

12 March 2018 | Corporate Update

MBM Resources

Deep value thesis underpinned

INVESTMENT HIGHLIGHT

- **UMW offers to buyout Medbumikar's 50.1% stake in MBM**
- **Less-than-attractive offer but not ruling out Medbumikar's acceptance**
- **Deep value thesis underpinned**
- **Maintain BUY at higher TP of RM3.10**

What's new. MBM's major shareholder MED-Bumikar-MARA (Medbumikar) has received an offer from UMW to buyout its 50.07% stake in MBM Resources (MBM) for RM501m cash, valuing MBM at RM2.56/share (and the entire MBM at a market cap of RM1b). If Medbumikar accepts this offer, UMW will have to extend a mandatory offer for the rest of MBM's minority shareholders and take MBM private.

Less-than-attractive offer. The offer of RM2.56/share values MBM at just 8x FY19F earnings - below our revised SOP-based valuation of RM3.10/share (which rolls over valuations to FY19F). UMW's offer is also at a steep 30% discount to FY17A BV of RM3.68/share and on our estimates, effectively values MBM's 22.6% stake in Perodua at just 8x FY19F earnings. However, "qualitative" factors beyond mere valuations may drive Medbumikar's board to accept the offer. After all, the block is of a strategic national asset (2nd national car) and only a limited number of potential acquirers would naturally qualify. Secondly, "factors" within Medbumikar itself could entice its shareholders to liquidate Medbumikar's position in MBM. Moreover, Medbumikar was one of the original shareholders in Perodua; with Perodua having paid historical 50% payout as dividends in the past, these shareholders would have well broken even on their initial investment, we think. Our checks suggest Medbumikar is 30% owned by MARA with the rest controlled by the founding family members.

EXHIBIT 1: OFFER VALUES MBM'S PERODUA STAKE AT 8X FY19F

	RMmil
MBM market cap at UMW' offer price of RM2.56/share	998.9
Value of MBM other business ex-Perodua *	115
Implied value of Perodua	884
Perodua FY19F earnings (@ 22.6% stake)	110
Implied PE valuation of Perodua stake (x)	8.0

*Refer to SOP valuation

Source: Company, MIDF

Should minorities accept the offer? We think the deal is cheap for UMW to obtain a controlling stake in Perodua and is unlikely to appear enticing enough for MBM's minorities to accept. In the case that minority shareholders reject the eventual mandatory offer, things would likely remain status quo for the minorities other than having a new majority shareholder running the show at MBM. On the flip side, existing investors in MBM could accept UMW's offer and instead build up a larger position in UMW which clearly benefits if the deal goes through.

Maintain BUY

Revised Target Price: RM3.10
(from RM2.45)

RETURN STATS	
Price (9 March 2018)	RM2.18
Target Price	RM3.10
Expected Share Price Return	+42.2%
Expected Dividend Yield	+3.6%
Expected Total Return	+45.8%

STOCK INFO	
KLCI	1,843.92
Bursa / Bloomberg	5983 / MBM MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	390.89
Market cap. (RM'm)	859.95
Price over NA	0.55
52-wk price Range	RM2.01-2.60
Beta (against KLCI)	0.69x
3-mth Avg Daily Vol	0.13m
3-mth Avg Daily Value	RM0.30m
Major Shareholders (%)	
Med-Bumikar	49.5
EPF	15.8
AIA	4.2

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Kindly refer to the last page of this publication for important disclosures

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	1,816.7	1,680.7	1,732.6	1,654.8	1,709.3
EBIT (RM'm)	21.3	(48.5)	(257.6)	8.8	17.1
Pre-tax Profit (RM'm)	123.0	79.4	(148.5)	138.8	168.6
Normalised PATAMI (RM'm)	80.4	84.8	86.1	101.0	122.9
FD EPS (sen)	20.6	21.7	22.1	25.9	31.5
EPS growth (%)	(29.6)	5.4	1.6	17.4	21.7
PER (x)	10.6	10.0	9.9	8.4	6.9
Net Dividend (sen)	10.0	6.0	3.0	6.5	7.9
Net Dividend Yield (%)	4.6	2.8	1.4	3.0	3.6

Source: Company, MIDF

Good deal for UMW if Medbumikar accepts. If Medbumikar accepts the offer, this looks like a good deal for UMW given a relatively cheap entry point that it gets for MBM at just 8x FY19F PE and 0.7x FY19F PBV. The offer is also at 17% discount to our TP and just 13% premium to VWAP of RM2.26. We would have thought a larger premium is attributable given that:

(1) MBM's block in Perodua is a swinging block allowing control of Perodua

(2) Value accretion – UMW trades at 13x FY19F PE vs MBM's 8x (at UMW's offer price). We estimate net value accretion of RM590m (or RM0.50/share) from the deal just from the higher valuation that UMW is trading at.

(3) Scarcity premium to valuations as UMW becomes the only local proxy to Perodua and an alternative to listing Perodua directly given a sizeable effective 70.5% stake in Perodua post-acquisitions.

(4) Immediately earnings accretive. MBM is already profitable as a group with the bulk of earnings coming from its 22.6% associate stake in Perodua. Post-acquisitions (MBM and 10% stake from PNB), we estimate UMW's earnings to expand 39%/28% over FY18F/FY19F on a full year basis and Perodua FY18F/19F contribution to UMW earnings will rise to 61%/51% from 46%/35% currently.

EXHIBIT 2: PERODUA TO ACCOUNT FOR >50% OF UMW EARNINGS POST-ACQUISITIONS

RMm	FY18F	FY19F
UMW - Perodua earnings contribution @ 38% stake	168.7	185.4
MBM – Perodua earnings contribution @ 22.6% stake	100.3	110.3
Perodua earnings @ 10% stake from PNB	44.4	48.8
Total Perodua earnings	313.4	344.5
Perodua contribution to group earnings (pre-acquisitions)	45.5%	35.0%
Perodua contribution to group earnings (post-acquisitions)	60.8%	50.7%

Source: Company, MIDF

(5) Attractive dividend yields Perodua historically paid out 50% of earnings as dividends. At UMW's implied offer for MBM's stake in Perodua, UMW will be getting an effective 6.2% dividend yields (See Exhibit 7) which is very attractive.

EXHIBIT 3: ATTRACTIVE DIVIDEND YIELDS AT UMW'S ENTRY PRICE

MBM Resources	RMmil
Implied value of Perodua at UMW's takeover offer price*	884
Perodua FY19F earnings (@ 22.6% stake)	110
FY19F Perodua dividend (@22.6% stake) (@50% payout)	55
Implied dividend yield	6.2%

Source: Company, MIDF

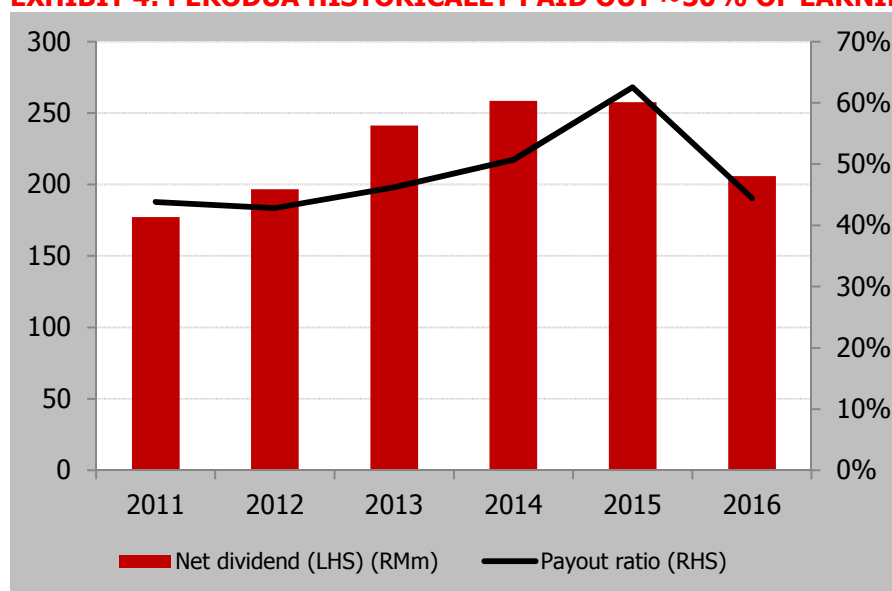
(6) Gains exposure to MBM's 51%-owned Hirotako which is the only local manufacturer of airbags and a major supplier of safety restraint systems locally via a JV with Autoliv of Sweden.

Possibility of a competing offer? We would not rule this out, particularly given UMW's relatively low offer. However existing Perodua shareholders would have the first right of refusal to match any higher offer by a 3rd party buyer.

Earnings revisions. Our earnings are revised up by 6%/4% over FY18F/19F as we update our RM:JPY forecasts (to RM3.7:JPY from RM3.9:JPY previously, in line with our sector forecasts). The stronger Ringgit against the JPY benefits Perodua and Hino mainly. Our Perodua TIV forecast of 209K for FY18F remains unchanged and is exactly similar to current management forecast.

Recommendation. Re-affirm BUY on MBM at a higher SOP-derived TP of RM3.10 (from RM2.45) after rolling over our valuations to FY19F. The offer allows MBM to realise better value of its assets and underpins our thesis (*refer to initiation dated 16th Nov 2017*) of the deep value in MBM's Perodua stake which positions it as a prime acquisition target.

EXHIBIT 4: PERODUA HISTORICALLY PAID OUT ~50% OF EARNINGS AS DIVIDENDS



Source: Company, MIDF

EXHIBIT 5: MBM SOP VALUATION

Segments	FY19F earnings (RMm)	PE (x)	Value (RMm)
Perodua (@ 22.6% stake)	110.1	10	1,101
Auto dealerships, parts & others	12.8	9	115
Total value	122.9		1,216
No of shares (m)			390
Value per share (RM)			3.10

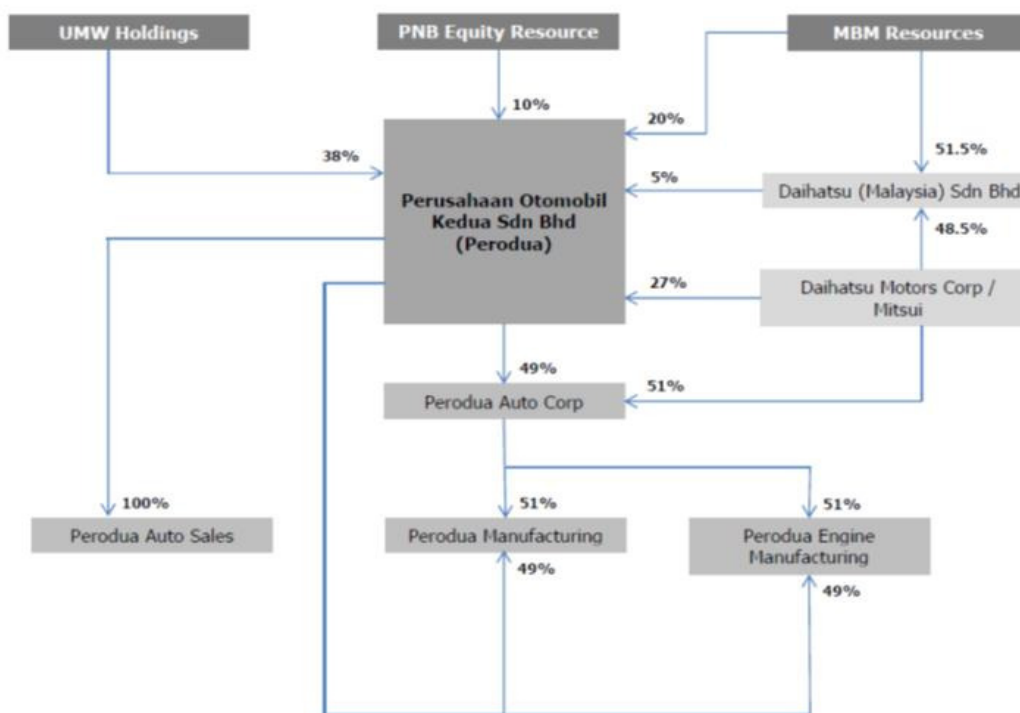
Source: Company, MIDF

EXHIBIT 6: MBM GROUP STRUCTURE

Motor Trading	Stake
Daihatsu Malaysia Sdn Bhd (Perodua/Daihatsu/Hino dealerships)	52%
- DMMS	100%
Federal Auto Holdings Bhd (Volvo/VW/Mitsubishi dealerships)	100%
FA Trucks Sdn Bhd	100%
Hino Motors Sales (Malaysia) (Hino distributor)	42%
Perusahaan Otomobil Kedua (Perodua)	20%
Manufacturing	
Hirotaiko Holdings Bhd	100%
- Hirotaiko Acoustics Sdn Bhd (HASB) (Manufacture of NVH products)	100%
- Autoliv Hirotaiko Sdn Bhd (AHSB) (Manufacture of SRS products)	51%
Oriental Metal Industries (Manufacture of steel/alloy wheels/tyre assembly)	78%
- OMI Alloy Sdn Bhd	100%
Hino Motors Manufacturing (Malaysia) (Manufacture of Hino commercial vehicles)	42%
Property	
Inai Benua	70%
Properties	100%

Source: Company, MIDF

EXHIBIT 7: PERODUA SHAREHOLDING STRUCTURE



Source: Company, MIDF

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.