

07 May 2021

United U-Li Corporation

1QFY21 Surpassed Expectations

1QFY21 CNP of RM9.7m surpassed expectations on stronger-than-expected margins from rising steel prices and subdued competition. The 1.0 sen dividend declared is considered inline. On stronger margin assumptions coupled with new incoming capacity from 2HFY22, we upgrade FY21E/FY22E earnings by 56%/19%. Reiterate OP with higher TP of RM2.00 (from RM1.45) on 10x FY22 PER.

Surpassed expectations. 1QFY21 CNP of RM9.7m came above our expectations, accounting for 31% of our full year estimates. The positive surprise was due to better-than-expected margins stemming from: (i) rising steel prices and (ii) the lack of competition. Declared a 1.0sen dividend – deemed within our 11.5 sen target as we anticipate higher dividends in the coming quarters, in tandem with the group's performance.

QoQ, 1QFY21 CNP of RM9.7m improved 76% on stronger CNP margins (+9ppt) benefitting from the inventory lag impact on rising steel prices. Note that 1QFY21 could have come in stronger QoQ if not for a RM2m bonus provision. We did not strip this provision out as a one-off item as it is incurred annually. Despite its first quarter typically posting weaker revenue due to seasonality (i.e. Chinese New Year factor), 1QFY21 revenue was only down marginally by 3% **QoQ** due to strong demand and higher product prices. Net cash position also improved to RM60m (from RM52m) translating to RM0.28/share.

YoY, 1QFY21 roared back into the black from a loss position of RM0.6m mainly due to better steel prices, better cost controls and the absence of the initial Covid-19 lockdown (that commenced 18th March 2020) which halted economic activities and capped deliveries in 1QFY20.

New capacity expansion plans. Ulicorp has allocated RM20m capex for the construction of a workers hostel and a new factory in Nilai. These new buildings will be built on its 11-acre vacant land located right beside its existing Nilai plant. Currently, the group is undergoing soil investigation works on the said land and the tentative construction is expected to be completed mid-FY22. With the new expansion, Ulicorp intends to increase its dominance in the cable support system (CSS) market in which it currently holds c.40% market share.

CSS demand continues to be strong. Meanwhile, demand for Ulicorp's products continues to remain robust with the pandemic weakening Ulicorp's previous competitors. As iterated, the tight supply of cold rolled coils (raw material for CSS manufacturers) has rendered many of the smaller competitors unable to deliver on their respective end-orders – allowing Ulicorp to step in to fulfil it.

Upgrade FY21E/FY22E earnings by 56%/19% to RM49m/RM44m after imputing in stronger margins and factoring for the new capacity in FY22. Note that our FY22E earnings is lower YoY as we expect steel prices to plateau and normalise – resulting in the absence of the inventory lag effect and consequently lower bottom-line margins.

Reiterate OUTPERFORM with higher TP of RM2.00 (from RM1.45) as we roll our valuation base year to FY22E pegged to an unchanged 10x PER. We continue to like their prospects given the regained status as a market leader in the cable support systems (CSS) space.

OUTPERFORM ↔

Price: RM1.48
Target Price: RM2.00 ↑

Expected Capital Gain: +35.1%
Expected Divd. Yield: +9.1%
Expected Total Return: +44.2%

KLCI Index 1,578.33

Stock Information

Bloomberg Ticker	UULI MK Equity
Bursa Code	7133
Listing Market	Main / ACE Market
Shariah Compliant	Yes
Shares Outstanding	217.8
Market Cap (RM m)	322.3
Par value per share (RM)	N.A.
52-week range (H)	1.60
52-week range (L)	0.32
Free Float	41%
Beta	1.5
3-mth avg daily vol:	1,546,724

Major Shareholders

Pearl Deal M Sdn Bhd	37.2%
Yeoman Rights Value Fnd	4.6%
Employees Provident Fund Board	3.6%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	159.2	230.1	242.1
EBIT	8.9	64.4	58.4
PBT	5.7	63.4	57.4
Net Profit	3.5	48.8	44.2
Core PATAMI	5.6	48.8	44.2
Consensus (NP)	n.a.	n.a.	n.a.
Earnings Revision	-5%	56%	19%
Core EPS (sen)	2.6	22.4	20.3
Core EPS growth (%)	n.m.	768.5%	-9.4%
NDPS (sen)	1.0	13.5	14.0
NTA per Share (RM)	1.32	1.68	2.02
PER (x)	57.4	6.6	7.3
PBV (x)	1.12	0.88	0.73
Debt-to-Equity ratio (x)	N.C	N.C	N.C
Net Div. Yield (%)	0.7%	9.1%	9.5%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	43.8%	25.5%	276.0%
Relative (%)	44.2%	25.9%	262.6%

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

Results Highlights

	1Q21	4Q20	QoQ	1Q20	YoY	1Q21	1Q20	YoY
FYE Dec (RM m)								
Turnover	49.2	50.8	-3%	40.0	23%	49.2	40.0	23%
EBITDA	15.3	10.3	49%	2.6	498%	15.3	2.6	498%
Depreciation	-2.6	-3.0	-13%	-2.6	0%	-2.6	-2.6	0%
EBIT	12.6	7.2	75%	-0.1	n.m.	12.6	-0.1	n.m.
Interest inc/(exp)	-0.3	-0.2	53%	-0.4	-34%	-0.3	-0.4	-34%
Associates/JV	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Exceptional items	0.0	-2.1	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	12.4	5.0	149%	-0.5	n.m.	12.4	-0.5	n.m.
Taxation	-2.7	-1.6	74%	-0.1	n.m.	-2.7	-0.1	n.m.
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	9.7	3.4	184%	-0.6	n.m.	9.7	-0.6	n.m.
Minority interest	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
PATAMI	9.7	3.4	184%	-0.6	n.m.	9.7	-0.6	n.m.
Core PATAMI	9.7	5.5	76%	-0.6	n.m.	9.7	-0.6	n.m.
DPS (sen)	1.0	0.0		0.0		1.0	0.0	
Ebitda Margin	31%	20%		6%		31%	6%	
EBIT margin	26%	14%		0%		26%	0%	
Pretax margin	25%	10%		-1%		25%	-1%	
NP margin	25%	10%		-1%		25%	-1%	
CNP margin	20%	11%		-1%		20%	-1%	
EPS (sen)	4.5	1.6		-0.3		4.5	-0.3	
Core EPS(sen)	4.5	2.5		-0.3		4.5	-0.3	
BV/share (RM)	1.4	1.3		1.3		1.4	1.3	

Source: Company, Kenanga Research

Segmental Highlights

	1Q21	4Q20	QoQ	1Q20	YoY	1Q21	1Q20	YoY
External Revenue								
Cable Support	40.8	41.9	-3%	33.6	21%	40.8	33.6	21%
Electrical Lighting	8.4	8.9	-6%	6.4	32%	8.4	6.4	32%
Pre-tax Segmentation								
Cable Support	10.7	6.7	61%	0.1	10224%	10.7	0.1	10224%
Electrical Lighting	1.8	-1.6	-210%	-0.5	-494%	1.8	-0.5	-494%
Pre-tax margins								
Cable Support	26%	16%		0%		26%	0%	
Electrical Lighting	21%	-18%		-7%		21%	-7%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
<u>BUILDING MATERIALS UNDER COVERAGE</u>													
ANN JOO RESOURCES BHD	3.05	1,646.7	Y	12/2021	N.A.	21.4	28.7	1.4	1.5	7.7%	0.0%	1.57	UP
PRESS METAL ALUMINUM BHD	5.30	42,804.0	Y	12/2021	31.5	37.7	23.3	10.5	9.3	28.4%	0.4%	6.50	OP
UNITED U-LI CORPORATION BHD	1.48	322.3	Y	12/2021	56.9	6.6	7.3	1.1	0.9	16.9%	9.1%	2.00	OP
Simple Average					44.2	21.9	19.8	4.3	3.9	17.7%	304.2%		

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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