

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.

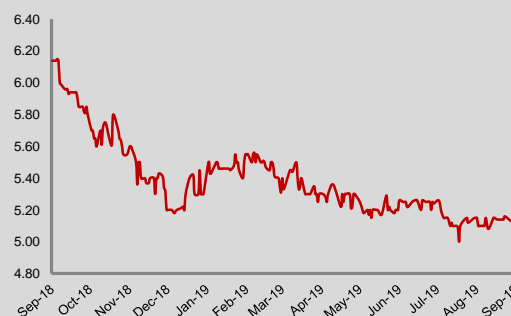
Maintain MARKET PERFORM with an unchanged Target Price of RM5.00 based on an unchanged Fwd. PBV of 0.62x applied to CY20E BV/share of RM8.02. The Fwd. PBV is based on steep -2.0SD from the historical mean (universe range: -2.0SD to 1.0SD), given that the company has previously disappointed expectations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



26 September 2019

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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26 September 2019

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
					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.			
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

26 September 2019

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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