

**UMW (HOLD ↑, EPS ↔)**
**NEWSBRIEF**
**INDUSTRY: NEUTRAL**
**12 March 2018**
**Price Target: RM6.10(↑)**
**Share price: RM5.95**
**Acquiring MBMR and Perodua stakes**
**Highlights/  
Comments**

- UMW has proposed to acquire:
  1. 50.07% stake in MBM Resources (MBMR) from major shareholder Med-Bumikar Mara for cash consideration of RM501m (RM2.56/share).
  2. 10% stake in Perodua from PNB for RM417.5m, which will be satisfied with cash RM117.5m and issuance of 49.3m new UMW shares at issue price of RM6.09/share.
- Should the acquisition of 50.07% stake in MBMR goes through, UMW will have to offer mandatory take-over offer (MO) for the remaining 49.93% stake. Subject to the successful acquisitions and MO, UMW will own effective 70.6% stake in Perodua (from current 38%).
- We are positive on the proposal, which will enhance UMW's leading position in Malaysia automotive market, in line with UMW's restructuring exercises to focus on core businesses that include automotive and manufacturing segments.
- UMW will further enhance its relationship with Toyota group which include Lexus, Toyota, Daihatsu and Hino.
- Furthermore UMW will also leverage on MBMR's interest in automotive parts and components manufacturing segment (widen UMW's own manufacturing segment), which include OMI group (wheel manufacturing) and Hirotako group (safety products and voice, vibration and harshness products). There are potential synergies to be extracted from the consolidation of both UMW and MBMR group.
- We view the acquisition of RM2.56/share for the 50.07% stakes in MBMR as value accretive for UMW, translating into 2018 PE 10.5x, 2019 PE 9.2x and PB 0.7x (end 2017) as compared to UMW's own valuation of 2018 PE 21.7x, 2019 PE 15.5x and PB 2.3x (end 2017).
- Similarly, the pricing for 10% stake in Perodua is also value accretive for UMW, at estimated 2018 PE 9.2x, 2019 PE 9.0x and PB 1.0x (end 2017).

**Risks**

- Prolonged tightening of banks' HP rules.
- Slowdown in the Malaysian economy affecting demand for automotive and equipment.
- Global supply chain disruption for automotive and manufacturing segments.
- Depreciation of RM.

**Forecasts**

- Unchanged, pending acceptance of MBMR shareholders and PNB (10% Perodua stake). FY19 earning may increase by RM150m to RM610m (assuming successful MO).

**Rating**
**HOLD (↑)**

- UMW continues to be dragged by weakened consumer sentiment, relatively high US\$ against RM and continued losses from Rolls Royce fan case manufacturing plant in 2018. Despite these negatives, this recent value accretive acquisition prompts us to raise our rating from Sell to HOLD.

**Valuation**

- We upgrade to HOLD recommendation (from Sell) with higher TP of RM6.10 (from RM5.20) based on SOP (assuming only Med-Bumikar Mara and PNB accept the offer, but not minority shareholders of MBMR).

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KLCI	1,843.9
Expected share price return	2.5%
Expected dividend return	0.8%
Expected total return	3.4%

**Share Price**

**Information**

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	6,951
3-mth avg. volume ('000)	1,646
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-10.0	19.0	11.6
Relative	-10.7	11.6	4.0

**Major Shareholders**

PNB	57.6%
EPF	9.2%
KWAP	7.1%

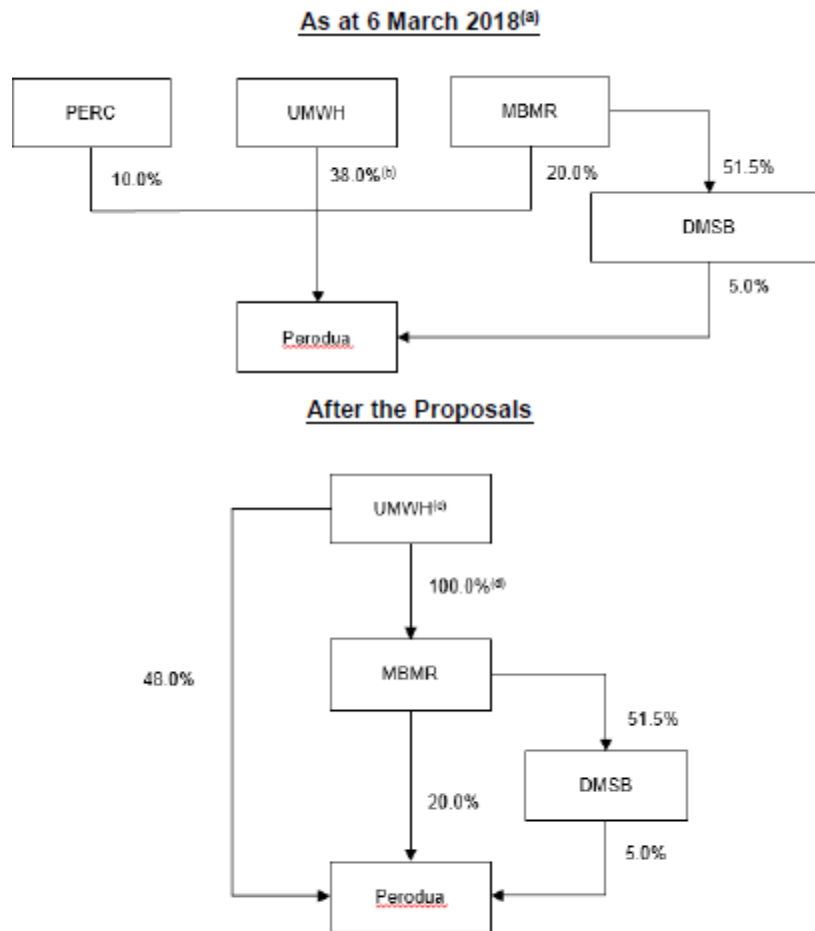
**Summary Earnings Table**

FYE Dec (RM m)	FY16A	FY17A	FY18E	FY19F
Turnover	10,859	11,167	11,899	12,888
EBITDA	564	736	800	992
Pre-tax Profit	-2,130	146	603	789
Rpt. net profit	-1,667	-648	328	460
Norm. net profit	89	-128	328	460
Norm. EPS (sen)	7.6	-10.9	28.1	39.3
P/E (x)	78.5	-54.4	21.2	15.1
Book Value (RM)	4.0	2.6	3.7	4.0
P/B (x)	1.5	2.3	1.6	1.5
Net Dvd Yield (%)	12.1	12.3	0.8	1.7
Net Gearing	89.5	51.6	64.4	59.6
ROE (%)	1.6	-3.3	7.8	10.1
ROA (%)	0.5	-1.0	2.6	3.5

**Consensus:**

EPS (sen)	26.5	35.3
% Diff	6.0	11.4

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**APPENDIX 1: UMW & MBR group structure****Notes:**

- (a) Being the latest practicable date prior to the date of this Announcement.
- (b) Held through UMWC, a wholly-owned subsidiary of UMWH.
- (c) UMWH reserves the rights to nominate another affiliate(s) to undertake the Proposed MBMR Acquisition and the Proposed Perodua Acquisition.
- (d) 100% ownership of MBMR is dependent on the outcome of the Proposed MO.

UMW

**UMW Sum-of-Parts Valuations**

Division	Stakes (%)	FY19 PATMI (RM m)	Value (RMm)	RM/Share	Basis
Automotive	Various	342.7	3,427.5	2.93	FY19 PE 10x
Equipment	Various	170.6	1,365.0	1.17	FY19 PE 8x
Manufacturing & Engineering	Various	106.4	1,915.0	1.64	FY20 PE 18x
Others	Various	(353.6)	0.0	0.00	
* 50.07% MBMR & 10% Perodua	Various	101.3	1,215.1	1.04	FY19 PE 12x
<b>Total (RM)</b>			<b>6,707.5</b>	<b>6.78</b>	
Holding Co Discount				10.0%	
<b>Target Price (RM)</b>			<b>9,837.6</b>	<b>6.10</b>	
<b>No of Shares</b>		<b>1,163.8</b>	1,168.3		As at end FY2017

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## Financial Projections - UMWH (HOLD; TP: RM6.10)

### Income Statement

FYE 31 Dec (RMm)	FY15A	FY16A	FY17A	FY18E	FY19F
<b>Revenue</b>	<b>14,442</b>	<b>10,859</b>	<b>11,167</b>	<b>11,899</b>	<b>12,888</b>
Operating cost	-12,872	-10,295	-10,430	-11,098	-11,896
<b>EBITDA</b>	<b>1,569</b>	<b>564</b>	<b>736</b>	<b>800</b>	<b>992</b>
Depreciation	-765	-555	-207	-294	-296
<b>EBIT</b>	<b>804</b>	<b>9</b>	<b>529</b>	<b>507</b>	<b>696</b>
Interest income	126	81	47	54	46
Interest expense	-127	-186	-150	-118	-123
Associates	134	155	156	161	172
Exceptionals	-668	-2,189	-437	0	0
<b>Pretax profit</b>	<b>270</b>	<b>-2,130</b>	<b>146</b>	<b>603</b>	<b>789</b>
Taxation	-267	-141	-816	-136	-163
Minorities	-39	604	23	-140	-167
<b>Net profit</b>	<b>-37</b>	<b>-1,667</b>	<b>-648</b>	<b>328</b>	<b>460</b>
<b>Core PATAMI</b>	<b>256</b>	<b>89</b>	<b>-128</b>	<b>328</b>	<b>460</b>
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	-3.2	-142.7	-55.4	28.1	39.3
<b>Core EPS (sen)</b>	<b>21.9</b>	<b>7.6</b>	<b>-10.9</b>	<b>28.1</b>	<b>39.3</b>

### Balance Sheet

FYE 31 Dec (RMm)	FY15A	FY16A	FY17A	FY18E	FY19F
Fixed assets	8,106	7,642	2,661	4,427	4,571
Other assets	4,038	3,709	3,894	4,086	4,129
<b>Working capital</b>	<b>1,968</b>	<b>1,778</b>	<b>1,456</b>	<b>1,972</b>	<b>2,146</b>
Receivables	1,458	754	880	833	902
Payables	-1,380	-898	-767	-943	-1,011
Inventory	1,890	1,922	1,343	2,082	2,255
<b>Net cash</b>	<b>-3,281</b>	<b>-4,226</b>	<b>-1,592</b>	<b>-2,812</b>	<b>-2,806</b>
Cash	2,734	2,179	1,163	1,377	1,236
ST debt	-3,725	-2,617	-685	-1,117	-1,117
LT debt	-2,290	-3,789	-2,070	-3,073	-2,925
<b>Equity</b>	<b>6,584</b>	<b>4,722</b>	<b>3,082</b>	<b>4,366</b>	<b>4,709</b>
Share capital	584	584	584	584	584
Reserves	6,000	4,138	2,498	3,782	4,125
Minorities	2,799	2,187	1,093	1,312	1,337
Other liabilities	1,447	1,994	2,244	1,994	1,994

### Assumption Metrics

FYE 31 Dec	FY15A	FY16A	FY17A	FY18E	FY19F
GDP Growth (%)	6.0%	4.2%	5.8%	5.3%	5.0%
TIV ('000)	666.5	580.1	588.8	600.6	612.6
Growth (%)	1.6%	-13.0%	1.5%	2.0%	2.0%
Unit Sale (Unit)	309.2	272.2	275.3	292.4	303.6
Toyota ('000)	93.8	63.8	69.5	75.0	78.0
Lexus ('000)	2.1	1.4	1.0	1.4	1.4
Perodua ('000)	213.3	207.1	204.9	216.0	224.2
Average Price					
UMW (RM '000)	107.9	123.1	120.2	114.6	115.8
Perodua (RM '000)	39.7	40.5	44.6	44.5	44.3

### Cashflow

FYE 31 Dec (RMm)	FY15A	FY16A	FY17A	FY18E	FY19F
EBITDA	1,569	564	736	800	992
Net interest	-1	-106	-103	-64	-78
WCap changes	69	190	323	-129	-175
Taxation	-283	-136	-123	-136	-163
Others	-279	-583	-302	0	0
<b>Opex cashflow</b>	<b>1,075</b>	<b>-70</b>	<b>531</b>	<b>471</b>	<b>576</b>
Capex & acq.	-2,388	-925	-935	-1,240	-440
<b>Free cashflow</b>	<b>-1,313</b>	<b>-995</b>	<b>-404</b>	<b>-769</b>	<b>136</b>
Other inv cashflow	502	248	-1,131	121	129
Net borrowings	1,323	433	176	492	-148
Share issuance	0	0	0	0	0
Dividends paid	-479	-117	0	-58	-117
Other fin cashflow	-307	-96	-76	-119	-142
<b>Net cashflow</b>	<b>-274</b>	<b>-526</b>	<b>-1,435</b>	<b>-333</b>	<b>-142</b>
Forex translation	65	25	421	0	0
<b>Beginning cash</b>	<b>3,277</b>	<b>2,655</b>	<b>2,655</b>	<b>1,686</b>	<b>1,353</b>
<b>Ending cash</b>	<b>3,067</b>	<b>2,155</b>	<b>1,641</b>	<b>1,353</b>	<b>1,212</b>

### Valuation Ratios

FYE 31 Dec	FY15A	FY16A	FY17A	FY18E	FY19F
Rep. EPS (sen)	-3.2	-142.7	-55.4	28.1	39.3
<b>Core EPS (sen)</b>	<b>21.9</b>	<b>7.6</b>	<b>-10.9</b>	<b>28.1</b>	<b>39.3</b>
PER (x)	-187.0	-4.2	-10.7	21.2	15.1
<b>Core PER (x)</b>	<b>27.1</b>	<b>78.5</b>	<b>-54.4</b>	<b>21.2</b>	<b>15.1</b>
Net DPS (sen)	20.0	72.0	73.0	5.0	10.0
Net DY (%)	3.4	12.1	12.3	0.8	1.7
<b>BV/ share (RM)</b>	<b>5.6</b>	<b>4.0</b>	<b>2.6</b>	<b>3.7</b>	<b>4.0</b>
P/BV (x)	1.1	1.5	2.3	1.6	1.5
FCF/share (sen)	-112.4	-85.2	-34.6	-65.8	11.7
<b>Market Cap</b>	<b>6,951</b>	<b>6,951</b>	<b>6,951</b>	<b>6,951</b>	<b>6,951</b>
Net cash	-3,281	-4,226	-1,592	-2,812	-2,806
Enterprise value	10,232	11,178	8,543	9,764	9,757
EV/EBITDA (x)	6.5	19.8	11.6	12.2	9.8
<b>ROE (%)</b>	<b>3.9</b>	<b>1.6</b>	<b>-3.3</b>	<b>7.8</b>	<b>10.1</b>
<b>ROA (%)</b>	<b>1.5</b>	<b>0.5</b>	<b>-1.0</b>	<b>2.6</b>	<b>3.5</b>

### Other Ratios

FYE 31 Dec	FY15A	FY16A	FY17A	FY18E	FY19F
<b>Growth (%)</b>					
Sales	-3.3	-24.8	2.8	5.2	8.3
EBITDA	-19.5	-64.0	30.5	102.7	23.9
EBIT	-48.8	-98.8	N.M.	1068.1	37.3
PBT	-83.4	-890.0	-106.8	337.0	30.8
<b>Core PATAMI</b>	<b>-67.4</b>	<b>-65.4</b>	<b>-244.4</b>	<b>338.4</b>	<b>40.0</b>
<b>Margins (%)</b>					
EBITDA	10.9	5.2	6.6	6.7	7.7
EBIT	5.6	0.1	4.7	4.3	5.4
PBT	1.9	-19.6	1.3	5.1	6.1
Core PATAMI	1.8	0.8	-1.1	2.8	3.6
<b>Net Gearing (%)</b>	<b>49.8</b>	<b>89.5</b>	<b>51.6</b>	<b>64.4</b>	<b>59.6</b>

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