

22 November 2023

United U-Li Corporation

Earnings Miss for a Good Reason

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ULICORP's 9MFY23 results missed our expectation due to a tactical move in 3Q to gain market share in the housing project space at the expense of margins. Its near-term earnings prospects remain strong underpinned by a construction boom locally. We cut our FY23F net profit by 10%, but keep our FY24F numbers, TP of RM2.18 and OUTPERFORM call.

Below expectations. Its 9MFY23 core net profit of RM30.5m missed our expectation, coming in at only 60% of our full-year forecast. The variance against our forecast came largely from a tactical move in 3Q to gain market share in the housing project space at the expense of margins (consensus estimate is unavailable as we are the only research house covering the stock in the market).

YoY, its 9MFY23 revenue fell marginally by 1% weighed down by a lower ASP for its cable support systems (-2% YoY). However, its net profit jumped 7%, driven by a lower cost of input cold-rolled coil and increased interest incomes.

QoQ, on the back of a tactical move to gain market share in the housing project space at the expense of margins as mentioned, its 3QFY23 revenue rose 5% but its core net profit contracted 32%.

Earnings forecasts. We cut our FY23F net profit by 10% to reflect a lower ASP for its cable support systems but maintain our FY24F numbers.

Nonetheless, we maintain our TP of RM2.18, which is based on 8x FY24F PER - in line with the average historical forward PER of the steel product sector. There is no adjustment to our TP based on ESG given a 3-star ESG rating as appraised by us (see Page 4).

Outlook. ULICORP's earnings prospects are strong, driven by overwhelming demand for its cable support systems on the back of a construction boom in both the private space (data centres, warehouses, hospital projects, etc) as well as impending public mega projects (ongoing and impending such as the East East Rail Link, Johor Bahru-Singapore Rapid Transit System, Bayan Lepas LRT and MRT3). The consolidation in the local cable support system market during the pandemic era (i.e. weak players shutting down permanently) has also led to reduced competition which augurs well for market leader ULICORP.

Investment thesis. We like ULICORP for: (i) it being a re-opening 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 net cash position of RM99m that translates to a strong war chest or allowing it to pay attractive dividends. Maintain **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.

OUTPERFORM ↔

Price : **RM1.78**
Target Price : **RM2.18** ↔

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,463.40 |
| YTD KLCI chg | -2.1% |
| YTD stock price chg | 48.3% |

Stock Information

| | |
|----------------------|----------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | UULI MK Equity |
| Market Cap (RM m) | 387.7 |
| Shares Outstanding | 217.8 |
| 52-week range (H) | 1.87 |
| 52-week range (L) | 0.93 |
| 3-mth avg daily vol: | 1,295,315 |
| Free Float | 38% |
| Beta | 1.3 |

Major Shareholders

| | |
|-------------------------|-------|
| PEARL DEAL M SDN BHD | 37.2% |
| YEOMAN RIGHTS VALUE FND | 5.3% |
| Prudential PLC | 5.1% |

Summary Earnings Table

| FYE Dec (RM m) | 2022A | 2023F | 2024F |
|---------------------|-------------|-------------|-------------|
| Turnover | 257.7 | 279.7 | 309.6 |
| EBIT | 55.1 | 62.8 | 82.9 |
| PBT | 53.5 | 60.8 | 80.9 |
| Net Profit | 39.3 | 46.2 | 61.5 |
| Core PATAMI | 36.9 | 46.2 | 61.5 |
| Consensus (NP) | - | - | - |
| Earnings Revision | - | -10% | - |
| Core EPS (sen) | 16.9 | 21.2 | 27.3 |
| Core EPS growth (%) | -16 | 25 | 28 |
| NDPS (sen) | 5.0 | 6.0 | 6.0 |
| NTA per Share (RM) | 1.6 | 1.8 | 2.0 |
| PER (x) | 10.6 | 8.5 | 6.6 |
| PBV (x) | 1.1 | 1.0 | 0.9 |
| Net Gearing (x) | (0.2) | (0.2) | (0.3) |
| Net Div. Yield (%) | 2.8 | 3.3 | 3.3 |

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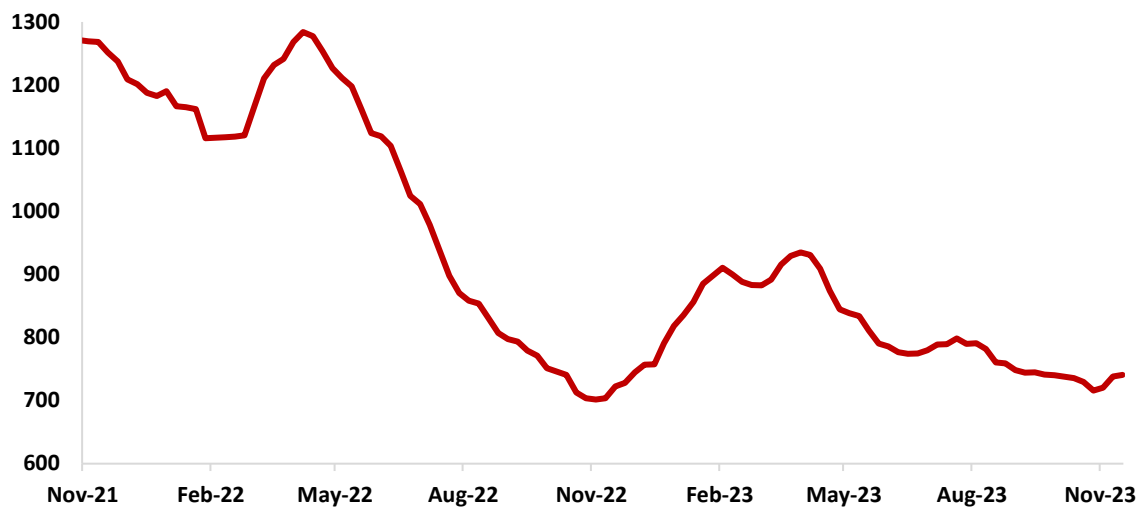
| Results Highlights | | | | | | | | |
|-----------------------------------|-------------|-------------|-------------|-------------|------------|-------------|-------------|-----------|
| FYE Dec (RM m) | 3Q23 | 2Q23 | QoQ | 3Q22 | YoY | 9M23 | 9M22 | YoY |
| Revenue | 69.5 | 66.3 | 5% | 62.3 | 12% | 192.7 | 193.8 | -1% |
| COGS | -41.9 | -34.2 | 23% | -38.0 | 10% | -113.8 | -120.9 | -6% |
| GP | 27.6 | 32.1 | -14% | 24.2 | 14% | 78.9 | 72.9 | 8% |
| Other Income | 1.7 | 1.5 | 11% | 1.4 | 24% | 4.7 | 2.9 | 64% |
| Admin expenses | -8.9 | -7.2 | 23% | -7.4 | 20% | -26.6 | -21.3 | 25% |
| Selling and distributive expenses | -2.5 | -2.6 | -4% | -2.0 | 22% | -6.5 | -6.4 | 1% |
| Other expenses | -2.6 | -2.7 | -2% | -3.0 | -12% | -7.7 | -8.8 | -13% |
| EBIT | 15.3 | 21.1 | -27% | 13.2 | 16% | 42.8 | 39.2 | 9% |
| Finance costs | -0.4 | -0.5 | -21% | -0.4 | -6% | -1.2 | -1.1 | 10% |
| PBT | 15.0 | 20.6 | -27% | 12.8 | 17% | 41.6 | 38.1 | 9% |
| Tax | -3.6 | -4.5 | -20% | -3.0 | 18% | -9.9 | -9.1 | 9% |
| PAT | 11.4 | 16.2 | -30% | 9.8 | 16% | 31.7 | 29.1 | 9% |
| Exceptional items | 0.3 | -0.1 | N.A. | 0.2 | 24% | 1.2 | 0.6 | 94% |
| CNP | 11.1 | 16.2 | -32% | 9.5 | 16% | 30.5 | 28.4 | 7% |
| DPS (sen) | 2.0 | 2.0 | | 1.5 | | 5.5 | 3.5 | |
| GP Margin | 40% | 48% | | 39% | | 41% | 38% | |
| EBIT Margin | 22% | 32% | | 21% | | 22% | 20% | |
| PBT Margin | 22% | 31% | | 21% | | 22% | 20% | |
| PAT Margin | 16% | 24% | | 16% | | 16% | 15% | |
| CNP Margin | 16% | 24% | | 15% | | 16% | 15% | |
| ETR | -24% | -22% | | -24% | | -24% | -24% | |
| Net gearing (x) | -0.27 | -0.27 | | -0.16 | | -0.27 | -0.16 | |

Source: Company, Kenanga Research

| Segmental Highlights | | | | | | | | |
|--------------------------------|-------------|-------------|-------------|-------------|------------|--------------|--------------|------------|
| External Revenue (RM m) | 3Q23 | 2Q23 | QoQ | 3Q22 | YoY | 9M23 | 9M22 | YoY |
| Cable Support Systems | 60.4 | 58.2 | 4% | 55.7 | 8% | 169.0 | 172.8 | -2% |
| Electric Lighting and Fittings | 9.1 | 8.0 | 13% | 6.6 | 38% | 23.6 | 21.0 | 13% |
| Total Revenue | 69.5 | 66.3 | 5% | 62.3 | 12% | 192.7 | 193.8 | -1% |
| PBT Segmentation | | | | | | | | |
| Investment Holding | 4.1 | 4.0 | 2% | 3.1 | 34% | 11.2 | 6.9 | 61% |
| Cable Support Systems | 14.8 | 19.5 | -24% | 13.1 | 13% | 41.7 | 38.6 | 8% |
| Electric Lighting and Fittings | 0.4 | 1.5 | -73% | -0.1 | N.A. | 0.7 | 0.2 | 217% |
| Elimination | -4.4 | -4.4 | 0% | -3.3 | 33% | -12.0 | -7.6 | 57% |
| Total PBT | 14.9 | 20.6 | -28% | 12.8 | 17% | 41.6 | 38.1 | 9% |

Source: Company, Kenanga Research

CRC Spot Prices in Malaysia



Source: Bloomberg, 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. | | | | |
| Stocks Under Coverage | | | | | | | | | | | | | | | | | |
| ANN JOO RESOURCES BHD | UP | 1.14 | 0.730 | -36.0% | 640.0 | Y | 12/2023 | (1.2) | 4.5 | -104.4% | 257.1% | N.A. | 25.6 | 0.5 | -0.6% | 0.0 | 0.0% |
| ENGTEX GROUP BHD | MP | 0.680 | 0.580 | -14.7% | 300.1 | Y | 12/2023 | 5.0 | 5.5 | -33.8% | 10.2% | 13.7 | 12.4 | 0.4 | 1.4% | 0.8 | 1.1% |
| OM HOLDINGS LTD | OP | 1.52 | 2.07 | 36.2% | 1,122.7 | Y | 12/2023 | 20.6 | 32.8 | -49.2% | 59.1% | 7.4 | 4.6 | 0.6 | 8.6% | 6.6 | 4.3% |
| PRESS METAL ALUMINUM HOLDINGS BHD | MP | 4.94 | 5.00 | 1.2% | 40,703.7 | Y | 12/2023 | 15.2 | 18.6 | -12.5% | 22.6% | 32.5 | 26.5 | 5.5 | 17.8% | 6.1 | 1.4% |
| UNITED U-LI CORPORATION BHD | OP | 1.78 | 2.18 | 22.5% | 387.7 | Y | 12/2023 | 21.2 | 27.3 | 25.2% | 28.6% | 8.4 | 6.5 | 1.0 | 12.6% | 6.0 | 3.4% |
| Sector Aggregate | | | | | 43,154.2 | | | | | -10.7% | 28.7% | 29.5 | 22.9 | 3.7 | 12.7% | | 2.0% |

Source: 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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