

25 August 2017

United U-Li Corporation Turnaround In Sight?

While 1H17 net profit accounted for 32% of FY17E estimates, we deem the results to be broadly within expectations as the key cable support systems segment performance was set back by a delay in outsourced deliveries. The absence of dividend payments missed expectations. While sales could later catch up in the short term, present margin levels are poised to keep growth prospects intact. Maintain **OUTPERFORM** with an unchanged TP of RM5.60.

Broadly within expectations. We deem 1H17 net earnings of RM12.6m to be broadly within estimates, accounting for 32% of our full-year numbers. This is arising from our expectations that lower earnings from the delay in outsourced project deliveries would materialise in the following quarter. The lack of dividend payments announced had missed our expectations, as the group had withheld declarations in the last quarter. We anticipated 16.0 sen total dividends to be paid for FY17E.

YoY, 1H17 revenue of RM92.8m fell by 7% due to a delay in outsourced project deliveries in the cable support system segment, which performed weaker by 12%. The electrical lighting & fitting segment, however, recorded stronger sales (+19%), likely from better infrastructure project demand. Gross profits registered a slight improvement at RM39.9m (+3%) following a modest margin expansion of 4.1 pts to 43.0%. We believe the growth is derived from better cost savings arising from the better automation and production capabilities in the Nilai plant. PBT was lower by 9% as distribution expenses remained stagnant despite lower recorded sales. 1H71 net earnings registered at RM12.6m (-16%) alongside higher effective taxes, which could normalise in the coming quarters.

QoQ, 2Q17 topline of RM46.5m saw a flattish growth (<1%), as slowing sales from the cable support systems segment was supported by better results in the electrical lighting & fittings segment. Gross profits for 2Q17 increased by 53%, possibly from the abovementioned costs savings alongside favourable product mixes, leading to higher gross margins at 51.9% (+17.9 pts). This translated to a significant net profit growth of c.200% at RM9.4m, despite a larger tax amount during 2Q17.

Improvements not unnoticed. Although absolute sales results appear to be declining, we believe the abovementioned delays to be a minor setback to the group's overall growth prospects for the full year. Following the heavy investments made towards the group's higher automation levels and efficiency, it could be possible that the recently expanded margins could be a new normal if current operating levels remain sustainable. Recall that the new plant was intended to double the entire group's production capacity.

Earnings unchanged. Post results, we make no changes to our FY17E/FY18E earnings estimates. However, we reduced our dividend expectations to 12.0 sen/16.0 sen from 16.0 sen/21.0 sen, previously. We believe the group could be aiming to conserve cash during the current year to explore further streamlining in overall operations, following the commencement of its Nilai facilities.

Maintain OUTPERFORM with an unchanged TP of RM5.60. Our target price is based on 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 its: (i) leading market position, (ii) strong expected growth prospect (2-year Forward CAGR of 28%), (iii) expanding margins, (iv) decent dividend yield, and (v) net cash position.

OUTPERFORM ↔

Price: RM3.85
Target Price: RM5.60 ↔

Expected Capital Gain: RM1.75 +45.5%
Expected Divd. Yield: RM0.16 +4.2%
Expected Total Return: RM1.91 +49.7%

KLCI Index 1,775.50

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)	559.0
Par value per share (RM)	0.50
52-week range (H)	4.93
52-week range (L)	3.36
Free Float	48%
Beta	0.6
3-mth avg daily vol	40,306

Major Shareholders

Pearl Deal M Sdn Bhd	37.2%
RHB Asset Management	11.1%
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	12.0	16.0
NTA per Share (RM)	0.82	0.87	0.92
Price to NTA (x)	3.2	3.1	2.9
PER (x)	18.0	14.3	10.9
Debt-to-Equity ratio (x)	(0.0)	(0.2)	(0.2)
Return on Asset (%)	11.8%	13.9%	16.7%
Return on Equity (%)	0.0%	0.0%	0.0%
Net Div. Yield (%)	3.1%	3.1%	4.2%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	30.7%	-23.8%	-13.5%
Relative (%)	30.3%	-27.4%	-22.4%

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Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Turnover	46.5	46.3	0.3%	54.8	-15.3%	92.8	99.5	-6.8%
Gross Profit	24.1	15.8	53.1%	21.1	14.1%	39.9	38.7	2.9%
EBIT	14.6	3.9	278.4%	11.1	31.6%	18.4	19.9	-7.1%
PBT/(LBT)	14.0	3.4	306.8%	10.8	29.6%	17.5	19.3	-9.4%
Taxation	-4.6	-0.3	-1468.3%	-2.2	-112.4%	-4.9	-4.3	-14.3%
Net Profit	9.4	3.2	198.9%	8.7	8.9%	12.6	15.0	-16.1%
EPS (sen)	6.5	2.2	198.9%	6.0	8.9%	8.7	10.3	-16.1%
DPS (sen)	0.0	0.0		3.0		0.0	6.0	
GP Margin	51.9%	34.0%		38.5%		43.0%	38.9%	
EBIT margin	31.4%	8.3%		20.2%		19.9%	19.9%	
PBT margin	30.2%	7.4%		19.7%		18.8%	19.4%	
NP margin	20.3%	6.8%		15.8%		13.6%	15.1%	
Effective tax rate	-32.8%	-8.5%		-20.0%		-28.0%	-22.2%	

Source: Company, Kenanga Research

Segmental Breakdown

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
Revenue (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Cable support systems	35.9	38.2	-5.9%	45.8	-21.5%	74.1	83.8	-11.5%
Electrical lighting & fittings	10.5	8.1	30.0%	9.1	16.2%	18.6	15.7	18.5%
Total	46.5	46.3	0.3%	54.8	-15.3%	92.8	99.5	-6.8%
PBT (RM'm)								
Cable support systems	12.7	3.4	271.2%	9.1	39.4%	16.2	17.8	-9.1%
Electrical lighting & fittings	1.5	0.2	824.1%	1.8	20.5%	1.6	1.8	-9.7%
Others	-0.2	-0.1	29.1%	-0.2	18.2%	-0.3	-0.3	11.8%
Total	14.0	3.4	306.5%	10.8	29.5%	17.5	19.3	-9.4%
PBT Margin								
Cable support systems	35.4%	9.0%		19.9%		21.8%	21.2%	
Electrical lighting & fittings	13.9%	2.0%		20.3%		8.7%	11.4%	
Total	30.1%	7.4%		19.7%		18.8%	19.4%	

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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