

20 December 2021

United Malacca Berhad

Above Expectations

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United Malacca (UMB) reported one its strongest quarterly earnings in recent history. 2QFY22 CNP of RM30.8m was significantly above ours and market expectation thanks to a fortuitous combination of record CPO prices when FFB production was seasonally high. CPO prices have since eased but labour shortages remain and inventory is improving only gradually. We expect only slightly weaker QoQ earnings in 3Q but staying elevated YoY. Raising FY22-23E CNP by 43%-23% on CPO prices staying buoyant longer than earlier anticipated and raising TP from RM5.20 to RM5.40 at FY22 P/BV of 0.8x but maintain MP as relative valuations are already at or above peers. ESG score is 55%.

Above our expectation. 2QFY22 registered Core Net Profit (CNP) of RM30.8m (+246% YoY, +67% QoQ) or 57% above ours and 63% above consensus' estimates due to record high CPO prices which mitigated lower than expected FFB output. The 2Q FY22 earnings surged also lifted 1H FY22 profits allowing for a near doubling in interim dividend of 5 sens (3 sens a year ago) being announced.

Results' highlight. YoY, 2QFY22 CPO price soared 58% to RM4,327/MT (15% QoQ) due to tight oil & fat supply, not only for palm oil but also competing oils such as soya and rapeseed. This production tightness is reflected in UMB's flat FFB output of 104k MT (1% YoY) for 2Q. QoQ, output improved only 5% despite being a peak fruiting season. Historically, 2Q FFB production can be 10-20% higher than 1Q. Nevertheless, the Indonesian operations reported profits in 2Q FY22 thanks to the strong commodity prices.

Cumulative 6M or 1H FY22 profit after tax of RM56.9 m (CNP RM49.2 m, 387% YoY) were underpinned by average CPO and PK prices of RM4,063 (61% YoY) and 2,624 per MT (81% YoY) respectively. FFB output inched up by 1% YoY to 203k MT for 1H FY22 as matured area expanded very marginally to 24,003 Ha (1% YoY). The strong CPO price also translated to higher 1H FY22 cashflow which helped halved net debt from RM88.7 m (7% net gearing) at the end FY21 in April to RM43.4 m (3% net gearing) as at end October 2021.

Revising up FY22-23E earnings by 43-23% respectively. Although CPO prices have eased from record levels in October 2021, Malaysian palm oil production is still constrained by labour shortages whilst recent heavy rainfall is compounding the issue. Meanwhile the oil & fats market is expecting record soyabean production in the coming season which should ease tightness hence prices are set to normalise over the next 3-6 months. However, until inventory improves, there is little room to absorb bad news from say another lockdown, poor weather or logistical disruptions which might curb supply. As such, the price downside for CPO is expected to be limited for another quarter or so. Accordingly, we have raised estimated average CPO prices for UMB from RM3,700-3,200 to RM4,000-3,200/MT for FY22-23.

Maintain MARKET PERFORM but with a higher TP of RM5.40 (from RM5.20) based on average FY22-23E PE of 16x and mean Fwd. P/BV valuation of 0.8x. However, we are maintaining MP recommendation as peers are trading at or lower valuations which might limit the upside for UMB despite its earnings upgrade. ESG score is 55%.

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

MARKET PERFORM ↔

Price : RM5.15
Target Price : RM5.40 ↑

Share Price Performance



KLCI 1,502.01
YTD KLCI chg -7.7%
YTD stock price chg 1.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMR MK Equity
Market Cap (RM m)	1,080.3
Shares Outstanding	209.8
52-week range (H)	5.40
52-week range (L)	4.70
3-mth avg daily vol:	13,894
Free Float	32%
Beta	0.7

Major Shareholders

Prosper Trading Sdn Bhd	36.3%
Oversea Chinese Bank	20.3%
Prosper Palm Oil Mill Sdn Bhd	8.3%

Summary Earnings Table

FYE Apr (RM m)	2021A	2022E	2023E
Turnover	398.1	479.4	452.4
EBIT	31.8	126.6	84.8
PBT	25.0	129.5	80.3
Net Profit (NP)	13.2	98.4	57.7
Core NP (CNP)	28.4	90.8	57.7
Consensus (CNP)	n.a.	61.3	36.2
Earnings Revision	n.a.	43%	23%
Core EPS (sen)	13.5	43.3	27.5
Core EPS grwth (%)	-217.4	219.7	-36.5
NDPS (sen)	10.0	15.0	15.0
BV/Share (RM)	6.40	6.71	6.84
Core PER (x)	38.1	11.9	18.7
Price/BV (x)	0.80	0.77	0.75
Net Gearing (x)	0.1	0.1	0.1
Net Dvd. Yield (%)	1.9	2.9	2.9

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Results Highlights								
FYE Apr (RM m)	2Q22	1Q22	QoQ	2Q21	YoY	6M22	6M21	YoY
Revenue	143.9	114.9	25%	97.9	47%	258.7	184.7	40%
EBIT	49.8	28.6	74%	11.6	330%	78.4	15.6	403%
Pretax Profit	48.3	27.3	77%	9.9	388%	75.6	11.8	541%
Taxation	(11.8)	(6.0)	97%	(3.6)	228%	(17.8)	(2.7)	559%
MI	(0.5)	(0.4)	25%	1.1	nm	(0.9)	1.9	nm
Net Profit	36.1	20.8	74%	7.4	388%	56.9	11.0	417%
Core Net Profit	30.8	18.4	67%	8.9	246%	49.2	10.1	387%
EPS (sen)	17.2	9.9	74%	3.5	391%	27.1	5.2	421%
Net Dividend (Sen)	5.0	0.0	nm	3.0	67%	5.0	3.0	67%
EBIT margin	35%	25%		12%		30%	8%	
PBT margin	34%	24%		10%		29%	6%	
Effective tax rate	-24%	-22%		-36%		-24%	-23%	
CPO (RM / mt)	4,327	3,776	15%	2,745	58%	4,063	2,530	61%
Palm Kernel (RM / mt)	2,719	2,542	7%	1,559	74%	2,624	1,446	81%
FFB Volume (mt)	103,772	99,021	5%	102,548	1%	202,793	200,189	1%

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Apr (RM m)	2Q22	1Q22	QoQ	2Q21	YoY	6M22	6M21	YoY
Segmental Rev:								
Plantation	159.1	129.2	23%	113.9	40%	288.4	212.3	36%
(Internal Sales)	(15.3)	(14.4)	6%	(15.9)	-4%	(29.7)	(27.6)	8%
Group Rev	143.9	114.9	25%	97.9	47%	258.7	184.7	40%
Profit Before Tax:								
Plantation - Malaysia	43.2	24.1	79%	13.6	218%	67.3	19.4	315%
Plantation - Indonesia	4.0	0.8	400%	(1.9)	nm	4.9	(7.6)	nm
Investment Holding	1.2	2.3	-48%	(1.8)	nm	3.5	0.0	nm
Associates	0.0	0.0	Nm	0.0	nm	0.0	0.0	nm
Gains on disp. of NCA								
HFS	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
Impairment bearer plants	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
Others	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
Segmental Group PBT	48.3	27.3	77%	9.9	388%	75.6	11.8	541%

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																	
FGV HOLDINGS BHD	1.48	5,399.3	Y	12/2021	19.4%	-4.5%	109.8%	-31.1%	21.9	10.4	15.1	1.3	1.2	11.9%	5.7%	1.55	MP
GENTING PLANTATIONS BHD	6.65	5,966.4	Y	12/2021	23.2%	-9.2%	73.7%	-11.9%	25.0	14.4	16.4	1.2	1.2	8.3%	4.4%	8.40	OP
HAP SENG PLANTATIONS HLDGS	1.90	1,519.4	Y	12/2021	60.8%	-20.6%	174.2%	-36.2%	21.9	8.0	12.5	0.9	0.8	10.8%	7.4%	2.30	OP
IOI CORP BHD	3.70	22,994.1	Y	06/2022	13.5%	-8.4%	20.6%	-14.1%	27.6	17.9	20.8	2.3	2.1	12.4%	2.6%	4.05	MP
KUALA LUMPUR KEPONG BHD	21.38	23,045.2	Y	09/2022	-5.2%	-3.2%	-15.0%	-7.4%	13.7	16.1	17.4	1.9	1.9	11.7%	2.6%	26.50	OP
PPB GROUP BERHAD	16.84	23,956.6	Y	12/2021	18.4%	11.1%	3.7%	5.2%	18.3	17.6	16.8	1.1	1.0	6.1%	2.4%	18.90	MP
SIME DARBY PLANTATION BHD	3.64	25,173.2	Y	12/2021	39.5%	-8.0%	194.3%	-35.7%	30.2	10.3	16.1	1.8	1.7	17.2%	5.8%	4.10	MP
TA ANN HOLDINGS BERHAD	3.36	1,480.0	Y	12/2021	44.8%	-19.0%	305.5%	-42.9%	23.4	5.8	10.1	1.1	1.0	17.4%	8.9%	3.25	MP
TSH RESOURCES BHD	1.05	1,449.2	Y	12/2021	80.6%	-18.9%	162.0%	-46.4%	20.1	7.7	14.3	0.9	0.8	12.4%	3.8%	1.17	MP
UNITED MALACCA BHD	5.15	1,080.3	Y	04/2022	20.4%	-5.6%	219.7%	-36.5%	38.1	11.9	18.7	0.8	0.8	7.4%	2.9%	5.40	MP
Simple Average					31.6%	-8.6%	124.9%	-25.7%	27.2	8.4	14.4	0.9	0.9	11.6%	5.2%		

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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