

24 June 2020

United Malacca Berhad

Earnings Risk Ahead

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FY20 CNL of RM24.7m beat our/consensus' estimated CNL of RM29.8m/RM27.4m at 83%/90% mainly due to positive taxation. FFB output of 362k MT (+2% YoY) is within expectation at 102%, while FY20 DPS of 8.0 sen is spot on. 1QFY21 is likely to break even as lower CPO prices (QTD 1QFY21: -7% QoQ) negates higher FFB output. However, beyond 1QFY21, anticipated peak production season will apply pressure to CPO prices and give rise to earnings risk. Cut FY21E earnings to CNL of RM8.4m (from CNP of RM5.5m) and introduce FY22E CNP of RM2.9m. Downgrade to MP with a lower TP of RM4.80 (from RM4.95) based on FY21E PBV of 0.75x (-1.5SD due to loss-making status).

FY20 beat expectations. 4QFY20 CNP of RM4.1m brought FY20 Core Net Loss (CNL) to RM24.7m. This beat both our/consensus' estimated CNL of RM29.8m/RM27.4m at 83%/90% mainly due to positive taxation. Note that we have excluded unrealised forex losses of RM8.6m and impairment losses on bearer plants of RM56.8m amongst others to arrive at our 4QFY20 CNP. FY20 FFB output of 362k MT (+2% YoY) is within expectation at 102%. FY20 DPS of 8.0 sen (4QFY20 DPS: 6.0 sen) is spot on.

Results' highlight. YoY, FY20 CNL narrowed (-20%) to RM24.7m mainly due to: (i) higher CPO prices (+10%), and (ii) higher FFB output (+2%) which was partially muted by lower PK prices (-10%). **QoQ,** despite lower CPO/PK prices (-4%/-9%), 4QFY20 CNP increased (+120%) mainly due to: (i) higher FFB output (+14%), and (ii) positive taxation of RM9.8m (vs. tax expense of RM0.3m in 3QFY20).

More time needed turn profitable. We believe 1QFY21 earnings should more or less break even as lower CPO prices (MPOB QTD1QFY21: -7% QoQ) negates higher FFB output (1MFY21: +9% YoY). However, premised on our view that: (i) CPO price is likely to be under pressure from rising inventory as we enter into peak production season in 2HCY20, we believe the group is likely to face headwinds ahead in its attempt to return to profitability.

Lower FY21E earnings to CNL of RM8.4m (from CNP of RM5.5m) on lower CY20-21 CPO price forecast of (RM2,300-RM2,400/MT) and introduce FY22E CNP of RM2.9m.

Downgrade to MARKET PERFORM (from OP) with a lower Target Price of RM4.80 (from RM4.95) based on FY21E PBV of 0.75x. The Fwd. PBV is based on a steep -1.5SD from the historical mean (vs. peers' -0.5 to -1.0SD from mean), reflecting its loss-making status. At current price, UMCCA is trading at Fwd. PBV of 0.71x (in-line with its peers' average), warranting a MARKET PERFORM call.

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

MARKET PERFORM ↓

Price : RM4.54
Target Price : RM4.80 ↓

Share Price Performance



KLCI 1,507.04
YTD KLCI chg -5.1%
YTD stock price chg -15.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMR MK Equity
Market Cap (RM m)	952.4
Shares Outstanding	209.8
52-week range (H)	5.45
52-week range (L)	4.00
3-mth avg daily vol:	8,035
Free Float	73%
Beta	0.7

Major Shareholders

Oversea Chinese Bank	20.3%
HSBC	8.5%
Prosper Palm Oil Mill Sdn Bhd	7.6%

Summary Earnings Table

FYE Apr (RM m)	2020A	2021E	2022E
Turnover	294.0	288.1	308.2
EBIT	19.5	3.0	14.3
PBT	8.4	-7.5	6.9
Net Profit (NP)	15.8	-8.4	2.9
Core NP (CNP)	-24.7	-8.4	2.9
Consensus (CNP)	n.a.	14.3	25.1
Earnings Revision	n.a.	n.m.	NEW
Core EPS (sen)	-11.8	-4.0	1.4
Core EPS grwth (%)	-20.3	-65.8	-134.6
NDPS (sen)	8.0	6.0	6.0
BV/Share (RM)	6.47	6.37	6.32
Core PER (x)	-38.5	-112.5	324.9
Price/BV (x)	0.70	0.71	0.72
Net Gearing (x)	0.1	0.1	0.1
Net Dvd. Yield (%)	1.8	1.3	1.3



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Results Highlights								
FYE Apr (RM m)	4Q20	3Q20	QoQ	4Q19	YoY	FY20	FY19	YoY
Revenue	86.2	87.5	-1%	56.4	53%	294.0	203.7	44%
EBIT	(69.6)	6.7	Nm	(15.9)	339%	19.5	(41.2)	nm
Pretax Profit	(71.9)	4.0	Nm	(17.8)	305%	8.4	(48.3)	nm
Taxation	9.8	(0.3)	nm	3.9	150%	5.6	7.2	-22%
MI	0.9	(0.5)	nm	0.3	199%	1.7	2.1	-20%
Net Profit	(61.3)	3.2	nm	(13.6)	352%	15.8	(39.0)	nm
Core Net Profit	4.1	1.9	120%	(11.1)	nm	(24.7)	(31.0)	-20%
EPS (sen)	(29.2)	1.5	nm	(6.5)	352%	7.5	(18.6)	nm
Net Dividend (Sen)	6.0	0.0	nm	6.0	0%	8.0	8.0	0%
EBIT margin	-81%	8%		-28%		7%	-20%	
PBT margin	-83%	5%		-31%		3%	-24%	
Effective tax rate	14%	7%		22%		-67%	15%	
CPO (RM / mt)	2,496	2,589	-4%	1,981	26%	2,259	2,051	10%
Palm Kernel (RM / mt)	1,437	1,585	-9%	1,231	17%	1,310	1,455	-10%
FFB Volume (mt)	98,115	85,826	14%	96,144	2%	362,096	353,614	2%

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Apr (RM m)	4Q20	3Q20	QoQ	4Q19	YoY	FY20	FY19	YoY
Segmental Rev:								
Plantation	94.8	95.1	0%	65.4	45%	328.9	234.8	40%
(Internal Sales)	(8.7)	(7.6)	13%	(8.9)	-3%	(35.0)	(31.1)	13%
Group Rev	86.2	87.5	-1%	56.4	53%	294.0	203.7	44%
Profit Before Tax:								
Plantation - Malaysia	(2.0)	(3.1)	-34%	(8.7)	-77%	(19.6)	(21.0)	-6%
Plantation - Indonesia	(2.6)	5.3	nm	(4.9)	-47%	(5.4)	(17.2)	-68%
Investment Holding	(10.5)	1.8	nm	(4.2)	152%	(12.9)	(10.2)	27%
Associates	0.0	0.0	nm	0.0	nm	0.0	0.0	nm
Gains on disposal of NCA held for sale	0.0	0.0	nm	0.0	nm	103.2	0.0	nm
Impairment losses on bearer plants	(56.8)	0.0	nm	0.0	nm	(56.8)	0.0	nm
Segmental Group PBT	(71.9)	4.0	nm	(17.8)	305%	8.4	(48.3)	nm

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
					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.		
	(RM)	(RM'm)															
STOCKS UNDER COVERAGE																	
CB INDUSTRIAL PRODUCT HLDG	0.915	451.6	Y	12/2020	-5.7%	3.9%	18.2%	6.3%	14.6	12.3	11.6	0.6	0.6	5.0%	2.2%	0.730	UP
FGV HOLDINGS BHD	1.01	3,684.6	Y	12/2020	1.3%	8.7%	77.3%	97.5%	71.5	40.3	20.4	0.9	0.9	2.2%	2.0%	1.05	MP
GENTING PLANTATIONS BHD	10.20	9,151.4	Y	12/2020	-7.2%	10.5%	41.8%	33.6%	65.3	46.0	34.5	2.2	2.2	4.7%	1.2%	8.05	UP
HAP SENG PLANTATIONS HLDGS	1.51	1,207.5	Y	12/2020	-4.5%	9.8%	128.3%	36.0%	57.5	25.2	18.5	0.7	0.7	4.1%	2.6%	1.85	OP
IJM PLANTATIONS BHD	1.63	1,435.3	N	03/2020	14.7%	11.6%	28.2%	83.7%	N.A.	38.3	20.9	0.8	0.8	2.2%	1.6%	1.55	OP
IOI CORP BHD	4.34	27,198.0	Y	06/2020	-4.3%	8.1%	11.3%	13.1%	35.9	32.2	28.5	2.9	2.8	8.9%	1.8%	4.25	MP
KUALA LUMPUR KEPONG BHD	22.12	23,856.0	Y	09/2020	4.6%	16.2%	11.9%	13.8%	38.1	34.1	30.0	2.3	2.2	6.6%	2.3%	20.70	MP
PPB GROUP BERHAD	17.90	25,464.5	Y	12/2020	-2.3%	14.7%	-2.9%	12.3%	23.7	22.1	22.7	1.2	1.1	5.2%	1.8%	17.60	MP
SIME DARBY PLANTATION BHD	4.93	33,941.0	Y	12/2020	3.2%	5.1%	242.9%	35.2%	210.9	61.5	45.5	2.5	2.5	4.1%	0.8%	4.90	MP
SOUTHERN ACIDS MALAYSIA BHD	3.40	465.6	Y	03/2020	19.7%	10.9%	85.8%	29.5%	26.9	14.5	11.2	0.8	0.7	5.3%	1.8%	3.55	OP
TA ANN HOLDINGS BERHAD	2.45	1,079.1	Y	12/2020	9.1%	5.2%	43.4%	9.0%	15.8	11.0	10.1	0.8	0.7	6.8%	2.9%	2.90	OP
TSH RESOURCES BHD	0.835	1,152.4	Y	12/2020	12.5%	5.4%	56.2%	15.8%	28.5	18.2	15.7	0.8	0.8	4.4%	1.8%	0.950	OP
UNITED MALACCA BHD	4.54	952.4	Y	04/2020	-2.0%	7.0%	-292.5%	288.9%	N.A.	N.A.	324.9	0.7	0.7	-0.6%	1.3%	4.80	MP
Simple Average					3.0%	9.0%	34.6%	51.9%	53.5	29.6	45.7	1.3	1.3	4.5%	1.8%		

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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Published and printed by:

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