

27 June 2019

United Malacca Berhad

FY19 Missed Expectations

By Adrian Kok | adrian.kok@kenanga.com.my; Lavis Chong | lavis.chong@kenanga.com.my

FY19 CNL of RM33.8m came below our/consensus' CNL forecast (116%/159%) of RM29.1m/RM21.2m due to lower-than-expected average CPO price. 6.0 sen dividend declared was a positive surprise as we expected less amidst losses. Widen FY20E CNL by 4% to RM18.4m and introduce FY21E CNL of RM6.8m. Maintain UP with an unchanged TP of RM4.90.

FY19 below expectations. FY19 CNL* at RM33.8m was 116%/159% of our/consensus' FY19E CNL of RM29.1m/RM21.2m. The negative deviation stemmed from lower-than-expected CPO price and PK price of RM2,071/MT and RM1,481/MT (vs. our FY19E assumption of RM2,100/MT and RM1,700/MT). Meanwhile, FFB output of 354k MT came within our assumption at 103%. A 6.0 sen dividend declared was a positive surprise, bringing FY19 DPS to 8.0 sen vs. our assumption of 4.0 sen as we expected a lower quantum amidst losses.

Dragged by soft CPO prices and weak production. YoY, FY19 registered CNL of RM33.8m (vs. FY18's CNP of RM23.6m), dragged by: (i) weaker average CPO prices (-21%) to RM2,071/MT, (ii) lower average PK prices (-36%) to RM1,481/MT, (iii) softer FFB output (-7%) due to lower productivity of old palm trees in Sabah and (iv) stubbornly high maintenance costs from young trees in Indonesia. **QoQ,** despite higher average CPO prices (+6%), 4Q19 CNL widened (240%) to RM11.1m (from 3Q19 CNL of RM3.3m) as FFB output fell (-11%) on seasonality. This was exacerbated by decline in PK prices (-10%).

New mill has commenced. The group's new palm oil mill in Indonesia with FFB processing capacity of 45MT/hour, has commenced in June-2019. This is expected to expand its total milling capacity by c.56% to 125MT/hour. By conservatively assuming an oil extraction rate (OER) of 17% and utilisation rate of 25% in FY20, we estimate that the new mill could contribute an additional in RM16m revenue in FY20. Nevertheless, we expect slight losses from the plant due to initial under-utilisation.

Widen FY20E CNL by 4% to RM18.4m (low base effect) as we tweaked our FFB output (+3%) to 376k MT, implying YoY growth of 6% (previously 7%) due to housekeeping, while introducing FY21E CNL of RM6.8m. We also adjusted our FY20E DPS higher to 6.0 sen (previously 4.0 sen).

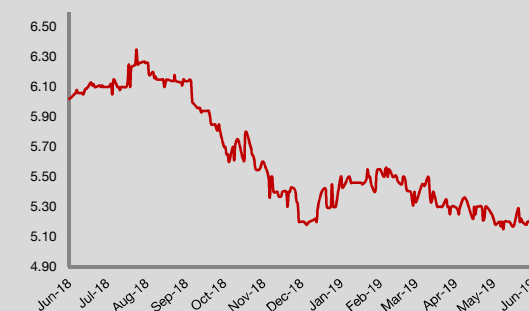
Maintain UNDERPERFORM with an unchanged Target Price of RM4.90 based on an unchanged Fwd. PBV of 0.62x applied to CY20E BV/share of RM7.89. The Fwd. PBV is based on steep -2.0SD from the historical mean (universe range: -2.0SD to 1.0SD), given that the company has disappointed expectations seven quarters in a row, and near-term earnings are likely to be impeded by high maintenance costs for young trees in Indonesia.

Risks to our call are a stronger-than-expected recovery in CPO prices and higher-than-expected FFB production.

UNDERPERFORM ↔

Price : **RM5.25**
Target Price : **RM4.90** ↔

Share Price Performance



KLCI	1,674.49
YTD KLCI chg	-1.0%
YTD stock price chg	0.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMR MK Equity
Market Cap (RM m)	1,100.9
Shares Outstanding	209.7
52-week range (H)	6.53
52-week range (L)	5.12
3-mth avg daily vol:	95,179
Free Float	61%
Beta	0.6

Major Shareholders

Oversea Chinese Bank	19.8%
Prosper Palm Oil Mill Sdn Bhd	10.7%
HSBC	8.5%

Summary Earnings Table

FYE Apr (RM m)	2019A	2020E	2021E
Turnover	203.7	219.5	231.7
EBIT	-41.6	-25.6	-9.3
PBT	-48.7	-19.8	-5.3
Net Profit (NP)	-41.8	-18.4	-6.8
Core NP	-33.8	-18.4	-6.8
Consensus (CNP)	n.a.	27.3	48.2
Earnings Revision	n.a.	4%	n.a.
Core EPS (sen)	-16.1	-8.8	-3.2
Core EPS grwth (%)	-187.9%	-45.5%	-63.3%
NDPS (sen)	8.0	6.0	6.0
BV/Share (RM)	8.13	7.98	7.89
Core PER	-32.5	-59.7	-166.0
Price/BV (x)	0.65	0.66	0.67
Net Gearing (x)	0.1	0.1	0.1
Net Dvd Yield (%)	1.5%	1.1%	1.1%

* FY19 CNL excludes PP&E write-off (<RM0.1m), gain on PP&E disposal (RM0.3m), fair value gains on financial assets (RM0.4m) and unrealised forex loss (RM8.6m).



27 June 2019

Results Highlights								
FYE Apr	4Q19	3Q19	QoQ %	4Q18	YoY%	FY19	FY18	Ytd-YoY%
Revenue	56.4	53.5	6%	62.3	-9%	203.7	277.7	-27%
EBIT	-15.9	5.3	N.M.	0.9	N.M.	-41.6	47.5	N.M.
Pretax Profit	-17.8	3.3	N.M.	-0.5	3584%	-48.7	42.3	N.M.
Taxation	3.9	-1.0	N.M.	1.5	158%	4.8	-11.0	N.M.
MI	0.3	0.1	218%	-0.4	N.M.	2.1	2.0	10%
Net Profit	-13.6	2.4	N.M.	0.7	N.M.	-41.8	33.3	N.M.
Core Net Profit	-11.1	-3.3	240%	0.7	N.M.	-33.8	23.6	N.M.
EPS (sen)	-6.5	1.1	N.M.	0.3	N.M.	-19.9	15.9	N.M.
Net Dividend (Sen)	6.0	0.0	N.M.	6.0	N.M.	8.0	12.0	-33%
EBIT margin	-28%	10%		1%		-20%	17%	
PBT margin	-31%	6%		-1%		-24%	15%	
Effective tax rate	22%	31%		315%		10%	26%	
CPO (RM / mt)	1,999	1,892	6%	2,458	-19%	2,071	2,621	-21%
Palm Kernel (RM / mt)	1,255	1,392	-10%	2,059	-39%	1,481	2,306	-36%
FFB Volume (mt)	96,143	107,759	-11%	91,838	5%	353,613	382,110	-7%

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Apr	4Q19	3Q19	QoQ %	4Q18	YoY%	FY19	FY18	Ytd-YoY%
Segmental Rev:								
Plantation	65.4	59.8	9%	74.1	-12%	234.8	330.1	-29%
(Internal Sales)	-8.9	-6.3	41%	-11.9	-25%	-31.1	-52.3	-41%
Group Rev	56.4	53.5	6%	62.3	-9%	203.7	277.7	-27%
Profit Before Tax:								
Plantation - Malaysia	-8.7	0.5	N.M.	1.9	N.M.	-21.0	46.5	N.M.
Plantation - Indonesia	-4.9	-4.0	21%	-2.6	91%	-17.4	- 7.4	135%
Investment Holding	-4.2	6.8	N.M.	0.2	N.M.	-10.4	3.3	N.M.
Associates	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Group PBT	-17.8	3.3	N.M.	-0.5	3584%	-48.7	42.3	N.M.

Source: Company, Kenanga Research

This section is intentionally left blank

27 June 2019

Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE																	
CB INDUSTRIAL PRODUCT HLDG	0.980	499.6	Y	12/2019	7.6%	36.3%	-9.4%	35.0%	9.8	10.8	8.0	0.7	0.7	6.2%	4.1%	1.10	OP
FGV HOLDINGS BHD	1.14	4,158.9	Y	12/2019	1.9%	3.5%	-70.2%	-768.4%	N.A.	N.A.	N.A.	0.9	0.9	-5.6%	0.0%	1.05	UP
GENTING PLANTATIONS BHD	10.16	8,273.2	Y	12/2019	2.4%	6.2%	40.6%	39.1%	57.3	44.4	34.6	2.0	2.1	4.8%	1.3%	9.00	UP
HAP SENG PLANTATIONS HLDGS	1.59	1,271.5	Y	12/2019	-0.2%	10.2%	-76.7%	310.3%	43.7	187.5	45.7	0.8	0.8	0.4%	0.6%	1.50	MP
IJM PLANTATIONS BHD	1.54	1,356.1	Y	03/2020	1.7%	8.4%	68.8%	80.8%	N.A.	88.4	48.9	0.8	0.8	0.9%	0.6%	1.40	MP
IOI CORP BHD	4.29	26,197.7	Y	06/2019	-13.2%	5.7%	-6.3%	15.2%	28.9	30.8	26.7	2.9	2.8	9.3%	1.6%	4.35	MP
KUALA LUMPUR KEPONG BHD	24.58	26,176.9	Y	09/2019	7.5%	6.3%	-3.6%	13.5%	29.3	30.4	26.8	2.3	2.2	7.4%	1.6%	22.00	UP
PPB GROUP BERHAD	18.58	26,431.9	Y	12/2019	7.5%	4.9%	23.4%	4.1%	28.0	22.7	21.8	1.3	1.2	5.6%	1.8%	16.00	UP
SIME DARBY PLANTATION BHD	4.84	33,321.3	Y	12/2019	71.7%	11.1%	88.6%	154.0%	284.7	121.0	48.4	2.5	2.5	3.2%	0.8%	4.00	UP
TA ANN HOLDINGS BERHAD	2.31	1,018.9	Y	12/2019	-12.0%	18.0%	-22.5%	34.1%	12.4	16.0	12.0	0.8	0.8	4.7%	3.5%	2.40	OP
TSH RESOURCES BHD	0.910	1,257.2	Y	12/2019	18.9%	12.0%	-8.2%	45.1%	25.4	27.5	19.0	0.9	0.8	3.2%	0.9%	0.900	MP
UNITED MALACCA BHD	5.25	1,100.9	Y	04/2020	7.7%	5.6%	-183.4%	-278.1%	N.A.	N.A.	N.A.	0.6	0.7	-1.1%	1.1%	4.90	UP
Simple Average					8.5%	10.7%	-13.2%	-26.3%	57.7	58.0	29.2	1.4	1.4	3.3%	1.5%		

Source: Bloomberg, Kenanga Research

27 June 2019

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

