



AmInvestment Bank

Company report

Al Zaquan

al-zaquan@ambankgroup.com

03-2036 2304

AUTOMOBILE

# UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

19 Mar 2018

*UMW stands by its offer price for MBM*

**HOLD**

Price: RM6.06

Fair Value: RM6.22

*Rationale for report: Company update*

Quick Take

YE to Dec	FY17	FY18F	FY19F	FY20F
FD Core EPS (sen)	(7.7)	29.7	37.6	40.3
PE (x)	(78.9)	20.4	16.1	15.0

Source: AmInvestment Bank

- We maintain an SOP-based FV of RM6.22 on UMW. Recall that UMW had proposed to acquire and privatise MBM Resources (MBM) with a cash call of up to RM1.1bil to fund the exercise.
- Key points from the interview UMW president and CEO Badrul Feisal Abdul Rahim with *The Edge Malaysia* that was published this past weekend:
  - 1) UMW said the offer of RM2.56/share is considered fair as it is a 13% premium (to the 5-day VWAP to March 6 for MBM shares) and equivalent to the stock's peak in the past one year. He added that MBM's minority shareholders are being offered better prospects from participating in UMW, if they opt for shares instead of cash. Badrul said UMW is not likely to raise its offer price for MBM.
  - 2) UMW would be able to find cost savings from economies of scale, as both UMW and MBM operate in motor trading and the manufacturing of auto parts. Recall that the acquisition would provide UMW a bigger stake in Perodua and some ownership in the key parts of its operations: the supply of certain auto parts (made by MBM), the production of Perodua cars and its distribution to customers (by DMSB).
  - 3) UMW has informed Toyota and Daihatsu of the proposed merger and has not heard back from both parties. MBM owns 51.5% of Daihatsu (Malaysia) Sdn Bhd, which is the franchise holder for the sales of Daihatsu vehicles, as well as a dealer for Perodua and Hino. The principal Daihatsu Motor Co is a wholly-owned subsidiary of Toyota.
  - 4) UMW said the rights issue would enable it to acquire MBM while keeping its gearing in check. It aims to reduce its gearing to 0.5x in the long term.
- We reiterate that the offer price for MBM is a 11% premium to our FV of RM2.30. We deem the deal to be positive for UMW as it is taking up a bigger stake in Perodua. The flipside is taking on the task of turning around MBM's loss-making alloy wheel unit and finding more synergy within the core operations of the two groups.

## EXHIBIT 1: SUM-OF-PARTS VALUATION

Pegged to FY18F						
Segment	PAT (RM mil)	Stake	PE (x)	Value (RM mil)	Value (RM/share)	No. of Shares
Automotive	483.1	51.0%	13	3,301.5	2.71	1,217.6
Equipment	146.1		12	1,811.9	1.49	
Manu & Eng	(17.7)		7	(123.6)	(0.10)	
					<b>4.10</b>	
Add: Perodua	531.7	48.0%	14	3,675.3	3.02	
Add: MBM	95.2	50.1%	9	447.9	0.37	
Add: Company net debt				(1,536.2)	(1.26)	
<b>FV:</b>					<b>6.22</b>	

\* On enlarged share base of RM1,218 mil following 49.3 mil new shares issued

Source: AmInvestment Bank

## EXHIBIT 2: PRO FORMA IMPACT ON GROUP REVENUE &amp; NET PROFIT

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
<b>Revenue projection for UMW (post)</b>			
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
<b>Total</b>	<b>22,021.4</b>	<b>22,989.4</b>	<b>23,992.5</b>
Addition (%)	93%	91%	89%
<b>Net profit projection for UMW (post)</b>			
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
<b>Total</b>	<b>448.2</b>	<b>554.6</b>	<b>597.3</b>
Addition (%)	29%	26%	27%

Source: Company, AmInvestment Bank

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)	-	-	-	-	-
DPS (sen)	10.0	(16.7)	8.9	11.3	12.1
PE (x)	(19.6)	(78.9)	20.4	16.1	15.0
EV/EBITDA (x)	(7.2)	27.7	10.4	9.2	8.7
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 estimates

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