

25 June 2020

## United U-Li Corporation 1QFY20 Below Expectation

1QFY20 CNL of RM0.6m is below our CNP estimate of RM0.4m mainly due to lower-than-expected margin. No dividend was declared as expected. Post result, we reduced our FY20E and FY21E earnings to RM0.3m and RM0.5m, respectively. Maintain UNDERPERFORM call and unchanged Target Price of RM0.250 based on 0.19x FY20E BV/share.

**Below expectations.** 1QFY20 recorded CNL of RM0.6m which is below our estimate CNP of RM0.4m, mainly due to lower-than-expected margin achieved by the company during 1QFY20. No dividend was declared, as expected.

**Results' review. YoY,** 1QFY20 registered lower CNL of RM0.6m compared to -RM1.5m in 1QFY19, mainly due to higher profit margin achieved during the quarter thanks to lower labour cost, lower forex losses, lower selling and distribution expenses despite the company recording lower revenue by 9%. **QoQ,** the first quarter registered higher losses by 31% compared to 4QFY19 of RM0.4m, largely due to: (i) lower revenue achieved (-25%) during the quarter, partly due to the outbreak of Covid-19 and MCO imposed by the government, and (ii) lower margin caused by higher labour cost and administrative expenses during the quarter.

**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 reduced our FY20E/FY21E earnings by 20%/11% to RM0.3m/RM0.5m in view of softer demand and lower margin impacted by the weak market prospect and outbreak of Covid-19.

**Maintain UNDERPERFORM on ULICORP** with unchanged TP of RM0.250 based on Fwd. P/BV of 0.19x applied to FY20E BV/share of RM1.30, which is at 1SD below mean, 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:** RM0.350  
**Target Price:** RM0.250 ↔

**Expected Capital Gain:** -RM0.10 -28.6%  
**Expected Divd. Yield:** RM0.00 0.0%  
**Expected Total Return:** -RM0.10 -28.6%

**KLCI Index** 1,502.63

### 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)	76.2
Par value per share (RM)	0.50
52-week range (H)	0.64
52-week range (L)	0.23
Free Float	49%
Beta	1.1
3-mth avg daily vol:	490,279

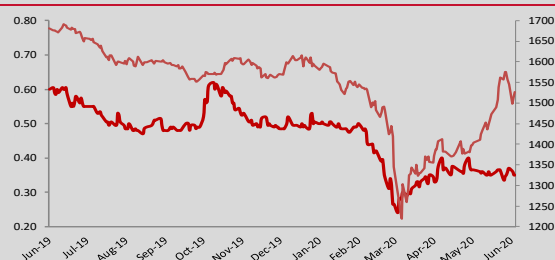
### Major Shareholders

Pearl Deal M Sdn Bhd	37.2%
Prudential Unit Trusts Bhd	3.2%
Ting Siew Pin	3.2%

### Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	193.5	183.3	188.8
EBIT	3.2	2.6	2.9
PBT	1.4	0.5	0.8
<b>Net Profit</b>	<b>-1.5</b>	<b>0.3</b>	<b>0.5</b>
<b>Core PATAMI</b>	<b>-1.5</b>	<b>0.3</b>	<b>0.5</b>
Consensus (NP)	N.A.	N.A.	N.A.
Earnings Revision	N.A.	-20%	-11%
Core EPS (sen)	-0.7	0.2	0.3
Core EPS growth (%)	-140	-122	66
NDPS (sen)	-	-	-
NTA per Share (RM)	1.3	1.3	1.3
PER (x)	N.A.	175	175
PBV (x)	0.3	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 (%)	-0.5	-0.8	-0.8
Net Div. Yield (%)	0.0	0.0	0.0

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-4.1%	25.0%	-41.7%
Relative (%)	-8.7%	8.6%	-31.3%

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### Results Highlights

FYE Dec (RM m)	1QFY20	4QFY19	QoQ	1QFY19	YoY
<b>Turnover</b>	<b>40.0</b>	<b>53.0</b>	<b>-25%</b>	<b>44.0</b>	<b>-9%</b>
EBITDA	2.6	6.1	-58%	2.0	27%
Depreciation	-2.6	-3.1	-14%	-2.9	-10%
<b>EBIT</b>	<b>-0.1</b>	<b>3.0</b>	<b>N.M.</b>	<b>-0.9</b>	<b>-91%</b>
Interest inc/(exp)	-0.4	-0.8	-50%	-0.3	29%
<b>Pretax profit</b>	<b>-0.5</b>	<b>2.2</b>	<b>N.M.</b>	<b>-1.2</b>	<b>-62%</b>
Taxation	-0.1	-2.7	-97%	-0.2	-59%
Deferred tax	0.0	0.0	N.M.	0.0	N.M.
<b>Profit after tax</b>	<b>-0.6</b>	<b>-0.4</b>	<b>31%</b>	<b>-1.5</b>	<b>-61%</b>
Minority interest	0.0	0.0	N.M.	0.0	N.M.
<b>PATAMI</b>	<b>-0.6</b>	<b>-0.4</b>	<b>31%</b>	<b>-1.5</b>	<b>-61%</b>
<b>Core PATAMI</b>	<b>-0.6</b>	<b>-0.4</b>	<b>31%</b>	<b>-1.5</b>	<b>-61%</b>
DPS (sen)	0.0	0.0		0.0	
EBIT margin	0%	6%		-2%	
Pretax margin	-1%	4%		-3%	
NP margin	-1%	4%		-3%	
CNP margin	-1%	-1%		-3%	
EPS (sen)	-0.3	-0.2		-0.7	
Core EPS(sen)	-0.3	-0.2		-0.7	
BV/share (RM)	1.3	1.3		1.3	
Net gearing (x)	-0.1	-0.1		0.0	
Effective tax	-20%	119%		-19%	

Source: Company, Kenanga Research

### Segmental Highlights

External Revenue	1QFY20	4QFY19	QoQ	1QFY19	YoY
Cable Support	33.6	41.8	-20%	36.6	-8%
Electrical Lighting	6.4	11.3	-43%	7.4	-14%
<b>Pre-tax Segmentation</b>					
Cable Support	0.1	0.4	-75%	0.8	-88%
Electrical Lighting	-0.5	1.4	-133%	-2.0	-77%
<b>Pre-tax margins</b>					
Cable Support	0%	1%		2%	
Electrical Lighting	-7%	12%		-27%	

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.	1-Yr. Fwd.		
<b>BUILDING MATERIALS UNDER COVERAGE</b>																		
ANN JOO RESOURCES BHD	0.735	396.6	Y	12/2020	-1.6%	4.4%	-108.7%	-190.9%	N.A.	N.A.	N.A.	0.3	0.4	-1.0%	0.0%	0.580	OP	
PRESS METAL ALUMINUM HOLDINGS BERHAD	4.55	18,373.4	Y	12/2020	-17.1%	28.5%	-24.4%	74.0%	27.0	32.4	20.0	5.0	4.8	10.3%	0.8%	4.45	MP	
UNITED U-LI CORPORATION BHD	0.350	76.2	Y	12/2020	-5.3%	3.0%	-80.0%	66.7%	N.A.	175	175	0.3	0.4	0.8%	0.0%	0.250	UP	
WHITE HORSE BERHAD	0.705	160.5	Y	12/2020	-5.4%	3.9%	-182.8%	-177.4%	N.A.	N.A.	N.A.	0.3	0.3	-9.5%	0.0%	0.740	MP	
<b>Simple Average</b>					<b>-7.3%</b>	<b>9.9%</b>	<b>-99.0%</b>	<b>-56.9%</b>	<b>27.0</b>	<b>103.7</b>	<b>97.5</b>	<b>1.5</b>	<b>1.5</b>	<b>-1.3%</b>	<b>0.2%</b>			

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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