

PP14767/09/2012(030761)

Market Access

## UMW Oil and Gas Corporation Bhd

### “Cost Rationalisation Measures”

UMW Oil and Gas Corporation Bhd (UMW-OG) is taking initiative to reduce its operating costs through the rationalisation of workforce and reduction in senior management remuneration package. This is to ensure the stability of group’s financials performance throughout FY16 after suffering a net loss of RM369 million in FY15. We value UMW-OG at RM0.75 and the stock is a SELL.

- **Latest development.** According to *The Edge*, UMW-OG has cut 300 jobs (contract workers) as part of its cost rationalisation strategy in order to improve its efficiency amid the current challenges faced by the oil and gas industry. The group’s total workforce now stands at 736 employees. The management also stated that the group may be laying off more contract workers going forward which make up 30% of its workforce.

Besides, the remuneration for senior management was also reduced by 40% in FY15. That aside, UMW-OG has been bidding for 22 contracts worth USD628 million (RM2.52 billion) in FY16 consisting of 48% of domestic contract and 52% of overseas jobs. The overseas tender is comprised of 3 contracts in Vietnam and 2 contracts in Middle East.

- **Survival in the industry.** We are positive on the cost cutting measures implemented by the group to ensure their survival in the current challenging oil and gas industry. As a result, the group managed to reduce cost by more than RM18 million in 1Q16. Overall, we foresee UMW-OG’s outlook in FY16 to be enormously challenging due the current oversupply in jack-up rigs market and capex cut by Petronas. Note that 4 UMW-OG’s jack-up rigs (NAGA 2, NAGA 3, NAGA 5 and NAGA

Friday, May 20, 2016

### SELL (TP: RM0.75)

Current Price (RM)	RM0.91
New Target Price (RM)	RM0.75
Previous Target Price (RM)	RM0.90
Previous Recommend.	SELL
Upside To Target Price	-18%
Dividend Yield (FY16)	NA

Stock Code	
Bloomberg	UMWOG MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Oil and Gas
Shariah Compliance	Yes
Issued Shares (mn)	2,162
Market Cap (RM mn)	2,162
YTD Chg In Share Price	-15%
Beta (x)	1.93
52-week Hi/Lo (RM)	2.06   0.86
3M Average Volume (shrs)	2.88mn
Estimated Free Float	22%

Major Shareholders	
UMW Holdings	56%
Skim ASB	8%
EPF	6%

## Company Update - UMW Oil and Gas Corporation Bhd

still remain uncontracted so far. Nonetheless, we believe the group has a strong potential to secure the local contract in line with Petronas intentions to prioritize the contract for local rigs operator.

- **Earnings outlook.** We have done some housekeeping exercise and came out with new earnings forecast at a loss of RM128 million (FY16) and RM63 million (FY17) respectively as charter rate and utilisation rate remain lower at the moment added with oversupply in the rigs market. We expect the group to face a challenging period in FY16 and FY17 due to the volatility in oil prices which may results in the delay in contract awards for NAGA 2, NAGA 3, NAGA 5 and NAGA 6.
- **Valuation & recommendation.** We re-value UMW-OG at RM0.75 based on 0.5x FY17F price/book value and the stock is a **SELL** no thanks to murky sectoral outlook. Re-rating catalyst may come from i) robust prospects of jack up drilling activities in Middle East market and ii) faster-than-expected recovery in global oil prices.

Table 1: Peers Comparison (Calenderised)

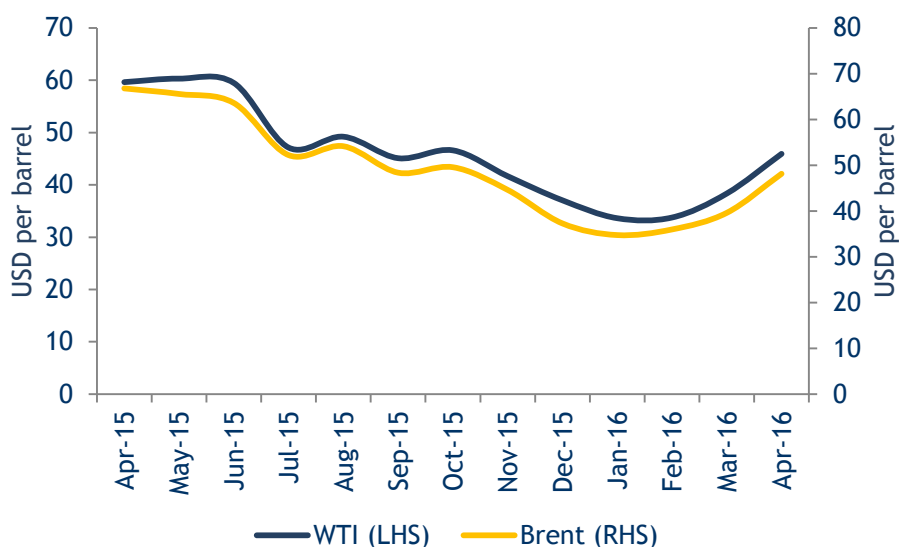
Company	FYE	Price (RM)	EPS (sen)		P/E (X)		P/B (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY16	FY17	FY16	FY17	FY16	FY17				
SapuraKencana	Jan	1.60	13	17	10.6	10.9	0.8	0.8	(7)	1	2.34	Buy
Wah Seong	Dec	0.73	8	9	9.6	8.0	0.5	0.5	1	4	0.80	Hold
Bumi Armada	Dec	0.72	5	8	14.4	9.3	0.6	0.6	(3)	2	0.95	Buy
Dialog Group	Jun	1.57	6	7	26.8	24.7	3.7	3.4	14	1	1.60	Hold
MMHE	Dec	1.15	5	5	20.0	19.3	0.5	0.6	2	NA	0.88	Sell
PetDag	Dec	23.32	89	94	26.7	25.4	4.4	4.2	16	3	23.58	Hold
Dayang	Dec	1.11	14	18	8.6	6.9	0.9	0.8	NA	3	1.26	Hold
UMW-OG	Dec	0.91	(3)	(1)	NA	NA	0.6	0.6	(11)	NA	0.75	Sell
Perisai	Dec	0.26	1	24	20.8	1.0	0.4	0.3	2	NA	NR	NR
Perdana Petroleum	Dec	NA	6	7	27.5	23.3	NA	NA	(3)	NA	NR	NR
TH Heavy	Dec	0.13	NA	NA	NA	NA	NA	NA	(23)	NA	NR	NR
Petra Energy	Dec	1.28	15	18	8.3	7.0	0.7	0.6	8	2	NR	NR
Deleum	Dec	1.15	13	15	9.2	8.0	1.5	1.4	16	5	NR	NR
Uzma	Dec	2.00	20	23	8.9	7.6	0.9	0.8	2	NA	NR	NR
KNM	Dec	0.47	6	6	8.9	7.9	0.4	0.4	2	NA	NR	NR
Average					15.4	12.3	1.2	1.1	1	2		

Source: Bloomberg, M&A Securities

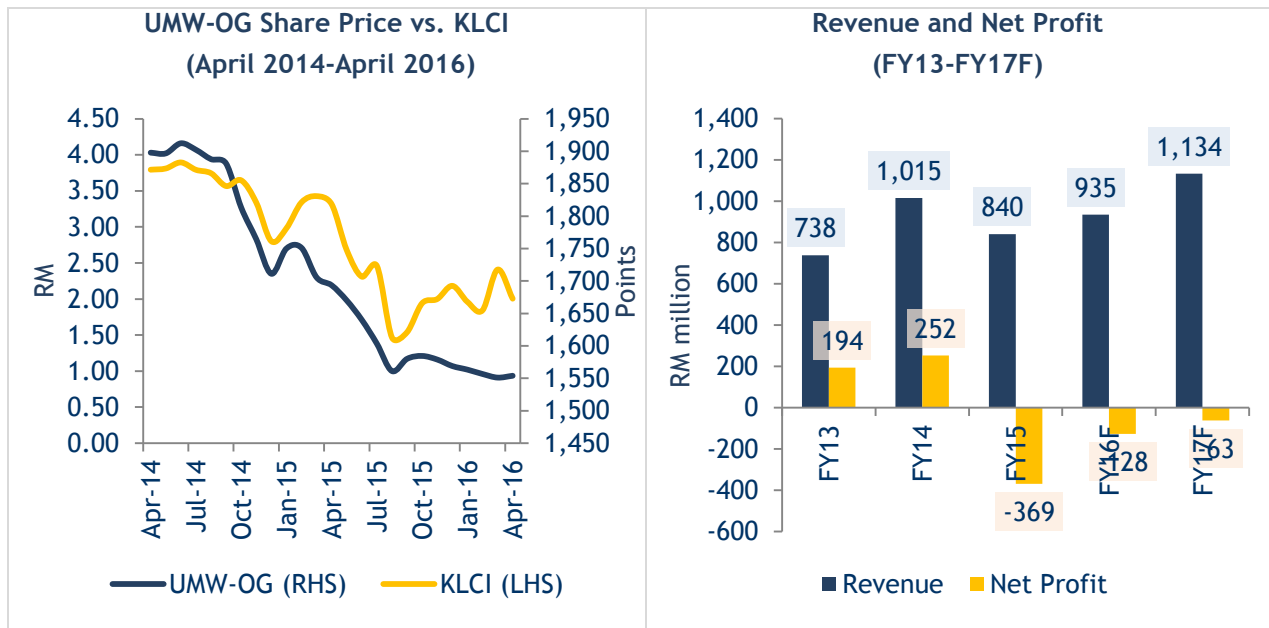
Table 2: Financial Forecast

YE: Dec (RM'mil)	FY13	FY14	FY15	FY16F	FY17F
Revenue	738	1,015	840	935	1,134
EBITDA	312	411	(67)	209	220
EBIT	222	278	(312)	(75)	(4)
Finance cost	(24)	(26)	(63)	(73)	(87)
PBT	207	284	(349)	(124)	(62)
Net profit	194	252	(372)	(128)	(63)
EPS (sen)	12	12	(17)	(6)	(3)
EBITDA margin	42%	40%	-8%	22%	19%
EBIT margin	30%	27%	-37%	-8%	0%
PBT margin	28%	28%	-42%	-13%	-5%
Net profit margin	26%	25%	-44%	-14%	-6%
PER (x)	34.1	20.2	-13.6	-16.1	-32.8
P/BV (x)	3.1	2.0	0.6	0.6	0.5
Dividend (sen)	NA	1	NA	0.0	0
Dividend yield	NA	0.4%	NA	-0.6%	0%

Source: Company, M&amp;A Securities

WTI vs. Brent Crude Oil Price  
(April 2015-April 2016)

Source: Bloomberg



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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