

27 March 2018 | Corporate Update

UMW Holdings

Medbumikar holding out for more?

- **Medbumikar rejects offer, but deal with PNB still on**
- **Offer period for Medbumikar extended to 30th April**
- **Upside to offer a possible scenario**
- **Re-affirm BUY at unchanged TP of RM7.11**

Medbumikar rejects offer. Medbumikar has rejected UMW's 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.

Acceptance period extended, possible upside? The decision to reject UMW's offer came two days before the lapse of the offer on 28th March 2018. However, UMW has decided to extend the offer's acceptance period up till 30th April. It intends to engage Medbumikar to convince the latter of the merits of its offer. Reading between the lines, we see UMW's decision to extend the offer period as a serious intention to buyout Medbumikar and would not rule out some sort of revision to its original offer. However, assuming UMW sticks with a fully new share-funded acquisition, we see only between 4%-6% possible upside to its offer before the deal turns earnings dilutive – this is based on our initial estimates on the deal's earnings accretion based on its planned financing structure. There is further possible upside if UMW turns to partial debt financing to fund the deal. We would bear in mind that UMW had recently setup a RM2b perpetual Sukuk program.

Take it with a pinch of salt. When asked in a recent briefing, UMW's management indicated it does not intend to budge on its offer price, or at least this is what management is trying to sound out. As the dealmaker, UMW naturally will not put out the highest offer the first round neither would it divulge its intention to raise its offer. Having said that, UMW has an advantage given that: (1) It is an existing partner in Perodua, which would have the first right of refusal if a 3rd party offers to buy out a stake in Perodua from any of the existing shareholders, (2) A 3rd party acquisition is not entirely a straightforward process as existing Japanese partners in Perodua also has to agree if a new shareholder is to come into Perodua given the eventual business partnership, and (3) There is actually a scarcity of buyers given that this involves a stake in the national carmaker which is of strategic importance to the nation; a potential buyer requires the necessary "political clout" and "financial clout".

Deal with PNB still on. The MBM deal is not inter-conditional with the deal to acquire a 10% Perodua stake from PNB. This has already been reflected in our forecasts and valuations. In fact, the RM418m deal with PNB values the 10% Perodua stake at just 8.6x FY19F and is only partly funded by share swap i.e. RM118m cash and RM300m via share swap valuing UMW at RM6.09/share. This deal alone enhanced our FY19F EPS by 4% post dilutive impact of share swap.

Maintain BUY

Unchanged Target Price (TP):RM7.11

RETURN STATS	
Price (26 March 2018)	RM6.10
Target Price	RM7.11
Expected Share Price Return	+16.6%
Expected Dividend Yield	+4.0%
Expected Total Return	+20.6%

STOCK INFO	
KLCI	1,843.92
Bursa / Bloomberg	4588 / UMWK 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

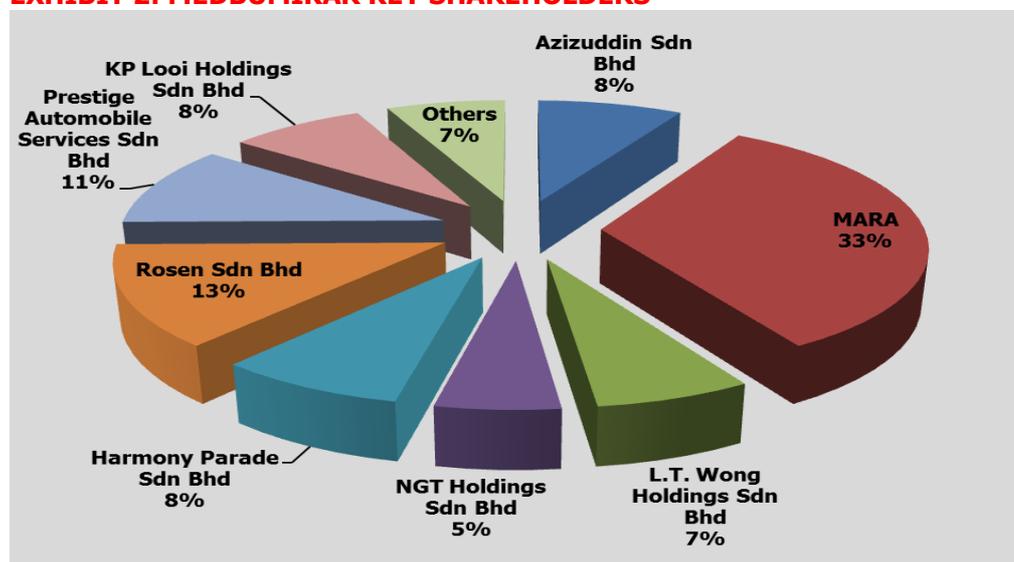
Source: Company, MIDF

EXHIBIT 1: 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 2: MEDBUMIKAR KEY SHAREHOLDERS



Source: Various, MIDF

Rationale for UMW's offer for Perodua. UMW's bankers argue that it is actually valuing MBM's non-Perodua businesses at RM57m equity value and EV of RM148m. This compares to our valuation of MBM's non-Perodua businesses at RM115m. Regardless, even at UMW's banker's valuation, the implied valuation for UMW's 22.6% stake in Perodua is around 8.5x forward FY19F PE, and gives UMW an effective 6% dividend yield (FY19F) assuming Perodua maintains a 50% payout.

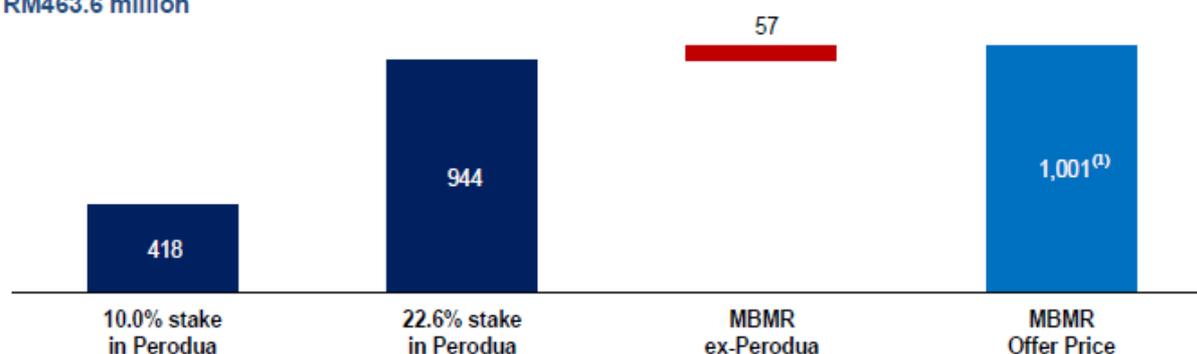
EXHIBIT 3: UMW'S RATIONALE FOR ITS OFFER TO MBM

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



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
Implied PE valuation of Perodua stake (x)	8.0

*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
Implied dividend yield	6.2%

Source: Company, MIDF

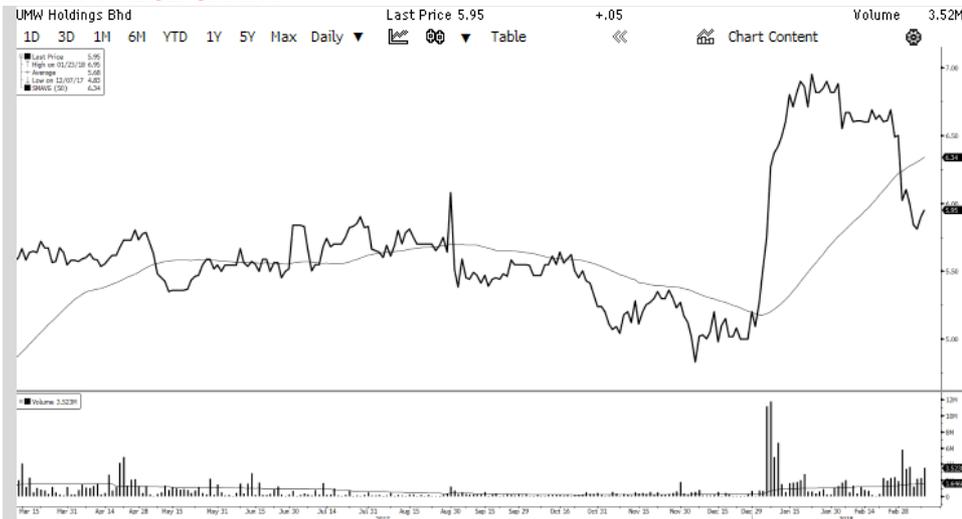
Recommendation. Re-affirm BUY on UMW (TP: RM7.11/share). Our SOP and forecasts factor in strictly, only the 10% Perodua stake acquisition from PNB Equity Resource as this is the only firm deal at this point. There is further potential upside if Medbumikar eventually accepts the offer and UMW proceeds 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.

EXHIBIT 5: 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

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.