

## United Malacca Berhad

**TP: RM5.61 (+3.7%)**
*Another Disappointing Results*
*Last Traded: RM5.41*
**SELL**

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### Review

- United Malacca's posted another disappointing 2QFY19 results, which came in below ours and consensus estimates. After stripping out all the exceptional items, 2QFY19 core net loss amounted to RM6.2mn compared to a core net profit of RM9.7mn recorded in 2QFY18. The lower-than-expected results were mainly due to higher production cost and lower FFB production.
- Cumulatively, 1H FY19 core net loss amounted to RM18.4mn compared to a core net profit of RM10.7mn. The loss was mainly due to lower average prices of i) CPO and PK, ii) lower FFB yield and iii) high unit cost of production due to young matured palms.
- 1H FY19 FFB production decreased by 17.8% YoY to 149.7k tonnes, mainly due to lower FFB yield arising from Peninsular and Sabah. As a result, the FFB production in Malaysia was lower by 21.2% to 132.6k tonnes. Meanwhile, FFB production in Indonesia was higher by 21.8% to 17k tonnes.
- The average CPO selling price contracted by 17.4% YoY to RM2,242/tonne while the PK selling price also declined by 25.4% YoY to RM1,722/tonne.
- The group declared a lower first interim single-tier dividend of 2 sen for the quarter under review (vs. 2QFY18: 6 sen/share).

### Impact

- We trim our FY19-FY21 earnings forecasts by 6.6% to 63.3% after factoring in higher operating costs and lower FFB growth.

### Outlook

- Management expects FFB to pick up in the 2H of FY19. However, we expect the outlook for the group to remain challenging due to higher production costs in the young and newly matured areas, potential risk of low FFB production as well as weak palm oil prices.

### Valuation

- We switch our P/E valuation methodology to P/BV as we believe the share price is not justified by its earnings outlook while the P/B valuation could reflect the true value of the group's assets. Pegging a 0.7x target based on the average P/B of small cap players, we derive our new target price of RM5.61 (previously RM4.41). Maintain Sell on United Malacca.
- Meanwhile, we believe there has been an increasing appetite for local plantation companies to acquire more land banks in Malaysia and Indonesia, which could trigger M&A plays. United Malacca could be one of the potential takeover targets, in our view.

### Share Information

Bloomberg Code	UMR MK
Stock Code	2593
Listing	Main Market
Share Cap (mn)	209.7
Market Cap (RMmn)	1,134
52-wk Hi/Lo (RM)	6.65/5.30
12-mth Avg Daily Vol ('000 shrs)	49
Estimated Free Float (%)	73
Beta	0.54
Major Shareholders (%)	
	OCBC - 19.81
	HSBC - 8.46
	EPF - 6.55
	Aberdeen-6.16

### Forecast Revision

	FY19	FY20
Forecast Revision (%)	(63.3)	(8.3)
Net profit (RMm)	9.5	37.4
Consensus	30.9	62.6
TA's / Consensus (%)	30.8	59.7
Previous Rating	Sell (Maintained)	

### Financial Indicators

	FY19	FY20
ROE (%)	0.6	2.2
Net Gearing (x)	0.0	0.0
NTA/Share (RM)	7.5	7.6
Price/NTA (x)	0.7	0.7

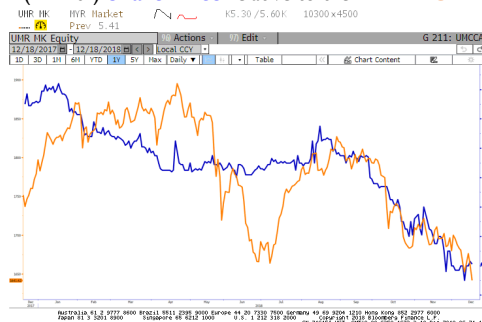
### Scorecard

	% of FY	
vs TA	nm	Below
vs Consensus	nm	Below

### Share Performance (%)

Price Change	UMR	FBM KLCI
1 mth	(2.5)	(3.8)
3 mth	(11.7)	(8.4)
6 mth	(10.7)	(5.8)
12 mth	(19.0)	(6.3)

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



Source: Bloomberg

Figure I : Plantation Statistics

	2QFY18*	1QFY19	2QFY19	% QoQ	% YoY	1HFY18*	1HFY19	% YoY
FFB (tonne)	98,596	63,828	85,883	34.6	(12.9)	182,241	149,711	(17.8)
FFB yield (tonne/ha)	3.92	2.44	3.29	34.8	(16.1)	7.25	5.73	(21.0)
Average CPO price/tonne (RM)	2,707	2,354	2,156	(8.4)	(20.4)	2,714	2,242	(17.4)
Average PK price/tonne (RM)	2,522	1,757	1,699	(3.3)	(32.6)	2,308	1,722	(25.4)

\*Restated

2QFY19 Results Analysis (RMmn)

FYE 30 April (RMmn)	2QFY18*	1QFY19	2QFY19	QOQ%	YoY %	1HFY18*	1HFY19	YoY%
Turnover	81.2	40.0	53.8	34.5	(33.7)	151.5	93.8	(38.1)
EBIT	13.9	(14.1)	(6.2)	55.9	nm	17.6	(20.4)	nm
Net Interest Inc./ (exp.)	(1.1)	(0.6)	(1.2)	>-100	6.1	(2.2)	(1.8)	18.7
EI	2.1	(6.2)	(5.9)	5.4	nm	0.8	(12.1)	nm
Adj. PBT	12.7	(14.7)	(7.4)	49.5	nm	15.5	(22.1)	nm
Pretax	14.8	(20.9)	(13.3)	36.4	nm	16.3	(34.3)	nm
Taxation	(3.6)	1.8	0.1	(92.8)	nm	(6.0)	1.9	nm
MI	0.6	0.6	1.1	71.6	96.1	1.2	1.8	43.7
Reported net profit	11.8	(18.5)	(12.1)	34.7	nm	11.5	(30.6)	nm
Core net profit	9.7	(12.3)	(6.2)	49.6	nm	10.7	(18.4)	nm
Core EPS (sen)	4.7	(5.9)	(3.0)			5.2	(8.8)	
GDPS (sen)	6.0	0.0	2.0			6.0	2.0	
EBIT Margin (%)	17.1	(35.4)	(11.6)			11.6	(21.7)	
Adj. Pretax Margin (%)	15.7	(36.8)	(13.8)			10.2	(23.6)	
Tax Rate (%)	28.1	12.3	1.8			38.7	8.8	

\*Restated

Earnings Summary

FYE April 30	FY17	FY18	FY19E	FY20F	FY21F
Revenue	274.7	277.7	221.9	294.0	325.3
EBITDA	104.2	86.6	56.2	98.4	116.2
EBITDA Margin (%)	37.9	31.2	25.3	33.5	35.7
Pretax profit	98.9	58.6	8.9	51.3	70.2
Reported net profit	84.6	48.4	9.5	37.4	51.6
Core net profit	75.9	38.8	9.5	37.4	51.6
Reported EPS (sen)	40.4	23.1	4.5	17.9	24.7
Core EPS (sen)	36.3	18.6	4.5	17.9	24.7
Core EPS Growth (%)	62.8	(48.8)	(75.6)	293.8	38.0
PER (x)	14.9	29.1	119.2	30.3	21.9
Gross Div (sen)	23.0	12.0	8.0	8.0	8.0
Div Yield (%)	4.3	2.2	1.5	1.5	1.5
ROE (%)	4.4	2.3	0.6	2.2	3.0

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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 Tuesday, December 18, 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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