

## United Malacca

### Enters MOU for JV in Central Sulawesi

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United Malacca Berhad (UMCCA) announced that it has entered into a MOU for a JV arrangement to develop 59.9k ha of land within an industrial plantation forest area in Central Sulawesi. We are long-term positive on the potential area expansion but expect minimal earnings impact in the near term given the apparent greenfield nature of the project. Maintain **OUTPERFORM** on UMCCA with unchanged TP of RM7.42.

**Exploring a 59.2k ha JV.** UMCCA has entered into a Memorandum of Understanding (MOU) with Adhi Indrawan and Kartika Dianningsih Antono to establish a JV with PE Bintang Gemilang Permai (BGP) which has a 99.9% stake in PT Wana Rindang Lestari (WRL) which holds a concession right to develop 59.9k hectares (ha) within an industrial plantation forest area in Central Sulawesi, Indonesia. We note that UMCCA plans to acquire a 60% interest in the JV for a consideration to be mutually determined, and the company has an exclusive right to conduct due diligence for six months from the date of the MOU.

**Long-term positive.** We believe the potential JV should positively impact UMCCA's long-term prospect as the proposed area will more than double its existing land bank size of 49.2k ha. Management noted that the proposed JV is "in line with the Company's expansion plan to increase its plantation land bank, expand its geographical presence in Indonesia and diversify its crop base" which indicates that UMCCA could consider developing non-palm oil crops in the area. With the tentative nature of the MOU, however, we maintain our assumptions for now pending completion of the due diligence process and further management guidance. Assuming the area is entirely greenfield, we estimate the transaction could cost roughly RM3-5k/ha based on historical transactions in Indonesia. This could come to an investment of RM100-180m for UMCCA, which would imply a still-comfortable FY18E net gearing of 0.08-0.12x from 0.02x currently.

**Maintain FY17-18E CNP at RM71.9-89.2m** pending finalisation of the deal.

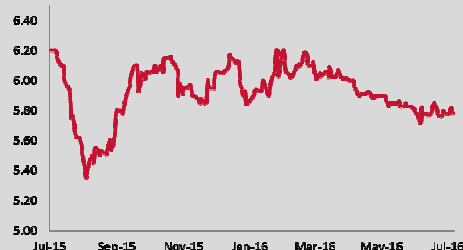
**Expect a stronger 2H17.** While CPO prices are likely to trend down in 3QCY16, we expect UMCCA's coming 1Q17 results to improve over 4Q16 as quarter-to-date (QTD) average monthly FFB production of 23.8k MT exceeded 4Q16's average monthly production of 18.0k MT, while average CPO prices have remained stable at RM2,450-2,500/MT. We are also long-term positive on the group's growth prospects as its young Indonesian area should contribute to above-average FFB growth (FY17E at 15-9% against sector's CY16E of 3%).

**Reiterate OUTPERFORM with TP maintained at RM7.42** based on unchanged Fwd. PER of 21.0x applied to FY17E EPS of 35.4 sen. Our Fwd. PER of 21.0x is based on +0.5SD valuation which we deem fair due to UMCCA's above-average FFB growth forecast. We also like UMCCA for its positive long-term expansion potential in both upstream and midstream segments in Indonesia.

## OUTPERFORM ↔

**Price: RM5.78**  
**Target Price: RM7.42** ↔

#### Share Price Performance



KLCI	1,653.26
YTD KLCI chg	-2.3%
YTD stock price chg	-4.6%

#### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMR MK Equity
Market Cap (RM m)	1,209.3
Issued shares	209.2
52-week range (H)	6.23
52-week range (L)	5.35
3-mth avg daily vol:	16,181
Free Float	57%
Beta	0.5

#### Major Shareholders

Oversea Chinese Bank	20.3%
Aberdeen Asset Manag	14.1%
Hongkong & Shanghai	8.5%

#### Summary Earnings Table

FYE Apr (RM m)	2015A	2016E	2017E
Turnover	205.7	255.5	301.5
EBIT	71.5	101.1	123.1
PBT	70.2	99.3	122.3
<b>Net Profit (NP)</b>	<b>59.6</b>	<b>71.9</b>	<b>89.2</b>
<b>Core Net Profit (CNP)</b>	<b>46.9</b>	<b>71.9</b>	<b>89.2</b>
Consensus (NP)	n.a.	65.6	76.1
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	22.4	35.4	43.9
Core EPS growth (%)	-3.7%	53.2%	24.1%
NDPS (sen)	16.0	21.2	26.3
BV/Share (RM)	8.17	8.63	8.81
Core PER (x)	25.8	16.3	13.2
Price/BV (x)	0.71	0.67	0.66
Net Gearing (x)	0.0	0.0	0.0
Net Div. Yield (%)	2.8%	3.7%	4.6%

01 August 2016

Income Statement						Financial Data & Ratios					
FY Apr (RM m)	2014A	2015A	2016A	2017E	2018E	FY Apr (RM m)	2014A	2015A	2016A	2017E	2018E
Revenue	244.3	213.2	205.7	255.5	301.5	<b>Growth (%)</b>					
EBITDA	86.6	76.6	91.0	128.8	150.8	Revenue	18.6%	-12.8%	-3.5%	24.2%	18.0%
Depreciation	16.9	18.2	19.5	27.7	27.7	EBITDA	5.2%	-11.5%	18.8%	41.5%	17.1%
Operating Profit	84.1	58.4	71.5	101.1	123.1	Operating Profit	20.3%	-30.5%	22.3%	41.5%	21.7%
Int Income	3.6	3.1	0.0	4.8	4.3	Pre-tax Income	1.7%	-30.5%	20.2%	41.3%	23.2%
Others	0.0	0.0	0.0	0.0	0.0	Net Income	-3.9%	-23.9%	-3.7%	53.2%	24.1%
Associate	0.0	0.0	0.0	0.0	0.0						
Inv Income	3.9	2.2	0.0	3.9	3.9	<b>Profitability (%)</b>					
PBT	84.1	58.4	70.2	99.3	122.3	EBITDA Margin	35.4%	35.9%	44.2%	50.4%	50.0%
Taxation	-21.0	-11.3	-10.5	-24.8	-30.6	Operating Margin	34.4%	27.4%	34.7%	39.6%	40.8%
Minority Interest	0.0	0.0	-0.2	-2.6	-2.6	PBT Margin	34.4%	27.4%	34.1%	38.9%	40.6%
Net Profit	70.2	47.2	59.6	71.9	89.2						
<b>Core Net Profit</b>	<b>64.0</b>	<b>48.7</b>	<b>46.9</b>	<b>71.9</b>	<b>89.2</b>	Core Net Margin	26.2%	22.9%	22.8%	28.1%	29.6%
						Effective Tax Rate	25.0%	19.3%	14.9%	25.0%	25.0%
						ROE	4.2%	2.8%	3.5%	4.1%	5.0%
						ROA	7.7%	3.9%	3.9%	3.1%	2.4%
						<b>DuPont Analysis</b>					
						Net Margin (%)	26.2%	22.9%	22.8%	28.1%	29.6%
						Assets Turnover (x)	0.13	0.12	0.10	0.12	0.14
						Leverage Factor (x)	1.08	1.08	1.21	1.20	1.20
						ROE (%)	4.2%	2.8%	3.5%	4.1%	5.0%
						<b>Leverage</b>					
						Debt/Asset (x)	0.0	0.0	0.1	0.1	0.1
						Debt/Equity (x)	0.0	0.0	0.1	0.1	0.1
						Net Cash/(Debt)	148	184	-74	-64	-41
						Net Debt/Equity (x)	Cash	Cash	0.0	0.0	0.0
						<b>Valuations</b>					
						Core EPS (sen)	31.1	23.5	22.4	35.4	43.9
						NDPS (sen)	26.0	16.0	16.0	21.2	26.3
						BV/Share (RM)	8.15	8.10	8.17	8.63	8.81
						Core PER (x)	18.6	24.6	25.8	16.3	13.2
						Net Div. Yield (%)	4.5%	2.8%	2.8%	3.7%	4.6%
						P/BV (x)	0.71	0.71	0.71	0.67	0.66
						EV/EBITDA (x)	12.0	13.3	14.1	9.6	8.1

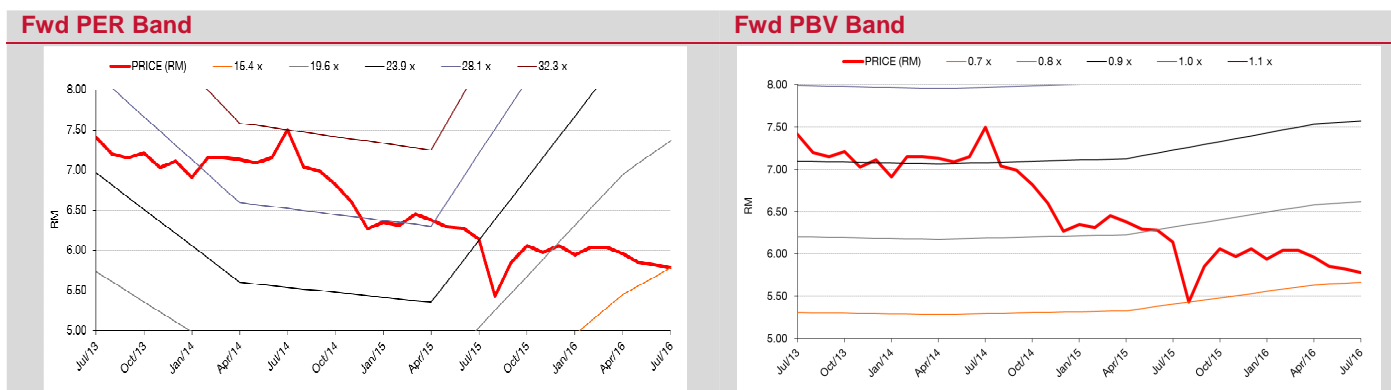
  

Balance Sheet					
FY Apr (RM m)	2014A	2015A	2016A	2017E	2018E
Fixed Assets	692.5	681.5	683.9	995.4	1007.7
Biological Assets	827.4	846.5	955.3	827.4	827.4
Intangible Assets	18.6	18.6	87.0	87.0	87.0
Other FA	60.3	37.4	155.5	12.5	9.9
Inventories	8.6	8.7	17.7	13.6	16.1
Receivables	17.2	19.6	83.7	21.1	24.9
Other CA	37.9	17.9	18.2	37.9	37.9
Cash	148.3	184.1	63.0	107.4	131.1
Total Assets	1810.8	1814.3	2064.4	2102.3	2142.0
Payables	21.0	21.0	25.9	22.5	26.5
ST Borrowings	0.0	0.0	0.0	0.0	0.0
Other ST Liability	2.2	1.5	0.4	0.0	0.0
LT Borrowings	0.0	0.0	136.9	171.7	171.7
Other LT Liability	111.7	111.6	151.1	111.7	111.7
Minorities Int.	0.0	0.0	41.5	41.5	41.5
<b>Net Assets</b>	<b>1676.0</b>	<b>1680.2</b>	<b>1708.7</b>	<b>1754.9</b>	<b>1790.6</b>
Share Capital	206.5	207.7	209.2	206.5	206.5
Reserves	1469.5	1472.5	1499.4	1548.4	1584.1
<b>Equity</b>	<b>1676.0</b>	<b>1680.2</b>	<b>1708.7</b>	<b>1754.9</b>	<b>1790.6</b>

Cashflow Statement					
FY Apr (RM m)	2014A	2015A	2016A	2017E	2018E
Operating CF	75.7	62.4	84.9	99.2	117.2
Investing CF	-0.6	-54.0	-177.5	-28.1	-40.0
Financing CF	-35.2	-43.1	58.7	-43.1	-53.5
Change In Cash	39.8	-34.7	-33.9	28.0	23.7
Free CF	75.1	8.4	-92.6	71.1	77.2

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

Peer Comparison

Company	Price (29-Jul-2016)	Mkt Cap	Core PER (x)			Est. Div. Yld.	Historical ROE	P/BV	Core Net Profit (RMm)			This Year Growth	Next Year Growth	Target Price	Rating
	(RM)		(RMm)	FY15/16A	FY16/17F				FY17/18F	(%)	(%)				
<b>CORE COVERAGE</b>															
SIME	7.42	45,547	22.0	29.6	22.2	2.8%	6.8%	1.5	2,066.5	1,538.5	2,052.8	-26%	33%	7.75	MARKET PERFORM
IOICORP	4.23	27,035	23.6	27.7	21.9	1.9%	3.3%	5.3	1,135.9	977.6	1,233.4	-14%	26%	4.57	MARKET PERFORM
KLK	23.12	24,622	31.3	22.4	20.8	3.5%	9.0%	2.5	787.6	1,099.9	1,181.6	40%	7%	26.17	OUTPERFORM
PPB	16.00	18,968	18.6	21.8	18.7	1.3%	5.3%	1.0	1,018.7	870.5	1,013.9	-15%	16%	15.50	UNDERPERFORM
FGV	1.85	6,749	(37.5)	55.8	45.3	1.1%	1.8%	1.0	(180.0)	121.0	149.0	167%	23%	1.58	MARKET PERFORM
GENP	10.54	7,997	38.9	32.4	30.0	0.8%	4.5%	1.9	205.8	246.9	266.1	20%	8%	10.60	UNDERPERFORM
IJMLNT	3.30	2,906	87.2	26.4	20.4	1.7%	1.5%	1.8	33.3	110.1	142.4	230%	29%	3.15	UNDERPERFORM
TSH	1.87	2,516	21.7	21.1	17.6	1.2%	-7.2%	1.7	116.0	119.1	143.1	3%	20%	2.05	OUTPERFORM
TAANN	3.37	1,249	9.2	17.0	14.3	3.7%	15.7%	1.3	135.8	73.6	87.5	-46%	19%	3.63	OUTPERFORM
UMCCA	5.78	1,175	25.8	16.3	13.2	3.7%	3.5%	0.7	46.9	71.9	89.2	53%	24%	7.42	OUTPERFORM
CBIP	1.95	1,035	10.3	10.3	9.2	3.2%	14.0%	1.5	100.1	100.3	112.8	0%	12%	2.34	OUTPERFORM

Source: Bloomberg, Kenanga Research

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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