

11 Apr 2018

Hold

Price  
RM6.44

Target Price  
RM6.30

Bloomberg code  
UMWH MK

Equity | Malaysia | Autos  
**Flashnote**

Analyst

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# UMW Holdings

## Daihatsu not in favour?

### 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	nm	14.8	14.3
DPS (Sen)	0.0	0.0	20.0	25.0	25.0
Core PE (x)	nm	nm	19.7	17.1	15.0
Div yield (%)	0.0	0.0	3.1	3.9	3.9
ROE (%)	- 40.2	- 17.3	11.7	11.9	12.1
Net Gearing (%)	88.2	51.6	2.0	nm	nm
PBV(x)	1.1	1.8	1.6	1.4	1.2

Source: Company, KAF

- According to a *Starbiz* report, MBM Resources (MBM MK, RM2.50, Buy, TP RM2.56) said it is open to negotiations with UMW for the latter's takeover but it would not be a straightforward exercise.
- For one, its chairman Datuk Abdul Rahim Abdul Halim said MBM's Japanese partner in Perodua, Daihatsu, is not in favour of one company holding a majority stake in the national carmaker.
- Recall that Daihatsu currently holds a 25% stake in Perodua, while UMW holds 38%, MBM (20%), PNB Equity (10%) and Mitsui (7%). See Exhibit 2. The acquisition would see UMW increase its Perodua stake to 71%.
- Secondly, a supplementary agreement that was made for the transfer of Perodua stake from Med-Bumikar to MBM in 1999 requires both companies to be related parties. In an earlier report by *The Edge*, the other Perodua shareholders had consented to the transfer of the Perodua stake to MBM on the condition that MBM remains under Med-Bumikar's control.
- Thirdly, the transfer of ownership of MBM could impact its partnership with Hino Motors Ltd, which has the right to buy MBM's holdings in JV companies should Med-Bumikar lose control of MBM.
- Fourthly, the government had told Perodua that "no one shareholder should have majority control" when it awarded the license to the national carmaker. However, this was only an understanding and was not put into writing.
- In any case, Abdul Rahim said the MBM board may consider a new offer from UMW but has yet to receive any.
- Among the seven shareholders of Med-Bumikar, only MARA and one other shareholder are in favour for the deal. MARA holds a 29% stake while six family-owned companies collectively hold 70% of the company (11-13% each).
- Note that Perodua shareholders have right of first refusal should any shareholder wish to sell their stake.
- In our view, a revised offer could help encourage other shareholders to accept the deal, although the non-monetary hurdles remain a challenge. We are also cognizant of the dilution impact as well as financial commitment from UMW should it raise its offer price.
- Recall that UMW had first made the offer on 7 March to acquire Med-Bumikar and CSSB's 51% stake in MBM. At the same time, it offered to buy PERC's 10% stake in Perodua.

- However, Med-Bumikar and CSSB had rejected the offer as they viewed this to be unreasonable. Nevertheless, UMW extended the validity of the offer to 30 April (from 28 March) and said it remains interested to re-engage discussions should Med-Bumikar and CSSB wish to reconsider the MBM offer.
- UMW had reiterated that its offer for MBM is reasonable, being at a premium to the traded price. It also noted that it could re-evaluate its offer price if it receives a request from Med-Bumikar.
- Recall that UMW's offer values Perodua at 9x FY16 PE (and est. FY17 PE of 10x) and PBV of 1.1x. It also values MBM at 9x FY17 PE and 0.7x PBV. The offer price is also at a 11-13% premium to historical MBM prices over the last three months.
- Assuming that UMW makes an offer to acquire MBM at 1x PBV (RM3.68/share), it would need to fork out up to RM1.4b for the MBM acquisition, which could result in further earnings dilution and net gearing increasing to 0.8x (from 0.5x). UMW had proposed to acquire a 51% stake in MBM for RM501m and a 10% Perodua stake from PERC for RM418m. Assuming that UMW only acquires the 10% Perodua stake, our calculations show that UMW's FY18F-19F EPS would increase by 4-5% with fair value revised to RM6.60.
- We maintain our Hold recommendation and TP of RM6.30 for UMW; we maintain a cautious view as UMW continues to engage the major shareholders on its proposals. Both valuation as well as stakeholders' approvals are key hurdles for the consolidation proposal by UMW.

**Exhibit 1: SOP value**

Division	RM m	RM/share	%	Remarks
Non-listed O&G BV, investment and JV	214.7	0.18	3%	FY16A UMW O&G division
Equipment division	1525	1.30	21%	11x FY18F PE
M&E division	436	0.37	6%	1x 2016A book value
Auto division	6,155	5.27	84%	14x FY18F PE
Serendah land	319	0.27	4%	RNAV (732 acres at RM10psf)
Company net cash/(debt)	(1286)	-1.10	-17%	FY16A
	<b>7363</b>		100%	
UMWH share base	1168			
Fair value	<b>6.30</b>			

Source: Company, KAF

**Exhibit 2: Perodua's shareholding structure**

Shareholder	shares (m)	%
PNB Equity	14	10%
Daihatsu Malaysia	7	5%
Daihatsu Motor	28	20%
MBM Resources	28	20%
UMW Corp	53.2	38%
Mitsui & Co. Ltd	5.88	4%
Mitsui & Co. (Asia Pacific)	3.92	3%
<b>Total</b>	<b>140</b>	<b>100%</b>

Source: Company, 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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Managing Director  
KAF-Seagroatt & Campbell Securities Sdn Bhd (134631-U)

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