

Malaysia

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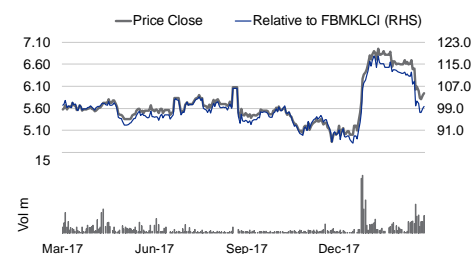
Consensus ratings*: Buy 0 Hold 7 Sell 9

Current price:	RM5.95
Target price:	RM6.70
Previous target:	RM6.70
Up/downside:	12.6%
CGS-CIMB / Consensus:	20.0%
Reuters:	UMWS.KL
Bloomberg:	UMWH MK
Market cap:	US\$1,777m
	RM6,951m
Average daily turnover:	US\$2.41m
	RM9.53m
Current shares o/s	1,168m
Free float:	37.8%

*Source: Bloomberg

Key financial forecasts

	Dec-18F	Dec-19F	Dec-20F
Net Profit (RMm)	363.9	543.3	623.8
Core EPS (RM)	0.31	0.47	0.53
Core EPS Growth	105%	49%	15%
FD Core P/E (x)	18.86	12.63	11.00
Recurring ROE	11.4%	15.6%	16.4%
P/BV (x)	2.09	1.91	1.75
DPS (RM)	0.10	0.20	0.25
Dividend Yield	1.68%	3.36%	4.20%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-9.9	18.5	11.2
Relative (%)	-11.2	11.4	3.8

Major shareholders	% held
Permodalan Nasional Bhd	42.1
EPF	12.0
KWAP	8.0

Analyst(s)

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UMW Holdings

UMW to raise its stake in Perodua from 38% to 70.6%

- UMW Holdings plans to acquire a 10% stake in Perodua from PNB Equity and a majority stake in MBM Resources, effectively lifting its stake in Perodua to 70.6%.
- UMW may need to pay about RM1.12bn in cash and issue 49.3m new shares at RM6.09/share to privatise MBM and acquire the additional 10% stake in Perodua.
- We are positive on the deal as UMW will be able to consolidate and enjoy Perodua's growth but we keep our earnings forecasts pending shareholder approvals.

Proposed acquisition of 50.1% stake in MBM Resources at RM501m

- UMW Holdings (UMW) is planning to acquire Med-Bumikar's entire 50.07% stake in MBM Resources (MBM MK, RM2.20, not rated) for a cash offer of RM2.56/share or RM501m. MBM is involved in the distribution and dealership of major international and local brands in Malaysia, such as Perodua, Daihatsu, Hino, Mitsubishi, Volkswagen and Volvo. If the offer is accepted, a mandatory offer will be triggered that will require UMW to acquire the remaining shares in MBM.
- UMW intends to delist MBM from the main market if it manages to acquire the remaining shares. Essentially, UMW may need to spend RM1bn for a 100% stake in MBM, which values the company at an implied FY18F P/E of 10x.
- UMW is also acquiring an additional 10% stake in Perodua from PNB Equity Resources (PNBER) for RM417.5m, valuing Perodua at RM4.175bn. The deal is expected to be completed via the issuance of 49.3m UMW shares at an issue price of RM6.09/share and cash of RM117.5m.
- Post acquisition, UMW's stake in Perodua will effectively rise from 38% to 70.6%.

Still exploring potential funding for the proposed acquisition

- The group is still working on its funding structure and it does not rule out the combination of equity fund-raising, bank borrowings and internal funds to finance the deal. Based on the latest financials in FY17 excluding Perodua, UMW and MBM have a combined net debt position of RM1.7bn and net gearing of 37%. UMW may need to pay about RM1.12bn in cash and issue 49.3m new shares at RM6.09/share to privatise MBM and acquire the additional 10% stake in Perodua from PNBER.
- Based on our estimate, UMW's FY18-20F EPS could increase by 16-20% if the group decides to raise the RM1.12bn cash for the deal through bank borrowings but its net gearing will also increase from 37% to 62%.
- Nevertheless, we believe the group could explore a cash call to finance the deal in order to mitigate the impact from higher finance cost. Based on our estimate, UMW's FY18-20F net profit will increase by 23-28% if the group decides to raise the cash entirely through a rights issue. However, we estimate its FY18-20F EPS will only go up by 3-8% given the 20% dilution impact from the estimated additional 232m new shares issued at RM6.09/share.

Positive on the proposed earnings-accretive acquisition

- We are positive on the proposed acquisition as this will allow UMW to solidify its position as the leading automotive manufacturer in Malaysia and see immediate earnings contribution from Perodua. In addition, the acquisition will allow UMW to expand into the auto parts manufacturing business, namely wheels, safety products and noise, vibration and harshness products. Overall, we expect pretax profit contribution from the auto division to rise from 76% in FY17 to over 80% in FY18F.
- We make no changes to our earnings forecasts pending the finalisation of the funding structure and shareholder approvals on the deal. Maintain Hold and our RM6.70 target price, still based on 14x CY19F P/E, a 10% premium over its FY09-14 historical mean of 13x. Key upside risks are the accelerated disposal of unlisted O&G assets and strengthening of the ringgit vs. US\$ while key downside risks are delays in the disposal of unlisted O&G assets and depreciation of the ringgit against US\$.

Figure 1: UMW's proposed acquisition of MBM and additional 10% stake in Perodua

Proposal 1	(RM m)
Proposed acquisition of Med-Bumikar's 50.07% stake at RM2.56/share	501
Mandatory general offer required if the offer for majority stake is accepted	500
Total consideration price for MBM acquisition	1,001
Proposal 2	(RM m)
Proposed acquisition of 10% stake in Perodua from PNB Equity Resources	417.5
Payment via	
Cash	117.5
49.3m UMW shares issuances at RM6.09/share	300

SOURCES: CIMB, COMPANY REPORTS

Figure 2: Sector comparison

Company	Recom.	Price	Target Price	Mkr Cap (US\$ m)	P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
		(RM)	(RM)		CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F
Bermaz Auto Berhad	Hold	1.99	2.06	590	15.3	12.9	5.3	5.2	34.4%	41.0%	9.5	8.2	6.6%	7.8%
Tan Chong Motor Holdings	Reduce	1.65	1.64	275	40.7	15.3	0.4	0.4	0.9%	2.5%	12.7	9.4	0.0%	0.0%
DRB-Hicom	Add	2.38	2.90	1,176	na	32.9	0.8	0.8	-1.9%	2.5%	9.8	7.8	0.0%	0.0%
UMW Holdings	Hold	5.95	6.70	1,777	19.1	12.8	2.1	1.9	11.2%	15.6%	8.4	6.7	1.7%	3.4%
Sime Darby Bhd	Reduce	2.59	2.42	4,503	20.9	20.3	1.1	1.1	5.1%	5.3%	9.1	8.8	3.0%	3.0%
Sector average					25.6	18.1	1.1	1.1	4.4%	6.2%	9.3	8.0	2.5%	2.9%

SOURCE: CIMB, COMPANY

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	11,400	11,817	12,755	13,159
Gross Profit	1,653	2,186	1,913	2,105
Operating EBITDA	609	1,152	1,407	1,477
Depreciation And Amortisation	(336)	(321)	(338)	(282)
Operating EBIT	273	831	1,069	1,195
Financial Income/(Expense)	(39)	(69)	(51)	(26)
Pretax Income/(Loss) from Assoc.	172	197	235	246
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	406	958	1,253	1,415
Exceptional Items				
Pre-tax Profit	406	958	1,253	1,415
Taxation	(122)	(239)	(313)	(382)
Exceptional Income - post-tax				
Profit After Tax	283	718	940	1,033
Minority Interests	(106)	(354)	(396)	(409)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	177	364	543	624
Recurring Net Profit	177	364	543	624
Fully Diluted Recurring Net Profit	177	364	543	624

Balance Sheet

(RMm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	1,163	1,685	2,123	2,581
Total Debtors	994	1,073	1,159	1,195
Inventories	1,343	2,081	2,247	2,318
Total Other Current Assets	1,622	1,622	1,622	1,622
Total Current Assets	5,122	6,462	7,150	7,716
Fixed Assets	2,661	3,089	3,351	3,569
Total Investments	1	1	1	1
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	2,159	2,159	2,159	2,159
Total Non-current Assets	4,820	5,249	5,511	5,729
Short-term Debt	692	692	692	692
Current Portion of Long-Term Debt				
Total Creditors	767	1,941	2,185	2,228
Other Current Liabilities	2,094	2,094	2,094	2,094
Total Current Liabilities	3,553	4,727	4,971	5,014
Total Long-term Debt	2,070	2,070	2,070	2,070
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	143	150	150	150
Total Non-current Liabilities	2,213	2,219	2,219	2,219
Total Provisions	0	0	0	0
Total Liabilities	5,766	6,947	7,191	7,233
Shareholders' Equity	3,082	3,329	3,639	3,971
Minority Interests	1,093	1,435	1,831	2,241
Total Equity	4,176	4,764	5,470	6,211

Cash Flow

(RMm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	609	1,152	1,407	1,477
Cash Flow from Inv. & Assoc.				
Change In Working Capital	801	356	(6)	(65)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	333	321	338	282
Net Interest (Paid)/Received	(39)	(69)	(51)	(26)
Tax Paid	(133)	(239)	(313)	(382)
Cashflow From Operations	1,571	1,520	1,375	1,285
Capex	(1,004)	(750)	(600)	(500)
Disposals Of FAs/subsidiaries	0	0	0	0
Acq. Of Subsidiaries/investments	0	0	0	0
Other Investing Cashflow	80	47	67	85
Cash Flow From Investing	(924)	(703)	(533)	(415)
Debt Raised/(repaid)	0	0	0	0
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	0	(117)	(234)	(292)
Preferred Dividends				
Other Financing Cashflow				
Cash Flow From Financing	0	(117)	(234)	(292)
Total Cash Generated	647	700	608	578
Free Cashflow To Equity	647	817	842	870
Free Cashflow To Firm	767	933	961	981

Key Ratios

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	4.0%	3.7%	7.9%	3.2%
Operating EBITDA Growth	(10.9%)	89.0%	22.2%	4.9%
Operating EBITDA Margin	5.3%	9.7%	11.0%	11.2%
Net Cash Per Share (RM)	(1.37)	(0.92)	(0.55)	(0.15)
BVPS (RM)	2.64	2.85	3.11	3.40
Gross Interest Cover	2.29	7.16	9.00	10.82
Effective Tax Rate	30.2%	25.0%	25.0%	27.0%
Net Dividend Payout Ratio	NA	19.4%	27.3%	29.0%
Accounts Receivables Days	31.85	31.92	31.94	32.74
Inventory Days	61.30	64.88	72.85	75.56
Accounts Payables Days	49.54	51.32	69.46	73.07
ROIC (%)	1.7%	10.5%	13.4%	14.3%
ROCE (%)	3.5%	12.1%	14.4%	14.9%
Return On Average Assets	3.3%	9.3%	10.6%	11.0%

12-mth Fwd FD P/E (x) - UMW Holdings



Key Drivers

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP (% chg, main prod./serv.)	0.0%	1.5%	1.5%	1.5%
Unit sales grth (% , main prod./serv.)	6.4%	6.5%	4.0%	4.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod./serv.)	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod./serv.)	N/A	N/A	N/A	N/A

SOURCE: CIMB, COMPANY

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBT does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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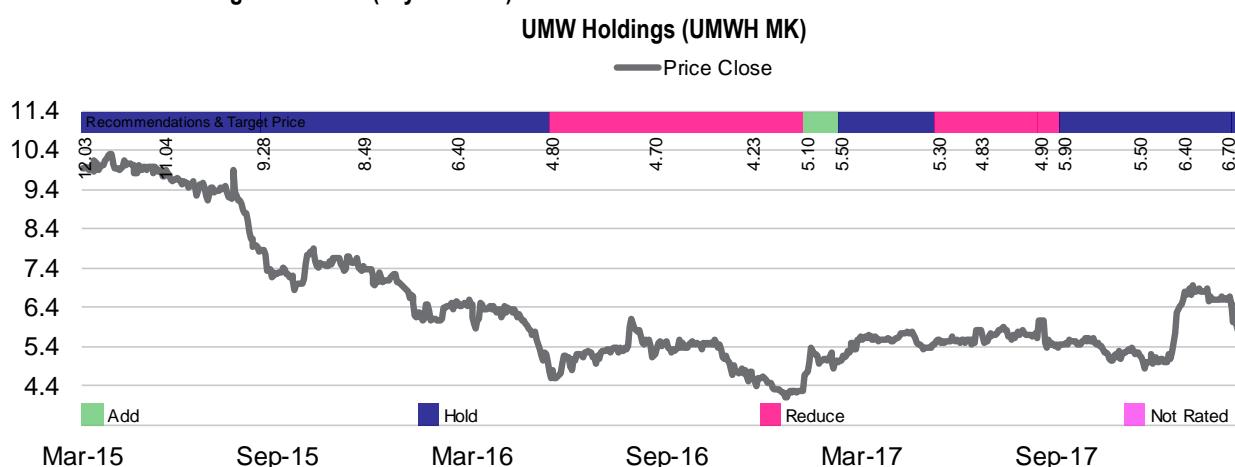
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2017		
1235 companies under coverage for quarter ended on 31 December 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.5%	6.4%
Hold	31.7%	2.6%
Reduce	9.0%	0.7%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, , **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.