

Company Update

20 March 2018

UMW Holdings Berhad

Revitalizing the auto segment

HOLD
Maintained

Share Price	RM6.22
Target Price	RM6.00

What's new

Company Description

UMW Holdings Berhad is an investment company which, through its subsidiaries, trades and manufactures equipment for industrial, construction and agricultural sectors. The Company also imports, assembles, and markets passenger and commercial vehicles and related spare parts.

Stock Data

Bursa / Bloomberg code	4588 / UMWH MK
Board / Sector	Main / Industrial
Syariah Compliant status	Yes
Issued shares (m)	1,168.29
Par Value (RM)	0.50
Market cap. (RMm)	7266.79
52-week price Range	RM4.70-6.98
Beta (against KLCI)	1.46
3-m Average Daily Volume	2.34m
3-m Average Daily Value [^]	RM14.51m

Share Performance

	1m	3m	12m
Absolute (%)	-7.0	19.6	10.4
Relative (%-pts)	-6.6	13.5	4.2

Major Shareholders

	%
SKIM AMANAH SAHAM BUMIPUTERA	40.71
EMPLOYEES PROVIDENT FUND	9.29
YAYASAN PELANURAN BUMIPUTRA	7.26
ESTIMATED FREE FLOAT	26.85

Historical Chart



Source: Bloomberg

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- We attended UMW Holdings Berhad (UMW)'s briefing pertaining to the proposed acquisition of shares in MBM Resources Berhad (MBMR) and increment of its stake in Perodua and came away feeling reassured about the Group's rationalization plans.
- To recap, on 9 March 2018, UMW announced its plan to acquire 50.07% equity interest in MBMR from Med-Bumikar Mara Sdn Bhd (Med-Bumikar) and its wholly-owned unit subsidiary Central Shore Sdn Bhd (CSSB). The purchase will trigger a mandatory offer for remaining shares in MBMR. Besides, UMW also intends to acquire 10% equity interest in Perodua from PNB Equity Resource Corporation Sdn Bhd (PERC).
- Besides, on 13 March 2017, UMW has proposed a rights issue up to RM1.1b to fund the bridging facility to acquire 50.07% equity interest in MBMR and obliged extension of mandatory offer for remaining stake in MBMR (49.93%). The offer price for right issues will be discounted between 20%-30% from UMW's share price. In addition, the remaining shareholders of MBMR are given options to sell/exchange their shares for cash or UMW's share. As such, 2 scenarios are illustrated:
 - Scenario 1: Full cash consideration. UMW will use RM1.1b from the right issue proceeds to settle a bridging facility for 50.07% stake in MBMR and the 49.93% stake arising from the mandatory offer.
 - Scenario 2: Issuance of new shares (21 new shares of UMW at RM6.06/share for 51 existing shares of MBMR at an offer price RM2.56/share). UMW will only need to fund RM501m for 50.07% stakes in Med-Bumikar and CSSG.

Comment

- **Better prospect from consolidation.** According to the Group, the proposed acquisition will bring positive impact. The Group's strategic stake in Perodua will increase from 38% to 70.6% after completing the acquisition of MBMR and Perodua. We believe UMW will benefit from this control since Perodua is a leading marque in the local automotive market with a 35.5% share. Besides, the Group also expects better contribution from MBMR's auto parts manufacturing business. However, the Group plans to dispose MBMR's dealership of luxury vehicles.

- **Offer price to MBMR is premium to its historical prices.** The Group sees the offer price of RM2.56 to MBMR as fair as it translates into a 13.3% premium from 5-day VWAP, 12.3% premium from 1-month VWAP and 11.3% premium from 3-months VWAP. The Group also mentioned that it will not increase the offer price if the proposed acquisition is not accepted by MBMR's shareholder.
- **Earning accretion from consolidation.** Assuming the acquisitions are successful, we expect EPS in FY18 to increase by 0.8% (Scenario 1) and 3% (Scenario 2), (assuming it will be take place in 2H18 as the acquisition is expected to complete in 3Q18.). Besides, for full year FY19, we expect EPS to increase by 16.9% (Scenario 1) and 19.5% (Scenario 2).
- **Looking forward, we expect the Group to re-focus on three core businesses** which will resume positive growth momentum over the longer term. Auto division is expected to cement its robust growth following the increase in controlling stake in Perodua. For its Toyota models, the new plant in Bukit Raja (initial 50K capacity p.a.) will be fully completed and operational in 2019. Meanwhile, the M&E division is expected to move towards high value-added manufacturing, i.e. aerospace segment, whilst its total exit of O&G segment by 2018 will help to improve the Group's overall profitability.

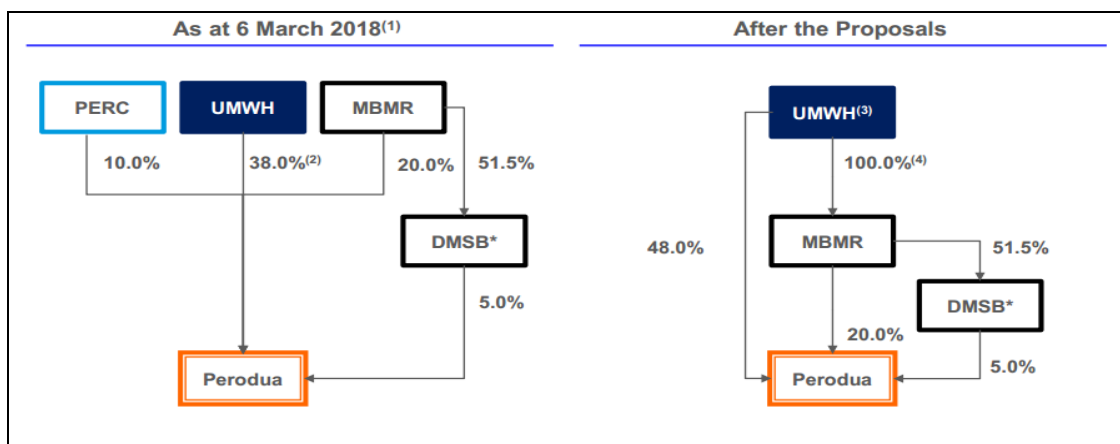
Earnings Outlook/Revision

- **We maintain our earnings forecasts for FY18F and FY19F pending finalisation of the acquisitions.**

Valuation & Recommendation

- **Maintain HOLD call on UMW with an unchanged target price of RM6.00.** Our valuation for UMW is pegged at 24x FY2018F PE based on EPS of 25 sen. The target PE valuation is close to its mean PE of 22x.

Figure 1: Group's structure before and after proposal



Source: Company, JF Apex

Figure 2: Used of proceeds

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 ⁽¹⁾	39	4	36	6
Defrayment of estimated expenses relating to the Proposals ⁽²⁾	32	3	22	4
Total	1,072	100	559	100

Source: Company, JF Apex

Figure 3: Share capital

	Full Cash Scenario		Full Shares Scenario	
	No. of UMW Shares	RM	No. of UMW 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

Source: Company, JF Apex

Figure 4: Group base expansion

	Scenario 1		Scenario 2	
	FY18	FY19	FY18	FY19
Earnings (Before)	286.24m	351.62m	286.24m	351.62m
Earnings (After)	360.75m	360.75m	514.1m	514.1m
No of shares (Before)	1,168.3	1,168.3	1168.3	1168.3
No of shares (After)	1,461.1	1,461.1	1461.1	1461.1
EPS (Before)	24.5	24.5	30.1	30.1
EPS(After)	24.69	25.24	35.2	36.0
Earning Accretion	0.8%	3.0%	16.9%	19.5%

Source: Company, JF Apex

Figure 5: Financial Summary

Year to 31 Dec (RMm)	2013	2014	2015	2016	2017	2018F	2019F
Revenue	13,951.46	14,932.49	14,441.58	10,958.52	11,046.48	11,379.91	11,776.34
Operating profit	1,296.46	1,432.91	135.62	-2,181.51	120.42	572.69	527.78
PBT	1,435.67	1,621.46	269.65	-2,130.23	252.89	484.14	609.14
Net profit	652.93	651.97	-37.17	-1,658.04	-651.20	286.24	351.62
Core profit	960.40	836.80	338.00	-401.80	-651.20	286.24	351.62
EPS (sen)	0.56	0.56	-0.03	-1.42	-0.56	0.25	0.30
P/BV (x)	0.87	0.82	0.84	1.12	1.86	1.68	1.52
DPS (sen)	0.44	0.41	0.20	0.00	0.00	0.07	0.12
Dividend yield (%)	6.62%	6.17%	3.01%	0.00%	0.00%	1.11%	1.81%
Operating margin (%)	9.29%	9.60%	0.94%	-19.91%	1.09%	5.03%	4.48%
PBT margin (%)	10.29%	10.86%	1.87%	-19.44%	2.29%	4.25%	5.17%
Net profit margin (%)	4.68%	4.37%	-0.26%	-15.13%	-5.90%	2.52%	2.99%
Net Gearing Ratio(x)	0.93	1.10	1.26	1.66	2.19	2.21	2.22
ROE (%)	7.27%	6.90%	-0.40%	-24.00%	-15.59%	6.20%	6.90%
ROA (%)	4.41%	3.97%	-0.21%	-10.23%	-6.55%	2.43%	2.82%

Source: Company, JF Apex

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STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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