



United Malacca Berhad

El-Nino-the Main Culprit

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

TA Research

Tel: +603-2072 1277 ext. 9602

damia@ta.com.my

www.taonline.com.my

TP: RM6.56 (+14.7%)

Last traded: RM5.72

Hold

Review

- United Malacca's FY16 financial results came in above ours but within consensus' full year estimate at 108% and 105% respectively. Stripping out the unrealized forex gain of RM13.0mn, core net profit declined by 1.2% to RM46.6mn.
- FY16 revenue fell by 3.5% to RM205.7mn mainly due to lower FFB production (-9.0%), as a result of El-Nino phenomena, and lower average CPO selling price (RM2,207/tonne: -2.6% YoY).
- On a YoY basis, excluding the unrealized forex gain of RM5.6mn, 4QFY16 core net profit increased 46.8% to RM14.6mn. The commendable results were mainly attributed by higher average selling price of CPO (4QFY16: RM2,462/tonne vs. 4QFY15: RM2,240/tonne) and palm kernel (PK) (4QFY16: RM2,198/tonne vs. 4QFY15: RM1,842/tonne) which were more than offset the impact from lower FFB production(-22.7%YoY).
- The group has declared a 2nd interim single tier dividend of 8 sen/share. That brings the total dividend for FY16 to 16 sen/share, which is higher than our forecast of 13sen/share. The dividend translates into dividend yield of 2.8% and payout ratio of 56%.

Impact

- We tweak our FY16 and FY17 earnings forecast lower by 4.2% and 3.0% respectively after incorporating FY16 performance and cutting down our FFB production growth.

Outlook

- Management expects the dry spell due to El-Nino phenomena to affect the FFB production in 1HCY16. However, they still expect a better FFB production growth for FY17 as additional 833ha of plantation land in Malaysia will come into maturity and contribution from its 83% owned company, Lifere Agro Kapuas (LAK) (acquisition already completed in January 2016).
- Meanwhile, we are impressed by the management's cost efficiency initiatives and its focus on improving labour productivity and better estate management practices.

Valuation

- Maintain **HOLD** on United Malacca with a lower TP of **RM6.56**/share (previously RM6.79/share) after the earnings adjustment. The new target price is based on 21x PER and CY17 EPS of 31.2sen. This is slightly lower than the mean of its 5 year forward PER of 22.9x but within the -1 STD. Key risk factors to our call are, 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)	1,197
Par Value	1.00
52-wk Hi/Lo (RM)	6.30/5.35
12-mth Avg Daily Vol ('000 shrs)	33.9
Estimated Free Float (%)	81.2
Beta	0.51
Major Shareholders (%)	
	Aberdeen-21.62
	OCBC- 14.2
	HSBC - 8.53
	EPF - 6.24

Forecast Revision

	FY17	FY18
Forecast Revision (%)	(4.2)	(3.0)
Net profit (RMm)	56.9	71.0
Consensus	66.0	73.2
TA's / Consensus (%)	86.3	97.0
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

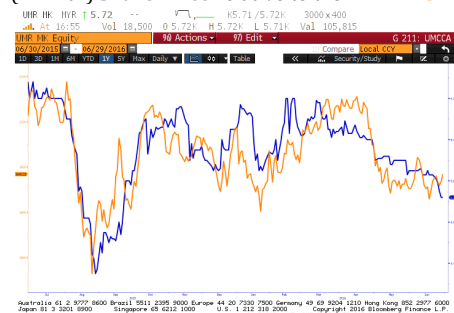
Scorecard

	% of FY	
vs TA	108	Above
vs Consensus	105	Within

Share Performance (%)

Price Change	UMR	FBM KLCI
1 mth	(3.1)	4.8
3 mth	(5.1)	0.0
6 mth	(5.5)	1.8
12 mth	(8.9)	1.4

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



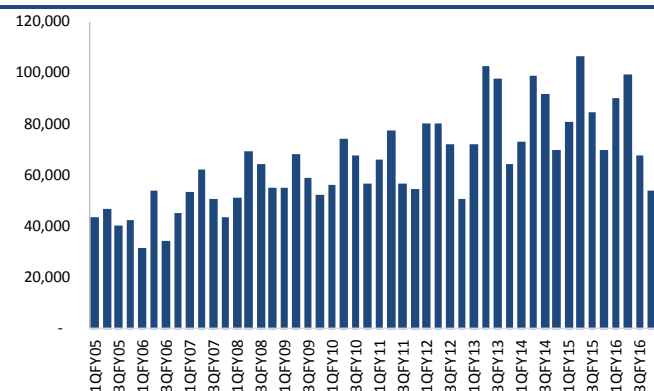
Source: Bloomberg

Figure 1: Production Statistics

	4QFY15	3QFY16	4QFY16	% QoQ	% YoY	4QFY15	4QFY16	% YoY
FFB (tonnes)	69,670	67,461	53,883	(20.1)	(22.7)	341,200	310,563	(9.0)
CPO (tonnes)	14,577	13,926	11,822	(15.1)	(18.9)	70,849	66,524	(6.1)
PK (tonnes)	3,713	3,346	3,031	(9.4)	(18.4)	17,268	16,567	(4.1)

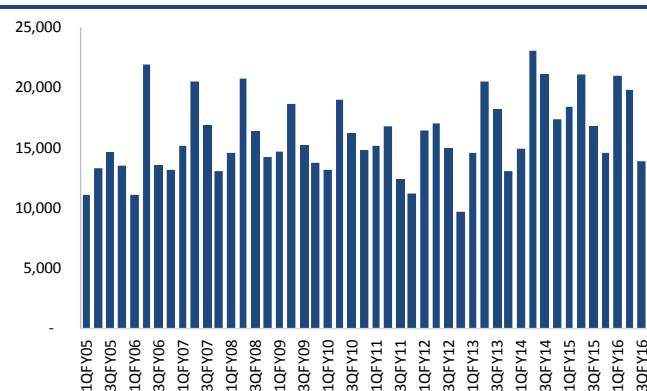
Source: Bursa Announcements, TA Research

Figure 2: FFB Production (in tonnes)



Source: Bursa Announcements, TA Research

Figure 3: CPO Production (in tonnes)



Source: Bursa Announcements, TA Research

4Q16 Results Analysis (RMmn)

FYE 30 April	4QFY15	3QFY16	4QFY16	QOQ%	YoY %	FY15	FY16	YoY%
Turnover	48.1	50.0	47.9	(4.3)	(0.3)	213.2	205.7	(3.5)
EBIT	13.8	8.9	18.6	109.4	35.1	55.3	56.4	1.9
Net Int Inc/ (exp)	(1.0)	0.5	(0.7)	nm	nm	3.1	0.9	(72.2)
EI	0.0	6.8	5.6	(16.9)	nm	0.0	13.0	nm
Pretax	12.7	16.2	23.6	45.7	85.3	58.4	70.2	20.2
Taxation	(2.8)	(1.4)	(3.2)	129.8	(13.8)	(11.3)	(10.5)	6.8
MI	0.0	0.0	(0.2)	nm	nm	0.0	(0.2)	nm
Reported net profit	9.9	14.8	20.2	36.7	>100	47.2	59.6	26.3
Core net profit	9.9	8.0	14.6	82.1	46.8	47.2	46.6	(1.2)
Core EPS (sen)	4.8	3.9	7.0	82.1	46.8	22.8	22.3	(2.0)
GDPS (sen)	8.0	0.0	8.0			16.0	16.0	
EBIT Margin (%)	28.6	17.7	38.8			26.0	27.4	
Pretax Margin (%)	26.5	32.3	49.2			27.4	34.1	
Tax Rate (%)	21.9	8.5	13.4			19.3	14.9	

Earnings Summary (RMmn)

FYE April 30		2014	2015	2016	2017F	2018F
Revenue		244.3	213.2	205.7	266.8	347.5
EBITDA		84.1	92.5	100.7	82.4	108.7
EBITDA Margin	(%)	34.4	43.4	49.0	30.9	31.3
Pretax profit		84.1	58.4	70.2	65.0	90.8
Reported net profit		70.2	47.2	59.6	56.9	71.0
Core net profit		64.5	47.2	46.6	56.9	71.0
Reported EPS	(sen)	34.0	22.8	28.5	27.0	33.4
Core EPS	(sen)	31.2	22.8	22.3	27.0	33.4
Core EPS Growth	(%)	(3.7)	(27.1)	(2.1)	21.1	23.5
PER	(x)	18.3	25.1	25.6	21.2	17.1
Gross Div	(sen)	26.0	16.0	16.0	10.0	13.0
Div Yield	(%)	4.5	2.8	2.8	1.7	2.3
ROE	(%)	4.4	2.8	3.5	3.3	4.0

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

This report has been prepared by TA SECURITIES HOLDINGS BERHAD for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and will be compensated to undertake the scheme. TA SECURITIES HOLDINGS BERHAD has produced this report independent of any influence from the CBRS or the subject company.

*For more information about CBRS and other research reports, please visit Bursa Malaysia's website at:
<http://www.bursamalaysia.com/market/listed-companies/research-repository/research-reports>*

for TA SECURITIES HOLDINGS BERHAD^(14948-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)
Kaladher Govindan – Head of Research