



UMW Holdings (UMWH MK) : FULLY VALUED

Mkt. Cap: US\$1,942m | **3m Avg. Daily Val:** US\$2.6m

Last Traded Price (13 Mar 2018): RM6.49

Price Target 12-mth: RM4.82 (26% downside) (Prev RM4.82)

Shariah Compliant: Yes

Analyst

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Rights issue to fund MBM acquisition

- Proposing to raise RM1.1bn via rights issue to fund acquisition of MBMR
- Entitlement basis and issue price to be fixed after the closing date of mandatory take-over offer
- 8-10% potential upside to earnings under two possible scenarios
- Maintain our Fully Valued call with TP RM4.82

What's New

UMW Holdings (UMWH) has proposed to raise up to RM1.1bn via a rights issue to help fund the acquisition of MBM Resources Bhd (MBMR). The proposed rights issue is to primarily repay a bridging facility to be obtained by the group to acquire a 50.07% equity interest in MBMR, as well as the resultant mandatory take-over offer (MO) for the remaining shares.

The cash portion of the proposed Perodua acquisition amounting to RM117.5m will be funded via internal funds.

The offer price for the remaining MBMR share under the proposed MO will be at RM2.56 per share which is the same as the purchase consideration for each MBMR share under the proposed acquisition of the initial 50.7% stake in MBMR. This will be satisfied either by cash or issuance of new UMWH shares at RM6.09 per share based on the exchange ratio of 21 new UMWH shares for every 50 remaining MBMR shares held.

The final quantum of gross proceeds to be raised from the rights issue can only be determined after the closing date of the proposed MO. Thus, the entitlement basis for the proposed rights issue and the issue price will be fixed at a later date. Nevertheless, the rights issue price shall be fixed at a discount of between 20% and 30% to the theoretical ex-rights price of UMWH shares in order to encourage subscription by shareholders. In addition, UMWH will procure an irrevocable written undertaking from its substantial shareholder PNB to subscribe for its entitlement. UMWH will also procure underwriting arrangement for the remaining rights shares. Subject to the acceptance of the

Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	11,046	11,198	11,231	11,266
EBITDA	457	904	943	957
Pre-tax Profit	(423)	690	746	752
Net Profit	(651)	384	424	429
Net Pft (Pre Ex.)	278	384	424	429
Net Pft Gth (Pre-ex) (%)	nm	37.7	10.6	1.0
EPS (sen)	(55.7)	32.8	36.3	36.7
EPS Pre Ex. (sen)	23.8	32.8	36.3	36.7
EPS Gth Pre Ex (%)	(156)	38	11	1
Diluted EPS (sen)	23.8	32.8	36.3	36.7
Net DPS (sen)	0.0	0.0	0.0	0.0
BV Per Share (sen)	264	297	333	370
PE (X)	nm	19.8	17.9	17.7
PE Pre Ex. (X)	27.2	19.8	17.9	17.7
P/Cash Flow (X)	17.0	9.0	10.6	11.0
EV/EBITDA (X)	22.5	11.8	11.9	12.3
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	2.5	2.2	1.9	1.8
Net Debt/Equity (X)	0.4	0.4	0.4	0.5
ROAE (%)	(16.7)	11.7	11.5	10.4

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Flash Note

proposed MBMR acquisition, the proposed rights issue is expected to complete by 3QFY18.

For illustrative purposes, UMWH has set out two scenarios for its proposed rights issue based on the mode of purchase consideration on full acceptance of its MO for the remaining MBMR shares. The scenarios are as follow:

Full cash scenario - assuming all shareholders of the remaining MBMR shares opt for cash

- 1) Rights issue price of RM4.40 (23.7% discount to the theoretical ex-rights price of UMWH Shares of RM5.77, calculated based on the 5-day VWAP of UMWH Shares up to and including 12 March 2018)
- 2) Entitlement basis would be 1 rights share for every 5 UMWH shares held
- 3) Issuance of 243.5m rights share with gross proceeds of RM1.071bn.

Full shares scenario - assuming all shareholders of the remaining MBMR shares opt for shares

- 1) Rights issue price of RM4.30 (26.9% discount to the theoretical ex-rights price of UMWH Shares of RM5.88, calculated based on the 5-day VWAP of UMWH Shares up to and including 12 March 2018)
- 2) Entitlement basis would be 1 rights share for every 10 UMWH shares held
- 3) Issuance of 130m rights share with gross proceeds of RM559m.

Assuming a full cash scenario, the proposed acquisitions will lead to EPS accretion of 8% in FY19. Whereas, assuming full shares scenario, the proposed acquisition will add 10% to FY19 EPS.

Valuation

We maintain our Fully Valued rating with TP of RM4.82. We believe valuations remain stretched at 20x 2018 PE. Even if we factor in the earnings accretion from the proposed acquisitions and MO, UMWH's current share price is 30%-32% above our proforma TP of RM4.90 or RM5.01.

Scenario Analysis

Acquisition of MBM (assumes UMW gets 100% in MBM)	Full Cash Scenario RM m	Full Shares Scenario RM m
Gross Proceeds from Rights Issue	1,071.45	558.80
Acquisition of 10% of Perodua from PERC		
	RM m	RM m
Purchase Price	417.50	417.50
Cash	117.50	117.50
Share issuance	300.00	300.00
Net gearing	0.08X	0.19X
Current UMW Net Profit for FY19F	424.32	424.32
Earnings from MBM for FY19F*	113.33	113.33
Earnings from 10% Perodua Stake from PERC for FY19F	34.72	34.72
Net Profit Post Acquisition FY19F	572.38	572.38
Additional num of shares (m, shares)**	292.77	261.19
Num of shares post acquisition (m, shares)	1,461.06	1,429.48
EPS (sen)	39.18	40.04
change to eps	8%	10%

Source of all data: Company, AllianceDBS

* MBMR FY19F net profit based on consensus estimates

** Rights issue price at RM4.40 for Full Cash Scenario, RM4.30 for Full Shares Scenario

SOP valuation

Division	Stake	Valuation	Value (RM m)	Per share
Automotive				
Toyota	51.0%	PE 13x	1,829.37	1.57
Perodua	38.0%	PE 13x	1,715.36	1.47
Equipment	100.0%	PE 12x	1,474.20	1.26
Manufacturing & engineering	100.0%	PE 12x	345.63	0.30
Serendah Land		50% discount to market value	271.16	0.23
Total			5,635.72	4.82

Source of all data: AllianceDBS

Proforma SOP Valuation Post Acquisition – Assuming 100% stake in MBM Resources

Division	Stake	Valuation	Value (RM m)	Full Cash Scenario Per share	Full Shares Scenario Per share
Automotive					
Toyota	51.0%	PE 13x	1,829.37	1.25	1.28
Perodua	70.6%	PE 13x	3,186.96	2.18	2.23
Equipment	100.0%	PE 12x	1,474.20	1.01	1.03
Manufacturing & engineering	100.0%	PE 12x	345.63	0.24	0.24
Serendah Land		50% discount to market value	271.16	0.19	0.19
MBM – other business			57.0	0.04	0.04
Total			7,107.32	4.90	5.01

Source of all data: AllianceDBS

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Mar 17	5.57	4.90	HOLD
2:	14 Mar 17	5.60	4.90	HOLD
3:	11 Apr 17	5.59	4.90	HOLD
4:	24 May 17	5.47	4.99	HOLD
5:	29 Nov 17	5.23	4.49	FULLY VALUED
6:	28 Feb 18	6.50	4.49	FULLY VALUED
7:	01 Mar 18	6.02	4.49	FULLY VALUED
8:	12 Mar 18	6.35	4.82	FULLY VALUED

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Siti Ruzanna Mohd Faruk

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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