



United Malacca Berhad

Diversifying Away from Palm Oil

TP: RM6.56 (+13.5%)

Last traded: RM5.78

Hold

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United Malacca Berhad (UMB) entered into a Memorandum of Understanding (MOU) with Adhi Indrawan and Kartika Dianningsih Antono with the intention to establish a joint venture (JV) with PT Bintang Gemilang Permai (BGP), which holds 99.9% equity interest in PT Wana Rindang Lestari (WRL). WRL holds a concession right to develop about 59,920 hectares (ha) of land within an industrial plantation forest area in Central Sulawesi, Indonesia. UMB would acquire 60% equity interest in the proposed JV with the acquisition price to be determined later.

Comments

Increase Land Bank and Diversify into Other Crops

The proposed acquisition, if materialised, will increase UMB's landbank in Indonesia from 24,585 ha to 84,505 ha. However, according to management, since the land is part of the industrial plantation forest, they are allowed to plant any crops except for palm oil. Thus, the land is currently undergoing topography studies by WRL and BGP and the possible crops that can be planted range from stevia to cocoa.

We are not surprised by this news as the crop diversification plan is part of the group's business strategy. Moreover, UMB's CEO Mr. Peter Benjamin has vast experience in forestry and managing various crops such as cocoa, sago and rubber.

Acquisition Price Expected to be Lower than Normal Palm Oil Land

Not much detail is disclosed as the discussion is still at preliminary stage. The discussion is expected to be finalized by 1QCY17. However, we do not expect the acquisition price to be high as compared to normal palm oil land. Thus, the funding should not be an issue for UMB. The group is currently in a net gearing position of 0.04x. Besides, management has also shared that WRL and BGP have downstream business activities to complement UMB's main upstream operations.

Valuation

No change to our earnings forecast. We maintain our **HOLD** recommendation on United Malacca with an unchanged target price of **RM6.56**/share, based on 21x PER and CY17 EPS. Our key risk factors are reiterated as follow, 1) longer gestation period for the Indonesian plantation, 2) global economic slowdown and 3) lower CPO price.

Share Information

Bloomberg Code	UMR MK
Stock Code	2593
Listing	Main Market
Share Cap (mn)	209.2
Market Cap (RMmn)	1,209
Par Value	1.00
52-wk Hi/Lo (RM)	6.22/5.35
12-mth Avg Daily Vol ('000 shrs)	30.7
Estimated Free Float (%)	81.2
Beta	0.5
Major Shareholders (%)	
	Aberdeen-21.62
	OCBC- 14.2
	HSBC - 8.53
	EPF - 6.24

Forecast Revision

	FY17	FY18
Forecast Revision (%)	-	-
Net profit (RMm)	56.9	71.0
Consensus	65.6	76.1
TA's / Consensus (%)	86.8	93.3
Previous Rating	Hold (Maintain)	

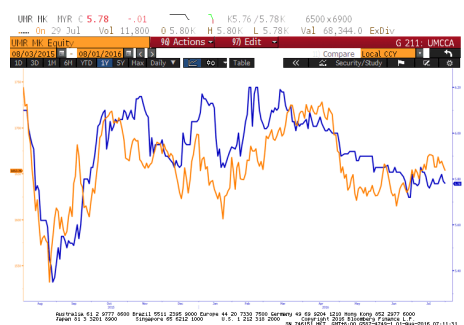
Financial Indicators

	FY17	FY18
ROE (%)	3.3	4.0
Net Gearing (%)	0.1	0.0
NTA/Share (RM)	8.0	8.2
Price/NTA (x)	0.7	0.7

Share Performance (%)

Price Change	UMR	FBM KLCI
1 mth	(0.7)	0.4
3 mth	(3.0)	(1.2)
6 mth	(2.7)	(0.9)
12 mth	(6.5)	(4.1)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Earnings Summary (RMmn)

YE April 30 (RMmn)	FY14	FY15	FY16	FY17F	FY18F
Revenue	244	213	206	267	348
EBITDA	84	92	101	82	109
Depreciation & amortisation	(17)	(18)	(20)	(18)	(19)
Interest income	4	3	1	(4)	(3)
Other income	8	7	25	5	5
Associate + JV	0	0	0	0	0
Forex & EI	6	0	13	0	0
PBT	84	58	70	65	91
Taxation	(14)	(11)	(10)	(10)	(18)
MI	0	0	(0)	2	(2)
Net profit	70	47	60	57	71
Core net profit	65	47	47	57	71
Reported EPS (basic)	(sen) 34.0	22.8	28.5	27.0	33.4
Core EPS (diluted)	(sen) 31.2	22.8	22.3	27.0	33.4
GDPS	(sen) 26.0	16.0	16.0	10.0	13.0

RATIOS

YE April 30 (RMmn)	FY14	FY15	FY16	FY17F	FY18F
Valuations					
PER (x)	17.0	25.4	20.3	21.4	17.3
PER (diluted) (x)	18.5	25.4	25.9	21.4	17.3
Div. Yield (%)	4.5	2.8	2.8	1.7	2.2
P/BV (x)	0.7	0.7	0.7	0.7	0.7
EV/EBITDA (x)	12.9	11.4	10.2	15.7	12.0
Profitability ratios					
Core ROAE (%)	4.4	2.8	3.5	3.3	4.0
Core ROAA (%)	3.9	2.6	3.1	2.7	3.4
EBITDA margin (%)	34.4	43.4	49.0	30.9	31.3
PBT margin (%)	34.4	27.4	34.1	24.4	26.1
Liquidity ratios					
Current ratio (x)	9.1	10.2	7.0	4.5	4.8
Quick ratio (x)	8.8	9.8	6.3	3.7	3.9
Net current assets (RMmn)	189	208	156	99	108
Leverage ratios					
Total liabilities / equity (x)	0.1	0.1	0.2	0.2	0.2
Net debt / equity (x)	(0.1)	(0.1)	0.0	0.0	0.0
Int. coverage ratio (x)	na	na	(84.7)	18.2	30.6

Source: Company, TA Research

YE April 30 (RMmn)	FY14	FY15	FY16	FY17F	FY18F
Fixed assets	693	681	684	756	771
Other assets	906	903	1,198	1,198	1,198
Current assets	212	230	183	127	137
Cash	148	184	63	50	57
Other current assets	64	46	120	77	80
Current liabilities	23	23	26	28	29
ST debts	0	0	0	0	0
Other current liabilities	23	23	26	28	29
Total net assets	1,788	1,792	2,038	2,052	2,077
Financed by:					
Shareholders' funds	1,676	1,680	1,709	1,744	1,788
Other liabilities	112	112	151	151	151
MI	0	0	41	40	41
LT debts	0	0	137	117	97
Total LT liabilities + equity	1,788	1,792	2,038	2,052	2,077

CASH FLOW

YE April 30 (RMmn)	FY14	FY15	FY16	FY17F	FY18F
PBT	84	58	70	65	91
Depreciation & amortisation	17	18	20	18	19
Changes in WC	(6)	1	20	44	(2)
Tax paid & others	(20)	(15)	(25)	(10)	(18)
Operational cash flow	75	62	85	118	90
Capex	(24)	(7)	(22)	(90)	(35)
Others	24	(47)	(156)	0	0
Investing cash flow	(1)	(54)	(178)	(90)	(35)
Share issuance	8	7	8	0	0
Dividend paid	(43)	(50)	(33)	(21)	(28)
Net change in debts	0	0	(20)	(20)	(20)
Others	0	0	104	0	0
Financial cash flow	(35)	(43)	59	(41)	(48)
Net cash flow	39	(35)	(34)	(13)	7
Opening cash flow	108	108	74	40	27
Closing cash flow	147	74	40	27	34

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