

# United Malacca Berhad

## 1H18 Below Expectations

By Voon Yee Ping, CFA | [voonyp@kenanga.com.my](mailto:voonyp@kenanga.com.my)

United Malacca Berhad (UMCCA)'s 1H18 Core Net Profit\* (CNP) of RM21.4m came in below both consensus and our forecast at 27% and 29%, respectively, on higher-than-expected unit cost from newly matured area. An interim dividend of 6.0 sen was announced, missing our 23.0 sen estimate. We reduce our FY18-19E CNP by 12-1% and revise our call to MARKET PERFORM with lower TP of RM6.80 (from RM7.15) based on unchanged 20.4x Fwd. PER.

**1H18 misses expectations.** UMCCA's 1H18 CNP at RM21.4m came in under consensus' RM79.2m forecast at 27% and below our RM75.1m estimate at 29% owing to higher-than-anticipated production cost per metric ton (MT) coming from newly matured Indonesian and Malaysian area. We note that FFB production at 181.6k MT was in line with our expectations at 49%. An interim dividend of 6.0 sen was announced, which we deem below expectations as it made up 26% of our full-year estimate, and declined 25% against the last 3 years' 1H dividend payout of 8.0 sen. However, we expect to see higher dividend declared in 2H18, in line with historical payout patterns.

**High cost. YoY,** CNP softened 25% on thinner margins due to newly maturing area in both Malaysia (1.7k ha; c.8% of planted area) and Indonesia (3.0k ha; c.26% of planted area) which resulted in lower PBT in Malaysia (-21%) and wider LBT in Indonesia to RM2.0m (from RM0.2m). This was compounded by lower PK prices (-12%) although higher CPO prices (+3%) and FFB volumes (+8%) partly stemmed the decline. **QoQ,** CNP jumped 120% as Malaysia contribution doubled on the back of stronger FFB production (+18%) and PK prices (+22%). Indonesian LBT was unchanged at RM1.0m due to the high volume of low yielding newly matured area.

**Better 2H18 ahead.** We continue to expect double-digit FFB growth for the full year at 16%, well exceeding the sector average of 8%. With a better 2H growth outlook, we think unit costs should see slight improvement albeit management guidance that higher FFB production would not translate into proportionately higher profit due to the higher cost of production. We also look forward in CY18 to seeing initial progress towards the development of UMCCA's newly acquired Sulawesi area intended for expansion of non-palm cash crops such as stevia, coffee, cocoa or coconut, which should reduce earnings volatility due to palm oil's seasonality and price movements.

**Reduce FY18-19E CNP by 12-1% to RM66.2-71.5m** on updated cost assumptions due to newly matured area.

**Update to MARKET PERFORM with Lower TP of RM6.80** (from RM7.15) on lower CY18E EPS of 33.3 sen (from 35.1 sen) post earnings adjustment. Our Fwd. PER is unchanged at 20.4x based on +0.5 SD valuation basis. This is in line with planters with above-average FFB growth outlook. While we continue to see positive long-term prospects for UMCCA given the growth potential of its significant young mature area as well as earnings diversification plans, we think the market has priced in the medium-term growth potential in view of the strong share price performance to-date (+13%). Thus, we revise our call to MARKET PERFORM (from OUTPERFORM) in line with our ratings definition.

# MARKET PERFORM ↓

Price : RM6.68  
Target Price : RM6.80 ↓

## Share Price Performance



KLCI	1,751.64
YTD KLCI chg	6.7%
YTD stock price chg	11.9%

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMR MK Equity
Market Cap (RM m)	1,399.9
Issued shares	209.6
52-week range (H)	7.08
52-week range (L)	5.67
3-mth avg daily vol:	64,027
Free Float	60%
Beta	0.4

## Major Shareholders

Oversea Chinese Bank	20.3%
Aberdeen Asset management	11.4%
HSBC	8.5%

## Summary Earnings Table

FYE Apr (RM m)	2017A	2018E	2019E
Turnover	274.7	271.4	265.9
EBIT	89.9	74.0	86.8
PBT	98.9	81.1	92.6
<b>Net Profit (NP)</b>	<b>84.6</b>	<b>66.2</b>	<b>71.5</b>
<b>Core NP</b>	<b>75.9</b>	<b>66.2</b>	<b>71.5</b>
Consensus (CNP)	N.A.	71.2	79.2
Earnings Revision	N.A.	-12%	-1%
Core EPS (sen)	36.3	31.6	34.2
Core EPS grwth (%)	61.8%	6.0%	8.1%
NDPS (sen)	23.0	20.0	22.0
BV/Share (RM)	8.38	8.49	8.61
PER	18.7	20.5	19.0
Price/BV (x)	0.81	0.76	0.75
Net Gearing (x)	0.0	0.1	0.1
Net Dvd Yield (%)	3.4%	3.1%	3.4%

\* 2Q18 CNP excludes PP&E write-off (<RM0.1m), unrealised loss on investments (RM0.9m), unrealised loss on financial assets (RM0.4m) and unrealised forex loss (RM0.6m).

19 December 2017

<b>Results Highlights</b>								
<b>FYE Apr</b>	<b>2Q18</b>	<b>1Q18</b>	<b>QoQ %</b>	<b>2Q17</b>	<b>YoY%</b>	<b>1H18</b>	<b>1H17</b>	<b>Ytd-YoY%</b>
<b>Revenue</b>	<b>81.0</b>	<b>70.3</b>	<b>15%</b>	<b>74.4</b>	<b>9%</b>	<b>151.3</b>	<b>128.7</b>	<b>18%</b>
<b>EBIT</b>	<b>19.3</b>	<b>10.0</b>	<b>93%</b>	<b>26.6</b>	<b>-27%</b>	<b>29.3</b>	<b>33.1</b>	<b>-11%</b>
Pretax Profit	18.0	8.7	106%	25.7	-30%	26.7	31.3	-15%
Taxation	(5.5)	(2.9)	N.M.	(7.0)	-21%	(8.4)	(9.3)	-9%
MI	0.4	0.5	-15%	(0.2)	N.M.	0.9	(0.1)	N.M.
<b>Net Profit</b>	<b>12.9</b>	<b>6.3</b>	<b>103%</b>	<b>18.5</b>	<b>-30%</b>	<b>19.2</b>	<b>21.9</b>	<b>-12%</b>
<b>Core Net Profit</b>	<b>14.7</b>	<b>6.7</b>	<b>120%</b>	<b>20.6</b>	<b>-28%</b>	<b>21.4</b>	<b>28.7</b>	<b>-25%</b>
EPS (sen)	6.1	3.0	103%	8.8	-31%	9.2	10.5	-12%
Net Dividend (Sen)	6.0	0.0	N.M.	8.0	-25%	6.0	8.0	-25%
EBIT margin	24%	14%		36%		19%	26%	
PBT margin	22%	12%		35%		18%	24%	
Effective tax rate	31%	33%		27%		32%	30%	
CPO (RM / mt)	2,707	2,721	-1%	2,727	-1%	2,714	2,633	3%
Palm Kernel (RM / mt)	2,522	2,070	22%	2,777	-9%	2,308	2,627	-12%
FFB Volume (mt)	98,150	83,484	18%	89,870	9%	181,634	167,498	8%

Source: Company, Kenanga Research

<b>Segmental Breakdown</b>								
<b>FYE Apr</b>	<b>2Q18</b>	<b>1Q18</b>	<b>QoQ %</b>	<b>2Q17</b>	<b>YoY%</b>	<b>1H18</b>	<b>1H17</b>	<b>Ytd-YoY%</b>
<b>Segmental Rev:</b>								
Plantation	95.7	81.4	18%	90.7	6%	177.1	155.4	14%
(Internal Sales)	(14.8)	(11.1)	33%	(16.3)	-9%	(25.8)	(26.8)	-4%
<b>Group Rev</b>	<b>81.0</b>	<b>70.3</b>	<b>15%</b>	<b>74.4</b>	<b>9%</b>	<b>151.3</b>	<b>128.7</b>	<b>18%</b>
<b>Profit Before Tax:</b>								
Plantation - Malaysia	20.3	10.0	103%	27.1	-25%	30.3	38.5	-21%
Plantation - Indonesia	(1.0)	(1.0)	-1%	0.8	N.M.	(2.0)	(0.2)	N.M.
Investment Hold	(1.3)	(0.2)	N.M.	(2.2)	-41%	(1.5)	(7.0)	-79%
Associates	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
<b>Group PBT</b>	<b>18.0</b>	<b>8.7</b>	<b>106%</b>	<b>25.7</b>	<b>-30%</b>	<b>26.7</b>	<b>31.3</b>	<b>-15%</b>

Source: Company, Kenanga Research

19 December 2017

Peer Comparison

NAME	Price (18- Dec- 2017)	Mkt Cap	Core PER (x)			Est. Net Div. Yld.	Historical ROE	P/BV	Core Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17A	FY17/18F	FY18/19F				(%)	(%)	(x)	FY16/17A	FY17/18F		
<b>Core Coverage</b>															
SIME	2.11	13,680	6.1	5.4	5.8	12.8%	6.6%	0.4	2,346.0	2,643.0	2,468.0	13%	-7%	9.65	MARKET PERFORM
IOICORP	4.41	27,717	25.2	23.6	21.3	2.3%	14.7%	3.7	1,099.0	1,174.0	1,257.0	7%	7%	5.00	OUTPERFORM
KLK	24.52	26,113	24.4	22.8	21.5	2.4%	9.2%	2.3	1,069.0	1,145.0	1,217.0	7%	6%	25.00	MARKET PERFORM
PPB	16.94	20,082	19.4	18.4	17.1	1.6%	4.9%	1.0	1,038.0	1,093.0	1,175.0	5%	8%	19.00	OUTPERFORM
GENP	10.38	8,337	27.3	24.4	26.1	1.1%	6.4%	1.8	300.0	342.0	327.0	14%	-4%	10.30	MARKET PERFORM
FGV	1.73	6,311	N.M.	47.1	43.0	2.9%	-2.7%	1.1	(157.2)	134.0	147.0	N.M.	10%	2.00	OUTPERFORM
IJMLNT	2.76	2,430	21.5	28.5	25.8	1.8%	6.3%	1.4	113.3	85.2	94.1	-25%	10%	2.50	UNDERPERFORM
TSH	1.65	2,278	28.0	20.3	19.6	1.2%	5.7%	1.6	79.3	110.4	116.5	39%	6%	1.75	MARKET PERFORM
HSPLANT	2.51	2,007	16.1	16.2	17.0	4.4%	6.0%	1.0	125.0	124.0	118.0	-1%	-5%	2.70	MARKET PERFORM
TAANN	3.53	1,570	12.7	11.7	12.7	4.5%	9.4%	1.2	123.6	134.0	124.0	8%	-7%	3.60	MARKET PERFORM
UMCCA	6.68	1,398	18.4	21.1	19.5	3.0%	4.3%	0.8	76.0	66.2	71.5	-13%	8%	6.80	MARKET PERFORM
CBIP	1.77	926	10.3	9.7	9.1	4.1%	12.5%	1.3	90.0	95.3	102.1	6%	7%	2.10	OUTPERFORM
SAB	4.18	572	13.2	13.1	11.9	1.2%	7.6%	1.0	43.4	43.6	48.1	0%	10%	4.95	OUTPERFORM

Source: Bloomberg, Kenanga Research

19 December 2017

**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 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)



Chan Ken Yew  
Head of Research

