

07 September 2017

United U-Li Corporation

Outlook Intact

We came away from a site visit to ULICORP feeling reassured by the group's improved production capabilities in its cable support system segment that will widen its margins such as an expanded powder spray line with galvanising facilities. Going forward, order deliveries are expected to be on track post-delays in 2Q17, which will be supported by stable project flows. Maintain OUTPERFORM with an unchanged TP of RM5.60.

Cable support systems supported by strong product mixes. In the recent 2Q17 results, while the cable support systems segment registered -6% QoQ growth to RM35.9m, it had increased PBT contribution by >200% to RM12.7m on the back of better product mixes driven by stainless steel products. While management opines that sales from this segment may normalise, margins are likely to remain intact on the back of cost savings incurred from the group's better production capabilities.

Planned enhancements to production capabilities up and running. Recall that the group intended to increase the capital intensity on its operations to fully utilise its Nilai plant. Post-site visit, we are reassured by the deliverance of the group's pipeline with an increase in newer automated production lines, supported by the running of its expanded powder spray line and operations of its hot-dip galvanising facility. We believe that the rolling out of the above facilities justify expanding operating margins assumptions from c.21% in FY16 to c.22% and c.25% in FY17E and FY18E, respectively.

Project pipelines to remain steady. The slowing down of the lion's share cable support system segment in 2Q17 was partially attributed to delays in delivery of certain outsourced components and activities within the segment. Management does not foresee further occurrences and believe the delayed orders could be fulfilled in the coming quarter, attainable by a larger production capacity. With the added capacity, the group intends to increase its presence in the foreign markets (i.e. Cambodia, Vietnam, Middle East) to improve project flows. Major domestic infrastructure projects are still expected to be the primary contributor to group performance.

Picking up the pace. While 1H17 results were undermined by higher operating expenses incurred for the gestation of the Nilai plant, we believe that 2H17 could potentially make up for its full-year net earnings from the abovementioned prospects. Furthermore, the unhindered implementation of domestic infrastructure projects could provide some assurance on the overall stability of the group's order-books for the medium term. While the management hopes for stronger overseas contribution in the near future, we do not expect this segment to contribute significantly in the short term as large order fulfilments may be challenged by logistical issues.

Post-site visit, we leave earnings forecasts unchanged as we believe our fundamental estimates have accounted for the operational improvements undertaken by the group.

Maintain OUTPERFORM with an unchanged TP of RM5.60. Our target price is based on ascribed targeted 16.0x FY18E EPS, 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, and (iv) net cash position.

OUTPERFORM ↔

Price: RM4.48
Target Price: RM5.60 ↔

Expected Capital Gain: RM1.12 +25.0%
Expected Divd. Yield: RM0.16 +3.6%
Expected Total Return: RM1.28 +28.6%

KLCI Index 1,772.48

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)	650.5
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	37,477

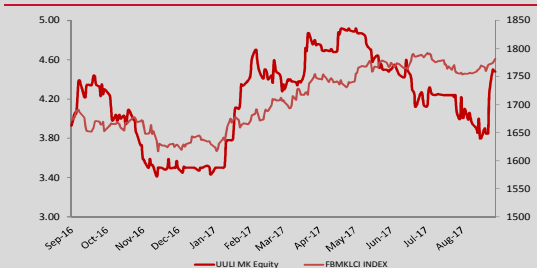
Major Shareholders

Pearl Deal M Sdn Bhd	37.2%
RHB Asset Management	11.1%
Kumpulan Wang Persaraan	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)	20.9	16.7	12.7
Debt-to-Equity ratio (x)	(0.0)	(0.2)	(0.2)
Return on Asset (%)	9.7%	10.9%	12.8%
Return on Equity (%)	11.8%	13.9%	16.7%
Net Div. Yield (%)	2.7%	2.7%	3.6%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-9.2%	-15.6%	-3.8%
Relative (%)	-9.6%	-15.4%	-8.7%

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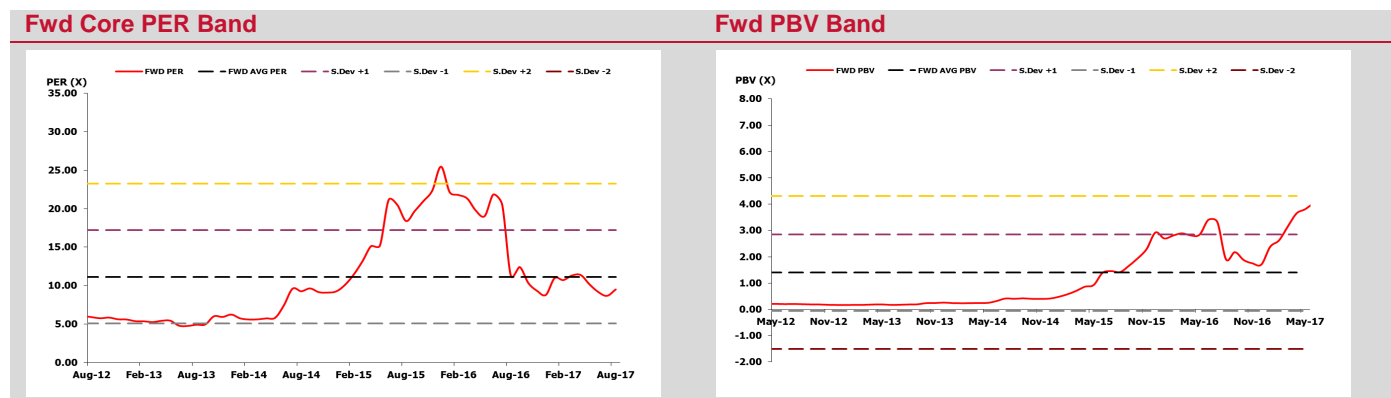
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Income Statement						Financial Data & Ratios					
FY Dec (RM'm)	2014A	2015A	2016A	2017E	2018E	FY Dec (RM'm)	2014A	2015A	2016A	2017E	2018E
Revenue	172.3	179.2	201.1	231.2	274.0	Growth (%)					
Operating Profit	30.7	35.1	43.0	51.8	67.7	Turnover	11.6%	4.0%	12.2%	15.0%	18.5%
Depreciation	-5.6	-5.5	-7.2	-8.5	-9.2	EBITDA	19.2%	12.0%	23.5%	20.0%	27.6%
Interest Inc/(Exp)	0.0	0.6	0.5	0.2	0.2	Operating Profit	22.0%	14.3%	22.5%	20.4%	30.8%
Associate Earnings	0.0	0.0	0.0	0.0	0.0	PBT	25.4%	16.0%	21.9%	19.6%	31.1%
Profit Before Tax	30.8	35.7	43.5	51.9	68.0	Core Net Profit	40.0%	11.9%	19.7%	25.3%	31.1%
Taxation	-7.5	-9.7	-12.4	-13.0	-17.0	Profitability (%)					
Net Profit	23.2	26.0	31.1	39.0	51.0	Operating Margin	17.8%	19.6%	21.4%	22.4%	24.7%
Core Net Profit	23.2	26.0	31.1	39.0	51.0	PBT Margin	17.9%	19.9%	21.6%	22.5%	24.9%
						Core NP Margin	13.5%	14.5%	15.5%	16.9%	18.7%
						Effective Tax	24.5%	27.1%	28.4%	25.0%	25.0%
						ROA	9.9%	9.4%	9.7%	10.9%	12.8%
						ROE	11.7%	11.3%	11.8%	13.9%	16.7%
						DuPont Analysis					
						Net Margin (%)	13.5%	14.5%	15.5%	16.9%	18.7%
						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%	13.9%	16.7%
						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)	(66.1)	(70.1)
						Net Debt/Equity (x)	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)
						Valuations					
						Core EPS (sen)	16.0	17.9	21.4	26.9	35.2
						NDPS (sen)	10.0	12.0	12.0	12.0	16.0
						BV/sh (RM)	1.4	1.8	1.9	2.0	2.2
						PER (x)	28.0	25.0	20.9	16.7	12.7
						Div. Yield (%)	2.2%	2.7%	2.7%	2.7%	3.6%
						PBV (x)	3.2	2.5	2.4	2.2	2.0
						EV/EBITDA (x)	8.4	21.5	11.1	10.9	10.2

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	100.9	104.9
Total Assets	243.5	309.7	335.1	378.1	418.3
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	292.1	320.0
Shareholders' Equity	205.2	256.8	270.5	292.1	320.0
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	205.2	256.8	270.5	292.1	320.0

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	-17.2	-22.8
Change In Cash	16.4	37.7	-22.7	17.8	4.0
Free CF	27.1	9.2	-16.3	35.0	26.8

Source: Kenanga Research



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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