

Malaysia

March 19, 2018 - 7:45 PM

HOLD (no change)

Consensus ratings*:	Buy 4	Hold 7	Sell 5
Current price:	RM6.22		
Target price:	RM6.70		
Previous target:	RM6.70		
Up/downside:	7.7%		
CGS-CIMB / Consensus:	10.3%		
Reuters:	UMWS.KL		
Bloomberg:	UMWH MK		
Market cap:	US\$1,855m		
	RM7,267m		
Average daily turnover:	US\$3.50m		
	RM13.77m		
Current shares o/s	1,168m		
Free float:	37.8%		

Key financial forecasts

	Dec-18F	Dec-19F	Dec-20F
Net Profit (RMm)	363.9	543.3	623.8
Core EPS (RM)	0.31	0.47	0.53
Core EPS Growth	105%	49%	15%
FD Core P/E (x)	19.71	13.20	11.50
Recurring ROE	11.4%	15.6%	16.4%
P/BV (x)	2.18	2.00	1.83
DPS (RM)	0.10	0.20	0.25
Dividend Yield	1.61%	3.22%	4.02%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-7	20.8	10.4
Relative (%)	-6.5	14.4	4.5

Major shareholders	% held
Permodalan Nasional Bhd	42.1
EPF	12.0
KWAP	8.0

Analyst(s)

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UMW Holdings

In the driver's seat

- UMW is upbeat on the proposed acquisitions of MBM Resources and Perodua, as this would immediately raise the group's earnings.
- The group also said that it does not intend to raise its current offer price for MBM Resources, which is already at a 13.3% premium over the 5-day VWAP.
- Maintain Hold and TP. We keep our forecasts pending MBM's acceptance of UMW's offer, resulting mandatory general offer (MGO) and UMW's shareholders' approval.

Analyst briefing on proposed MBM Resources acquisition

- We attended UMW Holdings' (UMW) analysts briefing this morning together with 50 analysts and fund managers at the group's headquarters in Shah Alam. The briefing was hosted by Group CEO Badrul Feisal Abdul Rahim. While there were no surprises from the briefing, the group stated that it does not intend to revise up the current offer price for MBM Resources (MBM MK, RM2.47, Not Rated), which is already at a 13.3% premium over the 5-day volume weighted average market price (VWAP).

Benefits from the proposed acquisitions

- The group highlighted four key benefits from the proposed acquisitions of MBM and Perodua. Firstly, UMW's strategic stake in Perodua would increase from 38% to 70.6%. We understand that UMW plans to consolidate its stakes in MBM and Perodua post-deal completion, but it needs the approval of the respective companies' principals to proceed with the deal. Secondly, UMW's exposure in the commercial vehicle segment would increase via MBM's multi-brand dealerships (Daihatsu, Hino).
- Thirdly, the company also expects the acquisition to widen UMW's offerings in the manufacturing segment by integrating MBM's auto parts-manufacturing business for components like wheels and safety products, as well as noise, vibration and harshness products. For example, UMW see the potential for these auto component-makers to become its vendors.
- Finally, UMW believes the combined entity will have better prospects in the automotive industry, leveraging on Perodua's strength in the national car segment and UMW's position in the non-national car segment through Toyota. Furthermore, we understand that UMW is exploring the possibility of selling non-core dealership marquees that may compete with its existing Japanese principals, Toyota and Daihatsu.

Acquiring Perodua at attractive valuation

- The company shared the rationale for its RM417.5m valuation for the proposed 10% equity stake acquisition from PNB Equity Resources Corp (PERC), which was based on 9x trailing FY16 P/E. UMW explained that its offer price for MBM is reflective of an incrementally higher stake in Perodua vs. a majority stake and industry factors like the tepid total industry volume (TIV) growth expected in near term in view of rising alternative modes of transportation and resurgence in national car segment.

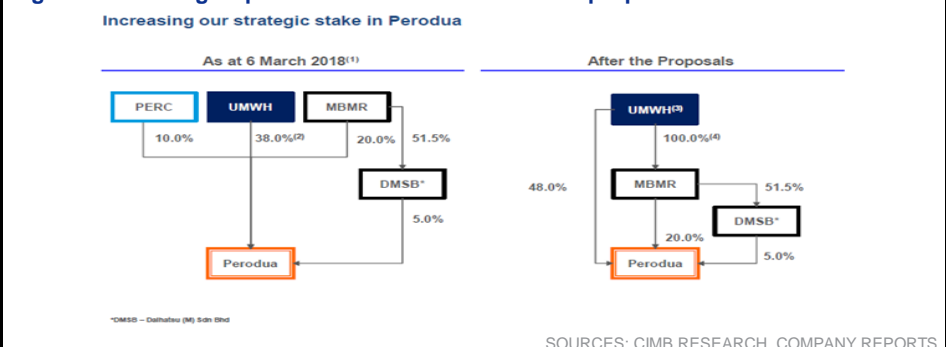
Privatisation would require 90% MBM shareholders' acceptance

- According to UMW, its offer for MBM and 10% stake in Perodua will remain open until 28 Mar 2018. Once the offer is accepted, UMW plans to obtain necessary approvals and submit an application to Bursa Malaysia for the proposed rights issue within three months from acceptance date. UMW expects to complete the deal by 3Q18.

Maintain Hold and target price of RM6.70

- We keep our earnings forecasts pending MBM's acceptance of UMW's offer, resulting MGO and UMW shareholders' approval. Maintain Hold and our TP of RM6.70, still based on 14x CY19F P/E (at a 10% premium over historical FY09-14 mean of 13x).

Figure 1: UMW's group structure before and after the proposed deal



SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 2: Sector comparison

Company	Recom.	Price	Target Price	Mkr Cap (US\$ m)	P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
		(RM)	(RM)		CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F
Bermaz Auto Berhad	Hold	2.22	2.14	657	16.2	13.9	5.4	4.9	33.8%	36.9%	9.8	8.3	4.8%	5.6%
Tan Chong Motor Holdings	Reduce	1.64	1.64	273	40.4	15.2	0.4	0.4	0.9%	2.5%	12.6	9.3	0.0%	0.0%
DRB-Hicom	Add	2.49	2.90	1,229	na	34.5	0.9	0.8	-1.9%	2.5%	10.0	7.9	0.0%	0.0%
UMW Holdings	Hold	6.22	6.70	1,855	20.0	13.4	2.2	2.0	11.1%	15.6%	8.6	6.9	1.6%	3.2%
Sime Darby Bhd	Reduce	2.66	2.42	4,618	21.5	20.9	1.1	1.1	5.1%	5.3%	9.4	9.0	3.0%	2.9%
Sector average					26.4	18.7	1.2	1.2	4.5%	6.2%	9.5	8.2	2.3%	2.7%

NOTE: AS OF 19 MAR 2018

SOURCES: CIMB RESEARCH, BLOOMBERG

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	11,400	11,817	12,755	13,159
Gross Profit	1,653	2,186	1,913	2,105
Operating EBITDA	609	1,152	1,407	1,477
Depreciation And Amortisation	(336)	(321)	(338)	(282)
Operating EBIT	273	831	1,069	1,195
Financial Income/(Expense)	(39)	(69)	(51)	(26)
Pretax Income/(Loss) from Assoc.	172	197	235	246
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	406	958	1,253	1,415
Exceptional Items				
Pre-tax Profit	406	958	1,253	1,415
Taxation	(122)	(239)	(313)	(382)
Exceptional Income - post-tax				
Profit After Tax	283	718	940	1,033
Minority Interests	(106)	(354)	(396)	(409)
Preferred Dividends	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	177	364	543	624
Recurring Net Profit	177	364	543	624
Fully Diluted Recurring Net Profit	177	364	543	624

Balance Sheet

(RMm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	1,163	1,685	2,123	2,581
Total Debtors	994	1,073	1,159	1,195
Inventories	1,343	2,081	2,247	2,318
Total Other Current Assets	1,622	1,622	1,622	1,622
Total Current Assets	5,122	6,462	7,150	7,716
Fixed Assets	2,661	3,089	3,351	3,569
Total Investments	1	1	1	1
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	2,159	2,159	2,159	2,159
Total Non-current Assets	4,820	5,249	5,511	5,729
Short-term Debt	692	692	692	692
Current Portion of Long-Term Debt				
Total Creditors	767	1,941	2,185	2,228
Other Current Liabilities	2,094	2,094	2,094	2,094
Total Current Liabilities	3,553	4,727	4,971	5,014
Total Long-term Debt	2,070	2,070	2,070	2,070
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	143	150	150	150
Total Non-current Liabilities	2,213	2,219	2,219	2,219
Total Provisions	0	0	0	0
Total Liabilities	5,766	6,947	7,191	7,233
Shareholders' Equity	3,082	3,329	3,639	3,971
Minority Interests	1,093	1,435	1,831	2,241
Total Equity	4,176	4,764	5,470	6,211

Cash Flow

(RMm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	609	1,152	1,407	1,477
Cash Flow from Inv. & Assoc.				
Change In Working Capital	801	356	(6)	(65)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	333	321	338	282
Net Interest (Paid)/Received	(39)	(69)	(51)	(26)
Tax Paid	(133)	(239)	(313)	(382)
Cashflow From Operations	1,571	1,520	1,375	1,285
Capex	(1,004)	(750)	(600)	(500)
Disposals Of FAs/subsidiaries	0	0	0	0
Acq. Of Subsidiaries/investments	0	0	0	0
Other Investing Cashflow	80	47	67	85
Cash Flow From Investing	(924)	(703)	(533)	(415)
Debt Raised/(repaid)	0	0	0	0
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased	0	0	0	0
Dividends Paid	0	(117)	(234)	(292)
Preferred Dividends				
Other Financing Cashflow				
Cash Flow From Financing	0	(117)	(234)	(292)
Total Cash Generated	647	700	608	578
Free Cashflow To Equity	647	817	842	870
Free Cashflow To Firm	767	933	961	981

Key Ratios

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	4.0%	3.7%	7.9%	3.2%
Operating EBITDA Growth	(10.9%)	89.0%	22.2%	4.9%
Operating EBITDA Margin	5.3%	9.7%	11.0%	11.2%
Net Cash Per Share (RM)	(1.37)	(0.92)	(0.55)	(0.15)
BVPS (RM)	2.64	2.85	3.11	3.40
Gross Interest Cover	2.29	7.16	9.00	10.82
Effective Tax Rate	30.2%	25.0%	25.0%	27.0%
Net Dividend Payout Ratio	NA	19.4%	27.3%	29.0%
Accounts Receivables Days	31.85	31.92	31.94	32.74
Inventory Days	61.30	64.88	72.85	75.56
Accounts Payables Days	49.54	51.32	69.46	73.07
ROIC (%)	1.7%	10.5%	13.4%	14.3%
ROCE (%)	3.5%	12.1%	14.4%	14.9%
Return On Average Assets	3.3%	9.3%	10.6%	11.0%

12-mth Fwd FD P/E (x) - UMW Holdings



Key Drivers

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP (% chg, main prod./serv.)	0.0%	1.5%	1.5%	1.5%
Unit sales grth (% , main prod./serv.)	6.4%	6.5%	4.0%	4.0%
Util. rate (% , main prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (% ,2ndary prod/serv)	N/A	N/A	N/A	N/A
Util. rate (% , 2ndary prod/serv)	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod/serv)	N/A	N/A	N/A	N/A
Unit sales grth (% ,tertiary prod/serv)	N/A	N/A	N/A	N/A
Util. rate (% , tertiary prod/serv)	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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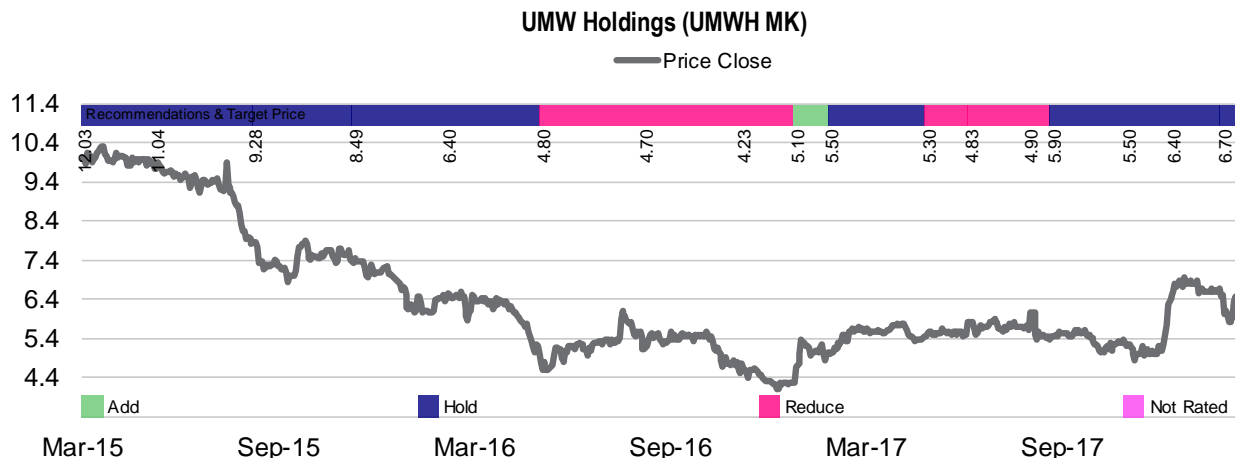
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2017		
1235 companies under coverage for quarter ended on 31 December 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.5%	6.4%
Hold	31.7%	2.6%
Reduce	9.0%	0.7%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, , **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.