



United Malacca Berhad

Spreads Its Wings in Indonesia

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TP: RM6.38 (+8.9%)

Last traded: RM5.86

Hold

Review

- United Malacca's 2QFY16 financial results came in within our expectations. Net profit remained stagnant on QoQ basis. The group's average realised CPO price in 2QFY16 stood at RM2,047/tonne (-7.8% QoQ, -4.3% YoY), which is close to the average spot CPO price during the quarter.
- For the 1HFY16, net profit declined by 7.1% YoY to RM24.5mn. This accounted for 46% of our full year estimate. We are expecting higher CPO price ahead. Despite higher FFB production (+1.3% YoY), revenue fell by 8.0% YoY to RM107.8mn, attributable to lower CPO and PK prices.
- FFB production for 2Q increased 9.9% to 99.0k tonnes. Nonetheless, it was down by 6.7% on YoY basis.
- The group has declared a first interim single-tier dividend of 8 sen for the quarter under review.

Buying Indonesia's PT Lifere Agro Kapuas (LAK) for USD66.4mn

- In a separate announcement, United Malacca announced that it is buying 83% effective equity stake in Indonesia's PT Lifere Agro Kapuas (LAK) via the acquisition of an 88.2% stake in International Natural Resources Pte Ltd from Lincoln Wilshire Investments Ltd for a total cash consideration of USD66.40mn (RM285.0mn, USD1 = RM4.29). The proposed acquisition is expected to be completed by 1QCY16. The acquisition will be funded via debt (USD50mn) and internal fund.
- LAK has about 24.6k ha of oil palm plantation located in Kalimantan Tengah. Approximately 10.4k ha of the plantation land have been planted with about 10.1k ha (including Plasma) less than 5 years old (nucleus: 5,231 ha). The acquisition also included a permit to construct a palm oil mill, refinery and bulking station.
- We are neutral on the news as the acquisition will be earnings dilutive in the short term but could be significantly positive in the long term. A quick back-on-the envelope calculation shows that the acquisition would dilute earnings by 12% - 15% in FY17 and FG18, after taking into account the financing cost of approximately RM4mn - RM6mn (2% - 3% interest rate from a loan from OCBC) and the estate cost.
- More importantly, the acquisition marks the first time the group gearing up to fund expansion plan. The group may even venture into downstream refining business since LAK already has the necessary land and permit to do so. This is a significant departure from the group's long held business model of focusing on upstream and shying away from debts fueled acquisitions.
- Note that United Malacca is currently in a net cash position with zero borrowing (liquid cash ~RM195mn). The acquisition will place the group in a net gearing position of 0.05x.

Share Information

Bloomberg Code	UMR MK
Stock Code	2593
Listing	Main Market
Share Cap (mn)	207.5
Market Cap (RMmn)	1,216
Par Value	1.00
52-wk Hi/Lo (RM)	6.53/5.35
12-mth Avg Daily Vol ('000 shrs)	54.0
Estimated Free Float (%)	43.2
Beta	0.48
Major Shareholders (%)	
	OCBC-20.31
	Aberdeen - 14.97
	HSBC - 8.53
	EPF - 5.63
	Std Chartered - 3.68

Forecast Revision

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

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	46	Within
vs Consensus	na	na

Share Performance (%)

Price Change	UMR	FBM KLCI
1 mth	(3.9)	(2.0)
3 mth	5.6	(1.5)
6 mth	(5.5)	(5.8)
12 mth	(3.9)	(3.1)

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



Source: Bloomberg

- The acquisition price translates into approximately RM11.6k/ha or represents 8.8% discount to the market value determined by an independent registered valuer. Meanwhile, the acquisition will double the group's current land bank to 48.7k ha.

Impact

- No change to our earnings forecast.

Outlook

- FFB production declined in Oct (-7.6% MoM, 19.0% YoY). Management guided that the Oct's production was affected by dry weather, especially in Meridian estate, Sandakan. For now, there is no change to management guidance of 5% growth in FFB production as an additional 1.2k hectares of newly matured area are ready to harvest in FY16.
- That said, management is still cautious that the dry weather in Sabah in the past 10 months, and a prolong El Nino will negatively impact the FFB production in the years ahead.

Valuation

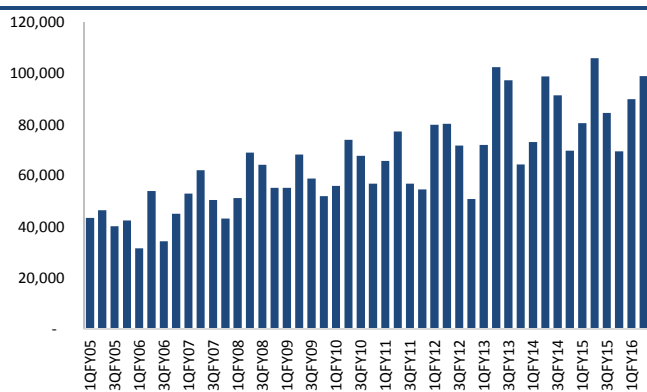
- While we are leaving earnings forecasts unchanged for now, we have reduced the target PER to 18x (21x previously) to reflect the potential earnings dilution from this acquisition. As a result, we cut target price on the stock to RM6.38 and downgrade it to Hold. Although we still like the company for its well managed operations and attractive dividend policy, upside to share price in the short term will be capped by the earnings impact arising from this acquisition.

Figure 1: Production Statistics

	2QFY15	1QFY16	2QFY16	% QoQ	% YoY	1HFY15	2HFY16	% YoY
FFB (tonnes)	106,205	90,166	99,053	9.9	(6.7)	186,847	189,219	1.3
CPO (tonnes)	21,070	20,959	19,817	(5.4)	(5.9)	39,509	40,776	3.2
PK (tonnes)	5,368	5,237	4,953	(5.4)	(7.7)	9,685	10,190	5.2

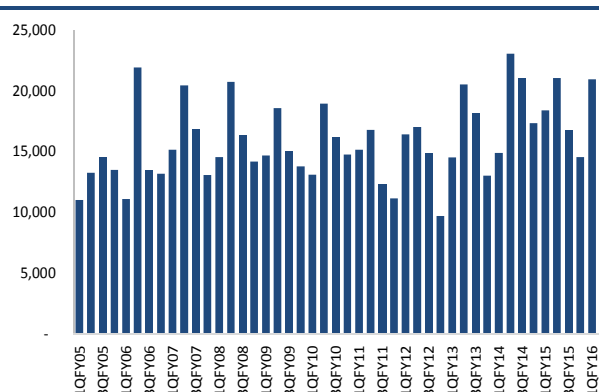
Source: Bursa Announcements, TA Research

Figure 2: FFB Production (in tonnes)



Source: Bursa Announcements, TA Research

Figure 3: CPO Production (in tonnes)



Source: Bursa Announcements, TA Research

2Q16 Results Analysis (RMmn)

FYE 30 April	2Q15	1Q16	2Q16	QOQ%	YoY %	1HFY15	1HFY16	YoY%
Turnover	59.0	57.9	49.9	(13.9)	(15.4)	117.2	107.8	(8.0)
EBIT	16.3	14.6	14.9	2.4	(8.3)	30.7	29.5	(4.0)
Net Int Inc/ (exp)	0.9	0.5	0.5	(2.7)	(45.0)	2.0	1.0	(47.7)
EI	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
Pretax	17.2	15.1	15.4	2.2	(10.3)	32.7	30.5	(6.6)
Taxation	(3.5)	(2.8)	(3.2)	13.5	(9.2)	(6.2)	(5.9)	4.3
Reported net profit	13.7	12.3	12.3	(0.4)	(10.5)	26.4	24.5	(7.1)
Core net profit	13.7	12.3	12.3	(0.4)	(10.5)	26.4	24.5	(7.1)
Core EPS (sen)	6.6	5.9	5.9	(0.4)	(10.5)	12.8	11.8	(7.1)
GDPS (sen)	8.0	0.0	8.0			8.0	8.0	
EBIT Margin (%)	27.6	25.1	29.9			26.2	27.3	
Pretax Margin (%)	29.1	26.0	30.9			27.9	28.3	
Tax Rate (%)	20.3	18.5	20.5			19.0	19.5	

Earnings Summary (RMmn)

FYE April 30	2014	2015	2016E	2017F	2018F
Revenue	244.3	213.2	202.9	275.6	324.2
EBITDA	84.1	92.5	75.8	116.0	134.2
EBITDA Margin (%)	34.4	43.4	37.4	42.1	41.4
Pretax profit	84.1	58.4	66.4	105.9	124.5
Reported net profit	70.2	47.2	53.1	84.7	99.6
Core net profit	64.5	47.2	53.1	84.7	99.6
Reported EPS (sen)	34.0	22.8	25.5	40.4	47.3
Core EPS (sen)	31.2	22.8	25.5	40.4	47.3
Core EPS Growth (%)	(3.7)	(27.1)	11.9	58.7	16.9
PER (x)	18.8	25.7	23.0	14.5	12.4
Gross Div (sen)	26.0	16.0	17.0	28.0	33.0
Div Yield (%)	4.4	2.7	2.9	4.8	5.6
ROE (%)	4.4	2.8	3.1	5.0	5.7

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