



United Malacca Berhad

Weak Earnings in 3QFY16

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TP: RM6.79 (+12.6%)

Last traded: RM6.03

Hold

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Review

- United Malacca has consolidated its 83% owned company, Lifere Agro Kapuas (LAK) into its financial statement in 3QFY16. To recap, the acquisition has been completed on 22 January 2016
- The group registered a net profit of RM14.8mn in 3QFY16. After stripping out net the unrealised forex gain of RM6.8mn, 9MFY16 core net profit of RM32.6mn came in below ours and consensus' expectations at 75% and 69%, respectively. We expect 4QFY16 to register lower earnings due to weak FFB production and losses arising from Indonesia operations.
- 9MFY16 core net profit declined by 12.5% YoY mainly attributed to 1) lower FFB production (-5.5% YoY), 2) lower average CPO price (-6.2% YoY) and 3) higher depreciation expenses (+13.0% YoY).
- On QoQ basis, core net profit decreased by 34.6%, mainly due to weak FFB production as a results of lagged dry weather effect. The FFB, CPO and palm kernel production reduced by 31.9%, 29.7% and 32.4%, respectively.
- The weak core net profit was partly offset by higher CPO and palm kernel prices. Note that CPO and palm kernel prices were 5.3% and 19.9% higher respectively. (CPO - 2QFY16: RM2,047/tonne, 3QFY16: RM2,156/tonne, palm kernel - 2QFY16: RM1,487/tonne, 3QFY16: 1,783/tonne).
- No dividend has been declared for the quarter under review.

Impact

- We have already consolidated LAK's earnings into our model. Our earnings forecast for FY16/17/18 is tweaked by -5.9%/-0.5%/-0.1% after some housekeeping changes.

Outlook

- FFB production is expected to remain weak due to the lagged effect of El-Nino.
- Higher CPO price is expected going forward, which could cushion some negative impact of weak FFB production. Our in-house forecast suggests that CPO price could trade at an average of RM2,700/tonne in CY16.
- However, management remains concerned that the higher CPO price will not fully offset the reduction in the Group's FFB production.

Valuation

- We maintain our **HOLD** recommendation on United Malacca with a lower target price of **RM6.79**, based on 21x PER and CY17 EPS. This is slightly lower than the mean of its 5 year forward PER of 22.9x. We believe there will be earnings dilution from the recent acquisition but the Group's long-term outlook remains positive. Key risk factors to our call are, 1) longer gestation period for the Indonesian plantation, 2) global economic slowdown and 3) lower CPO price.

Share Information

Bloomberg Code	UMR MK
Stock Code	2593
Listing	Main Market
Share Cap (mn)	209.2
Market Cap (RMmn)	1,262
Par Value	1.00
52-wk Hi/Lo (RM)	6.48/5.35
12-mth Avg Daily Vol ('000 shrs)	35.4
Estimated Free Float (%)	81.0
Beta	0.26
Major Shareholders (%)	
	Aberdeen-21.6
	OCBC- 14.2
	HSBC - 8.5
	EPF - 6.2

Forecast Revision

	FY16	FY17
Forecast Revision (%)	(5.9)	(0.5)
Net profit (RMm)	40.9	59.4
Consensus	47.5	68.2
TA's / Consensus (%)	86.1	87.1
Previous Rating	Hold (Maintain)	

Financial Indicators

	FY16	FY17
ROE (%)	2.4	3.4
Net Gearing (%)	0.1	0.1
NTA/Share (RM)	7.7	7.8
Price/NTA (x)	0.8	0.8

Scorecard

	% of FY	
vs TA	75	Below
vs Consensus	69	Below

Share Performance (%)

Price Change	UMR	FBM KLCI
1 mth	(0.2)	3.6
3 mth	(0.3)	1.8
6 mth	4.3	7.0
12 mth	(5.8)	(5.4)

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



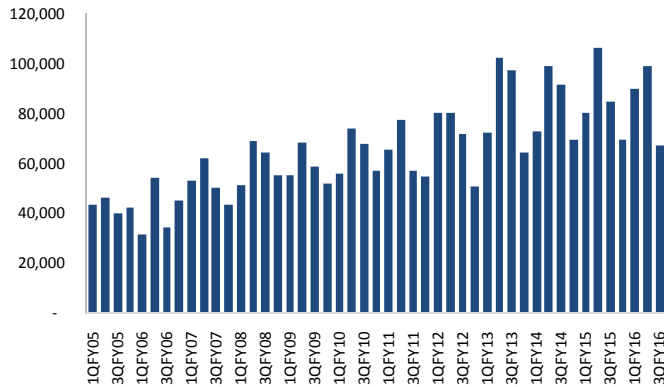
Source: Bloomberg

Figure 1: Production Statistics

	3QFY15	2QFY16	3QFY16	% QoQ	% YoY	3QFY15	3QFY16	% YoY
FFB (tonnes)	84,683	99,053	67,461	(31.9)	(20.3)	271,530	256,680	(5.5)
CPO (tonnes)	16,763	19,817	13,926	(29.7)	(16.9)	56,272	54,702	(2.8)
PK (tonnes)	3,870	4,953	3,346	(32.4)	(13.5)	13,555	13,536	(0.1)

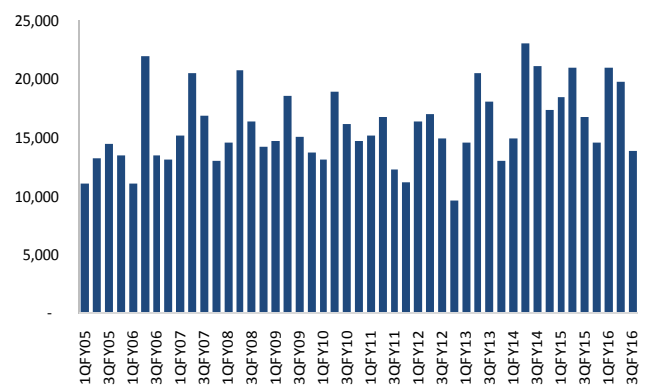
Source: Bursa Announcements, TA Research

Figure 2: FFB Production (in tonnes)



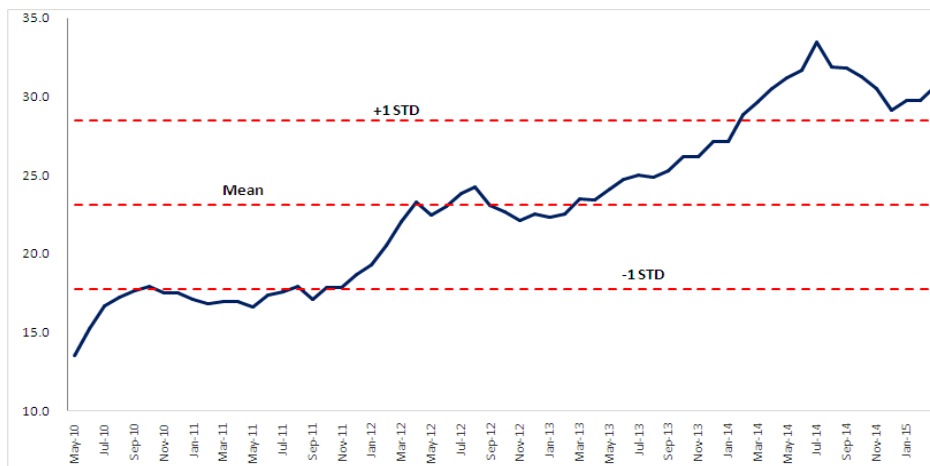
Source: Bursa Announcements, TA Research

Figure 3: CPO Production (in tonnes)



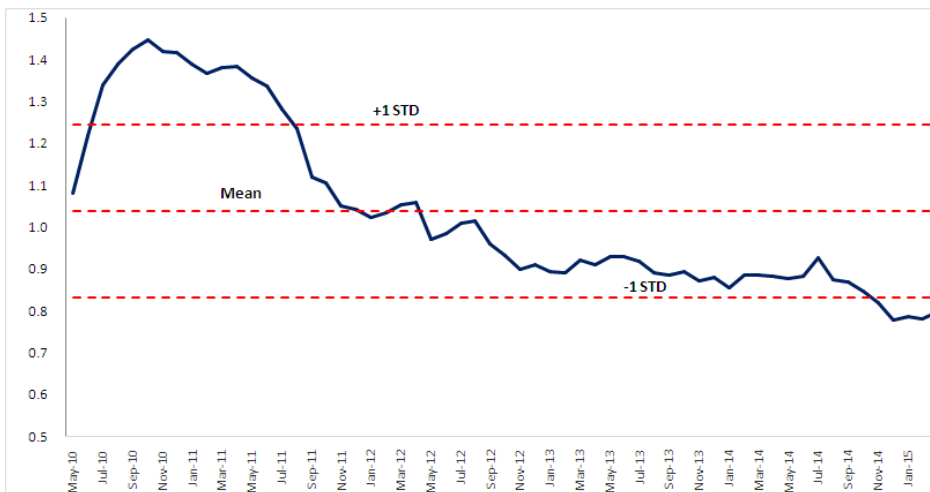
Source: Bursa Announcements, TA Research

Figure 4: 5 Year Forward PER



Source: Bloomberg, TA Research

Figure 5: 5 Year Forward PBR



Source: Bloomberg, TA Research

3Q16 Results Analysis (RMmn)

FYE 30 April	3Q15	2Q16	3Q16	QOQ%	YoY %	9MFY15	9MFY16	YoY%
Turnover	47.9	49.9	50.0	0.3	4.5	165.1	157.8	(4.4)
EBIT	11.7	14.9	8.9	(40.4)	(23.8)	41.6	38.3	(7.7)
Net Int Inc/ (exp)	1.5	0.5	0.5	1.0	(65.2)	4.2	1.5	(63.2)
EI	0.0	0.0	6.8	nm	nm	0.0	6.8	nm
Pretax	13.0	15.4	16.2	4.9	24.2	45.7	46.7	2.1
Taxation	(2.3)	(3.2)	(1.4)	(56.4)	(39.4)	(8.5)	(7.3)	13.8
Reported net profit	10.8	12.3	14.8	20.8	36.4	37.2	39.4	5.7
Core net profit	10.8	12.3	8.0	(34.6)	(26.1)	37.2	32.6	(12.5)
Core EPS (sen)	5.2	5.9	3.9	(34.6)	(26.1)	18.0	15.7	(12.5)
GDPS (sen)	0.0	8.0	0.0			8.0	8.0	
EBIT Margin (%)	24.3	29.9	17.7			25.2	24.3	
Pretax Margin (%)	27.2	30.9	32.3			27.7	29.6	
Tax Rate (%)	17.5	20.5	8.5			18.5	15.6	

Earnings Summary (RMmn)

FYE April 30	2014	2015	2016E	2017F	2018F
Revenue	244.3	213.2	193.0	277.3	358.5
EBITDA	84.1	92.5	67.0	89.2	115.5
EBITDA Margin (%)	34.4	43.4	34.7	32.2	32.2
Pretax profit	84.1	58.4	48.1	67.9	93.5
Reported net profit	70.2	91.5	40.9	59.4	73.2
Core net profit	64.5	47.2	40.9	59.4	73.2
Reported EPS (sen)	34.0	44.2	19.6	28.2	34.4
Core EPS (sen)	31.2	22.8	19.6	28.2	34.4
Core EPS Growth (%)	(3.7)	(27.1)	(14.0)	43.9	22.0
PER (x)	19.3	26.5	30.8	21.4	17.5
Gross Div (sen)	26.0	16.0	13.0	11.0	13.0
Div Yield (%)	4.3	2.7	2.2	1.8	2.2
ROE (%)	4.4	5.4	2.4	3.4	4.1

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