



AmInvestment Bank

Company report

Al Zaquan

al-zaquan@ambankgroup.com

03-2036 2304

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

14 Mar 2018

Cash call of up to RM1.1bil with rights issue

HOLD

Price: RM6.49

Fair Value: RM6.22

Rationale for report: Company update

YE to Dec	FY17	FY18F	FY19F	FY20F
FD Core EPS (sen)	(7.7)	29.7	37.6	40.3
PE (x)	(84.6)	21.8	17.3	16.1

Source: AmInvestment Bank Bhd

- **UMW Holdings (UMW) has proposed a rights issue that could raise up to RM1.1bil to pay for the acquisition of MBM Resources (MBM) in its entirety.**
- **We simplify the announcement by UMW to the following:**
 - 1) **The rights issue would fund both the 50.07% in MBM it plans to acquire from Med-Bumikar and the remaining 49.93% triggered by the mandatory offer (MO).**
 - 2) **UMW is valuing MBM at RM2.56/share. Med-Bumikar will be paid in cash, but the minority shareholders (remaining 49.93%) will have two options: cash (cash consideration) or new UMW shares of equal value (shares consideration; at a ratio of 21 UMW shares of RM6.09/share for every 50 MBM shares of RM2.56/share).**
 - 3) **Based on this, UMW illustrated two extreme outcomes: all of the minority shareholders opting for cash (full cash scenario) or shares (full shares scenario). (see Exhibit 1).**

Under the full cash scenario: UMW would raise a total of RM1.1bil from the rights issue to pay for MBM in its entirety with cash (RM1bil; this comprises RM501mil to Med-Bumikar for 50.07% in MBM, and another RM499.3mil for the remaining 49.93%), for working capital (RM39mil) and to cover expenses from the proposal (RM32mil).

Under the full shares scenario: UMW would raise a total of RM559mil to pay Med-Bumikar for the 50.07% in MBM with cash (of RM501mil for the 50.07% in MBM from Med-Bumikar), for working capital (RM36mil) and to cover expenses from the proposal (RM32mil).
 - 4) **The size of the rights issue will depend on the number of minority shareholders opting for cash. In other words, the amount of cash it needs to raise will be lessened should there be more minority shareholders of MBM opting to be compensated with UMW shares.**
 - 5) **We emphasize that the cash would be obtained from a bridging facility, and funds raised from the rights issue will mainly go towards repaying this.**
- **The general timeline for the pricing of the rights shares is as follows:**
 - 1) **MBM minority shareholders will have until the closing date of the MO to choose cash or shares. UMW can determine the amount it needs to raise at this point. From there, it would determine the entitlement basis (the number of UMW shares entitled from every rights share) and the rights issue price at the price-fixing date.**
 - 1) **UMW said the theoretical ex-rights price (TERP) would be determined based on the 5-day VWAP immediately preceding the price-fixing date. It guided that the rights issue price would be at a 20-30% discount to TERP, using rights issuances exceeding RM1bil on Bursa Malaysia from the past 3 years as a measure.**

Quick Take

- **UMW aims to complete the rights issue by 3Q18. It will submit the proposal within 3 months from acceptance by Med-Bumikar.**
- **The approvals required for the rights issue:**
 - 1) **It is conditional on UMW acquiring MBM from Med-Bumikar and the remaining shareholders.**
 - 2) **Approval from UMW shareholders at an EGM.**
- **On the rationale for the rights issue:**
 - 1) **It would allow UMW to conserve its existing cash by tapping on a bridging facility.**
 - 2) **UMW said it would allow its existing shareholders to avoid dilution in their interest, by participating in the rights issue and at a discount to the current market price of UMW.**
- **For UMW, the enlargement of its share base will depend on the number of new shares issued. This will be based on the rights issue price and entitlement basis. We estimate an FY18 EPS accretion of 11-14% for UMW from the consolidation of MBM and additional 10% stake in Perodua, based on the potential impact to its share base from the full cash scenario and full shares scenario. (see Exhibit 2 & 3)**
- **We estimate an ex-all fair value of RM5.49/share and RM5.61/share for UMW based on the full cash scenario and full shares scenario respectively. Based on the aforementioned ratio between UMW and MBM shares (21 UMW shares for every 50 MBM shares, or 1: 0.42), MBM shareholders would see a potential return of RM2.25 and RM2.30 under the full cash scenario and full shares scenario respectively. Both are lower than the RM2.56/share offered by UMW and we opine that most MBM shareholders will opt for the cash option as a result.**

EXHIBIT 1: TWO SCENARIOS FOR RIGHTS ISSUE

- Full Cash Scenario** : Assuming all the holders of the Remaining MBMR Shares opt for the Cash Consideration
- Full Shares Scenario** : Assuming all the holders of the Remaining MBMR Shares opt for the Shares Consideration

	Full Cash Scenario	Full Shares Scenario
	(RM)	(RM)
Gross proceeds	1,071,448,413	558,796,339
Capital outlay for an Entitled Shareholder holding 100 UMWH Shares	88	43
	Full Cash Scenario	Full Shares Scenario
	RM	RM
	'million	'million
	%	%
Description of use of proceeds		
Repayment of the Bridging Facility	1,001	93
Working capital of the Enlarged UMWH Group ⁽¹⁾	39	4
Defrayment of estimated expenses relating to the Proposals ⁽²⁾	32	3
Total	1,072	100
	100	559
	100	100

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: PROFORMA EFFECT ON UMW SHARE CAPITAL FROM TWO SCENARIOS

The proforma effect of the Proposed Rights Issue on the issued share capital of the Company is as follows:

	Full Cash Scenario		Full Shares Scenario	
	No. of UMWH Shares	RM	No. of UMWH Shares	RM
As at the LPD	1,168,293,932	584,147,000	1,168,293,932	584,147,000
To be issued pursuant to the Proposed Perodua Acquisition	49,261,084	300,000,002	49,261,084	300,000,002
To be issued pursuant to the Proposed MO ⁽¹⁾	-	-	81,971,359	499,205,576
To be issued pursuant to the Proposed Rights Issue	243,511,003	1,071,448,413	129,952,637	558,796,339
Enlarged issued share capital	1,461,066,019	1,955,595,415	1,429,479,012	1,942,148,917

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 3: POTENTIAL IMPACT ON EPS FROM RIGHTS ISSUE UNDER TWO SCENARIOS

Current projections for UMW (RM mil)	FY18	FY19	FY20
Revenue	11,431.8	12,058.1	12,720.6
Net profit	347.3	439.5	470.8
Revenue projection for UMW (post)			
Current revenue projections	11,431.8	12,058.1	12,720.6
Add: Perodua consolidated as subsidiary	8,830.6	9,089.4	9,355.9
Add: MBM consolidated as a subsidiary	1,759.0	1,841.9	1,916.0
Total	22,021.4	22,989.4	23,992.5
Addition (%)	93%	91%	89%
Net profit projection for UMW (post)			
Current net profit projection	347.3	439.5	470.8
Additional 10% in Perodua	53.2	58.4	63.8
Additional income from 50.07% of MBM	47.6	56.7	62.7
Total	448.2	554.6	597.3
Addition (%)	29%	26%	27%
Net profit projection for UMW (post)			
Current net profit projection	347.3	439.5	470.8
Additional 10% in Perodua	53.2	58.4	63.8
Additional income from 100% of MBM	95.2	113.2	125.2
Total	495.7	611.1	659.8
Earnings accretion	43%	39%	40%
EPS (sen), on			
Existing UMW share base of 1.2bil shares	37.6	40.3	52.3
Share base of 1.46bil under "full cash scenario"	41.8	45.2	56.0
Share base of 1.43bil under "full shares scenario"	42.8	46.2	57.3
Share base expansion under "full cash scenario"	25%	25%	25%
Share base expansion under "full shares scenario"	22%	22%	22%
Potential EPS accretion from			
"Full cash scenario"	11%	12%	7%
"Full shares scenario"	14%	15%	9%

Source: Company, AmInvestment Bank Bhd

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.

TABLE 1 : VALUATION MATRIX

YE 31 Dec	FY16	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	10,958.5	11,046.5	11,431.8	12,058.1	12,720.6
Core net profit (RM mil)	(360.7)	(89.7)	347.3	439.5	470.8
FD Core EPS (sen)	(30.9)	(7.7)	29.7	37.6	40.3
FD Core EPS growth (%)	(273.6)	(75.1)	(487.3)	26.5	7.1
Consensus Net Profit (RM mil)	-	-	333.2	424.9	484.8
DPS (sen)	10.0	(16.7)	8.9	11.3	12.1
PE (x)	(21.0)	(84.6)	21.8	17.3	16.1
EV/EBITDA (x)	(7.5)	28.8	10.8	9.6	9.1
Div yield (%)	1.7	(2.8)	1.5	1.9	2.0
ROE (%)	(29.2)	(14.5)	7.9	9.4	9.5
Net Gearing (%)	95.3	130.4	110.7	99.4	89.1

Source: Company, AmInvestment Bank Bhd estimates