

28 February 2018

United U-Li Corporation FY17 Lags

FY17 core net profit of RM20.2m (-35%) and dividend of 0.5 sen were below estimates. Negative deviations were due to thinner margins amidst expected lower selling prices to customers and higher operating fixed costs. While the long-term prospect for the group is supported by government infrastructure initiatives, immediate challenges on pricing and project deliveries could hinder growth. Downgrade to MARKET PERFORM with a TP of RM2.85 (from RM4.10).

FY17 below expectations. FY17 net earnings of RM20.2m is below expectations, accounting for 64%/71% of our/consensus full-year estimates. The negative deviation is due to margins being compressed by thinner-than-expected margins and higher operating costs. The interim dividend of 0.5 sen declared is below our expected 6.0 sen full-year payment.

YoY, FY17 revenue of RM200.0m saw a flattish decline (-<1%) as the primary cable support systems (CSS) segment dropped by 5%. This is likely due to lower selling prices and slowing project orders. Other the other hand, the electrical lighting and fitting (ELF) segment grew by 20% likely on the back of better demand from infrastructure projects. Operating profits declined by 35% to RM29.4m as margins compressed to 14.7% (-7.6ppt). We believe this is a combination from an increase in input costs (i.e. steel) coupled with the difficulty to pass higher costs to customers. In addition, the new Nilai plant is likely to have increased fixed overhead costs. Adjusting for one-off forex loss, FY17 core net profits registered at RM20.2m (-35%) after an effective tax rate of 29.8% (+1.4ppt).

QoQ, 4Q17 sales of RM52.1m (-6%) was weaker due to a slowdown in CSS project flows in the quarter. Operating profits diminished by 65% to RM2.8m likely from a greater exposure from the same abovementioned items. 4Q17 core net earnings recorded at RM1.1m (-83%) following a significantly higher effective tax rate of 93.0%.

Finding footing. Despite enhanced production capabilities, the group appears to still be susceptible to macro business environments. Higher steel prices may not bode well for the group as it slowly phases away from its cost pass down approach to customers. In addition, higher price sensitivity of customers may further lead to down-trading which may affect the group's position as the market leader. 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 slash our FY18E earnings by 48.5% in anticipation of prolonged weakness from the above to top-line and bottom-line. We also introduce our FY19E numbers.

Downgrade to MARKET PERFORM with a lower TP of RM2.85 (from RM4.10, previously). Our target price is based on a rolloverd FY19E EPS of 20.4 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. Management also announced a 1:2 bonus issue with an ex-date to be determined later. We are positive with this exercise as it grants the stock greater liquidity.

Risks to our call include: (i) higher-than-expected steel prices, (ii) longer-than-expected delivery of project works, (iii) delay in major government infrastructure efforts.

MARKET PERFORM ↓

cum-Price/ex-Price: RM2.88/RM1.92

cum-TP/ex-TP: RM2.85/RM1.90 ↓

Expected Capital Gain: -RM0.03 -1.1%
Expected Divd. Yield: RM0.08 +2.8%
Expected Total Return: RM0.05 +1.7%

KLCI Index 1,871.46

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)	418.2
Par value per share (RM)	0.50
52-week range (H)	4.93
52-week range (L)	2.75
Free Float	49%
Beta	0.7
3-mth avg daily vol	37,655

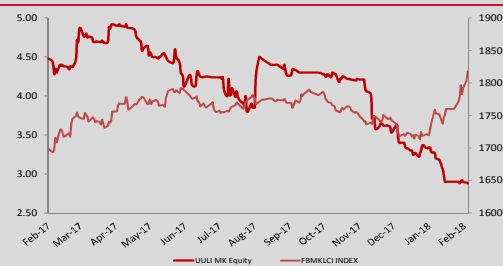
Major Shareholders

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

Summary Earnings Table

FY Dec (RM m)	2017A	2018E	2019E
Turnover	200.0	212.2	226.3
EBIT	28.7	34.4	42.2
PBT	27.4	33.1	41.2
Net Profit	19.2	23.8	29.7
Core PATAMI	20.2	23.8	29.7
Consensus (NP)	-	49.1	-
Earnings Revision	-	-48.5%	-
Core EPS (sen)	13.9	16.4	20.4
Core EPS growth (%)	-35.2%	18.3%	24.4%
NDPS (sen)	0.5	8.0	10.0
NTA per Share (RM)	0.87	0.92	0.98
Price to NTA (x)	1.5	1.4	1.3
PER (x)	20.7	17.5	14.1
Debt-to-Equity ratio (x)	0.0	(0.1)	(0.1)
Return on Asset (%)	5.5%	6.3%	7.4%
Return on Equity (%)	6.9%	8.2%	9.7%
Net Div. Yield (%)	0.2%	2.8%	3.5%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-11.9%	-16.5%	-34.5%
Relative (%)	-12.0%	-25.7%	-45.0%

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Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Turnover	52.1	55.1	-5.5%	49.8	4.6%	200.0	201.1	-0.6%
Gross Profit	15.1	19.3	-21.6%	19.3	-21.6%	74.3	83.7	-11.2%
EBIT	2.8	8.1	-65.4%	9.9	-71.5%	29.4	44.9	-34.5%
PBT/(LBT)	2.4	7.5	-67.9%	9.5	-74.8%	27.4	43.5	-37.1%
Taxation	-2.2	-1.0	-120.2%	-4.4	49.5%	-8.1	-12.4	34.2%
Net Profit	0.2	6.5	-97.4%	5.1	-96.7%	19.2	31.1	-38.2%
Core Net Profit*	1.1	6.5	-83.1%	5.1	-78.4%	20.2	31.1	-35.1%
EPS (sen)	0.5	4.5	-86.7%	3.5	-78.4%	13.9	21.4	-35.1%
DPS (sen)	0.5	0.0		3.0		0.5	12.0	

* Adjustments are made to account for one-off loss of forex RM0.9m.

GP Margin	29.1%	35.0%		38.7%		37.2%	41.6%	
EBIT margin	5.4%	14.7%		19.8%		14.7%	22.3%	
PBT margin	4.6%	13.6%		19.1%		13.7%	21.6%	
NP margin	0.3%	11.7%		10.2%		9.6%	15.5%	
Effective tax rate	93.0%	13.6%		46.5%		29.8%	28.4%	

Source: Company, Kenanga Research

Segmental Breakdown

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
Revenue (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
Cable support systems	40.7	44.7	-8.8%	40.2	1.2%	159.5	167.6	-4.8%
Electrical lighting & fittings	11.4	10.4	8.9%	9.6	18.9%	40.4	33.5	20.7%
Total	52.1	55.1	-5.5%	49.8	4.6%	200.0	201.1	-0.6%
PBT (RM'm)								
Cable support systems	0.6	5.0	-88.9%	9.1	-94.0%	21.7	40.8	-46.9%
Electrical lighting & fittings	2.0	2.6	-24.9%	0.6	-255.2%	6.2	3.2	95.2%
Others	-0.1	-0.1	10.9%	-0.1	-15.0%	-0.5	-0.5	-2.5%
Total	2.4	7.5	-67.8%	9.5	-74.7%	27.4	43.5	-37.1%
PBT Margin								
Cable support systems	1.4%	11.1%		22.6%		13.6%	24.4%	
Electrical lighting & fittings	17.3%	25.1%		5.8%		15.3%	9.5%	
Total	4.6%	13.6%		19.1%		13.7%	21.6%	

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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