

14 March 2018 | Corporate Update

UMW Holdings

Earnings accretive despite new share-funded M&A

- **MBM acquisition to be fully financed by new UMW shares**
- **Gives MBM minorities cash and share swap options**
- **Earnings accretive despite fully new share-funded acquisition**
- **Re-affirm BUY at higher TP of RM7.11**

MBM's minorities offered option. In a follow-up to its acquisition proposals last Friday, UMW announced that if it proceeds with the MGO for MBM's minorities, the latter will be offered 2 options: (1) Cash at RM2.56/share – similar to offer for Medbumikar buyout (2) Share swap for UMW shares fixed at RM6.09/share.

Financing MBM acquisition entirely via new shares. UMW is planning to issue new shares worth up to RM1.1b to finance the acquisition of up to 100% of MBM. UMW has to resort to a rights issue, in our opinion, as the majority of gross cash of RM1b at UMW group sits at 51% owned UMW Toyota. The extent of dilution will depend on: (1) The number of MBM minorities taking up the cash offer (2) The prevailing price of UMW preceding price fixing date.

Less dilutive in full shares scenario. Basically, the exercise will be less dilutive to UMW if MBM's minorities opt for the share swap option. This is because pricing of UMW shares in the share swap is fixed higher at RM6.09/share, whereas a cash payment to MBM's minority will be financed via cash call to existing UMW shareholders at 20%-30% discount to Theoretical Ex-Rights Price (TERP) of UMW shares based on 5-day VWAP preceding a price fixing date to be determined in due course. To give an illustration, this would work out to around RM4.30-RM4.40/share.

Earnings accretive despite fully new share-funded acquisition. Nonetheless, earning expansion from the acquisitions will more than offset any dilution from potential new share issuance to fund the acquisitions. Our sensitivity analysis suggests in a worst case, full cash payment scenario, UMW still attains earnings accretion of 4% (FY19F), whereas in a best case, full shares scenario, net earnings accretion rises to 6% (FY19F). This situation is possible given the large deviation in valuation between UMW (14x FY19F PE) vs. the offer for MBM at just 8x FY19F PE.

Reaffirm BUY. While we expect initial share price pressure given a potential cash call to fund the acquisitions, we suggest investors buy into UMW as this would be a good deal if it is successful given UMW's potentially cheap entry into MBM at just 8x FY19F earnings and effective 6%-7% dividend yields attained from Perodua at the entry price. Re-affirm BUY at higher SOP-derived TP of RM7.11 (from RM6.70) as we factor in strictly, only the 10% Perodua stake acquisition from PNB Equity Resource as this is the only firm deal at this point. We also now breakdown valuations between UMW Toyota and Perodua in our new SOP valuation. There is further significant upside if Medbumikar accepts the offer and UMW proceeds with its takeover of MBM.

Maintain BUY

**Revised Target Price (TP):RM7.11
(from RM6.70)**

RETURN STATS

| | |
|------------------------------|---------------|
| Price (13 March 2018) | RM6.49 |
| Target Price | RM7.11 |
| Expected Share Price Return | +9.6% |
| Expected Dividend Yield | +3.8% |
| Expected Total Return | +13.4% |

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% |

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) | 22.4 | NA | 46.3 | 20.5 | 13.7 |
| Net Dividend (sen) | 20.0 | 0.0 | 0.0 | 15.8 | 24.8 |
| Net Dividend Yield (%) | 3.1 | 0.0 | 0.0 | 2.4 | 3.8 |

Source: Company, MIDF

EXHIBIT 1: UMW SHARE BASE EXPANSION – FULL CASH VS. FULL SHARE SWAP SCENARIO

| (m shares) | Full cash scenario | Full shares scenario |
|--|--------------------|----------------------|
| Current share base | 1,168.3 | 1,168.3 |
| New shares for 10% Perodua stake acquisition from PNB | 49.26 | 49.26 |
| New shares under Rights issue (for Medbumikar buyout and Mandatory Offer if minorities opt for cash) * | 243.51 | 129.95 |
| New shares to fund proposed Mandatory Offer (if minorities take share swap option) ** | | 81.97 |
| Enlarged share base | 1,461.07 | 1,429.48 |
| Share base expansion (%) | 25.1% | 22.4% |

* At Rights Price to be determined later but based on illustration, at >20% discount to VWAP.

** Fixed at RM6.09/share

^ Actual Rights Price to be determined at 20%-30% discount to TERP of 5-day VWAP preceding price fixing day

^^ In full cash scenario where more rights shares are to be issued, discount to TERP likely to be larger

Source: Company, MIDF

EXHIBIT 2: EARNINGS ACCRETION IF MBM MINORITIES ACCEPT CASH

| Full cash scenario (RMm) | FY18F | FY19F |
|--|--------------|-------------|
| UMW Group earnings - Current | 370.3 | 578.7 |
| UMW Group earnings - Enlarged * | 515.7 | 750.4 |
| UMW Group EPS (RM) - Current | 0.32 | 0.50 |
| UMW Group EPS (RM) - Enlarged | 0.35 | 0.51 |
| Net earnings accretion to UMW from acquisitions | 11.4% | 3.7% |

Source: Company, MIDF * includes 10% Perodua stake form PNB and 100% of MBM

EXHIBIT 3: MORE EARNINGS ACCRETION IF MBM MINORITIES ACCEPT SHARE SWAP

| Full shares scenario (RMm) | FY18F | FY19F |
|--|--------------|-------------|
| UMW Group earnings - Current | 370.3 | 578.7 |
| UMW Group earnings - Enlarged | 515.7 | 750.4 |
| UMW Group EPS (RM) - Current | 0.32 | 0.50 |
| UMW Group EPS (RM) - Enlarged | 0.36 | 0.52 |
| Net earnings accretion to UMW from acquisitions | 13.8% | 6.0% |

* Less earnings dilutive for UMW if MBM minorities opt for full shares scenario as share swap fixed at a higher price of RM6.09/share

Source: Company, MIDF

EXHIBIT 4: UMW'S OFFER VALUES MBM AT 8.1X FY19F PE

| FYE Dec – MBM Resources | 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) | 12.4 | 11.8 | 11.6 | 9.9 | 8.1 |
| Net Dividend (sen) | 10.0 | 6.0 | 3.0 | 6.5 | 7.9 |
| Net Dividend Yield (%) | 3.9 | 2.3 | 1.2 | 2.5 | 3.1 |

Source: Company, MIDF

EXHIBIT 5: UMW'S OFFER VALUES MBM'S PERODUA STAKE AT JUST 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

EXHIBIT 6: UMW SUM-OF-PARTS VALUATION

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

Source: Company, MIDF

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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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. |