

## United Malacca Berhad

**TP: RM5.59** (-8.1%)

*Lower Dividend*
*Last Traded: RM6.08*
**SELL**

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### Review

- United Malacca's FY18 results came in within ours but below consensus expectations. After stripping out all the exceptional items, FY18 core net profit nearly halved to RM38.2mn (-49.6% YoY), which accounted for 105% and 82% of our and consensus' full-year estimates. The poor results were 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 13.4% to 381k tonnes. However, FFB yield dropped to 15.2 tonne/ha compared to 16.6 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).
- For FY18, the average CPO selling price dropped 7.5% YoY to RM2,621/tonne while the PK selling price declined by 18.4% YoY to RM2,306/tonnes.
- The group declared a 2nd interim single tier dividend of 6 sen/share. This will bring the total dividend for FY18 to 12 sen/share, which is lower than FY17's 23 sen/share. The dividend translates into dividend yield of merely 2%.

### Impact

- We trim our FY19 and FY20 earnings forecast by 11.5% and 11.4%, respectively, after factoring in higher production costs and lower CPO price assumption for FY19.

### Outlook

- Management expects higher FFB production for FY19 due to improved FFB yield from the young matured palms and additional new matured area (1,015 ha).
- However, according to management, the higher FFB production will not proportionately translate into higher profit due to higher unit cost of production for the newly-matured palms. Meanwhile, high depreciation costs due to adoption of MFRS 141 will put some downward pressure on the bottomline.

### Valuation

- With the earnings downgrade, we revise United Malacca's target price to RM5.59 (previously RM6.20), based on 24x CY19 EPS. United Malacca's share price has corrected by approximately 9% since we downgraded the stock to Sell from Buy. However, we still see no near term catalyst which can propel its share price higher. Maintain **SELL**.

### Share Information

Bloomberg Code	UMR MK
Stock Code	2593
Listing	Main Market
Share Cap (mn)	209.7
Market Cap (RMmn)	1,275
52-wk Hi/Lo (RM)	7.08/5.85
12-mth Avg Daily Vol ('000 shrs)	49
Estimated Free Float (%)	74
Beta	0.42
Major Shareholders (%)	
	OCBC - 20.24
	Abdeen-11.12
	HSBC - 8.52
	EPF - 6.55

### Forecast Revision

	FY19	FY20
Forecast Revision (%)	(11.5)	(11.4)
Net profit (RMm)	41.5	52.3
Consensus	58.9	88.8
TA's / Consensus (%)	70.6	59.0
Previous Rating	Sell (Maintained)	

### Financial Indicators

	FY19	FY20
ROE (%)	2.5	3.1
Net Gearing (x)	0.0	0.0
NTA/Share (RM)	7.5	7.6
Price/NTA (x)	0.8	0.8

### Scorecard

	% of FY	
vs TA	105	Within
vs Consensus	82	Below

### Share Performance (%)

Price Change	UMR	FBM KLCI
1 mth	(0.3)	(6.2)
3 mth	(1.9)	(10.3)
6 mth	(6.6)	(7.3)
12 mth	(6.4)	(6.0)

### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Figure I : Plantation Statistics

	4QFY17	3QFY18	4QFY18	% QoQ	% YoY	FY17	FY18	% YoY
FFB (tonne)	80,934	107,879	91,468	(15.2)	13.0	335,990	380,981	13.4
FFB yield (tonne/ha)	4.01	4.31	3.65	(15.3)	(9.0)	16.55	15.22	(8.0)
Average CPO price/tonne (RM)	3,070	2,561	2,458	(4.0)	(19.9)	2,832	2,621	(7.5)
Average PK price/tonne (RM)	2,903	2,522	2,059	(18.4)	(29.1)	2,825	2,306	(18.4)

Source: Company, TA Research

#### 4QFY18 Results Analysis (RMmn)

FYE 30 April (RMmn)	4QFY17	3QFY18	4QFY18	QOQ%	YoY %	FY17	FY18	YoY%
Turnover	70.3	64.2	62.3	(3.0)	(11.4)	274.7	277.7	1.1
EBIT	26.1	12.4	8.4	(32.5)	(67.9)	93.0	51.8	(44.3)
Net Interest Inc./ (exp.)	(0.8)	(0.3)	(0.3)	(0.6)	60.1	(2.9)	(2.8)	1.4
EI	2.9	11.3	0.4	(96.0)	(84.4)	8.7	9.6	10.6
Adj. PBT	25.2	12.1	8.0	(33.4)	(68.2)	90.2	49.0	(45.7)
Pretax	28.1	23.4	8.5	(63.7)	(69.8)	98.9	58.6	(40.7)
Taxation	1.9	(4.5)	0.6	nm	(70.7)	(13.0)	(12.4)	4.7
MI	(1.1)	1.3	(0.5)	nm	49.0	(1.3)	1.6	nm
Reported net profit	29.0	20.1	8.5	(57.7)	(70.6)	84.6	47.8	(43.4)
Core net profit	26.1	8.8	8.1	(8.5)	(69.1)	75.9	38.2	(49.6)
Core EPS (sen)	12.6	4.3	3.9			36.6	18.3	
GDPS (sen)	15.0	0.0	6.0			23.0	12.0	
EBIT Margin (%)	37.1	19.3	13.4			33.9	18.6	
Adj. Pretax Margin (%)	35.9	18.8	12.9			32.8	17.6	
Tax Rate (%)	(7.7)	37.4	(7.1)			14.4	25.3	

#### Earnings Summary

FYE April 30	FY16	FY17	FY18	FY19F	FY20F
Revenue	205.7	274.7	277.7	266.3	304.3
EBITDA	75.9	104.3	87.1	89.0	105.4
EBITDA Margin (%)	36.9	38.0	31.3	33.4	34.6
Pretax profit	70.2	98.9	58.6	56.3	71.2
Reported net profit	59.6	84.6	47.8	41.5	52.3
Core net profit	46.6	75.9	38.2	41.5	52.3
Reported EPS (sen)	28.5	40.4	22.9	19.8	25.0
Core EPS (sen)	22.3	36.3	18.3	19.8	25.0
Core EPS Growth (%)	(2.1)	62.8	(49.7)	8.7	26.0
PER (x)	27.3	16.7	33.3	30.6	24.3
Gross Div (sen)	16.0	23.0	12.0	15.0	16.0
Div Yield (%)	2.6	3.8	2.0	2.5	2.6
ROE (%)	3.5	4.9	2.8	2.5	3.1

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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, June 29, 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**

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