United U-Li Corporation

Pedal to the Metal

We are initiating coverage on ULICORP with an OUTPERFORM call and TP of RM5.60 based on a PER valuation of 16.0x. We like the stock for its leading market position and strong rooting against unfavorable economic conditions, coupled by its solid growth prospects and margin expansion from the progressive commissioning of production facilities in its new plant.

From strength to strength. The group registered sales of RM179.2m (+4% YoY) in FY15 and closed FY16 at RM201.1m (+12% YoY). The slower growth in FY15 could be attributed by the group nearing production capacity. Backed by better product mixes and economies of scale, operating margins expanded to 19.6% (+1.8 pts YoY) and 21.4% (+1.8 pts) in FY15 and FY16, respectively. As such, the group saw respectable growth in its bottomline for the last 2 years. FY15 and FY16 net profits were recorded at RM26.0m (+12% YoY) and RM31.1m (+20% YoY).

Broad clientele continues to support against economic slowdowns. The group is exposed to a wide range of customers from various sectors, both locally and internationally. While mostly involved in public infrastructure projects, the products of ULICORP are widely used in various sectors due to their wide-based application. This may indicate a low risk of a significant slowdown in overall demand in short-to-mid-term. Exports, on the other hand, have been supported by increasing development in Singapore.

Completed plant in Nilai to expand production capabilities. Prior to the operation of its Nilai plant in 2H16, the group had a phase of under-capacity where its plants' utilisation rates were close to their maximised levels and were at the risk of bottlenecking orders. With the new plant, which could potentially to double the group's total capacity, product delivery rates could be improved as more production lines are being commissioned. In addition, the expanded output potential would allow the group to undertake larger order volumes, which may have been rejected from the earlier lack of capacity.

Increase in capital-intensity and automation to expand margins. As more production lines are being introduced, we anticipate a stretch on the group's economies of scale brought about by greater output for relatively lower overhead costs. Following this, the expansion of the group's powder spray line in the same plant could further boost cost savings potential. In addition, we do not discount the possibility of the group to outsource certain aspects of its production capabilities to external parties in the event excess capacity arises.

Much hope for earnings growth. With the abovementioned, we forecast revenue for FY17E/FY18E to expand by 15%/19%. Along with the anticipated expansion of operating margins to c.22%/c.25% (from c.21% in FY16), we expect net earnings to grow by 25%/31% to RM39.0m/RM51.0m in FY17E/FY18E. For dividends, the group has exercised dividend payout ratios between c.56%-67%. Assuming a c.60% payout ratio for its future dividends, we could potentially see dividend payments of 16.0 sen/21.0 sen, which implies dividend yields of 3.5%/4.6%.

OUTPERFORM call with a target price of RM5.60, which is based on our ascribed targeted 16.0x PER, closely inline with +1SD above the stock's 5-year average Fwd. PER. We believe the valuation is undemanding given the stock's: (i) leading market position; (ii) strong growth prospect (of 2-year Forward CAGR of 28%); (iii) expanding profit margins; (iv) decent dividend yield; and (iv) net cash position.

OUTPERFORM

Price:	**RM4.56**
Target Price:	**RM5.60**

Expected Capital Gain:	*RM1.04*	*+22.8%*
Expected Divd. Yield:	*RM0.21*	*+4.6%*
Expected Total Return:	*RM1.25*	*+27.4%*

KLCI Index **1,771.01**

Stock Information

Bloomberg Ticker	UULI MK Equity
Bursa Code	7133
Listing Market	Main Market
Shariah Compliant	No
Issued shares	145.2
Market Cap (RM m)	662.1
Par value per share (RM)	0.50
52-week range (H)	6.86
52-week range (L)	3.36
Free Float	48%
Beta	0.6
3-mth avg daily vol:	103,998

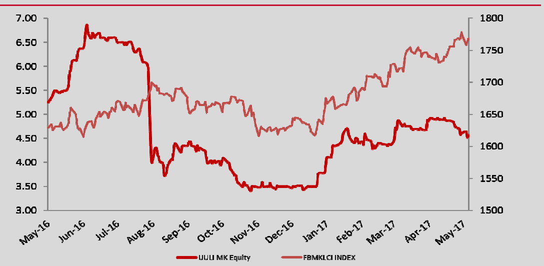
Major Shareholders

Pearl Deal M Sdn Bhd	37.2%
Rhb Asset Management	11.7%
Norges Bank	3.2%

Summary Earnings Table

FY Dec (RM m)	2016A	2017E	2018E
Turnover	201.1	231.2	274.0
EBIT	43.0	51.8	67.7
PBT	43.5	51.9	68.0
Net Profit	**31.1**	**39.0**	**51.0**
Core PATAMI	**31.1**	**39.0**	**51.0**
Consensus (NP)	-	-	-
Earnings Revision	-	-	-
Core EPS (sen)	21.4	26.8	35.1
Core EPS growth (%)	19.7%	25.2%	30.9%
NDPS (sen)	12.0	16.0	21.0
NTA per Share (RM)	0.82	0.87	0.92
Price to NTA (x)	3.3	3.1	2.9
PER (x)	21.3	17.0	13.0
Debt-to-Equity ratio (x)	(0.0)	(0.2)	(0.2)
Return on Asset (%)	11.8%	14.0%	17.2%
Return on Equity (%)	0.0%	0.0%	0.0%
Net Div. Yield (%)	2.6%	3.5%	4.6%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	*30.7%*	*-23.8%*	*-13.1%*
Relative (%)	*30.3%*	*-27.4%*	*-21.8%*

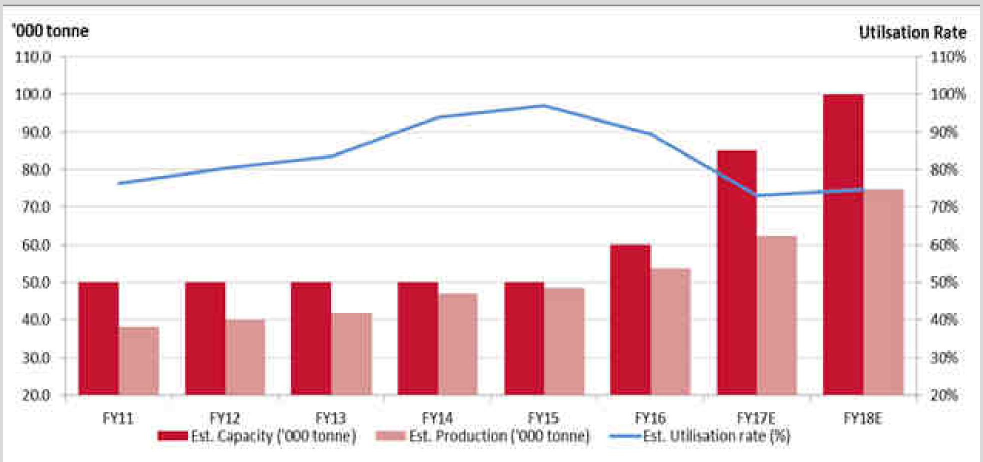
Clement Chua
clement.chua@kenanga.com.my
+603-2172 2635

INVESTMENT MERITS

Expanded capacity from new production plant. Prior to the completion of the Nilai plant, we estimate that the group had a maximum production capacity of c.50,000 tonnes/year. At this level, utilisation rates of the existing facilities from FY11 to FY15 gradually rose from c.76% to c.97%. We reckon that production volumes could have been higher in FY15 if not for the group's limited capacity at that time, as FY15 was a robust year for the construction sector given the execution of new government infrastructure projects such as the new MRT and LRT lines as well as the solid pipeline of new residential property projects within the country.

Henceforth, the new Nilai plant was constructed with the intention to double the group's production capacity. Completed in 2H16, we expect the progressive installation of production lines into the plant to be completely rolled out by the end of FY17. With this in mind, we project the group to continue to undertake larger project orders to fulfil market requirement, potentially leading to FY17E/FY18E production levels to register at 62.2k tonnes / 74.6k tonnes at 73% / 75% utilisation rate.

Estimated annual production



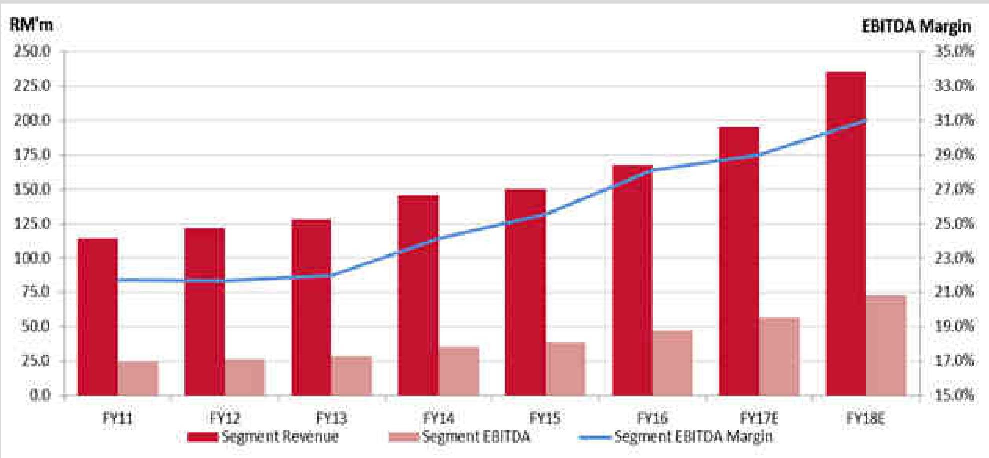
Source: Company, Kenanga Research

Expanding margins from the cable support system segment. From FY11-FY13, with the revenue contribution from the cable support system segments of RM114.m4-RM128.2m at the estimated production volume of c. 38k-40k tonnes, segment EBITDA margin has been relatively stable at c.22%. In FY14-FY15, production orders saw a rise to c.47k-49k tonnes of output a year from the surge in infrastructure and residential property project launches, contribution to RM145.9m-RM149.8m sales. At this level, the economies of scale from the higher production and improvement in product mixes brought EBITDA margin to register at c.24%-26%. At the recently closed FY16, with the partial operation of the production plant at Nilai, EBITDA margin expanded further to c.28% on the back higher production volume estimated at c.56k tonnes in the year.

EBITDA margin-wise, we believe there is a continuing opportunity to expand economies of scale as the group equips the Nilai plant with more advanced machinery for greater efficiency with fewer labour requirements. In addition, a small degree of cost savings could be potentially enjoyed as the group expands on its powder spray line.

With our projected production volume for FY17E / FY18E, we believe the segment could potentially contribute sales of RM195.4m / RM235.6m at 17% / 21% YoY growth. Furthermore, as we expect EBITDA margin to expand to 29% / 31% from the above factor, segment EBITDA for FY17E / FY18E could register at RM56.7m / RM73.0m at 20% / 29% YoY growth.

Cable support system



Source: Company, Kenanga Research

Large land reserve could allow for further expansion. Surrounding the Nilai plant, the group further owns two separate plots of leasehold land of 8 acres and 11 acres in size. These plots of land are reported to be purchased at RM12.0m and RM23.0m, respectively between FY15-FY16. While no plans have been made to develop these lands, for the time being, we believe the investments on the land are sound as it would provide a means to expand, centralise and streamline its production facilities in the near future. Presently, the group's other production arms are located in Balakong, Ipoh, Seri Kembangan and Taming Jaya. Given that existing Nilai plant is measured at approximately 9 acres, each of these plots of land could potentially match its production capabilities.

Nilai land reserves

Source: Company

Strong cash position and sustainable dividend yield. As of FY16, ULICORP has a net cash position of RM48.3m with RM34.8m in debt. With operating cash flows forecasted to register between RM31.2m-RM36.8m for FY17E-FY18E, the group has sizeable capacity to fund further expansion plans on its land reserves or to reward shareholders. From FY14-FY16, the group has exercised a dividend payout ratio of between c.56%-67%. Assuming a 60% payout ratio in FY17E/FY18E, we would expect to see dividend payments of 16.0 sen/21.0 sen, which implies a dividend yield of 3.5% / 4.6%.

COMPANY OUTLOOK

Well-diversified clientele could mitigate demand risks. The group services a wide client base (consisting of contractors and dealers) from varying sectors from the infrastructural segments, property segment, power utilities segment as well as oil & gas segment. Further, these clients consist of both the private and public sector in the domestic market, as well as foreign markets in the ASEAN region, primarily Singapore. Given the lack of dependence on the growth and performance of a particular economic segment, we believe the group will not be susceptible to sudden adverse shifts in demand from any potential industry downturn. In addition, the broad-base application of group products will allow the group to cater to new segments readily without allocating much resources in product research and development.

Possible re-entry into old export markets. Given capacity constraints experienced previously, the group had resorted to phase off orders from old export markets (i.e. Middle East) as they were unable to meet their large volume demand. In addition, we gather that servicing this market necessitates significant storage spaces due to heavier volume loads at fewer deliveries (i.e. air freight or sea freight) as opposed to deliveries by land freight to domestic locations or more assessable regions, such as Singapore. With the enlarged working areas derived by the Nilai plant, the group could potentially re-enter into these markets, by streamlining its production equipment layout or allocating greater areas for inventory. Additionally, the group could consider utilising its additional land into a dedicated warehouse space as to maximise the Nilai plant towards production purposes.

Diverse suppliers to mitigate impact from weak Ringgit to cost. We gathered that less than c.20% of the group's raw materials (i.e. steel coils) are imported in USD. While importing companies have been generally affected by inflated input costs arising from the weakening of the Ringgit in the past 2 years, we reckon that the group was able to make away from such exposure given its diverse portfolio of domestic and foreign suppliers under the management's belt, which constantly price their products to the group competitively.

SECTOR OUTLOOK

Sole listed steel cable support systems company. ULICORP is the only listed company in Malaysia that is involved in the steel cable support systems business. While there are several listed companies involved with the fabrication of steel sheets (such as Ajiya Bhd, Astino Bhd, EonMetall Group Bhd), their products do not serve the same application as ULICORP. Non-listed steel cable support systems corporations in the country are such as Syarikat LanRic Industries Sdn Bhd and UM Metal Sdn Bhd.

A proxy to economic development. Given the group's wide-base exposure to the many sectors of the country (significantly on the infrastructure sector), the group's prospects could be potentially gauged by the investments and initiatives aimed towards to general economic development within the country. Hence, the influx of new infrastructure projects such as the Mass Rapid Transit 2 (MRT2) and extension of the Light-Rail Transit (LRT) lines are expected to drive the demand for cable support systems locally. Other projects from various segments which could potentially benefit the market are the Tun Razak Exchange (TRX), Petronas' Refinery and Petrochemical Integrated Development (RAPID) project, commercial developments such as the Pavilion 2 alongside residential projects such as the government's affordable housing projects, *Rumah Wilayah Persekutuan (RUMAWIP)*. Across the region, the group is looking to also looking to leverage on the growing construction sector in Singapore, which is its largest export nation. Media sources stated that new public sector projects in 2017 are projected to grow to between SGD20.0b –SGD24.0b, an improvement from the SGD15.8b in project demand in 2016.

FINANCIAL ANALYSIS

Historical review – FY15

The group registered sales of RM179.2m at 4% YoY growth, derived from RM149.8m (+3% YoY) revenue from core cable support systems and RM29.4m (+12% YoY) contributions from the electrical lighting and fittings segment. As the group had previously registered a 12% growth in 2014, we attribute the slowing growth for the year to be due to the group possibly from slower product delivery as the group nears full production capacity, which also limits the undertaking of new production orders for its cable support systems segment. The lighting segment, however, saw a sizeable growth possibly from the increase in demand preceding from several local projects which were completed in the prior year.

In terms of operating margins, the group performed better at 19.6% (+1.8 pts YoY) as average steel prices saw a decline (c.-25%), bringing operating profit to RM35.1m (+12% YoY). Net earnings ended similarly at 12% YoY growth to RM26.0m.

Dividend-wise, the group paid a total of 12.0 sen in this financial year, translating to a c.67% dividend payout ratio. This is an improvement from FY14's dividend payment of 10.0 sen or c.63% dividend payout.

On key balance sheet items, accounts receivables for FY15 expanded (+18% YoY to RM75.8m) concurrent with greater sales recognised during the year, also leading to an increase in receivables turnover days to c.143 days from c.134 days in 2014. Accounts payables, on the other hand, grew by 37% to RM25.3m, led by construction expenses incurred. This has also led payable turnover days to increase from c.62 days in 2014 to c.84 days in 2015.

Historical review – FY16

The group recorded a topline of RM201.1m with 12% YoY growth. This was a result of better performances from both the cable support systems segment as well as the electrical lighting segment, which grew by 12% and 14% YoY, respectively. We attribute this growth to greater project flows from various sectors (i.e. infrastructure and oil & gas) in from the domestic market. Furthermore, quicker product delivery rates achieved from higher capital-intensity could have also assisted the group in achieving higher production levels until the completion of its Nilai plant.

Compared to FY15, **operating margins** had expanded to 21.4% (+1.8 pts YoY) with the help of better product mixes as well as an improvement in economies of scales as production becomes increasingly capital-intensive, for operating profits to level at RM43.0m (+24% YoY). However, the estimated recovery on average steel prices by 15% during the year prevented a wider margin. Net earnings of RM31.1m (+20% YoY) improved with operating profits, although slightly negated by higher effective taxes for the year of 28.4% (+1.3 pts).

Dividend-wise, the group paid a total of 12.0 sen in this financial year, translating to a c.56% dividend payout ratio. While the year's dividend payment was flattish despite stronger net earnings (hence, the lower payout ratio), we believe that the management may be exercising caution with its cash management, for the time being, following the recent commencement of its new Nilai plant.

On key balance sheet items, account receivables were flattish (+2% YoY at RM77.6m) with similarly flattish but slightly improved turnover days of c.140 days. We believe this to be due to more efficient cash collection as deliveries were also expected to be more constant during the year arising from higher deliveries. While account payables grew moderately by 6% YoY, payable turnover days improved slightly to c.82 days likely arising from better cash management exercises, as with receivable days.

Forecast assumptions

In FY17E/FY18E, with the new expanded capacity along with growth assumptions in both business segments driven by more infrastructure projects and higher export volumes, we estimate revenue for these years to register at RM231.2m/RM274.0m at 15%/19% growth. On the operating level, we expect margins to improve as the new Nilai plant begins to operate fully given higher capital-intensity with the better efficiency and economies of scale contributed, resulting in operating margins of 22.4%/24.7%. This would lead to operating profits estimates of RM51.8m/RM67.7m at 25%/35% growth. On the bottomline, we assume tax rates would remain stable at c.25% in both financial years. With this, net earnings are likely to be recorded at RM39.0m/RM51.0m, implying growth rates of 25%/31%. **Dividend-wise,** we assume that the group would exercise a dividend payout of c.60%, being the 3-year average. Herewith, dividend payments could potential stand at 16.0 sen/22.0 sen or 3.5%/4.6% yield.

Gearing analysis

The group has maintained at a net cash position of RM49.7m to RM48.3m from FY14 to FY16. This translates to net gearings of, although at a declining rate, of -0.15x in FY14 to -0.03x in FY16. We believe this is mainly due to the high allocation of funds towards the construction of the Nilai plant from FY14 till its completion in FY16. Given the normalisation of capital expenditure going forward, we expect FY17E and FY18E to record a net cash position of RM60.2m and RM56.8m with a net gearing ratio of -0.21x and -0.19x, respectively.

RISKS

Underutilisation may not cover high overhead. As the group heads towards a more capital intensive business model, greater output levels and higher margins are expected resulting from better economies of scale. However, this is provided optimal levels of production could be achieved while also outpacing the increase in overhead costs from its wider use of machinery. Hence, underutilisation of capacity may lead to a risk in earnings with regards to this.

Delay in infrastructure projects. Despite the array of sectors catered by the group, a significant portion of its revenue is derived from sales towards government infrastructure projects. We reckon that a possible delay in these projects arising from implementation setbacks could adversely affect group sales.

Prolonged downtime in production line will impact sales. As the Nilai plant being built with the intention to double the group's capacity, the group's future sales and product fulfilment would become dependent on its smooth operations as larger production orders are undertaken. With such exposure, we believe that a prolonged downtime on its production lines (i.e. longer-than-expected maintenance works, accidents) could potentially lead to a significant loss in production time and slowing down in product delivery.

This section is intentionally left blank

PEER COMPARISON

Though having no direct listed peer, we believe ULICORP to be somewhat attuned to both the Building Materials and Construction sectors, albeit not strictly classified. We regard this to its nature of business whereby the group's products (primarily, steel cable support systems) are finished infrastructure-based products, which are not required for the general foundation of building projects as with standard raw building materials (i.e. steel, cement). On the other hand, while the group is generally dependent on new construction projects to derive new sales, we do not classify the group to be a construction company as it does not undertake any construction works of these projects.

Industry Peer Comparison

Company	Price (RM)	Market Cap (RM'm)	NP Growth Forecasts			NP Margin Forecasts		PER (x)			PBV (x)			Fwd Div. Yield		Fwd ROE	Fwd. ROA	Target Price (RM)	Rating
			FY17E	FY18E	2-yr fwd CAGR	FY17E	FY18E	FY16A	FY17E	FY18E	FY16A	FY17E	FY18E	FY17E	FY18E				
ULICORP	4.62	670.8	25.2%	30.9%	28.00%	16.8%	18.6%	21.6	17.2	13.2	2.5	2.3	2.2	3.5%	4.5%	13.6%	10.5%	5.60	OP
Building Materials																			
ANNJOO	3.18	1,608.5	23.0%	2.3%	12.10%	8.4%	8.5%	10.3	8.4	8.2	1.6	1.4	1.3	5.3%	5.3%	16.9%	8.3%	2.65	OP
LAFMSIA	5.70	4,843.3	-72.8%	193.5%	-10.70%	2.4%	6.4%	21.3	78.1	26.6	1.6	1.6	1.6	1.2%	3.7%	2.0%	1.4%	6.06	UP
PMETAL	2.73	10,182.8	50.7%	20.9%	35.00%	8.8%	10.1%	23.5	15.6	12.9	4.8	4.3	3.9	4.4%	5.1%	27.7%	7.6%	3.15	OP
Sector Average			***0.3%***	***72.2%***	***12.20%***	***6.5%***	***8.3%***	***18.4***	***34.1***	***15.9***	***2.6***	***2.4***	***2.2***	***3.7%***	***4.7%***	***15.5%***	***5.8%***		
Construction																			
SENDAI	0.94	723.6	125.9%	14.8%	n.m	2.2%	2.2%	(5.2)	19.9	17.3	0.8	0.8	0.8	-	-	4.1%	1.5%	0.42	UP
GAMUDA	5.40	13,141.6	11.4%	4.5%	7.90%	14.2%	14.6%	23.9	21.5	20.5	3.3	3.4	3.3	2.4%	2.4%	15.8%	7.3%	4.85	MP
HSL	1.72	945.2	25.1%	17.5%	21.40%	10.6%	10.0%	17.8	14.2	12.1	1.4	1.3	1.2	1.7%	1.7%	9.2%	7.8%	1.42	UP
IJM	3.46	12,515.9	9.9%	11.4%	10.60%	10.0%	10.2%	24.8	22.6	20.3	1.4	1.3	1.3	1.7%	2.0%	5.9%	2.7%	3.51	MP
KERJAYA	3.15	1,622.5	25.9%	16.2%	21.00%	11.5%	11.3%	17.8	14.1	12.2	2.3	2.2	1.9	2.2%	2.5%	15.5%	9.9%	2.64	OP
KIMLUN	2.28	707.4	6.5%	2.5%	4.50%	7.3%	7.8%	8.7	8.2	8.0	1.3	1.2	1.1	3.1%	3.1%	14.4%	7.4%	2.27	MP
MITRA	1.36	910.5	4.9%	-3.4%	0.70%	10.0%	9.9%	10.5	10.0	10.4	1.8	1.6	1.5	3.7%	3.7%	16.1%	16.1%	1.49	OP
MUHIBAH	2.85	1,368.9	-1.3%	15.7%	6.90%	4.6%	5.3%	16.6	16.8	14.5	1.8	1.6	1.5	1.8%	1.4%	9.7%	2.3%	2.54	MP
NAIM	1.50	355.4	286.6%	13.6%	n.m.	6.8%	7.7%	(17.7)	9.5	8.3	0.3	0.3	0.3	2.7%	2.7%	2.8%	1.8%	1.38	UP
SUNCON	2.05	2,650.4	23.4%	1.2%	11.70%	6.2%	6.1%	22.5	18.3	18.0	5.4	4.5	3.9	2.0%	2.0%	24.7%	8.5%	1.77	MP
WCT	2.29	3,164.3	73.2%	12.5%	39.60%	7.5%	7.2%	45.2	26.1	23.2	1.4	1.3	1.3	1.3%	1.3%	5.1%	2.0%	1.58	UP
Sector Average			***53.8%***	***9.7%***	***13.80%***	***8.2%***	***8.4%***	***15.0***	***16.5***	***15.0***	***1.9***	***1.8***	***1.6***	***2.3%***	***2.3%***	***11.2%***	***6.1%***		

Note:
** Based on the closing prices of our cut-off date on 19 May 2017*

Source: Company

PEER COMPARISON (cont'd)

Against building materials stocks within our coverage, we found ULICORP to be mostly at par with PMETAL in terms of PER valuation. Although ULICORP appears to be more well-positioned in terms of our NP Margin forecasts, PMETAL may present a better alternative with better div. yields at 5.1% in FY18E. Alternatively, ANNJOO is expected to trade at a cheaper valuation on the back of stronger div. yields against both companies. Sector-wide, ULICORP appears to outperform total average forecast numbers in terms of net margins and ROA.

Against construction stocks within our coverage, GAMUDA appears to be the most comparable in terms of NP margin expectations, albeit at a widened gap of c.3%-5%. Aside from ROE, we see ULICORP to be a cheaper buy in PER valuation terms against GAMUDA despite commanding stronger div. yields. Sector-wide, ULICORP appears to beat total average forecast numbers in all of the comparable ratios, partly due to the sector's performance being dragged by underperforming stocks.

VALUATION

We initiate coverage with an OUTPERFORM call and target price (TP) of RM5.60. Our TP is based on the ascribed 16.0x PER on FY18E's earnings per share of 35.1 sen, closely inline with the +1SD-level above the stock's 5-year average Fwd. PER. We believe the valuation is undemanding given the stock's: (i) leading market position; (ii) strong growth prospect (of 2-year CAGR of 28%); (iii) expanding profit margins; (iii) commendable dividend yield of 4.6% in FY18E on the expected payout ratio of 60%; and (iv) net cash position.

Note that the ascribed valuation is an upgrade from our earlier On Our Radar publication (7 April 2015) of the stock which was based on a 12.5x PER, inline with the FBMSC index's valuation at that time. Considering that the stock has outperformed the index in several aspects (i.e. dividend of 2.3% and PBV ratio of 1.0x), we have decided to deviate from this benchmark in favour of average Fwd. PER valuation.

APPENDIX

Company Background

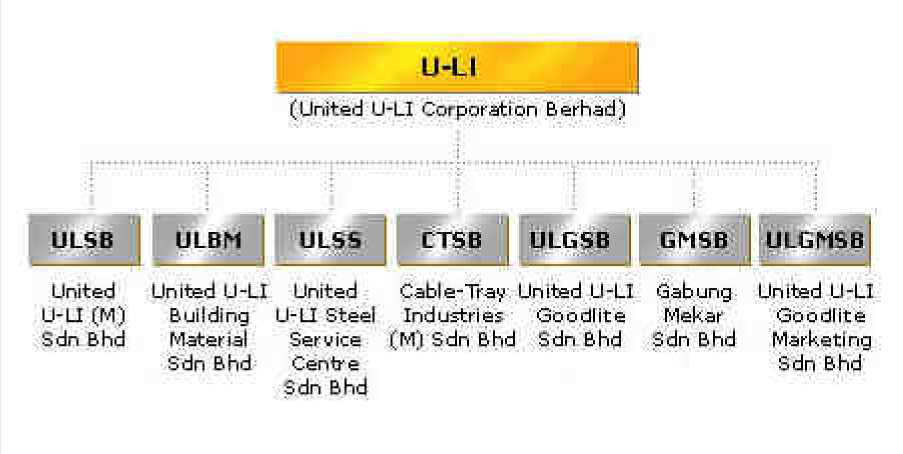
United U-LI Corporation Berhad (ULICORP) was incorporated under the Companies Act, 1965 on 11 April 2000 in Malaysia as a private limited company. It was subsequently converted into a public company on 18 April 2000. The U-LI Group was founded under the name U-Lee Trading Company and engaged mostly in engineering works and the trading of cable support system. U-Lee Trading Company later began manufacturing cable support systems. Within 5 years, it converted into a private limited company known as United U-LI (M) Sdn Bhd (ULSB).

March 1997 and January 1998 subsequently saw United U-LI Steel Service Centre Sdn Bhd (ULSS) and Cable-Tray Industries (M) Sdn Bhd (CTSB) commencing operations to complement the principal activities of ULSB. The economic boom in the 1990s provided ULSB a golden opportunity to expand its business portfolio. In 1999, ULSB ventured into manufacturing of integrated ceiling systems to capitalise on the growing demand for integrated ceiling systems. Vast knowledge and experience gained throughout its operations convinced ULSB to venture into the production of steel roof battens in the first quarter of 2002 as it has anticipated a switch from the traditional wooden roof battens to more durable steel roof battens.

On 20 February 2002, the completion of the acquisition of ULSB, ULSS, CTSB and Gabung Mekar Sdn Bhd (GMSB) by U-LI marked the birth of the U-LI Group. This was closely followed by the incorporation of United U-LI Building Material Sdn Bhd (ULBM) on 6 January 2003. U-LI was successfully listed on the Second Board of Kuala Lumpur Stock Exchange on 23 April 2002. Two years later, ULSB acquired United U-Li Goodlite Sdn Bhd (ULGSB) which manufactures light fitting systems.

The products and services supplied by the U-LI Group are used extensively in the telecommunication, oil and gas, transportation, power generation, water-works and construction sectors while the integrated ceiling systems are used in the construction and renovation of commercial buildings.

Group Structure



Source: Company

Board of Directors

Name	Position	Background
Tan Sri Dato' Wira Abd Rahman Bin Ismail	Independent Non-Executive Chairman	• Appointed to the Board on 21 February 2002 • Appointed as the group's Chairman of the Nomination Committee and Remuneration Committee • Served in the Royal Malaysian Police Force since 1950, holding various posts until 1985 when he retired as the Deputy Inspector General of Police. • Represented Malaysia in various Interpol and drug enforcement/conferences/seminars/committees at international and regional levels
Dato' Wire Lee Yoon Wah	Group Managing Director/Chief Executive Office	• Appointed to the Board on 21 February 2002 • Appointed as a member of the Remuneration Committee • One of the founding members of the ULICORP Group • Has more than 20 years' working experience in the electrical industry • Is responsible for the overall business development, strategic planning as well as the business and corporate development of the Group
Dato' Lee Yoon Kong	Executive Director	• Appointed to the Board on 21 February 2002 • One of the founding members of the ULICORP Group • Has more than 20 years' working experience in the electrical industry • Is responsible for the technical, production and manufacturing functions of the Group.
Teow Lai Seng	Executive Director	• Appointed to the Board on 21 February 2002 • Has more than 20 years' working experience in the electrical industry • Is responsible for the overall management and production operations of group factories
Chim Wai Khuan	Independent Non-Executive Director	• Appointed to the Board on 21 February 2002 • Appointed as the Chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee • Is currently a member of the Malaysian Institute of Accountants • Has vast experience in the areas of accounting, audit, tax and corporate secretarial and consultancy matters, having served in various capacities both in the United Kingdom and in Malaysia from 1975 to 2000 • Currently, he is practicing as a Corporate and Management Consultant and also manages his own audit practice under the name of WK Co.
Wong Chow Lan	Independent Non-Executive Director	• Appointed to the Board on 11 April 2000 • Appointed as a member of the Nomination Committee, Remuneration Committee and Audit Committee • Is a qualified Chartered Secretary of the Institute of Chartered Secretaries and Administrators since 1992 • An associate member of The Malaysian Association of The Institute of Chartered Secretaries and Administrators

Board of Directors (Cont'd)

Name	Position	Background
Lokman Bin Mansor	Independent Non-Executive Director	• Appointed to the Board on 21 February 2002 • Appointed as a member of the Audit Committee • Has vast experience in the area of development and project management in implementation of projects and also well versed in various aspects in property investment, financing and market assessment.
Shariff Bin Mohd Shah	Senior Independent Non-Executive Director	• Appointed to the Board on 1 October 2003 • Joined the Administrative and Diplomatic Service (PTD) and posted to the Government Staff Training Centre and then to the Ministry of Foreign Affairs. • Joined Borneo Company (1975) Sdn. Bhd. as Marketing Executive until 1978. • Appointed as the Marketing Director of the National Livestock Development Corporation between 1978 until 1981. • Appointment as Manager, Guthrie Malaysia Trading Corporation in 1983 and was the Senior General Manager of the company when he left in 1997 • Has wide experience in international trading and marketing

Source: Company

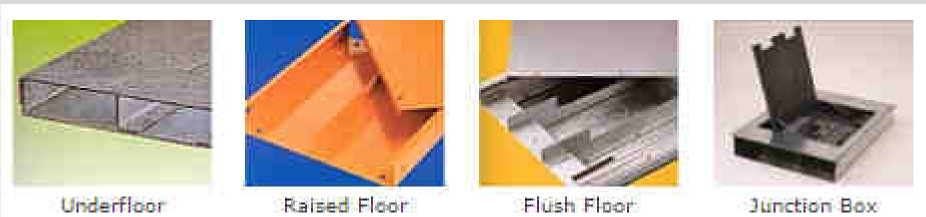
Business Overview

The group manufacturers the following products in its plants

Products manufactured by ULICORP

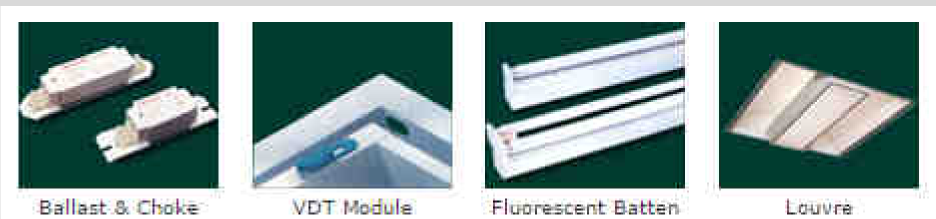
Cable support systems

Cable management system



Integrated ceiling systems

Light fitting systems



Source: Company

Overview of production plant in Nilai

Source: Company

Income Statement

FY Dec (RM'm)	2014A	2015A	2016A	2017E	2018E
Revenue	172.3	179.2	201.1	231.2	274.0
Operating Profit	**30.7**	**35.1**	**43.0**	**51.8**	**67.7**
Depreciation	-5.6	-5.5	-7.2	-8.5	-9.2
Interest Inc/(Exp)	0.0	0.6	0.5	0.2	0.2
Associate Earnings	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	**30.8**	**35.7**	**43.5**	**51.9**	**68.0**
Taxation	-7.5	-9.7	-12.4	-13.0	-17.0
Net Profit	23.2	26.0	31.1	39.0	51.0
Core Net Profit	**23.2**	**26.0**	**31.1**	**39.0**	**51.0**

Balance Sheet

FY Dec (RM'm)	2014A	2015A	2016A	2017E	2018E
Fixed Assets	66.3	80.2	114.2	120.7	126.5
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Other Fixed Assets	0.7	0.4	0.4	0.4	0.4
Inventories	43.7	45.3	54.8	60.1	71.7
Receivables	64.2	75.8	77.6	91.1	109.8
Other Current Assets	0.4	2.1	5.0	5.0	5.0
Cash	68.1	105.8	83.1	95.0	91.6
Total Assets	**243.5**	**309.7**	**335.1**	**372.2**	**405.1**
Payables	18.5	25.3	26.8	48.3	60.7
ST Borrowings	18.4	17.5	27.8	27.8	27.8
Other ST Liability	0.5	0.5	0.5	0.5	0.5
LT Borrowings	0.1	6.3	7.0	7.0	7.0
Other LT Liability	0.9	1.6	2.4	2.4	2.4
Net Assets	**205.2**	**258.5**	**270.5**	**286.2**	**306.7**
Shareholders' Equity	205.2	256.8	270.5	286.2	306.7
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	**205.2**	**256.8**	**270.5**	**286.2**	**306.7**

Cashflow Statement

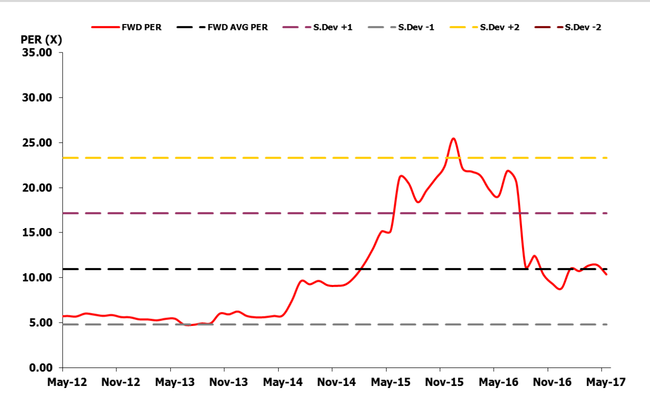
FY Dec (RM'm)	2014A	2015A	2016A	2017E	2018E
Operating CF	34.9	21.8	23.7	50.0	41.8
Investing CF	-7.1	-12.4	-42.7	-15.0	-15.0
Financing CF	-11.4	28.3	-3.6	-23.1	-30.2
Change In Cash	16.4	37.7	-22.7	11.9	-3.4
Free CF	27.1	9.2	-16.3	35.0	26.8

Financial Data & Ratios

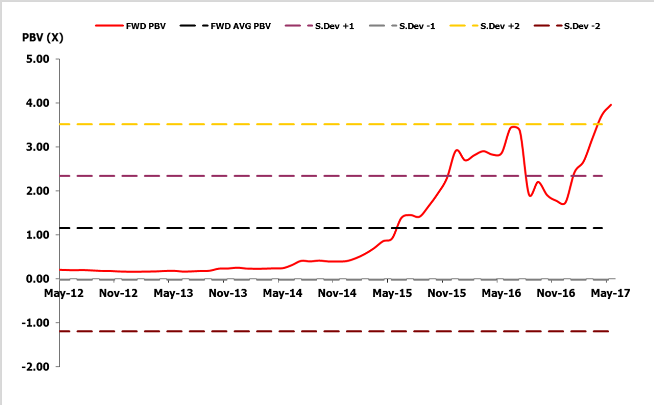
FY Dec (RM'm)	2014A	2015A	2016A	2017E	2018E
Growth (%)					
Turnover	11.6%	4.0%	12.2%	15.0%	18.5%
EBITDA	19.2%	12.0%	23.5%	20.0%	27.6%
Operating Profit	22.0%	14.3%	22.5%	20.4%	30.8%
PBT	25.4%	16.0%	21.9%	19.4%	30.9%
Core Net Profit	40.0%	11.9%	19.7%	25.2%	30.9%
Profitability (%)					
Operating Margin	17.8%	19.6%	21.4%	22.4%	24.7%
PBT Margin	17.9%	19.9%	21.6%	22.5%	24.8%
Core NP Margin	13.5%	14.5%	15.5%	16.8%	18.6%
Effective Tax	24.5%	27.1%	28.4%	25.0%	25.0%
ROA	9.9%	9.4%	9.7%	11.0%	13.1%
ROE	11.7%	11.3%	11.8%	14.0%	17.2%
DuPont Analysis					
Net Margin (%)	13.5%	14.5%	15.5%	16.8%	18.6%
Assets Turnover (x)	0.7	0.6	0.6	0.6	0.7
Leverage Factor (x)	1.2	1.2	1.2	1.3	1.3
ROE (%)	11.7%	11.3%	11.8%	14.0%	17.2%
Leverage					
Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1
Net (Cash)/Debt	(49.7)	(82.0)	(48.3)	(60.2)	(56.8)
Net Debt/Equity (x)	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)
Valuations					
Core EPS (sen)	16.0	17.9	21.4	26.8	35.1
NDPS (sen)	10.0	12.0	12.0	16.0	21.0
BV/sh (RM)	1.4	1.8	1.9	2.0	2.1
PER (x)	28.5	25.5	21.3	17.0	13.0
Div. Yield (%)	2.2%	2.6%	2.6%	3.5%	4.6%
PBV (x)	3.2	2.6	2.4	2.3	2.2
EV/EBITDA (x)	8.4	21.5	11.1	10.7	9.9

Source: Kenanga Research

Fwd Core PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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.***

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 E-mail: research@kenanga.com.my

This report is accessible at www.bursamids.com too.

Chan Ken Yew
Head of Research