21
New Target Price (RM)	RM0.90
Previous Target Price (RM)	RM2.21
Previous Recommend.	HOLD
Upside To Target Price	-26%
Dividend Yield (FY16)	1%

Stock Code

Bloomberg	UMWOG MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	2,162
Market Cap (RM mn)	2,659
YTD Chg In Share Price	-48%
Beta (x)	2.00
52-week Hi/Lo (RM)	3.35 1.86
3M Average Volume (shrs)	3.97mn
Estimated Free Float	36%

Major Shareholders

UMW Holdings	56%
Skim ASB	8%
EPF	6%

Company Update - UMW Oil and Gas Corporation Bhd

- **Earnings outlook.** We maintain our earnings forecast for now pending for the detail of contract value. At this juncture, we project UMW-OG to record lower earnings in FY15 (-73% y-o-y) due to the lower charter rate assumptions in line with the weakness in oil prices coupled with lower operating days for NAGA 7 impacted by contract termination with FOC. Nonetheless, FY16 earnings are projected to increase by 113% y-o-y lifted by additional contribution from the new delivery of NAGA 8 (3Q15) - of which we expect to receive steady contract flows by then.
- **Valuation & recommendation.** We value UMW-OG at RM0.90 based on 13x PER (30% discount to average Big-cap PER of 18x) and the stock is a **SELL**. Re-rating catalyst may come from i) robust prospects of jack up drilling activities in Southeast Asia (SEA) market and ii) faster-than-expected recovery in global oil prices.

Table 1: Peers Comparison (Calenderised)

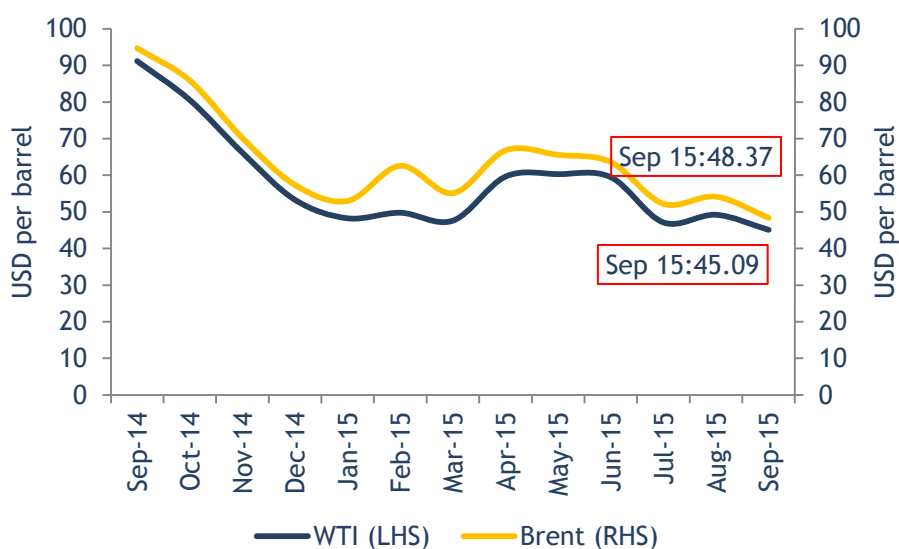
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY15	FY16	FY15	FY16				
SapuraKencana	Jan	2.12	19	20	13.2	12.3	1.1	1.0	10	1	2.55	Buy
Wah Seong	Dec	1.19	14	15	9.5	8.8	0.9	0.9	13	4	1.15	Hold
Bumi Armada	Dec	0.95	7	10	15.3	11.1	1.0	0.9	4	1	1.06	Buy
Dialog Group	Jun	1.61	5	5	31.4	29.9	4.5	4.5	15	1	1.60	Hold
MMHE	Dec	1.10	8	8	14.3	15.0	0.7	0.7	5	NA	1.20	Hold
PetDag	Dec	22.50	74	81	28.9	26.1	3.4	3.4	12	2	19.71	Hold
Dayang	Dec	1.69	21	24	9.7	8.7	1.8	1.4	22	3	1.80	Buy
UMW-OG	Dec	1.21	9	11	16.2	12.4	0.9	0.8	7	1	0.90	Sell
Perisai	Dec	0.33	3	6	15.6	7.1	0.4	0.4	2	NA	NR	NR
Perdana Petroleum	Dec	1.54	8	13	18.6	11.6	1.7	1.4	12	1	NR	NR
TH Heavy	Dec	0.21	(1)	2	NA	10.5	0.5	0.4	(26)	NA	NR	NR
Petra Energy	Dec	1.24	12	15	8.7	7.1	0.6	0.6	7	2	NR	NR
Deleum	Dec	1.33	16	18	8.0	7.5	1.7	1.4	23	6	NR	NR
Uzma	Dec	2.20	20	24	12.5	10.4	2.3	1.9	18	2	NR	NR
KNM	Dec	0.53	7	7	8.8	7.8	0.5	0.4	3	NA	NR	NR
Average					14.7	12.1	1.4	1.3	8	2		

Source: Bloomberg, M&A Securities

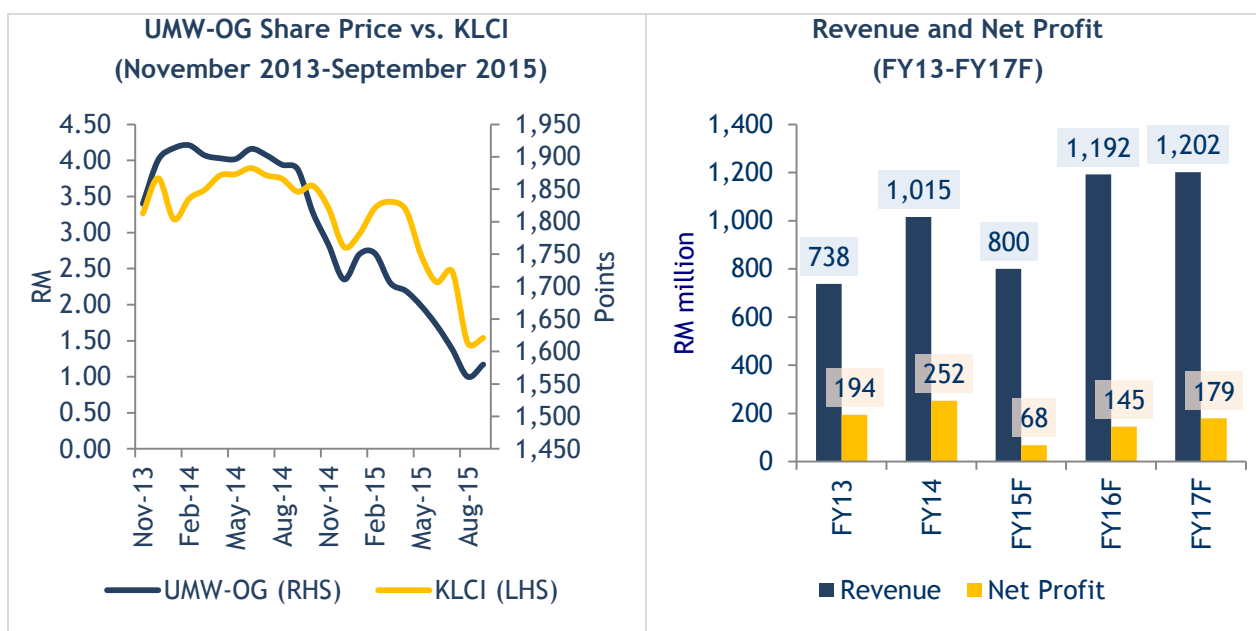
Table 2: Financial Forecast

YE: Dec (RM'mil)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	738	1,015	800	1,192	1,202
EBITDA	312	411	288	425	465
EBIT	222	278	102	204	224
Finance cost	(24)	(26)	(40)	(60)	(48)
PBT	207	284	83	175	206
Net profit	194	252	68	145	179
EPS (sen)	12	12	3	7	8
EBITDA margin	42%	40%	36%	36%	39%
EBIT margin	30%	27%	13%	17%	19%
PBT margin	28%	28%	10%	15%	17%
Net profit margin	26%	25%	9%	12%	15%
PER (x)	34.1	20.2	38.4	18.1	14.6
P/BV (x)	3.1	2.0	0.8	0.8	0.7
Dividend (sen)	NA	1	NA	1	1
Dividend yield	NA	0.4%	NA	1%	1%

Source: Company, M&A Securities

WTI vs. Brent Crude Oil Price
(September 2014-September 2015)

Source: Bloomberg



Source: Bloomberg, M&A Securities

Table 5: Drilling Rigs Assets

	NAGA 1	NAGA 2	NAGA 3	NAGA 4
				
Type	Semi-Submersible	Jack-Up	Jack-Up	Jack-Up
Ownership	50%	100%	100%	100%
Delivery Year	1974	2009	2010	2013
Water Depth	1,000ft	350ft	350ft	400ft
Drilling Depth	30,000ft	30,000ft	30,000ft	30,000ft

	NAGA 5	NAGA 6	NAGA 7	NAGA 8
				
Type	Jack-Up	Jack-Up	Jack-Up	Jack-Up
Ownership	100%	100%	100%	100%
Delivery Year	2Q14	3Q14	1Q15	3Q15
Water Depth	400ft	400ft	400ft	400ft
Drilling Depth	30,000ft	30,000ft	30,000ft	30,000ft

Source: UMW-OG

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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