

UMW (HOLD ↔, EPS ↔)
NEWSBREAK
INDUSTRY: NEUTRAL
27 March 2018
Price Target: RM6.10 (↔)
Share Price: RM6.10
Med-Bumikar Mara rejects offer for MBMR
**Highlights/
Comments**

- Major shareholder of MBMR, Med-Bumikar Mara has rejected UMW's offer price of RM501m (RM2.56/share) to acquire its 50.07% stake in MBMR.
- With the rejection, there will be no further Mandatory Take-Over Offer for the 49.93% minority shareholders of MBMR and cancellation of the proposed rights issue exercise by UMW.
- UMW has announced that it will extend the validity period for the MBMR Offer, from 28 March 2018 to 30 April 2018. UMW will continue to engage Med-Bumikar Mara on the merits of the Proposed MBMR Acquisition for further consideration.
- Nevertheless, UMW's offer to acquire 10% stake in Perodua from its major shareholder PNB for RM417.5m (RM117.5m cash and RM300m worth of 49.3m new UMW shares) is still on the table and we expect the offer to go through.
- Without acquiring MBMR, UMW will only own 48% stake in Perodua (assuming PNB accepts the offer) and will not be able to consolidate Perodua contributions.
- We believe the existing offer price of RM2.56/share is relatively unattractive, given the huge discount of 30% to MBMR's NTA of RM1.44bn (as at Dec 2017 after a massive RM257.7m impairment exercise).
- We believe there is a high chance of UMW to raise the offer price. UMW will have to weigh on strengthening its automotive earnings, consolidating Perodua contribution and extracting potential synergies with MBMR group.

Risks

- Prolonged tightening of banks' HP rules.
- Slowdown in the Malaysian economy affecting demand for automotive and equipment.
- Global supply chain disruption for automotive and manufacturing segments.
- Depreciation of RM.

Forecasts

- Unchanged, pending acceptance of PNB (10% Perodua stake) and further development of MBMR acquisition exercise. Without MBMR, UMW's FY19 earning may only increase by +8.7% or RM40m to RM500m (accounting for additional 10% in Perodua), and partially offset by 4% share dilution (new shares issuance to PNB), netting a +4.7% earning accretion to bottomline.

Rating
HOLD (↔)

- UMW continues to be dragged by weakened consumer sentiment, relatively high US\$ against RM and continued losses from Rolls Royce fan case manufacturing plant in 2018. However, the proposed acquisition of stakes in MBMR and Perodua is value accretive to UMW.

Valuation

- Maintain **HOLD** with unchanged TP of **RM6.10** based on SOP (assuming only Med-Bumikar Mara and PNB accept the offer, but not minority shareholders of MBMR). However, there is potential downgrade in TP if UMW fails to acquire MBMR by 30 April 2018.

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KLCI	1,859.9
Expected share price return	0.0%
Expected dividend return	0.8%
Expected total return	0.8%

Share Price

Information

Bloomberg Ticker	UMWH MK
Bursa Code	4588
Issued Shares (m)	1,168
Market cap (RM m)	7,127
3-mth avg. volume ('000)	2,454
SC Shariah-Compliant	Yes

Price Performance

	1M	3M	12M
Absolute	-6.0	22.0	9.7
Relative	-5.4	16.2	2.9

Major Shareholders

PNB	57.6%
EPF	9.5%
KWAP	6.3%

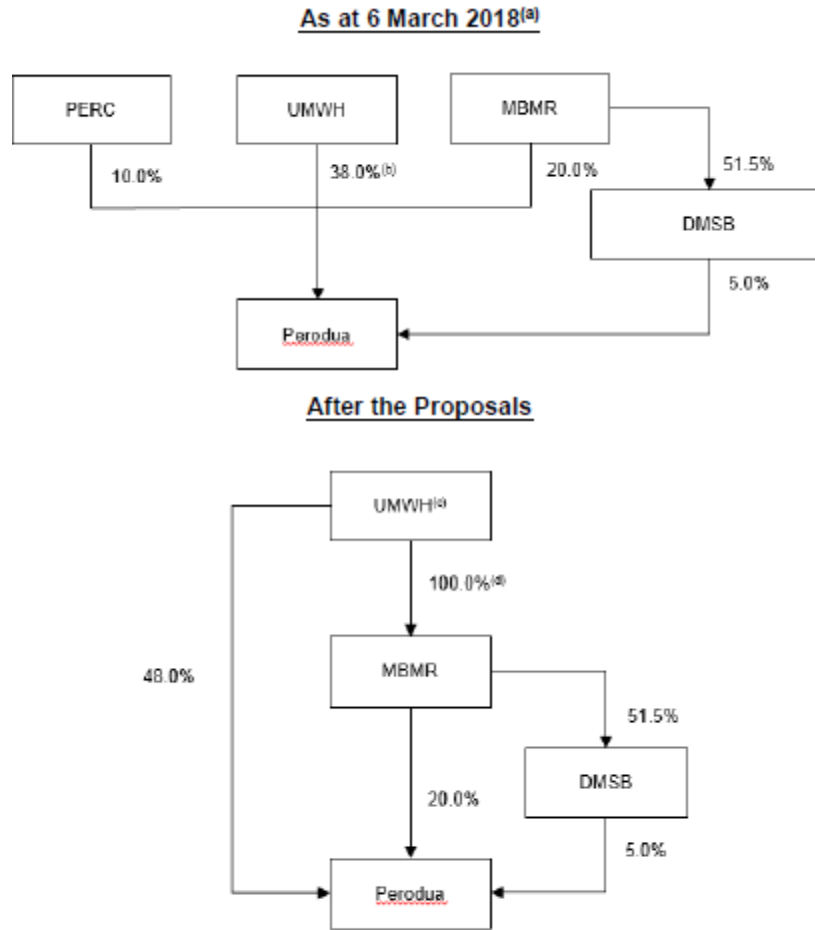
Summary Earnings Table

FYE Dec (RM m)	FY16A	FY17A	FY18E	FY19F
Turnover	10,859	11,167	11,899	12,888
EBITDA	564	736	800	992
Pre-tax Profit	-2,130	146	603	789
Rpt. net profit	-1,667	-648	328	460
Norm. net profit	89	-128	328	460
Norm. EPS (sen)	7.6	-10.9	28.1	39.3
P/E (x)	80.5	-55.7	21.7	15.5
Book Value (RM)	4.0	2.6	3.7	4.0
P/B (x)	1.5	2.3	1.6	1.5
Net Dvd Yield (%)	11.8	12.0	0.8	1.6
Net Gearing	89.5	51.6	64.4	59.6
ROE (%)	1.6	-3.3	7.8	10.1
ROA (%)	0.5	-1.0	2.6	3.5

Consensus:

EPS (sen)	26.5	35.3
% Diff	6.0	11.4

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APPENDIX 1: UMW & MBR group structure**Notes:**

- ^(a) Being the latest practicable date prior to the date of this Announcement.
^(b) Held through UMWC, a wholly-owned subsidiary of UMWH.
^(c) UMWH reserves the rights to nominate another affiliate(s) to undertake the Proposed MBR Acquisition and the Proposed Perodua Acquisition.
^(d) 100% ownership of MBR is dependent on the outcome of the Proposed MO.

UMW

UMW Sum-of-Parts Valuations

Division	Stakes (%)	FY19 PATMI (RM m)	Value (RMm)	RM/Share	Basis
Automotive	Various	342.7	3,427.5	2.93	FY19 PE 10x
Equipment	Various	170.6	1,365.0	1.17	FY19 PE 8x
Manufacturing & Engineering	Various	106.4	1,915.0	1.64	FY20 PE 18x
Others	Various	(353.6)	0.0	0.00	
* 50.07% MBR & 10% Perodua	Various	101.3	1,206.9	1.03	FY19 PE 12x
Total (RM)			7,914.4	6.77	
Holding Co Discount				10.0%	
Target Price (RM)				6.10	
No of Shares		1,163.8	1,168.3		As at end FY2017

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Financial Projections - UMWH (HOLD; TP: RM6.10)**Income Statement**

FYE 31 Dec (RMm)	FY15A	FY16A	FY17A	FY18E	FY19F
Revenue	14,442	10,859	11,167	11,899	12,888
Operating cost	-12,872	-10,295	-10,430	-11,098	-11,896
EBITDA	1,569	564	736	800	992
Depreciation	-765	-555	-207	-294	-296
EBIT	804	9	529	507	696
Interest income	126	81	47	54	46
Interest expense	-127	-186	-150	-118	-123
Associates	134	155	156	161	172
Exceptionals	-668	-2,189	-437	0	0
Pretax profit	270	-2,130	146	603	789
Taxation	-267	-141	-816	-136	-163
Minorities	-39	604	23	-140	-167
Net profit	-37	-1,667	-648	328	460
Core PATAMI	256	89	-128	328	460
No of shares (m)	1,168	1,168	1,168	1,168	1,168
Rep. EPS (sen)	-3.2	-142.7	-55.4	28.1	39.3
Core EPS (sen)	21.9	7.6	-10.9	28.1	39.3

Balance Sheet

FYE 31 Dec (RMm)	FY15A	FY16A	FY17A	FY18E	FY19F
Fixed assets	8,106	7,642	2,661	4,427	4,571
Other assets	4,038	3,709	3,894	4,086	4,129
Working capital	1,968	1,778	1,456	1,972	2,146
Receivables	1,458	754	880	833	902
Payables	-1,380	-898	-767	-943	-1,011
Inventory	1,890	1,922	1,343	2,082	2,255
Net cash	-3,281	-4,226	-1,592	-2,812	-2,806
Cash	2,734	2,179	1,163	1,377	1,236
ST debt	-3,725	-2,617	-685	-1,117	-1,117
LT debt	-2,290	-3,789	-2,070	-3,073	-2,925
Equity	6,584	4,722	3,082	4,366	4,709
Share capital	584	584	584	584	584
Reserves	6,000	4,138	2,498	3,782	4,125
Minorities	2,799	2,187	1,093	1,312	1,337
Other liabilities	1,447	1,994	2,244	1,994	1,994

Assumption Metrics

FYE 31 Dec	FY15A	FY16A	FY17A	FY18E	FY19F
GDP Growth (%)	6.0%	4.2%	5.8%	5.3%	5.0%
TIV ('000)	666.5	580.1	588.8	600.6	612.6
Growth (%)	1.6%	-13.0%	1.5%	2.0%	2.0%
Unit Sale (Unit)	309.2	272.2	275.3	292.4	303.6
Toyota ('000)	93.8	63.8	69.5	75.0	78.0
Lexus ('000)	2.1	1.4	1.0	1.4	1.4
Perodua ('000)	213.3	207.1	204.9	216.0	224.2
Average Price					
UMW (RM '000)	107.9	123.1	120.2	114.6	115.8
Perodua (RM '000)	39.7	40.5	44.6	44.5	44.3

Cashflow

FYE 31 Dec (RMm)	FY15A	FY16A	FY17A	FY18E	FY19F
EBITDA	1,569	564	736	800	992
Net interest	-1	-106	-103	-64	-78
WCap changes	69	190	323	-129	-175
Taxation	-283	-136	-123	-136	-163
Others	-279	-583	-302	0	0
Opex cashflow	1,075	-70	531	471	576
Capex & acq.	-2,388	-925	-935	-1,240	-440
Free cashflow	-1,313	-995	-404	-769	136
Other inv cashflow	502	248	-1,131	121	129
Net borrowings	1,323	433	176	492	-148
Share issuance	0	0	0	0	0
Dividends paid	-479	-117	0	-58	-117
Other fin cashflow	-307	-96	-76	-119	-142
Net cashflow	-274	-526	-1,435	-333	-142
Forex translation	65	25	421	0	0
Beginning cash	3,277	2,655	2,655	1,686	1,353
Ending cash	3,067	2,155	1,641	1,353	1,212

Valuation Ratios

FYE 31 Dec	FY15A	FY16A	FY17A	FY18E	FY19F
Rep. EPS (sen)	-3.2	-142.7	-55.4	28.1	39.3
Core EPS (sen)	21.9	7.6	-10.9	28.1	39.3
PER (x)	-191.7	-4.3	-11.0	21.7	15.5
Core PER (x)	27.8	80.5	-55.7	21.7	15.5
Net DPS (sen)	20.0	72.0	73.0	5.0	10.0
Net DY (%)	3.3	11.8	12.0	0.8	1.6
BV/ share (RM)	5.6	4.0	2.6	3.7	4.0
P/BV (x)	1.1	1.5	2.3	1.6	1.5
FCF/share (sen)	-112.4	-85.2	-34.6	-65.8	11.7
Market Cap	7,127	7,127	7,127	7,127	7,127
Net cash	-3,281	-4,226	-1,592	-2,812	-2,806
Enterprise value	10,407	11,353	8,718	9,939	9,933
EV/EBITDA (x)	6.6	20.1	11.8	12.4	10.0
ROE (%)	3.9	1.6	-3.3	7.8	10.1
ROA (%)	1.5	0.5	-1.0	2.6	3.5

Other Ratios

FYE 31 Dec	FY15A	FY16A	FY17A	FY18E	FY19F
Growth (%)					
Sales	-3.3	-24.8	2.8	5.2	8.3
EBITDA	-19.5	-64.0	30.5	102.7	23.9
EBIT	-48.8	-98.8	N.M.	1068.1	37.3
PBT	-83.4	-890.0	-106.8	337.0	30.8
Core PATAMI	-67.4	-65.4	-244.4	338.4	40.0
Margins (%)					
EBITDA	10.9	5.2	6.6	6.7	7.7
EBIT	5.6	0.1	4.7	4.3	5.4
PBT	1.9	-19.6	1.3	5.1	6.1
Core PATAMI	1.8	0.8	-1.1	2.8	3.6
Net Gearing (%)	49.8	89.5	51.6	64.4	59.6

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