

PP14767/09/2012(030761)

UMW Oil and Gas Corporation Bhd

“Signals to a Challenging Year”

Results Review

- Actual vs. expectations.** UMW Oil and Gas Corporation Bhd (UMW-OG) 1Q15 net profit of RM32 million (-40% y-o-y), came in line below ours and consensus estimates respectively, accounting 8% and 10% of both estimates full year net profit forecast. Disappointing 1Q15 earnings was due to the lower PBT contribution from drilling service segment which dropped by 27% y-o-y to RM42 million, hammered by forced discount on charter rates by existing clients in tandem with the sharp drop in oil prices and additional operating expenses incurred by NAGA 7 due to the termination of contract with Frontier Oil Corp. (FOC).
- Dividend.** No dividend was declared during the quarter.
- Drilling service segment.** Despite posting a weaker PBT contribution in 1Q15 (-27% y-o-y), the drilling services segment managed to record higher revenue of RM300 million in 1Q15 (+62% y-o-y) driven by; i) additional contribution from NAGA 5 and NAGA 6 which commenced operation in May 2014 and October 2014 respectively, ii) additional revenue contribution from its new hydraulic workover unit, UMW GAIT 6 which commenced operation in August 2014 and iii) higher operating efficiency achieved by NAGA 2 and NAGA 3.
- Oilfield service segment.** Oilfield service segment posted better-than-expected revenue and PBT of RM12 million (+19% y-o-y) and RM3 million (+44% y-o-y) respectively, boosted by higher contribution from Oil Country Tubular Goods (OCTG) threading and pipe repair services from the group’s operations in Labuan and Turkmenistan.

Friday, May 15, 2015

HOLD (TP: RM2.21)

Current Price (RM)	RM2.07
New Target Price (RM)	RM2.21
Previous Target Price (RM)	RM3.20
Previous Recommend.	BUY
Upside To Target Price	7%
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)	4,562
YTD Chg In Share Price	-6%
Beta (x)	NA
52-week Hi/Lo (RM)	4.27   1.91
3M Average Volume (shrs)	2.70mn
Estimated Free Float	20%

Major Shareholders

UMW Holdings	56%
Skim ASB	8%
EPF	6%

- **NAGA 7 contract termination.** NAGA 7 (delivered in January 2015) had previously secured a contract worth USD20 million (RM64 million) from Frontier Oil Corp. (FOC) to deploy jack-up rigs in KJF Field SC50 Block at offshore Philippines within four month period beginning from mid-January 2015. However, UMW-OG announced that FOC has failed to execute the contract and the group is seeking a compensation amounting to USD19.2 million for all the losses arising from the breach of contract. UMW-OG now has put NAGA 7 for a new tender.
- **Order book at RM1.8 billion.** UMW-OG's orderbook currently stood at RM1.8 billion, expected to last them until 2018. The group is now bidding for 22 rig contracts worth approximately RM5.4 billion consisting 8 from Malaysia and 14 from overseas where 36% are comprise of long-term contracts and 64% on short-term contracts. The group prefers to secure a short-term contract rather than long-term contract underpinned by protracted softness in global oil prices which may dent daily charter rate by 6%-7% in 2015 (note: company guidance).
- **Middle East expansion.** UMW-OG is planning to penetrate the Middle East market in the future after building a strong reputation in Southeast Asia including Malaysia, Vietnam, Myanmar and the Philippines. The Middle East market, which holds 49% of global oil reserve, offers a solid opportunity for the group to strengthen its global business presence driven by OPEC decision to continue their production activities even if the oil prices settle at USD20 per barrel.
- **Change to forecast.** We made adjustment to our earnings by cutting FY15 and FY16 earnings forecast by 42% and 37% respectively due to the lower charter rate assumption 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 22% y-o-y lifted by additional contribution from the new delivery of NAGA 8 (3Q15) - of which we expect steady contract flows by then and ii) impressive tender book of RM5.4 billion backed by solid orderbook value of RM1.8 billion.
- **Valuation & recommendation.** We re-value UMW-OG at RM2.21 based on 17x PER (15% discount to average Big-cap PER of 20x) and downgrade the stock to **HOLD**. Re-rating catalyst may come from i) robust prospects of jack up drilling activities in the Middle East market and ii) faster-than-expected recovery in global oil prices.

## Results Review - UMW Oil and Gas Corporation Bhd

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	2.70	20	21	13.7	12.7	1.2	1.1	13	1	3.22	Buy
Wah Seong	Dec	1.29	14	15	9.2	8.6	0.8	0.8	12	4	1.38	Hold
Bumi Armada	Dec	1.26	8	10	15.7	11.7	1.0	1.0	4	2	1.28	Hold
Dialog Group	Jun	1.65	5	5	34.3	31.0	4.8	4.6	15	1	1.70	Hold
Alam Maritim	Dec	0.68	7	7	9.5	9.4	0.7	0.7	9	NA	0.72	Hold
MMHE	Dec	1.21	8	8	15.1	15.4	0.7	0.7	8	NA	1.33	Hold
PetDag	Dec	19.78	71	79	30.1	27.0	4.0	3.9	11	2	18.90	Sell
Dayang	Dec	2.64	24	28	10.8	9.3	2.4	2.1	22	3	2.95	Buy
UMW-OG	Dec	2.07	15	17	14.8	13.3	1.4	1.2	8	0.5	2.21	Hold
Perisai	Dec	0.54	6	9	10.0	5.9	0.6	0.5	1	NA	NR	NR
Perdana Petroleum	Dec	1.50	12	15	11.4	9.3	1.3	1.1	14	1	NR	NR
TH Heavy	Dec	0.30	3	4	12.1	9.0	0.8	0.7	(20)	NA	NR	NR
Petra Energy	Dec	1.50	15	16	9.3	9.0	0.8	0.8	7	1	NR	NR
Deleum	Dec	1.61	16	18	10.1	9.2	2.0	1.7	23	5	NR	NR
Uzma	Dec	2.43	21	23	11.3	10.0	1.6	1.2	19	2	NR	NR
KNM	Dec	0.65	7	8	8.9	7.8	0.5	0.4	2	NA	NR	NR
Average					14.1	12.4	1.5	1.4	9	2		

Source: Bloomberg, M&amp;A Securities

Table 2: Financial Forecast

YE: Dec (RM'mil)	FY12	FY13	FY14	FY15F	FY16F
Revenue	724	738	1,016	1,202	1,450
Operating profit	112	222	279	327	397
Finance costs	(40)	(24)	(26)	(99)	(118)
Investment income	2	8	32	36	44
Share of results of associate	0	0	1	0.6	0.7
PBT	74	207	286	265	324
Taxation	(12)	(15)	(33)	(32)	(39)
Minority interest	(1)	(2)	2	(2)	(2)
Net profit	73	189	251	231	282
EPS (sen)	3	9	12	11	13
Operating profit margin	16%	30%	27%	27%	27%
PBT margin	10%	28%	28%	22%	22%
Net profit margin	10%	26%	25%	19%	19%
PER (X)	118.0	44.2	24.1	19.4	15.8
P/BV (x)	27.7	3.1	2.0	1.4	1.3
DPS (sen)	NA	NA	1	1	1
Dividend yield	NA	NA	0.4%	0.5%	0.6%

Source: Company, M&amp;A Securities

## Results Review - UMW Oil and Gas Corporation Bhd

Table 3: Results Analysis

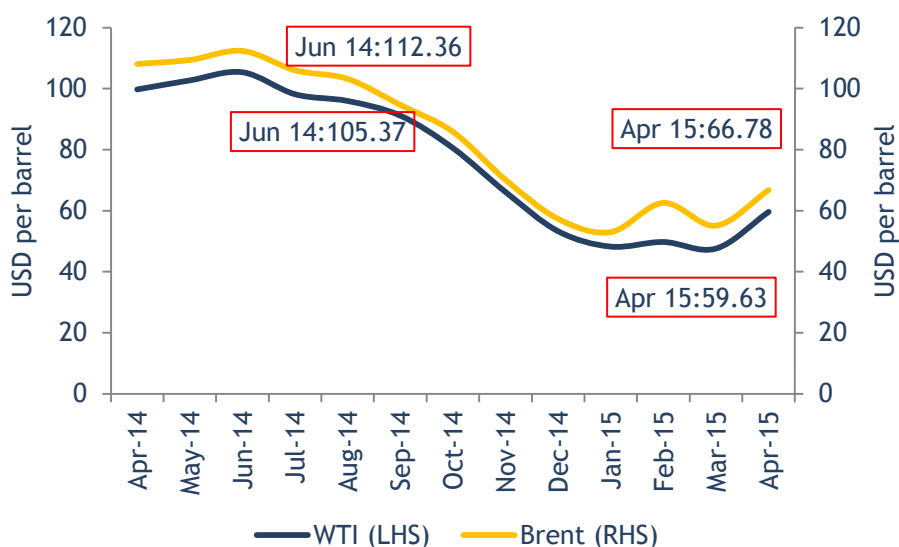
YE: Dec (RM million)	1Q14	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
Revenue	196	328	312	-5%	60%	196	312	60%
EBIT	56	87	47	-46%	-16%	56	47	-16%
Finance cost	(4)	(9)	(12)	28%	164%	(4)	(12)	164%
Associates	0.1	0.1	0.1	30%	18%	0.1	0.1	18%
Investment income	7	8	7	-7%	3%	7	7	3%
Pre-tax profit	58	86	42	-51%	-27%	58	42	-27%
Taxation	(4)	(14)	(10)	-31%	136%	(4)	(10)	136%
Net Profit	54	71	32	-55%	-40%	54	32	-40%
EPS	2	3	1	-55%	-40%	2	1	-40%
EBIT Margin	28%	27%	15%			28%	15%	
Pre-tax margin	30%	26%	14%			30%	14%	
Net Profit margin	27%	22%	10%			27%	10%	
Effective tax rate	7%	17%	23%			7%	23%	

Source: Bursa Malaysia, M&amp;A Securities

Table 4: Segmental Analysis

YE: Dec (RM million)	1Q14	4Q14	1Q15	q-o-q	y-o-y	3M14	3M15	y-o-y
<b>Revenue</b>								
Drilling services	185	316	300	-5%	62%	185	300	62%
Oilfield services	10	12	12	3%	19%	10	12	19%
Others	0	0	0	NM	NM	0	0	NM
<b>PBT</b>								
Drilling services	56	84	39	-54%	-32%	56	39	-32%
Oilfield services	1.9	2	3	16%	44%	1.9	3	44%
Others	0.1	-0.04	1	-3200%	1553%	0.1	1	1553%

Source: Bursa Malaysia, M&amp;A Securities

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

Source: Bloomberg

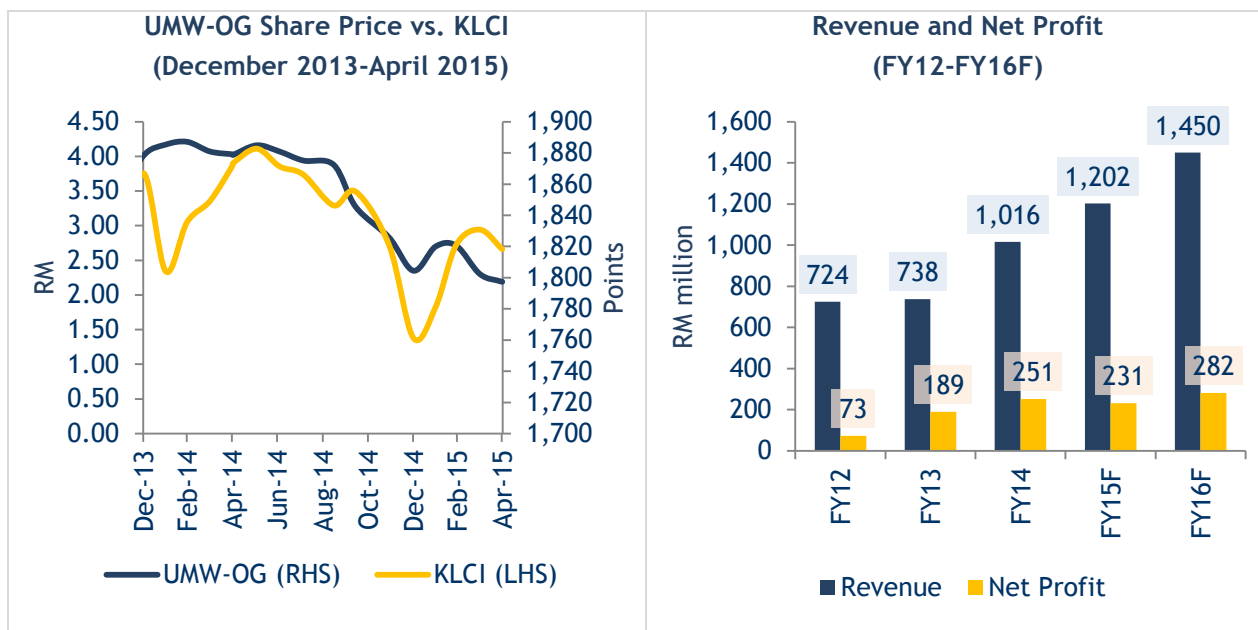
Table 5: Drilling Rigs Assets

	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

\*Pending for delivery; Source: UMW-OG



Source: Bloomberg, M&A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

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