

12 Mar 2018

Buy

Price
 RM5.95

Target Price
 RM7.80 (from RM6.30)

Market Data

	UMWH MK
Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	6,951.4
52-week high/low (RM)	6.98 / 4.70
Avg daily turnover (RMm)	10.3
KLCI (pts)	1,848.37

Source: Bloomberg, KAF

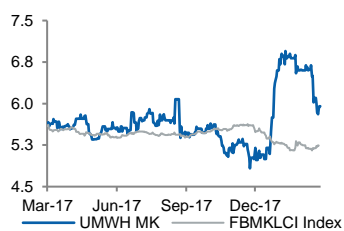
Major Shareholder (%)

Skim Amanah Saham Bumiputera	(40.7%)
EPF	(9.1%)
KWAP	(8.0%)
Free Float	25.2

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	18.3	9.4	11.6
Rel Market (%)	11.0	6.2	4.0



Source: Bloomberg, KAF

Analyst

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UMW Holdings

Consolidating Perodua

UMW is making its move to consolidate Perodua (up to 71% stake) from 38% currently via two proposed acquisitions. We view the move positively as it should strengthen UMW's profitability and balance sheet, as well as affirm its stronghold on the auto market with a combined 48% market share via Toyota and Perodua. We upgrade to Buy with a TP of RM7.80 after factoring in the consolidation move.

Financial Highlights

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue (RMm)	10,959	11,391	11,918	12,300	12,736
Core net profit (RMm)	(369)	12	382	439	502
Core EPS (Sen)	(31.6)	1.0	32.7	37.6	43.0
EPS growth (%)	nm	nm	>100	14.8	14.3
DPS (Sen)	0.0	0.0	20.0	25.0	25.0
Core PE (x)	nm	603.6	18.2	15.8	13.8
Div yield (%)	0.0	0.0	3.4	4.2	4.2
ROE (%)	(40.2)	(17.3)	11.7	11.9	12.1
Net Gearing (%)	88.2	51.6	2.0	Net Cash	Net Cash
PBV(x)	1.0	1.7	1.5	1.3	1.2

Source: Company, KAF

Makes move to consolidate Perodua. UMW is making its move to consolidate 38%-owned associate Perodua via two acquisitions. If all goes well, UMW could own up to 71% effective stake in Perodua.

Acquiring 51% stake in MBM Resources. UMW has proposed to acquire 50.07% stake in MBM Resources (MBM MK, RM2.20, Buy, TP RM2.56) from substantial shareholders, Med-Bumikar Mara Sdn Bhd (MED) and Central Shore Sdn Bhd (CSSB) for RM501m in cash or RM2.56/share. With this move, UMW would then have to make a general offer for the remaining 49.93% MBM shares. The offer price of RM2.56 is at a 16% premium to the last closing price. MBM effectively holds a 22.6% stake in Perodua.

Acquiring 10% stake in Perodua. UMW is also acquiring a 10% stake in Perodua from PNB Equity Resource Corporation Sdn Bhd (PERC) for RM417.5m or RM29.80/share. This effectively values Perodua at RM4.175b. The consideration would be satisfied via RM117.5m cash and the issuance of 49m new UMW shares to PERC at RM6.09/share (2% premium to last closing price).

UMW to hold up to 71% stake in Perodua. Assuming that UMW is able to acquire 100% of MBM, UMW would then consolidate Perodua with an effective 71% stake. The base case would be a 61% stake, assuming that UMW only manages to acquire a 51% stake in MBM.

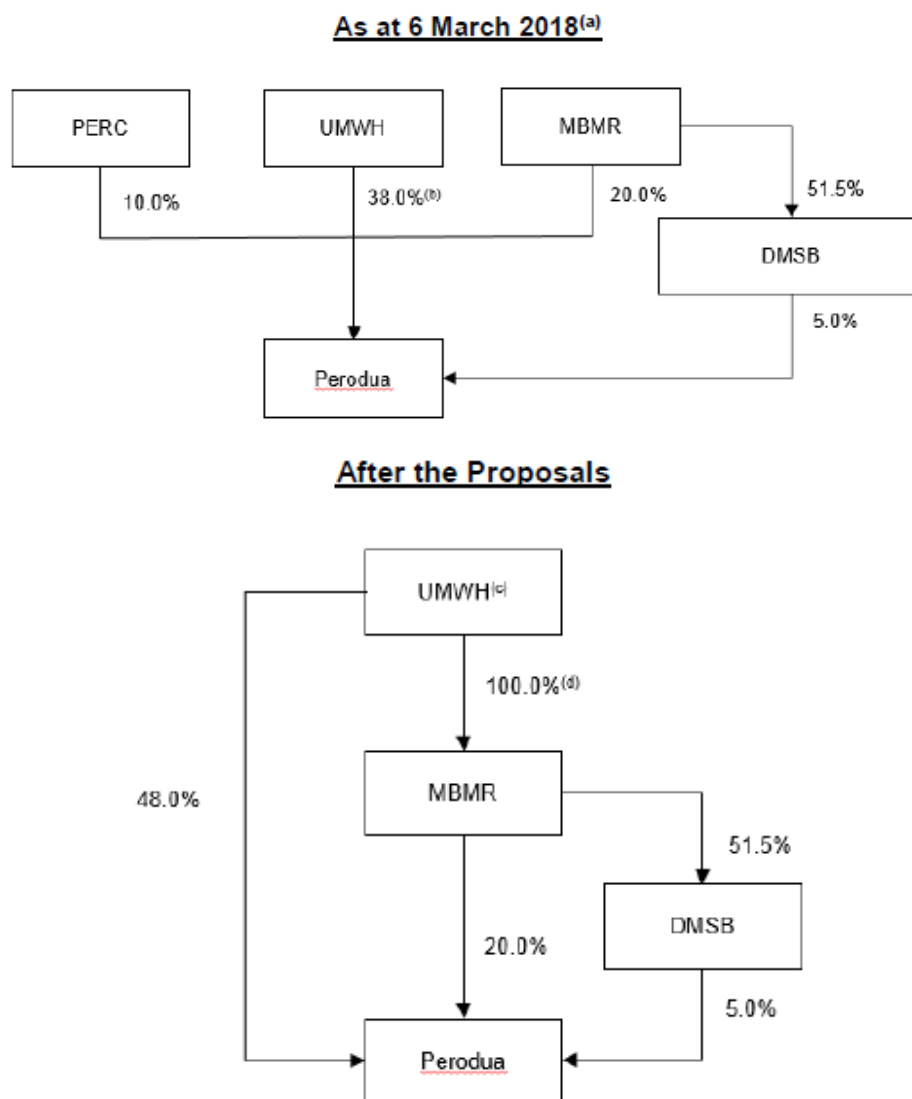
UMW's offer values Perodua at 9x PE. On our estimated FY18 earnings for Perodua of RM462m, UMW's offer effectively values Perodua at 9x PE. Last year, Perodua is estimated to have reported RM410m earnings (FY15: RMRM463m) – implying 10x PE.

Earnings expansion from consolidation. Assuming UMW consolidates 71% stake of Perodua and 100% of MBM, our back-of-the-envelope calculations show that FY18F net earnings would expand 42% to RM543m on 94% topline expansion. As part of the enlarged group, UMW would also be able to leverage on MBM's auto parts supply expertise (e.g. alloy wheels, seatbelts, airbags) to support its existing Toyota manufacturing and assembly operations.

Consolidation a positive move. We view the move positively as it would consolidate Perodua, which is the leading auto maker in the country. The move would not only improve UMW's auto earnings and balance sheet, but also fortify its stronghold on the auto sector with two major brands – Perodua and Toyota – with a total 48% share of TIV.

Upgrade to Buy. We upgrade our recommendation to Buy with a higher TP of RM7.80 (from RM6.30). Our TP takes into account the consolidation of 71% stake in Perodua (at UMW's offer price), net carrying value of the remaining unlisted O&G units, and Serendah land.

Exhibit 1: Group structure before and after proposals



Source: Company, KAF

Exhibit 2: SOP value

Division	RM m	RM/share	%	Remarks
Non-listed O&G BV, investment and JV	155.0	0.13	2%	FY17A carrying value
Equipment division	1217	1.00	13%	9x FY18F PE
M&E division	436	0.36	5%	1x 2016A book value
UMW Toyota	2,741	2.25	29%	10x FY18F PE
Perodua	2,964	2.43	31%	71% Equity value based on UMW's offer
MBM residual earnings	83	0.07	1%	8x FY18F PE
Serendah land	3189	2.62	34%	RNAV (732 acres at RM10psf)
Company net cash/(debt)	(1286)	-1.06	-14%	FY16A
	9500		100%	
UMWH share base	1218			
Fair value	7.80			

Source: Company, KAF

Acquisitions to cost RM1.1b. Assuming that UMW needs to acquire 100% of MBM Resources, the total cash portion that UMW needs to fork out is RM1.12b. As at end-FY17, UMW had a cash pile of RM1.16b and net gearing of 0.5x. Assuming that UMW funds 80% of the acquisitions via borrowings, its net gearing would increase to 0.88x.

Share issuance more than mitigated by earnings accretion. While there would be an expansion of share base via the issuance of 49m new shares to PERC, this should be more than mitigated by the earnings accretion from Perodua and MBM.

Exhibit 3: 2017 unit sales for MBM and UMW brands

Brands	Sales unit	% of TIV
Toyota	69,492	12%
Lexus	953	0%
Perodua	204,887	36%
Mitsubishi	195	0%
Volvo	757	0%
VW	862	0%
Daihatsu	799	0%
Hino	301	0%
Total	278,246	48%
TIV	576,635	

Source: Company, KAF

Exhibit 4: UMW estimated P&L impact from consolidation of Perodua and MBM

Before	FY18	FY19	FY20
Revenue	11,918	12,300	12,736
PATAMI	382	439	502
EPS (sen)	32.7	37.6	43.0
After			
Revenue	23,086	23,747	24,497
PATAMI	543	616	708
EPS (sen)	44.6	50.6	58.2
Growth (%)			
Revenue	94%	93%	92%
PATAMI	42%	40%	41%
EPS (sen)	36%	35%	35%

Source: Company, KAF

Exhibit 5: Remaining carrying value for unlisted O&G division

RM
87m

Associates & JVs

- Remaining carrying value for investments in associates and joint ventures
- We do not expect any further material impact to the Group

RM
68m

Subsidiaries

- Remaining carrying value for subsidiaries
- We do not expect any further material impact to the Group


Source: Company, KAF

Exhibit 6: Perodua historical trend

	2013	2014	2015	2016	2017F	2018F	2019F
Vehicle sales	195,273	192,889	214,931	207,110	204,887	210,000	215,000
Revenue (RM m)	8,665	8,671	9,195	9,046	8,906	9,234	9,454
Net margin (%)	6.1%	5.9%	4.6%	5.1%	4.6%	5.0%	5.0%
Net earnings (RM m)	526	511	427	463	410	462	473
UMW's 38% share (RM m)	198	194	164	176	157	175	180
Dividends received (RM m)	117	119	100	79	70	79	80

Source: Company, KAF

Exhibit 7: Perodua's 2017 sales

PERODUA  PERODUA	2017 (units)	2017 Target (units)	% achieved above target for 2017	2016 (units)
	204,887	202,000	1.4	207,110

Source: Company, KAF

Exhibit 8: Toyota and Lexus sales unit

	2012	2013	2014	2015	2016	2017	2018F	2019F
Toyota sales (unit)	105,151	91,185	102,035	93,760	63,757	69,492	70,000	71,000
YoY growth (%)		-13%	12%	-8%	-32%	9%	1%	1%
TIV	627,753	655,793	666,487	666,677	580,124	576,635		
Lexus sales (unit)	1,471	1,336	1,601	2,101	1,353	953	1,000	1,020
YoY growth (%)		-9%	20%	31%	-36%	-30%	5%	2%
Perodua sales (unit)	189,137	196,071	195,579	213,307	207,110	204,887	210,000	215,000
YoY growth (%)		4%	0%	9%	-3%	-1%	2%	2%

Source: MAA,, KAF

Exhibit 9: Toyota CH-R



Source: Company, KAF

Exhibit 10: All-new Toyota Harrier



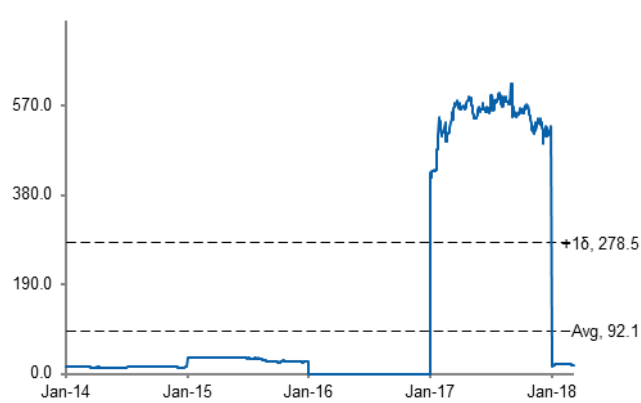
Source: Company, KAF

Exhibit 11: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 12: PE Band chart



Source: Company, KAF, Bloomberg

UMW Holdings

Income Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Revenue	10,958.5	11,390.6	11,917.7	12,300.4	12,736.1
EBITDA	(1,612.0)	(328.6)	897.0	1,044.3	1,165.2
Depreciation/Amortisation	(569.5)	(336.3)	(289.5)	(314.0)	(338.5)
Operating income (EBIT)	(2,181.5)	(664.8)	607.4	730.3	826.7
Other income & associates	156.4	171.7	155.7	159.8	183.8
Net interest	(105.1)	(56.8)	(32.6)	(79.6)	(111.7)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	(2,130.2)	(549.9)	730.5	810.5	899.8
Taxation	(139.6)	(124.0)	(175.3)	(194.5)	(216.0)
Minorities/pref dividends	611.7	22.8	(172.8)	(177.0)	(181.9)
Net profit	(2,269.8)	(674.0)	382.4	439.0	501.9
Core net profit	(369.3)	11.5	382.4	439.0	501.9

Balance Sheet

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Fixed assets	7,678.5	2,660.6	3,418.7	3,804.7	4,166.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	791.3	451.4	451.4	451.4	451.4
Total non-current assets	10,478.0	4,820.3	5,578.4	5,964.3	6,325.8
Cash & equivalent	2,193.9	1,163.4	4,686.3	6,815.6	8,219.5
Stock	1,931.2	1,342.7	1,404.2	1,182.8	1,198.0
Trade debtors	988.5	993.6	815.6	823.2	832.2
Other current assets	671.5	1,298.2	204.0	28.8	0.0
Total current assets	5,785.1	4,798.0	7,110.1	8,850.3	10,249.7
Trade creditors	1,878.6	2,662.1	3,037.7	3,411.4	3,460.8
Short-term borrowings	2,639.3	685.3	3,716.5	4,534.2	5,381.0
Other current liabilities	234.0	205.7	140.5	140.5	140.5
Total current liabilities	4,752.0	3,553.2	6,894.7	8,086.1	8,982.4
Long-term borrowings	3,715.8	2,069.7	1,037.8	1,356.5	1,509.5
Other long-term liabilities	931.0	143.2	34.0	34.0	61.7
Total long-term liabilities	4,646.7	2,213.0	1,071.8	1,390.5	1,571.2
Shareholders' funds	4,718.6	3,082.4	3,455.8	3,894.8	4,396.8
Minority interests	2,145.7	1,093.4	1,266.2	1,443.2	1,625.1

Cash flow Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Pretax profit	(2,130.2)	(549.9)	730.5	810.5	899.8
Depreciation/Amortisation	569.5	336.3	289.5	314.0	338.5
Net change in working capital	441.2	528.9	492.1	587.5	25.2
Others	1,410.3	130.4	302.8	326.4	313.1
Cash flow from operations	290.7	445.6	1,814.9	2,038.5	1,576.7
Capital expenditure	(1,181.6)	(1,003.8)	(700.0)	(700.0)	(700.0)
Net investments & sale of fixed assets	(1,844.2)	(230.2)	(298.6)	(298.6)	(298.6)
Others	2,253.3	(746.5)	1,557.5	262.5	194.0
Cash flow from investing	(772.5)	(1,980.5)	559.0	(736.1)	(804.6)
Debt raised/(repaid)	380.1	176.0	1,231.5	1,136.4	999.8
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(116.8)	0.0	0.0	(233.7)	(292.1)
Others	(654.1)	(75.9)	(75.9)	(75.9)	(75.9)
Cash flow from financing	(390.8)	100.1	1,155.6	826.8	631.9
Net cash flow	(872.6)	(1,434.8)	3,529.4	2,129.2	1,404.0
Cash b/f	2,621.1	2,171.2	1,156.9	4,686.3	6,815.6
Cash c/f	1,607.3	1,156.9	4,686.3	6,815.6	8,219.5

Key Ratios

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue growth (%)	(24.1)	3.9	4.6	3.2	3.5
EBITDA growth (%)	nm	(79.6)	nm	16.4	11.6
Pretax margins (%)	(19.4)	(4.8)	6.1	6.6	7.1
Net profit margins (%)	(20.7)	(5.9)	3.2	3.6	3.9
Interest cover (x)	(20.8)	(11.7)	18.6	9.2	7.4
Effective tax rate (%)	0.0	35.4	29.6	0.0	0.0
Net dividend payout (%)	nm	nm	0.0	0.0	0.0
Debtors turnover (days)	47	32	28	24	24
Stock turnover (days)	64	52	42	38	34
Creditors turnover (days)	69	73	87	96	98

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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