

# United Malacca Berhad

**TP: RM4.11** (-33.1%)

*A Challenging Outlook*

Last Traded: RM6.14

**SELL**

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## Review

- United Malacca's posted a weaker-than-expected IQFY19 results. After stripping out all the exceptional items, IQFY19 core net profit fell into the red with a net loss of RM12.3mn compared to a profit of RM1.0mn in IQFY18. The poor results were mainly due to higher depreciation and amortisation charges (owing to the adoption of new MFRS 116) and lower FFB yield.
- If excluding impact from the adoption of the MFRS framework, core net loss for IQFY19 would be RM5.4mn compared with a profit of RM8.3mn in IQFY18. Revenue plunged 43.1% YoY to RM40.0mn, mainly attributed to lower FFB yield and palm product prices.
- IQFY19 FFB production decreased by 23.7% YoY to 63.8k tonnes, mainly due to adverse wet weather. FFB yield declined to 2.44 tonne/ha compared to 3.33 tonne/ha in the preceding year.
- The average CPO selling price contracted by 13.5% YoY to RM2,354/tonne while the PK selling price declined by 15.1% YoY to RM1,757/tonne.
- No dividend was declared for the quarter under review.

## Impact

- Earnings forecast for FY19 and FY20 were revised lower by 37.8% and 22.1%, respectively, after factoring in higher depreciation and amortisation charges. Meanwhile, we also take this opportunity to introduce our net profit forecast of RM55.3mn for FY21.

## 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, management foresees a challenging outlook due to higher depreciation and amortisation costs (the adoption of MFRS Framework), which will put some downward pressure on the bottom line.

## Valuation

- With the earnings downgrade, we revise United Malacca's target price to RM4.11 (previously RM5.59), based on 24x CY19 EPS. We 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)	1,288
52-wk Hi/Lo (RM)	7.08/5.85
12-mth Avg Daily Vol ('000 shrs)	49
Estimated Free Float (%)	73
Beta	0.41
Major Shareholders (%)	
	OCBC - 20.24
	Abdeen-11.12
	HSBC - 8.52
	EPF - 6.55

## Forecast Revision

	FY19	FY20
Forecast Revision (%)	(37.8)	(22.1)
Net profit (RMm)	25.9	40.8
Consensus	49.9	74.5
TA's / Consensus (%)	51.8	54.7
Previous Rating	Sell (Maintained)	

## Financial Indicators

	FY19	FY20
ROE (%)	1.5	2.4
Net Gearing (x)	0.0	0.0
NTA/Share (RM)	7.5	7.5
Price/NTA (x)	0.8	0.8

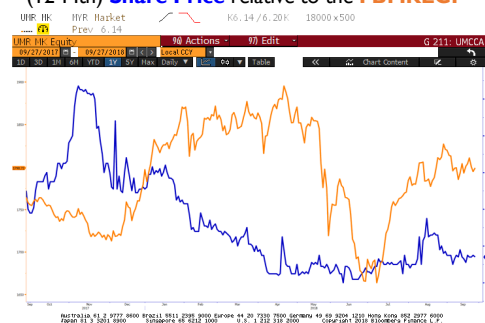
## Scorecard

	% of FY	
vs TA	nm	Below
vs Consensus	nm	Below

## Share Performance (%)

Price Change	UMR	FBM KLCI
1 mth	(1.0)	(0.7)
3 mth	1.3	8.0
6 mth	(1.0)	(3.4)
12 mth	(5.5)	2.0

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



Source: Bloomberg

Figure I : Plantation Statistics

	IQFY18	4QFY18	IQFY19*	% QoQ	IQFY18
FFB (tonne)	83,645	91,468	63,828	(30.2)	(23.7)
FFB yield (tonne/ha)	3.33	3.65	2.44	(33.2)	(26.7)
Average CPO price/tonne (RM)	2,721	2,458	2,354	(4.2)	(13.5)
Average PK price/tonne (RM)	2,070	2,059	1,757	(14.7)	(15.1)

\*Restated

**IQFY19 Results Analysis (RMmn)**

FYE 30 April (RMmn)	IQFY18*	4QFY18	IQFY19	QOQ%	YoY %
Turnover	70.3	62.3	40.0	(35.7)	(43.1)
EBIT	3.8	8.4	(14.1)	nm	nm
Net Interest Inc./ (exp.)	(1.0)	(0.3)	(0.6)	(76.0)	45.2
EI	(1.3)	0.4	(6.2)	nm	>-100
Adj. PBT	2.7	8.0	(14.7)	nm	nm
Pretax	1.4	8.5	(20.9)	nm	nm
Taxation	(2.4)	0.6	1.8	>100	nm
MI	0.7	(0.5)	0.6	nm	(1.5)
Reported net profit	(0.3)	8.5	(18.5)	nm	>-100
Core net profit	1.0	8.1	(12.3)	nm	nm
Core EPS (sen)	0.5	3.9	(5.9)		
GDPS (sen)	0.0	6.0	0.0		
EBIT Margin (%)	5.4	13.4	(35.4)		
Adj. Pretax Margin (%)	3.9	12.9	(36.8)		
Tax Rate (%)	88.2	(7.1)	12.3		

\*Restated

**Earnings Summary**

FYE April 30	FY17	FY18	FY19E	FY20F	FY21F
Revenue	274.7	277.7	259.1	300.1	332.0
EBITDA	104.2	86.6	83.7	103.0	121.3
EBITDA Margin (%)	37.9	31.2	32.3	34.3	36.5
Pretax profit	98.9	58.6	36.5	56.1	75.3
Reported net profit	84.6	48.4	25.9	40.8	55.3
Core net profit	75.9	38.8	25.9	40.8	55.3
Reported EPS (sen)	40.4	23.1	12.4	19.5	26.4
Core EPS (sen)	36.3	18.6	12.4	19.5	26.4
Core EPS Growth (%)	62.8	(48.8)	(33.5)	57.7	35.5
PER (x)	16.9	33.1	49.7	31.5	23.3
Gross Div (sen)	23.0	12.0	12.0	12.0	12.0
Div Yield (%)	3.7	2.0	2.0	2.0	2.0
ROE (%)	4.4	2.3	1.5	2.4	3.2

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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 Thursday, September 27, 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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