

29 November 2017

United U-Li Corporation 9M17 Fell Short

9M17 net profit of RM19.0m (-27%) and dividends were below estimates. Negative deviations were from slowing project deliveries and lower margins from higher production and operating costs. Near-term prospects might still be dragged by poorer sales, awaiting a meaningful recovery possibly from implementation of longer term government infrastructure works. Downgrade to MARKET PERFORM with a lower TP of RM4.45 (from RM4.95, previously).

9M17 below expectations. 9M17 net profit of RM19.0m is below estimate, accounting for 53% of our full-year expectation. The negative deviation was due to a weaker-than-anticipated sales record in the primary cable support systems (CSS) segment. The absence of dividend announced was also below expectation. We are expecting a 12.0 sen dividend pay-out for FY17, in line with the historical trend.

YoY, 9M17 revenue of RM147.9m declined slightly (-2%), dragged by poorer sales from the CSS segment (-7%) from a slowdown in project deliveries. On the other hand, the electrical lighting and fitting (ELF) segment grew by 22%, likely a result of higher infrastructure project works. Operating profit slipped by 24% following weaker margin of 18.0% (-5.1ppt). We believe this was due to the difficulty of passing down production costs to customers following the progressive increase in raw material prices. Higher operating expenses arising from the Nilai plant are also likely culprits for the margin compression. This translated to 9M17 net profit of RM19.0m (-27%).

QoQ, 3Q17 sales of RM55.1m (+19%) was stronger on better project deliveries in the CSS segment (+24%) while the ELF segment saw stagnant sales. Recall that performance in 2Q17 was undermined by a delay in outsourced contractor works, likely concerning galvanising services. Operating profit, however, only recorded at RM8.1m (-44%) which we believe are caused by the same abovementioned reasons. 3Q17 net earnings saw lower effective taxes of 13.6% (-19.2ppt), leading to a softer decline to RM6.5m (-31%).

Still susceptible to macro forces. Although the group had invested heavily into the construction of the Nilai plant with better in-house facilities, ultimately, inadequate sales volumes had prevented the benefit of enhanced production efficiency and cost savings from materialising. We also believe that the pass down of production costs may have been hampered by the sharp increase in steel prices during the recent months, which may have also resulted in customers holding back delivery orders. While the long-term outlook of the group is backed by major government infrastructure initiatives, short-term prospects could be clouded by the above.

Post results, we cut our FY17E/ FY18E earnings estimates by 22.5%/ 9.4% as we trim our revenue growth and margin assumptions. We also reduce our dividend expectations to 6.0 sen/10.0 sen from 12.0sen/16.0 sen following the recent earnings misses.

Downgrade to MARKET PERFORM with a lower TP of RM4.45 (from RM4.95, previously). Our target price is based on a revised FY19E EPS of 31.9 sen on an unchanged 14.0x PER (+0.5SD over the 5-year mean). We peg this premium to our valuation in lieu of the group's market leading position (c.40%) which should sustain the group's position in the event of any widespread industry downtrend.

MARKET PERFORM ↓

Price: RM4.21
Target Price: RM4.45 ↓

Expected Capital Gain: RM0.24 +5.7%
Expected Divd. Yield: RM0.06 +1.4%
Expected Total Return: RM0.30 +7.1%

KLCI Index 1,714.42

Stock Information

| | |
|--------------------------|----------------|
| Bloomberg Ticker | UULI MK Equity |
| Bursa Code | 7133 |
| Listing Market | Main Market |
| Shariah Compliant | Yes |
| Issued shares | 145.2 |
| Market Cap (RM m) | 611.3 |
| Par value per share (RM) | 0.50 |
| 52-week range (H) | 4.93 |
| 52-week range (L) | 3.36 |
| Free Float | 49% |
| Beta | 0.9 |
| 3-mth avg daily vol | 63,298 |

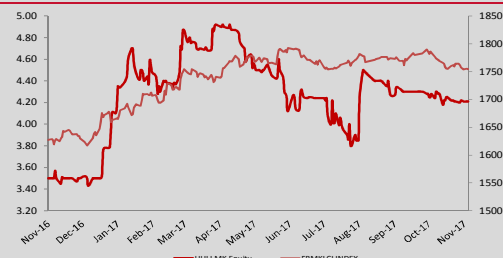
Major Shareholders

| | |
|-------------------------|-------|
| Pearl Deal M Sdn Bhd | 37.2% |
| RHB Asset Management | 10.6% |
| Kumpulan Wang Persaraan | 3.2% |

Summary Earnings Table

| FY Dec (RM m) | 2016A | 2017E | 2018E |
|--------------------------|-------------|-------------|-------------|
| Turnover | 201.1 | 208.3 | 247.3 |
| EBIT | 43.0 | 40.0 | 61.1 |
| PBT | 43.5 | 40.3 | 61.8 |
| Net Profit | 31.1 | 30.2 | 46.3 |
| Core PATAMI | 31.1 | 30.2 | 46.3 |
| Consensus (NP) | - | 36.5 | 49.1 |
| Earnings Revision | - | -22.5% | -9.4% |
| Core EPS (sen) | 21.4 | 20.8 | 31.9 |
| Core EPS growth (%) | 19.7% | -2.9% | 53.4% |
| NDPS (sen) | 12.0 | 6.0 | 10.0 |
| NTA per Share (RM) | 0.82 | 0.87 | 0.92 |
| Price to NTA (x) | 2.3 | 2.1 | 1.9 |
| PER (x) | 19.6 | 20.2 | 13.2 |
| Debt-to-Equity ratio (x) | (0.0) | (0.3) | (0.3) |
| Return on Asset (%) | 9.7% | 8.5% | 11.7% |
| Return on Equity (%) | 11.8% | 10.7% | 15.0% |
| Net Div. Yield (%) | 2.9% | 1.4% | 2.4% |

Share Price Performance



| | 1 mth | 3 mths | 12 mths |
|--------------|-------|--------|---------|
| Absolute (%) | -0.7% | -6.2% | 20.3% |
| Relative (%) | 1.2% | -3.6% | 14.9% |

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| Results Highlights | | | | | | | | |
|--------------------|-------------|-------------|---------------|-------------|---------------|--------------|--------------|---------------|
| | 3Q | 2Q | QoQ | 3Q | YoY | 9M | 9M | YoY |
| FYE Dec (RM'm) | FY17 | FY17 | Chg | FY16 | Chg | FY17 | FY16 | Chg |
| Turnover | 55.1 | 46.5 | 18.6% | 51.7 | 6.5% | 147.9 | 151.3 | -2.2% |
| Gross Profit | 19.3 | 24.1 | -20.0% | 25.6 | -24.7% | 59.2 | 64.4 | -8.1% |
| EBIT | 8.1 | 14.6 | -44.3% | 15.2 | -46.4% | 26.6 | 35.0 | -24.1% |
| PBT/(LBT) | 7.5 | 14.0 | -46.6% | 14.7 | -49.0% | 25.0 | 34.0 | -26.5% |
| Taxation | -1.0 | -4.6 | 77.9% | -3.7 | 72.3% | -5.9 | -7.9 | 25.6% |
| Net Profit | 6.5 | 9.4 | -31.3% | 11.0 | -41.3% | 19.0 | 26.0 | -26.8% |
| EPS (sen) | 4.5 | 6.5 | -31.3% | 7.6 | -41.3% | 13.1 | 17.9 | -26.8% |
| DPS (sen) | 0.0 | 0.0 | | 3.0 | | 0.0 | 9.0 | |
| GP Margin | 35.0% | 51.9% | | 49.5% | | 40.0% | 42.6% | |
| EBIT margin | 14.7% | 31.4% | | 29.3% | | 18.0% | 23.1% | |
| PBT margin | 13.6% | 30.2% | | 28.4% | | 16.9% | 22.4% | |
| NP margin | 11.7% | 20.3% | | 21.3% | | 12.9% | 17.2% | |
| Effective tax rate | 13.6% | 32.8% | | 24.9% | | 23.7% | 23.4% | |

Source: Company, Kenanga Research

| Segmental Breakdown | | | | | | | | |
|--------------------------------|--------------|--------------|---------------|--------------|---------------|--------------|--------------|---------------|
| | 3Q | 2Q | QoQ | 3Q | YoY | 9M | 9M | YoY |
| Revenue (RM'm) | FY17 | FY17 | Chg | FY16 | Chg | FY17 | FY16 | Chg |
| Cable support systems | 44.7 | 35.9 | 24.3% | 43.5 | 2.6% | 118.8 | 127.4 | -6.7% |
| Electrical lighting & fittings | 10.4 | 10.5 | -0.9% | 8.2 | 27.2% | 29.1 | 23.9 | 21.5% |
| Total | 55.1 | 46.5 | 18.6% | 51.7 | 6.5% | 147.9 | 151.3 | -2.2% |
| PBT (RM'm) | | | | | | | | |
| Cable support systems | 5.0 | 12.7 | -61.0% | 14.0 | -64.5% | 21.1 | 31.7 | -33.5% |
| Electrical lighting & fittings | 2.6 | 1.5 | 79.0% | 0.8 | -215.3% | 4.2 | 2.6 | 61.5% |
| Others | -0.1 | -0.2 | -49.5% | -0.1 | -24.0% | -0.4 | -0.4 | 1.2% |
| Total | 7.5 | 14.0 | -46.6% | 14.7 | -49.0% | 24.9 | 34.0 | -26.6% |
| PBT Margin | | | | | | | | |
| Cable support systems | 11.1% | 35.4% | | 32.1% | | 17.8% | 24.9% | |
| Electrical lighting & fittings | 25.1% | 13.9% | | 10.1% | | 14.6% | 11.0% | |
| Total | 13.6% | 30.1% | | 28.4% | | 16.9% | 22.4% | |

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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