27 February 2014

AFFIN INVESTMENT BANK
KDN: PP 10251/07/2013(032736)

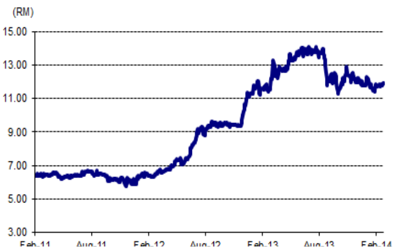
Results Note

UMW

UMWH MK
RM11.94

REDUCE (maintain)

Price Target: RM11.35 (↔)



Price Performance

	1M	3M	12M
Absolute	+4.0	-0.6	+3.3
Rel to KLCI	+2.9	-4.4	-11.3

Stock Data

Issued shares (m)	1,168.3
Mkt cap (RMm)/(US$m)	13,949 / 4,266
Avg daily vol - 6mth (m)	1.7
52-wk range (RM)	11.22-15.87
Est free float	29.8%
BV/share (RM)	4.3
P/BV (x)	2.78
Net cash/ (debt) (RMm) (4Q13)	(412.4)
ROE (2014E)	18.7%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Skim ASB	42.4%
EPF	13.8%
KWAP	5.0%
Yayasan Pelaburan Bumiputra	5.0%

Earnings & Valuation Revisions

	14E	15E	16E
Prev EPS (sen)	82.9	92.1	n.a.
Curr EPS (sen)	82.9	92.1	97.7
Chg (%)	-	-	n.m.
Prev target price (RM)			11.35
Curr target price (RM)			11.35

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Within expectations, intense competition to persist

The launch of *Vios* helped lift core net profit sequentially to RM222m

4QFY13 core net profit rose 15.7% qoq to RM222.3m (-13.7% yoy) thanks to the launch of *Toyota Vios* in October 2013. This brings FY13 core net profit to RM880.6m (-11.7%). The results are inline with Affin's estimates but 6% below street. The Group declared a third interim net DPS of 9 sen, bringing net DPS declared YTD to 44 sen/share (net yield of 3.7%). Stepping into FY14, the Group expects to sell 98,400 and 197,000 units of Toyota and Perodua, respectively. We project 2014 Toyota and Perodua sales of 95,247 and 200,000 units, respectively. Taken together with the more robust UMW O&G earnings growth over the next two years, we project a 3-year (FY13-16) earnings CAGR of 8%. Valuation is lofty (FY14 PER of 14.4x) as the listing of UMW O&G (in November 2013) served to clearly demarcate the Group's high growth segment. Maintain **REDUCE** with an unchanged RNAV-based TP of RM11.35/share. Key upside risks: (1) a more active capital management; (2) better-than-expected Toyota sales outlook into 2014-15; and (3) sharp turnaround within the equipment and overseas manufacturing segments.

4QFY13 core net profit fell yoy due to fewer Toyotas sold in the quarter

4QFY13 Group revenue fell 3.9% yoy to RM3,891.8m as: (1) Toyota sold 27,109 units in the quarter – a 5.7% yoy drop in unit sales; and (2) a 14.8% decline in equipment revenue - reflecting weak demand within the construction and commodity sectors. The weaker sales trend was further exacerbated by Toyota's margin compression (due to intensifying competition and stronger US$ vis-à-vis Ringgit). Together with a higher effective tax rate, core net profit dipped 13.7% yoy and 12.9% qoq to RM192m. PBT for O&G rebounded to the quarter to RM54.5m (4QFY12: RM12.5m) thanks to the commencement of *Naga 4* operations and higher time charter rate for *Naga 1* as well as *Naga 2.* Sequentially, core net profit rose 15.7% thanks to higher Toyota sales with the launch of Toyota Vios in October 2013. As a result, auto PBT margin rose 1.5ppts to 13.6% (3QFY13: 12.1%).

FY13 core net profit fell 12% yoy on a challenging automotive landscape

FY13 Group revenue fell 10.2% yoy to RM14,206.9m as Toyota unit sales fell 13% yoy to 91,185 units whilst equipment revenue fell 20.2% yoy with the deferment of sales order prior to GE13 and weak commodity sector sentiment. As a result, 12MFY13 core net profit contracted 11.7% yoy to RM880.6m. Higher Perodua associate and UMW O&G earnings helped cushioned Toyota's weak earnings performance yoy. Perodua registered 196,071 unit sales for 2013 (+3.7% yoy, on a high base) thanks to the launch of a more affordable S-Series in 1H2013. Perodua's manufacturing margins were also aided by cheaper raw materials thanks to a weaker Yen and positive operating leverage. Auto PBT (combined Toyota and Perodua margins) fell 1.9ppts in FY13. Intense competition, we opine, will continue to depress near-term earnings outlook.

Earnings & Valuation Summary

FYE 31 Dec	2012	2013	2014E	2015E	2016E
Revenue (RMm)	15,890.2	14,206.9	15,398.1	16,731.1	17,769.9
EBITDA (RMm)	2,151.8	1,902.4	2,106.5	2,374.5	2,487.9
Pretax profit (RMm)	2,000.5	1,455.2	2,022.2	2,199.6	2,305.9
Net profit (RMm)	951.0	681.2	966.8	1,074.9	1,139.1
EPS (sen)	81.5	58.4	82.9	92.1	97.7
PER (x)	14.6	20.4	14.4	13.0	12.2
Core net profit (RMm)	954.0	880.6	966.8	1,074.9	1,139.1
Core EPS (sen)	81.8	75.5	82.9	92.1	97.7
Core EPS growth (%)	14.4	(7.7)	9.8	11.2	6.0
Core PER (x)	14.6	15.8	14.4	13.0	12.2
Net DPS (sen)	50.0	65.0	60.0	65.0	65.0
Dividend Yield (%)	4.2	5.4	5.0	5.4	5.4
EV/EBITDA (x)	6.6	7.6	7.5	6.5	6.1
Consensus profit (RMm)			1,025.1	1,097.6	n.a.
Affin/Consensus (x)			0.9	1.0	n.m.

Fig 1: Quarterly Results Comparison

FYE Dec (RMm)	4QFY12	3QFY13	4QFY13	Qoq % chg	YoY % chg	Comment
Revenue	4,050.4	3,456.6	3,891.8	12.6	(3.9)	YOY: Group's topline was affected by weak Toyota unit sales and equipment sales (-14.8% yoy). Toyota sold 27,109 units in 4QFY13 compared to 28,752 units sold in 4QFY12 (-5.7% yoy) and 20,329 units sold in 3QFY13 (+33.4%).
OPEX	(3,603)	(3,180)	(3,474)	9.3	(3.6)	
EBIT	**447.8**	**276.9**	**417.3**	50.7	(6.8)	Affected by lower margins achieved by Toyota (weaker Ringgit vis-à-vis US$, intense competition leading to higher A&P) and losses from India manufacturing plant.
EBIT margin %	*11.1*	*8.0*	*10.7*			
Interest expense	(21.7)	(21.5)	(32.2)	49.8	48.1	
Investment income	19.8	18.6	28.1	51.1	42.1	
Exceptional items	(6.7)	(90.6)	(113.1)	24.9	> 100	
Associates	31.9	62.2	33.6	(45.9)	5.6	Perodua sold 48,673 units for 4QFY13 compared to 49,726 units in 4QFY12 (-2.1% yoy) and 50,525 units in 3QFY13 (-3.7% yoy).
Pre-tax profit	**471.0**	**245.6**	**333.7**	35.8	(29.2)	
Tax	(86.1)	(66.7)	(104.0)	56.0	20.8	
Tax rate %	*18.3*	*27.1*	*31.2*			
MI	(134.0)	(77.5)	(120.6)	55.5	(10.0)	
Net profit	**250.9**	**101.5**	**109.1**	7.6	(56.5)	
EPS (sen)	21.5	8.7	9.3	7.6	(56.5)	
Core net profit	**257.6**	**192.0**	**222.3**	15.7	(13.7)	

Fig 2: Cumulative Results Comparison

FYE Dec (RMm)	12M2012	12M2013	YTD % chg	Comment
Revenue	15,816.9	14,206.9	(10.2)	Toyota unit sales fell 13% yoy to 91,185 units. Equipment sales also fell 20% yoy on delays in order prior to the 13th General Election and generally, soft market sentiments for both the construction and commodity segment.
OPEX	(13,915)	(12,708)	(8.7)	
EBIT	1,901.9	1,498.5	(21.2)	
EBIT margin %	*12.0*	*10.5*		
Interest expense	(83.4)	(102.1)	22.5	
Investment income	78.5	84.4	7.5	
Exceptionals	(2.9)	(199.4)	> 100	
Associates	126.2	173.8	37.7	Aided by higher production output for Perodua with the successful launch of Perodua S-Series and cheaper raw material with the weakens in Yen. Perodua sold 196,071 units for 2013.
Pre-tax profit	**2,020.3**	**1,455.2**	(28.0)	
Tax	(431.5)	(369.4)	(14.4)	
Tax rate %	*21.4*	*25.4*		
MI	(594.5)	(404.6)	(31.9)	
Net profit	**994.3**	**681.2**	(31.5)	
EPS (sen)	85.1	58.3	(31.5)	
Core net profit	**997.2**	**880.6**	(11.7)	Inline with Affin estimates, 6% below street estimates.

Fig 3: Segmental breakdown

FYE Dec (RMm)	4QFY12	3QFY13	4QFY13	Qoq % chg	YoY % chg	12M2012	12M2013	YTD % chg
Auto	3,029.2	2,433.3	2,866.9	17.8	(5.4)	11,498.1	10,263.7	(10.7)
Equipment	435.8	410.8	371.1	(9.6)	(14.8)	2,138.5	1,705.5	(20.2)
Mfg & Eng	168.3	188.9	184.0	(2.6)	9.3	680.7	737.9	8.4
Oil & gas	128.2	205.3	206.1	0.3	60.8	724.3	736.7	1.7
Others	288.9	218.3	348.9	59.8	20.8	775.3	848.3	9.4
Elimination	(0.0)	-	(85.3)	n.m.	n.m.	-	(85.3)	n.m.
Revenue	**4,050.4**	**3,456.6**	**3,891.8**	12.6	(3.9)	**15,816.9**	**14,206.9**	(10.2)
Automotive	424.6	294.9	390.9	32.6	(7.9)	1,796.8	1,412.0	(21.4)
Equipment	19.2	55.6	24.5	(55.9)	27.5	183.5	191.1	4.2
Mfg & Eng	(1.4)	(31.1)	(11.6)	(62.6)	> 100	3.6	(35.9)	n.m.
Oil & gas	12.5	54.5	54.5	0.1	> 100	83.6	205.4	145.8
Others	16.1	(128.2)	(124.7)	(10.9)	> 100	(47.1)	(317.4)	91.8
Pretax Profit	**471.0**	**245.6**	**333.7**	**35.8**	**(29.2)**	**2,020.3**	**1,455.2**	**(28.0)**

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

Investment Banking Relationship
Within the preceding 12 months, for all completed investment banking proposals, Affin Investment Bank has not acted as lead-manager for public offerings and/or secondary offerings in the securities of the company under its research coverage.

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