



United Malacca Berhad

A Weak Start

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TA Research

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TP: RM6.13 (7.4%)

Last traded: RM5.71

Hold

Review

- United Malacca's 1QFY17 financial results came in below ours and consensus' full-year estimate. Stripping out the unrealized forex loss of RM5.4mn, core net profit declined to RM8.8mn (-39.8% QoQ, -28.5% YoY), respectively accounting for 15% and 13% of ours and consensus' full-year estimates. The lower-than-expected profit was mainly due to lower FFB production and higher operating expenses.
- 1QFY17 revenue fell by 6.4% YoY to RM54.2mn mainly due to lower FFB production (-15.4%) as compared to the previous year mainly due to the lingering effects of El Nino in Malaysia.
- Meanwhile, on a QoQ basis, despite higher revenue, 1QFY17 core net profit dropped by 39.8% attributable to higher FFB costs in Malaysia operations and low FFB yield for its Indonesia newly matured palms of 1,667 hectares. The Indonesia operations suffered a loss of RM1.02mn in 1QFY17 compared with a profit of RM1.2mn in 4QFY16.
- No dividend was declared for the quarter under review.

Impact

- We tweak our FY17 and FY18 earnings forecast lower by 8.4% and 15.0% respectively after cutting down our FFB production growth and imputing higher operating costs.

Outlook

- Management expects the dry spell due to El-Nino phenomena to affect the FFB production in 1HFY17. However, it still expects a better FFB production growth for FY17 due to: 1) additional 833ha of plantation land in Malaysia will mature and 2) a first full-year contribution from its 83% owned company, Lifere Agro Kapuas (LAK) (acquisition already completed in January 2016).

Valuation

- Maintain **HOLD** on United Malacca with a lower TP of **RM6.13**/share (previously RM6.56/share) after the earnings adjustment. The new target price is based on 22.6x PER (10% discount to its 5-year rolling average PER and CY17 EPS of 27.1sen). Although we still like the group for its well managed operations and attractive dividend policy, upside to share price in the short term will be capped by the earnings impact arising from high production costs.
- Key risk factors to our call are, 1) longer gestation period for the Indonesian plantation, 2) global economic slowdown and 3) lower FFB production.

Share Information

Bloomberg Code	UMR MK
Stock Code	2593
Listing	Main Market
Share Cap (mn)	209.2
Market Cap (RMmn)	1,195
Par Value	1.00
52-wk Hi/Lo (RM)	6.21/5.64
12-mth Avg Daily Vol ('000 shrs)	50.9
Estimated Free Float (%)	79.3
Beta	0.5
Major Shareholders (%)	
	Aberdeen-21.62
	OCBC- 14.2
	HSBC - 8.53
	EPF - 6.24

Forecast Revision

	FY17	FY18
Forecast Revision (%)	(8.4)	(15.0)
Net profit (RMm)	52.1	60.3
Consensus	65.6	76.1
TA's / Consensus (%)	79.4	79.2
Previous Rating	Hold (Maintained)	

Financial Indicators

	FY17	FY18
ROE (%)	4.2	4.8
Net Gearing (%)	0.1	0.0
NTA/Share (RM)	8.0	8.3
Price/NTA (x)	0.7	0.7

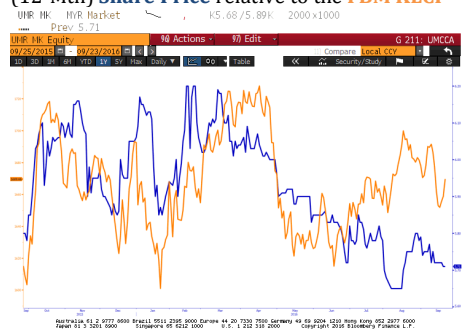
Scorecard

	% of FY	
vs TA	15	Below
vs Consensus	13	Below

Share Performance (%)

Price Change	UMR	FBM KLCI
1 mth	(0.7)	(2.2)
3 mth	(1.9)	1.0
6 mth	(6.7)	(4.1)
12 mth	0.2	1.1

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



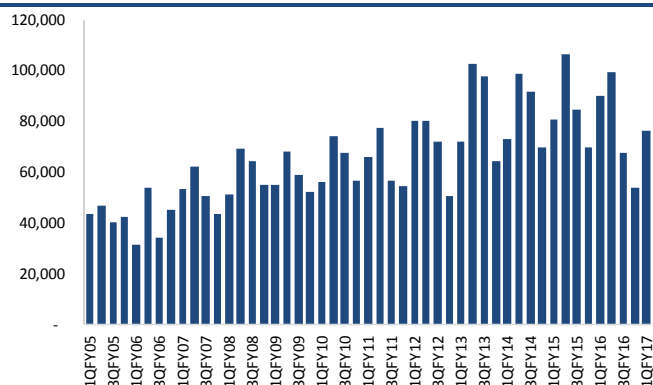
Source: Bloomberg

Figure 1: Production Statistics

	1QFY16	4QFY16	1QFY17	% QoQ	% YoY
FFB (tonnes)	90,166	3,883	76,273	41.6	(15.4)
CPO (tonnes)	20,959	1,822	15,214	28.7	(27.4)
PK (tonnes)	5,237	3,031	3,728	23.0	(28.8)

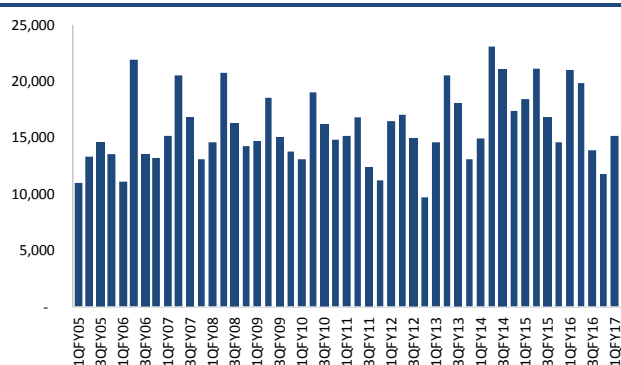
Source: Bursa Announcements, TA Research

Figure 2: FFB Production (in tonnes)



Source: Bursa Announcements, TA Research

Figure 3: CPO Production (in tonnes)



Source: Bursa Announcements, TA Research

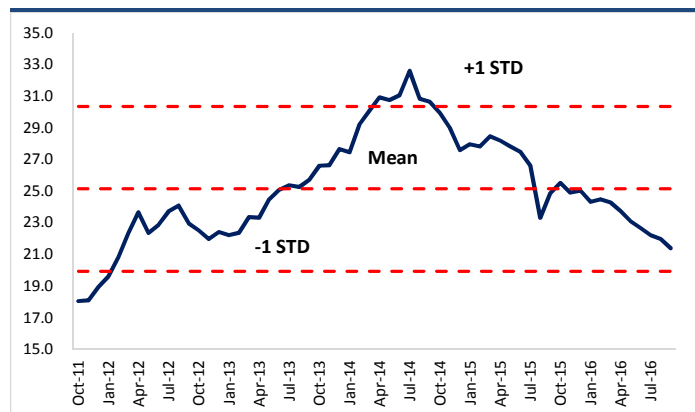
1Q17 Results Analysis (RMmn)

FYE 30 April	1QFY16	4QFY16	1QFY17	QOQ%	YoY %
Turnover	57.9	47.9	54.2	13.2	(6.4)
EBIT	14.6	18.6	11.6	(37.6)	(20.3)
Net Int. Inc./ (exp)	0.5	(0.7)	(0.6)	12.3	nm
EI	0.0	5.6	(5.4)	nm	nm
Pretax	15.1	23.6	5.6	(76.2)	(62.8)
Taxation	(2.8)	(3.2)	(2.3)	26.3	16.2
MI	0.0	(0.2)	0.1	nm	nm
Reported net profit	12.3	20.2	3.4	(83.3)	(72.5)
Core net profit	12.3	14.6	8.8	(39.8)	(28.5)
Core EPS (sen)	5.9	7.0	4.2	(39.8)	(28.5)
GDPS (sen)	0.0	8.0	0.0		
EBIT Margin (%)	25.1	38.8	21.4		
Pretax Margin (%)	26.0	49.2	10.4		
Tax Rate (%)	18.5	13.4	41.5		

Earnings Summary (RMmn)

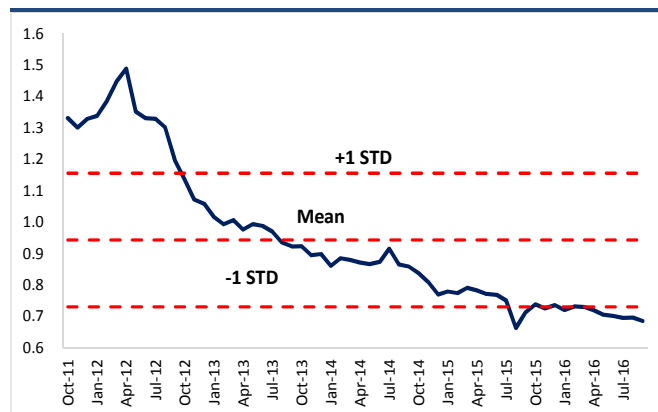
FYE April 30	2014	2015	2016	2017E	2018F
Revenue	244.3	213.2	205.7	194.2	244.7
EBITDA	84.1	92.5	101.4	78.6	93.8
EBITDA Margin (%)	34.4	43.4	49.3	40.5	38.3
Pretax profit	84.1	58.4	70.2	61.1	75.5
Reported net profit	70.2	47.2	59.6	52.1	60.3
Core net profit	64.5	47.2	46.6	52.1	60.3
Reported EPS (sen)	34.0	22.8	28.5	24.7	28.3
Core EPS (sen)	31.2	22.8	22.3	24.7	28.3
Core EPS Growth (%)	(3.7)	(27.1)	(2.1)	11.0	14.6
PER (x)	18.3	25.1	25.6	23.1	20.1
Gross Div (sen)	26.0	16.0	16.0	14.0	17.0
Div Yield (%)	4.6	2.8	2.8	2.5	3.0
ROE (%)	4.4	2.8	3.5	3.0	3.5

Figure 4: 12-Month Rolling Forward PER



Source: Bloomberg, Company, TA Research

Figure 5: 12-Month Rolling Forward P/B



Source: Bloomberg, Company, TA Research

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.

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

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