

29 November 2018

United U-Li Corporation

9M18 Broadly In Line

9M18 NP of RM4.1m which made up 54%/45% of our/consensus full-year estimates is broadly within our expectation but below consensus'. No dividends were announced, as expected. No changes to FY18-19E earnings. Upgrade to MARKET PERFORM (from UNDERPERFORM) with an unchanged TP of RM0.675.

Broadly within our expectation, below consensus'. 9M18 NP of RM4.1m, makes up 54%/45% of our/consensus full-year estimates. We deem the results as broadly within our expectation as we are expecting further improvements in 4Q18 of RM3m from this quarter's RM2.4m. However, it fell short of consensus' expectation, which could have factored in lower-than-expected operating costs. No dividends were announced, as expected.

Results review. 1H18 revenue improved by 5%, YoY, following a recovery in its cable support systems (CSS) products (+5%) and electrical lighting division (+4%). However, NP fell by 79% due to the sharp decline in operating margins to 5% (-13ppt) which is due to the higher fixed overheads from the commissioning of its new plant in Nilai. QoQ, 3Q18 NP grew 114% from a low base effect, attributable to the improvements in revenue (+15%) and operating margin (+2ppt). Notably, its electrical lighting division registered a decent growth in revenue (+49%) bringing it back to profitability with a pre-tax profit of RM1.9m from pre-tax loss of RM0.1m in 2Q18.

Outlook. We believe that ULICORP will continue to see earnings improvement 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 of the market competition without losing its market share of c.40% due to their value-added in-house capabilities in the form of galvanising and powder spray lines.

Earnings reviewed. Post results, there are no changes to our FY18-19E earnings.

Upgrade to MARKET PERFORM with an unchanged TP of RM0.675 with an unchanged ascribed valuation of 8.0x FY19E PER (close to FBMSC Index's FY19E PER of 7.6x) following the recent sharp retracement in share price coupled with improvements in earnings.

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

MARKET PERFORM ↑

Price: RM0.620
Target Price: RM0.675 ↔

Expected Capital Gain: RM0.055 8.9%
Expected Divd. Yield: RM0.005 0.8%
Expected Total Return: RM0.060 9.7%

KLCI Index 1,686.55

Stock Information

Bloomberg Ticker	UULI MK Equity
Bursa Code	7133
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	217.8
Market Cap (RM m)	135.0
Par value per share (RM)	0.50
52-week range (H)	2.81
52-week range (L)	0.48
Free Float	50%
Beta	1.0
3-mth avg daily vol:	200,448

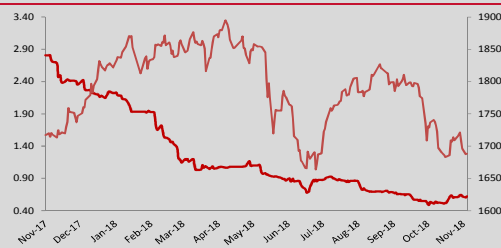
Major Shareholders

Pearl Deal M Sdn Bhd	37.2%
Rhb Asset Management	9.6%
Ting Siew Pin	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)	-	9.2	15.7
Earnings Revision	-	0%	0%
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)	0.5	0.5	0.4
PER (x)	6.7	18.0	7.3
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 (%)	0.8%	0.8%	0.8%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	15.9%	-8.8%	-77.9%
Relative (%)	15.7%	-2.6%	-76.1%

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29 November 2018

Results Highlights								
	3Q18	2Q18	QoQ	3Q17	YoY	9M18	9M17	YoY
FYE Dec (RM'm)								
Turnover	57.0	49.6	15%	55.1	3%	155.1	147.9	5%
EBITDA	6.0	4.7	28%	10.7	-44%	14.9	33.8	-56%
Depreciation	-2.3	-2.7	-14%	-2.6	-9%	-7.8	-7.2	7%
EBIT	3.7	2.0	87%	8.1	-55%	7.1	26.6	-73%
Interest inc/(exp)	-0.5	-0.7	-20%	-0.6	-15%	-1.9	-1.6	15%
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	3.1	1.3	144%	7.5	-58%	5.2	25.0	-79%
Taxation	-0.7	-0.2	345%	-1.0	-28%	-1.2	-5.9	-80%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	2.4	1.1	114%	6.5	-63%	4.1	19.0	-79%
Minority interest	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
PATAMI	2.4	1.1	114%	6.5	-63%	4.1	19.0	-79%
Core PATAMI	2.4	1.1	114%	6.5	-63%	4.1	19.0	-79%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	6%	4%		15%		5%	18%	
Pretax margin	5%	3%		14%		3%	17%	
NP margin	5%	3%		14%		3%	17%	
CNP margin	4%	2%		12%		3%	13%	
EPS (sen)	1.1	0.5		3.0		1.9	8.7	
Core EPS(sen)	1.1	0.5		3.0		1.9	8.7	
BV/share (RM)	1.3	1.3		1.3		1.3	1.3	
Net gearing (x)	0.0	0.1		0.0		0.0	0.0	
Effective tax	24%	13%		14%		22%	24%	

Source: Company, Kenanga Research

Segmental Highlights								
	3Q18	2Q18	QoQ	3Q17	YoY	9M18	9M17	YoY
External Revenue								
Cable Support	43.6	40.6	7%	44.7	-2%	124.9	118.8	5%
Electrical Lighting	13.4	9.0	49%	10.4	28%	30.2	29.1	4%
Pre-tax Segmentation								
Cable Support	1.4	1.6	-14%	5.0	-72%	5.0	21.1	-76%
Electrical Lighting	1.9	-0.1	n.m.	2.6	-27%	0.8	4.2	-80%
Pre-tax margins								
Cable Support	3%	4%		11%		4%	18%	
Electrical Lighting	14%	-1%		25%		3%	15%	

Source: Company, Kenanga Research

29 November 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.	
BUILDING MATERIALS UNDER COVERAGE																	
ANN JOO RESOURCES BHD	1.39	747.4	Y	12/2018	-4.6%	4.2%	-24.4%	1.9%	3.5	4.8	4.7	0.6	0.6	12.6%	10.5%	2.35	OP
LAFARGE MALAYSIA BHD	2.02	1,716.4	Y	12/2018	-19.2%	7.3%	-67.2%	-132.7%	N.A.	N.A.	N.A.	0.6	0.7	-12.4%	0.0%	1.85	UP
PRESS METAL ALUMINUM HOLDINGS BERHAD	4.76	18,801.1	Y	12/2018	5.7%	3.7%	5.6%	52.4%	31.4	28.0	18.4	7.8	6.7	25.9%	1.5%	4.80	MP
UNITED U-LI CORPORATION BHD	0.620	135.0	Y	12/2018	8.8%	8.8%	-62.6%	145.5%	6.7	18.0	7.3	0.5	0.5	2.6%	0.8%	0.675	MP
WHITE HORSE BERHAD	1.57	358.8	Y	12/2018	-4.9%	-0.6%	-19.3%	-50.2%	N.A.	N.A.	N.A.	0.5	0.5	-0.6%	0.0%	1.50	UP
Simple Average					-2.9%	4.7%	-33.6%	3.4%	13.9	16.9	10.1	2.0	1.8	5.6%	2.6%		

Source: Bloomberg, Kenanga Research

29 November 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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