

16 December 2015

United Malacca Berhad

Doubling Up on Landbank

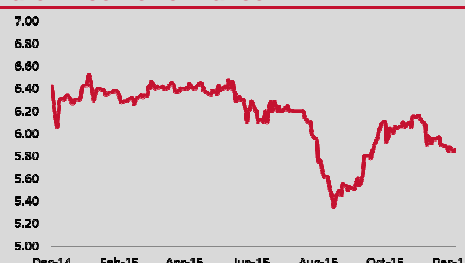
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OUTPERFORM ↑

Price: **RM5.86**
Target Price: **RM7.05** ↑

- Period** ■ 2Q16/1H16
- Actual vs. Expectations** ■ United Malacca Berhad (UMCCA)'s 1H16 Core Net Profit (CNP*) at RM25.8m was below expectations at 43% of consensus (RM59.9m) and 39% of our forecast (RM66.8m). This was due to lower-than-expected CPO prices at RM2,139/metric ton (MT) vs. our CY15E RM2,200/MT forecast.
- UMCCA also proposed to acquire an 83% stake in PT Lifere Agro Kapuas (LAK) from Lincoln Wilshire Investments Ltd. (Lincoln) for a total cash consideration of USD66.4m or RM285.0m. LAK holds the plantation license to 24.6k ha of plantation land of which 10.4k ha is planted area (refer to details overleaf).
- Dividends** ■ A First Interim Dividend of 8.0 sen was announced, making up 41% of our FY16E DPS of 19.7 sen. We deem this in line as historically UMCCA pays out a higher dividend in 4Q.
- Key Results Highlights** ■ YoY, 1H16 CNP declined 6% to RM25.8m mainly on lower CPO prices (-7% to RM2,139/metric ton (MT)). This was partly offset by higher FFB volume at +11% to 189.2k MT.
- QoQ, 2Q16 CNP declined 10% despite FFB volume improvement (+10% to 99.1k MT) which failed to offset lower CPO prices (-8% to RM2,047/MT).
- Outlook** ■ We are long-term positive on UMCCA's proposed LAK acquisition. Although we expect FY16E earnings to be diluted, the acquisition will likely be earnings accretive from FY17E onwards with an estimated net contribution of RM13.4m. The new area has a very young average age with 99% of trees below 5 years. We estimate the new area to reduce UMCCA's average tree age from 9.7 years to 7.4 years.
- Management expects severe droughts in Sabah to negatively impact FFB production in FY16. We think the lagged production impact could extend into FY17 as well, hence we have lowered our Malaysian FFB growth forecast from 8-5% to 6-4%. However, FY16-17E group FFB growth is expected to improve 6-14%.
- Change to Forecasts** ■ We lower FY16-17E CNP by 22-1% to RM51.9m-RM76.4m. Lower Malaysian growth prospects in FY16-17E is offset in FY17E by FFB contribution from the new Indonesian landbank. Hence FY17E earnings impact is overall neutral.
- Rating** **Upgrade to OUTPERFORM (from MARKET PERFORM)**
- We believe UMCCA's long-awaited maiden expansion outside Malaysia will serve as a re-rating catalyst as the doubled landbank with existing young planted area should lead to above-average FFB growth for the long run.
- However, note that 3Q16 earnings could be softer as lagged drought impact and seasonal downtrend is likely to hit FFB production.
- Valuation** ■ We up our Target Price to RM7.05 as we roll forward our valuation base year to CY16E for higher EPS of 33.6 sen (from 32.8 sen). We also apply a higher Fwd. PER of 21.0x (from 19.2x) as we up our valuation basis to +0.5SD (from mean valuation). We believe this is fair as UMCCA's FY17E FFB growth prospect at 14% is above the sector average (+6%), plus its major landbank acquisition warrants a re-rating.
- Risks to Our Call** ■ Lower-than-expected CPO prices.
■ Lower-than-expected FFB volume.

Share Price Performance



KLCI	1,622.84
YTD KLCI chg	-7.9%
YTD stock price chg	-6.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMR MK Equity
Market Cap (RM m)	1,226.0
Issued shares	209.2
52-week range (H)	6.53
52-week range (L)	5.35
3-mth avg daily vol:	14,376
Free Float	56%
Beta	0.5

Major Shareholders

OVERSEA CHINESE BANK	20.3%
ABERDEEN ASSET MANAG	15.0%
HONGKONG & SHANGHAI	8.5%

Summary Earnings Table

FY Apr (RM'm)	2015A	2016E	2017E
Turnover	213.2	207.4	259.5
EBIT	58.4	59.0	95.8
PBT	58.4	69.2	101.9
Net Profit (NP)	47.2	51.9	76.4
Consensus (NP)	n.a.	59.9	81.1
Earnings Revision	n.a.	-22%	-1%
EPS (sen)	22.7	25.5	37.6
EPS growth (%)	-32.8%	9.9%	47.3%
NDPS (sen)	16.0	15.3	22.6
BV/Share (RM)	8.10	8.35	8.50
PER	25.8	23.0	15.6
Price/BV (x)	0.72	0.70	0.69
Net Gearing (x)	Cash	0.1	0.1
Net Dvd Yield (%)	2.7%	2.6%	3.9%

*CNP excludes gain on disposal of PP&E (RM0.1m), unrealised gains on financial assets/assets held-for-trading (RM0.4m), unrealised forex gain (RM0.4m) and PP&E write-off (<RM0.1m).

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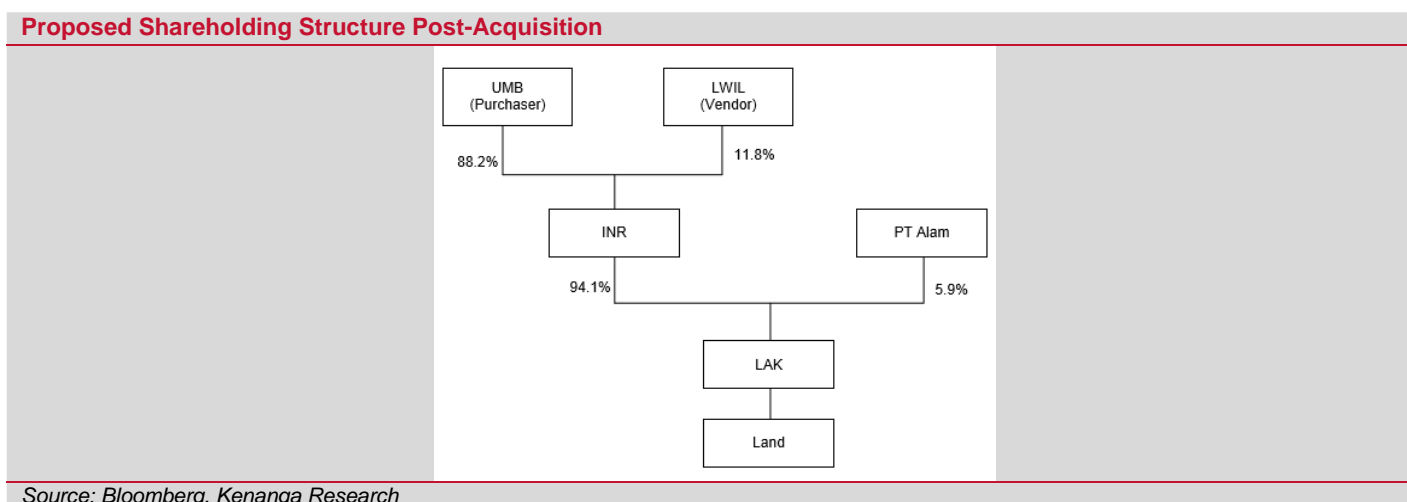
Result Highlight								
FYE Apr	2Q16	1Q16	QoQ %	2Q15	YoY%	1H16	1H15	YoY%
Revenue	49.9	57.9	-14%	59.0	-15%	107.8	117.2	-8%
EBIT	15.4	15.1	2%	17.2	-10%	30.5	32.7	-7%
Pretax Profit	15.4	15.1	2%	17.2	-10%	30.5	32.7	-7%
Taxation	(3.2)	(2.8)	14%	(3.5)	-9%	(5.9)	(6.2)	-4%
MI	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Net Profit	12.3	12.3	0%	13.7	-11%	24.5	26.4	-7%
Core Net Profit	12.2	13.6	-10%	14.8	-17%	25.8	27.5	-6%
EPS (sen)	5.9	5.9	-1%	6.6	-11%	11.8	12.8	-8%
Net Dividend (Sen)	8.0	0.0	N.M.	8.0	0%	8.0	8.0	0%
EBIT margin	31%	26%		29%		28%	28%	
PBT margin	31%	26%		29%		28%	28%	
Effective tax rate	21%	18%		20%		19%	19%	
CPO (RM / mt)	2,047	2,220	-8%	2,140	-4%	2,139	2,293	-7%
PK Oil (RM / mt)	1,487	1,518	-2%	1,357	10%	1,503	1,611	-7%
FFB Volume (mt)	99,054	90,165	10%	106,205	-7%	189,219	170,806	11%

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Apr	2Q16	1Q16	QoQ %	2Q15	YoY%	1H16	1H15	YoY%
Segmental Rev:								
Plantation	62.1	70.9	-12%	70.4	-12%	133.0	138.7	-4%
(Internal Sales)	(12.2)	(12.9)	-5%	(11.4)	7%	(25.2)	(21.5)	17%
Group Rev	47.9	59.0	-19%	72.6	-34%	107.8	117.2	-8%
Profit Before Tax:								
Plantation	14.0	13.8	1%	15.9	-12%	27.7	29.0	-4%
Investment Hold	1.5	1.3	11%	1.3	14%	2.8	3.6	-24%
Associates	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Group PBT	13.1	17.2	-24%	24.9	-48%	30.5	32.7	-7%

Source: Company, Kenanga Research

Other Details



Source: Bloomberg, Kenanga Research

Comments: We think the implied valuation of the deal at USD7.4k/planted ha or RM31.6k/planted ha is fair. We estimate that Indonesian brownfield is valued at about RM30k/ha, as we apply a 10x premium to greenfield area (historically priced at about RM3.0k/ha) in line with Malaysian average premium for brownfield vs. greenfield land. We gather that 10.4k ha is planted area, with about 5.1k ha of Plasma area. We estimate an average tree age of 2.6 years, well below UMCCA's average age of 9.7 years.

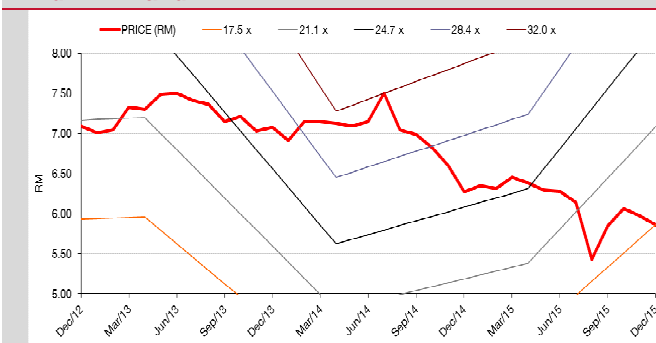
We assume 60-40 debt-equity funding based on 80% drawdown of their USD50.0m credit facility. Hence, UMCCA's net gearing should increase to 0.1x from a net cash position. We believe the gearing level remains relatively comfortable compared to the sector average at 0.5x.

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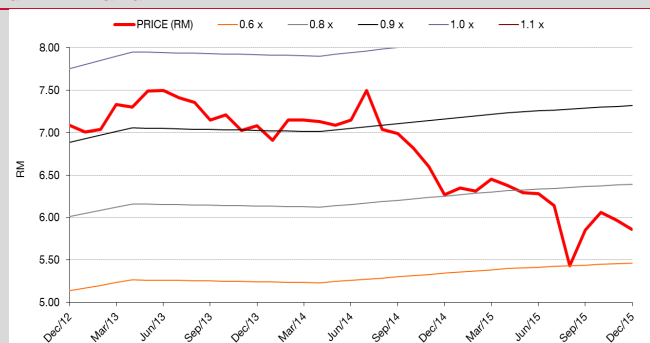
Income Statement						Financial Data & Ratios					
FY Apr (RM m)	2013A	2014A	2015A	2016E	2017E	FY Apr (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	206.1	244.3	213.2	207.4	259.5	Growth (%)					
EBITDA	82.3	86.6	67.5	78.5	123.5	Revenue	-10.9%	18.6%	-12.8%	-2.7%	25.2%
Depreciation	12.4	16.9	0.0	19.5	27.7	EBITDA	-25.1%	5.2%	-22.1%	16.3%	57.3%
Operating Profit	69.9	84.1	58.4	59.0	95.8	Operating Profit	-29.2%	20.3%	-30.5%	0.9%	62.4%
Int Income	4.8	3.6	3.1	6.3	2.2	Pre-tax Income	-23.9%	1.7%	-30.5%	18.4%	47.3%
Others	0.0	0.0	0.0	0.0	0.0	Net Income	-20.0%	2.2%	-32.8%	9.9%	47.3%
Associate	4.4	0.0	0.0	0.0	0.0						
Inv Income	3.6	3.9	2.2	3.9	3.9	Profitability (%)					
PBT	82.7	84.1	58.4	69.2	101.9	EBITDA Margin	39.9%	35.4%	31.7%	37.8%	47.6%
Taxation	-14.0	-21.0	-11.3	-17.3	-25.5	Operating Margin	33.9%	34.4%	27.4%	28.4%	36.9%
Minority Interest	0.0	0.0	0.0	0.0	0.0	PBT Margin	40.1%	34.4%	27.4%	33.4%	39.3%
Net Profit	68.7	70.2	47.2	51.9	76.4	Core Net Margin	33.3%	28.7%	22.1%	25.0%	29.5%
						Effective Tax Rate	16.9%	25.0%	19.3%	25.0%	25.0%
						ROE	8.0%	8.2%	4.5%	4.2%	3.4%
						ROA	7.3%	7.7%	3.9%	3.9%	3.1%
Balance Sheet						DuPont Analysis					
FY Apr (RM m)	2013A	2014A	2015A	2016E	2017E	Net Margin (%)	33.3%	28.7%	22.1%	25.0%	29.5%
Fixed Assets	685.1	692.5	681.5	995.0	995.4	Assets Turnover (x)	0.12	0.13	0.12	0.10	0.13
Biological Assets	803.4	827.4	846.5	827.4	827.4	Leverage Factor (x)	1.15	1.08	1.08	1.18	1.18
Intangible Assets	18.6	18.6	18.6	18.6	18.6	ROE (%)	4.5%	4.2%	2.8%	3.1%	4.4%
Other FA	68.3	60.3	37.4	37.1	37.1						
Inventories	9.7	8.6	8.7	11.1	13.9	Leverage					
Receivables	12.6	17.2	19.6	17.1	21.4	Debt/Asset (x)	0.0	0.0	0.0	0.1	0.1
Other CA	67.2	37.9	17.9	37.9	37.9	Debt/Equity (x)	0.0	0.0	0.0	0.1	0.1
Cash	108.0	148.3	184.1	55.5	83.2	Net Cash/(Debt)	108	148	184	-116	-89
Total Assets	1773.0	1810.8	1814.3	1999.6	2034.8	Net Debt/Equity (x)	Cash	Cash	Cash	0.1	0.1
Payables	20.2	21.0	21.0	18.2	22.8						
ST Borrowings	0.0	0.0	0.0	0.0	0.0	Valuations					
Other ST Liability	1.4	2.2	1.5	0.0	0.0	EPS (sen)	33.6	34.1	22.7	25.5	37.6
LT Borrowings	0.0	0.0	0.0	171.7	171.7	NDPS (sen)	25.0	26.0	16.0	15.3	22.6
Other LT Liability	209.8	111.7	111.6	111.7	111.7	BV/Share (RM)	7.55	8.15	8.10	8.35	8.50
Minorities Int.	0.0	0.0	0.0	0.0	0.0	PER (x)	17.4	17.2	25.8	23.0	15.6
Net Assets	1541.5	1676.0	1680.2	1698.0	1728.6	Net Div. Yield (%)	4.3%	4.4%	2.7%	2.6%	3.9%
Share Capital	205.1	206.5	207.7	206.5	206.5	P/BV (x)	0.78	0.72	0.72	0.70	0.69
Reserves	1336.4	1469.5	1472.5	1491.5	1522.1	EV/EBITDA (x)	13.2	12.2	15.3	16.7	10.4
Equity	1541.5	1676.0	1680.2	1698.0	1728.6						
Cashflow Statement											
FY Apr (RM m)	2013A	2014A	2015A	2016E	2017E						
Operating CF	78.0	75.7	62.4	71.1	101.6						
Investing CF	-35.4	-0.6	-54.0	-313.1	-28.1						
Financing CF	-44.2	-35.2	-43.1	140.6	-45.9						
Change In Cash	-1.6	39.8	-34.7	-101.4	27.7						
Free CF	42.6	75.1	8.4	-242.0	73.5						

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

Peer Comparison

NAME	Price (15-Dec- 2015)	Mkt Cap	Core PER (x)			Est. Net Div. Yld.	Historical ROE	P/BV	Core Net Profit (RMm)			FY15 NP Growth	FY16 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY14/15A	FY15/16F	FY16/17F	(%)	(%)	(x)	FY14/15A	FY15/16F	FY16/17F	(%)	(%)	(RM)	
SIME DARBY BERHAD	7.29	43,981	21.7	23.2	17.6	2.7%	6.8%	1.5	2,031.1	1,894.8	2,502.4	-7%	32%	8.00	UNDERPERFORM MARKET
IOI CORPORATION BHD	4.12	26,332	23.0	20.4	19.7	2.7%	3.3%	5.2	1,143.5	1,292.3	1,336.2	13%	3%	4.52	PERFORM MARKET
KUALA LUMPUR KEPONG BHD	22.14	23,578	29.9	24.4	20.7	2.4%	10.2%	2.4	788.1	968.1	1,141.7	23%	18%	22.80	PERFORM MARKET
PPB GROUP	15.38	18,233	19.7	19.5	17.7	1.5%	5.5%	1.1	924.2	935.3	1,028.2	1%	10%	16.92	PERFORM MARKET
FELDA GLOBAL VENTURES	1.52	5,545	31.0	352.6	21.2	2.0%	5.1%	0.9	179.0	15.7	261.2	-91%	1561%	1.47	UNDERPERFORM MARKET
GENTING PLANTATIONS BHD	10.08	7,648	20.0	34.7	24.7	0.7%	9.7%	2.0	381.9	220.7	310.1	-42%	41%	9.40	UNDERPERFORM MARKET
IJM PLANTATIONS BHD	3.50	3,082	21.7	23.5	18.1	1.9%	5.7%	1.9	141.8	130.9	170.1	-8%	30%	3.64	PERFORM MARKET
TSH RESOURCES	1.98	2,664	19.5	24.1	17.5	1.0%	10.5%	2.1	136.8	110.4	152.4	-19%	38%	1.95	UNDERPERFORM MARKET
TA ANN HOLDINGS BERHAD	4.85	1,797	16.4	10.9	12.8	4.9%	11.7%	1.6	109.3	164.5	140.8	50%	-14%	5.70	OUTPERFORM MARKET
UNITED MALACCA BHD	5.86	1,191	25.8	23.0	15.6	2.6%	4.5%	0.7	47.2	51.9	76.4	10%	47%	7.05	OUTPERFORM MARKET
CB INDUSTRIAL PRODUCT HOLDING BHD	2.00	1,061	11.5	13.2	9.4	3.0%	15.5%	1.8	92.1	80.3	112.8	-13%	40%	2.49	OUTPERFORM MARKET

Source: Bloomberg, Kenanga Research

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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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