

## UMW Holdings Berhad

(4588 | UMW MK) Main | Consumer Products & Services

### Exit Opportunity at Peak Cycle

#### KEY INVESTMENT HIGHLIGHTS

- **Buyout proposal by Sime Darby**
- **Offer price of RM5/share is at a decent premium to our fair value**
- **Opportunity to exit at peak cycle for UMW's shareholders**
- **Recommend investors to accept buyout offer upon MGO**

**Buyout proposal by Sime Darby.** Sime Darby (Non-rated) has entered into a conditional share purchase agreement (SPA) to acquire PNB's 61.2% stake in UMW for RM5/share, or a total RM3.57b, in cash. The deal is conditional on Sime Darby's shareholder approval, consent from the respective brand principals (including UMW's brand principals) and consent of relevant Governmental authorities in relation to the change of control of UMW.

**To be followed by MGO.** Upon completion of the SPA, Sime Darby will be obligated to extend an MGO (mandatory general offer) at the same cash offer price of RM5/share (or a total of RM2.27b) to minority shareholders of UMW and it intends to delist UMW thereafter. Sime Darby expects the acquisition of PNB's stake in UMW to be completed by 4Q23 followed by completion of the MGO in 1Q24.

**Fair offer.** We believe the RM5/share offer by Sime Darby though not great, is fair, at a decent 9% premium to our SOP-derived fair value of RM4.60/share. The offer values UMW at 13.3x FY24F PER, which is at a slight premium to UMW's 5-year historical mean of 12.9x and at 1.3x FY23F book value.

**Opportunity to exit at peak cycle.** Broadly, we believe UMW has had a good run since the trough of the auto demand cycle back in CY20. CY23 is expected to see TIV hit another record high of 725K (MAA's forecast) for the second year running mainly driven by Perodua. We see this buyout offer as good opportunity for UMW's minorities to exit at peak auto demand cycle.

**Recommendation.** Our SOP-derived **fair value** for UMW remains at **RM4.60**. Assuming the deal proceeds to an MGO, we recommend investors to **take Sime Darby's buyout offer at RM5/share**.

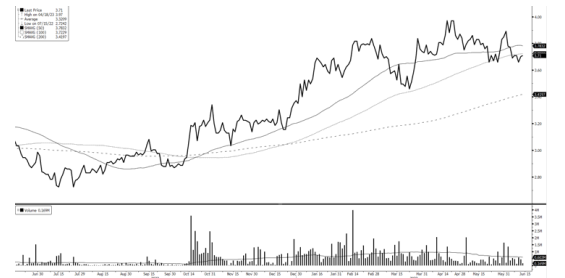
**ACCEPT OFFER**

**Offer Price: RM5.00**  
(Unchanged Fair Value: RM4.60)

#### RETURN STATISTICS

Price @ 24 <sup>th</sup> August 2023 (RM)	4.62
Expected share price return (%)	+8.23
Expected dividend yield (%)	3.18
<b>Expected total return (%)</b>	<b>+11.41</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.8	4.2
3 months	-0.8	10.5
12 months	14.0	28.1

#### INVESTMENT STATISTICS

FYE Dec (RMm)	2022A	2023F	2024F
Revenue	15,814.4	15,406.8	15,614.7
Operating Profit	605.5	542.8	563.3
Profit Before Tax	896.5	818.4	838.4
Core PATAMI	415.0	429.0	437.7
Core EPS (sen)	35.5	36.7	37.5
DPS (sen)	14.2	14.7	15.0
Dividend Yield (%)	3.07	3.18	3.24

#### KEY STATISTICS

FBM KLCI	1,444.67
Issue shares (m)	1168.29
Estimated free float (%)	29.88
Market Capitalisation (RM'm)	5397.50
52-wk price range	RM2.77-RM4.04
3-mth average daily volume (m)	0.69
3-mth average daily value (RM'm)	2.60
Top Shareholders (%)	
Amanah Saham Nasional Bhd	55.16
Kumpulan Wang Persaraan	9.26
Employees Provident Fund Board	9.18

**Analyst**

**Hafriz** Hezry

hafriz.hezry@midf.com.my

03-2173 8392

**Table 1: UMW sum-of-parts valuation**

Segments	Valuation Method	Multiple (x)	Value (RMm)	Comments
Automotive	PER	10	4,796.4	FY23F PER; 11x
Equipment	PER	11	785.2	FY23F PER; 11x
M&E	PER	8	303.8	FY23F PER; 8x
Aerospace	DCF		754.5	Equity Value of 25-year Rolls Royce contract (WACC: 8.7%)
Serendah Land	RNAV		871.2	RNAV of Serendah land (500acres@RM40psf) (net of debt)
Perpetual Sukuk			(1,097.9)	
Holding co net debt			(1,028.6)	
<b>Total Value</b>			<b>5,384.6</b>	
Shares out.			1,168.3	
<b>Value/share (RM)</b>			<b>4.60</b>	

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RMm)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>
<b>Revenue</b>	<b>9,554.6</b>	<b>11,060.8</b>	<b>15,814.4</b>	<b>15,406.8</b>	<b>15,614.7</b>
Operating expenses	(10,423.7)	(10,547.1)	(15,031.0)	(14,864.0)	(15,051.4)
<b>Operating profit</b>	<b>257.7</b>	<b>274.2</b>	<b>605.5</b>	<b>542.8</b>	<b>563.3</b>
Net interest expense	(115.5)	(108.2)	(114.1)	(71.4)	(71.4)
Associates	204.1	268.0	334.9	347.0	346.5
<b>PBT</b>	<b>400.7</b>	<b>482.8</b>	<b>896.5</b>	<b>818.4</b>	<b>838.4</b>
Taxation	(77.7)	32.9	(218.6)	(117.8)	(123.0)
Minority Interest/PERP	118.3	247.4	262.8	271.5	277.7
Net profit	204.6	268.2	415.0	429.0	437.7
<b>Core net profit</b>	<b>240.9</b>	<b>196.8</b>	<b>415.0</b>	<b>429.0</b>	<b>437.7</b>
<b>Balance Sheet (RMm)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>
PPE	2,463.0	2,531.4	2,706.2	2,910.4	3,089.0
Investments in associate	2,015.9	2,170.6	2,362.3	2,709.3	3,055.8
Others	976.5	1,090.7	983.2	983.2	983.2
<b>Non-current assets</b>	<b>5,455.3</b>	<b>5,792.7</b>	<b>6,051.7</b>	<b>6,602.9</b>	<b>7,128.1</b>
Inventories	1,439.3	1,752.2	2,045.7	1,540.7	1,561.5
Receivables	1,059.1	904.2	1,124.3	1,287.3	1,304.7
Others	1,442.5	782.2	387.2	387.2	387.2
Cash & equivalent	2,050.9	2,941.4	2,808.1	2,943.3	2,895.4
<b>Current assets</b>	<b>5,991.8</b>	<b>6,380.0</b>	<b>6,365.4</b>	<b>6,158.5</b>	<b>6,148.8</b>
Share capital	584.1	584.1	584.1	584.1	584.1
Minority Interest	2,549.0	2,646.1	2,789.9	2,991.6	3,199.5
Reserves	3,284.0	3,532.3	3,765.9	4,023.3	4,285.9
<b>Total Equity</b>	<b>6,417.2</b>	<b>6,762.5</b>	<b>7,140.0</b>	<b>7,599.0</b>	<b>8,069.5</b>
Long-term borrowings	1,942.3	2,095.0	1,339.9	1,340.1	1,340.2
Deferred tax liabilities	47.8	48.4	60.8	60.8	60.8
Others	243.6	247.0	274.3	274.3	274.3
<b>Non-current liabilities</b>	<b>2,233.7</b>	<b>2,390.4</b>	<b>1,675.1</b>	<b>1,675.2</b>	<b>1,675.4</b>
Short-term borrowings	523.8	638.1	212.3	212.3	212.3
Payables	2,156.2	2,248.8	3,292.8	3,201.6	3,244.8
Others	116.2	132.9	96.9	73.2	74.8
<b>Current liabilities</b>	<b>2,796.2</b>	<b>3,019.8</b>	<b>3,602.1</b>	<b>3,487.1</b>	<b>3,531.9</b>

<b>Cash Flow Statement (RMm)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>
PBT	400.7	482.8	896.5	818.4	838.4
Depreciation & Amortization	374.1	343.5	340.6	351.8	378.3
Chgs in working capital	419.9	(232.4)	524.8	261.2	6.6
Others	(248.3)	(332.5)	(558.4)	(464.8)	(469.5)
<b>Operating cash flow</b>	<b>946.3</b>	<b>261.4</b>	<b>1,203.4</b>	<b>966.5</b>	<b>753.9</b>
Capex	(700.0)	(406.2)	(509.9)	(700.0)	(700.0)
Others	589.5	790.9	559.4	144.0	143.0
<b>Investing cash flow</b>	<b>(110.5)</b>	<b>384.8</b>	<b>49.5</b>	<b>(556.0)</b>	<b>(557.0)</b>
Dividends paid	(23.4)	(46.7)	(168.8)	(171.6)	(175.1)
Net movement in borrowings	0.2	0.2	(880.0)	0.2	0.2
Others	(214.3)	86.0	(483.8)	(103.9)	(69.9)
<b>Financing cash flow</b>	<b>(237.5)</b>	<b>39.4</b>	<b>(1,532.6)</b>	<b>(275.4)</b>	<b>(244.8)</b>
<b>Net changes in cash</b>	<b>598.3</b>	<b>685.6</b>	<b>(279.7)</b>	<b>135.2</b>	<b>(47.9)</b>
Beginning cash	1,411.5	2,006.5	2,700.3	2,808.1	2,943.3
Forex, Overdrafts & Deposits	41.2	249.3	387.6	0.0	0.0
<b>Ending cash</b>	<b>2,050.9</b>	<b>2,941.4</b>	<b>2,808.1</b>	<b>2,943.3</b>	<b>2,895.4</b>

<b>Key Ratios</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>
Operating profit margin	2.7%	2.5%	3.8%	3.5%	3.6%
Core net profit margin	2.5%	1.8%	2.6%	2.8%	2.8%
ROE	5.4%	6.7%	10.0%	9.6%	9.2%
ROA	2.3%	2.3%	5.9%	4.3%	4.3%
Net gearing (%)	6.5%	-3.1%	-17.6%	-18.3%	-16.6%
Book value/share (RM)	3.31	3.52	3.72	3.94	4.17
PBV (x)	1.4	1.3	1.24	1.2	1.1
PER (x)	22.4	27.4	13.0	12.6	12.3

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### 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.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology