

28 March 2023

United Malacca

A Soft Patch in 3QFY23

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UMCCA's 9MFY23 results disappointed due to higher production costs. QoQ, realised 3QFY23 CPO prices were marginally firmer and FFB harvest was also stronger-than-usual which is likely to repeat moving into FY24 but so will the high production costs. We downgrade our FY23F net profit by 6% but maintain FY24F numbers, TP of RM5.00 and MARKET PERFORM call. Trading at 0.8x PBV, the market might be overly negative on UMCCA as poor Latin American soybean harvest is supportive of CPO prices staying firm into FY24.

19MFY23 CNP of RM61.4m came in below expectations at only 71% and 67% of our full-year forecast and the full-year consensus estimate respectively. The variance against our forecast came largely from higher operating cost, particularly labour and fertiliser which are expected to stay elevated. 3QFY23 CNP of RM18.7m was also weaker than expected on higher cost though CPO price was firm QoQ at RM4,035/MT (+2% QoQ, -16% YoY). Third quarter FFB production was better than expected, at 100.7k MT (-1% QoQ, +29% YoY). Usually, UMCCA's FFB output starts softening after peaking in the second quarter but for 3QFY23 it was essentially flat. The group's net cash strengthened QoQ, from RM12m net borrowing to net cash of RM8m.

Stabler outlook ahead. Palm oil prices have been trading sideways after correcting in mid-CY22. A recovery albeit a fragile one is taking shape and the likelihood it staying fragile beyond CY23 and into CY24 is rising. South American soybean harvest is ongoing but looking weaker than expected. Supply should still inch up YoY thanks to record Brazilian production but very poor Argentinean harvest is pointing to a much smaller increment. Consequently, edible oil inventory has less room to absorb any negative surprises. High production cost is another issue faced by palm oil planters but better harvest should provide some stability and coupled with firm CPO prices, margins should be more stable for in the medium-term. Demand for biofuels has been mix, with US biofuel demand expected to rise while Indonesia recently raised its biofuel blend from B30 to B35 and Brazil is doing likewise from B10 to B12 effective next month.

We cut our FY23F net profit by 6% on higher production cost but keep our FY24F numbers. We maintain our average CPO price assumptions of RM4,000 per MT in FY23 and RM3,800 per MT in FY24. Maintain FY23-24F NDPS of 15.0 sen each.

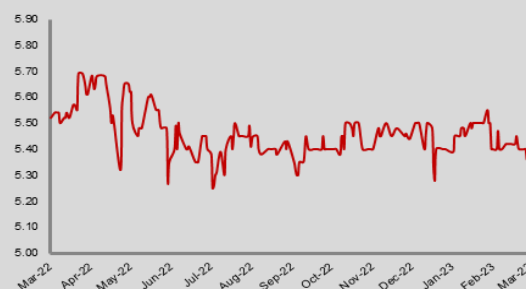
We maintain our **MARKET PERFORM** call and TP of RM5.00 after taking into considerations: (i) firm CPO prices extending into CY24, hence our FY24F CEPS is 17% above consensus despite our weaker FY23F CEPS, (ii) 20% discount to integrated target PER of 15x, (iii) prospective PBV that is already trading at 0.8x which suggests that much bad news is already reflected in the share price, and (iv) a net cash balance sheet. There is no change to our TP based on ESG given a 3-star rating as appraised by us (see Page 3).

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

MARKET PERFORM ↔

Price : RM5.35
Target Price : RM5.00 ↔

Share Price Performance



KLCI 1,396.60
YTD KLCI chg -6.6%
YTD stock price chg -2.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UMR MK Equity
Market Cap (RM m)	1,122.3
Shares outstanding	209.8
52-week range (H)	5.67
52-week range (L)	5.16
3-mth avg daily vol:	20,792
Free Float	66%
Beta	0.5

Major Shareholders

Oversea-Chinese Bank Corp	23.3%
Prosperity Capital M	8.5%
Prosper Palm Oil Mil	8.3%

Summary Earnings Table

FYE April (RM m)	2022A	2023F	2024F
Turnover	554.0	577.7	568.9
EBIT	147.6	115.5	107.0
PBT	144.1	91.5	101.5
Net Profit (NP)	108.2	73.5	74.6
Core NP	116.0	81.5	74.6
Consensus (CNP)	N.A.	96.3	63.4
Earnings Revision	N.A.	-6%	0%
Core EPS (sen)	55.3	38.8	35.6
Core EPS grwth (%)	311.6	-29.8	-8.4
NDPS (sen)	15.0	15.0	15.0
NTA/Share (RM)	6.72	6.92	7.13
Core PER (x)	9.7	13.8	15.0
Price/NTA (x)	0.8	0.77	0.75
Net Gearing (x)	N Cash	N Cash	N Cash
Dividend Yield (%)	2.8	2.8	2.8

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Results Highlights								
<i>FYE April (RM m)</i>	3Q23	2Q23	QoQ	3Q22	YoY	9MFY23	9MFY22	YoY
Revenue	161.3	140.1	15%	147.8	9%	469.2	406.5	15%
EBIT	16.7	24.2	-31%	40.8	-59%	74.2	119.3	-38%
Pretax Profit	14.6	22.4	-35%	39.4	-63%	68.8	115.0	-40%
Taxation	(5.0)	(7.9)	-37%	(9.2)	-46%	(21.2)	(27.0)	-21%
MI	3.0	1.2	147%	0.1	5433%	5.1	(0.9)	-693%
Net Profit	12.7	15.7	-19%	30.2	-58%	52.7	87.2	-40%
Core Net Profit	18.7	17.4	7%	31.9	-42%	61.4	85.2	-28%
Core EPS (sen)	6.1	7.5	-19%	14.4	-58%	25.1	41.6	-40%
NDPS (sen)	8.9	8.3	7%	15.2	-42%	29.3	40.6	-28%
EBIT %	10%	17%		28%		16%	29%	
PBT %	9%	16%		27%		15%	28%	
Tax %	34%	35%		23%		31%	23%	
FFB (MT)	120,251	115,588	4%	88,969	35%	327,974	291,762	12%
CPO (RM / MT)	4,061	3,985	2%	4,851	-16%	4,499	4,313	4%
PK (RM / MT)	2,031	2,334	-13%	4,036	-50%	2,387	3,079	-22%

Source: Company, Kenanga Research

Segmental Breakdown								
<i>FYE April (RM m)</i>	3Q23	2Q23	QoQ	3Q22	YoY	9MFY23	9MFY22	YoY
Segmental Rev:								
Plantation	118.7	121.3	-2%	117.6	1%	382.0	320.5	19%
Internal sales	42.9	18.8	128%	30.2	42%	87.2	86.0	1%
Group Rev	161.6	140.1	15%	147.8	9%	469.2	406.5	15%
Segmental Profit:								
Plantation - Malaysia	22.4	29.8	-25%	37.0	-39%	88.4	104.3	-15%
Plantation - Indonesia	(1.7)	(5.6)	-69%	3.6	-147%	(10.6)	8.4	-226%
Investment	(6.1)	(1.8)	231%	(1.2)	418%	(9.0)	2.3	-483%
Pretax Profit	14.6	22.4	-35%	39.4	-63%	68.8	115.0	-40%

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. (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																	
FGV HOLDINGS BHD	MP	1.60	1.40	-12.50%	5,837.0	Y	12/2023	23.8	23.9	-38.6%	0.3%	6.7	6.7	0.9	13.3%	8.0	5.0%
GENTING PLANTATIONS BHD	MP	5.89	5.50	-6.62%	5,284.5	Y	12/2023	40.9	41.8	-21.9%	2.1%	14.4	14.1	0.9	7.0%	20.0	3.4%
HAP SENG PLANTATIONS HOLDINGS	OP	1.70	2.30	35.29%	1,359.5	Y	12/2023	19.2	20.1	-25.0%	4.8%	8.9	8.5	0.7	7.8%	12.0	7.1%
IOI CORP BHD	MP	3.73	4.20	12.60%	23,152.8	Y	06/2023	26.8	21.2	-7.6%	-20.8%	13.9	17.6	2.1	15.7%	14.0	3.8%
KUALA LUMPUR KEPONG BHD	OP	20.70	27.00	30.43%	22,323.6	Y	09/2023	171.6	168.4	-10.5%	-1.9%	12.1	12.3	1.5	13.1%	50.0	2.4%
PPB GROUP BHD	OP	16.54	19.30	16.69%	23,529.8	Y	12/2023	122.8	136.4	-19.5%	11.1%	13.5	12.1	0.9	6.6%	45.0	2.7%
SIME DARBY PLANTATION BHD	UP	4.16	3.65	-12.26%	28,769.4	Y	12/2023	24.3	23.8	-17.8%	-2.1%	17.1	17.5	1.7	10.0%	16.0	3.8%
TA ANN HOLDINGS BHD	MP	3.06	3.90	27.45%	1,347.8	Y	12/2023	41.7	42.5	-45.9%	2.0%	7.3	7.2	0.8	10.4%	25.0	8.2%
TSH RESOURCES BHD	OP	0.995	1.35	35.68%	1,373.3	Y	12/2023	12.4	12.1	-39.5%	-2.1%	8.1	8.2	0.6	14.6%	3.0	3.0%
UNITED MALACCA BHD	MP	5.35	5.00	-6.54%	1,122.3	Y	04/2023	38.8	35.6	-29.7%	-8.5%	13.8	15.0	0.8	5.3%	15.0	2.8%
Sector Aggregate					114,099.9					-19.6%	-2.4%	13.0	13.3	1.1	10.4%		4.2%

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

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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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