

26 May 2017

United U-Li Corporation 1Q17 Setback by OPEX

While 1Q17 net profit accounted for 8% of our FY17E estimates, we deem the results to be broadly within expectations arising from the high operating expenses (opex) incurred during the gestation phase of the new Nilai plant. Hence, we expect opex to normalise in the coming quarters. No dividend was announced, as expected. Maintain **OUTPERFORM** with an unchanged TP of RM5.60.

Dragged by operational costs but broadly within expectations. ULICORP's 3M17 results made up of 8% of our full-year FY17E earnings estimates. The thin bottomline was a result of greater operating expenses incurred in relation to the furnishing of more machinery and equipment in the group's new Nilai plant during its gestation phase. No dividend was declared, as expected.

YoY, 3M17 revenue of RM46.3m grew by 4% with stronger sales from the electrical lighting and fittings segments (+22%) amidst a flattish cable support systems segment (+<1%). However, gross profit declined by 11% to RM15.8m, likely arising from the growing proportion of less favourable product portfolios which dragged GP margins to 34.0% (-5.4 pts). Operating income was also strained to RM3.9m (-56%) as higher operating expenses were incurred, which we believe attributed to the extended furnishing of the new Nilai plant in line with the group's intention to increase production automation and capacity. EBIT margins fell by 11.3 pts to 8.3%. Nonetheless, the group registered net earnings of RM3.2m (-50%) from lower effective taxes.

QoQ, 1Q17 sales weakened by 7% with the slowing results from both segments, which we believe to be due to slowing domestic project flows. This could be further dragged by poorer product mix, which also led to lower GP margins by 4.7 pts. EBIT fell by 61% due to the higher operating expenses as compared to 4Q16 from the wider scale expansion of the Nilai plant's production capabilities. Net earnings recorded a 38% decline with lesser taxes incurred during the current quarter.

A bump on the road? While earnings outlook may appear soft arising from the current results, we believe the group's growth prospects are still intact as revenue continues to be resilient. Given that the group had only commissioned the new Nilai plant in 2H16, we expected further cost pressures to be incurred as it operates towards full capacity, further derived from the higher investments allocated to improve the automation and efficiency of the production lines. Recall that the new plant was intended to double the entire group's production capacity. As such, we believe there should be a normalisation of operating margins in the coming quarters.

Earnings unchanged. Post results, we make no changes to our FY17E/FY18E earnings estimates.

Maintain OUTPERFORM with an unchanged TP of RM5.60. Our target price is based on our ascribed targeted 16.0x PER, closely in line with +1SD and 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 expected growth prospect (2-year Forward CAGR of 28%); (iii) potential expansion of profit margins; (iv) decent dividend yield; and (v) net cash position.

OUTPERFORM ↔

Price: RM4.54
Target Price: RM5.60 ↔

Expected Capital Gain: RM1.06 +23.4%
Expected Divd. Yield: RM0.21 +4.6%
Expected Total Return: RM1.27 +28.0%

KLCI Index 1,773.96

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)	659.2
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:	103,823

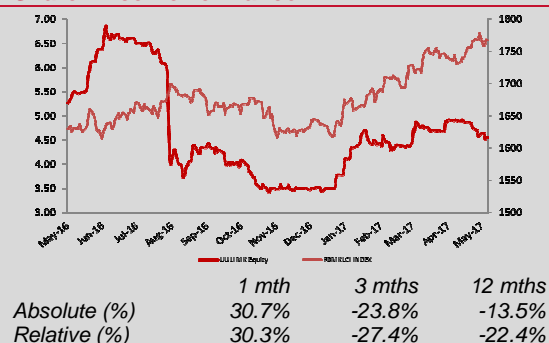
Major Shareholders

Pearl Deal M Sdn Bhd	37.2%
Rhb Asset Management	11.6%
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)	3.2	3.1	2.9
PER (x)	21.2	16.9	12.9
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



Clement Chua

clement.chua@kenanga.com.my

+603-2172 2635

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Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM'm)	FY17	FY16	Chg	FY16	Chg	FY17	FY16	Chg
Turnover	46.3	49.8	-7.0%	44.7	3.6%	46.3	44.7	3.6%
Gross Profit	15.8	19.3	-18.3%	17.6	-10.5%	15.8	17.6	-10.5%
EBIT	3.9	9.9	-60.9%	8.8	-56.1%	3.9	8.8	-56.1%
PBT/(LBT)	3.4	9.5	-63.8%	8.5	-59.3%	3.4	8.5	-59.3%
Taxation	-0.3	-4.4	93.4%	-2.1	86.1%	-0.3	-2.1	86.1%
Net Profit	3.2	5.1	-38.1%	6.3	-50.3%	3.2	6.3	-50.3%
EPS (sen)	2.2	3.5	-38.1%	4.4	-50.3%	2.2	4.4	-50.3%
DPS (sen)	0.0	3.0		3.0		0.0	3.0	
GP Margin	34.0%	38.7%		39.4%		34.0%	39.4%	
EBIT margin	8.3%	19.8%		19.6%		8.3%	19.6%	
PBT margin	7.4%	19.1%		18.9%		7.4%	18.9%	
NP margin	6.8%	10.2%		14.2%		6.8%	14.2%	
Effective tax rate	-8.5%	-46.5%		-25.0%		-8.5%	-25.0%	

Source: Company, Kenanga Research

Segmental Breakdown

	1Q	4Q	QoQ	1Q	YoY	3M	3M	Y-o-Y
Revenue (RM'm)	FY17	FY16	Chg	FY16	Chg	FY17	FY16	Chg
Cable support systems	38.2	40.2	-5.1%	38.0	0.5%	38.2	38.0	0.5%
Electrical lighting & fittings	8.1	9.6	-15.3%	6.7	21.7%	8.1	6.7	21.7%
Total	46.3	49.8	-7.0%	44.7	3.6%	46.3	44.7	3.6%
PBT (RM'm)								
Cable support systems	3.4	9.1	-62.3%	8.6	-60.3%	3.4	8.6	-60.3%
Electrical lighting & fittings	0.2	0.6	-71.4%	0.0	-459.1%	0.2	0.0	-459.1%
Others	-0.1	-0.1	17.5%	-0.1	4.4%	-0.1	-0.1	4.4%
Total	3.4	9.5	-63.8%	8.5	-59.3%	3.4	8.5	-59.3%
PBT Margin								
Cable support systems	9.0%	22.6%		22.7%		9.0%	22.7%	
Electrical lighting & fittings	2.0%	5.8%		-0.7%		2.0%	-0.7%	
Total	7.4%	19.1%		18.9%		7.4%	18.9%	

Source: Company, 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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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