



United Malacca Berhad

Lower FFB Yield

TP: RM7.52 (+11%)

Last traded: RM6.78

BUY

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Review

- United Malacca's 1QFY18 financial results came in below expectations. After stripping out all the exceptional items, 1QFY18 core net profit dropped 28.3% YoY to RM5.6mn, accounting for 8% of ours and consensus' full-year estimates. The lower-than-expected results were mainly due to higher production cost and depreciation charges.
- 1QFY18 revenue increased 29.7% YoY to RM70.3mn, mainly underpinned by higher FFB production (+7.5% YoY) of 83.5k tonnes despite a marginal drop in yield. Meanwhile, the average CPO selling price rose 8.2% YoY to RM2,721/tonne also contributed positively to 1QFY18 revenue.
- For 1QFY18, FFB yield dropped to 3.33 tonne/ha compared to 3.81 tonne/ha in the preceding year. The lower yield was mainly due to the newly-matured 2,961 ha of oil palms in Indonesia that came into harvesting at the beginning of the current financial year. However, this was offset by higher FFB production in Malaysia, which increased by 4% YoY to 76.8k tonnes.
- 1QFY18 core profit declined by 28.3% YoY owing to higher production costs (+10% YoY), which reduced adjusted PBT margin from 18% to 11%. Indonesian operations suffered a higher LBT of RM1.02mn, due to low FFB yield and high production cost.
- No dividend was declared for the quarter under review.

Impact

- We cut FY18 earnings forecast by 7.7% after factoring in higher depreciation charges and production costs. However, FY19 has been adjusted higher by 2.6% after revising our FFB production assumptions higher to 462k tonnes.

Outlook

- No change in management guidance on FFB production growth. For FY18, management still expects FFB production to increase by 17% YoY driven by the young matured palms and an additional 4,867 ha coming into maturity (Malaysia - 1,906 ha and Indonesia - 2,961 ha). We believe FFB yield will improve as more trees mature to their prime.

Valuation

- Maintain United Malacca's target price at RM7.52, based on 21x CY18 EPS of 35.8 sen. We continue to like United Malacca for its young tree profile, compelling dividend payout, strong growth prospect and attractive valuations. Key risks to our call are, 1) a prolong downcycle in CPO price, 2) escalating production cost, 3) global economic slowdown, 4) 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)	1,418
Par Value	1.00
52-wk Hi/Lo (RM)	6.74/5.504
12-mth Avg Daily Vol ('000 shrs)	57
Estimated Free Float (%)	60
Beta	0.46

Major Shareholders (%)

OCBC	20.26
Aberdeen	11.18
HSBC	8.53
EPF	8.3

Forecast Revision

	FY18	FY19
Forecast Revision (%)	-7.7	2.6
Net profit (RMm)	66.6	80.1
Consensus	71.0	79.2
TA's / Consensus (%)	93.8	101.0
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY18	FY19
ROE (%)	3.8	4.4
Net Gearing (%)	0.1	0.1
NTA/Share (RM)	8.1	8.3
Price/NTA (x)	0.8	0.8

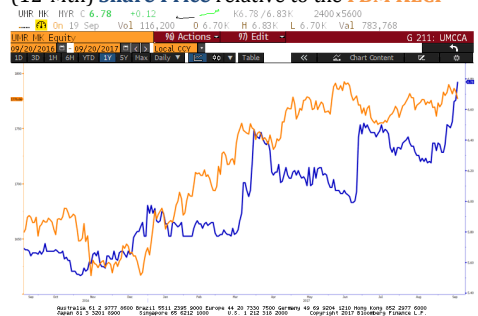
Scorecard

	% of FY	
vs TA	8	Below
vs Consensus	8	Below

Share Performance (%)

Price Change	UMR	FBM KLCI
1 mth	8.3	0.0
3 mth	13.2	(0.2)
6 mth	15.5	1.6
12 mth	19.1	7.3

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



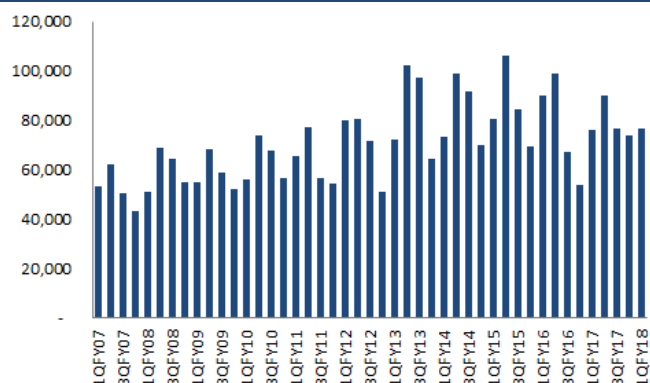
Source: Bloomberg

Figure 1: Production Statistics (Malaysia)

	1QFY17	4QFY17	1QFY18	% QoQ	% YoY
FFB (tonnes)	76,273	73,889	76,811	4.0	0.7
CPO (tonnes)	15,214	12,406	16,704	34.6	9.8
PK (tonnes)	3,728	3,271	3,824	16.9	2.6

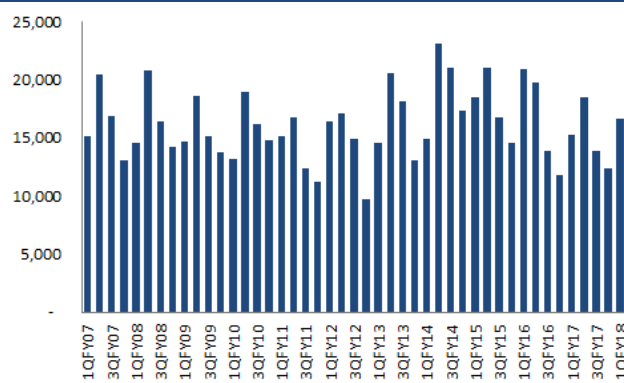
Source: Bursa Announcements, TA Research

Figure 2: FFB Production (in tonnes)



Source: Bursa Announcements, TA Research

Figure 3: CPO Production (in tonnes)



Source: Bursa Announcements, TA Research

1QFY18 Results Analysis (RMmn)

FYE 30 April (RMmn)	1QFY17	4QFY17	1QFY18	QOQ%	YoY %
Turnover	54.2	70.3	70.3	0.0	29.7
EBIT	10.7	25.2	9.0	(64.2)	(15.1)
Net Interest Inc./ (exp.)	(0.6)	(0.8)	(1.0)	(28.1)	(66.2)
EI	(4.4)	3.7	0.7	(79.9)	nm
Pretax	5.6	28.1	8.7	(68.9)	55.6
Taxation	(2.3)	1.9	(2.9)	nm	(24.0)
MI	0.1	(1.1)	0.5	nm	>100
Reported net profit	3.4	29.0	6.3	(78.2)	87.1
Core net profit	7.8	25.3	5.6	(77.9)	(28.3)
Core EPS (sen)	3.8	12.2	2.7		
GDPS (sen)	0.0	15.0	0.0		
EBIT Margin (%)	19.6	35.9	12.9		
Pretax Margin (%)	10.4	40.0	12.4		
Tax Rate (%)	41.5	(6.9)	33.1		

Earnings Summary (RMmn)

FYE April 30	FY15	FY16	FY17E	FY18F	FY19F
Revenue	213.2	205.7	274.7	279.1	310.6
EBITDA	92.5	91.0	118.0	114.4	136.2
EBITDA Margin (%)	43.4	44.2	42.9	41.0	43.8
Pretax profit	58.4	70.2	98.9	86.0	104.5
Reported net profit	47.2	59.6	84.6	66.6	80.1
Core net profit	47.2	46.6	78.6	66.6	80.1
Reported EPS (sen)	22.8	28.5	40.4	31.7	37.8
Core EPS (sen)	22.8	22.3	37.6	31.7	37.8
Core EPS Growth (%)	(27.1)	(2.1)	68.7	(15.7)	19.4
PER (x)	29.8	30.4	18.0	21.4	17.9
Gross Div (sen)	16.0	16.0	23.0	17.0	18.0
Div Yield (%)	2.4	2.4	3.4	2.5	2.7
ROE (%)	2.8	3.5	4.9	3.8	4.4

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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. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

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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(a) nil

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