

26 September 2019

United Malacca Berhad

1Q20 Deemed Within

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1Q20 CNL of RM18.3m is deemed within our, but below consensus, expectation. No dividend was declared, as expected. No changes to FY20-21 estimates as we expect earnings to improve in subsequent quarter on higher CPO prices (QTD 2Q20: +9%) and higher FFB output leading up to peak production season. Maintain MARKET PERFORM with unchanged Target Price of RM5.00.

1Q20 deemed within. We deemed the 1Q20 Core Net Loss (CNL*) of RM18.3m as within our expectation (243%) but below consensus' FY20E Core Net Profit (CNP) of RM9.3m. We deemed the 1Q20 results as within expectation, grounded on our expectations of earnings improvement in the subsequent quarter stemming from FFB growth and higher CPO prices. Based on MPOB data, its QTD 2FYQ20 CPO price has increased (+9%) to RM2,098/MT (vs. 1FYQ20: RM1,930/MT). Meanwhile, FFB output of 86k MT (+35% YoY) was also in-line with our assumption at 22%. No dividend was declared, as expected.

Blighted by weaker CPO prices. YoY, despite a 35% increase in FFB output, 3M20 CNL widened (+36%) to RM18.3m from CNL of RM13.4m in 3M19 mainly due to: (i) weaker average CPO prices (-17%) to RM1,961/MT, and (ii) lower average PK prices (-37%) to RM1,113/MT. We note that the group registered EBIT of RM43.0m due to the gains on disposal of its Masjid Tanah Estate and Selandar Estate amounting to RM53.9m. Stripping off this gain on disposal, EBIT would have been -RM10.9m, translating into EBIT margin improvement of 3ppt. **QoQ,** 1Q20 CNL widened (+65%) to RM18.3m (from 4Q19 CNL of RM11.1m) on the back of lower FFB output (-10%) to 86k MT (typically UMCCA's FFB outputs bottom in 1Q and peak in 3Q). This was exacerbated by decline in CPO (-2%) and PK (-11%) prices.

FY20 cost to improve. Moving forward, we believe cost could see improvement in FY20 to c.RM1,800/MT (from c.RM2,000/MT in FY19) attributed to: (i) strong FY20 FFB growth (11-17%), (ii) stable fertilizer costs at c.RM1,100-RM1,200/ha, and (iii) lower transportation costs due to shorter distance to its new palm oil mill in Indonesia (c.30km from estate vs. previously c.120km). However, we still expect the group to remain in the red for FY20, due to unfavourable CPO prices and high unit production cost in Indonesia due to its young age profile.

No changes to FY20-21 estimates as we expect earnings to improve significantly in subsequent quarter on FFB growth and higher 2Q20 CPO prices.

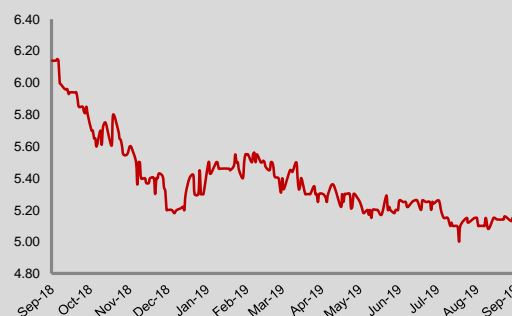
Maintain MARKET PERFORM with an unchanged Target Price of RM5.00 based on an unchanged Fwd. PBV of 0.62x applied to CY20E BV/share of RM8.02. The Fwd. PBV is based on steep -2.0SD from the historical mean (universe range: -2.0SD to 1.0SD), given that the company has previously disappointed expectations seven quarters in a row.

Risks to our call are stronger/weaker-than-expected CPO prices and higher/lower-than-expected FFB production.

MARKET PERFORM ↔

Price : RM5.15
Target Price : RM5.00 ↔

Share Price Performance



KLCI 1,589.58
YTD KLCI chg -6.0%
YTD stock price chg -1.2%

Stock Information

| | |
|----------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | UMR MK Equity |
| Market Cap (RM m) | 1,079.9 |
| Shares Outstanding | 209.7 |
| 52-week range (H) | 6.15 |
| 52-week range (L) | 5.00 |
| 3-mth avg daily vol: | 13,800 |
| Free Float | 74% |
| Beta | 0.5 |

Major Shareholders

| | |
|-------------------------------|-------|
| Oversea Chinese Bank | 20.3% |
| HSBC | 8.5% |
| Prosper Palm Oil Mill Sdn Bhd | 7.2% |

Summary Earnings Table

| FYE Apr (RM m) | 2019A | 2020E | 2021E |
|------------------------|--------------|-------------|------------|
| Turnover | 203.7 | 234.9 | 259.4 |
| EBIT | -41.6 | -15.5 | 10.8 |
| PBT | -48.7 | -9.7 | 15.3 |
| Net Profit (NP) | -41.8 | -7.5 | 9.5 |
| Core NP (CNP) | -33.8 | -7.5 | 9.5 |
| Consensus (CNP) | n.a. | 9.3 | 20.0 |
| Earnings Revision | n.a. | 0% | 0% |
| Core EPS (sen) | -16.1 | -3.6 | 4.6 |
| Core EPS grwth (%) | -187.9 | -77.7 | -227.0 |
| NDPS (sen) | 8.0 | 6.0 | 6.0 |
| BV/Share (RM) | 8.13 | 8.03 | 8.02 |
| Core PER | NM | NM | 112.9 |
| Price/BV (x) | 0.63 | 0.64 | 0.64 |
| Net Gearing (x) | 0.1 | 0.1 | 0.1 |
| Net Dvd. Yield (%) | 1.6 | 1.2 | 1.2 |

* 3M19 CNL excludes PP&E write-off (<RM0.1m), gain on PP&E disposal (<RM0.1m), gain on disposal of non-current asset held for sale (RM53.89) and unrealised forex gain (RM1.36m).

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| Results Highlights | | | | | | | | |
|---------------------------|---------------|---------------|--------------|---------------|-------------|---------------|---------------|-----------------|
| FYE Apr | 1Q20 | 4Q19 | QoQ % | 1Q19 | YoY% | 3M20 | 3M19 | Ytd-YoY% |
| Revenue | 43.3 | 56.4 | -23% | 40.0 | 8% | 43.3 | 40.0 | 8% |
| EBIT | 43.0 | (15.9) | NM | (19.4) | NM | 43.0 | (19.4) | NM |
| Pretax Profit | 40.2 | (17.8) | NM | (20.9) | NM | 40.2 | (20.9) | NM |
| Taxation | (4.0) | 3.9 | NM | 1.8 | NM | (4.0) | 1.8 | NM |
| MI | 0.7 | 0.3 | 154% | 0.6 | 15% | 0.7 | 0.6 | 15% |
| Net Profit | 36.9 | (13.6) | NM | (18.5) | NM | 36.9 | (18.5) | NM |
| Core Net Profit | (18.3) | (11.1) | 65% | (13.4) | 36% | (18.3) | (13.4) | 36% |
| EPS (sen) | 17.6 | (6.5) | NM | (8.8) | NM | 17.6 | (8.8) | NM |
| Net Dividend (Sen) | 0.0 | 6.0 | -100% | 0.0 | NM | 0.0 | 0.0 | NM |
| EBIT margin | 99% | -28% | | -49% | | 99% | -49% | |
| PBT margin | 93% | -31% | | -52% | | 93% | -52% | |
| Effective tax rate | 10% | 22% | | 9% | | 10% | 9% | |
| CPO (RM / mt) | 1,961 | 1,999 | -2% | 2,354 | -17% | 1,961 | 2,354 | -17% |
| Palm Kernel (RM / mt) | 1,113 | 1,255 | -11% | 1,757 | -37% | 1,113 | 1,757 | -37% |
| FFB Volume (mt) | 86,448 | 96,143 | -10% | 63,828 | 35% | 86,448 | 63,828 | 35% |

Source: Company, Kenanga Research

| Segmental Breakdown | | | | | | | | |
|----------------------------|---------------|---------------|--------------|---------------|-------------|---------------|---------------|-----------------|
| FYE Apr | 1Q20 | 4Q19 | QoQ % | 1Q19 | YoY% | 3M20 | 3M19 | Ytd-YoY% |
| Segmental Rev: | | | | | | | | |
| Plantation | 53.2 | 65.4 | -19% | 47.1 | 13% | 53.2 | 47.1 | 13% |
| (Internal Sales) | (9.9) | (8.9) | 11% | (7.1) | 40% | (9.9) | (7.1) | 40% |
| Group Rev | 43.3 | 56.4 | -23% | 40.0 | 8% | 43.3 | 40.0 | 8% |
| Profit Before Tax: | | | | | | | | |
| Plantation - Malaysia | (7.3) | (8.7) | -16% | (11.2) | -35% | (7.3) | (11.2) | -35% |
| Plantation - Indonesia | (5.3) | (4.9) | 9% | (4.1) | 28% | (5.3) | (4.1) | 28% |
| Investment Holding | (1.1) | (4.2) | -74% | (5.6) | -81% | (1.1) | (5.6) | -81% |
| Associates | 0.0 | 0.0 | NM | 0.0 | NM | 0.0 | 0.0 | NM |
| Group PBT | (13.7) | (17.8) | -23% | (20.9) | -35% | (13.7) | (20.9) | -35% |

Source: Company, Kenanga Research

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| 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 | 0.820 | 415.3 | Y | 12/2019 | -23.6% | 31.9% | -36.5% | 45.9% | 8.2 | 12.9 | 8.9 | 0.6 | 0.6 | 4.4% | 4.9% | 0.850 | MP |
| FGV HOLDINGS BHD | 0.910 | 3,319.8 | Y | 12/2019 | 3.1% | 3.5% | -162.9% | -768.3% | N.A. | N.A. | N.A. | 0.7 | 0.8 | -2.4% | 0.0% | 1.00 | MP |
| GENTING PLANTATIONS BHD | 9.89 | 8,873.3 | Y | 12/2019 | 1.3% | 6.3% | 14.0% | 46.9% | 55.7 | 53.3 | 39.3 | 1.9 | 2.1 | 3.9% | 1.0% | 8.80 | UP |
| HAP SENG PLANTATIONS HLDGS | 1.43 | 1,143.5 | Y | 12/2019 | -0.2% | 10.2% | -76.7% | 310.3% | 39.3 | 168.6 | 41.1 | 0.7 | 0.7 | 0.4% | 0.7% | 1.50 | MP |
| IJM PLANTATIONS BHD | 1.52 | 1,338.5 | Y | 03/2020 | -5.1% | 11.5% | 119.1% | 177.8% | N.A. | 151.0 | 54.4 | 0.8 | 0.8 | 0.5% | 0.4% | 1.40 | MP |
| IOI CORP BHD | 4.40 | 27,652.4 | Y | 06/2020 | -7.7% | 0.1% | 24.1% | 2.2% | 36.4 | 29.3 | 28.7 | 3.0 | 2.9 | 9.9% | 2.0% | 4.10 | MP |
| KUALA LUMPUR KEPONG BHD | 22.98 | 24,472.9 | Y | 09/2019 | -1.9% | 6.5% | -25.5% | 26.4% | 27.4 | 36.8 | 29.1 | 2.4 | 2.3 | 5.8% | 1.7% | 21.50 | UP |
| PPB GROUP BERHAD | 18.22 | 25,919.8 | Y | 12/2019 | 5.4% | 5.6% | 18.0% | 5.5% | 27.4 | 22.2 | 21.4 | 1.2 | 1.2 | 5.4% | 1.8% | 15.60 | UP |
| SIME DARBY PLANTATION BHD | 4.85 | 33,390.2 | Y | 12/2019 | 71.0% | 11.0% | 14.0% | 242.1% | 149.3 | 130.9 | 38.3 | 2.5 | 2.5 | 1.9% | 0.4% | 4.00 | UP |
| SOUTHERN ACIDS MALAYSIA BHD | 3.58 | 490.2 | Y | 03/2020 | 9.7% | 6.6% | 32.5% | 20.0% | 28.3 | 21.4 | 17.8 | 0.8 | 0.8 | 3.8% | 1.4% | 2.90 | UP |
| TA ANN HOLDINGS BERHAD | 2.15 | 947.0 | Y | 12/2019 | -7.8% | 16.5% | -60.6% | 117.0% | 11.6 | 29.4 | 13.6 | 0.7 | 0.7 | 2.4% | 1.9% | 2.20 | MP |
| TSH RESOURCES BHD | 0.885 | 1,221.5 | Y | 12/2019 | 18.9% | 12.0% | -8.2% | 45.1% | 24.7 | 26.8 | 18.4 | 0.9 | 0.8 | 3.2% | 0.9% | 0.900 | MP |
| UNITED MALACCA BHD | 5.15 | 1,079.9 | Y | 04/2020 | 15.3% | 10.4% | N.M. | N.M. | N.A. | N.A. | 112.9 | 0.6 | 0.6 | -0.4% | 1.2% | 5.00 | MP |
| Simple Average | | | | | 6.0% | 10.2% | -46.0% | 26.9% | 40.8 | 62.1 | 35.3 | 1.3 | 1.3 | 3.0% | 1.4% | | |

Source: Bloomberg, Kenanga Research

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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.**

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