

29 August 2018

United U-Li Corporation Another Earnings Disappointment

1H18 NP of RM1.7m came in below expectations, accounting for 13%/10% of our/consensus full-year estimates due to higher-than-expected operating cost. No dividends declared as expected. Slashed FY18-19E earnings by 40-21%, which result in a lower TP of 0.675 (previously, MARKET PERFORM; TP: RM0.850). Downgrade to UNDERPERFORM.

Below expectations. 1H18 NP of RM1.7m came in below expectations, accounting for 13%/10% of our/consensus full-year estimates, making it the third consecutive disappointment. The negative deviation is due to higher-than-expected operating costs incurred. No dividends were announced, as expected.

Results review. 1H18 revenue improved by 6%, YoY following a recovery in its cable support systems (CSS) products (+13%). However, its NP fell by 78% due to the sharp decline in operating margins to 4% (-11ppt) which is due to the higher fixed overheads from the commissioning of its new plant in Nilai. QoQ, 2Q18 NP grew 85% from a low base effect attributable to the improvements in revenue (+2%) and operating margin (+1ppt).

Outlook. We believe that ULICORP would be able to maintain improvements in profitability in subsequent quarters as we expect them to scale up production after resolving part of its foreign labour issue, and being able to ward off some competition from the market without losing its market share of c.40% due to their value-added in-house capabilities in of galvanising and powder spray lines. Nonetheless, recovery may not be as strong as we had initially estimated.

Earnings reviewed. Post results, we downgraded our FY18-19E earnings by 40-21% after further compressing our margins for both its CSS and ELF segments which we anticipate to remain weak. Our dividend expectations for FY18 are also reduced from 2.0 sen to 0.5 sen which is flat from FY17.

Downgrade to UNDERPERFORM (from MARKET PERFORM) with a lower TP of RM0.675 based on an unchanged ascribed valuation of 8x FY19E PER in line with one of the leading local steel players, i.e. ANNJOO. Our downgrade in recommendation and TP is in tandem with our reduction in FY18-19E earnings.

Risks to our call include: (i) higher-than-expected sales of CSS products, and (ii) lower-than-expected steel prices and overhead costs.

UNDERPERFORM ↓

Price: **RM0.725**
Target Price: **RM0.675** ↓

Expected Capital Gain: **-0.050 -6.90%**
Expected Divd. Yield: **0.005 0.69%**
Expected Total Return: **-0.045 -6.21%**

KLCI Index 1,826.90

Stock Information

Bloomberg Ticker	UULI MK Equity
Bursa Code	7133
Listing Market	Yes
Shariah Compliant	217.8
Shares Outstanding	157.9
Market Cap (RM m)	0.50
Par value per share (RM)	2.99
52-week range (H)	0.67
52-week range (L)	50%
Free Float	1.0
Beta	385,008
3-mth avg daily vol:	Yes

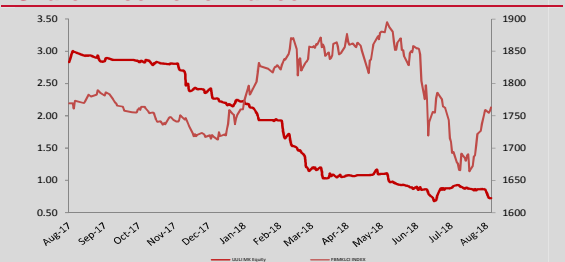
Major Shareholders

Pearl Deal M Sdn Bhd	37.2%
RHB Asset Management	9.8%
Kumpulan Wang Persaraan	3.4%

Summary Earnings Table

FY Dec (RM m)	2017A	2018E	2019E
Turnover	200.0	217.5	236.6
EBIT	28.7	12.0	27.2
PBT	27.4	10.6	26.0
Net Profit	19.1	7.5	18.4
Core PATAMI	20.1	7.5	18.4
Consensus (NP)	N.A.	16.7	23.2
Earnings Revision	N.A.	-40%	-21%
Core EPS (sen)	9.2	3.4	8.5
Core EPS growth (%)	-35.5%	-62.6%	145.5%
NDPS (sen)	0.5	0.5	0.5
NTA per Share (RM)	0.87	0.92	0.98
Price to NTA (x)	0.6	0.5	0.5
PER (x)	7.9	21.1	8.6
Debt-to-Equity ratio (x)	0.1	(0.1)	(0.0)
Return on Asset (%)	5.5%	2.0%	4.6%
Return on Equity (%)	6.9%	2.6%	6.1%
Net Div. Yield (%)	0.7%	0.7%	0.7%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-9.9%	-13.1%	-41.7%
Relative (%)	-10.2%	-13.2%	-41.8%

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29 August 2018

Results Highlights								
FYE Dec (RM'm)	2Q18	1Q18	QoQ	2Q17	YoY	1H18	1H17	YoY
Turnover	49.6	48.5	2%	46.5	7%	98.1	92.8	6%
EBITDA	4.7	4.2	12%	12.1	-61%	8.9	18.2	-51%
Depreciation	-2.7	-2.7	2%	-2.4	15%	-5.4	-4.6	16%
EBIT	2.0	1.5	30%	9.7	-80%	3.4	13.6	-75%
Interest inc/(exp)	-0.7	-0.6	6%	-0.6	20%	-1.3	-1.0	35%
Associates/JV	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Exceptional items	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Pretax profit	1.3	0.9	48%	9.1	-86%	2.1	12.6	-83%
Taxation	-0.2	-0.3	-37%	-4.6	-96%	-0.4	-4.9	-91%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	1.1	0.6	85%	4.5	-75%	1.7	7.7	-78%
Minority interest	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
PATAMI	1.1	0.6	85%	4.5	-75%	1.7	7.7	-78%
Core PATAMI	1.1	0.6	85%	4.5	-75%	1.7	7.7	-78%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	4%	3%		21%		4%	15%	
Pretax margin	3%	2%		20%		2%	14%	
NP margin	2%	1%		10%		2%	8%	
CNP margin	2%	1%		10%		2%	8%	
EPS (sen)	0.5	0.3		2.1		0.8	3.5	
Core EPS(sen)	0.5	0.3		2.1		0.8	3.5	
BV/share (RM)	1.3	1.3		1.3		1.3	1.3	
Net gearing (x)	0.1	0.0		0.0		0.1	0.0	
Effective tax	13%	30%		50%		20%	39%	

Source: Company, Kenanga Research

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29 August 2018

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BUILDING MATERIALS UNDER COVERAGE																	
ANN JOO RESOURCES BHD	1.96	1,051.9	Y	12/2018	-4.6%	4.2%	-24.4%	1.9%	4.9	6.7	6.6	0.9	0.8	12.6%	7.4%	2.35	OP
LAFARGE MALAYSIA BHD	3.10	2,634.1	Y	12/2018	-1.6%	3.9%	-94.1%	-115.0%	N.A.	N.A.	N.A.	0.9	1.0	-8.8%	0.0%	2.45	UP
PRESS METAL ALUMINIUM HOLDINGS BHD	4.96	19,489.6	Y	12/2018	5.7%	3.7%	19.7%	40.2%	32.7	25.7	18.4	8.2	6.7	28.7%	1.3%	5.00	MP
UNITED U-LI CORP BHD	0.725	157.9	Y	12/2018	8.8%	8.8%	-62.6%	145.5%	7.9	21.1	8.6	0.6	0.5	2.6%	0.7%	0.675	UP
WHITE HORSE BHD	1.75	400.2	Y	12/2018	0.9%	2.0%	11.9%	41.8%	N.A.	60.3	42.7	0.5	0.5	0.9%	4.0%	1.75	MP
Simple Average					1.8%	4.5%	-29.9%	22.9%	15.2	28.5	19.1	2.2	1.9	7.2%	2.7%		

Source: Bloomberg, Kenanga Research

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29 August 2018

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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