

12 March 2018

UMW Holdings Bhd

Strategic Perodua Acquisitions

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In a surprise move, UMW has proposed to buy 50.07% stake in MBM Resources Bhd for RM501m and 10% stake in Perodua for RM417.5m at PER of 10x and 12x, respectively, which are lower than UMW's FY18E PER of 19x, implying earnings and value accretion potential. We are keeping our FY18E/FY19E earnings unchanged until completion of the proposed acquisitions and pending further announcements details. Maintain MP with unchanged TP of RM6.25.

Buying 50.07% of MBMR and 10% of Perodua for total consideration of RM918.5m. In an announcement to Bursa Malaysia, UMW proposed to: (i) acquire the 50.07% stake in MBM Resources Bhd from Med-Bumikar Mara SB and its wholly-owned subsidiary, Central Shore SB for a total cash consideration of RM501m or RM2.56/share or 16.4% premium to the last closing price (valuing MBMR 100% stake at c.RM1b), subsequently triggering a mandatory take-over for all the remaining MBMR shares, and (ii) acquire a 10% stake in Perodua from PNB Equity Resource Corporation Sdn Bhd (PERC) for a consideration of RM417.5m or RM29.80/share to be financed via issuance of 49.3m new UMW shares at RM6.09/share (valued at RM300.0m) and the remaining balance via cash at RM117.5m. Note that, UMW does not intend to maintain the listing status of MBMR subsequent to the proposed mandatory take-over. UMW currently holds 38% equity interest in Perodua, while MBMR currently holds 22.58% effective interest in Perodua. UMW's effective interest in Perodua will increase from 38.0% to 70.6% after the completion of the proposed acquisitions. We view this latest corporate development by UMW positively as this corporate strategy is value and earnings accretive. The offers for MBMR and Perodua shall remain for acceptance until 28 March 2018, after which, it shall lapse unless UMW agrees in writing to extend the period.

Acquisition PER of MBMR/Perodua are at 38%/25% discount to sector peers. Based on our MBMR's FY18E earnings forecast, the proposed acquisition works out to 10x PER which is at a 38% discount to the sector average PER of 16x. Similarly, based on Perodua's FY18E PBT of RM441.2m and assuming a corporate tax rate of 24%, the proposed acquisition for Perodua works out to 12x PER. In terms of P/book value, the acquisition works out to 0.7x FY18E PBV for MBMR compared to the 5-year historical average of 0.66x.

Impact to financials. UMW will fork out RM618.5m cash to finance the acquisitions and we assume the remaining MBMR's 49.93% stake at RM499.0m will be financed by borrowings, which is expected to increase its net debt and net gearing from RM1.6b and 0.5x to RM2.4b and 0.8x, respectively, as at 31st December 2017 (we have not factored in MBMR net debt of RM83.3m into our illustration). For illustrative purposes, assuming 100% acquisition of MBMR (please refer to the table in the following page), our FY18E/FY19E EPS will be enhanced by 3%/23% (6-month/12-month contribution for FY18E/FY19E). However, we keep our FY18E/FY19E earnings unchanged as well as our TP until completion of the proposed acquisition and pending further announcements.

Strategic Synergies for UMW. The latest proposed corporate acquisitions will allow UMW to increase its strategic stake in Perodua as well as increase its exposure in the commercial vehicle segment via MBMR's multi-brand dealerships, i.e. Daihatsu and Hino vehicles, and widen UMW's offerings with MBMR's auto parts manufacturing business. The strategic acquisitions are consistent with UMW's strategy to enhance its core businesses in the automotive, equipment and manufacturing and engineering segments.

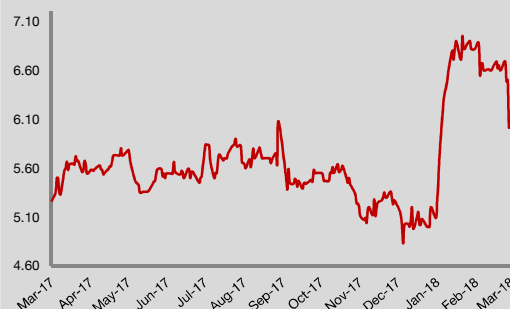
Maintain MARKET PERFORM with an unchanged TP of RM6.25 based on 20x FY18E EPS implying +1.0 SD of its 5-year mean historical PER.

Risks to our call include: (i) higher-than-expected car sales volume, and (ii) unfavourable forex.

MARKET PERFORM ↔

Price: RM5.95
Target Price: RM6.25 ↔

Share Price Performance



KLCI	1,843.92
YTD KLCI change	2.6%
YTD stock price change	14.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	6,951.3
Issued shares	1,168.3
52-week range (H)	6.98
52-week range (L)	4.70
3-mth avg daily vol:	1,600,525
Free Float	43%
Beta	1.3

Major Shareholders

Skim Amanah Saham	40.7%
Employees Provident Fund	9.2%
Kumpulan Wang Persaraan	7.3%

Summary Earnings Table

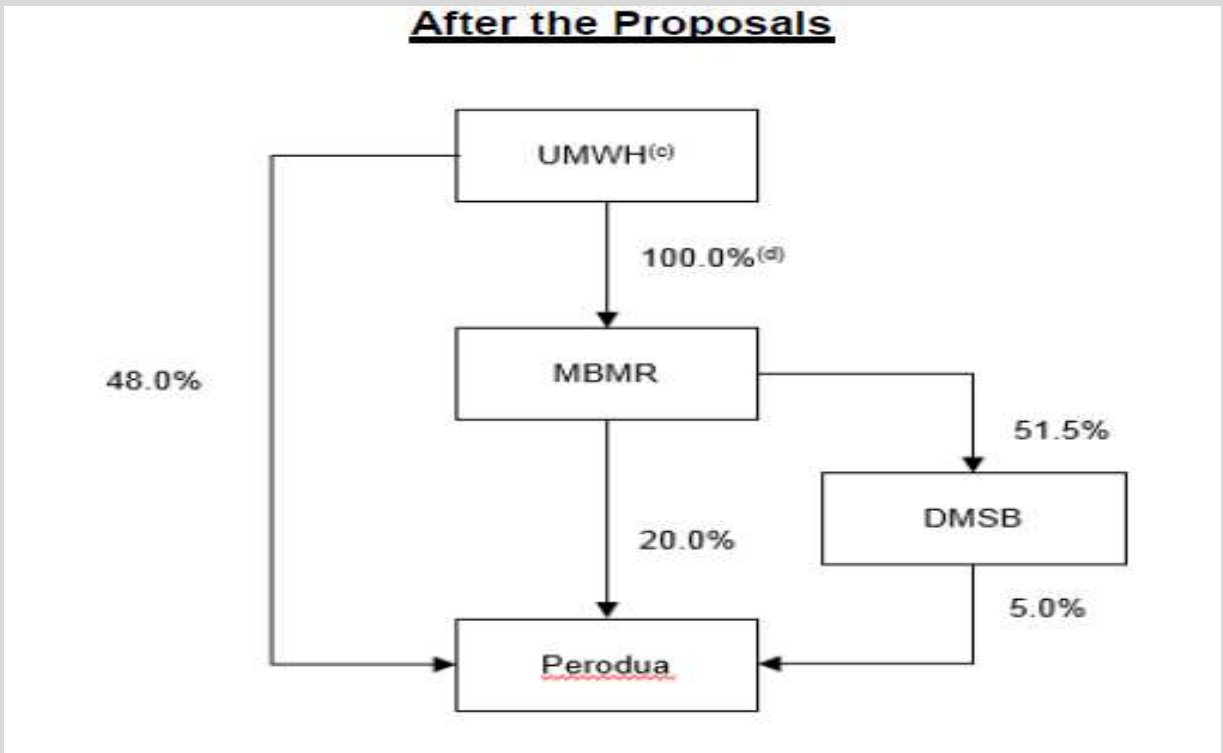
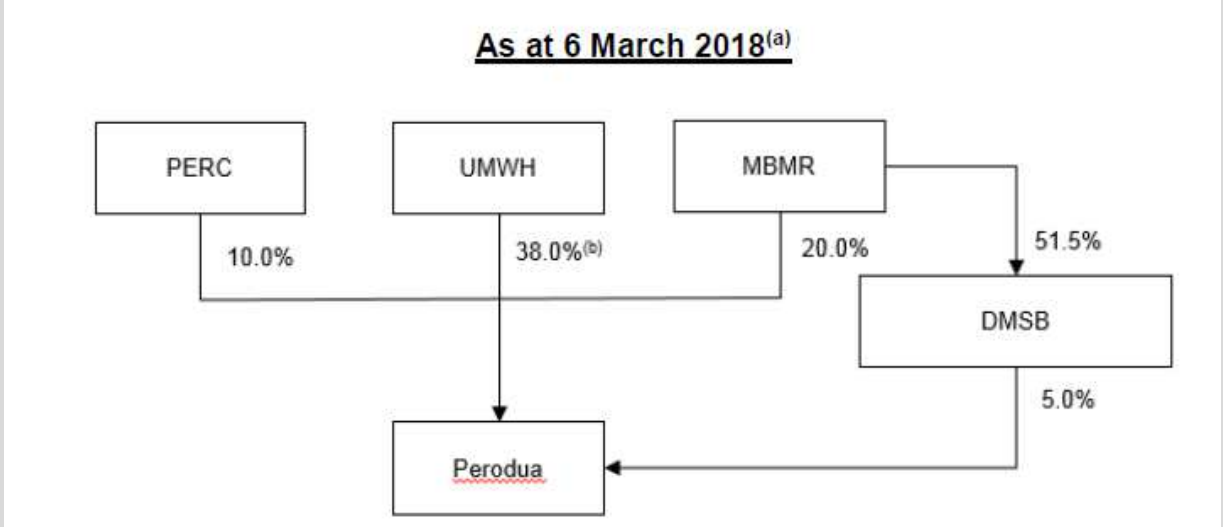
FY Dec (RM'm)	2017A	2018E	2019E
Turnover	11,046.5	11,405.4	11,981.5
EBIT/ (LBIT)	120.4	431.6	448.5
PBT/ (LBT)	252.9	559.9	607.8
NP/(NL)	24.5	365.7	378.7
CNP/(CNL)	57.1	365.7	378.7
Consensus NP	-	332.6	429.6
Earnings Revision	-	-	-
Core EPS (sen)	4.9	31.3	32.4
Core EPS growth	-112.3%	540.4%	3.5%
NDPS (sen)	-	-	-
BVPS (RM)	2.64	2.95	3.28
PER (x)	121.7	19.0	18.4
PBV (x)	2.3	2.0	1.8
Net Gearing (x)	0.5	0.5	0.5
Net Div. Yield (%)	-	-	-



Impact to earnings and TP (based on our FY18E and FY19E)-Assuming 50.07% acquisition of MBMR	FY18E	FY19E
Total acquisition cost as per announcement (RM'm)	918.5	918.5
UMW Core Net Profit (RM'm)	365.7	378.7
Net profit from 50.07% MBMR(RM'm) (6 months/ 12 months contribution for FY18E/FY19E)	25.4	56.7
Net profit from of 10% Perodua (RM'm) (6 months/ 12 months contribution for FY18E/FY19E)	16.8	35.6
UMW adjusted CNP (RM'm)	407.9	471.0
Net profit enhancement (%)	12%	24%
Current number of shares (m shares)	1,168.3	1,168.3
New shares Issuance (for the purchase of 10% Perodua Stake)	49.3	49.3
Enlarged number of shares (m shares)	1,217.6	1,217.6
Previous EPS (sen)	31.3	32.4
Adjusted EPS (sen)	33.5	38.7
EPS accretive (%)	7%	19%
TP (based on unchanged 20x at +1.0 SD of its 5-year historical mean PER)	6.70	7.74
<i>Source: Bursa announcement, Kenanga Research</i>		
<i>^assuming the deal is completed in June 2018</i>		

Impact to earnings and TP (based on our FY18E and FY19E)-Assuming 100% acquisition of MBMR	FY18E	FY19E
Total acquisition cost as per announcement (RM'm)	1,417.5	1,417.5
UMW Core Net Profit (RM'm)	365.7	378.7
Net profit from 100% MBMR(RM'm) (6 months/ 12 months contribution for FY18E/FY19E)	50.7	113.2
Net profit from of 10% Perodua(RM'm) (6 months/ 12 months contribution for FY18E/FY19E)	16.8	35.6
Borrowing cost @ 6% (assuming remaining MBMR 49.93% stake to be financed by borrowings)	-29.9	-29.9
UMW adjusted CNP (RM'm)	391.5	485.9
Net profit enhancement (%)	7%	28%
Current number of shares (m shares)	1168.3	1168.3
New shares Issuance (for the purchase of 10% Perodua Stake)	49.3	49.3
Enlarged number of shares (m shares)	1217.6	1217.6
Previous EPS (sen)	31.3	32.4
Adjusted EPS (sen)	32.2	39.9
EPS accretive (%)	3%	23%
TP (based on unchanged 20x at +1.0 SD of its 5-year historical mean PER)	6.43	7.98
<i>Source: Bursa announcement, Kenanga Research</i>		
<i>^assuming the deal is completed in June 2018</i>		

Group Structure before and after the proposals

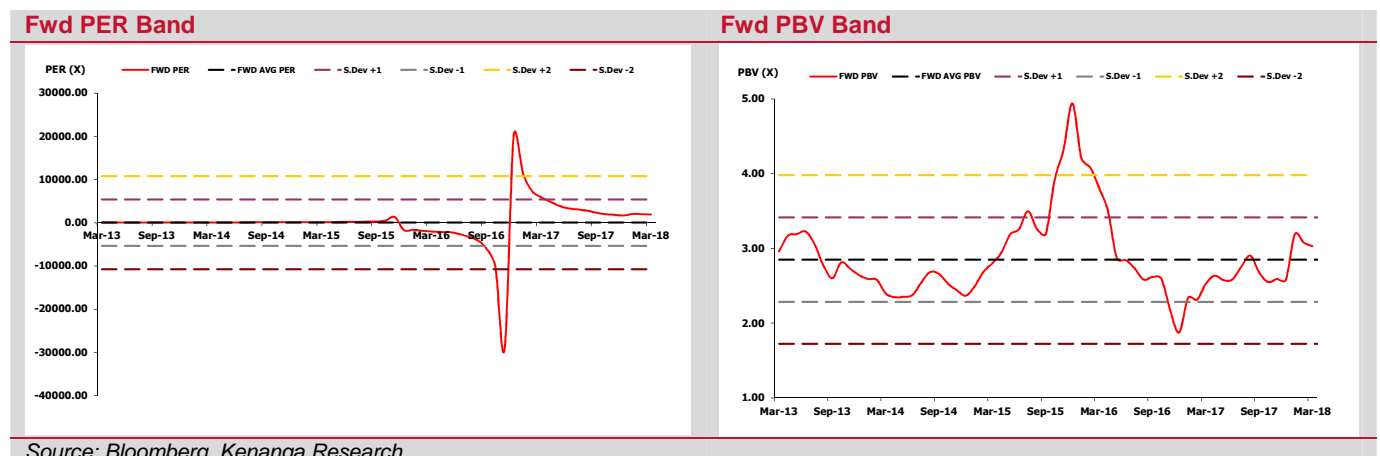


Source: Company, Kenanga Research

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Income Statement					Financial Data & Ratios				
FY Dec (RM m)	2016A	2017A	2018E	2019E	FY Dec (RM m)	2016A	2017A	2018E	2019E
Revenue	10,436.8	11,046.5	11,405.4	11,981.5	Growth (%)				
EBITDA	(456.7)	120.4	431.6	448.5	Turnover	-5.0	5.8	3.2	5.1
Depreciation	(569.5)	(336.3)	(215.3)	(396.6)	EBITDA	-5.0	5.8	3.2	5.1
Interest Inc/(Exp)	(32.5)	(119.0)	(106.7)	(115.7)	Operating Profit	-17.7	-121.1	258.4	3.9
Associate	183.6	171.7	143.7	178.2	PBT	-88.7	-204.3	121.4	8.5
PBT	(242.5)	252.9	559.9	607.8	CNP	28.2	-112.3	540.4	3.5
Taxation	(133.5)	(122.3)	(102.8)	(134.4)	Profitability (%)				
Minority Interest	(120.9)	(106.1)	(91.4)	(94.7)	Operating Margin	-4.4	1.1	3.7	3.5
NP	(496.9)	24.5	365.7	378.7	PBT Margin	-2.3	2.3	4.9	5.0
CNP	(464.3)	57.1	365.7	378.7	CNP Margin	-4.4	0.5	3.2	3.2
					ROA	-3.1	0.2	3.6	3.5
					ROE	-10.5	0.6	11.2	10.4
Balance Sheet					DuPont Analysis				
FY Dec (RM m)	2016A	2017A	2018E	2019E	Net Margin (%)	2016A	2017A	2018E	2019E
F. Assets	7,109.0	2,324.3	2,940.5	3,458.7	Assets Turnover(x)	-4.4	1.1	3.8	3.7
Int. Assets	6.5	6.5	6.5	6.5	Leverage Factor(x)	-2.3	2.3	4.9	5.1
Other F.Assets	3,362.5	2,489.5	2,489.5	2,489.5	ROE (%)	-3.1	0.2	3.6	3.5
Inventories	1,931.2	1,342.7	1,408.8	1,509.8					
Receivables	867.7	880.2	902.6	943.8	Leverage				
Other C. Assets	1,128.7	1,735.4	1,735.4	1,735.4	Debt/Asset (x)	0.4	0.3	0.3	0.2
Cash	1,857.4	1,163.4	1,041.0	996.1	Debt/Equity (x)	1.3	0.9	0.8	0.7
Total Assets	16,263.0	9,942.0	10,524.3	11,139.7	Net (Cash)/Debt	4,475	1,592	1,714	1,759
					Net Debt/Equity (x)	0.9	0.5	0.5	0.5
Payables	1,038.9	767.2	801.0	848.3	Valuations				
ST Borrowings	2,616.6	685.3	685.3	685.3	Core EPS (sen)	(39.7)	4.9	31.3	32.4
Other ST Liability	1,096.5	2,100.6	2,100.6	2,100.6	NDPS (sen)	-	-	-	-
LT Borrowings	3,715.8	2,069.7	2,069.7	2,069.7	BV/sh (RM)	4.0	2.6	3.0	3.3
Other LT Liability	931.0	143.2	143.2	143.2	PER (x)	(15.0)	121.7	19.0	18.4
Net Assets	6,864.3	4,175.8	4,724.4	5,292.5	Div. Yield (%)	-	-	-	-
					PBV (x)	1.5	2.3	2.0	1.8
S.holders' Equity	4,718.6	3,082.4	3,448.1	3,826.8	EV/EBITDA (x)	(2.4)	(19.9)	6.7	5.3
Minority Interests	2,145.7	1,093.4	1,276.3	1,465.6					
Total Equity	6,864.3	4,175.8	4,724.4	5,292.5					
Cashflow Statement									
FY Dec (RM m)	2016A	2017A	2018E	2019E					
Operating CF	290.7	445.6	672.2	807.4					
Investing CF	-766.9	-1,980.5	-687.9	-736.6					
Financing CF	167.4	100.1	-106.7	-115.7					
Change In Cash	-308.7	-1,434.8	-122.4	-44.9					
FCF	-465.3	-310.4	-159.4	-107.4					

Source: Kenanga Research



12 March 2018

Malaysian Automotive Peers Comparison

NAME	Price @ 09/03/18	Mkt Cap	PER (x)			Est. Div. Yld.	Hist. ROE	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating
	(RM)	(RM m)	Actual	1 YrFwd	2 YrFwd	(%)	(%)	Actual	1 YrFwd	2 YrFwd	(%)	(%)	(RM)	
BERMAZ AUTO BHD	1.99	2,297.1	19.5	14.7	11.3	5.6%	43.5%	117.6	156.0	203.7	32.6%	30.5%	2.30	OP
DRB-HICOM BHD	2.38	4,601.0	N.M.	13.8	13.1	0.8%	6.3%	-732.0	334.3	351.7	N.M.	N.M.	2.50	MP
MBM RESOURCES BHD	2.20	860.0	9.2	8.5	7.6	2.7%	5.0%	93.7	101.4	113.2	8.2%	11.7%	2.85	OP
SIME DARBY BHD	2.59	1,015.0	24.0	23.5	21.4	2.7%	2.2%	734.0	750.0	822.6	2.2%	9.7%	2.70	MP
TAN CHONG MOTOR HOLDINGS BHD	1.65	1,077.0	N.M.	N.M.	N.M.	1.2%	2.0%	-83.9	-30.4	-11.7	N.M.	N.M.	1.80	MP
UMW HOLDINGS BHD	5.95	6,951.4	N.M.	19.0	18.4	0.0%	4.0%	57.1	365.7	378.7	N.M.	3.6%	6.25	MP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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