



United Malacca Berhad

Better-than-Expected Results

TP: RM7.52 (+23%)

Last traded: RM6.10

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Buy

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Review

- United Malacca's 3QFY17 financial results come in above expectations. The better-than-expected results were mainly due to higher-than-expected commodity prices and contribution from Indonesia's operations.
- After stripping out the unrealized forex loss of RM15.1mn and the gain from sale of equity shares of RM20.1mn, 9MFY17 core net profit increased 57.8% YoY to RM50.5mn.
- Despite lower FFB production, revenue rose 29.5% YoY to RM204.4mn mainly underpinned by higher average selling prices of CPO at RM2,769/tonne (+29% YoY) and palm kernel at RM1,573/tonne (+78% YoY).
- For 3QFY17, Malaysia recorded lower FFB production of 15% or 13,066 tonnes on QoQ basis. This was partially offset by increased FFB production of 23% by its Indonesian operating unit.
- No dividend was declared for the quarter under review.

Impact

- We upgrade FY17/FY18/FY19 earnings estimates by 26%/8%/13% respectively, after factoring in higher contribution from Indonesia.

Outlook

- Management advised that FY17 oil palm production growth should be stronger YoY due to increase in mature hectareage by additional 833 ha in Malaysia; ii) higher yield from the young palms in Sabah, and iii) full-year contribution from its 83%-owned company, Lifere Agro Kapuas (LAK) (acquisition was completed in January 2016).
- For FY18, management expects FFB production to increase by 10% as another 3,000 - 4,000 ha will come to maturity.

Valuation

- Rolling forward our valuation base year to CY18, we upgrade United Malacca's target price to RM7.52 (previously RM6.53) based on 21x CY18 EPS. We continue to like United Malacca for its young tree profile, a strong growth prospect and attractive valuations. Maintain BUY on United Malacca. Key risk factors to our call are, 1) a downcycle in CPO price, 2) weakening of USD, 3) global economic slowdown, 4) a prolonged drought resulting in lower FFB production, 5) large supply of soybean oil in the market.

Share Information

Bloomberg Code	UMR MK
Stock Code	2593
Listing	Main Market
Share Cap (mn)	209.2
Market Cap (RMmn)	1,276
Par Value	1.00
52-wk Hi/Lo (RM)	6.20/5.53
12-mth Avg Daily Vol ('000 shrs)	68
Estimated Free Float (%)	77
Beta	0.5

Major Shareholders (%)

OCBC	19.8
Aberdeen	11.01
HSBC	8.53
EPF	8.16

Forecast Revision

	FY17	FY18
Forecast Revision (%)	26.0	8.0
Net profit (RMm)	68.4	72.2
Consensus	54.3	71.3
TA's / Consensus (%)	126.0	101.3
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY17	FY18
ROE (%)	4.0	4.1
Net Gearing (%)	0.1	0.1
NTA/Share (RM)	7.9	8.1
Price/NTA (x)	0.8	0.8

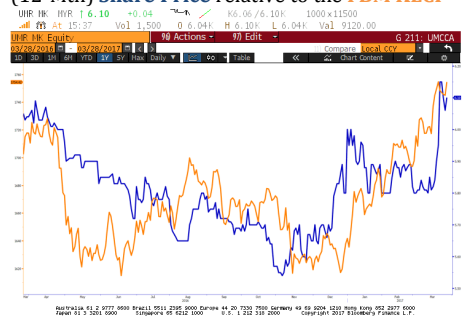
Scorecard

	% of FY	
vs TA	93	Above
vs Consensus	93	Above

Share Performance (%)

Price Change	UMR	FBM KLCI
1 mth	4.8	3.6
3 mth	5.2	7.1
6 mth	7.2	5.1
12 mth	1.2	2.3

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



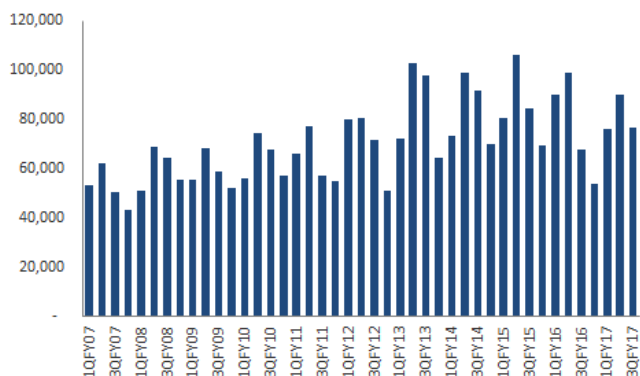
Source: Bloomberg

Figure 1: Production Statistics (Malaysia)

	3QFY16	2QFY17	3QFY17	% QoQ	% YoY	9MFY16	9MFY17	% YoY
FFB (tonnes)	67,461	89,870	76,804	(14.5)	13.8	256,680	242,947	(5.4)
CPO (tonnes)	13,926	18,552	13,852	(25.3)	(0.5)	54,702	47,618	(13.0)
PK (tonnes)	3,346	4,392	3,194	(27.3)	(4.5)	13,536	11,314	(16.4)

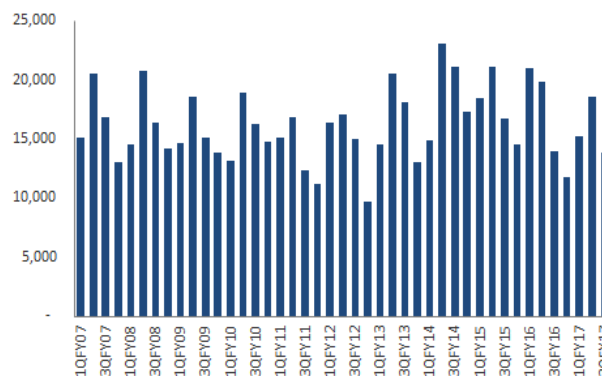
Source: Bursa Announcements, TA Research

Figure 2: FFB Production (in tonnes)



Source: Bursa Announcements, TA Research

Figure 3: CPO Production (in tonnes)



Source: Bursa Announcements, TA Research

3QFY17 Results Analysis (RMmn)

FYE 30 April (RMmn)	3QFY16	2QFY17	3QFY17	QOQ%	YoY %	9MFY16	9MFY17	YoY%
Turnover	50.0	74.4	75.8	1.8	51.4	157.8	204.4	29.5
EBIT	8.9	28.7	27.4	(4.3)	209.0	37.8	67.8	79.3
Net Int Inc/ (exp)	0.5	(0.7)	(0.7)	(3.8)	(235.5)	1.5	(2.0)	nm
EI	6.8	(2.3)	12.7	nm	nm	7.3	5.0	nm
Pretax	16.2	25.7	39.4	53.4	>100	46.7	70.8	51.7
Taxation	(1.4)	(7.0)	(5.6)	19.5	>-100	(7.3)	(14.9)	>-100
MI	0.0	(0.2)	(0.2)	35.1	nm	0.0	(0.3)	nm
Reported net profit	14.8	18.5	33.7	82.0	>100	39.3	55.6	41.2
Core net profit	8.0	20.8	21.0	1.1	>100	32.0	50.5	57.8
Core EPS (sen)	3.9	10.0	10.1			15.4	24.2	
GDPS (sen)	0.0	8.0	0.0			8.0	8.0	
EBIT Margin (%)	17.7	38.5	36.2			23.9	33.2	
Pretax Margin (%)	32.3	34.5	52.1			29.6	34.6	
Tax Rate (%)	8.5	27.1	14.3			15.7	21.1	

Earnings Summary (RMmn)

FYE April 30	FY15	FY16	FY17E	FY18F	FY19F
Revenue	213.2	205.7	248.8	284.9	308.1
EBITDA	92.5	88.5	107.1	115.5	128.2
EBITDA Margin (%)	43.4	43.0	43.0	40.6	41.6
Pretax profit	58.4	70.2	88.2	94.4	104.1
Reported net profit	47.2	59.6	68.4	72.2	78.1
Core net profit	47.2	46.6	68.4	72.2	78.1
Reported EPS (sen)	22.8	28.5	32.6	34.1	36.7
Core EPS (sen)	22.8	22.3	32.6	34.1	36.7
Core EPS Growth (%)	(27.1)	(2.1)	46.2	4.7	7.4
PER (x)	26.8	27.4	18.7	17.9	16.6
Gross Div (sen)	16.0	16.0	17.0	17.0	18.0
Div Yield (%)	2.6	2.6	2.8	2.8	3.0
ROE (%)	2.8	3.5	4.0	4.1	4.3

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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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