

Growth seen for United Malacca's Sulawesi ventures

United Malacca Bhd (Jan 4, RM5.30)

Upgrade to market perform with a higher target price (TP) of RM5.05: United Malacca Bhd (UMCCA) has entered into three separate conditional sale and purchase agreements to dispose of plantation lands in Melaka and Negeri Sembilan, collectively measuring 1,021ha (approximately 3% of UMCCA's total planted area), for a total cash consideration of RM175 million. The sales are slated for completion by March 31, 2019.

The announcement came as no surprise as the group had previously indicated its intention to sell plantation assets in the area to fund its Sulawesi venture.

The sales consideration translates into a price/planted hectare of approximately RM171,533, which we believe is a good price compared with TH Plantations Bhd's sale of its Negeri Sembilan plantation assets at approximately RM62,142 per planted hectare in November 2016.

The premium could be due to the superior age profile of UMC-

CA's plantation assets (more than 13 years) versus TH Plantations' more than 21 years.

Following the exercise, the group is expected to turn from a net gearing position of 0.08 times to a net cash position of RM56 million. We are positive on the announcement as the exercise allows the group to unlock value of the plantation assets during this uncertain time.

Recall that UMCCA has recently completed the acquisition of a 60% interest in PT Wana Rindang Lestari, which holds the licence to 59,900ha of green field production forest in Sulawesi.

The land, which is slated to begin planting from calendar year 2019 (CY19) onward, is intended for stevia, coconut, cocoa and coffee plantations.

While this presents new areas of growth and diversification benefits for the group, the gestation period for some of the abovementioned crops could be lengthy.

No change in financial year 2019 estimate (FY19E) core net profit

United Malacca Bhd

FYE APRIL (RM MIL)	2018A	2019E	2020E
Turnover	277.7	201.9	226.5
Ebit	63.6	-19.1	-5.7
PBT	58.6	98.8	4.9
Net profit (NP)	47.8	76.5	1.4
Core NP	38.4	-11.5	1.4
Consensus (CNP)	NA	-0.2	37.4
Earnings revision (%)	NA	0	-73
Core EPS (sen)	18.3	-5.5	0.6
Core EPS growth (%)	-39	-130	NA
NDPS (sen)	12.0	4.0	4.0
BV/share (RM)	7.97	8.31	8.28
Core PER	28.4	-94.5	800.4
Price/BV (x)	0.65	0.63	0.63
Net gearing (x)	0.0	Cash	0.0
Net dividend yield (%)	2.3	0.8	0.8

Source: Kenanga Research

(CNP) as the sale is expected to be completed only in March 31, 2019, but we adjusted reported net loss of RM11.5 million to a net profit of RM76.5 million to account for an expected net disposal gain of RM88

million and financial year 2020 estimate (FY20E) CNP from RM5.1 million to RM1.4 million as we revised our FY20E fresh fruit bunch production from 388,000 tonnes to 365,000 tonnes to account for smaller

planted area after the sale.

Additionally, we have raised our FY19E to FY20E book value per share from RM7.89-RM7.88 to RM8.31-RM8.28 as the sale would unlock the market value of the plantation assets.

We upgrade to "market perform" with a higher TP of RM5.05 (from RM4.80) based on an unchanged forward price-to-book value (PBV) of 0.61x applied to higher CY19 estimate book value per share of RM8.29 (from RM7.88).

The forward PBV is based on -3.0 standard deviation from the historical mean, given that the company has disappointed expectations five quarters in a row, and medium-term earnings are likely to be impeded by high maintenance costs for young trees in Indonesia.

However, at this price level, we believe the negatives have been priced in.

Risks to our call are sharp rises/falls in crude palm oil prices and higher-than-expected labour or fertiliser or transportation costs. — Kenanga Research, Jan 4