

20 March 2018

UMW Holdings Bhd

Higher Strategic Stake in Automotive Sector

By Wan Mustaqim Bin Wan Ab Aziz I wanmustaqim@kenanga.com.my

We attended UMW's investment community briefing with our neutral view unchanged pending full completion of proposed acquisitions and further announcements. The briefing was presented by UMW PGCEO, Mr. Badrul Feisal, and well-attended by c.50 analysts and fund managers. UMW believes that a higher offer price for MBMR is highly unlikely as the offer price at RM2.56/MBMR share is considered fair at acquisition PER of 10.7x (based on MBMR FY17 EPS), and at a premium of 7% to our 10x FY18E EPS. Maintain MP with an unchanged TP of RM6.25.

UMW believes a higher offer price is highly unlikely. Recall, UMW is proposing to undertake a rights issue to primarily repay a bridging facility to finance the proposed MBMR acquisition. Interdependently, UMW has also proposed to acquire a 10% stake in Perodua from PNB Equity Resource Corporation Sdn Bhd (PERC). UMW believes that the current deal is fair and the potential cross synergies with the larger group from the proposed acquisitions will lead to possible cost savings from economies of scale. Key takeaways from the briefing are:- (i) upon completion of the transactions, UMW will continue to evaluate MBMR's strategic options for better growth in the group businesses and to enhance shareholder value, (ii) UMW believes that the offer price is fair at RM2.56/MBMR share at acquisition PER of 10.7x (based on MBMR's FY17 EPS), and at a premium of 7% to our 10x FY18E EPS, and (iii) on a full-year contribution basis from MBMR and Perodua, there will be EPS accretion under both scenarios (full-cash scenario and full-shares scenario), despite the rights issue. All in, we believe minorities who wish to enjoy a larger Perodua earnings base should choose share swap offer as we believe that UMW will have the largest market share exposure to Malaysian automotive industry post acquisitions. (Toyota's market share of 12% plus Perodua's market share of 35% totalled 47% market share, as of 31st December 2017)

Rationale and benefits of the proposed acquisitions. UMW's rationales behind the proposed acquisitions are to; (i) increase strategic stake in Perodua with an increased effective stake from 38.0% to 70.6% after completion of the proposed MBMR acquisition and assuming full acceptance of the proposed mandatory offer, and the completion of the proposed Perodua acquisition, (ii) increase exposure in the commercial vehicle segment by assimilating MBMR's multi-brand dealerships (i.e. Daihatsu and Hino vehicles) into the current UMW Toyota commercial marques, (iii) widen UMW's offerings in the manufacturing segment with MBMR's auto parts manufacturing business (wheel manufacturing, safety products and noise, vibration and harshness products), and (iv) improve prospects in the automotive segment by leveraging on Perodua's strength in the national car segment, coupled with the company's existing presence in the non-national car segment via the Toyota marque as well as benefiting from economies of scale and creating synergies.

EPS accretive for both scenarios at 11% and 14% for FY19E. On a full-year contribution basis in FY19, we expect EPS accretion of 11% (full-cash scenario) and 14% (full-shares scenario), respectively, despite the rights issue for both scenarios.

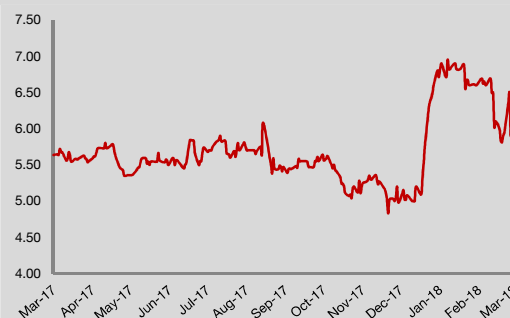
Unchanged for now. Nonetheless, we keep our FY18E/FY19E earnings estimates and TP unchanged at RM6.25 until completion of the proposed acquisition and pending further announcements. Our current TP is based on 20x FY18E EPS implying +1.0 SD of its 5-year mean historical PER. **Maintain MARKET PERFORM.**

Risks to our call include: (i) higher-than-expected car sales volume, and (ii) unfavourable forex.

MARKET PERFORM ↔

Price: RM6.22
Target Price: RM6.25 ↔

Share Price Performance



KLCI	1,847.94
YTD KLCI change	2.8%
YTD stock price change	19.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMWH MK Equity
Market Cap (RM m)	7,266.8
Issued shares	1,168.3
52-week range (H)	6.98
52-week range (L)	4.70
3-mth avg daily vol:	2,337,925
Free Float	43%
Beta	1.5

Major Shareholders

Skim Amanah Saham	40.7%
Employees Provident Fund	9.3%
Yayasan Pelaburan Bumiputera	7.3%

Summary Earnings Table

FY Dec (RM'm)	2017A	2018E	2019E
Turnover	11,046.5	11,405.4	11,981.5
EBIT/ (LBIT)	120.4	431.6	448.5
PBT/ (LBT)	252.9	559.9	607.8
NP/(NL)	24.5	365.7	378.7
CNP/(CNL)	57.1	365.7	378.7
Consensus NP	-	335.3	441.9
Earnings Revision	-	-	-
Core EPS (sen)	4.9	31.3	32.4
Core EPS growth	-112.3%	540.4%	3.5%
NDPS (sen)	-	-	-
BVPS (RM)	2.64	2.95	3.28
PER (x)	127.2	19.9	19.2
PBV (x)	2.4	2.1	1.9
Net Gearing (x)	0.5	0.5	0.5
Net Div. Yield (%)	-	-	-



20 March 2018

Impact to earnings and TP (based on our FY18E and FY19E)-Assuming Full Cash Scenario for 100% acquisition of MBMR	FY18E	FY19E
Total acquisition cost as per announcement (RM'm)	1,417.5	1,417.5
UMW Core Net Profit (RM'm)	365.7	378.7
Net profit from 100% MBMR(RM'm) (6 months/ 12 months contribution for FY18E/FY19E)	50.7	113.2
Net profit from of 10% Perodua(RM'm) (6 months/ 12 months contribution for FY18E/FY19E)	16.8	35.6
UMW adjusted CNP (RM'm)	433.2	527.6
Net profit enhancement (%)	18%	39%
Current number of shares (m shares)	1168.3	1168.3
New shares Issuance (for the purchase of 10% Perodua Stake)	49.3	49.3
New shares issued pursuant to the Proposed Rights Issue (assuming 1 rights share for every 5 UMW shares)**	243.5	243.5
Enlarged number of shares (m shares)	1461.1	1461.1
Previous EPS (sen)	31.3	32.4
Adjusted EPS (sen)	29.6	36.1
EPS changes (%)	-5%	11%
TP (based on unchanged 20x at +1.0 SD of its 5-year historical mean PER)	5.93	7.22

Source: Bursa announcement, Kenanga Research

^assuming the deal is completed in June 2018

**Assuming illustrative rights issue price of RM4.40 (based on indicative share price of RM6.04), entails 1 rights share for every 5 UMW shares which will result in the issuance of 243.5m rights shares and gross proceeds of c.RM1,071m.

Impact to earnings and TP (based on our FY18E and FY19E)-Assuming Full Share Scenario for 100% acquisition of MBMR	FY18E	FY19E
Total acquisition cost as per announcement (RM'm)	1,417.5	1,417.5
UMW Core Net Profit (RM'm)	365.7	378.7
Net profit from 100% MBMR(RM'm) (6 months/ 12 months contribution for FY18E/FY19E)	50.7	113.2
Net profit from of 10% Perodua(RM'm) (6 months/ 12 months contribution for FY18E/FY19E)	16.8	35.6
UMW adjusted CNP (RM'm)	433.2	527.6
Net profit enhancement (%)	18%	39%
Current number of shares (m shares)	1,168.3	1,168.3
New shares Issuance (for the purchase of 10% Perodua Stake)	49.3	49.3
New shares issued pursuant to the Proposed Mandatory Offer (assuming 21 new UMW shares for every 50 remaining MBMR Shares)***	82.0	82.0
New shares issued pursuant to the Proposed Rights Issue (assuming 1 rights shares for every 10 UMW shares)**	130.0	130.0
Enlarged number of shares (m shares)	1429.5	1429.5
Previous EPS (sen)	31.3	32.4
Adjusted EPS (sen)	30.3	36.9
EPS changes (%)	-3%	14%
TP (based on unchanged 20x at +1.0 SD of its 5-year historical mean PER)	6.06	7.38

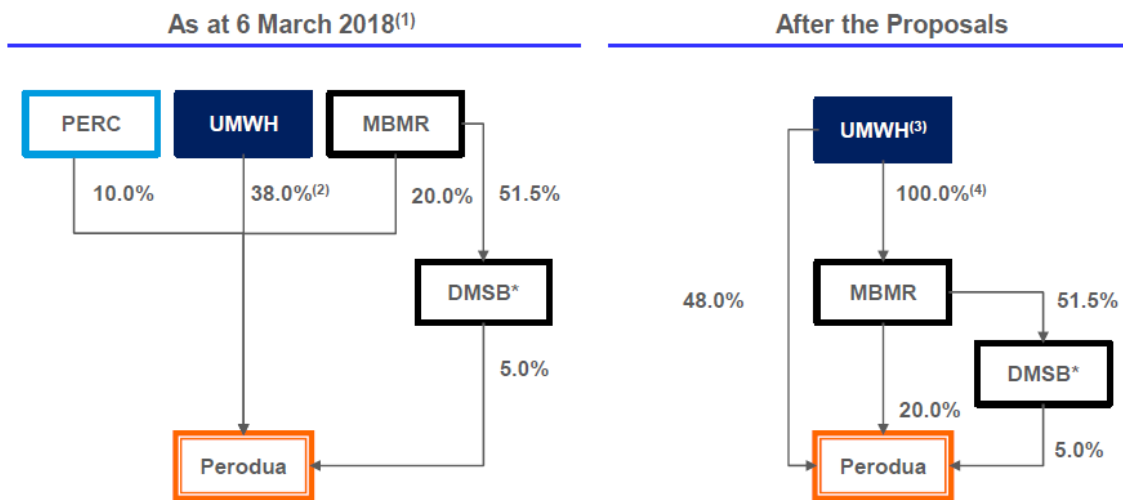
Source: Bursa announcement, Kenanga Research

^assuming the deal is completed in June 2018

**Assuming illustrative rights issue price of RM4.30 (based on indicative share price of RM6.04), entails 1 rights share for every 10 UMW shares which will result in the issuance of 130.0m rights shares and gross proceeds of c.RM559m.

***Assuming offer price of RM2.56/ MBMR share and issue price of RM6.09/UMW share, entails 21 new UMW shares for every 50 remaining MBMR Shares which results in issuance of 82m new shares.

Group structure before and after the proposals



Source: Company, Kenanga Research

Details of the proposed rights issue

DETAILS OF THE PROPOSED RIGHTS ISSUE

Illustrative – To be determined at a later date closer to the implementation of the Proposed Rights Issue to enable the price to be more reflective of the prevailing market price at that time

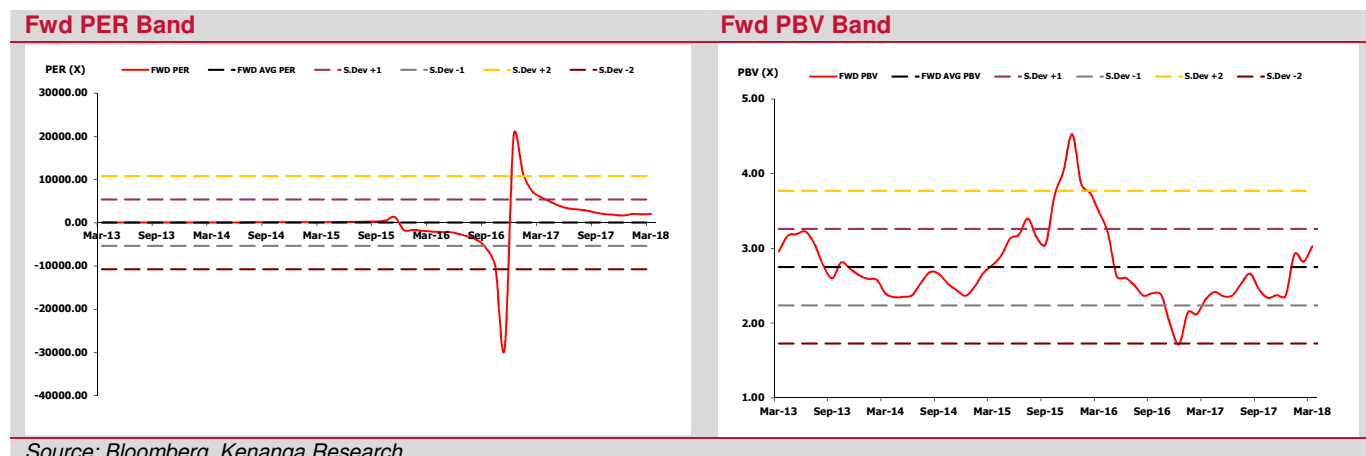
Gross proceeds	<ul style="list-style-type: none"> Subject to fixing of the entitlement basis and issue price at a later date <table border="1"> <tr> <td style="background-color: #003366; color: white;">Full Cash Scenario</td> <td>RM1,072 million</td> </tr> <tr> <td style="background-color: #003366; color: white;">Full Shares Scenario</td> <td>RM559 million</td> </tr> </table>	Full Cash Scenario	RM1,072 million	Full Shares Scenario	RM559 million
Full Cash Scenario	RM1,072 million				
Full Shares Scenario	RM559 million				
Issue price	<ul style="list-style-type: none"> To be fixed at a later date but for illustration purposes: <table border="1"> <tr> <td style="background-color: #003366; color: white;">Full Cash Scenario</td> <td>RM4.40 per rights share (23.7% discount to TERP)</td> </tr> <tr> <td style="background-color: #003366; color: white;">Full Shares Scenario</td> <td>RM4.30 per rights share (26.9% discount to TERP)</td> </tr> </table> <p>For this illustration, the TERP is calculated based on the 5-day VWAP of UMWH Shares up to and including 12 March 2018⁽¹⁾ of RM6.04</p>	Full Cash Scenario	RM4.40 per rights share (23.7% discount to TERP)	Full Shares Scenario	RM4.30 per rights share (26.9% discount to TERP)
Full Cash Scenario	RM4.40 per rights share (23.7% discount to TERP)				
Full Shares Scenario	RM4.30 per rights share (26.9% discount to TERP)				
Entitlement basis	<ul style="list-style-type: none"> To be fixed at a later date but for illustration purposes: <table border="1"> <tr> <td style="background-color: #003366; color: white;">Full Cash Scenario</td> <td>1 rights share for every 5 UMWH Shares</td> </tr> <tr> <td style="background-color: #003366; color: white;">Full Shares Scenario</td> <td>1 rights share for every 10 UMWH Shares</td> </tr> </table>	Full Cash Scenario	1 rights share for every 5 UMWH Shares	Full Shares Scenario	1 rights share for every 10 UMWH Shares
Full Cash Scenario	1 rights share for every 5 UMWH Shares				
Full Shares Scenario	1 rights share for every 10 UMWH Shares				
Shareholders' irrevocable undertaking	<ul style="list-style-type: none"> The Company intends to seek irrevocable undertaking from Permodalan Nasional Berhad ("PNB") and the funds managed by PNB to subscribe in full their respective entitlements 				
Underwriting arrangement	<ul style="list-style-type: none"> The Company intends to procure underwriting arrangement(s) for the remaining rights shares for which no undertaking has been obtained 				
Use of proceeds	<ul style="list-style-type: none"> Primarily to repay the Bridging Facility to be obtained by the Company 				

Source: Company, Kenanga Research

20 March 2018

Income Statement					Financial Data & Ratios				
FY Dec (RM m)	2016A	2017A	2018E	2019E	FY Dec (RM m)	2016A	2017A	2018E	2019E
Revenue	10,436.8	11,046.5	11,405.4	11,981.5	Growth (%)				
EBITDA	(456.7)	120.4	431.6	448.5	Turnover	-5.0	5.8	3.2	5.1
Depreciation	(569.5)	(336.3)	(215.3)	(396.6)	EBITDA	-5.0	5.8	3.2	5.1
Interest Inc/(Exp)	(32.5)	(119.0)	(106.7)	(115.7)	Operating Profit	-17.7	-121.1	258.4	3.9
Associate	183.6	171.7	143.7	178.2	PBT	-88.7	-204.3	121.4	8.5
PBT	(242.5)	252.9	559.9	607.8	CNP	28.2	-112.3	540.4	3.5
Taxation	(133.5)	(122.3)	(102.8)	(134.4)	Profitability (%)				
Minority Interest	(120.9)	(106.1)	(91.4)	(94.7)	Operating Margin	-4.4	1.1	3.7	3.5
NP	(496.9)	24.5	365.7	378.7	PBT Margin	-2.3	2.3	4.9	5.0
CNP	(464.3)	57.1	365.7	378.7	CNP Margin	-4.4	0.5	3.2	3.2
					ROA	-3.1	0.2	3.6	3.5
					ROE	-10.5	0.6	11.2	10.4
Balance Sheet					DuPont Analysis				
FY Dec (RM m)	2016A	2017A	2018E	2019E	Net Margin (%)	2016A	2017A	2018E	2019E
F. Assets	7,109.0	2,324.3	2,940.5	3,458.7	Assets Turnover(x)	0.6	1.1	1.1	1.1
Int. Assets	6.5	6.5	6.5	6.5	Leverage Factor(x)	3.4	3.2	3.1	2.9
Other F.Assets	3,362.5	2,489.5	2,489.5	2,489.5	ROE (%)	-10.6	0.6	11.2	10.4
Inventories	1,931.2	1,342.7	1,408.8	1,509.8					
Receivables	867.7	880.2	902.6	943.8	Leverage				
Other C. Assets	1,128.7	1,735.4	1,735.4	1,735.4	Debt/Asset (x)	0.4	0.3	0.3	0.2
Cash	1,857.4	1,163.4	1,041.0	996.1	Debt/Equity (x)	1.3	0.9	0.8	0.7
Total Assets	16,263.0	9,942.0	10,524.3	11,139.7	Net (Cash)/Debt	4,475	1,592	1,714	1,759
					Net Debt/Equity (x)	0.9	0.5	0.5	0.5
Payables	1,038.9	767.2	801.0	848.3	Valuations				
ST Borrowings	2,616.6	685.3	685.3	685.3	Core EPS (sen)	(39.7)	4.9	31.3	32.4
Other ST Liability	1,096.5	2,100.6	2,100.6	2,100.6	NDPS (sen)	-	-	-	-
LT Borrowings	3,715.8	2,069.7	2,069.7	2,069.7	BV/sh (RM)	4.04	2.64	2.95	3.28
Other LT Liability	931.0	143.2	143.2	143.2	PER (x)	(15.7)	127.2	19.9	19.2
Net Assets	6,864.3	4,175.8	4,724.4	5,292.5	Div. Yield (%)	-	-	-	-
					PBV (x)	1.5	2.4	2.1	1.9
S.holders' Equity	4,718.6	3,082.4	3,448.1	3,826.8	EV/EBITDA (x)	(2.4)	(19.9)	6.7	5.3
Minority Interests	2,145.7	1,093.4	1,276.3	1,465.6					
Total Equity	6,864.3	4,175.8	4,724.4	5,292.5					
Cashflow Statement									
FY Dec (RM m)	2016A	2017A	2018E	2019E					
Operating CF	290.7	445.6	672.2	807.4					
Investing CF	-766.9	-1,980.5	-687.9	-736.6					
Financing CF	167.4	100.1	-106.7	-115.7					
Change In Cash	-308.7	-1,434.8	-122.4	-44.9					
FCF	-465.3	-310.4	-159.4	-107.4					

Source: Kenanga Research



20 March 2018

Malaysian Automotive Peers Comparison

NAME	Price @ 19/03/18	Mkt Cap	PER (x)			Est. Div. Yld.	Hist. ROE	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating
	(RM)	(RM m)	Actual	1 YrFwd	2 YrFwd	(%)	(%)	Actual	1 YrFwd	2 YrFwd	(%)	(%)	(RM)	
BERMAZ AUTO BHD	2.22	2,562.5	21.9	20.1	12.6	4.1%	43.5%	117.6	128.0	203.7	8.8%	59.2%	2.30	OP
DRB-HICOM BHD	2.49	4,813.7	N.M.	14.4	13.7	0.8%	6.3%	-732.0	334.3	351.7	N.M	N.M	2.50	MP
MBM RESOURCES BHD	2.47	965.5	10.3	9.5	8.5	2.4%	5.0%	93.7	101.4	113.2	8.2%	11.7%	2.85	OP
SIME DARBY BHD	2.66	1,042.5	24.6	24.1	22.0	2.6%	2.2%	734.0	750.0	822.6	2.2%	9.7%	2.70	MP
TAN CHONG MOTOR HOLDINGS BHD	1.64	1,070.4	N.M.	N.M.	N.M.	1.2%	2.0%	-83.9	-30.4	-11.7	N.M	N.M	1.80	MP
UMW HOLDINGS BHD	6.22	7,266.8	N.M.	19.9	19.2	0.0%	4.0%	57.1	365.7	378.7	N.M	3.6%	6.25	MP

Source: Bloomberg, Kenanga Research

The rest of this page is intentionally left blank

20 March 2018

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research