

UMW Holdings Bhd

A Fair Valuation for MBM

TP: RM5.52 (-11.3%)

Last Traded: RM6.22

Sell

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We attended UMW Holdings Bhd (UMW) analyst briefing regarding its MBM Resources Bhd (MBM) acquisition to obtain further clarity on the acquisition, future plans and goals going forward. We remain positive on the acquisition of MBM given the attractive valuations and potential synergies. That said, we continue to believe that the end result may be a listed MBM with UMW as the substantial shareholder. Nevertheless, we maintain Sell on UMW with unchanged TP of RM5.52 given stretched valuations.

Fair Valuation for MBM

Although the street continues to believe that the offer price of RM2.56/share is unattractive to MBM's shareholders, UMW's management believes the offer price is fair. Management was rather nonchalant and stated that it would not increase the offer price highlighting that it was a "take it or leave it" offer for Med-Bumikar Mara. Furthermore, UMW stated that the relatively low PER of 10x for Perodua is justified given: 1) the relatively small stake, i.e. non-controlling stake, 2) outlook of Malaysia's TIV, and 3) increased competition from national marque Proton after Geely takeover.

As previously mentioned in our report dated 12 March 2018, assuming similar valuations for Perodua, UMW values the rest of MBM at circa RM57mn which includes its net debt position of RM91mn as of 30 December 2016. This implies an equity value of RM148mn for the 100% stake in MBM. Note that MBM has pared down its borrowings from 0.05x net gearing in 2016 to 0.01x in 2017.

Plenty of Synergies and Negative Goodwill Gained.

UMW is expected to recognise circa RM400mn of negative goodwill for the acquisition and subsequent privatisation of MBM. Additionally, acquiring MBM will not only allow consolidation of Perodua but will enhance UMW's manufacturing and equipment division. We note that MBM manufactures alloy wheels, seatbelts, airbags and steering wheels. We believe that there will be decent cost saving as UMW will utilise this business to supply parts for new CKD models to be assembled in the Bukit Raja plant. Furthermore, UMW will increase its presence in the commercial vehicle segment as it gains access to Hino and Daihatsu dealerships.

Timeline and Future Plans

To recap, UMW's offer to Med-Bumikar expires on 28 March 2018 unless an extension is agreed upon by both parties. If successful, UMW will then: 1) begin its due diligence exercise, 2) obtain approvals from the principals (Toyota and Perodua) and shareholders, and 3) carry out the general offer to the remaining shareholders. UMW estimates a timeframe of circa 3 months from the offer acceptance to completion of the proposals. UMW also shared that it will likely dispose of non-synergistic assets after the completion of this acquisition. The latter includes, amongst others, the Volvo, Volkswagen and Daihatsu dealerships.

Share Information

Bloomberg Code	UMWH MK
Stock Code	4588
Listing	Main Market
Share Cap (mn)	1,168.3
Market Cap (RMmn)	7,266.8
52-wk Hi/Lo (RM)	6.98/4.70
12-mth Avg Daily Vol ('000 shrs)	988
Estimated Free Float (%)	26.8
Beta	1.7

Major Shareholders (%)

PNB	- 54.2
EPF	- 9.3
KWAP	- 6.3

Forecast Revision

	FY18	FY19
Forecast Revision (%)	0.0	0.0
Net profit (RMm)	334.4	469.6
Consensus	335.3	441.9
TA's / Consensus (%)	100	106
Previous Rating	Sell (Maintain)	

Financial Indicators

	FY18	FY19
Net Debt / Equity (x)	0.6	0.5
FCPS (sen)	53.2	69.6
Price / CFPS (x)	11.7	8.9
Core ROA (%)	3.1	4.0
NTA/Share (RM)	3.7	4.0
Price/NTA (x)	1.7	1.5

Share Performance (%)

Price Change	UMW	FBM KLCI
1 mth	(6.0)	(0.4)
3 mth	23.9	5.8
6 mth	14.1	4.2
12 mth	10.2	5.6

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Rights Issue Not Necessary

UMW noted that the rights issue proposed is not necessary. However, the proposal is a prudent measure as it tries to minimise its gearing level. According to our estimates, UMW's gearing level will increase to 0.9x from 0.66x currently, if it does not carry out the rights issue. That said, we remain positive on the right issue given the 20%-30% expected discount to theoretical ex-rights price, and earnings accretion after the acquisition. (Please refer to our reports dated 12 March 2018 and 14 March 2018 for further details).

Our View

To recap, we opine that the valuation for MBM is rather cheap, but deem it reasonable, as MBM has been trading below the offer price for the past 1.5 years. We are also largely positive on the rights issue, given the earnings accretion after the MBM acquisitions. Furthermore, we do not discount the possibility that a third party buyer may emerge if UMW does not increase its offer price. Lastly, we reiterate that the likely end result will be UMW as the new major shareholder in a listed MBM.

Impact

Maintain earnings forecast pending completion of the acquisitions.

Valuation

We maintain our TP of **RM5.52** based on SOP valuations. We opine that UMW is fully valued for now, at 15.1x CY19 PER compared to peers' average of 13x CY19 PER. Thus, our Sell recommendation remains. Nevertheless, we believe if the acquisitions are successful, upside for the Group is immense as it will hold 70.6% stake in Perodua (Malaysia's largest automotive marque by sales volume).

SOP Valuation

Segments	PER (x)	Equity Value (RM mn)	Reasoning
Automotive	15	6,313	2x premium to peer's average
Equipment	12	1,492	Regional peers' average
M&E	10	125	Regional peers' average
Serendah Land		523	50% discount to RNAV
Total Equity Value		8,452	
Net debts (holding co.)		(1,286)	
Shares outstanding (mn)		1,168	
Holding co. discount		10%	
SOP TP (RM)		5.52	

Earnings Summary

Income Statement (RM mn)

FYE Dec	2016	2017*	2018E	2019F	2020F
Revenue	10,436.8	11,046.5	11,666.8	12,781.4	14,105.1
EBITDA	1,191.0	671.5	736.1	977.5	1,045.0
Dep. & amortisation	(569.5)	(336.3)	(358.4)	(369.1)	(380.2)
Net finance cost	(105.1)	(39.2)	(10.1)	(15.1)	(16.5)
Associate & JV	183.6	171.7	188.2	206.3	226.2
EI	(942.5)	(214.8)	0.0	0.0	0.0
PBT	(242.5)	252.9	555.7	799.6	874.5
Taxation	(133.5)	(122.3)	(111.6)	(166.9)	(190.0)
MI	(120.9)	(106.1)	(109.7)	(163.1)	(177.3)
Continued Net profit	(496.9)	24.5	334.4	469.6	507.2
Discontinued Net profit	(1,161.2)	(675.7)	0.0	0.0	0.0
Core net profit	445.6	239.3	334.4	469.6	507.2
Reported EPS (sen)	(141.9)	(55.7)	28.6	40.2	43.4
Core EPS (sen)	38.1	20.5	28.6	40.2	43.4
Core PER (x)	16.3	30.4	21.7	15.5	14.3
DPS (sen)	0.0	0.0	14.0	20.0	22.0
Div Yield (%)	0.0	0.0	2.3	3.2	3.5
NTA/share (RM)	5.9	3.6	3.7	4.0	4.3

Cash Flow (RM mn)

FYE Dec	2016	2017*	2018E	2019F	2020F
PBT Continued	(242.5)	252.9	555.7	799.6	874.5
PBT Discontinued	0.0	(802.8)	0.0	0.0	0.0
Depreciation	569.5	336.3	358.4	369.1	380.2
Associates & JV	(183.6)	(171.7)	(188.2)	(206.3)	(226.2)
Net finance costs	105.1	39.2	10.1	15.1	16.5
Changes in WC	200.7	528.8	18.3	32.9	39.0
Interest paid	(185.5)	(119.0)	(78.5)	(91.6)	(104.7)
Tax paid	(133.5)	(122.3)	(111.6)	(166.9)	(190.0)
Others	160.5	504.2	0.0	0.0	0.0
Investment cash flow	(772.5)	(1,980.5)	(531.6)	(523.5)	(511.9)
Net debt raised/(repaid)	853.6	176.0	500.0	500.0	500.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividend	(212.7)	(75.9)	(239.2)	(309.2)	(332.5)
Others	(558.3)	6.5	0.0	0.0	0.0
Financial cash flow	82.7	106.6	260.8	190.8	167.5
Net cash flow	(399.1)	(1,428.3)	293.4	419.2	444.9
Forex and others	(141.2)	420.5	0.0	0.0	0.0
Cash beginning	2,734.1	2,171.2	1,163.4	1,456.8	1,876.0
Cash ending	2,193.9	1,163.4	1,456.8	1,876.0	2,321.0
Deposits set aside	(336.5)	0.0	0.0	0.0	0.0
Cash after Deposits	1,857.4	1,163.4	1,456.8	1,876.0	2,321.0

Key Assumptions

Sales Volume (units)		70,000.0	73,500.0	77,175.0
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*demerger of UMWOG in FY17

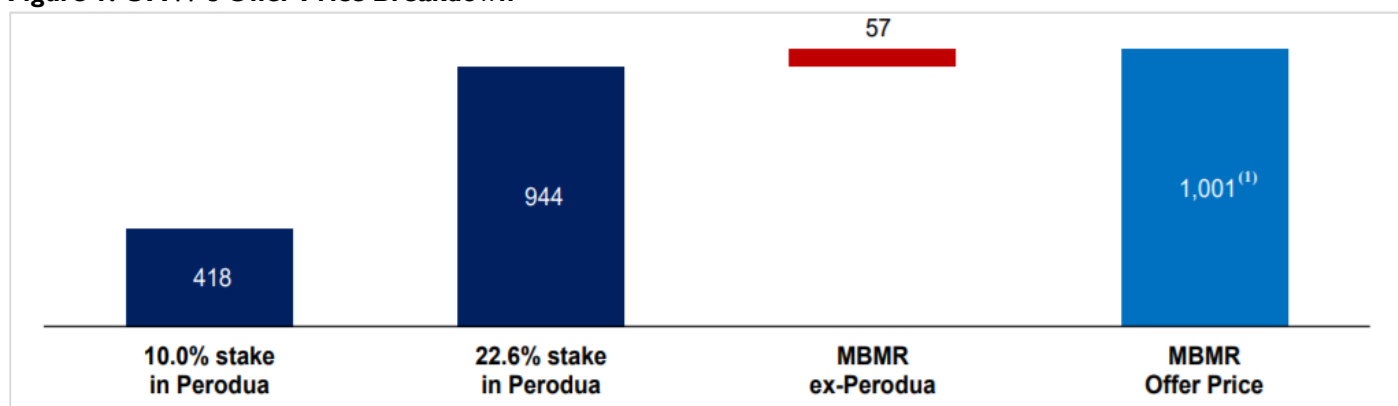
Discontinued operations excluded from historical figures

Balance Sheet (RM mn)

FYE Dec	2016	2017*	2018E	2019F	2020F	
Fixed assets	7,678.5	2,660.6	2,902.2	3,133.1	3,352.9	
Associates & JV	2,008.1	1,708.3	1,896.5	2,102.8	2,329.0	
Others	791.3	451.4	451.4	451.4	451.4	
Non-current assets	10,478.0	4,820.3	5,250.1	5,687.2	6,133.2	
Inventories	1,931.2	1,342.7	1,418.1	1,553.6	1,714.5	
Receivables	988.5	993.6	1,049.4	1,149.7	1,268.8	
Cash	1,857.4	1,163.4	1,456.8	1,876.0	2,321.0	
Others	1,008.0	1,298.2	1,298.2	1,298.2	1,298.2	
Current assets	5,785.1	4,798.0	5,222.6	5,877.5	6,602.4	
Assets Held for Sale	0.0	323.7	323.7	323.7	323.7	
Total assets	16,263.0	9,942.0	10,796.3	11,888.4	13,059.4	
ST borrowings	2,639.3	685.3	809.7	934.1	1,058.4	
Payables	1,878.6	2,662.1	2,811.6	3,080.2	3,399.3	
Others	234.0	153.4	153.4	153.4	153.4	
Current Liabilities	4,752.0	3,500.8	3,774.7	4,167.7	4,611.0	
LT borrowings	3,715.8	2,069.7	2,445.3	2,821.0	3,196.6	
Others	931.0	143.2	143.2	143.2	143.2	
Non-current liabilities	4,646.7	2,213.0	2,588.6	2,964.2	3,339.8	
Liabilities Held for Sale	0.0	52.4	52.4	52.4	52.4	
Shareholder funds	4,718.6	3,082.4	3,253.5	3,489.8	3,740.4	
MI	2,145.7	1,093.4	1,127.2	1,214.4	1,315.7	
Total Equity	6,864.3	4,175.8	4,380.7	4,704.2	5,056.1	
E&L	16,263.0	9,942.0	10,796.3	11,888.4	13,059.4	
Ratios						
PBT margin (%)	(%)	(2.3)	2.3	4.8	6.3	6.2
Core net margin (%)	(%)	4.3	2.2	2.9	3.7	3.6
Liquidity ratios						
Current ratio (x)	(x)	1.2	1.4	1.4	1.4	1.4
Quick ratio (x)	(x)	0.8	1.0	1.0	1.0	1.1
Leverage ratios						
Total lia./equity (x)	(x)	2.0	1.9	2.0	2.0	2.1
Net debt/equity (x)	(x)	1.0	0.5	0.6	0.5	0.5
Growth ratios						
Revenue (%)	(%)		5.8	5.6	9.6	10.4
EBITDA (%)	(%)		(43.6)	9.6	32.8	6.9
Pretax (%)	(%)		n.m.	>100	43.9	9.4
Core net earnings (%)	(%)		(46.3)	39.8	40.4	8.0

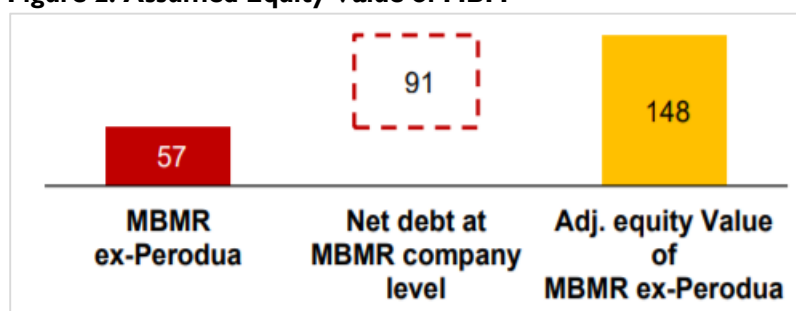
Appendix

Figure 1. UMW's Offer Price Breakdown



Source: Company

Figure 2. Assumed Equity Value of MBM



Source: Company

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
- HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
- SELL** : Total return is lower than the required rate of return.
- Not Rated:** The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

Disclaimer

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As of Tuesday, March 20, 2018, the analyst, Abel Goon, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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