

28 May 2024

United U-Li Corporation

Rising Top Line on Contained Cost

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ULICORP's 1QFY24 results met expectations. Its 1QFY24 core net profit surged 1.6x YoY on improved sales and lower input cost. It is poised to benefit from the construction boom with its bread-and-butter cable support systems. We maintain our forecasts but raise our TP by 25% to RM2.38 (from RM1.91). Maintain **OUTPERFORM**.

Its 1QFY24 core net profit of RM8.5m came in at only 16% of our full-year forecast. However, we deem the results within our expectation as we expect stronger quarters ahead with rising demand for its products on the back of a construction boom coupled with a new powder coating line that will come online by 3QFY24.

YoY, its 1QFY24 revenue grew by 7% on higher contributions from its electric lighting and fittings segment (+27%) and cable support system segment (+4%). Its core net profit surged 1.6x driven by: (i) normalised input cost, having already depleted its high-cost flat steel inventory, and (ii) reduced staff cost following a change in its bonus payout policy.

QoQ, its 1QFY24 core net profit fell 12% due to: (i) lower sales volume (-9%) affected by seasonal festivities (i.e. Chinese New Year) and (ii) higher input costs.

Forecasts. Maintained.

Valuations. However, we raise our TP by 25% to RM2.38 (from RM1.91) as we roll forward our valuation base year to FY25F based on an unchanged 8x 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 strong demand for its cable support systems on the back of a construction boom, both in the private space (data centres, warehouses, hospital projects, etc) as well as impending public mega projects (on-going 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) a proxy to the construction boom with its cable support systems, (ii) its dominant market position with a share of over 50% in the local cable support system market, and (iii) a strong war chest with a balance sheet in a net cash of RM99m. Maintain **OUTPERFORM**.

Risks to our call include: (i) volatility in the cost of input cold-rolled coil (CRC), (ii) a slowdown in the construction sector, hurting the demand for cable support systems, and (iii) competition from low-cost producers in the region.

OUTPERFORM ↔

Price : **RM1.50**
Target Price : **RM2.38** ↑

Share Price Performance



KLCI	1,618.27
YTD KLCI chg	11.2%
YTD stock price chg	22.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UULI MK Equity
Market Cap (RM m)	407.3
Shares Outstanding	217.8
52-week range (H)	1.92
52-week range (L)	0.93
3-mth avg daily vol:	886,226
Free Float	40%
Beta	1.5

Major Shareholders

PEARL DEAL M SDN BHD	37.2%
YEOMAN RIGHTS VALUE FND	4.9%
Prudential PLC	4.8%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	259.3	283.4	321.3
EBIT	56.7	70.5	87.2
PBT	55.3	68.5	85.2
Net Profit	41.3	52.0	64.8
Core PATAMI	40.1	52.0	64.8
Consensus (NP)	-	-	-
Earnings Revision	-	-	-
Core EPS (sen)	18.4	23.9	29.7
Core EPS Growth (%)	8.6	29.8	24.5
NDPS (sen)	6.0	6.0	6.0
NTA/Share (RM)	1.7	1.9	2.1
PER (x)	10.2	7.8	6.3
PBV (x)	1.1	1.0	0.9
Net Gearing (x)	(0.2)	(0.3)	(0.3)
Net Div. Yield (%)	3.2	3.2	3.2

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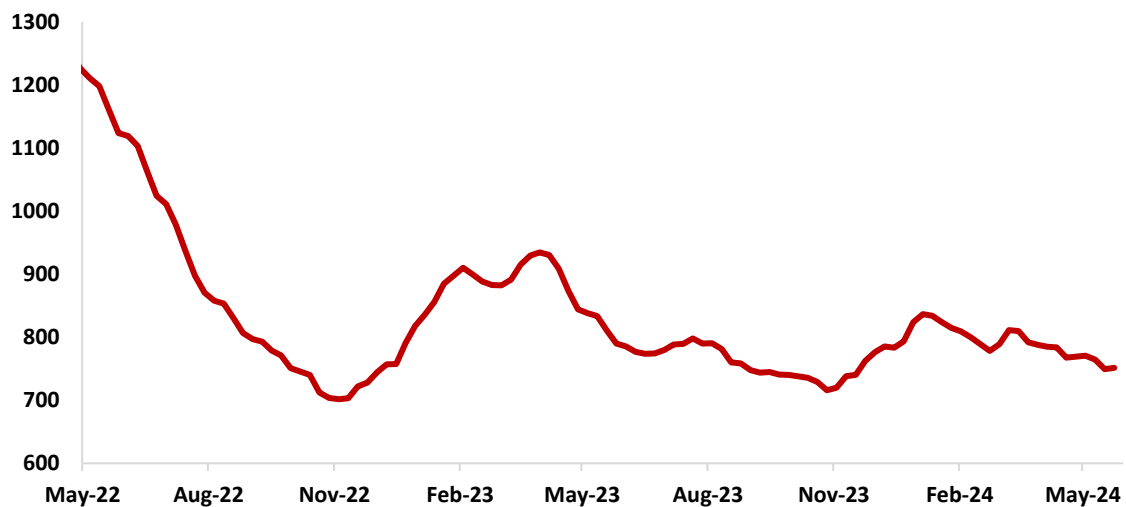
Results Highlights								
FYE Dec (RM m)	1Q24	4Q23	QoQ	1Q23	YoY	1Q24	1Q23	YoY
Revenue	60.7	66.6	-9%	56.9	7%	60.7	56.9	7%
COGS	-37.1	-39.5	-6%	-37.7	-2%	-37.1	-37.7	-2%
GP	23.6	27.1	-13%	19.2	23%	23.6	19.2	23%
Other Income	0.8	2.0	-61%	1.5	-48%	0.8	1.5	-48%
Admin expenses	-8.6	-9.2	-7%	-10.5	-18%	-8.6	-10.5	-18%
Selling and distributive expenses	-2.2	-2.7	-19%	-1.5	49%	-2.2	-1.5	49%
Other expenses	-2.1	-3.4	-39%	-2.4	-15%	-2.1	-2.4	-15%
EBIT	11.6	13.9	-17%	6.4	82%	11.6	6.4	82%
Finance costs	-0.3	-0.1	183%	-0.4	-14%	-0.3	-0.4	-14%
PBT	11.2	13.8	-18%	6.0	88%	11.2	6.0	88%
Tax	-2.7	-4.1	-35%	-1.8	49%	-2.7	-1.8	49%
PAT	8.6	9.6	-11%	4.2	105%	8.6	4.2	105%
Exceptional items	0.1	0.0	144%	1.0	-90%	0.1	1.0	-90%
CNP	8.5	9.6	-12%	3.2	164%	8.5	3.2	164%
DPS (sen)	2.0	2.5		1.5		2.0	1.5	
GP Margin	39%	41%		34%		39%	34%	
EBIT Margin	19%	21%		11%		19%	11%	
PBT Margin	19%	21%		11%		19%	11%	
PAT Margin	14%	14%		7%		14%	7%	
CNP Margin	14%	14%		6%		14%	6%	
ETR	-24%	-30%		-30%		-24%	-30%	
Net gearing (x)	-0.25	-0.25		-0.28		-0.25	-0.28	

Source: Company, Kenanga Research

Segmental Highlights								
External Revenue (RM m)	1Q24	4Q23	QoQ	1Q23	YoY	1Q24	1Q23	YoY
Cable Support Systems	52.4	56.7	-8%	50.4	4%	52.4	50.4	4%
Electric Lighting and Fittings	8.3	9.9	-16%	6.6	27%	8.3	6.6	27%
Total Revenue	60.7	66.6	-9%	56.9	7%	60.7	56.9	7%
PBT Segmentation								
Investment Holding	4.1	6.7	-39%	3.0	35%	4.1	3.0	35%
Cable Support Systems	11.8	12.4	-5%	7.5	58%	11.8	7.5	58%
Electric Lighting and Fittings	-0.2	1.6	-116%	-1.2	-80%	-0.2	-1.2	-80%
Elimination	-4.4	-6.9	-37%	-3.3	33%	-4.4	-3.3	33%
Total PBT	11.2	13.8	-18%	6.0	88%	11.2	6.0	88%

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																	
ENGTEX GROUP BHD	OP	1.12	1.41	25.9%	494.3	Y	12/2024	9.2	12.5	300.0%	35.0%	12.1	9.0	0.6	4.7%	0.8	0.7%
OM HOLDINGS LTD	OP	1.53	1.80	17.6%	1,172.4	Y	12/2024	17.7	29.8	63.6%	68.6%	8.7	5.1	0.6	7.0%	6.6	4.3%
PRESS METAL ALUMINUM HOLDINGS BHD	MP	5.35	4.90	-8.4%	44,082.0	Y	12/2024	17.3	19.9	13.8%	14.9%	30.9	26.9	5.7	18.8%	6.9	1.3%
UNITED U-LI CORPORATION BHD	OP	1.87	2.38	27.3%	407.3	Y	12/2024	23.9	29.8	29.7%	24.6%	7.8	6.3	1.0	13.2%	6.0	3.2%
Sector Aggregate					46,156.0					19.2%	19.9%	28.0	23.3	4.2	15.0%		2.4%

Source: Kenanga Research

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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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