

UOBKH HIGHLIGHTS

UMW Holdings (UMWH MK/HOLD/RM5.95/Target: RM6.50)

UMW To Acquire Perodua Via MBM Resources; Upgrade To Hold

WHAT'S NEW

UMW Holdings (UMW) announced to acquire a 50.1% stake in MBM Resources (MBMR) held by Med-Bumikar Mara Sdn Bhd (49.5%) and Central Shore Sdn Bhd (0.57%) for cash purchase consideration of RM501.0m or RM2.56/share. In the likely case that the offer is accepted and subject to the completion of the proposed acquisition, UMW will have to undertake a mandatory takeover (MO) offer for the remaining MBMR shares. MBMR holds a 22.58% stake in Perodua, while UMW holds a 38% stake in Perodua currently.

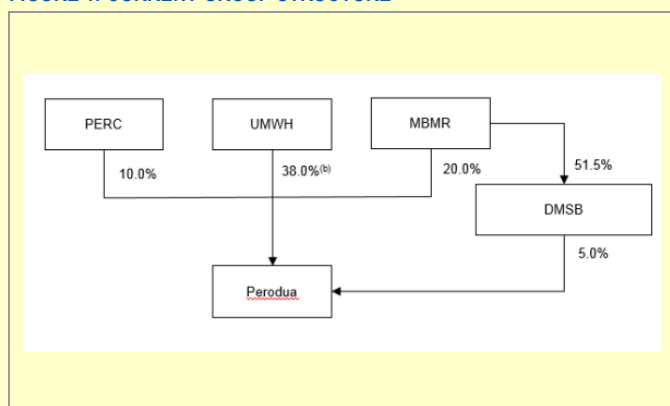
Separately, UMW will acquire a 10% stake in Perodua from PNB Equity Resources Corporation Sdn Bhd (PNB) for RM417.5m or RM29.80/share via a combination of new shares and cash. This will involve an issuance of 49.3m new UMW shares at an issue price of RM6.09 and cash consideration of RM117.5m.

Both acquisitions are not conditional upon each other and the offer period remains open until 28 Mar 18.

RECOMMENDATION

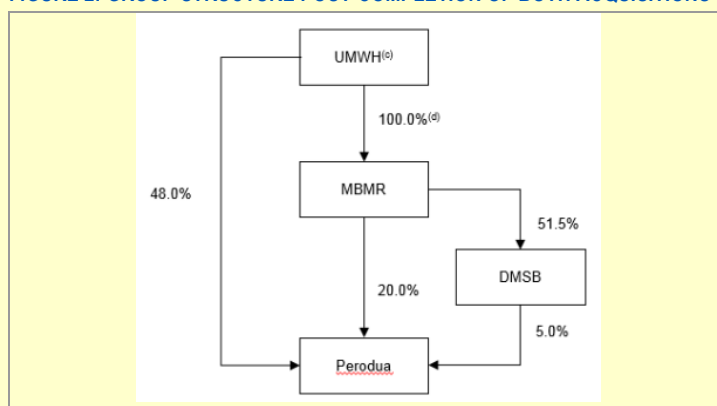
- **Both acquisitions meant to increase UMW's shareholding in Perodua.** The proposals will allow UMW to increase its stake in Perodua from currently 38% up to 70.6% after completion of both acquisitions.

FIGURE 1: CURRENT GROUP STRUCTURE



Source: UMW

FIGURE 2: GROUP STRUCTURE POST-COMPLETION OF BOTH ACQUISITIONS



Source: UMW

- **Acquisitions' valuations attractive, in our view.** Perodua's 2017 net profit is estimated at RM451.8m, based on a 100% stake. We are positive on both acquisitions as valuations are attractive, in our view. The acquisition of Perodua's stake via acquisition of MBMR represents a PE of 10.6x respectively, and on a P/B basis, at 0.7x for MBMR. Meanwhile, the acquisition of 10% stake in Perodua from PNB represents a PE of 9.2x.
- We make no changes to our 2018 earnings. However, we raise our 2019-20 earnings by 40%/38% to RM 556m/RM640m after we assume an increase in UMW's stake in Perodua at 70.6% post-completion of the proposals from 38% currently.
- **Upgrade to HOLD from SELL with a higher target price of RM6.50** (from RM5.40), after we assume UMW's stake in Perodua at 70.6% post-completion of the proposals. Our target price implies a 2019 PE and PB of 19.9x and 1.6x P/B. Key risk to our recommendation will be failure to complete the acquisition exercise.

SOTP-BASED TARGET PRICE

Segment	Stake (%)	EV (RMm)	Remarks
Toyota	51	3,046	1.5x 2019 BV
Equipment	100	1,429	12x 2019 PE
Manufacturing & Engineering	100	91	12x 2019 PE
Perodua	70.6	4,205	1.5x 2019 BV
Total		8,771	
10% holding company discount		7,894	
Enlarged Sharebase post-acquisitions (m)		1,218	
TP (RM)		6.50	

Source: UMW, UOB Kay Hian

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