

19 December 2023

United Malacca

Production and Cost Easing Fall Short

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UMCCA's 1HFY24 results disappointed us (but met market expectation) as its production and the easing in cost fell short of our expectation. We cut our FY24-25F net profit forecasts by 14% and 3%, respectively, but maintain our TP of RM5.00 and MARKET PERFORM call.

Its 1HFY24 core net profit (excluding a forex loss of RM7m and a fair value gain of RM2m) missed our forecast at only 40% of our full-year forecast but met market expectation at 50% of the full-year consensus estimate. The variance against our forecast came largely from weaker-than-expected FFB production and a slower-than-expected decline in cost from its Indonesian operations. Nonetheless, its average CPO price realised of RM3,769 per MT for 1HFY24 was within our expectation.

Its 2QFY24 core net profit more than doubled QoQ while EBIT margin expanded from 5% to 16% on seasonally better FFB output. Historically, 2Q harvest made up about 28% and 1H output about 52% of UMCCA's full-year production. Nonetheless, 2QFY24 FFB output of 0.221m MT (+6% YoY) came in below our estimate as we had expected better production from Indonesia. Likewise, 2QFY24 margins improved but not as much as expected as cost stayed higher. The group's venture in Indonesia is gradually turning around but 2QFY24 losses surprised us as we had expected some profits. Net debt rose further, from RM13m in the previous quarter to RM30m but net gearing remained very low at 2%. A 5.0 sen interim DPS was declared, in line with our expectation.

Better margins ahead. Global edible oil balance of supply and demand is likely to remain tight in 2024 (potentially till mid-2025) as supply hinges on very good weather while demand is back to 3%-4% YoY trend line growth after Covid-19 disrupted the market for 2-3 years. As such, relatively flat CPO price of RM3,800 per MT is expected over FY24-25 as El Nino has been mild so far. Production cost should ease as well. YTD, fertiliser and fuel spot prices are already 40% lower YoY. Altogether, margins should improve, mitigating a usually slower seasonal harvest for UMCCA during the second half of its financial year.

Forecasts. We downgrade our FY24-25F core net profit forecasts by 14% and 3%, respectively, to reflect the lower-than-expected FFB production and higher-than-expected cost, notably in Indonesia. Nevertheless, unit cost should be lower YoY, as FFB harvest is improving just slower than we had expected. Input costs such as fertiliser and fuel have also declined YoY. FY24-25F annual NDPS of 12.0 sen is maintained though.

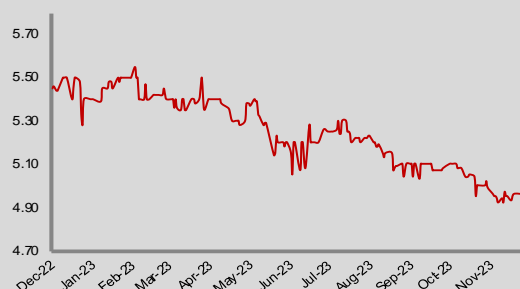
Valuations. We also keep our TP of RM5.00 based on 0.7x P/NTA which is based on smaller plantation group average of 0.8x over a 3-year to 15-year basis, essentially over a medium to long-term commodity cycle basis. However, an additional 10% discount is applied against 0.8x P/NTA for UMCCA in view of 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 : RM4.93
Target Price : RM5.00 ↔

Share Price Performance



KLCI 1,465.28
YTD KLCI chg -2.0%
YTD stock price chg -10.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMR MK EQUITY
Market Cap (RM m)	1,034.2
Shares outstanding	209.8
52-week range (H)	5.59
52-week range (L)	4.90
3-mth avg daily vol:	16,800
Free Float	75%
Beta	0.6

Major Shareholders

Oversea-Chinese Bank	18.3%
Prosperity Capital M	13.1%
HSBC Holdings Plc	7.6%

Summary Earnings Table

FYE April (RM m)	2023A	2024F	2025F
Turnover	604.5	561.7	601.9
EBIT	74.9	68.4	91.2
PBT	82.2	50.2	83.0
Net Profit (NP)	61.3	38.6	60.8
Core NP	69.3	45.6	60.8
Consensus (CNP)	0.0	41.6	63.1
Earnings Revision	-	-14%	-3%
Core EPS (sen)	33.0	21.7	29.0
Core EPS grwth (%)	-40.2	-34.2	33.2
NDPS (sen)	12.0	12.0	12.0
NTA/Share (RM)	6.89	6.96	7.13
Core PER (x)	14.9	22.7	17.0
Price/NTA (x)	0.72	0.71	0.69
Net Gearing (x)	N Cash	0.0	0.0
Dividend Yield (%)	2.4	2.4	2.4



19 December 2023

Results Highlights								
<i>FYE April (RM m)</i>	2Q24	1Q24	QoQ	2Q23	YoY	6MFY24	6MFY23	YoY
Revenue	144.5	136.0	6%	140.1	3%	280.5	307.6	-9%
EBIT	22.5	6.1	267%	24.2	-7%	28.6	57.5	-50%
Pretax Profit	20.3	3.9	415%	22.4	-9%	24.2	54.2	-55%
Taxation	(6.9)	(2.0)	249%	(7.9)	-13%	(8.9)	(16.2)	-45%
MI	0.4	0.7	-49%	1.2	-70%	1.1	2.0	-46%
Net Profit	13.7	2.7	413%	15.7	-13%	16.4	40.0	-59%
Core Net Profit	16.2	6.6	144%	17.0	-5%	21.3	42.9	-50%
EPS (sen)	6.5	1.3	413%	7.5	-13%	7.8	19.1	-59%
Core EPS (sen)	7.7	3.2	144%	8.1	-5%	10.2	20.5	-50%
NDPS (sen)	5.0	-	N.A.	5.0	0%	5.0	5.0	0%
EBIT %	16%	5%		17%		10%	19%	
PBT %	14%	3%		16%		9%	18%	
Tax %	34%	50%		35%		37%	30%	
FFB (MT)	117,724	103,388	14%	115,588	2%	221,112	207,723	6%
CPO (RM / MT)	3,758	3,781	-1%	3,985	-6%	3,769	4,727	-20%
PK (RM / MT)	2,001	1,944	3%	2,334	-14%	1,975	2,575	-23%

Source: Company, Kenanga Research

Segmental Breakdown								
<i>FYE April (RM m)</i>	2Q24	1Q24	QoQ	2Q23	YoY	6MFY24	6MFY23	YoY
Segmental Rev:								
Plantation	100.7	90.9	11%	121.3	-17%	191.6	263.3	-27%
Internal sales	43.8	45.0	-3%	18.8	133%	88.9	44.3	101%
Group Rev	144.5	136.0	6%	140.1	3%	280.5	307.6	-9%
Segmental Profit:								
Plantation - Malaysia	24.1	6.2	290%	29.8	-19%	30.3	66.0	-54%
Plantation - Indonesia	(0.5)	2.2	-124%	(5.6)	-91%	1.7	(8.9)	-119%
Investment	(3.3)	(4.5)	-26%	(1.8)	82%	(7.8)	(2.9)	167%
Others	-	-	-	-	-	-	-	-
Pretax Profit	20.3	3.9	415%	22.4	-9%	24.2	54.2	-55%

Source: Company, Kenanga Research

19 December 2023

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. (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.
PLANTATION																	
BOUSTEAD PLANTATIONS BHD	AO*	1.55	1.55	0.0%	3,472.0	Y	12/2023	1.3	2.6	-78.8%	100.0%	119.7	59.9	1.3	1.0%	2.0	1.3%
GENTING PLANTATIONS BHD	MP	5.67	5.70	0.5%	5,086.9	Y	12/2023	29.0	33.3	-44.6%	14.8%	19.5	17.0	0.9	4.8%	15.0	2.6%
HAP SENG PLANTATIONS HOLDINGS	MP	1.75	1.80	2.9%	1,399.4	Y	12/2023	10.6	11.8	-58.4%	10.7%	16.4	14.8	0.7	4.4%	7.0	4.0%
IOI CORP BHD	MP	4.01	3.80	-5.2%	24,876.8	Y	06/2024	22.9	23.9	-5.8%	4.3%	17.5	16.8	2.3	13.4%	11.0	2.7%
KUALA LUMPUR KEPONG BHD	OP	21.46	24.50	14.2%	23,143.2	Y	09/2024	147.0	165.1	40.9%	12.3%	14.6	13.0	1.5	10.4%	50.0	2.3%
PPB GROUP BHD	OP	14.58	19.30	32.4%	20,741.5	Y	12/2023	76.6	115.1	-49.8%	50.2%	19.0	12.7	0.8	4.8%	45.0	3.1%
SIME DARBY PLANTATION BHD	MP	4.55	4.00	-12.1%	31,466.5	Y	12/2023	13.8	16.6	-53.4%	20.3%	33.0	27.4	1.8	11.4%	18.0	4.0%
TA ANN HOLDINGS BHD	MP	3.55	3.80	7.0%	1,563.6	Y	12/2023	36.0	36.2	-62.2%	0.6%	9.9	9.8	0.9	9.9%	25.0	7.0%
TSH RESOURCES BHD	OP	0.975	1.30	33.3%	1,345.7	Y	12/2023	5.6	7.2	-72.7%	28.3%	17.4	13.6	0.7	7.5%	1.0	1.0%
UNITED MALACCA BHD	MP	4.93	5.00	1.4%	1,034.2	Y	04/2024	33.0	21.7	-40.3%	-34.2%	14.9	22.7	0.7	4.4%	12.0	2.4%
Sector Aggregate					114,129.9					-32.4%	18.7%	19.9	16.8	1.1	7.9%		3.3%

*Accept LTAT's GO of RM1.50.

Source: Bloomberg, Kenanga Research

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

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

19 December 2023

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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