

UMW Holdings Berhad

(9679 | UMWH MK) Main | Industrial Products & Services

ACCEPT OFFER

Firmer Partnership with TICO


Offer Price: RM5.00

(Fair Value: RM4.84)

DEVELOPMENT

- Toyota Industries Corporation (TICO) is acquiring a minority 26% stake in UMW's industrial equipment business for RM260m with UMW keeping the remaining 74% stake.

OUR VIEW

- TICO is a key principle for UMW's industrial equipment business, which distributes brands such as Toyota, BT and Raymond. UMW's industrial equipment business currently spans several markets in the region namely Malaysia, Brunei, Singapore, Vietnam and China.
- TICO taking up a stake in UMW's industrial equipment division signals stronger commitment to expanding the business in the region, in our opinion. The transaction is meant to serve as a framework for mutual collaboration between UMW and TICO, allowing UMW to leverage TICO's expertise and resources to realise its aspiration to develop one stop centre capabilities for the industrial equipment and logistics automation businesses. The latest move emulates the strategy executed by UMW's heavy equipment division with Komatsu in July 2018, which saw the principal (Komatsu) taking up a 26% stake in UMW's heavy equipment distribution business.
- The entire transaction is expected to be completed by 31st December 2023 where UMW is expected to realise a one-off gain of RM85.5m. The total RM260m proceeds from the sale is expected to be reinvested into working capital, future investments, capex or repayment of borrowings.
- We keep our forecasts at this juncture pending further details, but in the immediate-term post-exercise, the reduction in UMW's stake could dilute earnings contribution from the equipment division – we estimate circa 3%-4% impact to group FY24F bottomline. The group's equipment division (which includes its heavy equipment business) contributed an estimated 17% to group PBT in FY22.
- We maintain our **NEUTRAL** call on UMW at unchanged SOP-derived **fair value** of **RM4.84**. We stick to our recommendation for investors to accept Sime Darby's buyout offer at RM5.00. The offer values UMW at 13.1x FY24F PER, at a premium to UMW's 5-year historical mean of 12.9x and at 1.3x FY23F book value, which we believe is fair. 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 a good opportunity for UMW's minority shareholders to exit at peak auto demand cycle. 

INVESTMENT STATISTICS

Annual Standardized Year end 31 December (RMm)	2020	2021	2022	2023F	2024F
Revenue	9,554.6	11,060.8	15,814.4	15,406.8	15,614.7
Operating Profit	257.7	274.2	605.5	581.2	576.4
Profit Before Tax	400.7	482.8	896.5	856.7	851.5
Core Earnings	240.9	196.8	415.0	453.1	445.9
Core EPS (sen/share)	20.6	16.8	35.5	38.8	38.2
PER (x)	22.9	28.0	13.3	12.2	12.4
DPS (sen/share)	4.0	5.8	14.2	15.5	15.3
Dividend Yield (%)	0.8	1.2	3.0	3.3	3.2

Source: Company, MIDFR

SHARE PRICE CHART



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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.

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