



United Malacca Berhad

Business is Picking Up

TP: RM6.54 (+17.8%)

Last traded: RM5.69

Buy

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Review

- United Malacca's 1HFY17 financial results come in above ours and consensus expectations at 67% and 66% of full-year forecasts respectively. This was mainly due to the higher-than-expected CPO and palm kernel prices.
- After stripping out the unrealized forex loss of RM7.65mn, the increase in core profit to RM29.7mn (+20.3% YoY) for 1HFY17 was in tandem with the surge in revenue (+19.4% YoY). This was underpinned by higher average selling price of CPO (RM2,727/tonne) and palm kernel (RM2,777/tonne), which increased by 33.2% and 86.8% respectively.
- On QoQ basis, 2QFY17 core net profit improved by 136.2% to RM20.8mn. Besides higher commodity prices, the better performance was also supported by QoQ increase in FFB (+17.8%), palm kernel (+78%) and CPO production (+21.9%).
- The group declared a first interim single-tier dividend of 8 sen for the quarter under review.

Impact

- We raise our FY17-18 earnings forecast by 21.3% and 15.1% respectively after raising our palm kernel price assumptions to RM2,000/tonne (+48.1%) and RM1,700/tonne (+36.0%) for FY17 and FY18.

Outlook

- Management advised that FY17 oil palm production growth should be stronger YoY due to: i) increase in mature hectareage by additional 833 ha in Malaysia; and ii) a first full-year contribution from its 83%-owned company, Lifere Agro Kapuas (LAK) (acquisition was completed in January 2016).
- Industry experts have also advised that CPO price could reach up to RM3,100/tonne till 1QCY17. We believe this will positively impact United Malacca's FY17 sales if the company is able to maintain its oil palm plantation production rate.

Valuation

- United Malacca's target price is adjusted higher to **RM6.54/share** (previously RM5.60/share) as we raise our FY17-18 earnings forecasts. Our call is also revised from a Sell to **Buy** to reflect the positive outcome of United Malacca's production and sales of palm oil plantation.

Share Information

Bloomberg Code	UMR MK
Stock Code	2593
Listing	Main Market
Share Cap (mn)	209.2
Market Cap (RMmn)	1,190
Par Value	1.00
52-wk Hi/Lo (RM)	6.21/5.53
12-mth Avg Daily Vol ('000 shrs)	54.4
Estimated Free Float (%)	76.9
Beta	0.47
Major Shareholders (%)	
	Aberdeen-21.62
	OCBC- 14.2
	HSBC - 8.53
	EPF - 6.24

Forecast Revision

	FY17	FY18
Forecast Revision (%)	21.3	15.1
Net profit (RMm)	53.3	65.0
Consensus	54.4	64.9
TA's / Consensus (%)	98.0	100.1
Previous Rating	Hold (Upgraded)	

Financial Indicators

	FY17	FY18
ROE (%)	3.1	3.7
Net Gearing (%)	0.0	0.1
NTA/Share (RM)	7.8	8.0
Price/NTA (x)	0.7	0.7

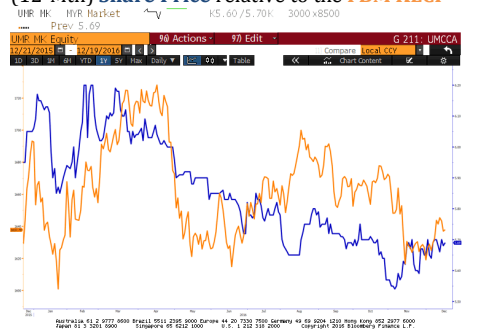
Scorecard

	% of FY	
vs TA	67	Above
vs Consensus	66	Above

Share Performance (%)

Price Change	UMR	FBM KLCI
1 mth	0.0	0.6
3 mth	(0.5)	(0.9)
6 mth	(2.4)	1.4
12 mth	(5.2)	0.2

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



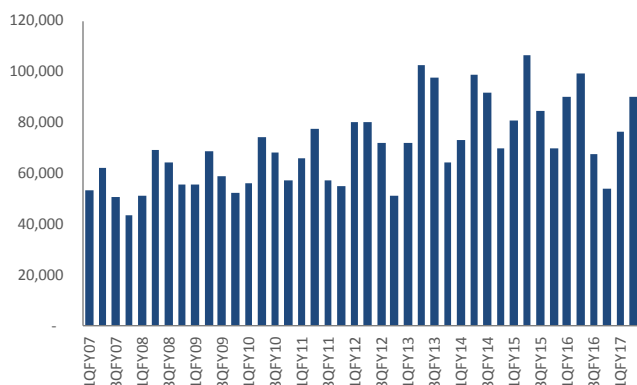
Source: Bloomberg

Figure 1: Production Statistics

	2QFY16	1QFY17	2QFY17	% QoQ	% YoY	1HFY16	1HFY17	% YoY
FFB (tonnes)	99,053	76,273	89,870	17.8	(9.3)	189,219	166,143	(12.2)
CPO (tonnes)	19,817	15,214	18,552	21.9	(6.4)	40,776	33,766	(17.2)
PK (tonnes)	4,953	3,728	4,392	17.8	(11.3)	10,190	8,120	(20.3)

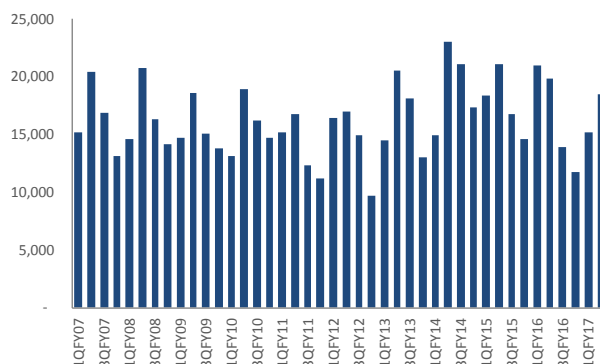
Source: Bursa Announcements, TA Research

Figure 2: FFB Production (in tonnes)



Source: Bursa Announcements, TA Research

Figure 3: CPO Production (in tonnes)



Source: Bursa Announcements, TA Research

2QFY17 Results Analysis (RMmn)

FYE 30 April (RMmn)	2QFY16*	1QFY17	2QFY17	QOQ%	YoY %	1HFY16	1HFY17	YoY%
Turnover	49.9	54.2	74.4	37.3	49.3	107.8	128.7	19.4
EBIT	14.9	11.6	28.7	> +100	92.6	29.5	40.3	36.9
Net Int Inc/ (exp)	0.5	(0.6)	(0.7)	22.9	nm	1.0	(1.3)	nm
EI	0.0	(5.4)	(2.3)	(58.4)	nm	0.0	(7.7)	nm
Pretax	15.4	5.6	25.7	> +100	66.8	30.5	31.3	2.7
Taxation	(3.2)	(2.3)	(7.0)	> +100	> +100	(5.9)	(9.3)	56.7
MI	0.0	0.1	(0.2)	nm	nm	0.0	(0.1)	nm
Reported net profit	12.3	3.4	18.5	> +100	51.0	24.5	21.9	(10.9)
Core net profit	12.3	8.8	20.8	> +100	69.4	24.5	29.5	20.3
Core EPS (sen)	5.9	4.2	10.0			11.8	14.1	
GDPS (sen)	8.0	0.0	8.0			8.0	8.0	
EBIT Margin (%)	29.9	21.4	38.5			27.3	31.3	
Pretax Margin (%)	30.9	10.4	34.5			28.3	24.4	
Tax Rate (%)	20.5	41.5	27.1			19.5	29.7	

Earnings Summary (RMmn)

FYE April 30	2015	2016	2017E	2018F	2019F
Revenue	213.2	205.7	218.0	278.6	289.4
EBITDA	92.5	88.5	79.1	99.7	100.1
EBITDA Margin (%)	43.4	43.0	36.3	35.8	34.6
Pretax profit	58.4	70.2	62.5	81.2	80.0
Reported net profit	47.2	59.6	53.3	65.0	64.0
Core net profit	47.2	46.6	53.3	65.0	64.0
Reported EPS (sen)	22.8	28.5	25.4	30.7	30.1
Core EPS (sen)	22.8	22.3	25.4	30.7	30.1
Core EPS Growth (%)	(27.1)	(2.1)	13.9	21.0	(2.2)
PER (x)	25.0	25.5	22.4	18.5	18.9
Gross Div (sen)	16.0	16.0	16.0	16.0	16.0
Div Yield (%)	2.8	2.8	2.8	2.8	2.8
ROE (%)	2.8	3.5	3.1	3.7	3.6

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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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