

28 February 2020

United U-Li Corporation FY19 Above Expectation

FY19 CNL of RM1.5m is above our loss estimate of RM2.2m but below consensus estimate earnings of RM3.2m. No dividend was declared as expected. We maintain FY20E earnings of RM0.4m and introduce FY21E revenue of RM204.7m and CNP of RM0.6m. Maintain UNDERPERFORM call and unchanged Target Price of RM0.400 based on 0.3x FY20E BV/share.

Above expectations. FY19 recorded CNL of RM1.5m which is above our estimate of RM2.2m losses but below consensus estimated profit of RM3.2m. The deviation is mainly due to higher-than-expected margin achieved by the company during FY19. No dividend was declared, as expected.

Results' review. YoY, FY19 registered CNL of RM1.5m compared to CNP of RM2.9m in FY18, mainly due to: (i) fall in revenue to RM193.5m (-5%) amid softer market condition, and (ii) lower margin of 2% as compared to 4% in FY18, largely caused by higher labour and depreciation costs. QoQ, 4QFY19 recorded losses of RM0.4m compared to CNP of RM0.2m in the preceding quarter, dragged by higher effective tax rate of 119% compared to 12% in 3QFY19, which offset the positive impact of revenue and profit before tax increasing by 3% and 716%, respectively.

Outlook. The outlook for the sector remains challenging, underpinned by weak prospects in the construction industry and stiff competition from other new players. However, we believe the revival of mega infrastructure project could be a positive catalyst to the industry. Besides, ULICORP's prospect also depends on their ability to fend off the competition in this weak market environment given that they currently command a market share of c.40%.

Earnings review. Post results, we maintain FY20E earnings and introduce FY21E revenue of RM204.7m and CNP of RM0.6m.

Maintain UNDERPERFORM on ULICORP with unchanged TP of **RM0.400** based on Fwd. P/BV of 0.3x applied to FY20E BV/share of RM1.30, which is at its 5-year trough levels and -1.5SD-level, in line with the lacklustre sentiment on the sector and challenging operating environment.

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: RM0.475
Target Price: RM0.400 ↔

Expected Capital Gain: -RM0.075 -15.8%
Expected Divd. Yield: RM0.00 0.0%
Expected Total Return: -RM0.075 -15.8%

KLCI Index 1,505.59

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)	103.5
Par value per share (RM)	0.50
52-week range (H)	0.80
52-week range (L)	0.39
Free Float	49%
Beta	0.8
3-mth avg daily vol:	445,730

Major Shareholders

Pearl Deal M Sdn Bhd	37.2%
Rhb Asset Management Sdn Bhd	3.5%
Prudential Unit Trusts Bhd	3.2%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	193.5	198.7	204.7
EBIT	3.2	3.2	3.6
PBT	1.4	1.0	1.4
Net Profit	-1.5	0.4	0.6
Core PATAMI	-1.5	0.4	0.6
Consensus (NP)	N.A.	5.5	N.A.
Earnings Revision	N.A.	0%	N.A.
Core EPS (sen)	-0.7	0.2	0.3
Core EPS growth (%)	-140	-127	49.5
NDPS (sen)	0.0	0.0	0.0
NTA per Share (RM)	1.31	1.30	1.30
PER (x)	N.A.	2.5	1.7
PBV (x)	0.4	0.4	0.4
Debt-to-Equity ratio (x)	0.1	0.1	0.1
Return on Asset (%)	-0.4	0.0	0.0
Return on Equity (%)	-0.8	-0.8	-0.8
Net Div. Yield (%)	0.0	0.0	0.0

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-5.9%	-5.9%	-14.4%
Relative (%)	-3.0%	-0.8%	-1.9%

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Results Highlights								
	4QFY19	3QFY19	QoQ	4QFY18	YoY	FY19	FY18	YoY
FYE Dec (RM m)								
Turnover	53.0	51.5	3%	48.4	9%	193.5	203.5	-5%
EBITDA	6.1	3.1	96%	4.6	33%	14.4	19.0	-24%
Depreciation	-3.1	-2.3	32%	-2.9	4%	-11.1	-10.7	4%
EBIT	3.0	0.8	291%	1.6	86%	3.2	8.3	-61%
Interest inc/(exp)	-0.8	-0.5	55%	-0.2	335%	-1.8	-1.6	13%
Associates/JV	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
Exceptional items	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
Forex gain/(loss)	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
Pretax profit	2.2	0.3	716%	1.4	56%	1.4	6.7	-79%
Taxation	-2.7	0.0	8247%	-2.7	0%	-2.9	-3.8	-24%
Deferred tax	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
Profit after tax	-0.4	0.2	-276%	-1.2	-65%	-1.5	2.9	-154%
Minority interest	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
PATAMI	-0.4	0.2	-276%	-1.2	-65%	-1.5	2.9	-154%
Core PATAMI	-0.4	0.2	-276%	-1.2	-65%	-1.5	2.9	-154%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	6%	1%		3%		2%	4%	
Pretax margin	4%	1%		3%		1%	3%	
NP margin	4%	1%		3%		1%	3%	
CNP margin	-1%	0%		-3%		-1%	1%	
EPS (sen)	-0.2	0.1		-0.6		-0.7	1.3	
Core EPS(sen)	-0.2	0.1		-0.6		-0.7	1.3	
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	119%	12%		185%		209%	57%	

Source: Company, Kenanga Research

Segmental Highlights								
	4QFY19	3QFY19	QoQ	4QFY18	YoY	FY19	FY18	YoY
External Revenue								
Cable Support	41.8	41.5	1%	38.1	10%	156.9	163.0	-4%
Electrical Lighting	11.3	10.0	13%	10.3	9%	36.6	40.6	-10%
Pre-tax Segmentation								
Cable Support	0.4	1.0	-57%	1.4	-71%	3.59	6.44	-44%
Electrical Lighting	1.4	-0.5	-372%	0.1	2435%	-1.70	0.88	-292%
Pre-tax margins								
Cable Support	1%	2%		4%		2%	4%	
Electrical Lighting	12%	-5%		1%		-5%	2%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				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.			
<u>BUILDING MATERIALS UNDER COVERAGE</u>																		
ANN JOO RESOURCES BHD	1.09	588.2	Y	12/2020	-1.6%	4.4%	-1154.5%	-110.0%	N.A.	N.A.	N.A.	0.5	0.5	-1.0%	0%	0.850	UP	
PRESS METAL ALUMINUM HOLDINGS BERHAD	4.80	19,382.9	Y	12/2020	-10.3%	27.5%	25.4%	44.8%	28.5	34.1	21.1	5.3	4.8	16.7%	1.3%	5.50	OP	
UNITED U-LI CORPORATION BHD	0.475	103.5	Y	12/2019	2.7%	3.0%	375.0%	50.0%	N.A.	2.5	1.7	0.4	0.4	0.8%	0%	0.400	UP	
WHITE HORSE BERHAD	0.965	219.8	Y	12/2020	-1.3%	0.7%	-96.8%	-120.9%	N.A.	N.A.	N.A.	0.3	0.4	-7.8%	0%	0.970	MP	
Simple Average					-2.6%	8.9%	-212.7%	-34.0%	28.5	135.8	89.7	1.6	1.5	2.3%	1.3%			

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%

**** The Expected Total Return might contain rounding discrepancy.**

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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