



AmInvestment Bank

Company report

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UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

20 Mar 2018

Rationale for valuations

HOLD

Price: RM6.22

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)	(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 analyst briefing UMW held on Monday:

- 1) UMW does not intend to budge from its offer price of RM2.56/share for MBM. The group reiterated that this is a 13% premium (to the stock's 5-day VWAP to March 6) and equivalent to its peak in the past one year. UMW emphasized that MBM minority shareholders also have the option to participate in UMW for better prospects.
- 2) UMW emphasized that the valuation factors in the underperformance of MBM's core operations. The group assigned an enterprise value of RM148mil or 38 sen/share for MBM ex-Perodua, comprising: RM57mil or 15 sen/share for MBM's core operations and RM91mil or 23 sen/share in company net debt. Recall that MBM has been straddled with the loss-making alloy wheel unit and thin margins for its auto distribution business.
- 3) To this end, it plans to divest a part of MBM's auto distribution business in the near to medium-term should the acquisition succeed. The dealerships under Federal Auto Holdings (Volvo, Volkswagen and Mitsubishi) is seen to be in conflict to UMW's interest in Toyota. The group highlighted that the disposal would be done responsibly to preserve the value of the auto dealerships.

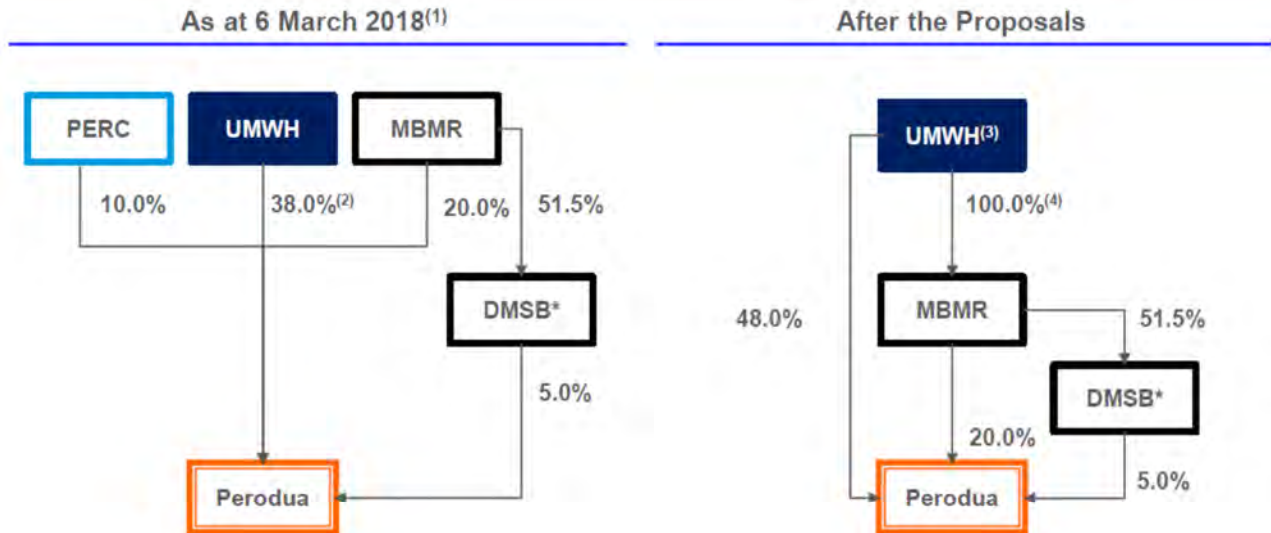
We note that the total sales volume in Federal Auto has fallen on a double-digit basis annually for at least three years to 2017. We opine that an exit would be sensible given the sales performance and lack of synergy with UMW. We have not factored in the omission of Federal Auto from MBM, considering the various hurdles faced by UMW towards owning MBM.

The motor trading segment (comprising 51.5% in Daihatsu Malaysia and 100% of Federal Auto) saw a meagre PBT of RM11mil on a margin of 0.7% last year. Federal Auto saw a net loss of RM7mil and revenue of RM449mil in FY16.

- 4) UMW would settle for the stake in can acquire in MBM if the mandatory offer does not succeed in its entirety. It requires a 90% acceptance to take MBM private. We opine UMW would be incentivised to acquire full control in MBM in order to undertake the necessary reforms.
 - 5) UWM applied a PE multiple of 9x for Perodua after factoring in the rate of TIV growth going forward, the rise of alternative modes of transport and competitive pressure.
- We deem the deal to be positive for UMW as it is taking up a bigger stake in Perodua at a low price. 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.
 - For MBM, we reiterate that the offer price is an 11% premium to our FV of RM2.30. We opine that most minority shareholders will opt for cash rather than shares as the potential return is higher.

Quick Take

EXHIBIT 1: GROUP STRUCTURE BEFORE AND AFTER



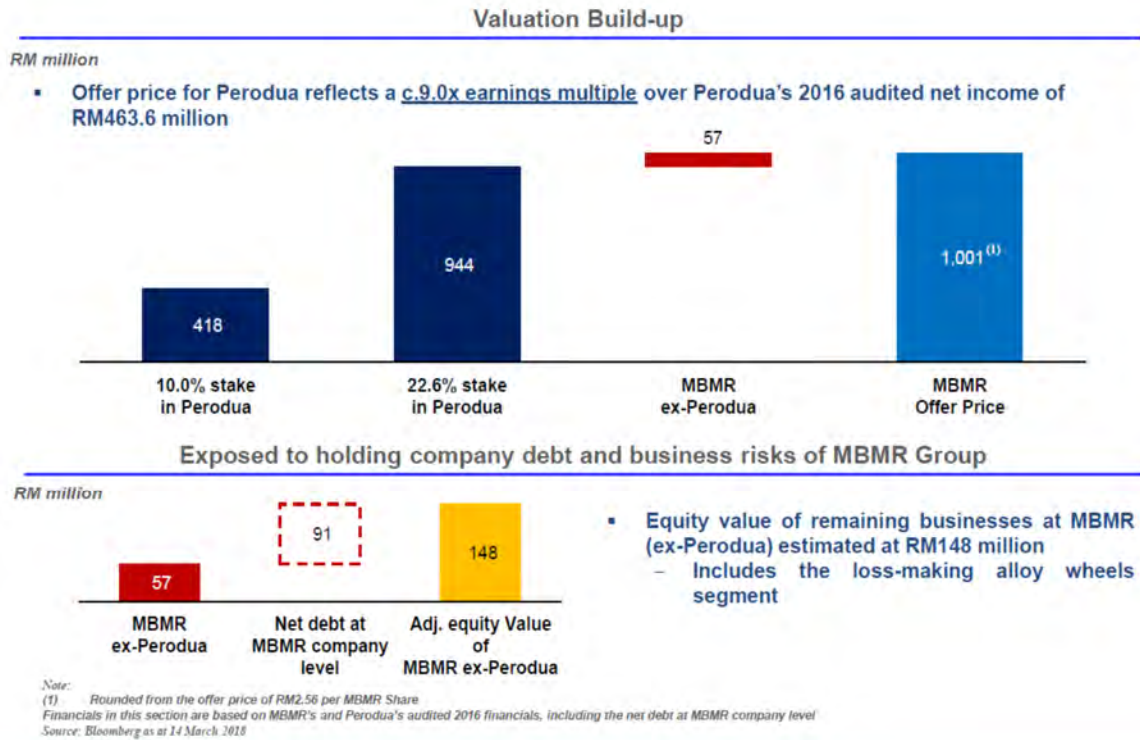
*DMSB – Daihatsu (M) Sdn Bhd

Notes:

- (1) Being the latest practicable date prior to the date of the MBMR offer letter
- (2) Held through UMW Corporation Sdn Bhd, a wholly-owned subsidiary of UMWH
- (3) UMWH reserves the right to nominate another affiliate(s) to undertake the Proposed MBMR Acquisition and the Proposed Perodua Acquisition
- (4) 100% ownership of MBMR is dependent on the outcome of the Proposed MO

Source: Company

EXHIBIT 2: MBM EX-PERODUA VALUATION BY UMW



Source: Company

EXHIBIT 3: 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)	
					4.10	
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)	
FV:					6.22	

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

Source: AmInvestment Bank

EXHIBIT 4: PRO FORMA 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

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 Bhd estimates

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