



## United Malacca Berhad

FFB Production Continues to Grow

**TP: RM7.45 (+33.0%)**

Last traded: RM5.60

Buy

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### Review

- United Malacca's 1QFY16 financial results came in within our expectations. Net profit of RM12.3mn accounted for 23% of our full year estimate. On QoQ basis, net profit increased by 23.7%, mainly attributable to higher FFB production. Note that FFB production increased by 29.4% QoQ to 90.2k tonnes while CPO production also rose by 43.8% QoQ to 21.0k tonnes.
- The group's average realised CPO price in 1QFY16 stood at RM2,220/tonne (1QFY15: RM2,485/tonne, 4QFY15: RM2,240/tonne), which is close to the average spot CPO price during the quarter.
- Meanwhile, on YoY basis, despite higher plantation contribution, net profit decreased by 3.5% mainly due to fair value losses of RM944k on held-for-trading investments caused by adverse market condition. Despite lower average CPO price, plantation segment registered a 5.0% increase in net profit to RM13.8mn thanks to higher FFB production (+11.8% YoY) in 1QFY16.
- No dividend has been declared for the quarter under review.

### Impact

- We have adjusted our FFB production estimates to be in line with management's guidance. FFB production is expected to increase to 371k tonnes in FY16 and by another 5.7% in FY17 to 436k tonnes. This is lower than our previous forecasts. All in, FY16 earning estimate have been upgraded by 0.5% while FY17 earnings forecast downgraded by 0.3%.

### Outlook

- Management expects FFB production to increase by 5% as an additional 1.2k hectares of area will reach maturity and ready to harvest in FY16. Approximately 81% of its planted oil palms are under 15 years old, which is the prime age category.
- However, management remained concern on the dry weather in Sabah for the last two quarters, and the risk of severe El Nino in the coming months may negatively impact the FFB production.

### Valuation

- We maintain our BUY recommendation on United Malacca with a lower target price of RM7.45 based on PER of 21x and fully diluted CY16 EPS of 35.5 sen. We like United Malacca due to its young tree profile, strong growth potential, insignificant direct currency risk exposure and reasonable valuations. Key risk factors to our call are, 1) A sustained downcycle in CPO price, and 2) global economic slowdown.

### Share Information

Bloomberg Code	UMR MK
Stock Code	2593
Listing	Main Market
Share Cap (mn)	209.2
Market Cap (RMmn)	1,172
Par Value	1.00
52-wk Hi/Lo (RM)	7.00/5.35
12-mth Avg Daily Vol ('000 shrs)	56.0
Estimated Free Float (%)	65.0
Beta	0.53
Major Shareholders (%)	
	Aberdeen - 22.32
	HSBC - 8.53
	EPF - 5.62

### Forecast Revision

	FY16	FY17
Forecast Revision (%)	0.5	(0.3)
Net profit (RMm)	53.1	84.7
Consensus	na	na
TA's / Consensus (%)	na	na
Previous Rating	Buy (Maintained)	

### Financial Indicators

	FY16	FY17
ROE (%)	3.1	5.0
Net Gearing (%)	Net cash	Net cash
NTA/Share (RM)	8.0	8.1
Price/NTA (x)	0.7	0.7

### Scorecard

	% of FY	
vs TA	23	Within
vs Consensus	na	na

### Share Performance (%)

Price Change	UMR	FBM KLCI
1 mth	0.2	10.0
3 mth	(8.5)	(0.1)
6 mth	(12.6)	(4.0)
12 mth	(19.7)	(6.2)

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



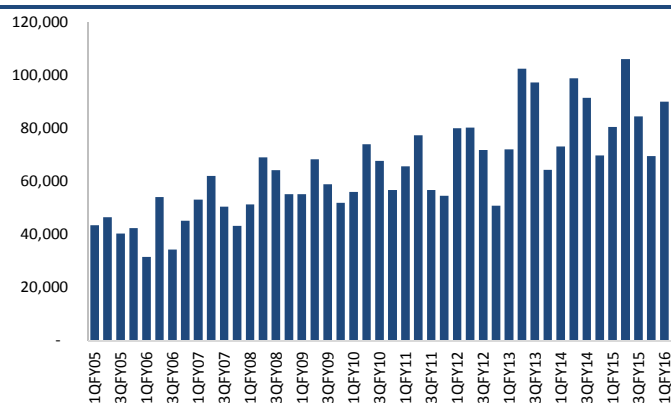
Source: Bloomberg

**Figure 1: Production Statistics**

	1QFY15	4QFY15	1QFY16	% QoQ	% YoY
FFB (tonnes)	80,642	69,670	90,166	29.4	11.8
CPO (tonnes)	18,439	14,577	20,959	43.8	13.7
PK (tonnes)	4,317	3,713	5,237	41.0	21.3

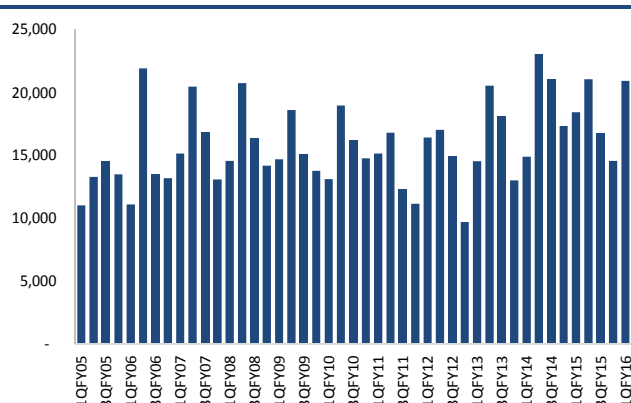
Source: Bursa Announcements, TA Research

**Figure 2: FFB Production (in tonnes)**



Source: Bursa Announcements, TA Research

**Figure 3: CPO Production (in tonnes)**



Source: Bursa Announcements, TA Research

**1Q16 Results Analysis (RMmn)**

FYE 30 April	1Q15	4Q15	1Q16	QOQ%	YoY %
Turnover	58.2	48.1	57.9	20.5	(0.5)
EBIT	14.4	12.1	14.6	20.0	0.9
Net Int Inc/ (exp)	1.0	0.6	0.5	(11.0)	(50.1)
EI	0.0	0.0	0.0	nm	nm
Pretax	15.5	12.7	15.1	18.6	(2.6)
Taxation	(2.7)	(2.8)	(2.8)	0.1	1.8
Reported net profit	12.7	9.9	12.3	23.7	(3.5)
Core net profit	12.7	9.9	12.3	23.7	(3.5)
Core EPS (sen)	6.1	4.8	5.9		
GDPS (sen)	0.0	8.0	0.0		
EBIT Margin (%)	24.8	25.2	25.1		
Pretax Margin (%)	26.6	26.5	26.0		
Tax Rate (%)	17.7	21.9	18.5		

**Earnings Summary (RMmn)**

FYE April 30	2013	2014	2015	2016F	2017F
Revenue	206.1	244.3	213.2	202.9	275.6
EBITDA	76.5	84.1	92.5	75.8	116.0
EBITDA Margin (%)	37.1	34.4	43.4	37.4	42.1
Pretax profit	82.7	84.1	58.4	66.4	105.9
Reported net profit	68.7	70.2	47.2	53.1	84.7
Core net profit	66.6	64.5	47.2	53.1	84.7
Reported EPS (sen)	33.5	34.0	22.8	25.5	40.4
Core EPS (sen)	32.4	31.2	22.8	25.5	40.4
Core EPS Growth (%)	(23.4)	(3.7)	(27.1)	11.9	58.7
PER (x)	17.3	17.9	24.6	22.0	13.8
Gross Div (sen)	21.0	26.0	16.0	17.0	28.0
Div Yield (%)	3.8	4.6	2.9	3.0	5.0
ROE (%)	5.3	4.4	2.8	3.1	5.0

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