



AmInvestment Bank

Company report

Al Zaquan
al-zaquan@ambankgroup.com
03-2036 2304

AUTOMOBILE

UMW HOLDINGS

(UMWH MK EQUITY, UMWS.KL)

29 Mar 2018

UMW extends offer period for PERC to April 30

HOLD

Price: RM6.17
Fair Value: RM6.22

Rationale for report: Company update

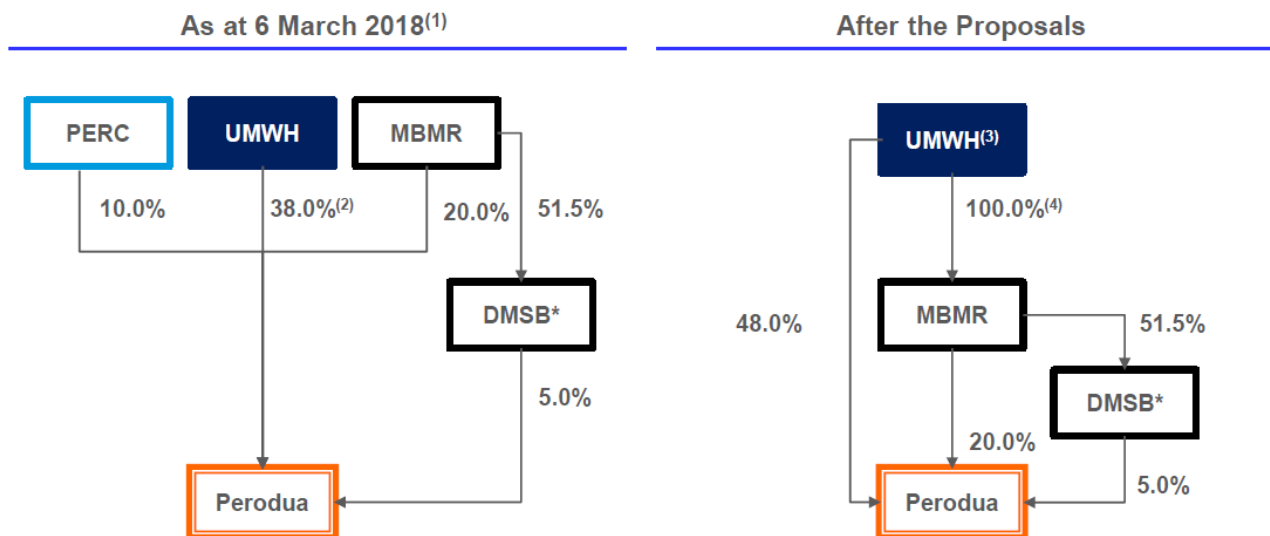
Quick Take

YE to Dec	FY17	FY18F	FY19F	FY20F
FD Core EPS (sen)	(7.7)	29.7	37.6	40.3
PE (x)	(80.4)	20.8	16.4	15.3

Source: AmInvestment Bank

- **UMW said on Wednesday that PNB Equity Resource Corp Sdn Bhd (PERC) had requested for an extension to the offer period for UMW's proposed acquisition of the 10% stake in Perodua to April 30 from March 28. UMW consented to this.**
- **Recall that UMW proposed to acquire 10% in Perodua held by PERC for RM29.80/share or RM417.5mil. It will pay RM117.5mil in cash and another RM300mil from the issuance of 49.3mil new UMW shares.**
- **While no reason was stated for the extension, the two transactions that comprise the first stage of UMW's plan to raise its ownership of Perodua (from 38% now to 70.6%) are now realigned in the timing for their acceptance date.**
- **Both Med-Bumikar Mara (which holds 50.07% of MBM Resources) and PERC have up to April 30 to decide on the respective offers from UMW.**
- **Note that the two proposals are not conditional upon each other.**
- **We reiterate that the valuation for Perodua is on the low side. UMW is valuing Perodua at a PE multiple of 9x after factoring in the rate of TIV growth going forward, the rise of alternative modes of transportation and the competitive pressure on the industry.**
- **We retain our SOP-based FV of RM6.22/share for UMW.**

EXHIBIT 1: GROUP STRUCTURE BEFORE AND AFTER



*DMSB – Daihatsu (M) Sdn Bhd

Notes:

- (1) Being the latest practicable date prior to the date of the MBMR offer letter
- (2) Held through UMW Corporation Sdn Bhd, a wholly-owned subsidiary of UMWH
- (3) UMWH reserves the right to nominate another affiliate(s) to undertake the Proposed MBMR Acquisition and the Proposed Perodua Acquisition
- (4) 100% ownership of MBMR is dependent on the outcome of the Proposed MO

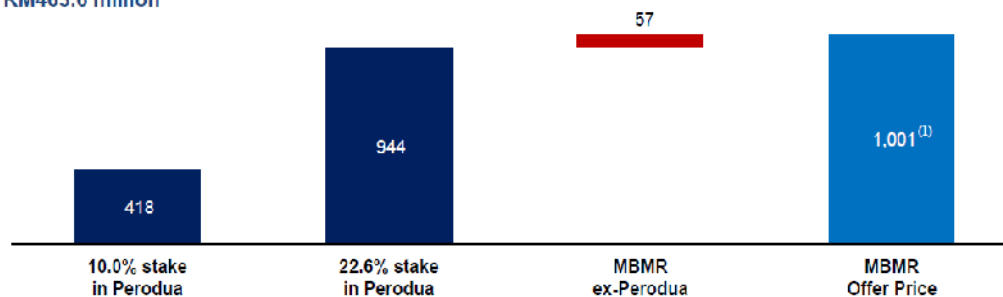
Source: Company

EXHIBIT 2: MBM EX-PERODUA VALUATION BY UMW

Valuation Build-up

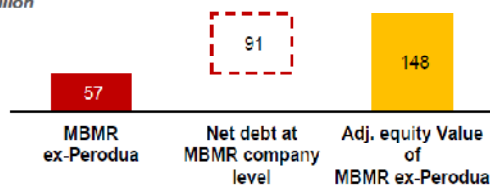
RM million

- Offer price for Perodua reflects a c.9.0x earnings multiple over Perodua's 2016 audited net income of RM463.6 million



Exposed to holding company debt and business risks of MBMR Group

RM million



- Equity value of remaining businesses at MBMR (ex-Perodua) estimated at RM148 million
 - Includes the loss-making alloy wheels segment

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

EXHIBIT 3: SUM-OF-PARTS VALUATION

Pegged to FY18F						
Segment	PAT (RM mil)	Stake	PE (x)	Value (RM mil)	Value (RM/share)	No. of Shares
Automotive	483.1	51.0%	13	3,301.5	2.71	1,217.6
Equipment	146.1		12	1,811.9	1.49	
Manu & Eng	(17.7)		7	(123.6)	(0.10)	
					4.10	
Add: Perodua	531.7	48.0%	14	3,675.3	3.02	
Add: MBM	95.2	50.1%	9	447.9	0.37	
Add: Company net debt				(1,536.2)	(1.26)	
FV:					6.22	

* On enlarged share base of RM1,218 mil following 49.3 mil new shares issued

Source: AmlInvestment Bank Bhd, Company

EXHIBIT 4: PRO FORMA IMPACT ON EPS FROM RIGHTS ISSUE UNDER TWO SCENARIOS

Current projections for UMW (RM mil)	FY18	FY19	FY20
Revenue	11,431.8	12,058.1	12,720.6
Net profit	347.3	439.5	470.8
Revenue projection for UMW (post)			
Current revenue projections	11,431.8	12,058.1	12,720.6
Add: Perodua consolidated as subsidiary	8,830.6	9,089.4	9,355.9
Add: MBM consolidated as a subsidiary	1,759.0	1,841.9	1,916.0
Total	22,021.4	22,989.4	23,992.5
Addition (%)	93%	91%	89%
Net profit projection for UMW (post)			
Current net profit projection	347.3	439.5	470.8
Additional 10% in Perodua	53.2	58.4	63.8
Additional income from 50.07% of MBM	47.6	56.7	62.7
Total	448.2	554.6	597.3
Addition (%)	29%	26%	27%
Net profit projection for UMW (post)			
Current net profit projection	347.3	439.5	470.8
Additional 10% in Perodua	53.2	58.4	63.8
Additional income from 100% of MBM	95.2	113.2	125.2
Total	495.7	611.1	659.8
Earnings accretion	43%	39%	40%
EPS (sen), on			
Existing UMW share base of 1.2bil shares	37.6	40.3	52.3
Share base of 1.46bil under "full cash scenario"	41.8	45.2	56.0
Share base of 1.43bil under "full shares scenario"	42.8	46.2	57.3
Share base expansion under "full cash scenario"	25%	25%	25%
Share base expansion under "full shares scenario"	22%	22%	22%
Potential EPS accretion from			
"Full cash scenario"	11%	12%	7%
"Full shares scenario"	14%	15%	9%

Source: Company, AmlInvestment Bank Bhd

TABLE 1 : VALUATION MATRIX

YE 31 Dec	FY16	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	10,958.5	11,046.5	11,431.8	12,058.1	12,720.6
Core net profit (RM mil)	(360.7)	(89.7)	347.3	439.5	470.8
FD Core EPS (sen)	(30.9)	(7.7)	29.7	37.6	40.3
FD Core EPS growth (%)	(273.6)	(75.1)	(487.3)	26.5	7.1
Consensus Net Profit (RM mil)	-	-	335.3	441.9	503.7
DPS (sen)	10.0	(16.7)	8.9	11.3	12.1
PE (x)	(20.0)	(80.4)	20.8	16.4	15.3
EV/EBITDA (x)	(7.3)	28.0	10.5	9.3	8.8
Div yield (%)	1.7	(2.8)	1.5	1.9	2.0
ROE (%)	(29.2)	(14.5)	7.9	9.4	9.5
Net Gearing (%)	95.3	130.4	110.7	99.4	89.1

Source: Company, AmInvestment Bank Bhd estimates

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