

14 March 2018

# UMW Holdings Bhd

## Rights Issue to Finance MBMR Acquisition

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UMW is proposing to undertake a rights issue to raise up to RM1.1b to finance the recently proposed acquisition of 50.07% stake in MBMR, including the mandatory takeover offer. We are keeping our FY18E/FY19E earnings unchanged until completion of the proposed acquisitions and pending further announcements. Maintain MP with an unchanged TP of RM6.25.

**Propose rights issue to raise gross proceeds up to RM1.1b.** In an announcement to Bursa Malaysia, UMW is proposing to undertake the proposed rights issue to primarily repay a bridging facility to finance both the proposed acquisition of: (i) 50.07% stake in MBM Resources Bhd (MBMR) from Med-Bumikar Mara SB and its wholly-owned subsidiary, Central Shore SB for a total cash consideration of RM501m or RM2.56/share, and (ii) remaining 49.93% stake in MBMR at RM499m following the proposed mandatory take-over offer. Specifically, the remaining 49.93% stake in MBMR is to be satisfied via: (i) all cash; or (ii) issuance of new UMW shares at an issue price of RM6.09 per UMW share based on an exchange ratio of 21 new UMW shares for every 50 remaining MBMR shares at an offer price of RM2.56 per MBMR share. The proposed rights issue is expected to be completed by 3Q18. If the MBMR offer is not accepted and/or the proposed MBMR acquisition is not completed, the proposed rights issue will not be implemented.

**Indicative rights issue price, number of new rights shares.** The proposed rights issue is expected to be completed by the 3Q18. The final quantum of gross proceeds to be raised can only be determined after the closing date of the mandatory general offer. However, for illustrative purposes; (i) under a full cash scenario, assuming a rights issue price of RM4.40 or a 23.7% discount to theoretical ex-right price of RM5.77 (based on the 5-day VWAP of UMW shares up to and including 12 March 2018), the rights issue ratio works out to 1 for 5 UMW shares or issuance of 243.5m rights shares; and (ii) under a full shares scenario, assuming a rights issue price of RM4.30 or a 26.9% discount to theoretical ex-right price of RM5.88 (based on the 5-day VWAP of UMW shares up to and including 12 March 2018), the rights issue ratio works out to 1 for 10 UMW shares or issuance of 130m rights shares.

**EPS accretive for both scenarios at 11% and 14% for FY19E.** On a full-year contribution basis in FY19, we expect EPS accretion of 11% (full cash scenario) and 14% (full share scenario), respectively, despite the rights issue for both scenarios. However, due to 6-months contribution in FY18E from MBMR and 10% Perodua, we will see EPS dilution of -5% (full cash scenario) and -3% (full share scenario) for both scenarios.

**Impact to financials.** For illustrative purposes, as of 31<sup>st</sup> December 2017, UMW's debt was at of RM2.6b and gearing of 0.75x. Assuming 100% cash acquisition of MBMR, RM1,072m bridging loan will be taken and 10% Perodua acquisition completed, its debt and gearing are expected to increase to RM3.9b and 0.94x, respectively. Assuming 50.07% cash acquisition, RM559m bridging loan will be taken, 49.93% MBMR share swap and 10% Perodua acquisition completed, its debt and gearing are expected to increase to RM3.5b and 0.73x, respectively. However, with the proposed rights issue, both scenario debt and gearing will normalize at RM3.0b and 0.56x. Nonetheless, we keep our FY18E/FY19E earnings estimates and TP unchanged until completion of the proposed acquisition and pending further announcements (please refer the following page for the earnings/TP sensitivity for the proposed acquisitions).

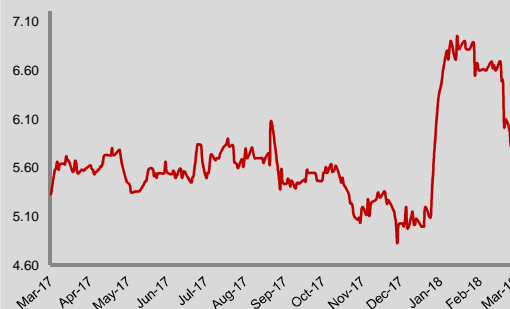
**Maintain MARKET PERFORM with an unchanged TP of RM6.25** based on 20x FY18E EPS implying +1.0 SD of its 5-year mean historical PER.

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

# MARKET PERFORM ↔

**Price:** RM6.49  
**Target Price:** RM6.25 ↔

### Share Price Performance



KLCI	1,864.03
YTD KLCI change	3.7%
YTD stock price change	24.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	7,582.2
Issued shares	1,168.3
52-week range (H)	6.98
52-week range (L)	4.70
3-mth avg daily vol:	1,727,360
Free Float	43%
Beta	1.4

### Major Shareholders

Skim Amanah Saham	40.7%
Employees Provident Fund	9.3%
Yayasan Pelaburan Bumiputera	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
<b>NP/(NL)</b>	<b>24.5</b>	<b>365.7</b>	<b>378.7</b>
<b>CNP/(CNL)</b>	<b>57.1</b>	<b>365.7</b>	<b>378.7</b>
Consensus NP	-	333.2	424.9
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)	132.8	20.7	20.0
PBV (x)	2.5	2.2	2.0
Net Gearing (x)	0.5	0.5	0.5
Net Div. Yield (%)	-	-	-



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<b>Impact to earnings and TP (based on our FY18E and FY19E)-Assuming Full Cash Scenario for 100% acquisition of MBMR</b>	<b>FY18E</b>	<b>FY19E</b>
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
UMW adjusted CNP (RM'm)	433.2	527.6
Net profit enhancement (%)	18%	39%
Current number of shares (m shares)	1168.3	1168.3
New shares Issuance (for the purchase of 10% Perodua Stake)	49.3	49.3
New shares issued pursuant to the Proposed Rights Issue (assuming 1 rights share for every 5 UMW shares)**	243.5	243.5
Enlarged number of shares (m shares)	1461.1	1461.1
Previous EPS (sen)	31.3	32.4
Adjusted EPS (sen)	29.6	36.1
EPS changes (%)	-5%	11%
<b>TP (based on unchanged 20x at +1.0 SD of its 5-year historical mean PER)</b>	<b>5.93</b>	<b>7.22</b>

Source: Bursa announcement, Kenanga Research

^assuming the deal is completed in June 2018

\*\*Assuming illustrative rights issue price of RM4.40, entails 1 rights share for every 5 UMW shares which will result in the issuance of 243.5m rights shares and gross proceeds of c.RM1,071m.

<b>Impact to earnings and TP (based on our FY18E and FY19E)-Assuming Full Share Scenario for 100% acquisition of MBMR</b>	<b>FY18E</b>	<b>FY19E</b>
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
UMW adjusted CNP (RM'm)	433.2	527.6
Net profit enhancement (%)	18%	39%
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
New shares issued pursuant to the Proposed Mandatory Offer (assuming 21 new UMW shares for every 50 remaining MBMR Shares)***	82.0	82.0
New shares issued pursuant to the Proposed Rights Issue (assuming 1 rights shares for every 10 UMW shares)**	130.0	130.0
Enlarged number of shares (m shares)	1429.5	1429.5
Previous EPS (sen)	31.3	32.4
Adjusted EPS (sen)	30.3	36.9
EPS changes (%)	-3%	14%
<b>TP (based on unchanged 20x at +1.0 SD of its 5-year historical mean PER)</b>	<b>6.06</b>	<b>7.38</b>

Source: Bursa announcement, Kenanga Research

^assuming the deal is completed in June 2018

\*\*Assuming illustrative rights issue price of RM4.30, entails 1 rights share for every 10 UMW shares which will result in the issuance of 130.0m rights shares and gross proceeds of c.RM559m.

\*\*\*Assuming offer price of RM2.56/ MBMR share and issue price of RM6.09/UMW share, entails 21 new UMW shares for every 50 remaining MBMR Shares which results in issuance of 82m new shares.

**For illustrative purposes only, the pro forma effects of the Proposed Rights Issue on the NA per UMW Share and gearing of the UMW Group are as follows:-**

	Audited as at 31 December 2016 (RM '000)	After the Completed Transaction <sup>(1)</sup> (RM '000)	Full Cash Scenario				Full Shares Scenario	
			Pro forma I	Pro forma II	Pro forma III(a)	Pro forma IV(a)	Pro forma III(b)	Pro forma IV(b)
			After the Proposed MBMR Acquisition <sup>(2)</sup> (RM '000)	After Pro forma I and the Proposed Perodua Acquisition <sup>(2)(3)</sup> (RM '000)	After Pro forma II and the Proposed MO <sup>(4)</sup> (RM '000)	After Pro forma III(a) and the Proposed Rights Issue (RM '000)	After Pro forma II and the Proposed MO <sup>(4)</sup> (RM '000)	After Pro forma III(b) and the Proposed Rights Issue (RM '000)
Share capital	584,147	584,147	584,147	884,147	884,147	1,955,595	1,383,353	1,942,149
Share premium	794,482	-	-	-	-	-	-	-
Capital reserve	396	396	396	396	396	396	396	396
Foreign currency translation reserve	437,793	20,011	20,011	20,011	20,011	20,011	20,011	20,011
Hedging reserve	3,099	3,099	3,099	3,099	3,099	3,099	3,099	3,099
Retained profits	2,898,645	2,850,742	3,074,876	3,074,876	3,298,383	3,266,383	3,298,812	3,276,812
Equity attributable to the owners of the Company	<b>4,718,562</b>	<b>3,458,395</b>	<b>3,682,529</b>	<b>3,982,529</b>	<b>4,206,036</b>	<b>5,245,484</b>	<b>4,705,671</b>	<b>5,242,467</b>
Non-controlling interests	2,145,713	1,144,679	2,134,405	2,134,405	1,411,263	1,411,263	1,411,263	1,411,263
<b>Total equity</b>	<b>6,864,275</b>	<b>4,603,074</b>	<b>5,816,934</b>	<b>6,116,934</b>	<b>5,617,299</b>	<b>6,656,747</b>	<b>6,116,934</b>	<b>6,653,730</b>
No. of UMW Shares in issue ('000)	1,168,294	1,168,294	1,168,294	1,217,555	1,217,555	1,461,066	1,299,526	1,429,479
NA per UMW Share attributable to the owners of the Company (RM)	4.04	2.96	3.15	3.27	3.45	3.59	3.62	3.67
Total borrowings	6,355,106	2,582,588	3,453,247	3,453,247	3,952,882	2,952,210	3,453,247	2,952,210
Gearing (times) <sup>(5)</sup>	1.35	0.75	0.94	0.87	0.94	0.56	0.73	0.56

**Notes:**

- (1) Adjusted to illustrate the effects of the distribution of 1,204,777,400 ordinary shares in UMW Oil & Gas Corporation Berhad ("UMW-OG"), being the entire shareholding of UMW in UMW-OG.
- (2) Assuming that the carrying values of MBMR and Perodua are equivalent to its fair value for illustrative purposes.
- (3) Assuming that Perodua continues to be equity accounted from accounting perspective despite the increased stake for illustrative purposes.
- (4) Assuming full acceptance under the Proposed MO.
- (5) Calculated as total borrowings divided by equity attributable to owners of the Company.

Source: Company, Kenanga Research

**For illustrative purposes only, the proceeds from the Proposed Rights Issue is expected to be used as :-**

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 UMW Group <sup>(1)</sup>	39	4	36	6
Defrayment of estimated expenses relating to the Proposals <sup>(2)</sup>	32	3	22	4
<b>Total</b>	<b>1,072</b>	<b>100</b>	<b>559</b>	<b>100</b>

**Notes:**

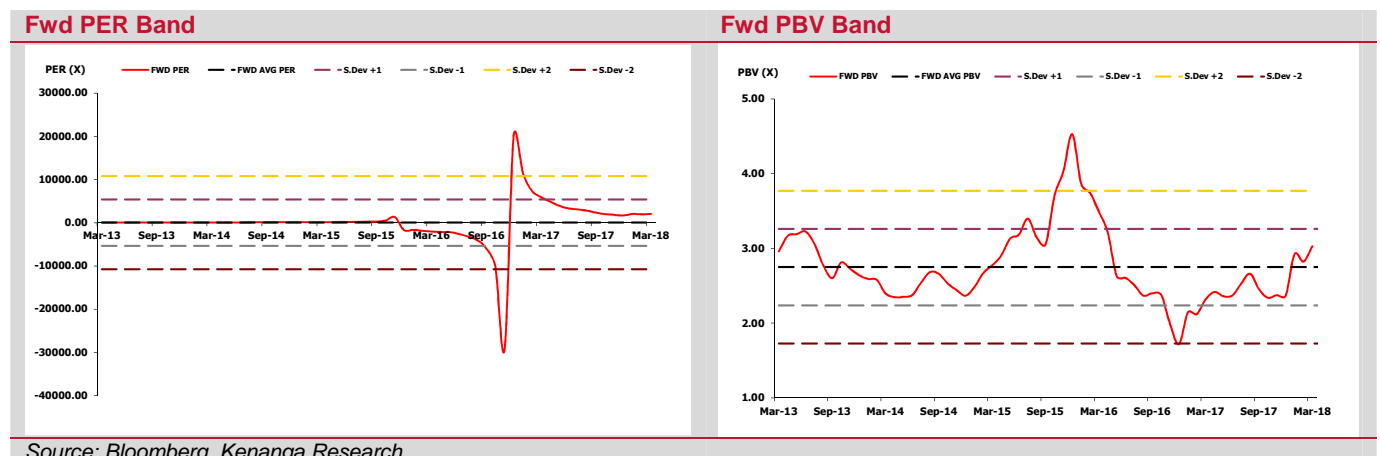
- (1) Refers to day-to-day operating and administrative expenses, and other operating expenses such as sales and marketing, and salaries and wages.

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	<b>Growth (%)</b>				
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)	<b>Profitability (%)</b>				
Minority Interest	(120.9)	(106.1)	(91.4)	(94.7)	Operating Margin	-4.4	1.1	3.7	3.5
<b>NP</b>	<b>(496.9)</b>	<b>24.5</b>	<b>365.7</b>	<b>378.7</b>	PBT Margin	-2.3	2.3	4.9	5.0
<b>CNP</b>	<b>(464.3)</b>	<b>57.1</b>	<b>365.7</b>	<b>378.7</b>	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)	0.6	1.1	1.1	1.1
Int. Assets	6.5	6.5	6.5	6.5	Leverage Factor(x)	3.4	3.2	3.1	2.9
Other F.Assets	3,362.5	2,489.5	2,489.5	2,489.5	ROE (%)	-10.6	0.6	11.2	10.4
Inventories	1,931.2	1,342.7	1,408.8	1,509.8					
Receivables	867.7	880.2	902.6	943.8	<b>Leverage</b>				
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
<b>Total Assets</b>	<b>16,263.0</b>	<b>9,942.0</b>	<b>10,524.3</b>	<b>11,139.7</b>	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	<b>Valuations</b>				
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)	4.04	2.64	2.95	3.28
Other LT Liability	931.0	143.2	143.2	143.2	PER (x)	(16.3)	132.8	20.7	20.0
<b>Net Assets</b>	<b>6,864.3</b>	<b>4,175.8</b>	<b>4,724.4</b>	<b>5,292.5</b>	Div. Yield (%)	-	-	-	-
					PBV (x)	1.6	2.5	2.2	2.0
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					
<b>Total Equity</b>	<b>6,864.3</b>	<b>4,175.8</b>	<b>4,724.4</b>	<b>5,292.5</b>					
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



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Malaysian Automotive Peers Comparison

NAME	Price @ 13/03/18	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	2.16	2,493.3	21.3	19.6	12.3	4.2%	43.5%	117.6	128.0	203.7	8.8%	59.2%	2.30	OP
DRB-HICOM BHD	2.40	4,639.7	N.M.	13.9	13.2	0.8%	6.3%	-732.0	334.3	351.7	N.M	N.M	2.50	MP
MBM RESOURCES BHD	2.45	957.7	10.2	9.4	8.5	2.4%	5.0%	93.7	101.4	113.2	8.2%	11.7%	2.85	OP
SIME DARBY BHD	2.65	1,038.5	24.6	24.0	21.9	2.6%	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	6.49	7,582.3	N.M.	20.7	20.0	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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