TA SECURITIES
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Wednesday, October 26, 2016
FBMKLCI: 1,677.43
Sector: Plantation

United Malacca Berhad

Thinking Long Term

TP: RM5.60 *(-0.9%)*

Last traded: RM5.65

Sell

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Recently we met with the management of United Malacca Berhad, represented by Chairman, Datin Paduka Tan Siok Choo, CEO, Mr Peter Benjamin and CFO, Ms Susan Lai. They shared some of the company's strategic plans in tackling challenges in the current palm oil sector i.e. 1) costs efficiency through mechanization, 2) building two more palm oil mills to cater for higher capacity and 3) possible diversification of earnings through other crops. Subsequently, we tweak our earnings lower for FY17 and FY18 by 15.7% and 6.4% respectively.

Costs Efficiency Through Mechanization

United Malacca was given limited quota of foreign workers that are allowed to work in its palm oil estates within Malaysia, which accounted for 80.6% of plantation landbank. In order to fix this low workforce issue, the company has invested in 21 units of mini tractors and 6 units of fertilizer spreaders for infield FFB loading and manuring process respectively. Management indicated that through mechanisation, FFB harvesting productivity could increase from 1.2 tonnes/day per worker to 3 – 3.5 tonnes/day per worker over the next 4 years without affecting the costs of labour. The total CAPEX is estimated at RM2mn.

2 New Palm Oil Mills

The management planned to build two new palm oil mills, in Malaysia and Indonesia within the next two years. The CAPEX for this venture is expected to be RM57mn for the Malaysia operation and USD20mn for the Indonesia operation. Furthermore, the existing 2 pnalm oil mills will undergo upgrading. This is expected to increase the milling capacity from 80 tonnes/hour to 160 tonnes/hour within the next 2 years.

Possible Diversification of Earnings Through Other Crops

To recap, United Malacca entered into a Memorandum of Understanding (MOU) for a Joint Venture with parties from Indonesia to acquire 60% equity interest (59,920 ha) of land within an industrial plantation forest area in Central Sulawesi, Indonesia. The MOU is still ongoing and we can expect announcement in the 1H of 2017. The management shared that they are looking into planting short term crops, which would take 3 years or less to harvest after planting. Possible crops are cocoa, stevia and coconut. Benefits of harvesting these crops are 1) growing global demand for consumption and beauty products and 2) declining supply from other countries due to political factors.

Review

Given that United Malacca has been in the plantation business for more than 100 years, it comes to no surprise that the Company is able to operate sustainably in a challenging external environment be it from the regulators or the weather. The lingering effects of El Nino have taken a toll on the Company's yield and production (Figure 2).

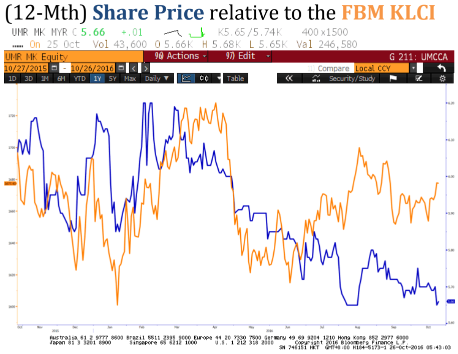
Share Information	
Bloomberg Code	UMR MK
Stock Code	2593
Listing	Main Market
Share Cap (mn)	209.2
Market Cap (RMmn)	1,184
Par Value	1.00
52-wk Hi/Lo (RM)	6.21/5.64
12-mth Avg Daily Vol ('000 shrs)	51.6
Estimated Free Float (%)	79.3
Beta	0.49
Major Shareholders (%)	
	Aberdeen-21.66
	OCBC - 14.21
	HSBC - 8.53
	EPF - 6.24

Forecast Revision	FY17	FY18
Forecast Revision (%)	(15.7)	(6.4)
Net profit (RMm)	43.9	56.5
Consensus	57.1	66.3
TA's / Consensus (%)	77.0	85.1
Previous Rating	Sell (Downgrade)	

Financial Indicators	FY17	FY18
ROE (%)	2.6	3.3
Net Gearing (%)	0.0	0.0
NTA/Share (RM)	8.2	8.2
Price/NTA (x)	0.7	0.7

Share Performance (%)		
Price Change	**UMR**	**FBM KLCI**
1 mth	(0.7)	(1.1)
3 mth	(2.1)	(0.9)
6 mth	(5.7)	(3.6)
12 mth	(6.4)	(3.4)

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



Source: Bloomberg

However, management guided that FFB production is expected to improve by 10% after the second half of FY18. This will then translate to better earnings performance for FY18 given no unforeseen events arises.

Forecast

We cut our FY17 and FY18 earnings projections by 15.7% and 6.4% respectively to factor in the increase in production costs/tonne (+10% YoY).

Valuation

We are positive with the measures taken by United Malacca as this will mitigate the labour problem in the long term. However current valuation is excessive with a forward PE of 27.0 EPS. We downgrade United Melacca to Sell (from Hold) with lower target price of RM5.60 (from RM6.13 previously), based on unchanged 22.6x CY17 EPS.

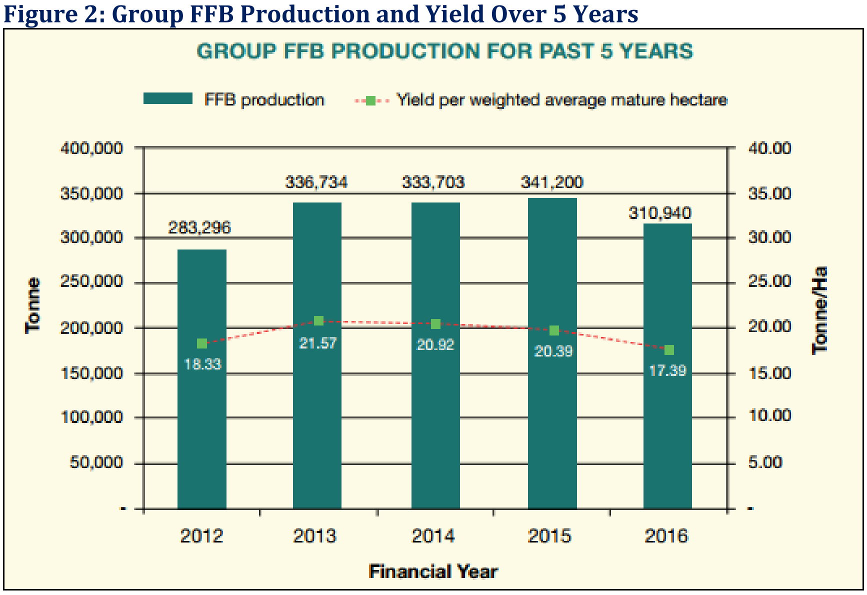
Figure 1: Tree Planting Age

	Malaysia		Indonesia *		Group	
	Ha	%	Ha	%	Ha	%
< 4 years	4,351	20%	5,205	98%	9,556	35%
4 - 7 years	2,977	13%	124	2%	3,101	11%
8 - 15 years	10,640	48%	-	-	10,640	39%
16 - 20 years	3,438	15%	-	-	3,438	12%
21 - 25 years	661	3%	-	-	661	2%
> 25 years	111	1%	-	-	111	1%
Total Planted	**22,178**	**100%**	**5,329**	**100%**	**27,507**	**100%**
Average Age	9.83 years		2.29 years		8.37 years	

* Exclude plasma

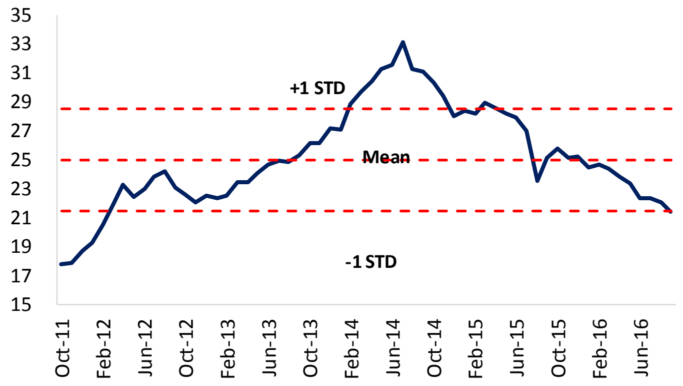
Source: 2016 Annual Report, Company

Figure 2: Group FFB Production and Yield Over 5 Years



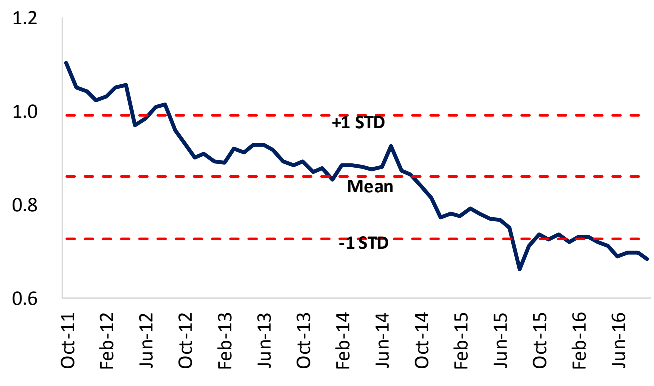
Source: 2016 Annual Report, Company

Figure 3: 5 Year Rolling Average PER



Source: Bloomberg, TA Research

Figure 4: 5 Year Rolling Average P/B



Source: Bloomberg, TA Research

Earnings Summary (RMmn)

P&L

YE April 30 (RMmn)		FY15	FY16	FY17E	FY18F	FY19F
Revenue		213	206	207	268	281
EBITDA		92	89	68	89	91
Depreciation & amortisation		(18)	(20)	(19)	(20)	(22)
Interest income		2	(1)	(3)	(3)	(3)
Other income		8	0	5	5	5
Associate + JV		0	0	0	0	0
Forex & EI		0	13	0	0	0
PBT		58	70	51	71	71
Taxation		(11)	(10)	(8)	(14)	(14)
MI		0	(0)	0	(0)	0
Net profit		47	60	44	56	57
Core net profit		47	47	44	56	57
Reported EPS (basic)	(sen)	22.8	28.5	20.9	26.7	26.6
Core EPS (diluted)	(sen)	22.8	22.3	20.9	26.7	26.6
GDPS	(sen)	16.0	16.0	16.0	16.0	16.0

BALANCE SHEET

YE April 30 (RMmn)	FY15	FY16	FY17E	FY18F	FY19F
Fixed assets	681	684	772	826	872
Other non current assets	903	1,198	1,198	1,198	1,198
Cash	74	40	99	93	103
Other current assets	157	143	61	64	63
Total assets	**1,814**	**2,064**	**2,129**	**2,180**	**2,236**
Current liabilities	23	26	31	39	43
LT debts	0	137	187	207	237
Other LT liabilities	111.6	150.8	150.8	150.8	150.8
Shareholders' funds + MI	1,680	1,750	1,760	1,783	1,805
Total liabilties + equity	**1,814**	**2,064**	**2,129**	**2,180**	**2,236**

RATIOS

YE April 30 (RMmn)		FY15	FY16	FY17E	FY18F	FY19F
Valuations						
PER	(x)	24.8	19.8	27.0	21.2	21.2
PER (diluted)	(x)	24.8	25.3	27.0	21.2	21.2
Div. Yield	(%)	2.8	2.8	2.8	2.8	2.8
P/BV	(x)	0.7	0.7	0.7	0.7	0.7
EV/EBITDA	(x)	11.1	11.3	18.5	14.1	14.2
Profitability ratios						
Core ROAE	%	2.8	3.5	2.6	3.3	3.2
Core ROAA	%	2.6	3.1	2.1	2.6	2.6
EBITDA margin	%	43.4	43.0	32.9	33.3	32.6
PBT margin	%	27.4	34.1	24.9	26.3	25.2
Liquidity ratios						
Current ratio	(x)	10.2	7.0	5.2	4.0	3.9
Quick ratio	(x)	9.8	6.3	4.9	3.8	3.7
Net current assets	(RMmn)	208	156	129	117	124
Leverage ratios						
Total liabilities / equity	(x)	0.1	0.2	0.2	0.2	0.2
Net debt / equity	(x)	(0.0)	0.1	0.1	0.1	0.1
Int. coverage ratio	(x)	0.0	0.0	19.0	23.2	0.0

CASH FLOW

YE April 30 (RMmn)	FY15	FY16	FY17E	FY18F	FY19F
PBT	58	70	51	71	71
Depreciation & amortisation	18	20	19	20	22
Changes in WC	1	20	86	6	4
Tax paid & others	(15)	(25)	(8)	(14)	(14)
Operational cash flow	**62**	**85**	**149**	**83**	**83**
Capex	(7)	(22)	(106)	(74)	(68)
Others	(47)	(156)	0	0	0
Investing cash flow	**(54)**	**(178)**	**(106)**	**(74)**	**(68)**
Share issuance	7	8	0	0	0
Dividend paid	(50)	(33)	(34)	(34)	(34)
Net change in debts	0	50	50	20	30
Others	0	34	0	0	0
Financial cash flow	**(43)**	**59**	**16**	**(14)**	**(4)**
Net cash flow	(35)	(34)	59	(6)	10
Opening cash flow	108	74	40	99	93
Closing cash flow	**74**	**40**	**99**	**93**	**103**

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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.

for TA SECURITIES HOLDINGS BERHAD(14948-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)
Kaladher Govindan – Head of Research