

24 May 2023

# United U-Li Corporation

## Inconsistent Recovery, Cost Escalates

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ULICORP's 1QFY23 results missed our forecast. Its latest results show that its recovery from the pandemic has been inconsistent and it is struggling to pass on higher cost to end-customers. We cut our FY23-24F earnings forecasts by 22% and 19%, respectively, reduce our TP by 15% to RM1.15 (from RM1.36) and downgrade our call to MARKET PERFORM from OUTPERFORM.

**Results below our expectation.** 1QFY23 net profit of RM3.2m missed our forecast, coming in at only 10% of our full-year forecast. The key variances against our forecast came from its inconsistent recovery and higher staff cost following the recent revision in the Labour Act.

**Results' highlights.** YoY, 1QFY23 revenue dropped 14%, mainly due to lower contributions from both cable support system (-15% YoY), and electric lighting and fittings (-6% YoY) segments. Core net profit plunged 74% on higher staff and input CRC costs.

**Outlook.** As the economy steadily recovered, demand for ULICORP's cable support systems that are widely used in the transportation, manufacturing and healthcare sectors is expected improve in tandem. The pandemic has led to the consolidation of industry players, and subsequently, easing of competition in ULICORP's operating space.

However, margins could see compression due to the revised Labour Act resulting in higher staff cost. Furthermore, we remain cautious over the flat steel prospects as inflation and rising interest rates may curtail demand for steel despite the rebound in CRC prices (a key input) from the low since Nov 2022 (see Page 2). To recap, ASPs of ULICORP's cable support systems typically move in tandem with CRC prices.

**Forecasts.** We cut our FY23-24F earnings forecasts by 22% and 19%, respectively, to reflect higher staff cost.

Consequently, we lower our TP by 15% to RM1.15 (from RM1.36) based on 8x FY24F PER - in line with the sector's historical 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).

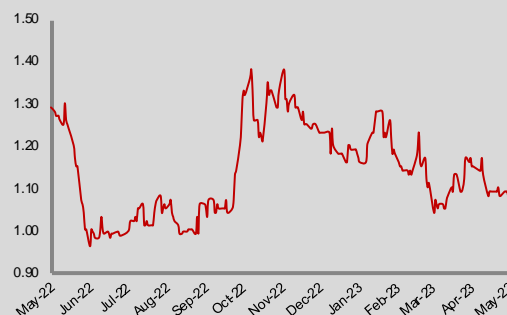
**Investment thesis.** We like ULICORP for: (i) it being a reopening play given the recovery in demand for its cable support system products widely used in buildings and infrastructures, (ii) its dominant market position with a market share of over 50% in the local cable support systems space, and (iii) its balance sheet with a net cash of RM99m allowing the group to pursue capacity expansion or pay attractive dividends. However, its latest results show that its recovery from the pandemic era has been inconsistent and it is struggling to pass on higher cost to end-customers. Downgrade to **MARKET PERFORM** from **OUTPERFORM**.

**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 : RM1.08  
Target Price : RM1.15 ↓

### Share Price Performance



KLCI 1,411.54  
YTD KLCI chg -5.6%  
YTD stock price chg -10.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UULI MK Equity
Market Cap (RM m)	235.2
Shares Outstanding	217.8
52-week range (H)	1.38
52-week range (L)	0.96
3-mth avg daily vol:	55,059
Free Float	24%
Beta	1.1

### 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)	2022A	2023F	2024F
Turnover	257.7	250.0	265.0
EBIT	55.1	35.9	43.7
PBT	53.5	33.6	41.4
<b>Net Profit</b>	<b>39.3</b>	<b>25.5</b>	<b>31.4</b>
<b>Core PATAMI</b>	<b>36.9</b>	<b>25.5</b>	<b>31.4</b>
Consensus (NP)	-	N.A.	N.A.
Earnings Revision	-	-22%	-19%
Core EPS (sen)	16.9	11.7	14.4
Core EPS growth (%)	-16	-31	23
NDPS (sen)	5.0	5.0	5.0
NTA per Share (RM)	1.6	1.7	1.8
PER (x)	6.7	9.7	7.9
PBV (x)	0.7	0.7	0.6
Net Gearing (x)	(0.2)	(0.2)	(0.2)
Net Div. Yield (%)	4.4	4.4	4.4

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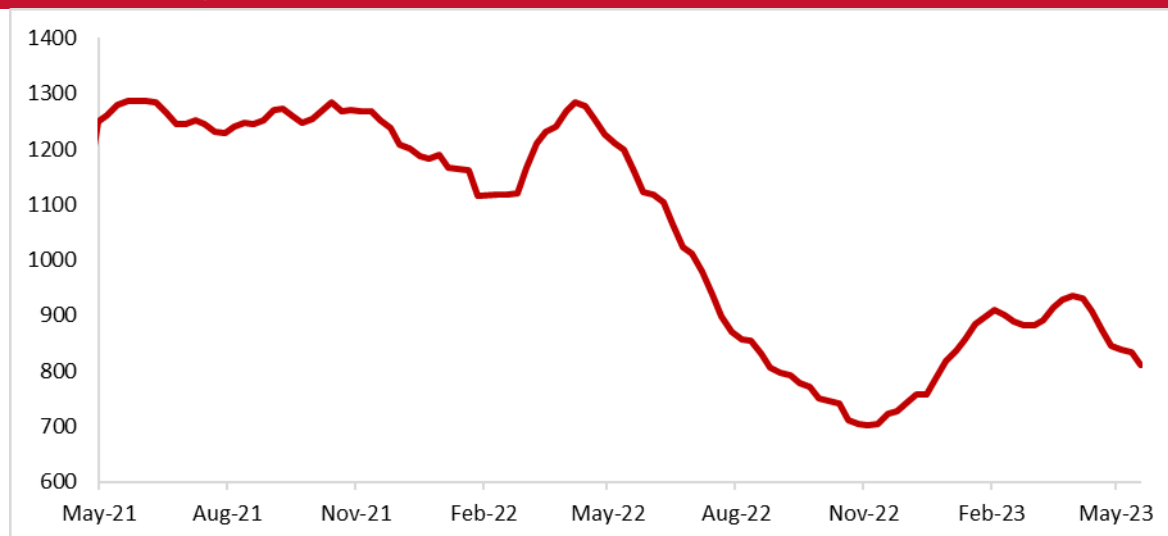
Results Highlights								
FYE Dec (RM m)	1Q23	4Q22	QoQ	1Q22	YoY	3M23	3M22	YoY
Revenue	56.9	64.0	-11%	66.0	-14%	56.9	66.0	-14%
COGS	-37.7	-40.0	-6%	-37.2	1%	-37.7	-37.2	1%
<b>GP</b>	<b>19.2</b>	<b>24.0</b>	<b>-20%</b>	<b>28.8</b>	<b>-33%</b>	<b>19.2</b>	<b>28.8</b>	<b>-33%</b>
Other Income	1.5	3.1	-51%	0.5	230%	1.5	0.5	230%
Admin expenses	-10.5	-5.8	80%	-8.5	24%	-10.5	-8.5	24%
Selling and distributive expenses	-1.5	-1.7	-14%	-2.1	n.m.	-1.5	-2.1	n.m.
Other expenses	-2.4	-3.7	-34%	-2.9	-15%	-2.4	-2.9	-15%
<b>EBIT</b>	<b>6.4</b>	<b>15.8</b>	<b>-60%</b>	<b>15.9</b>	<b>n.m.</b>	<b>6.4</b>	<b>15.9</b>	<b>n.m.</b>
Finance costs	-0.4	-0.5	-19%	-0.3	32%	-0.4	-0.3	32%
<b>PBT</b>	<b>6.0</b>	<b>15.4</b>	<b>-61%</b>	<b>15.6</b>	<b>-62%</b>	<b>6.0</b>	<b>15.6</b>	<b>-62%</b>
Tax	-1.8	-5.1	-65%	-3.5	n.m.	-1.8	-3.5	n.m.
<b>PAT</b>	<b>4.2</b>	<b>10.2</b>	<b>-59%</b>	<b>12.1</b>	<b>-65%</b>	<b>4.2</b>	<b>12.1</b>	<b>-65%</b>
Exceptionals	1.0	1.7	n.m.	0.0	n.m.	1.0	0.0	n.m.
<b>CNP</b>	<b>3.2</b>	<b>8.5</b>	<b>-62%</b>	<b>12.1</b>	<b>-74%</b>	<b>3.2</b>	<b>12.1</b>	<b>-74%</b>
<b>DPS (sen)</b>	<b>1.5</b>	<b>1.5</b>		<b>1.0</b>		<b>1.5</b>	<b>1.0</b>	
GP Margin	34%	38%		44%		34%	44%	
EBIT Margin	11%	25%		24%		11%	24%	
PBT Margin	11%	24%		24%		11%	24%	
PAT Margin	7%	16%		18%		7%	18%	
CNP Margin	6%	13%		18%		6%	18%	
ETR	-30%	-33%		-23%		-30%	-23%	
Net gearing (x)	-0.28	-0.21		-0.14		-0.28	-0.14	

Source: Company, Kenanga Research

Segmental Highlights								
	1Q23	4Q22	QoQ	1Q22	YoY	3M23	3M22	YoY
<b>External Revenue</b>								
Cable Support Systems	50.4	56.3	-10%	59.1	-15%	50.4	59.1	-15%
Electric Lighting and Fittings	6.6	7.7	-15%	6.9	-6%	6.6	6.9	-6%
<b>Total Revenue</b>	<b>56.9</b>	<b>64.0</b>	<b>-11%</b>	<b>66.0</b>	<b>-14%</b>	<b>56.9</b>	<b>66.0</b>	<b>-14%</b>
<b>PBT Segmentation</b>								
Investment Holding	3.0	3.1	-1%	2.0	52%	3.0	2.0	52%
Cable Support Systems	7.5	15.4	-52%	15.6	-52%	7.5	15.6	-52%
Electric Lighting and Fittings	-1.2	0.2	-779%	0.2	-807%	-1.2	0.2	-807%
Elimination	-3.3	-3.3	-1%	-2.2	n.a.	-3.3	-2.2	n.a.
<b>Total PBT</b>	<b>6.0</b>	<b>15.4</b>	<b>-61%</b>	<b>15.6</b>	<b>-62%</b>	<b>6.0</b>	<b>15.6</b>	<b>-62%</b>

Source: Company, Kenanga Research

### CRC Spot Prices in Malaysia



Source: Company, Kenanga Research

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### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
<b>Stocks Under Coverage</b>																	
ANN JOO RESOURCES BHD	UP	1.10	0.800	-27.27%	617.5	Y	12/2023	4.6	10.9	-84.4%	136.0%	23.4	10.2	0.5	1.9%	1.0	0.9%
ENGTEX GROUP BHD	OP	0.610	0.750	22.95%	264.0	Y	12/2023	10.6	11.0	45.5%	3.7%	5.8	5.5	0.3	5.6%	0.8	1.2%
OM HOLDINGS LTD	OP	1.87	2.95	57.75%	1,381.2	Y	12/2023	46.8	42.0	16.8%	-10.4%	3.3	3.7	0.7	18.7%	6.6	3.5%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	4.72	6.30	33.47%	38,891.0	Y	12/2023	21.4	22.9	22.9%	7.3%	25.7	23.7	5.0	24.5%	8.5	1.4%
UNITED U-LI CORPORATION BHD	MP	1.08	1.15	6.48%	235.2	Y	12/2023	11.7	14.4	-30.9%	23.1%	9.2	7.5	0.6	7.1%	5.0	4.6%
<b>Sector Aggregate</b>					<b>41,388.9</b>					<b>34.6%</b>	<b>6.1%</b>	<b>18.8</b>	<b>17.7</b>	<b>3.4</b>	<b>18.0%</b>		<b>2.3%</b>

Source: Kenanga Research

**Stock ESG Ratings:**

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

☆ 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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