

United Malacca Berhad

TP: RM6.73 (+0.7%)

Unexciting Near Term Outlook

Last Traded: RM6.68

SELL

Angeline Chin

Tel: +603-2167 9611

angelinechin@ta.com.my

www.taonline.com.my

Review

- United Malacca posted a disappointing 2QFY18 results, which came in below expectations. After stripping out all the exceptional items, 2QFY18 core net profit dropped 28.9% YoY to RM14.7mn. The lower-than-expected results were mainly due to higher production cost and operating expenses, which resulted in lower margin.
- Cumulatively, 1HFY18 core net profit decreased by 26.0% YoY to RM21.3mn, accounting for 32% and 30% of our and consensus' full-year estimates. The decrease was mainly due to higher depreciation charges, lower FFB yield and high unit cost of production in the newly-matured area (Malaysia: 1,679 ha, Indonesia: 2,961 ha).
- FFB production increased by 5.7% to 181.6k tonnes. However, FFB yield dropped to 7.25 tonne/ha compared to 8.43 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. Meanwhile, the average CPO selling price rose 3.1% YoY to RM2,714/tonne while the PK selling price declined by 12.1% YoY to RM2,308/tonnes.
- The group declared a first interim single-tier dividend of 6 sen for the quarter under review (vs. 2QFY17: 8 sen/share).

Impact

- We trimmed our FY18 and FY19 earnings forecast by 28.4% and 8.8%, respectively after factoring in higher production costs and lower margin. We also introduce our FY20 net profit forecast of RM87.0mn underpinned by 7.1% growth in FFB.

Outlook

- Management expects higher FFB production for FY18 due to improved FFB yield from the young matured palms and additional 4,640 ha coming into maturity (Malaysia - 1,679 ha and Indonesia - 2,961 ha). 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.

Valuation

- With the earnings downgrade, the target price for United Malacca is adjusted lower to **RM6.73/share** (previously RM7.52/share), based on CY18 PER of 22x, which is 2x lower than our sector target PER of 24x as we believe the near-term upside will be capped by escalating operating costs and potential risk of low FFB production. We downgrade the stock from Buy to **Sell**.

Share Information

Bloomberg Code	UMR MK
Stock Code	2593
Listing	Main Market
Share Cap (mn)	209.2
Market Cap (RMmn)	1,397
Par Value	1.00
52-wk Hi/Lo (RM)	7.08/5.673
12-mth Avg Daily Vol ('000 shrs)	65
Estimated Free Float (%)	72
Beta	0.4
Major Shareholders (%)	
	OCBC - 20.26
	Aberdeen - 11.18
	HSBC - 8.53
	EPF - 8.3

Forecast Revision

	FY18	FY19
Forecast Revision (%)	(28.4)	(8.8)
Net profit (RMmn)	47.7	73.0
Consensus	71.2	79.2
TA's / Consensus (%)	66.9	92.1
Previous Rating	Buy (Downgrade)	

Financial Indicators

	FY18	FY19
ROE (%)	2.7	4.1
Net Gearing (x)	0.1	0.1
NTA/Share (RM)	8.0	8.2
Price/NTA (x)	0.8	0.8

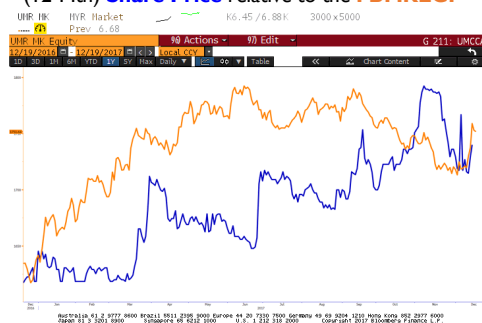
Scorecard

	% of FY	
vs TA	32	Below
vs Consensus	30	Below

Share Performance (%)

Price Change	UMR	FBM KLCI
1 mth	(5.0)	1.7
3 mth	(1.5)	(1.4)
6 mth	10.8	(2.1)
12 mth	15.9	7.2

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

- 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.

Figure 1 : Plantation Statistics (Malaysia)

	2QFY17	1QFY18	2QFY18	% QoQ	% YoY	1HFY17	1HFY18	% YoY
FFB (tonne)	94,220	83,484	98,150	17.6	4.2	171,848	181,634	5.7
FFB yield (tonne/ha)	4.62	3.33	3.92	17.7	(15.2)	8.43	7.25	(14.0)
Average CPO price/tonne (RM)	2,727	2,721	2,707	(0.5)	(0.7)	2,633	2,714	3.1
Average PK price/tonne (RM)	2,777	2,070	2,522	21.8	(9.2)	2,627	2,308	(12.1)

Source: Company, TA Research

2QFY18 Results Analysis (RMmn)

FYE 30 April (RMmn)	2QFY17	1QFY18	2QFY18	QOQ%	YoY %	1HFY17	1HFY18	YoY%
Turnover	74.4	70.3	81.0	15.2	8.8	128.7	151.3	17.6
EBIT	28.6	10.1	20.9	>100	(26.7)	39.6	31.0	(21.6)
Net Interest Inc./ (exp.)	(0.7)	(1.0)	(1.1)	(7.4)	56.1	(1.3)	(2.2)	(60.8)
EI	(2.2)	(0.3)	(1.8)	>-100	15.5	(6.9)	(2.1)	69.3
Adj. PBT	27.9	9.0	19.8	>100	28.9	38.3	28.9	24.5
Pretax	25.7	8.7	18.0	>100	(30.0)	31.3	26.7	(14.6)
Taxation	(7.0)	(2.9)	(5.5)	(91.7)	20.5	(9.3)	(8.4)	9.4
MI	(0.2)	0.5	0.4	(15.4)	nm	(0.1)	0.9	nm
Reported net profit	18.5	6.3	12.9	>100	(30.5)	21.9	19.2	(12.3)
Core net profit	20.7	6.6	14.7	>100	(28.9)	28.8	21.3	(26.0)
Core EPS (sen)	10.0	3.2	7.1			13.9	10.2	
GDPS (sen)	8.0	0.0	6.0			8.0	6.0	
EBIT Margin (%)	38.4	14.4	25.9			30.8	20.5	
Adj. Pretax Margin (%)	37.4	12.9	24.5			29.7	19.1	
Tax Rate (%)	25.0	32.0	28.0			24.3	29.2	

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	95.1	134.2	157.0
EBITDA Margin (%)	36.3	37.6	34.1	43.2	44.9
Pretax profit	70.2	98.9	66.5	102.0	122.2
Reported net profit	59.6	84.6	47.7	73.0	87.0
Core net profit	46.6	78.6	47.7	73.0	87.0
Reported EPS (sen)	28.5	40.4	22.7	34.5	40.8
Core EPS (sen)	22.3	37.6	22.7	34.5	40.8
Core EPS Growth (%)	(2.1)	68.7	(39.7)	52.1	18.3
PER (x)	30.0	17.8	29.4	19.4	16.4
Gross Div (sen)	16.0	23.0	17.0	18.0	16.0
Div Yield (%)	2.4	3.4	2.5	2.7	2.4
ROE (%)	3.5	4.9	2.7	4.1	4.8

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

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.

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

As of Tuesday, December 19, 2017, 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