

23 November 2022

United U-Li Corporation

Benefits from Strong USD

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ULICORP's 9MFY22 net profit beat our expectation on higher-than-expected margins from its cable support systems segment thanks to the stronger USD against MYR, which more than offset its high carrying inventory costs. We raise our FY22-23F net profit forecasts by 25%/13% respectively, increase our TP by 26% to RM1.36 (from RM1.08) but maintain our MARKET PERFORM call.

Above expectations. Its 9MFY22 net profit already met our full-year forecast on higher-than-expected margins from its cable support systems (CSS) segment thanks to the USD's strength against MYR which more than offset its high carrying inventory costs. ULICORP sells its products to Singapore in USD (USD:MYR strengthened by 5% from 4.40 to 4.63 in 3QFY22). Typically, its exports to Singapore make up c.20% of total turnover.

Result highlights. Its 9MFY22 net profit improved 8% as revenue surged 46% on stronger demand for cable support systems as it rebounded from a pandemic-stricken period a year ago.

Outlook. The reopening of the economy domestically and regionally will augur well for the demand for ULICORP's cable support systems which are widely used in the transportation, manufacturing and healthcare sectors. However, margins have come off from a high base a year ago weighed down by high-cost inventories as input material prices i.e. cold rolled coil (CRC) have retreated from the high (refer page 2 for CRC price chart). Nonetheless, such margin contraction is cushioned by the stronger USDMYR and its dominant position within the cable support system market which translates to a premium for its products. Meanwhile, given the volatility in input cost and a less than rosy economic outlook globally, ULICORP has deferred its expansion plans for a new warehouse and a workers' hostel to 2HFY23.

Forecast. We raise our FY22/23F net profit forecasts by 25%/13% respectively to reflect the stronger USD to MYR.

We like ULICORP for: (i) it being a reopening play given the recovery in demand for its cable support system products used widely within buildings and infrastructures; (ii) its dominant market position with a market share in excess of 50% in the local cable support systems space; and (iii) its balance sheet with a net cash of RM54m allowing the group to pursue capacity expansion or give out attractive dividends. However, the sharp fall in steel prices over the past six months has weighed on down on its product prices and hence margins.

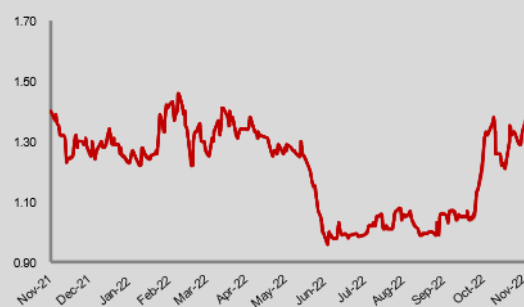
Post earnings, we increase our TP by 26% to RM1.36 (from RM1.08) based on unchanged 8x FY23F PER, in line with the sector's valuations during a steel price downturn. There is no adjustment to our TP based on ESG given a 3-star ESG rating as appraised by us (see Page 4). Maintain **MARKET PERFORM**.

Risks to our call include: (i) Volatility in the cost of input CRC; (ii) a slowdown in the global economy including the transportation and manufacturing sectors, hurting the demand for cable support systems; and (iii) Intensifying competition from low-cost producers in the region.

MARKET PERFORM ↔

Price : **RM1.31**
Target Price : **RM1.36** ↑

Share Price Performance



KLCI 1,441.29
YTD KLCI chg -8.1%
YTD stock price chg 1.6%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker UULI MK Equity
Market Cap (RM m) 285.3
Shares Outstanding 217.8
52-week range (H) 1.47
52-week range (L) 0.96
3-mth avg daily vol: 178,588
Free Float 24%
Beta 1.4

Major Shareholders

PEARL DEAL M SDN BHD 37.2%
LIM MEE HWA 6.2%
YEO SENG CHONG 6.2%

Summary Earnings Table

FYE Dec (RM m)	2021A	2022F	2023F
Turnover	204.8	252.0	250.0
EBIT	59.5	51.0	45.3
PBT	58.4	48.7	43.0
Net Profit	44.1	37.0	32.7
Core PATAMI	44.1	37.0	32.7
Consensus (NP)	n.a.	n.a.	n.a.
Earnings Revision	n.a.	25%	13%
Core EPS (sen)	20.2	17.0	15.0
Core EPS growth (%)	684%	-16%	-12%
NDPS (sen)	5.0	5.0	5.0
NTA per Share (RM)	1.5	1.6	1.7
PER (x)	6.5	7.7	8.7
PBV (x)	0.9	0.8	0.8
Net Gearing (x)	(0.1)	(0.2)	(0.2)
Net Div. Yield (%)	3.8%	3.8%	3.8%

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Results Highlights

FYE Dec (RM m)	3Q22	2Q22	QoQ	3Q21	YoY	9M22	9M21	YoY
Revenue	62.3	65.5	-5%	41.3	51%	193.8	132.4	46%
COGS	-38.0	-45.6	-17%	-21.6	76%	-120.9	-68.0	78%
GP	24.2	19.8	22%	19.7	23%	72.9	64.4	13%
Other Income	1.4	1.1	29%	0.7	103%	2.9	2.0	43%
Admin expenses	-7.4	-5.4	37%	-5.4	38%	-21.3	-17.5	22%
Selling and distributive expenses	-2.0	-2.3	-13%	-1.4	n.m.	-6.4	-4.9	n.m.
Other expenses	-3.0	-3.0	-1%	-2.8	8%	-8.8	-8.0	10%
EBIT	13.2	10.1	30%	10.9	n.m.	39.2	36.0	n.m.
Finance costs	-0.4	-0.4	-8%	-0.2	89%	-1.1	-0.8	46%
PBT	12.8	9.7	32%	10.7	20%	38.1	35.3	8%
Tax	-3.0	-2.5	22%	-2.8	n.m.	-9.1	-8.3	n.m.
PAT	9.8	7.2	35%	7.9	23%	29.1	27.0	8%
Exceptionals	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
CNP	9.8	7.2	35%	7.9	23%	29.1	27.0	8%
DPS (sen)	1.5	1.0		2.0		3.5	4.0	
GP Margin	39%	30%		48%		38%	49%	
EBIT Margin	21%	15%		26%		20%	27%	
PBT Margin	21%	15%		26%		20%	27%	
PAT Margin	16%	11%		19%		15%	20%	
CNP Margin	16%	11%		19%		15%	20%	
ETR	-24%	-26%		-26%		-24%	-23%	
Net gearing (x)	-0.16	-0.15		-0.21		-0.16	-0.21	

Source: Company, Kenanga Research

Segmental Highlights

External Revenue	3Q22	2Q22	QoQ	3Q21	YoY	9M22	9M21	YoY
Cable Support Systems	55.7	58.0	-4%	36.0	55%	172.8	112.9	53%
Electric Lighting and Fittings	6.6	7.4	-12%	5.3	24%	21.0	19.6	7%
Total Revenue	62.3	65.5	-5%	41.3	51%	193.8	132.4	46%
PBT Segmentation								
Investment Holding	3.1	1.9	62%	2.3	32%	6.9	4.2	66%
Cable Support Systems	13.1	9.8	33%	11.4	15%	38.6	34.3	12%
Electric Lighting and Fittings	-0.1	0.1	-177%	-0.5	-79%	0.2	1.4	-86%
Elimination	-3.3	-2.2	50%	-2.5	n.a.	-7.6	-4.7	n.a.
Total PBT	12.8	9.7	32%	10.7	20%	38.1	35.3	8%

Source: Company, Kenanga Research

Malaysia CRC prices



Source: Company, Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)		ROE (%)		Net Div. (sen) 1-Yr. Fwd.	Net Div. Yld. (%) 1-Yr. Fwd.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.				
ANNJOO	UP	1.08	0.850	-21.30%	603.8	Y	12/2022	9.6	8.2	-78.6%	-15.4%	13.0	15.2	0.5	4.5%	2.1	1.9%		
ENGTEX	OP	0.635	0.770	21.26%	276.0	Y	12/2022	11.8	11.0	-33.4%	-6.9%	5.4	5.8	0.3	6.4%	0.8	1.2%		
OM	OP	2.14	2.54	18.69%	1,580.7	Y	12/2022	57.4	50.9	68.3%	-11.4%	3.7	4.2	0.8	24.5%	13.7	6.4%		
PMETAL	OP	4.72	5.62	19.07%	38,891.0	Y	12/2022	19.7	21.3	56.7%	8.0%	33.6	20.8	6.6	33.3%	7.9	0.8%		
ULICORP	MP	1.31	1.36	3.82%	285.3	Y	12/2022	17.0	15.0	-33.1%	-2.0%	7.7	8.7	0.8	10.2%	5.0	3.8%		
Simple Average								23.1	21.3	-4.0%	-5.5%	12.7	10.9	1.8	15.8%			2.8%	

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating		
GENERAL	Earnings Sustainability & Quality	★	★	★
	Corporate Social Responsibility	★	★	
	Management/Workforce Diversity	★	★	
	Accessibility & Transparency	★	★	★
	Corruption-Free Pledge	★	★	★
	Carbon-Neutral Initiatives	★	★	
SPECIFIC	Renewable Energy Source	★	★	☆
	Resource Efficiency	★	★	
	Waste Disposal/Pollution Control	★	★	★
	Work Site Safety	★	★	★
	Workers Welfare	★	★	★
OVERALL		★	★	★

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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Published and printed by:

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