

UMW (HOLD ↔, EPS ↔)

NEWSBREAK
INDUSTRY: NEUTRAL
14 March 2018
Price Target: RM6.10(↔)
Share price: RM6.49

Proposed rights issue for acquisitions

**Highlights/
Comments**

- UMW has proposed rights issue to raise the necessary proceeds to finance the proposed acquisition of:
 1. 50.07% stake in MBM Resources (MBMR) from major shareholder Med-Bumikar Mara for cash consideration of RM501m (RM2.56/share).
 2. 10% stake in Perodua from PNB for RM417.5m, which will be satisfied with cash RM117.5m and issuance of 49.3m new UMW shares at issue price of RM6.09/share.
 3. 49.93% stake in MBMR from minority shareholders under Mandatory Take-Over Offer (MO), subject to successful acquisition of the first 50.07% stake. The offer price under MO will be same as cash offer RM2.56/share or issuance of new UMW shares at issuance price of RM6.09/share (exchange ratio of 21 new UMW shares for every 50 MBMR shares).
- The rights issue is intended to raise up to RM1.1bn, depending on the successful of the expected MO exercise. Pricing of rights issue shall be based on 20-30% discount to TERP of UMWH shares on 5-day VWAP.
- Based on worst case scenario (full cash), UMW shall raise RM1.1bn, which shall be funded through rights issue of UMW 243.5m shares (based on RM4.40/share and 1 for every 5 UMW shares). UMW's BPS will raise from RM2.64/share (based on Dec 2017) to RM3.30/share and net gearing shall improve from 51.6% to 33.6%.
- The whole exercise is expected to complete in 3QCY18.
- Despite the potential share dilution impact, we view the acquisition of MBMR and Perodua as value accretive for UMW, translating into 2018-19 PE of 9x to 11x and PB 0.7x to 1.0x (end 2017) as compared to UMW's own valuation of 2018 PE 23.1x, 2019 PE 16.5x and PB 2.5x (end 2017).

Risks

- Prolonged tightening of banks' HP rules.
- Slowdown in the Malaysian economy affecting demand for automotive and equipment.
- Global supply chain disruption for automotive and manufacturing segments.
- Depreciation of RM.

Forecasts

- Unchanged, pending acceptance of MBMR shareholders and PNB (10% Perodua stake). FY19 earning may increase by +32.6% or RM150m to RM610m (assuming successful MO), which shall be partially offset by dilution impact up to 20% (assuming worst case scenario).

Rating
HOLD (↔)

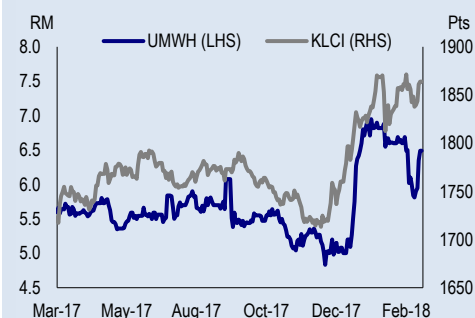
- UMW continues to be dragged by weakened consumer sentiment, relatively high US\$ against RM and continued losses from Rolls Royce fan case manufacturing plant in 2018. However, the proposed acquisition of stakes in MBMR and Perodua is value accretive to UMW.

Valuation

- We maintain HOLD recommendation with unchanged TP of RM6.10 based on SOP (assuming only Med-Bumikar Mara and PNB accept the offer, but not minority shareholders of MBMR).

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KLCI	1,864.0
Expected share price return	-6.0%
Expected dividend return	0.8%
Expected total return	-5.2%

Share Price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	7,582
3-mth avg. volume ('000)	1,786
SC Shariah-Compliant	Yes

Price Performance

	1M	3M	12M
Absolute	-1.7	24.8	15.9
Relative	-3.2	17.8	7.1

Major Shareholders

PNB	57.6%
EPF	9.3%
KWAP	7.3%

Summary Earnings Table

FYE Dec (RM m)	FY16A	FY17A	FY18E	FY19F
Turnover	10,859	11,167	11,899	12,888
EBITDA	564	736	800	992
Pre-tax Profit	-2,130	146	603	789
Rpt. net profit	-1,667	-648	328	460
Norm. net profit	89	-128	328	460
Norm. EPS (sen)	7.6	-10.9	28.1	39.3
P/E (x)	85.7	-59.3	23.1	16.5
Book Value (RM)	4.0	2.6	3.7	4.0
P/B (x)	1.6	2.5	1.7	1.6
Net Dvd Yield (%)	11.1	11.2	0.8	1.5
Net Gearing	89.5	51.6	64.4	59.6
ROE (%)	1.6	-3.3	7.8	10.1
ROA (%)	0.5	-1.0	2.6	3.5

Consensus:

EPS (sen)	26.5	35.3
% Diff	6.0	11.4

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APPENDIX 1: Proposed use of proceeds from rights issue

Description of use of proceeds	Full Cash Scenario		Full Shares Scenario	
	RM 'million	%	RM 'million	%
Repayment of the Bridging Facility	1,001	93	501	90
Working capital of the Enlarged UMWH Group ⁽¹⁾	39	4	36	6
Defrayment of estimated expenses relating to the Proposals ⁽²⁾	32	3	22	4
Total	1,072	100	559	100

Notes:

- (1) Refers to day-to-day operating and administrative expenses, and other operating expenses such as sales and marketing, and salaries and wages.
- (2) Comprise of financing fees for the Bridging Facility, professional fees in connection with the financial, taxation and legal due diligence for the Proposed MBMR Acquisition as well as professional fees relating to the Proposals, underwriting commission for the Proposed Rights Issue, fees payable to the relevant authorities in connection with the Proposals, printing and despatch cost for the circular to be issued in relation to the Proposals, offer document to be issued for the Proposed MO and abridged prospectus to be issued for the Proposed Rights Issue, advertisement cost, cost of convening the extraordinary general meeting ("EGM") and other incidental expenses relating to the Proposals.

UMW

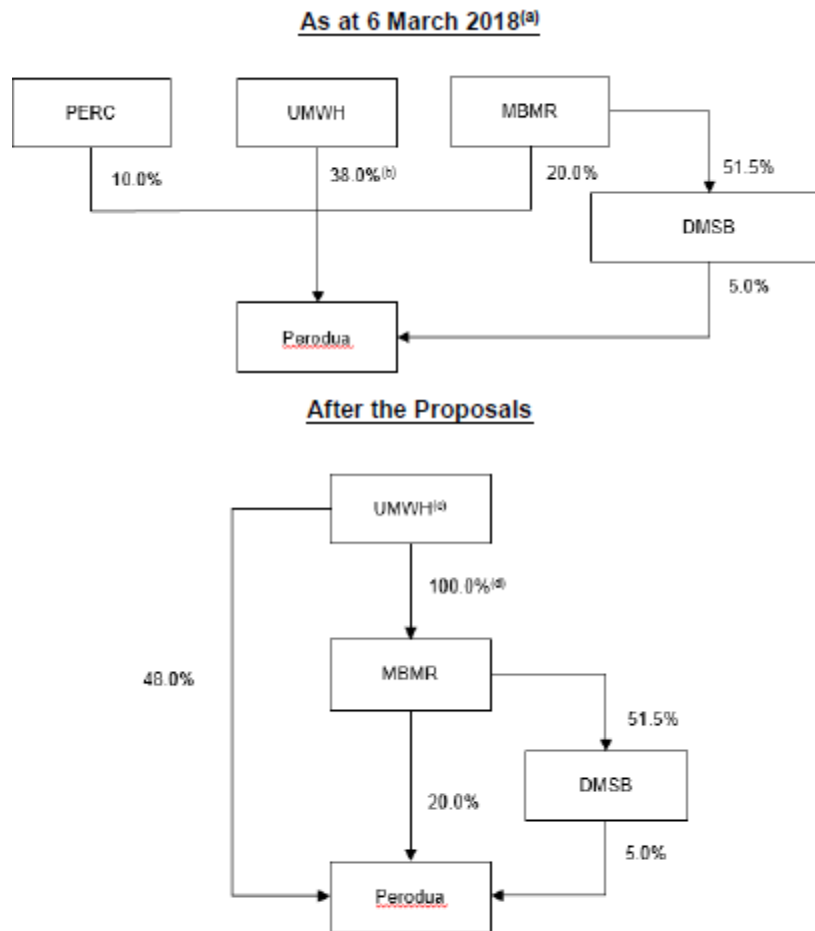
APPENDIX 2: Proforma effect on the proposed rights issue

	<u>Based on RM4.40/share</u>		<u>Based on RM4.30/share</u>	
	<u>1 for every 5 UMW shares</u>		<u>1 for every 10 UMW shares</u>	
	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

Note:

- (1) This does not take into account the MBMR Shares granted by MBMR to the eligible employees and executive directors of the MBMR group under its long-term incentive plan that was implemented on 26 September 2016.

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APPENDIX 3: UMW & MBR group structure**Notes:**

- ^(a) Being the latest practicable date prior to the date of this Announcement.
^(b) Held through UMWC, a wholly-owned subsidiary of UMWH.
^(c) UMWH reserves the rights to nominate another affiliate(s) to undertake the Proposed MBMR Acquisition and the Proposed Perodua Acquisition.
^(d) 100% ownership of MBMR is dependent on the outcome of the Proposed MO.

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UMW Sum-of-Parts Valuations

Division	Stakes (%)	FY19 PATMI (RM m)	Value (RMm)	RM/Share	Basis
Automotive	Various	342.7	3,427.5	2.93	FY19 PE 10x
Equipment	Various	170.6	1,365.0	1.17	FY19 PE 8x
Manufacturing & Engineering	Various	106.4	1,915.0	1.64	FY20 PE 18x
Others	Various	(353.6)	0.0	0.00	
* 50.07% MBMR & 10% Perodua	Various	101.3	1,215.1	1.04	FY19 PE 12x
Total (RM)			6,707.5	6.78	
Holding Co Discount				10.0%	
Target Price (RM)			9,837.6	6.10	
No of Shares		1,163.8	1,168.3		As at end FY2017

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Financial Projections - UMWH (HOLD; TP: RM6.10)**Income Statement**

FYE 31 Dec (RMm)	FY15A	FY16A	FY17A	FY18E	FY19F
Revenue	14,442	10,859	11,167	11,899	12,888
Operating cost	-12,872	-10,295	-10,430	-11,098	-11,896
EBITDA	1,569	564	736	800	992
Depreciation	-765	-555	-207	-294	-296
EBIT	804	9	529	507	696
Interest income	126	81	47	54	46
Interest expense	-127	-186	-150	-118	-123
Associates	134	155	156	161	172
Exceptionals	-668	-2,189	-437	0	0
Pretax profit	270	-2,130	146	603	789
Taxation	-267	-141	-816	-136	-163
Minorities	-39	604	23	-140	-167
Net profit	-37	-1,667	-648	328	460
Core PATAMI	256	89	-128	328	460
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	-3.2	-142.7	-55.4	28.1	39.3
Core EPS (sen)	21.9	7.6	-10.9	28.1	39.3

Balance Sheet

FYE 31 Dec (RMm)	FY15A	FY16A	FY17A	FY18E	FY19F
Fixed assets	8,106	7,642	2,661	4,427	4,571
Other assets	4,038	3,709	3,894	4,086	4,129
Working capital	1,968	1,778	1,456	1,972	2,146
Receivables	1,458	754	880	833	902
Payables	-1,380	-898	-767	-943	-1,011
Inventory	1,890	1,922	1,343	2,082	2,255
Net cash	-3,281	-4,226	-1,592	-2,812	-2,806
Cash	2,734	2,179	1,163	1,377	1,236
ST debt	-3,725	-2,617	-685	-1,117	-1,117
LT debt	-2,290	-3,789	-2,070	-3,073	-2,925
Equity	6,584	4,722	3,082	4,366	4,709
Share capital	584	584	584	584	584
Reserves	6,000	4,138	2,498	3,782	4,125
Minorities	2,799	2,187	1,093	1,312	1,337
Other liabilities	1,447	1,994	2,244	1,994	1,994

Assumption Metrics

FYE 31 Dec	FY15A	FY16A	FY17A	FY18E	FY19F
GDP Growth (%)	6.0%	4.2%	5.8%	5.3%	5.0%
TIV ('000)	666.5	580.1	588.8	600.6	612.6
Growth (%)	1.6%	-13.0%	1.5%	2.0%	2.0%
Unit Sale (Unit)	309.2	272.2	275.3	292.4	303.6
Toyota ('000)	93.8	63.8	69.5	75.0	78.0
Lexus ('000)	2.1	1.4	1.0	1.4	1.4
Perodua ('000)	213.3	207.1	204.9	216.0	224.2
Average Price					
UMW (RM '000)	107.9	123.1	120.2	114.6	115.8
Perodua (RM '000)	39.7	40.5	44.6	44.5	44.3

Cashflow

FYE 31 Dec (RMm)	FY15A	FY16A	FY17A	FY18E	FY19F
EBITDA	1,569	564	736	800	992
Net interest	-1	-106	-103	-64	-78
WCap changes	69	190	323	-129	-175
Taxation	-283	-136	-123	-136	-163
Others	-279	-583	-302	0	0
Opex cashflow	1,075	-70	531	471	576
Capex & acq.	-2,388	-925	-935	-1,240	-440
Free cashflow	-1,313	-995	-404	-769	136
Other inv cashflow	502	248	-1,131	121	129
Net borrowings	1,323	433	176	492	-148
Share issuance	0	0	0	0	0
Dividends paid	-479	-117	0	-58	-117
Other fin cashflow	-307	-96	-76	-119	-142
Net cashflow	-274	-526	-1,435	-333	-142
Forex translation	65	25	421	0	0
Beginning cash	3,277	2,655	2,655	1,686	1,353
Ending cash	3,067	2,155	1,641	1,353	1,212

Valuation Ratios

FYE 31 Dec	FY15A	FY16A	FY17A	FY18E	FY19F
Rep. EPS (sen)	-3.2	-142.7	-55.4	28.1	39.3
Core EPS (sen)	21.9	7.6	-10.9	28.1	39.3
PER (x)	-204.0	-4.5	-11.7	23.1	16.5
Core PER (x)	29.6	85.7	-59.3	23.1	16.5
Net DPS (sen)	20.0	72.0	73.0	5.0	10.0
Net DY (%)	3.1	11.1	11.2	0.8	1.5
BV/ share (RM)	5.6	4.0	2.6	3.7	4.0
P/BV (x)	1.2	1.6	2.5	1.7	1.6
FCF/share (sen)	-112.4	-85.2	-34.6	-65.8	11.7
Market Cap	7,582	7,582	7,582	7,582	7,582
Net cash	-3,281	-4,226	-1,592	-2,812	-2,806
Enterprise value	10,863	11,809	9,174	10,395	10,388
EV/EBITDA (x)	6.9	20.9	12.5	13.0	10.5
ROE (%)	3.9	1.6	-3.3	7.8	10.1
ROA (%)	1.5	0.5	-1.0	2.6	3.5

Other Ratios

FYE 31 Dec	FY15A	FY16A	FY17A	FY18E	FY19F
Growth (%)					
Sales	-3.3	-24.8	2.8	5.2	8.3
EBITDA	-19.5	-64.0	30.5	102.7	23.9
EBIT	-48.8	-98.8	N.M.	1068.1	37.3
PBT	-83.4	-890.0	-106.8	337.0	30.8
Core PATAMI	-67.4	-65.4	-244.4	338.4	40.0
Margins (%)					
EBITDA	10.9	5.2	6.6	6.7	7.7
EBIT	5.6	0.1	4.7	4.3	5.4
PBT	1.9	-19.6	1.3	5.1	6.1
Core PATAMI	1.8	0.8	-1.1	2.8	3.6
Net Gearing (%)	49.8	89.5	51.6	64.4	59.6

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