

United Malacca Berhad

FY17 Beats Expectations

By Voon Yee Ping, CFA | voonyp@kenanga.com.my

United Malacca Berhad (UMCCA)'s FY17 Core Net Profit* (CNP) at RM75.9m exceeded both consensus and our forecast at 118% and 122%, respectively, thanks to higher CPO and PK prices. A second interim dividend and special dividend totalling 15.0 sen was announced, for full-year dividends of 23.0 sen, beating our 18.0 sen estimate. No change to FY17-18E CNPs, while we reiterate **OUTPERFORM** on UMCCA with higher TP of RM7.60 (from RM7.50).

A solid 2017. UMCCA recorded FY17 CNP of RM75.9m, well exceeding both consensus RM64.4m estimate at 118%, and our RM62.4m forecast at 122%. This came on the back of a sharp rise in CPO selling prices (+28% to RM2,832/metric ton (MT)) and PK prices (+67% to RM2,825/MT) while FFB volume saw some recovery (+2% to 316.8k MT), albeit below our 342.9k forecast. A second interim dividend of 12.0 sen and special dividend of 3.0 sen was announced, totaling 15.0 sen. Full-year dividend at 23.0 sen came in above our expected 18.0 sen, thanks to the special dividend.

Pumped by prices. YoY, CNP jumped 61% on the back of higher CPO and PK prices as discussed, which led to Malaysian operations' PBT 81% higher, while Indonesian PBT jumped 2.5x thanks to a sharp increase in harvesting area to 1.8k hectares (ha), from merely 124ha. QoQ, CNP increased 24% largely thanks to tax credits for the quarter of RM1.9m (from tax charge of RM5.6m) due to new planting tax allowances and lower chargeable income in Malaysian operations. Operationally, PBT declined 29% on softer PK prices (-9%) and seasonally softer FFB volume (-4%).

Strong production growth ahead. Management expects higher FFB production in FY18 thanks to yield improvement on young maturing palms in addition to a substantial 4.9k ha of maturing area, of which 1.9k is located in Malaysia while 3.0k is located in Indonesia. Our estimates place FY18-19E FFB growths at 23-14%, well above the sector average of 8%. Despite our softer 2HCY17 CPO price outlook, we remain optimistic on UMCCA's performance thanks to its above-average growth prospect and young age profile. Meanwhile, long-term prospects could be supported by the company's JV in Sulawesi, Indonesia to diversify its crop base with a concession right to develop 59.9k ha of forest area with a non-palm oil cash crop.

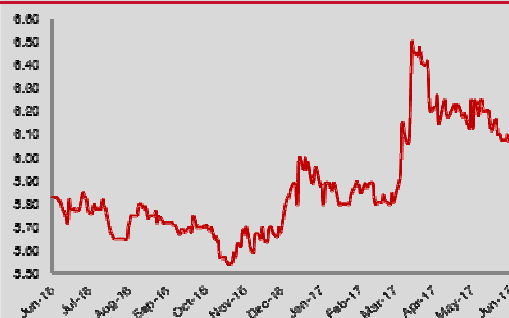
Maintain FY18E CNP at RM77.7m as we introduce FY19E CNP of RM79.5m premised on FFB growth of 14%, while CPO price assumption is unchanged at RM2,550/MT.

Reiterate OUTPERFORM with higher TP of RM7.60 (from RM7.50) as we roll forward our valuation base year to average CY17-18E (from CY17E), for higher EPS of 37.3 sen (from 35.7 sen). Our applied PER is updated to 20.4x (from 21.0x) on unchanged valuation basis of +0.5SD, which is in line with planters with above-average FFB growth outlook. We remain positive on UMCCA thanks to its strong long-term palm oil growth outlook with room to expand in Indonesia in the midstream and potentially downstream segments, while its ongoing plans to diversify its crop base should reduce the risk of CPO price fluctuations.

OUTPERFORM ↔

Price : **RM6.03**
Target Price : **RM7.60** ↑

Share Price Performance



KLCI	1,777.43
YTD KLCI chg	8.3%
YTD stock price chg	0.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMR MK Equity
Market Cap (RM m)	1,262.0
Issued shares	209.3
52-week range (H)	6.51
52-week range (L)	5.53
3-mth avg daily vol:	38,492
Free Float	61%
Beta	0.5

Major Shareholders

Oversea Chinese Bank	19.8%
Aberdeen Asset Mgmt.	11.0%
HSBC	8.5%

Summary Earnings Table

FY Apr (RM'm)	2017A	2018E	2019E
Turnover	274.7	279.0	289.6
EBIT	89.9	107.8	110.8
PBT	98.9	107.0	109.5
Net Profit (NP)	84.6	77.7	79.6
Core NP	75.9	77.7	79.6
Consensus (NP)	64.4	71.0	79.1
Earnings Revision	N.A.	0%	N.A.
Core EPS (sen)	36.3	37.1	38.0
Core EPS growth (%)	61.8%	24.4%	2.3%
NDPS (sen)	23.0	24.0	25.0
BVPS (RM)	8.39	8.50	8.63
Core PER	16.6	16.2	15.8
Price/BV (x)	0.72	0.71	0.70
Net Gearing (x)	Cash	0.0	0.0
Net Div. Yield (%)	3.8%	4.0%	4.2%

* 4Q17 CNP excludes one-offs including PP&E and AFS asset disposal gains (<RM0.1m), PP&E write-off (<RM0.1m), FV adj. of investment properties (<RM0.1m), unrealised investment gain (RM1.9m) and unrealised forex gain (RM0.9m).

23 June 2017

Results Highlights								
FYE Apr	4Q17	3Q17	QoQ %	4Q16	YoY%	FY17	FY16	Ytd-YoY%
Revenue	70.3	75.8	-7%	47.9	47%	274.7	205.7	34%
EBIT	29.2	40.5	-28%	24.7	18%	102.8	71.5	44%
Pretax Profit	28.1	39.4	-29%	23.6	19%	98.9	70.2	41%
Taxation	1.9	(5.6)	N.M.	(3.2)	N.M.	(13.0)	(10.5)	24%
MI	(1.1)	(0.2)	N.M.	(0.2)	N.M.	(1.3)	(0.2)	N.M.
Net Profit	29.0	33.7	-14%	20.2	43%	84.6	59.6	42%
Core Net Profit	26.2	21.1	24%	13.3	97%	75.9	47.1	61%
EPS (sen)	13.9	16.1	-14%	9.7	43%	40.4	28.5	42%
Net Dividend (Sen)	15.0	0.0	N.M.	8.0	88%	23.0	16.0	44%
EBIT margin	42%	53%		51%		37%	35%	
PBT margin	40%	52%		49%		36%	34%	
Effective tax rate	-7%	14%		13%		13%	15%	
CPO (RM / mt)	3,070	3,069	0%	2,462	25%	2,832	2,207	28%
Palm Kernel (RM / mt)	2,903	3,205	-9%	2,198	32%	2,825	1,690	67%
FFB Volume (mt)	73,889	76,804	-4%	53,883	37%	316,836	310,563	2%

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Apr	4Q17	3Q17	QoQ %	4Q16	YoY%	FY17	FY16	Ytd-YoY%
Segmental Rev:								
Plantation	85.2	93.1	-9%	57.5	48%	333.7	247.7	35%
(Internal Sales)	(14.9)	(17.4)	-14%	(9.6)	55%	(59.0)	(42.0)	41%
Group Rev	70.3	75.8	-7%	47.9	47%	274.7	205.7	34%
Profit Before Tax:								
Plantation - Malaysia	23.2	23.9	-3%	11.9	95%	85.6	47.2	81%
Plantation - Indonesia	1.9	2.6	-27%	1.2	55%	4.2	1.2	248%
Investment Hold	3.0	13.0	-77%	10.5	-71%	9.1	21.8	-58%
Associates	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Group PBT	28.1	39.4	-29%	23.6	19%	98.9	70.2	41%

Source: Company, Kenanga Research

This section is intentionally left blank

23 June 2017

Peer Comparison and All Other Landscape Tables

NAME	Price (22-Jun-2017) (RM)	Mkt Cap (RMm)	Core PER (x)			Est. Net Div. Yld. (%)	Historical ROE (%)	P/BV (x)	Core Net Profit (RMm)			FY17/18 NP Growth (%)	FY18/19 NP Growth (%)	Target Price (RM)	Rating
			FY16/17A	FY17/18F	FY18/19F				FY16/17A	FY17/18F	FY18/19F				
Core Coverage															
SIME	9.60	62,240	35.7	26.7	27.9	2.9%	5.2%	1.9	1,702.0	2,329.3	2,289.0	37%	-2%	9.50	MARKET PERFORM
IOICORP	4.48	28,633	31.3	24.5	21.3	2.2%	12.6%	4.0	900.6	1,166.4	1,342.1	30%	15%	5.50	OUTPERFORM
KLK	24.86	26,475	25.4	22.0	21.8	2.4%	10.0%	2.5	1,041.4	1,200.8	1,213.0	15%	1%	26.56	MARKET PERFORM
PPB	16.88	20,011	19.3	18.3	15.9	1.6%	4.9%	1.0	1,037.6	1,094.4	1,258.3	5%	15%	19.35	OUTPERFORM
GENP	11.10	8,688	29.2	28.6	25.8	0.9%	6.4%	1.9	300.0	313.0	354.0	4%	13%	12.40	MARKET PERFORM
FGV	1.75	6,384	N.M.	149.6	71.4	1.1%	-2.7%	1.1	(157.2)	42.7	89.4	N.M.	109%	1.85	MARKET PERFORM
IJMLNT	3.08	2,712	23.9	20.9	18.0	2.4%	6.3%	1.5	113.3	129.5	150.5	14%	16%	3.60	OUTPERFORM
TSH	1.74	2,341	29.5	19.6	16.5	1.3%	5.7%	1.7	79.3	120.5	142.8	52%	19%	2.18	OUTPERFORM
HSPLANT	2.59	2,071	16.6	16.4	16.0	4.2%	6.0%	1.0	125.0	127.0	130.0	2%	2%	2.90	OUTPERFORM
TAANN	3.52	1,565	12.7	13.7	12.3	3.3%	9.4%	1.2	123.6	114.3	127.2	-8%	11%	3.60	MARKET PERFORM
UMCCA	6.03	1,262	16.6	16.2	15.9	4.0%	4.3%	0.7	75.9	77.7	79.5	2%	2%	7.70	OUTPERFORM
CBIP	2.04	1,084	11.9	11.2	10.5	3.6%	12.5%	1.5	90.0	95.3	102.2	6%	7%	2.20	MARKET PERFORM

Source: Bloomberg, Kenanga Research

23 June 2017

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

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

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

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research