

31 October 2018 | Corporate Update

UMW Holdings

May hit a snag with MBM deal

- **Possible disappointment in MBM takeover deal**
- **Deal asides, Toyota TIV to hit major inflection point FY19F**
- **Via current 38% stake in Perodua, UMW also rides on national car offensive next year**
- **Maintain BUY, but TP of RM7.11 under review**

Possible disappointment in UMW-MBM deal. The offer to buyout MBM's major shareholder is expected to lapse today. While it would have been an opportunity for MBM's minority shareholders to exit a value-trap, unfortunately, we gather that Med-Bumikar has not responded to the offer. This also means UMW's shareholding in Perodua will remain status quo at 38%. We also think UMW is unlikely to go through with its planned purchase of another 10% Perodua stake from PNB, if the deal to buyout MBM falls through. The deal was merely an icing to our previously, contrarian BUY, and the sharp price retracement in the past 1 month more than reflects the deal falling through, we think. Similarly, MBM's share price has retraced sharply to just ~RM2 in the past month.

Hitting a major inflection point. Fundamentally, we expect Toyota market share to hit a major inflection point in FY19F as the new Bukit Raja plant comes on-stream from 1Q19. We forecast Toyota TIV to rise 13%yoy to 81K in FY19F and market share to expand to close to 14% from 12% in FY18F. This is expected to be driven by the new Vios and more importantly, the all-new Yaris (Honda Jazz competitor) which fills a major gap in UMW's model mix. Toyota TIV should rise further to ~90K in FY20F. UMW is targeting to regain pole position in the non-national segment over the mid-term.

New Rush locally assembled. Unlike the previous generation Rush which was brought in as CBU, the latest version is locally assembled, contract manufactured by Perodua. While pricing is more or less maintained, the new Rush is highly specced (Toyota active safety features, 7 airbags). UMW is targeting 3000-4000 annual sales volume, 4%-5% of our FY19F Toyota TIV.

Rides on national car offensive. Both Proton and Perodua will be launching their respective SUVs within the next 2-8 months. These are important models that fill up gaps in their respective model mix. UMW is one of the major beneficiaries being the largest shareholder in Perodua with a 38% stake. Our FY19F 10% earnings growth for Perodua has yet to factor in the new SUV, which could drive a gap-up in market share. For now, we forecast conservative flattish market share in FY19F.

Recommendation. Maintain BUY on UMW but our TP of RM7.11/share is Under Review. Key catalysts: **(1) A deleveraged balance sheet post UMWOG demerger** allows room for acquisitive growth and possible resumption of dividend payouts, **(2) Reversal of prior years' market share loss**, structural cost reduction and pricing advantage from UMW Toyota's EEV-focused strategy **(3) Redevelopment of UMW's 830 acres Serendah land** which will unlock value of the asset – easily worth 40sen/share on our estimates **(4) A more than quadrupling of M&E division earnings** once its aerospace division reaches full scale production.

Maintain BUY

Under Review Target Price :RM7.11

RETURN STATS	
Price (30 Oct 2018)	RM4.69
Target Price (Under Review)	RM7.11
Expected Share Price Return	+51.6%
Expected Dividend Yield	+4.3%
Expected Total Return	+55.9%

STOCK INFO	
KLCI	1685.94
Bursa / Bloomberg	4588 / UMW MK
Board / Sector	Main/Automotive
Syariah Compliant	Yes
Issued shares (mil)	1,168.29
Market cap. (RM'm)	5479.30
Price over NA	1.72
52-wk price Range	RM4.20 – RM6.98
Beta (against KLCI)	0.82
3-mth Avg Daily Vol	1.04m
3-mth Avg Daily Value	RM5.22m
Major Shareholders (%)	
SKIM ASB	40.8%
EPF	11.5%
YPB	7.3%

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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)	16.2	NA	33.5	14.8	9.9
Net Dividend (sen)	20.0	0.0	0.0	15.8	24.8
Net Dividend Yield (%)	4.3	0.0	0.0	3.4	5.3

Source: Company, MIDFR

EXHIBIT 1: UMW SUM-OF-PARTS VALUATION

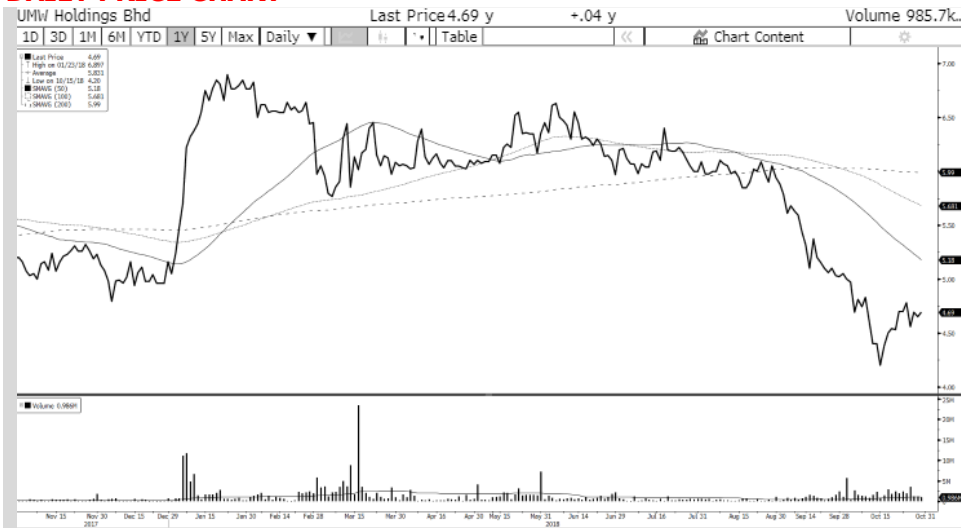
Segments	FY19F net profit (RMm)	Valuation	Multiple (x)	Value (RMm)	Comments
Automotive – UMW Toyota	238	PER	12	2,851	
Automotive - Perodua	234	PER	15	3,513	
Equipment	117	PER	12	1,407	
Serendah land		RNAV		586	<i>RNAV of Serendah land (830acres@RM16psf) (net of debt)</i>
Aerospace		DCF		189	<i>Equity 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	
Fair Value (RM)				7.11	

Source: Company, MIDF

Income Statement (RMm)	FY15	FY16	FY17	FY18F	FY19F
Revenue	14,419.8	10,965.1	11,046.5	10,013.6	11,121.3
Operating expenses	(14,157.6)	(13,167.9)	(10,926.1)	(9,363.0)	(10,185.2)
EBIT	262.1	(2,202.8)	120.4	650.6	936.1
Net interest expense	(126.6)	(105.7)	(39.2)	(93.1)	(117.4)
Associates	130.1	154.8	171.7	101.6	234.2
PBT	265.6	(2,153.8)	252.9	659.1	1,052.9
Taxation	(259.9)	(140.7)	(122.3)	(111.5)	(204.7)
Minority Interest	44.6	(603.9)	(22.8)	(177.3)	(269.5)
Net profit	(38.9)	(1,690.6)	(651.2)	370.3	578.7
Core net profit	338.0	(401.8)	163.8	370.3	578.7
Core net profit (ex-O&G)	NA	414.4	336.3	521.6	578.7
Consensus net profit	338.0	103.9	80.0	348.0	455.9
MIDF vs. consensus				6%	27%
Balance Sheet (RMm)	FY15	FY16	FY17	FY18F	FY19F
Non-current assets	10,511.7	10,070.2	4,820.3	6,325.8	7,440.9
PPE	8,132.7	7,639.0	2,749.1	3,686.1	4,567.0
Investments in associate	1,894.5	1,996.7	2,053.5	2,155.1	2,389.3
Others	484.6	434.4	17.7	484.6	484.6
Current assets	7,568.9	6,136.0	5,121.7	5,622.9	6,225.9
Inventories	1,891.6	1,517.9	1,650.3	1,502.0	1,668.2
Receivables	1,273.3	1,416.7	1,650.3	1,502.0	1,668.2
Others	1,675.7	274.4	657.6	1,210.1	1,210.1
Cash & equivalent	2,728.3	2,927.0	1,163.4	1,408.6	1,679.4
TOTAL ASSETS	18,080.6	16,206.1	9,942.0	11,948.7	13,666.8
Share capital	584.1	584.1	584.1	584.1	584.1
Minority Interest	2,827.1	3,082.3	1,093.4	1,549.4	1,818.9
Reserves	5,812.7	5,905.5	2,498.2	3,603.0	3,892.4
TOTAL EQUITY	9,223.9	9,572.0	4,175.8	5,736.6	6,295.5
Non-current liabilities	3,165.1	4,678.1	2,213.0	3,515.1	4,465.1
Long-term borrowings	2,782.5	3,732.5	2,069.7	3,132.5	4,082.5
Deferred tax liabilities	34.1	34.1	34.0	34.1	34.1
Others	348.5	911.5	109.2	348.5	348.5
Current liabilities	5,691.6	4,619.2	3,553.2	2,697.0	2,906.2
Short-term borrowings	3,159.1	2,859.1	685.3	859.1	859.1
Payables	2,230.3	1,623.5	1,765.2	1,606.6	1,784.3
Others	302.2	136.6	1,102.7	231.3	262.8
TOTAL LIABILITIES	8,856.7	9,297.3	5,766.1	6,212.1	7,371.3

Cash Flow Statement (RMm)	FY15	FY16	FY17	FY18F	FY19F
Operating activities					
PBT	265.6	347.3	109.5	659.1	1,052.9
Depreciation & Amortization	765.5	488.0	105.1	164.9	221.2
Chgs in working capital	(134.2)	72.8	(243.5)	181.9	(123.1)
Interest expense	(120.8)	(155.8)	(175.9)	(93.1)	(117.4)
Tax paid	(275.5)	0.0	(12.9)	(111.5)	(204.7)
Others	(125.3)	(903.2)	663.2	(8.6)	(116.8)
CF from Operations	375.3	(150.9)	445.6	792.9	712.1
Investing activities					
Capex	(2,168.8)	(966.3)	(1,003.8)	(1,250.0)	(1,250.0)
Others	264.6	370.7	(976.7)	148.0	148.0
CF from Investments	(1,904.2)	(595.6)	(1,980.5)	(1,102.0)	(1,102.0)
Financing activities					
Dividends paid	(806.1)	0.0	0.0	(185.2)	(289.4)
Net proceeds in borrowings	1,692.3	650.0	176.0	950.0	950.0
Others	0.0	(429.2)	(75.9)	0.0	0.0
CF from Financing	886.3	220.8	100.1	764.8	660.6
Net changes in cash	(642.6)	(525.7)	(1,434.8)	455.7	270.7
Beginning cash	3,276.6	2,649.5	2,927.0	952.9	1,408.6
Overdrafts & Deposits	15.6	31.2	(1,800.0)	0.0	0.0
Ending cash	2,649.5	2,154.9	952.9	1,408.6	1,679.4
Ratios	FY15	FY16	FY17	FY18F	FY19F
Revenue growth	-3.4%	-29.8%	8.7%	-9.0%	11.1%
EBIT growth	-90.6%	>100%	-6.0%	113.3%	43.9%
Core net profit growth	-59.6%	-218.9%	-140.8%	126.1%	56.3%
PBT margin	1.8%	3.4%	1.0%	6.6%	9.5%
Core net profit margin	2.3%	-3.7%	1.5%	3.7%	5.2%
ROE	-0.6%	1.4%	2.0%	9.0%	13.4%
ROA	0.8%	1.8%	2.1%	5.7%	7.3%
Net gearing (%)	50.2%	56.5%	51.6%	61.7%	72.9%
Book value/share (RM)	5.48	5.55	3.43	3.58	3.83
PBV (x)	1.21	1.19	1.93	1.84	1.72
EV/EBITDA (x)	12.1	14.0	23.9	12.6	9.5

DAILY PRICE CHART



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.