

25 September 2023

## United Malacca

### A Weak Start for FY24

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UMCCA's 1QFY24 results disappointed as better harvest was more than offset by higher production cost and softer CPO prices realised. The same reasons contributed to a 74% YoY plunge in 1QFY24 core net profit. We cut our FY24-25F net profit by 15% and 18%, respectively, but maintain our asset-based TP of RM5.00 and MARKET PERFORM call.

**A weak first quarter.** Its 1QFY24 core net profit came in at only 11% and 10% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from higher production cost and softer CPO prices realised.

Although 1QFY24 CNP surged >100% QoQ to RM6.6m, margins were still weak and down by 74% YoY compared to a very strong quarter last year. Its 1QFY24 CPO price which dipped 5% QoQ and 33% YoY was the main cause of margins staying tight but production cost was also higher than expected even though FFB production actually improved QoQ as well as YoY. Therefore, its margins stayed compressed, with PBT margin for 1QFY24 at only 3%, a third of UMCCA's 10-year average. Encouragingly, the group's Indonesian operation is maturing well with 1QFY24 registering a RM2m pre-tax profit compared to losses a year ago as well as in 4QFY23. 1QFY24 Indonesian FFB harvest of 27K MT was 55% higher QoQ and up by 155% YoY, helping to offset the softness in CPO prices. However, the group turned from RM10m net cash a quarter ago to RM13m net debt (0.9% net gearing) in 1QFY24 due largely to a RM16m jump in inventory, from RM36m in 4QFY23 to RM52m in 1QFY24. No DPS was declared, which in line with our expectation.

**Rangebound CPO prices likely for FY24-25.** A fragile supply-demand edible oil outlook for 2023-24 suggests a volatile trading environment ahead with little room to absorb negative news, be it poorer-than-expected weather such as a severe El Nino or an unexpected disruption in supply chain such as lower river levels making exports difficult or surging freight charges. We are raising average CPO price back to RM3,800 per MT from RM3,700 for FY24-25 on the back of higher risk premium for palm oil in light of the pending El Nino, which is now almost certain, just a matter of severity. Specifically, should current expectation of a "strong" El Nino turn to "very strong," even higher CPO prices cannot be dismissed.

**Forecasts.** We cut our FY24-25F net profit by 15-18% to reflect the higher production cost in 1QFY23. Its production cost should ease moving ahead as fertiliser prices have fallen by about 30% YoY and seasonally higher harvest is due in 2QFY24. Nonetheless, we keep our NDPS of 12.0 sen annually.

We also keep our TP of RM5.00 based on 0.7x P/NTA which is based on smaller plantation group average of 0.8x over a 3-year to 15-year basis, essentially over a medium to long term commodity cycle basis. However, an additional 10% discount is applied against 0.8x P/NTA for UMCCA in view of the group's weak ROE in the past. There is no change to our TP based on its 3-star ESG rating as appraised by us (see Page 3). Maintain **MARKET PERFORM**.

**Risks to our call include:** (i) adverse weather, (ii) softer CPO prices, and (iii) rising cost of labour, fertiliser and fuel.

## MARKET PERFORM ↔

Price : RM5.10  
Target Price : RM5.00 ↔

### Share Price Performance



KLCI 1,450.23  
YTD KLCI chg -3.0%  
YTD stock price chg -5.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMR MK Equity
Market Cap (RM m)	1,070.0
Shares outstanding	209.8
52-week range (H)	5.59
52-week range (L)	4.90
3-mth avg daily vol:	15,366
Free Float	75%
Beta	0.6

### Major Shareholders

Oversea-Chinese Bank Corp	18.3%
Prosperity Capital M	13.1%
Prosper Palm Oil Mil	7.6%

### Summary Earnings Table

FYE April (RM m)	2023A	2024F	2025F
Turnover	604.5	602.5	636.4
EBIT	74.9	80.4	86.3
PBT	82.2	74.8	85.2
<b>Net Profit (NP)</b>	<b>61.3</b>	<b>53.1</b>	<b>62.4</b>
<b>Core NP</b>	<b>69.3</b>	<b>53.1</b>	<b>62.4</b>
Consensus (CNP)	0.0	63.1	68.5
Earnings Revision	-	-15%	-18%
Core EPS (sen)	33.0	25.3	29.8
Core EPS grwth (%)	-40.2	-23.4	17.6
NDPS (sen)	12.0	12.0	12.0
NTA/Share (RM)	6.89	7.03	7.20
Core PER (x)	15.4	20.2	17.1
Price/NTA (x)	0.74	0.73	0.71
Net Gearing (x)	N Cash	0.0	N Cash
Dividend Yield (%)	2.4	2.4	2.4

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<b>Results Highlights</b>								
<i>FYE April (RM m)</i>	<b>1Q24</b>	<b>4Q23</b>	<b>QoQ</b>	<b>1Q23</b>	<b>YoY</b>	<b>3MFY24</b>	<b>3MFY23</b>	<b>YoY</b>
<b>Revenue</b>	<b>136.0</b>	<b>135.3</b>	<b>0%</b>	<b>167.4</b>	<b>-19%</b>	<b>136.0</b>	<b>167.4</b>	<b>-19%</b>
EBIT	6.1	12.8	-52%	33.3	-82%	6.1	33.3	-82%
Pretax Profit	<b>3.9</b>	<b>10.6</b>	<b>-63%</b>	<b>31.8</b>	<b>-88%</b>	<b>3.9</b>	<b>31.8</b>	<b>-88%</b>
Taxation	(2.0)	(3.9)	-49%	(8.3)	-76%	(2.0)	(8.3)	-76%
MI	0.7	0.9	-22%	0.8	-10%	0.7	0.8	-10%
Net Profit	2.7	7.7	-65%	24.3	-89%	2.7	24.3	-89%
<b>Core Net Profit</b>	<b>6.6</b>	<b>0.4</b>	<b>1711%</b>	<b>25.6</b>	<b>-74%</b>	<b>6.6</b>	<b>25.6</b>	<b>-74%</b>
EPS (sen)	1.3	3.6	-65%	11.6	-89%	1.3	11.6	-89%
<b>Core EPS (sen)</b>	<b>3.2</b>	<b>0.2</b>	<b>1711%</b>	<b>12.2</b>	<b>-74%</b>	<b>3.2</b>	<b>12.2</b>	<b>-74%</b>
NDPS (sen)	-	7.0	-	-	-	-	-	-
EBIT %	5%	9%		20%		5%	20%	
PBT %	3%	8%		19%		3%	19%	
Tax %	50%	37%		26%		50%	26%	
<b>FFB (MT)</b>	<b>103,388</b>	<b>94,949</b>	<b>9%</b>	<b>92,135</b>	<b>12%</b>	<b>103,388</b>	<b>92,135</b>	<b>12%</b>
<b>CPO (RM / MT)</b>	<b>3,781</b>	<b>3,999</b>	<b>-5%</b>	<b>5,606</b>	<b>-33%</b>	<b>3,781</b>	<b>5,606</b>	<b>-33%</b>
<b>PK (RM / MT)</b>	<b>1,944</b>	<b>2,035</b>	<b>-4%</b>	<b>2,926</b>	<b>-34%</b>	<b>1,944</b>	<b>2,926</b>	<b>-34%</b>

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
<i>FYE April (RM m)</i>	<b>1Q24</b>	<b>4Q23</b>	<b>QoQ</b>	<b>1Q23</b>	<b>YoY</b>	<b>3MFY24</b>	<b>3MFY23</b>	<b>YoY</b>
<b>Segmental Rev:</b>								
Plantation	90.9	103.4	-12%	142.0	-36%	90.9	142.0	-36%
Internal sales	45.0	31.9	41%	25.5	77%	45.0	25.5	77%
<b>Group Rev</b>	<b>136.0</b>	<b>135.3</b>	<b>0%</b>	<b>167.4</b>	<b>-19%</b>	<b>136.0</b>	<b>167.4</b>	<b>-19%</b>
<b>Segmental Profit:</b>								
Plantation - Malaysia	6.2	3.0	109%	36.2	-83%	6.2	36.2	-83%
Plantation - Indonesia	2.2	(2.7)	-184%	(3.3)	-168%	2.2	(3.3)	-168%
Investment	(4.5)	11.0	-141%	(1.1)	310%	(4.5)	(1.1)	310%
Others	-	(0.7)	N.A.	-	-	-	-	-
<b>Pretax Profit</b>	<b>3.9</b>	<b>10.6</b>	<b>-63%</b>	<b>31.8</b>	<b>-88%</b>	<b>3.9</b>	<b>31.8</b>	<b>-88%</b>

Source: Company, Kenanga Research

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### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>PLANTATION</b>																	
BOUSTEAD PLANTATIONS BHD	AO*	1.49	1.50	-57.0%	3,337.6	Y	12/2023	2.0	3.1	-85.5%	53.1%	73.8	48.2	1.2	1.6%	8.0	5.4%
GENTING PLANTATIONS BHD	MP	5.36	5.50	2.6%	4,809.0	Y	12/2023	25.2	26.9	-51.8%	6.5%	21.2	19.9	0.9	4.2%	13.0	2.4%
HAP SENG PLANTATIONS HOLDINGS	MP	1.89	1.80	-4.8%	1,511.4	Y	12/2023	10.6	11.8	-58.4%	10.7%	17.8	16.0	0.8	4.4%	7.0	3.7%
IOI CORP BHD	MP	4.00	3.80	-5.0%	24,814.8	Y	06/2024	24.6	24.7	1.4%	0.1%	16.2	16.2	2.3	14.5%	11.0	2.8%
KUALA LUMPUR KEPONG BHD	OP	21.38	24.50	14.6%	23,057.0	Y	09/2023	118.3	155.7	-38.6%	31.6%	18.1	13.7	1.5	7.8%	50.0	2.3%
PPB GROUP BHD	OP	15.60	19.30	23.7%	22,192.6	Y	12/2023	75.0	114.3	-50.8%	52.4%	20.8	13.6	0.8	4.1%	45.0	2.9%
SIME DARBY PLANTATION BHD	UP	4.35	3.65	-16.1%	30,083.4	Y	12/2023	11.2	10.7	-62.3%	-4.3%	39.0	40.7	1.8	5.0%	8.0	1.8%
TA ANN HOLDINGS BHD	MP	3.45	3.40	-1.4%	1,519.6	Y	12/2023	32.8	34.4	-65.5%	4.6%	10.5	10.0	0.9	8.2%	25.0	7.2%
TSH RESOURCES BHD	MP	1.00	1.00	0.0%	1,380.2	Y	12/2023	4.2	6.3	-79.6%	51.6%	24.0	15.8	0.7	6.5%	1.0	1.0%
UNITED MALACCA BHD	MP	5.10	5.00	-2.0%	1,069.8	Y	04/2024	33.0	25.3	-40.3%	-23.4%	15.4	20.2	0.8	4.4%	12.0	2.4%
<b>Sector Aggregate</b>					<b>113,775</b>					<b>-45.1%</b>	<b>18.9%</b>	<b>21.6</b>	<b>18.1</b>	<b>1.2</b>	<b>6.6%</b>		<b>2.9%</b>

\*Accept KLK's proposed GO of RM1.50.

Source: Bloomberg, Kenanga Research

	Criterion	Rating		
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★
	Corporate Social Responsibility	★	★	★
	Management/Workforce Diversity	★	★	☆
	Accessibility & Transparency	★	★	☆
	Corruption-Free Pledge	★	★	★
	Carbon-Neutral Initiatives	★	★	☆
	<b>SPECIFIC</b>	Biodiversity Conservation	★	★
Sustainable Planting		★	★	★
Guest Labour Welfare		★	★	★
Supply Chain Auditing		★	★	★
Work Site Safety		★	★	★
Industrial Waste Disposal		★	★	★
<b>OVERALL</b>		★	★	★

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

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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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Published by:

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