

PP14767/09/2012(030761)

UMW Oil and Gas Corporation Bhd

“Painful Quarter”

Results Review

- Actual vs. expectations.** UMW Oil and Gas Corporation Bhd (UMW-OG) registered a core net loss of RM92 million in 1Q16 vs. 1Q15 core net profit of RM32 million which essentially came in below ours and consensus estimates respectively. Note that 1Q16 earnings have been adjusted to exclude exceptional items including net forex gain of RM27 million. Disappointing 1Q16 earnings was hurt by lower contribution from drilling service segment which suffered a loss before tax (LBT) of RM93 million, hammered by the drop utilisation rate in tandem with the sharp drop in oil prices.
- Dividend.** No dividend was declared during the quarter.
- Drilling service segment.** UMW-OG’s drilling services segment recorded weaker revenue of RM81 million in 1Q16 (-73% y-o-y) due to reduced time charter rates added with low utilisation rate achieved by some its assets. Furthermore, the division also suffered a LBT of RM93 million in 1Q16 as compared to RM39 million PBT posted in 1Q15 in line with the lack of new drilling contracts wins.
- Oilfield service segment.** Oilfield service segment posted a weaker revenue and LBT of RM6 million (-48% y-o-y) and RM1 million (1Q15 PBT: RM3 million) in 1Q16 respectively, impacted by lower contribution from Oil Country Tubular Goods (OCTG) threading and pipe repair services from the group’s operations in Labuan, China, Thailand and Turkmenistan.
- Outlook.** We expect UMW-OG’s outlook in FY16 to be enormously challenging due to expected delay in

Tuesday, May 24, 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 (FY17)	NA

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)	1,978
YTD Chg In Share Price	-14%
Beta (x)	1.95
52-week Hi/Low (RM)	2.22 0.86
3M Average Volume (shrs)	2.88mn
Estimated Free Float	22%

Major Shareholders

UMW Holdings	56%
Skim ASB	8%
EPF	6%

Results Review - UMW Oil and Gas Corporation Bhd

contract awards in line with the volatility in oil prices as well as 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 6) still remain uncontracted so far. Thankfully, NAGA 1 and NAGA 4 are currently servicing long-term contract with Petronas Carigali until 2018. In addition, NAGA 8 which has been delivered in September 2015 is currently serving a contract with SapuraKencana Energy until 2Q2017.

- **Change to forecast.** We maintain our earnings forecast for now as we already trimmed our projections in the previous report. Therefore, we expect UMW-OG to record a loss of RM128 million in FY16 and RM63 million in 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 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	1.62	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	1.56	6	7	26.8	24.7	3.7	3.4	14	1	1.60	Hold
MMHE	Dec	1.18	5	5	20.0	19.3	0.5	0.6	2	NA	0.88	Sell
PetDag	Dec	23.64	89	94	26.7	25.4	4.4	4.2	16	3	23.58	Hold
Dayang	Dec	1.10	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	0.25	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	1.27	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	1.95	20	23	8.9	7.6	0.9	0.8	2	NA	NR	NR
KNM	Dec	0.46	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&A Securities

Table 3: Results Analysis

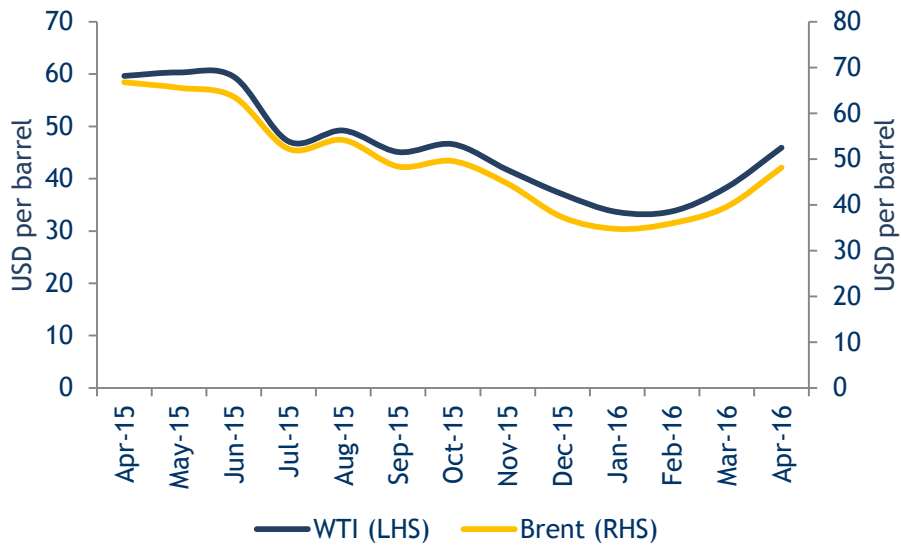
YE: Dec (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
Revenue	312	131	88	-33%	-72%	312	88	-72%
EBIT	47	(394)	(47)	NM	NM	47	(47)	NM
Finance cost	(12)	(22)	(26)	17%	121%	(12)	(26)	121%
Associates	0.1	0.1	0.1	0%	-31%	0.1	0.1	-31%
Investment income	7	5	5	-9%	-36%	7	5	-36%
Pre-tax profit	42	(411)	(68)	NM	NM	42	(68)	NM
Taxation	(10)	1	(0.1)	-113%	-99%	(10)	(0)	-99%
Net Profit	32	(409)	(65)	NM	NM	32	(65)	NM
EPS	1	(19)	(3)	NM	NM	1	(3)	NM
EBIT Margin	15%	-301%	-54%			15%	-54%	
Pre-tax margin	14%	-314%	-78%			14%	-78%	
Net Profit margin	10%	-312%	-74%			10%	-74%	
Effective tax rate	23%	0%	0%			23%	0%	

Source: Bursa Malaysia, M&A Securities

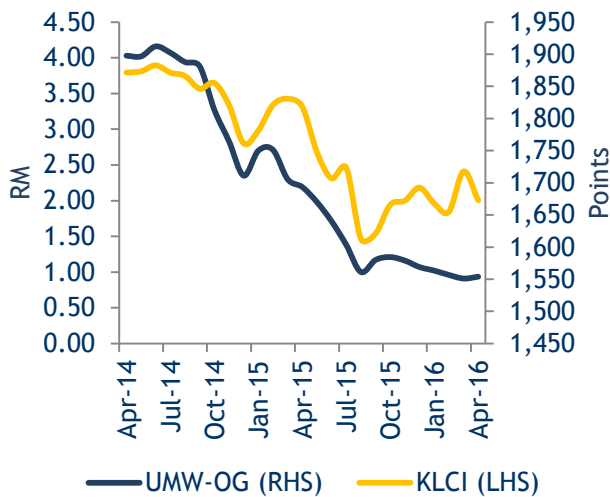
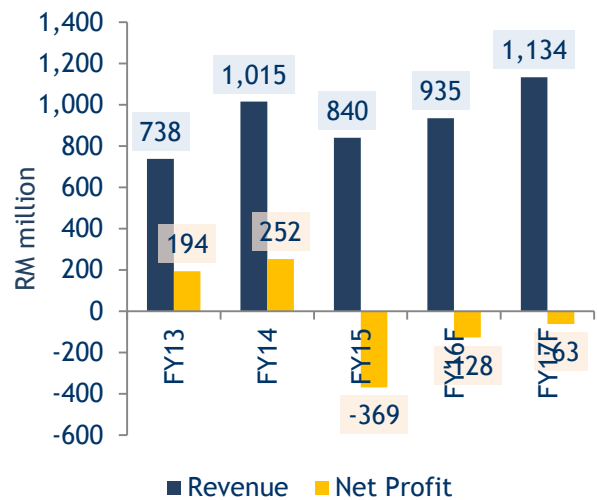
Table 4: Segmental Analysis

YE: Dec (RM million)	1Q15	4Q15	1Q16	q-o-q	y-o-y	3M15	3M16	y-o-y
<u>Revenue</u>								
Drilling services	300	125	81	-35%	-73%	300	81	-73%
Oilfield services	12	6	6	4%	-48%	12	6	-48%
Others	0	0	0	NM	NM	0	0	NM
<u>PBT</u>								
Drilling services	39	(411)	(93)	NM	NM	39	(93)	NM
Oilfield services	3	(8)	(1)	NM	NM	3	(1)	NM
Others	1	8	26	221%	2026%	1	26	2026%

Source: Bursa Malaysia, M&A Securities

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

Source: Bloomberg

UMW-OG Share Price vs. KLCI
(April 2014-April 2016)Revenue and Net Profit
(FY13-FY17F)

Source: Bloomberg, M&A Securities

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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