



AmInvestment Bank

Company report

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

12 Mar 2018

Potential accretion from proposals

HOLD

(Maintained)

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Rationale for report: Company update

Price	RM5.95
Fair Value	RM6.22
52-week High/Low	RM6.98/RM4.70

Key Changes

Fair value	↕
EPS	↔

YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	11,046.5	11,431.8	12,058.1	12,720.6
Core net profit (RM mil)	(89.7)	347.3	439.5	470.8
FD Core EPS (sen)	(7.7)	29.7	37.6	40.3
FD Core EPS growth (%)	(75.1)	(487.3)	26.5	7.1
Consensus Net Profit (RM mil)	-	332.6	429.6	489.8
DPS (sen)	(16.7)	8.9	11.3	12.1
PE (x)	nm	20.0	15.8	14.8
EV/EBITDA (x)	27.4	10.3	9.1	8.6
Div yield (%)	(2.8)	1.5	1.9	2.0
ROE (%)	(14.5)	7.9	9.4	9.5
Net Gearing (%)	130.4	110.7	99.4	89.1

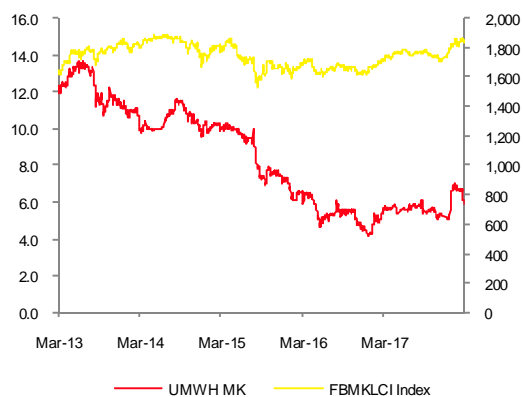
Stock and Financial Data

Shares Outstanding (million)	1,168.3
Market Cap (RMmil)	6,951.4
Book Value (RM/share)	3.65
P/BV (x)	1.6
ROE (%)	(14.5)
Net Gearing (%)	130.4

Major Shareholders	Skim ASB(42.1%) EPF(13.7%) Yayasan Pelaburan Bumiputera(5.7%)
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Free Float	32.6
Avg Daily Value (RMmil)	10.3

Price performance	3mth	6mth	12mth
Absolute (%)	18.3	9.4	11.6
Relative (%)	11.0	6.2	4.0



Investment Highlights

- We raise our SOP-based FV for UMW to RM6.22/share (from RM5.50/share) to include the acquisition of a 10% stake of Perodua from PNB Equity Resource Corp (PERC) and 50.07% shareholdings of MBM Resources (MBM) from Med-Bumikar.
- We have not factored in the additional stake in MBM that would be acquired from minority shareholders, which would require a mandatory offer by UMW. UMW aims to hold 100% of MBM, which would provide an effective interest of 22.58% in Perodua.
- Recall that UMW will acquire the 50.07% in MBM from its largest shareholder, Med-Bumikar Sdn Bhd, for RM501mil in cash. We understand that the proposed method to fund the remaining 49.93% (or RM499mil) stake in MBM will be disclosed this week.
- The pro forma impact on the group's revenue and net profit from the acquisition of shares in Perodua and MBM is shown in Exhibit 2 below.
- While there would be earnings accretion from owning a higher stake in Perodua, the impact to group profit from MBM is minimal: its auto parts manufacturing segment is still loss-making (FY17 loss before tax of RM115mil) and its motor trading segment's margin is less than 1% (FY17 PBT: RM11mil).
- We reiterate that the main goal from the proposals on Friday is for UMW to raise its ownership in Perodua to 70.6% from 38% currently. The bigger stake would be accompanied by some form of ownership in its auto parts manufacturing (by OMI) and distribution (by DMSB) business.
- We deem the deal to be positive for UMW as it is taking up a bigger stake in Perodua at a low price. Its valuation of Perodua at RM29.80/share has an implied PE of 9.2x on our estimated FY17 EPS. Meanwhile, MBM's overall valuation is weighed down by the underperformance of its core operations.
- The key challenge for UMW from this acquisition would be to turn around MBM's loss-making alloy wheel unit and finding more synergy within the core operations of the two groups.

EXHIBIT 1: SUM-OF-PARTS VALUATION

Pegged to FY18F						
Segment	PAT (RM mil)	Stake	PE (x)	Value (RM mil)	Value (RM/share)	No. of Shares
Automotive	483.1	51.0%	13	3,301.5	2.71	1,217.6
Equipment	146.1		12	1,811.9	1.49	
Manu & Eng	(17.7)		7	(123.6)	(0.10)	
					4.10	
Add: Perodua	531.7	48.0%	14	3,675.3	3.02	
Add: MBM	95.2	50.1%	9	447.9	0.37	
Add: Company net debt				(1,536.2)	(1.26)	
FV:					6.22	

* On enlarged share base of RM1,218 mil following 49.3 mil new shares issued

Source: Company, AmInvestment Bank

EXHIBIT 2: PRO FORMA IMPACT ONGROUP REVENUE & NET PROFIT

Current projections for UMW (RM mil)	FY18	FY19	FY20
Revenue	11,431.8	12,058.1	12,720.6
Net profit	347.3	439.5	470.8
Revenue projection for UMW (post)			
Current revenue projections	11,431.8	12,058.1	12,720.6
Add: Perodua consolidated as subsidiary	8,830.6	9,089.4	9,355.9
Add: MBM consolidated as a subsidiary	1,759.0	1,841.9	1,916.0
Total	22,021.4	22,989.4	23,992.5
Addition (%)	93%	91%	89%
Net profit projection for UMW (post)			
Current net profit projection	347.3	439.5	470.8
Additional 10% in Perodua	53.2	58.4	63.8
Additional income from 50.07% of MBM	47.6	56.7	62.7
Total	448.2	554.6	597.3
Addition (%)	29%	26%	27%

Source: Company, AmInvestment Bank

EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	10,958.5	11,046.5	11,431.8	12,058.1	12,720.6
EBITDA	(1,612.0)	456.7	1,163.1	1,291.8	1,341.1
Depreciation/Amortisation	(569.5)	(336.3)	(643.0)	(683.5)	(726.2)
Operating income (EBIT)	(2,181.5)	120.4	520.1	608.3	614.9
Other income & associates	156.4	171.7	202.1	221.8	242.5
Net interest	(105.1)	(39.2)	(17.4)	25.8	50.5
Exceptional items	-	-	-	-	-
Pretax profit	(2,130.2)	252.9	704.7	856.0	907.9
Taxation	(131.0)	(122.3)	(120.6)	(152.2)	(159.7)
Minorities/pref dividends	611.7	22.8	(236.7)	(264.2)	(277.4)
Net profit	(1,649.5)	(651.2)	347.3	439.5	470.8
Core net profit	(360.7)	(89.7)	347.3	439.5	470.8
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Fixed assets	7,678.5	7,970.7	8,258.3	8,557.1	8,867.8
Intangible assets	-	-	-	-	-
Other long-term assets	2,463.0	2,419.2	2,433.5	2,463.3	2,508.9
Total non-current assets	10,141.5	10,389.9	10,691.9	11,020.4	11,376.6
Cash & equivalent	1,857.4	1,338.6	2,454.5	3,198.7	3,947.8
Stock	1,931.2	1,760.4	1,513.6	1,576.7	1,642.4
Trade debtors	988.5	1,322.6	1,368.7	1,443.7	1,523.0
Other current assets	1,008.0	1,008.0	1,008.0	1,008.0	1,008.0
Total current assets	5,785.1	5,429.5	6,344.7	7,227.1	8,121.2
Trade creditors	1,878.6	1,760.4	1,945.8	2,032.6	2,123.4
Short-term borrowings	2,639.3	3,893.9	4,420.9	4,947.9	5,474.9
Other current liabilities	234.0	193.9	195.9	199.1	202.6
Total current liabilities	4,752.0	5,848.2	6,562.6	7,179.7	7,800.9
Long-term borrowings	3,715.8	3,003.0	3,020.0	3,037.1	3,054.1
Other long-term liabilities	931.0	114.4	120.3	125.2	130.4
Total long-term liabilities	4,646.7	3,117.4	3,140.3	3,162.3	3,184.5
Shareholders' funds	4,718.6	4,262.7	4,505.9	4,813.5	5,143.1
Minority interests	2,145.7	2,123.0	2,359.7	2,623.9	2,901.4
BV/share (RM)	4.04	3.65	3.86	4.12	4.40
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	(2,130.2)	252.9	704.7	856.0	907.9
Depreciation/Amortisation	569.5	336.3	643.0	683.5	726.2
Net change in working capital	200.7	(1,105.6)	393.4	(44.0)	(46.6)
Others	945.7	(105.9)	(389.6)	(496.7)	(562.2)
Cash flow from operations	(414.3)	(622.3)	1,351.5	998.7	1,025.4
Capital expenditure	(1,181.6)	(828.5)	(857.4)	(904.4)	(954.0)
Net investments & sale of fixed assets	225.3	-	-	-	-
Others	188.0	194.8	181.9	237.7	274.9
Cash flow from investing	(768.2)	(633.7)	(675.5)	(666.6)	(679.1)
Debt raised/(repaid)	380.1	541.8	544.0	544.0	544.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(212.7)	195.4	(104.2)	(131.9)	(141.2)
Others	-	-	-	-	-
Cash flow from financing	167.4	737.2	439.8	412.2	402.8
Net cash flow	(1,015.1)	(518.8)	1,115.9	744.3	749.1
Net cash/(debt) b/f	2,621.1	1,857.4	1,338.6	2,454.5	3,198.7
Net cash/(debt) c/f	1,464.8	1,338.6	2,454.5	3,198.7	3,947.8
Key Ratios (YE31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	(24.1)	0.8	3.5	5.5	5.5
EBITDA growth (%)	(349.4)	(128.3)	154.7	11.1	3.8
Pretax margin (%)	(19.4)	2.3	6.2	7.1	7.1
Net profit margin (%)	(15.1)	(5.9)	3.0	3.6	3.7
Interest cover (x)	(2,075.8%)	3.1	29.8	nm	nm
Effective tax rate (%)	6.1	48.4	17.1	17.8	17.6
Dividend payout (%)	nm	nm	22.5	22.5	22.5
Debtors turnover (days)	47	38	43	43	43
Stock turnover (days)	64	61	52	47	46
Creditors turnover (days)	69	60	59	60	60

Source: Company, AmInvestment Bank Bhd estimates

EXHIBIT 4: PB BAND CHART

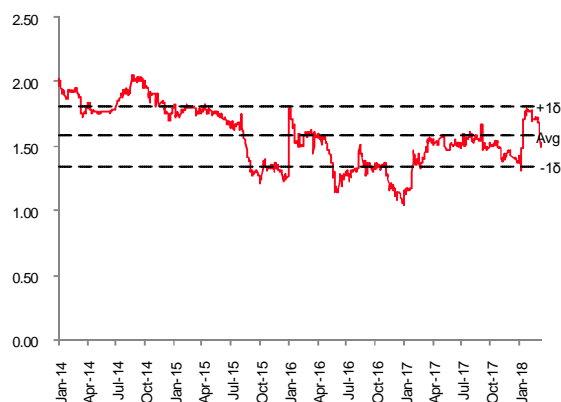
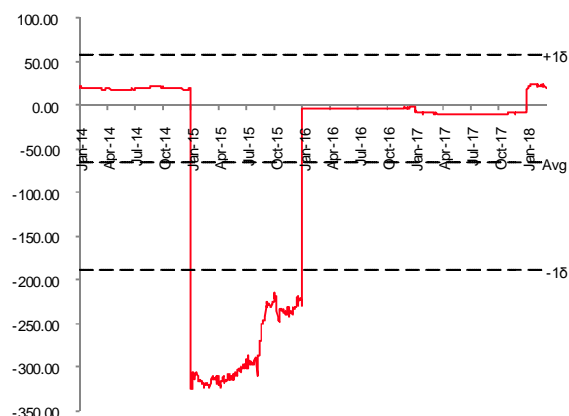


EXHIBIT 5: PE BAND CHART



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