

19 Mar 2018

Buy

Price
 RM6.06

Target Price
 RM7.80

Market Data

	UMWH MK
Bloomberg Code	UMWH MK
No. of shares (m)	1,168.3
Market cap (RMm)	7,079.9
52-week high/low (RM)	6.98 / 4.70
Avg daily turnover (RMm)	14.5
KLICI (pts)	1,846.4

Source: Bloomberg, KAF

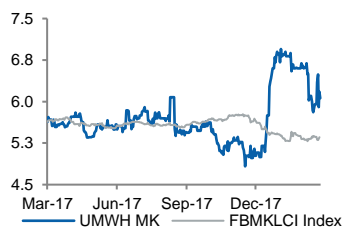
Major Shareholder (%)

Skim Amanah Saham Bumiputera	(40.7%)
EPF	(9.1%)
KWAP	(8.0%)
Free Float	25.2

Source: Bloomberg, KAF

Performance

	3M	6M	12M
Absolute (%)	21.7	10.8	7.5
Rel Market (%)	14.5	6.6	1.6



Source: Bloomberg, KAF

Analyst

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UMW Holdings

UMW puts its foot down

UMW is firm on its offer price of RM2.56 for MBM Resources as it sees the valuation as fair. UMW intends to divest MBM's auto trading businesses (i.e. Volvo, Mitsubishi, VW) if the deal comes to pass given the potential conflict of interest. We estimate 12-15% FY19 EPS growth from consolidation after share base expansion from rights issue. The share swap also allows MBM to participate in enlarged group's prospects. Buy.

Financial Highlights

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue (RMm)	10,959	11,391	11,918	12,300	12,736
Core net profit (RMm)	(369)	12	382	439	502
Core EPS (Sen)	(31.6)	1.0	32.7	37.6	43.0
EPS growth (%)	nm	nm	>100	14.8	14.3
DPS (Sen)	0.0	0.0	20.0	25.0	25.0
Core PE (x)	nm	614.7	18.5	16.1	14.1
Div yield (%)	0.0	0.0	3.3	4.1	4.1
ROE (%)	(40.2)	(17.3)	11.7	11.9	12.1
Net Gearing (%)	88.2	51.6	2.0	Net Cash	Net Cash
PBV(x)	1.0	1.7	1.5	1.3	1.2

Source: Company, KAF

UMW to maintain offer. In an analyst briefing today, management said that it does not intend to increase its offer price of MR2.56/share for MBM Resources.

Offer is fair. Management reiterated that the offer for Perodua is fair (at 9x FY16 PE) after taking into consideration the minority stake it is acquiring (i.e. 51% major shareholders of MBM), TIV growth prospects (annual 2% growth), and resurging competition from Proton. The offer price is also at a 11-13% premium to historical MBM prices over the last three months.

Residual MBM value of RM148m. The offer price of RM1b for 100% of MBM is also at a premium to MBM's adjusted equity value of RM148m (ex-Perodua MBM FY16 earnings of RM57m and net debt of RM91m). Management also said the share swap option for MBM minorities allows them to participate in growth prospects for the enlarged group.

90% acceptance needed to delist MBM. UMW would need to obtain approval from 90% of MBM shareholders for it to privatise MBM.

The time is ripe. Its president and group CEO Badrul Feisal Abdul Rahim said UMW had set its sights on Perodua for some time; the time is now ripe for the acquisition move, following the divestment of its O&G division.

Rationale of consolidation. Management said the acquisitions would allow it to increase its stake in Perodua to 71%, with the intention of consolidation. It would also be able to increase its exposure to the commercial vehicle segment (i.e. Daihatsu and Hino) and allows synergies with MBM's auto parts segment.

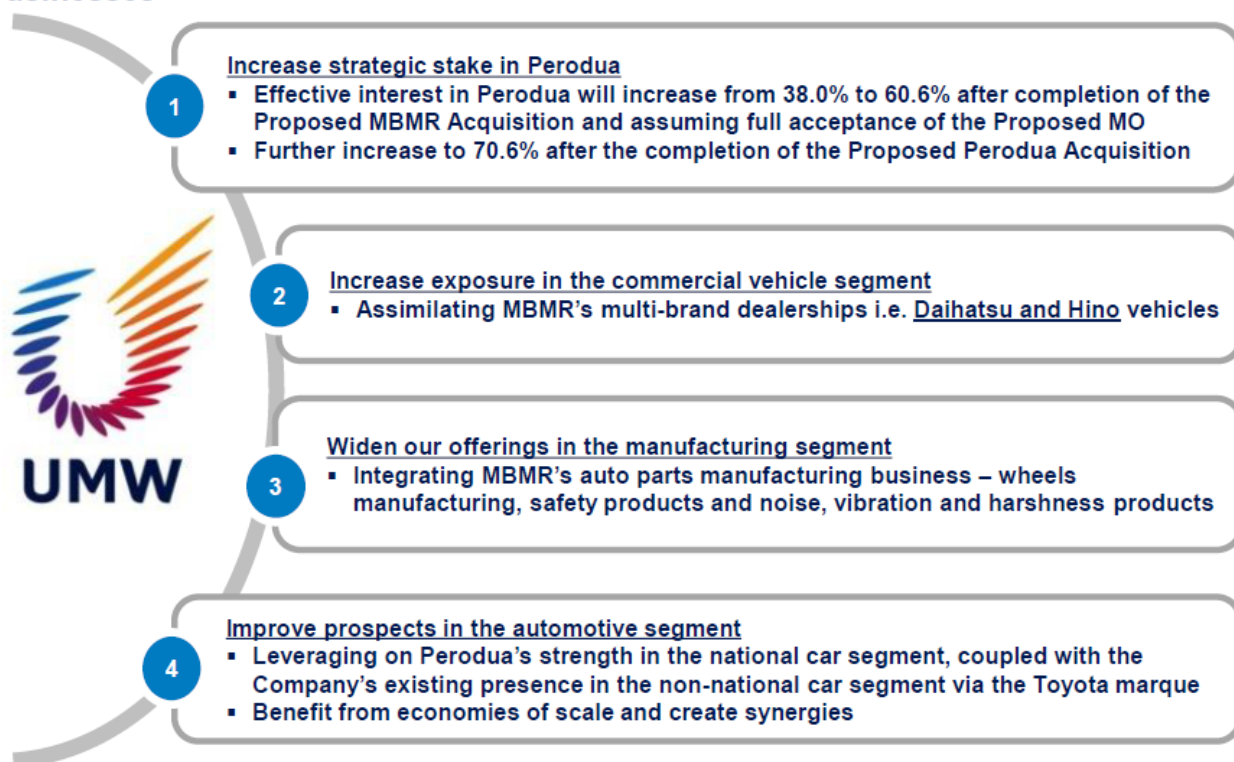
Potential divestment of MBM's auto trading businesses. Should the purchase go through, management is also looking to divest MBM's auto trading businesses (i.e. Volvo, Mitsubishi and VW) given the potential conflict of interest from the consolidation.

Rights issue to maintain gearing below 0.5x. Management said the proposed rights issue is intended for existing UMW shareholders to increase their equity participation in the enlarged group's prospects, and to maintain its gearing at 0.5x. It also views the 20-30% discount for the rights issue price as fair – relative to "jumbo rights" exercises in the past with proceeds of above RM1b.

Maintain Buy. We believe the offer price for MBM is fair given its premium to historical price (1-year average of RM2.25); we also do not expect any third-party offer. The valuation of 9x PE for Perodua also allows for valuation upside following consolidation. Based on our calculation, UMW's FY19F EPS would still grow by 12-15% from the share base expansion. MBM major shareholders' decision is expected to be known by 28 March; after which due diligence could be conducted on MBM. Maintain Buy and TP of RM7.80.

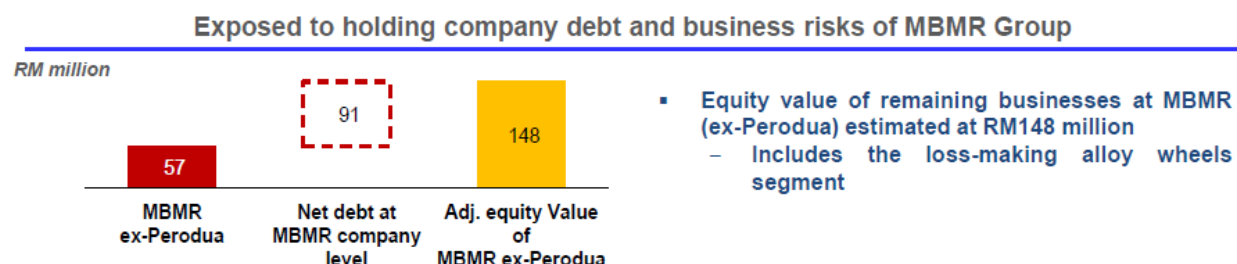
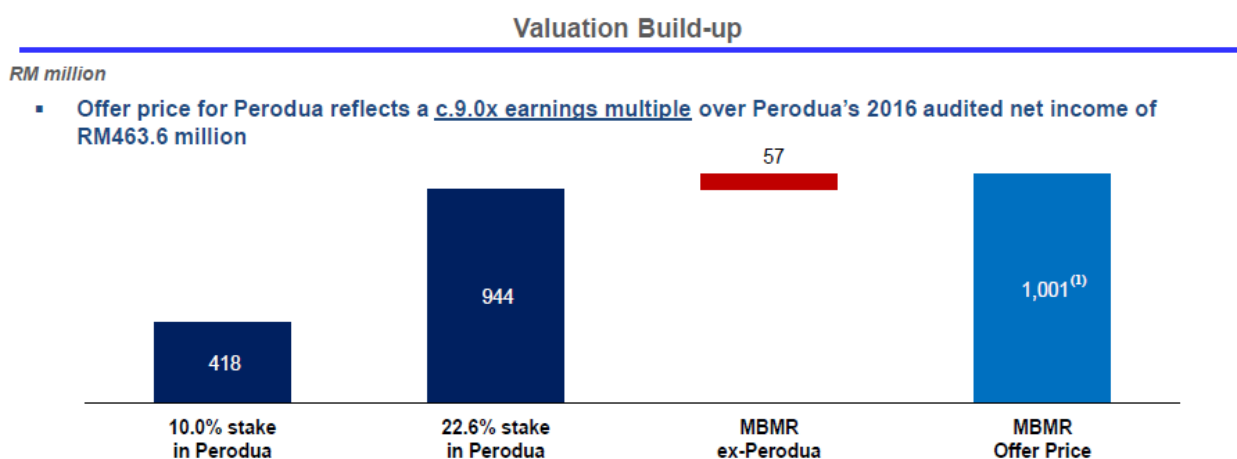
Exhibit 1: Company's rationale and explanation of benefits for the proposed acquisitions

The Proposed Acquisitions are consistent with our strategy to enhance our core businesses



Source: Company, KAF

Exhibit 2: Valuation build-up for MBM offer price



Note:
 (1) Rounded from the offer price of RM2.56 per MBMR Share
 Financials in this section are based on MBMR's and Perodua's audited 2016 financials, including the net debt at MBMR company level
 Source: Bloomberg as at 14 March 2018

Source: Company, KAF

Exhibit 3: MBM offer price vs. historical prices

Close to Last 2 Years Historical High



Note:
 (1) VWAP up to and including 6 March 2018, being the last trading day prior to the date of the MBMR Offer
 Source: Bloomberg as at 14 March 2018

Source: Company, KAF

Exhibit 4: Illustrative rights issue based on two scenarios

	Scenario A (full cash)	Scenario B (full shares)
Description	The remaining 49% MBM shareholders opt for cash. Hence, UMW will need to raise RM1.1b from the rights issue to purchase Med-Bumikar and CSSB's collective 51% stake and pay the 49% shareholders in cash. Share base dilution will only come from rights issue to raise RM1.1b.	The remaining 49% MBM shareholders opt to exchange their MBM shares for new UMW shares. The shareholders will get new UMW shares (issue price: RM6.09) at a ratio of 21 new UMW shares for 50 remaining MBM shares. In this scenario, UMW only need to raise RM501m to fund the acquisition of 51% stake from Med-Bumi and CSSB. Share base dilution will come from rights issue and new share issuance from share exchange.
Rights issuance	243m rights shares	130m rights shares
Illustrative issue price	RM4.40	RM4.30
Entitlement basis	1 rights for every 5 UMW shares	1 rights for every 10 UMW shares
Gross proceeds	RM1,071m	RM559m
Enlarged UMW share base	1461m	1429m
Enlarged issue share capital	RM1,955m	RM1,942m

Source: Company, KAF

Exhibit 5: Utilisation of cash proceeds

	Full Cash Scenario (RM)		Full Shares Scenario (RM)	
Gross proceeds	1,071,448,413		558,796,339	
Capital outlay for an Entitled Shareholder holding 100 UMW Shares	88		43	
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, KAF

Exhibit 6: Enlarged share base from rights issue

	Full Cash Scenario		Full Shares Scenario	
	No. of UMWH Shares	RM	No. of UMWH 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, KAF

Exhibit 7: UMW estimated P&L impact from Scenario A (full cash)

Before	FY18	FY19	FY20
Revenue	11,918	12,300	12,736
PATAMI	382	439	502
EPS (sen)	32.7	37.6	43.0
After			
Revenue	23,086	23,747	24,497
PATAMI	543	616	708
EPS (sen)	37.2	42.1	48.5
Growth (%)			
Revenue	94%	93%	92%
PATAMI	42%	40%	41%
EPS (sen)	14%	12%	13%

Source: Company, KAF

Exhibit 8: UMW estimated P&L impact from Scenario B (full shares)

Before	FY18	FY19	FY20
Revenue	11,918	12,300	12,736
PATAMI	382	439	502
EPS (sen)	32.7	37.6	43.0
After			
Revenue	23,086	23,747	24,497
PATAMI	543	616	708
EPS (sen)	38.0	43.1	49.6
Growth (%)			
Revenue	94%	93%	92%
PATAMI	42%	40%	41%
EPS (sen)	16%	15%	15%

Source: Company, KAF

Exhibit 9: MBM and UMW's 10 major shareholders

No.	MBM major shareholders	%	No.	UMW major shareholders	%
1	Med-Bumikar Mara	49.5	1	Skim Amanah Saham Bumiputera	40.71
2	EPF	15.81	2	EPF	9.25
3	AIA Bhd	4.22	3	Yayasan Pelaburan Bumiputera	7.26
4	CIMB Group Holdings Bhd	1.95	4	KWAP	6.3
5	Public SmallCap Fund	1.5	5	Amanah Saham Malaysia	3.26
6	Dimension Fund Advisors LP	1.46	6	Amanah Saham Wawasan 2020	2.94
7	Amanah Saham Kesihatan	1.28	7	OCBC Ltd	2.06
8	Aizuddin Aqil Ahmad	0.99	8	Vanguard Group	2.02
9	Amanah Saham Nasional	0.92	9	AS 1 Malaysia	1.82
10	Federal Realty Company	0.92	10	BlackRock	1.06
		78.55			76.68

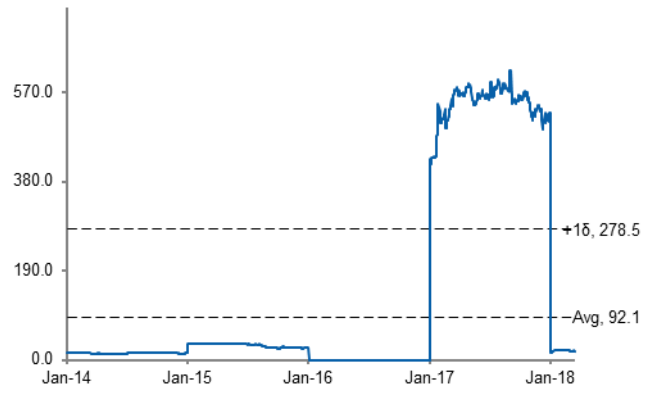
Source: Bloomberg

Exhibit 10: PB Band chart



Source: Company, KAF, Bloomberg

Exhibit 11: PE Band chart



Source: Company, KAF, Bloomberg

UMW Holdings

Income Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Revenue	10,958.5	11,390.6	11,917.7	12,300.4	12,736.1
EBITDA	(1,612.0)	(328.6)	897.0	1,044.3	1,165.2
Depreciation/Amortisation	(569.5)	(336.3)	(289.5)	(314.0)	(338.5)
Operating income (EBIT)	(2,181.5)	(664.8)	607.4	730.3	826.7
Other income & associates	156.4	171.7	155.7	159.8	183.8
Net interest	(105.1)	(56.8)	(32.6)	(79.6)	(111.7)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	(2,130.2)	(549.9)	730.5	810.5	899.8
Taxation	(139.6)	(124.0)	(175.3)	(194.5)	(216.0)
Minorities/pref dividends	611.7	22.8	(172.8)	(177.0)	(181.9)
Net profit	(2,269.8)	(674.0)	382.4	439.0	501.9
Core net profit	(369.3)	11.5	382.4	439.0	501.9

Balance Sheet

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Fixed assets	7,678.5	2,660.6	3,418.7	3,804.7	4,166.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	791.3	451.4	451.4	451.4	451.4
Total non-current assets	10,478.0	4,820.3	5,578.4	5,964.3	6,325.8
Cash & equivalent	2,193.9	1,163.4	4,686.3	6,815.6	8,219.5
Stock	1,931.2	1,342.7	1,404.2	1,182.8	1,198.0
Trade debtors	988.5	993.6	815.6	823.2	832.2
Other current assets	671.5	1,298.2	204.0	28.8	0.0
Total current assets	5,785.1	4,798.0	7,110.1	8,850.3	10,249.7
Trade creditors	1,878.6	2,662.1	3,037.7	3,411.4	3,460.8
Short-term borrowings	2,639.3	685.3	3,716.5	4,534.2	5,381.0
Other current liabilities	234.0	205.7	140.5	140.5	140.5
Total current liabilities	4,752.0	3,553.2	6,894.7	8,086.1	8,982.4
Long-term borrowings	3,715.8	2,069.7	1,037.8	1,356.5	1,509.5
Other long-term liabilities	931.0	143.2	34.0	34.0	61.7
Total long-term liabilities	4,646.7	2,213.0	1,071.8	1,390.5	1,571.2
Shareholders' funds	4,718.6	3,082.4	3,455.8	3,894.8	4,396.8
Minority interests	2,145.7	1,093.4	1,266.2	1,443.2	1,625.1

Cash flow Statement

FYE Dec (RMm)	2016	2017	2018F	2019F	2020F
Pretax profit	(2,130.2)	(549.9)	730.5	810.5	899.8
Depreciation/Amortisation	569.5	336.3	289.5	314.0	338.5
Net change in working capital	441.2	528.9	492.1	587.5	25.2
Others	1,410.3	130.4	302.8	326.4	313.1
Cash flow from operations	290.7	445.6	1,814.9	2,038.5	1,576.7
Capital expenditure	(1,181.6)	(1,003.8)	(700.0)	(700.0)	(700.0)
Net investments & sale of fixed assets	(1,844.2)	(230.2)	(298.6)	(298.6)	(298.6)
Others	2,253.3	(746.5)	1,557.5	262.5	194.0
Cash flow from investing	(772.5)	(1,980.5)	559.0	(736.1)	(804.6)
Debt raised/(repaid)	380.1	176.0	1,231.5	1,136.4	999.8
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(116.8)	0.0	0.0	(233.7)	(292.1)
Others	(654.1)	(75.9)	(75.9)	(75.9)	(75.9)
Cash flow from financing	(390.8)	100.1	1,155.6	826.8	631.9
Net cash flow	(872.6)	(1,434.8)	3,529.4	2,129.2	1,404.0
Cash b/f	2,621.1	2,171.2	1,156.9	4,686.3	6,815.6
Cash c/f	1,607.3	1,156.9	4,686.3	6,815.6	8,219.5

Key Ratios

FYE Dec	2016	2017	2018F	2019F	2020F
Revenue growth (%)	(24.1)	3.9	4.6	3.2	3.5
EBITDA growth (%)	nm	(79.6)	nm	16.4	11.6
Pretax margins (%)	(19.4)	(4.8)	6.1	6.6	7.1
Net profit margins (%)	(20.7)	(5.9)	3.2	3.6	3.9
Interest cover (x)	(20.8)	(11.7)	18.6	9.2	7.4
Effective tax rate (%)	0.0	35.4	29.6	0.0	0.0
Net dividend payout (%)	nm	nm	0.0	0.0	0.0
Debtors turnover (days)	47	32	28	24	24
Stock turnover (days)	64	52	42	38	34
Creditors turnover (days)	69	73	87	96	98

Source: Bloomberg, KAF

Disclosure Appendix

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

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