

01 June 2018

United U-Li Corporation 1Q18 Disappointed

1Q18 net profit of RM0.6m (-81%) came way below estimate as better sales were undermined by inflated operating costs. The absence of dividend is within expectation. We believe the group's production capabilities should enable them to maintain orders from the private segment in anticipation of unfavourable exposure from the scrapping of major civil infrastructure projects. Downgrade to MARKET PERFORM with a TP of RM1.60 (from RM2.05).

1Q18 below expectations. While 3M18 sales of RM48.5m is within our expectation, net profit of RM0.6m is way below our/consensus full-year estimates, making up less than 3% of respective numbers. The negative deviation is due to poorer sales mix and higher-than-expected operating costs incurred. No dividends were announced, as expected.

YoY, 1Q18 revenue of RM42.3m grew by 5% following a recovery in demand for its cable support systems (CSS) products (+11%). However, this was offset by weaker sales, which declined 24% in the electrical lighting and fitting (ELF) segment. EBIT decreased by 61% to RM1.5m as poorer sales mix narrowed margins. Higher overheads from operating the Nilai plant likely contributed to the drag. Subsequent to the above, higher taxes further dented net profits, declining by 81% to RM0.6m.

QoQ, 1Q18 sales fell by 7% from lower contribution from the ELF segment. The lower sales translated to a lower EBIT by 47%. However, thanks to lower taxes incurred during the quarter, 1Q18 net profit was c.250% better than 4Q17.

Can it hold up? Following the second consecutive let down, the stock is shrouded with concerns, whether it can regain footing in the near-term. While margins had been previously compressed by competitive pricing to ward off competition, concerns may now arise from the recent scrapping of major civil infrastructure projects. This would perhaps be a test of the group's market leading position (c.40%) to garner private projects in the market. The saving grace could be the enhanced production capabilities of the group's plant which offer value-added in-house capabilities in the form of its galvanising and powder spray lines.

Post results, we slash our FY18E/FY19E earnings by 47.6%/21.7% mainly in anticipation of persistently thin margins across both CSS and ELF segments. Our dividend expectation was also reduced from 8.0 sen/10.0 sen to 3.0 sen/5.0 sen to reflect the weaker earnings. This is premised on a c.30% dividend payout ratio, being the 2-year average.

Downgrade to MARKET PERFORM with a lower TP of RM1.60 (from RM2.05, previously). Our target price is based on an unchanged 10.0x FY19E PER, which is in line with the average Fwd. PER ascribed to local steel players. The valuation is also within -1SD over its 5-year average. The pending 1:2 bonus issue exercise will enhance shares liquidity.

Risks to our call include: (i) higher-than-expected steel prices, (ii) lower-than-expected sales, (iii) higher-than-expected overheads.

MARKET PERFORM ↔

cum-Price/ex-Price: RM1.66/RM1.11

cum-TP/ex-TP: RM1.60/RM1.07 ↓

Expected Capital Gain: -RM0.06 -3.6%
Expected Divd. Yield: RM0.03 +1.8%
Expected Total Return: -RM0.03 -1.8%

KLCI Index 1,740.62

Stock Information

Bloomberg Ticker	UULI MK Equity
Bursa Code	7133
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	145.2
Market Cap (RM m)	241.0
Par value per share (RM)	0.50
52-week range (H)	4.60
52-week range (L)	1.50
Free Float	49%
Beta	0.6
3-mth avg daily vol	115,969

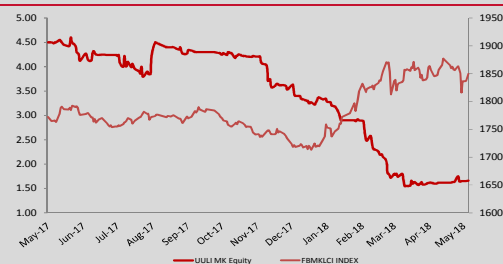
Major Shareholders

Pearl Deal M Sdn Bhd	37.2%
RHB Asset Management	10.2%
Kumpulan Wang Persaraan	3.2%

Summary Earnings Table

FY Dec (RM m)	2017A	2018E	2019E
Turnover	200.0	217.5	236.6
EBIT	28.7	19.0	34.0
PBT	27.4	17.6	32.8
Net Profit	19.1	12.5	23.2
Core PATAMI	20.1	12.5	23.2
Consensus (NP)	-	27.6	32.5
Earnings Revision	-	-47.6%	-21.7%
Core EPS (sen)	13.8	8.6	16.0
Core EPS growth (%)	-35.5%	-37.8%	86.0%
NDPS (sen)	0.5	3.0	5.0
NTA per Share (RM)	0.87	0.92	0.98
Price to NTA (x)	0.8	0.8	0.8
PER (x)	12.0	19.3	10.4
Debt-to-Equity ratio (x)	0.1	(0.1)	(0.0)
Return on Asset (%)	5.5%	3.3%	5.8%
Return on Equity (%)	6.9%	4.3%	7.7%
Net Div. Yield (%)	0.3%	1.8%	3.0%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	3.8%	-37.6%	-62.9%
Relative (%)	10.7%	-31.4%	-61.5%

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Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM'm)	FY18	FY17	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	48.5	52.1	-6.9%	46.3	4.8%	48.5	46.3	4.8%
Gross Profit	14.3	15.1	-5.7%	15.8	-9.4%	14.3	15.8	-9.4%
EBIT	1.5	2.8	-46.8%	3.9	-61.1%	1.5	3.9	-61.1%
PBT/(LBT)	0.9	2.4	-64.2%	3.4	-75.0%	0.9	3.4	-75.0%
Taxation	-0.3	-2.2	88.3%	-0.3	10.6%	-0.3	-0.3	10.6%
Net Profit	0.6	0.2	258.1%	3.2	-81.0%	0.6	3.2	-81.0%
EPS (sen)	0.4	0.1	258.1%	2.2	-81.0%	0.4	2.2	-81.0%
DPS (sen)	0.0	0.5		0.0		0.0	0.0	
GP Margin	29.4%	29.1%		34.0%		29.4%	34.0%	
EBIT margin	3.1%	5.4%		8.3%		3.1%	8.3%	
PBT margin	1.8%	4.6%		7.4%		1.8%	7.4%	
NP margin	1.2%	0.3%		6.8%		1.2%	6.8%	
Effective tax rate	30.5%	93.0%		8.5%		30.5%	8.5%	

Source: Company, Kenanga Research

Segmental Breakdown

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
Revenue (RM'm)	FY18	FY17	Chg	FY17	Chg	FY18	FY17	Chg
Cable support systems	42.3	40.7	4.0%	38.2	10.8%	42.3	38.2	10.8%
Electrical lighting & fittings	6.2	11.4	-45.6%	8.1	-23.7%	6.2	8.1	-23.7%
Total	48.5	52.1	-6.9%	46.3	4.8%	48.5	46.3	4.8%
PBT (RM'm)								
Cable support systems	2.0	0.6	271.5%	3.4	-40.4%	2.0	3.4	-40.4%
Electrical lighting & fittings	-1.0	2.0	-149.6%	0.2	-716.5%	-1.0	0.2	-716.5%
Others	-0.2	-0.1	-104.9%	-0.1	-48.2%	-0.2	-0.1	-48.2%
Total	0.9	2.4	-64.3%	3.4	-75.0%	0.9	3.4	-75.0%
PBT Margin								
Cable support systems	4.8%	1.4%		9.0%		4.8%	9.0%	
Electrical lighting & fittings	-15.8%	17.3%		2.0%		-15.8%	2.0%	
Total	1.8%	4.6%		7.4%		1.8%	7.4%	

Source: Company, Kenanga Research

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Peer Comparison

Company Name	Price (31/5/18)	Mkt Cap	Core PER (x)			Est. Div. Yld.	Historical ROE	P/BV	Core Net Profit (RMm)			This Year Growth	Next Year Growth	Target Price	Rating
	(RM)	(RMm)	FY17/18A	FY18/19E	FY19/20E	(%)	(%)	(x)	FY17/18A	FY18/19E	FY19/20E	(%)	(%)	(RM)	
CORE COVERAGE															
ANN JOO RESOURCES BHD	2.03	1,047	5.1	5.9	5.5	8.5%	15.6%	0.9	205.0	183.0	196.0	-11%	7%	2.75	OUTPERFORM
LAFARGE MALAYSIA BHD	3.00	2,549	(11.5)	(10.7)	(12.3)	0.0%	2.8%	0.9	(224.0)	(238.0)	(207.0)	6%	-13%	3.05	UNDERPERFORM
PRESS METAL ALUMINIUM HOLDINGS	4.73	17,821	31.1	24.5	17.5	1.4%	26.5%	8.2	602.0	720.0	1,010.0	20%	40%	5.00	MARKET PERFORM
UNITED U-LI CORPORATION	1.66	241	12.0	19.3	10.4	1.8%	11.8%	2.0	19.1	12.5	23.2	-35%	86%	1.60	MARKET PERFORM
WHITE HORSE BERHAD	1.87	428	(467.5)	64.5	45.6	3.7%	4.9%	0.6	(0.8)	6.7	9.5	-938%	42%	1.75	MARKET PERFORM

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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