

United Malacca Berhad

TP: RM6.01 (-4.6%)

Near-Term Earnings Remains Subdued

Last Traded: RM6.30

SELL

Angeline Chin

Tel: +603-2167 9611

angelinechin@ta.com.my

www.taonline.com.my

Review

- United Malacca posted another disappointing set of results, which came in below expectations. After stripping out all the exceptional items, 3QFY18 core net profit dropped by 57.8% YoY to RM8.8mn. The lower-than-expected results were mainly due to higher production cost, which resulted in lower margin.
- Cumulatively, 9MFY18 core net profit decreased by 39.4% YoY to RM30.1mn, accounting for 63% and 49% of our and consensus' full-year estimates. The decrease was mainly due to lower palm oil price, lower FFB yield and high unit cost of production in the newly-matured area.
- FFB production increased by 13.5% to 289.5k tonnes. However, FFB yield dropped to 11.6 tonne/ha compared to 12.5 tonne/ha in the preceding year. The lower yield was mainly due to the newly-matured 4,640 ha of oil palms in Malaysia (1,679 ha) and Indonesia (2,961 ha). Meanwhile, the average CPO selling price dropped 3.5% YoY to RM2,672/tonne while the PK selling price declined by 15.2% YoY to RM2,378/tonnes.
- No dividend was declared for the quarter under review.

Impact

- We trim our FY18/FY19/FY20 earnings forecast by 23.9%/27.2%/30.4%, respectively, after factoring in higher production costs and lower margin.

Outlook

- Management expects higher FFB production for FY18 due to improved FFB yield from the young matured palms and additional new matured area. We believe FFB yield will improve as more trees mature to their prime ages.
- However, according to management, the higher FFB production will not translate into proportionately higher profit due to higher unit cost of production for the newly-matured palms. With that, management warns that its FY18 earnings will be substantially lower compared to last year.

Valuation

- With the earnings downgrade and rolling forward our valuation base year to CY19, we downgrade United Malacca's target price to RM6.01 (previously RM6.73), based on 22x CY19 EPS. Maintain **SELL**.
- 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)	209.7
Market Cap (RMmn)	1,321
52-wk Hi/Lo (RM)	7.08/5.972
12-mth Avg Daily Vol ('000 shrs)	49
Estimated Free Float (%)	72
Beta	0.39
Major Shareholders (%)	
	OCBC- 20.24
	Aberdeen-11.54
	HSBC - 8.52
	EPF - 8.43

Forecast Revision

	FY18	FY19
Forecast Revision (%)	(23.9)	(27.2)
Net profit (RMm)	36.3	53.1
Consensus	61.9	76.6
TA's / Consensus (%)	58.6	69.4
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY18	FY19
ROE (%)	2.1	3.0
Net Gearing (x)	0.1	0.1
NTA/Share (RM)	8.0	8.1
Price/NTA (x)	0.8	0.8

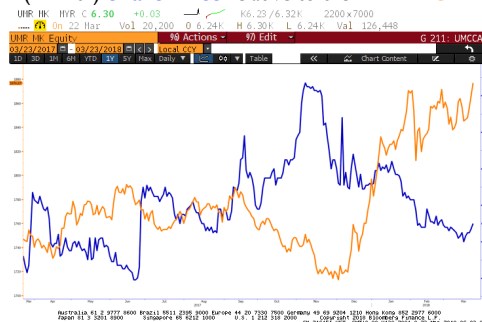
Scorecard

	% of FY	
vs TA	63	Below
vs Consensus	49	Below

Share Performance (%)

Price Change	UMR	FBM KLCI
1 mth	0.2	0.8
3 mth	(2.9)	6.6
6 mth	(3.8)	6.0
12 mth	2.9	7.4

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Figure 1 : Plantation Statistics

	3QFY17	2QFY18	3QFY18	% QoQ	% YoY	9MFY17	9MFY18	% YoY
FFB (tonne)	83,208	98,150	107,879	9.9	29.6	255,056	289,513	13.5
FFB yield (tonne/ha)	4.11	3.92	4.31	9.9	4.9	12.54	11.56	(7.8)
Average CPO price/tonne (RM)	3,069	2,707	2,561	(5.4)	(16.6)	2,769	2,672	(3.5)
Average PK price/tonne (RM)	3,205	2,522	2,522	0.0	(21.3)	2,804	2,378	(15.2)

Source: Company, TA Research

2QFY18 Results Analysis (RMmn)

FYE 30 April (RMmn)	3QFY17	2QFY18	3QFY18	QOQ%	YoY %	9MFY17	9MFY18	YoY%
Turnover	75.8	81.0	64.2	(20.7)	(15.3)	204.4	215.5	5.4
EBIT	27.4	20.9	12.4	(40.9)	(54.7)	67.0	43.4	(35.2)
Net Interest Inc./ (exp.)	(0.7)	(1.1)	(0.3)	(71.2)	53.3	(2.0)	(2.5)	22.1
EI	12.8	(1.8)	11.3	(720.0)	(11.4)	5.8	9.2	57.5
Adj. PBT	26.7	19.8	12.1	(39.1)	(54.8)	64.9	40.9	(37.0)
Pretax	39.4	18.0	23.4	29.8	(40.7)	70.8	50.1	(29.2)
Taxation	(5.6)	(5.5)	(4.5)	(18.7)	19.7	(14.9)	(13.0)	13.3
MI	(0.2)	0.4	1.3	211.4	nm	(0.3)	2.1	nm
Reported net profit	33.7	12.9	20.1	56.4	(40.2)	55.6	39.3	(29.2)
Core net profit	20.9	14.7	8.8	(40.0)	(57.8)	49.7	30.1	(39.4)
Core EPS (sen)	10.1	7.1	4.3			24.0	14.4	
GDPS (sen)	0.0	6.0	0.0			8.0	6.0	
EBIT Margin (%)	36.1	25.9	19.3			32.8	20.2	
Adj. Pretax Margin (%)	35.2	24.5	18.8			31.8	19.0	
Tax Rate (%)	21.1	28.0	37.4			23.0	31.6	

Earnings Summary

FYE April 30	FY16	FY17	FY18E	FY19F	FY20F
Revenue	205.7	274.7	279.1	310.6	349.6
EBITDA	74.7	103.2	80.0	108.1	122.6
EBITDA Margin (%)	36.3	37.6	28.7	34.8	35.1
Pretax profit	70.2	98.9	51.3	75.5	86.9
Reported net profit	59.6	84.6	36.3	53.1	60.5
Core net profit	46.6	78.6	36.3	53.1	60.5
Reported EPS (sen)	28.5	40.4	17.3	25.1	28.4
Core EPS (sen)	22.3	37.6	17.3	25.1	28.4
Core EPS Growth (%)	(2.1)	68.7	(54.1)	45.4	13.1
PER (x)	28.3	16.7	36.5	25.1	22.2
Gross Div (sen)	16.0	23.0	16.0	18.0	19.0
Div Yield (%)	2.5	3.7	2.5	2.9	3.0
ROE (%)	3.5	4.9	2.1	3.0	3.4

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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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As of Friday, March 23, 2018, the analyst, Angeline Chin, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

TA SECURITIES HOLDINGS BERHAD (14948-M)

A Participating Organisation of Bursa Malaysia Securities Berhad

Menara TA One | 22 Jalan P. Ramlee | 50250 Kuala Lumpur | Malaysia | Tel: 603 – 2072 1277 | Fax: 603 – 2032 5048
www.ta.com.my