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Sector Update

## Auto & Autoparts

**NEUTRAL (maintain)**

### Chasing after Perodua

UMW Holdings has offered to acquire: (i) Med-Bumikar's 50.1%-interest in MBM Resources Berhad (MBM) for RM501m (RM2.56 per share); and (ii) PNB's 10%-stake in Perodua for RM418m. These acquisitions, if materialised, will boost UMWH's stake in Perodua to 70.6%, from 38%. We view the proposed acquisition of MBM as a win-win deal - it enables UMWH to raise its stake in Perodua at sensible price, thereby strengthening its position in the Malaysia automotive market. Meanwhile, MBM shareholders' have the opportunity to exit its manufacturing businesses that have seen lacklustre growth. That said, the offer price for MBM (RM2.56) looks unattractive. No change in our valuation and recommendations for UMWH (SELL) and MBM (HOLD).

#### UMWH has made two separate acquisitions offers:

- 1) The first offer involves the purchase of a 50.07% stake in MBM from Med-Bumikar Sdn Bhd for RM501m. The acquisition will trigger a mandatory offer (MO) for the remaining shares in MBM. UMW does not intend to maintain the listing of MBM post MO. MBM currently holds an effective 22.58%-stake in Perodua.
- 2) Separately, UMWH has offer to acquire a 10%-stake in Perodua from Permodalan Nasional Bhd (PNB) for RM417.5m, to be paid by new shares and cash (Fig 1). The deal values Perodua at RM4.2bn.

#### The UMWH-MBM acquisition, in our view, looks unattractive

For UMWH shareholders, the proposed acquisition values MBM at 30% discount to its net asset of RM3.68 per share (as at end-Dec 2017). Assuming a fair value of RM943m for MBM's 22.6%-stake in Perodua (using the UMWH-PNB deal as benchmark), UMWH offers an effective RM141m (adjusted for RM83m net borrowings) for MBM's manufacturing business, facilities and office buildings (Menara MBMR).

For MBM, the offer enables the shareholders to exit their investment. Aside from Perodua, MBM's core manufacturing businesses are facing headwinds (challenging market condition, manufacturing issues at its alloy plant) and has reported operating losses in 2017A. **However, the offer price of RM2.56 looks unattractive** – it values MBM at a 30% discount to its net asset per share and also, the RM4.2bn implied price tag values Perodua at 9x 2016 PER, which seems low for the country's leading auto company.

#### Offer price may be a point of contention

The offers to Med-Bumikar (MBM's major shareholder) and PNB will remain open for acceptance until 5pm on 28<sup>th</sup> March 2018. While we see plenty of merits for the UMWH-MBM deal, we have little visibility on whether MBM's major shareholder would accept the offer. The offer price, we believe, will be an important consideration, along with industry outlook.

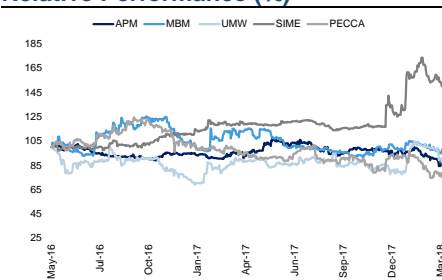
#### No change to our call on UMWH (SELL) and MBM (HOLD)

We reaffirm our SELL call on UMWH with a target price of RM5.08. UMWH has a market cap of RM6.95bn, pegging its 38%-stake in Perodua at RM1.6bn (implied from its offer price to PNB), its other businesses (motor trading, industrial, manufacturing, unprofitable oil & gas) has an implied market price of RM5.4bn, which looks stretched. Elsewhere, we maintain our HOLD call on MBM with an unchanged TP of RM2.27 for now, as the proposed acquisition is at its preliminary stages and the outcome is still uncertain.

#### Absolute Performance (%)

	1M	3M	12M
APM MK	-4.2	0.3	-5.7
MBM MK	-3.1	0.9	-12.0
UMWH MK	-9.8	18.3	11.6
SIME MK	-4.8	22.2	24.2
PECCA MK	-3.0	-14.4	-18.1

#### Relative Performance (%)



Source: Affin Hwang, Bloomberg

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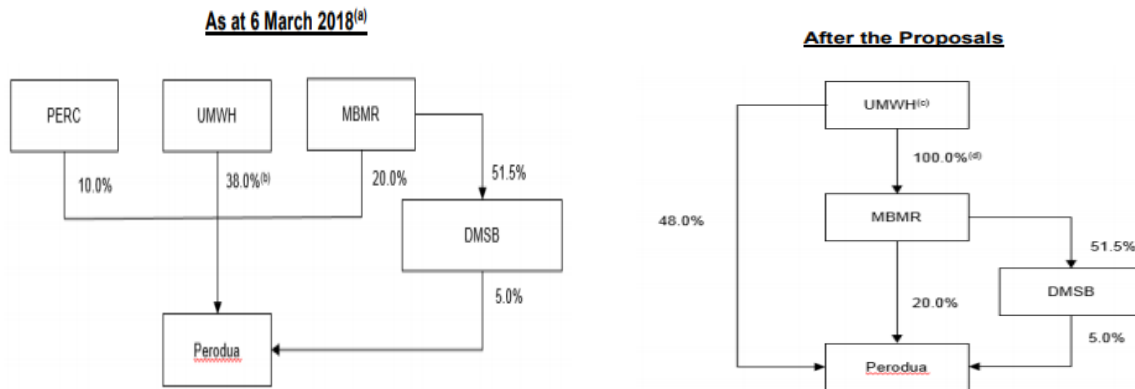
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Fig 1: Proposal summary

Target	Consideration	Perodua Stake (%)
MBM Resources Bhd	RM2.56/share	22.6
PNB Equity Resource Corp Sdn Bhd	Issue of RM42.9 new UMWH shares at RM6.09; Cash of RM117.5m	10.0

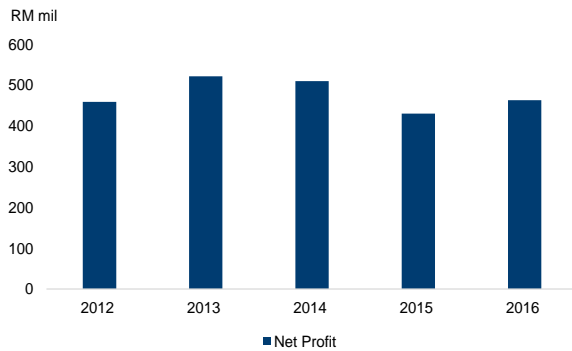
Source: Company, Affin Hwang

Fig 2 & 3: Group structure before and after the proposal



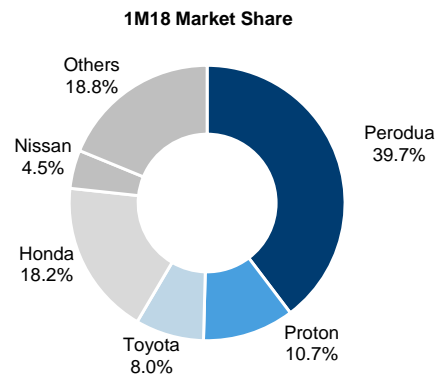
Source: Company

Fig 4: Perodua's historical net profit



Source: Company

Fig 5: Perodua hits highest monthly sales market share of 40%



Source: MAA

**Important Disclosures and Disclaimer**

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**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

*The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.*

<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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