

11 April 2018 | Corporate Update

## UMW Holdings

*A little clarity, perhaps?*

- Japanese partners reported to prefer status quo
- Two families agreeable to sale of MBM
- Medbumikar holding out for higher offer
- Re-affirm BUY at unchanged TP of RM7.11

**Status quo preferred?** An article in a local daily today reported that Medbumikar had "sighted" a letter from Perodua's Japanese shareholders (i.e. Daihatsu Motor Corp/Mitsui) stating that they are not in favour of a single party having a controlling stake in Perodua. Existing shareholders in Perodua has the first right of refusal in the event an existing shareholders intends to sell a stake. However, shareholding for the Malaysian side essentially involves only two shareholders **(1) PNB:** holds 10% via PNB Equity Resource and another 38% via 58%-subsidiary, UMW Holdings **(2) MBM Resources:** direct 20% stake and another 5% via 51%-subsidiary Daihatsu Malaysia Sdn Bhd. It is quite difficult to avoid one party essentially having a controlling stake if a sale is to be passed around, essentially, between two parties. We read this as the Japanese partners' preference for a status quo on the existing shareholding. It is uncertain if UMW has approached Daihatsu Motors and Mitsui to convince these partners on its move to consolidate its position in Perodua, but UMW in its announcements had stated its intention to do so.

**Two families agreeable to sale.** It was also reported that MARA (the largest shareholder in Medbumikar with a 33% stake) is agreeable to the sale of Medbumikar's stake in MBM. However, the rest of the shareholding in Medbumikar is split among six families, where two are agreeable to the deal with UMW. Based on the chain of events at MBM in recent years, we note that Looi Kok Loon and Wong Fay Lee (of two different families in Medbumikar) both left MBM within the same year in 2017, suggesting possible conflicts of these two families with Medbumikar shareholders.

**Medbumikar rejected initial offer, holds out for more.** To recap, Medbumikar has rejected UMW's initial offer to take out its 50.07% block in MBM Resources (MBM). Poor valuations for the offer could have been the main stumbling block, going by consensus reaction on the deal when it was announced. To recap, the RM2.56/share offer valued MBM at just 8x FY19F earnings, 30% discount to book value and is 17% below our top-end of consensus TP of RM3.10/share. However, it is reported that Medbumikar is still open to negotiations, provided there is a higher offer.

**Recommendation.** Re-affirm BUY on UMW (TP: RM7.11/share). Our SOP and forecasts factor in strictly, only the 10% Perodua stake acquisition from PNB Equity Resource as this looks like the only firm deal at this point. There is further potential upside if Medbumikar eventually accepts the offer and UMW proceeds with its takeover of MBM, (depending on the offer price and how it is financed) though obviously, there is no certainty yet of this at this juncture.

**Maintain BUY**

**Unchanged Target Price (TP):RM7.11**

### RETURN STATS

Price (10 April 2018)	RM6.44
Target Price	RM7.11
Expected Share Price Return	+10.4%
Expected Dividend Yield	+4.0%
<b>Expected Total Return</b>	<b>+14.4%</b>

### STOCK INFO

KLCI	1,843.92
Bursa / Bloomberg	4588 / UMWH MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,168.29
Market cap. (RM'm)	6,951.35
Price over NA	2.46
52-wk price Range	RM4.70 – RM6.98
Beta (against KLCI)	1.41
3-mth Avg Daily Vol	1.64m
3-mth Avg Daily Value	RM10.2m
Major Shareholders (%)	
SKIM ASB	48.0%
EPF	9.2%
KWAP	7.1%

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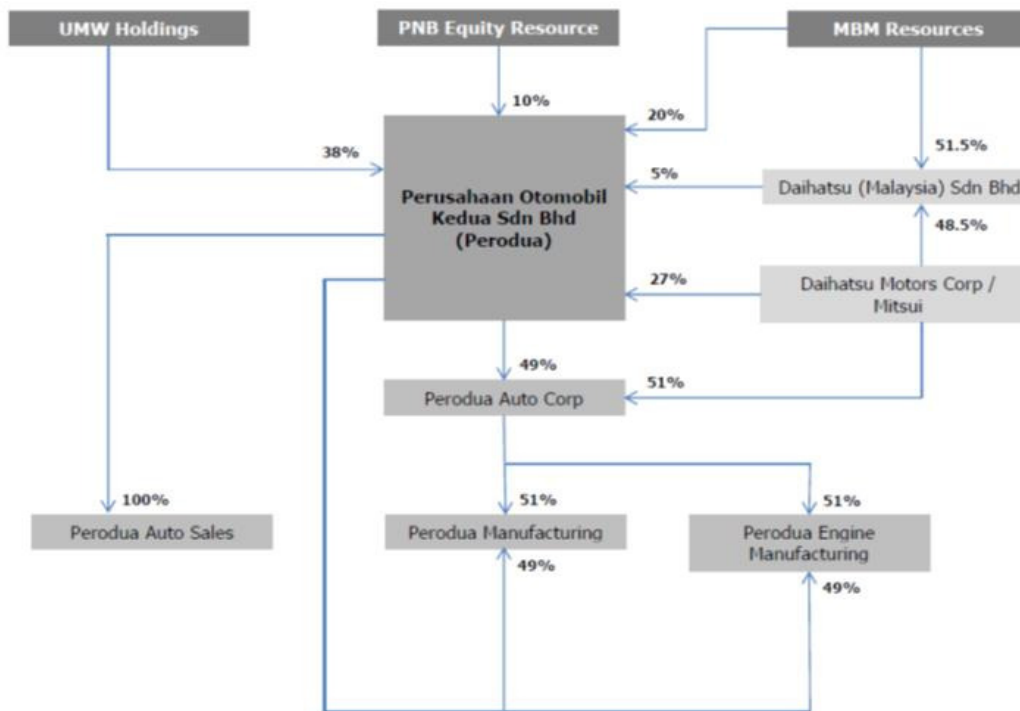
Kindly refer to the last page of this publication for important disclosures

## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	14,419.8	10,965.1	11,046.5	10,013.6	11,121.3
EBIT (RM'm)	134.9	(2,202.8)	120.4	650.6	936.1
Pre-tax Profit (RM'm)	265.6	(2,153.8)	252.9	659.1	1,052.9
Core net profit (RM'm)	338.0	(401.8)	163.8	370.3	578.7
FD EPS (sen)	28.9	(34.4)	14.0	31.7	47.5
EPS growth (%)	(59.6)	NA	NA	126.1	56.3
PER (x)	21.5	NA	44.4	19.6	13.1
Net Dividend (sen)	20.0	0.0	0.0	15.8	24.8
Net Dividend Yield (%)	3.2	0.0	0.0	2.5	4.0

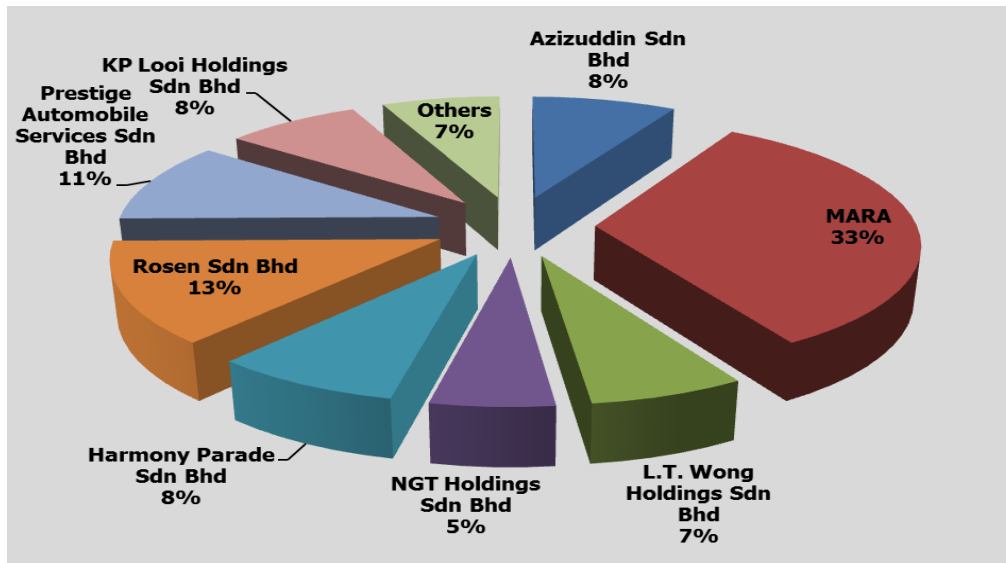
Source: Company, MIDF

## EXHIBIT 1: PERODUA SHAREHOLDING STRUCTURE



Source: Company, MIDF

## EXHIBIT 2: MEDBUMIKAR KEY SHAREHOLDERS



Source: Various, MIDF

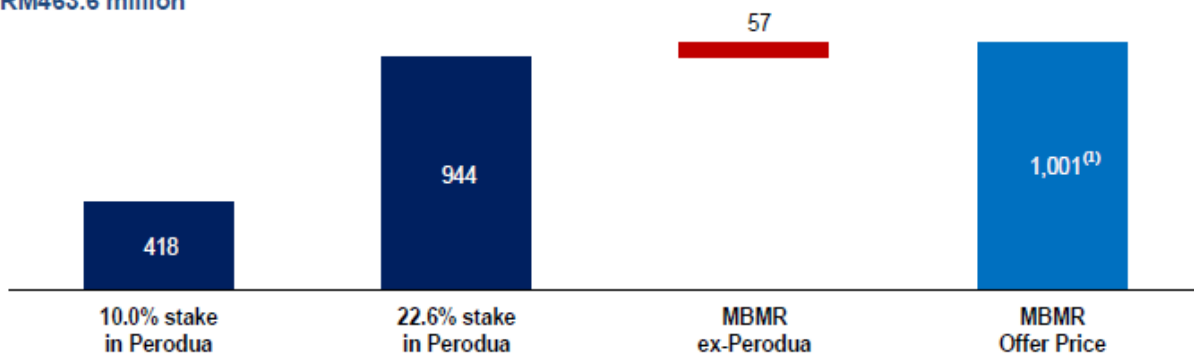
## EXHIBIT 3: UMW'S RATIONALE FOR ITS OFFER TO MBM

### THE OFFER PRICE FOR PERODUA AND MBMR

#### Valuation Build-up

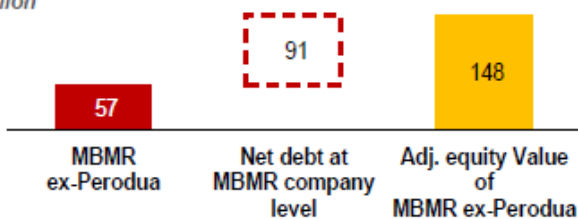
RM million

- 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, MIDF

## EXHIBIT 4: UMW'S OFFER VALUES MBM'S PERODUA STAKE AT JUST 8X FY19F – MIDF VALUATIONS

	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
<b>Implied PE valuation of Perodua stake (x)</b>	<b>8.0</b>

\*Refer to SOP valuation

	RMmil
Implied value of Perodua at UMW's offer price*	884
Perodua FY19F earnings (@ 22.6% stake)	110
Dividends from Perodua (@22.6% stake) (@50% payout)	55
<b>Implied dividend yield</b>	<b>6.2%</b>

Source: Company, MIDF

## EXHIBIT 5: EARNINGS ACCRETION FROM PNB DEAL

RMm	FY18F	FY19F
Group earnings post-10% Perodua stake acquisition from PNB	414.71	627.54
Gross earnings accretion	12.0%	8.4%
Dilutive impact from new share issuance @ RM6.09/share) to fund acquisition	4.2%	4.2%
Net earnings accretion from acquisition	7.8%	4.2%

Source: Company, MIDF

## EXHIBIT 6: UMW SUM-OF-PARTS VALUATION

Segments	FY19F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive – <b>UMW Toyota</b>	238	PER	12	2,851	
Automotive - <b>Perodua</b>	234	PER	15	3,513	
Equipment	117	PER	12	1,407	
Serendah land		RNAV		586	RNAV of Serendah land (830acres@RM16psf) (net of debt)
Aerospace		DCF		189	Equity NPV of 25-year Rolls Royce contract (WACC: 8.7%)
Non-listed O&G		Book Value		114	Based on BV of assets net of 4Q17 impairment
<b>Total value</b>				<b>8,659</b>	
No of shares (m)				1,218	
<b>Fair Value (RM)</b>				<b>7.11</b>	

Source: Company, MIDF

## DAILY PRICE CHART



Source: Bloomberg, MIDFR

**Hafriz Hezry**  
hafriz.hezry@midf.com.my  
03-2173 8392

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

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.