

01 June 2018 | 1QFY18 Results Review

## United U-LI Corp Berhad

*Hit by high costs*

### INVESTMENT HIGHLIGHTS


- **1QFY18 earnings disappointed**
- **Profit for 1QFY18 plunged 81.0% yoy to RM0.6m**
- **Earnings cut by -33.5%/-34.5% in FY18F/F19F**
- **Downgrade to NEUTRAL from BUY with lower TP of RM1.72 (previously RM3.23)**

**1QFY18 earnings disappointed.** United U-Li's (U-Li) results came in below way below our full year estimates, making up 1.9% of our estimates and 2.1% of consensus' forecast. The underwhelming results can be attributed to higher maintenance, operating, depreciation and raw material costs. No dividend was declared for the quarter.

**Profit for 1QFY18 plunged 81.0% yoy to RM0.6m** due to higher raw material costs and operating costs even though revenue increased by 4.8% to RM48.5m. Gross profit margin was compressed to 29.4% from 34.0% a year ago due to higher raw material costs. We believe that the increase in volume is not enough to offset the fixed costs following the full operation of the new Nilai plant which led to the decline in EBIT margin from 8.3% to 3.1%. Contribution from exports has not picked up as strongly during the quarter.

**Earnings cut by -33.5%/-34.5% in FY18F/F19F to reflect lower margins and higher costs.** This is also premised on sales estimates that are revised by -7.5%/-8.2% in FY18F/FY19F to RM20.8m/RM23.2m respectively.

**Bonus issue approved.** Meanwhile, shareholders have approved the proposal on the 1-for-2 bonus issue, which will enlarge its share base to 217.8m.

**Downgrade to NEUTRAL from BUY with lower TP of RM1.72 (previously RM3.23).** Our TP is derived from 12x PER of FY18F EPS of 14.33 sen. We have also lowered our PER valuation from 15x to 12x, which is -0.6x SD below its 5-year mean PER of 16.4x. We are turning cautious as local sales make up more than 80% of the group's total sales. This is in view of the uncertainties surrounding the mega projects in the country, which may have an adverse impact in demand for its products. That said, we expect overseas sales to pick up in 2HFY18. 

**Downgrade to NEUTRAL**

**Target Price (TP): RM1.72**  
*(previously RM3.23)*

### RETURN STATS

Price (31 <sup>st</sup> May 2018)	RM1.66
Target Price	RM1.72
Expected Share Price Return	+4.0%
Expected Dividend Yield	+0.4%
<b>Expected Total Return</b>	<b>+4.4%</b>

### STOCK INFO

KLCI	1,740.62	
Bursa / Bloomberg	7133/ UULI MK	
Board / Sector	Main/ Industrial Products	
Syariah Compliant	Yes	
Issued shares (m)	145.20	
Market cap. (RM'm)	241.03	
Price over NA	0.84	
52-wk price Range	RM1.50-RM4.60	
Beta (against KLCI)	0.61x	
3-mth Avg Daily Vol	0.11	
3-mth Avg Daily Value	0.20	
Major Shareholders (%)		
Pearl Deal (M) Sdn Bhd	37.19	
RHB Asset Management	10.57	
<b>Price Performance (%)</b>	<b>Absolute</b>	<b>Relative</b>
1 month	3.7	11.1
3 months	-5.1	-29.5
12 months	-63.1	-62.6

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## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	179.19	201.07	199.96	218.09	232.86
Pretax Profit (RM'm)	35.68	43.48	27.35	27.75	30.87
<b>Net Profit (RM'm)</b>	<b>26.00</b>	<b>31.12</b>	<b>19.21</b>	<b>20.81</b>	<b>23.15</b>
EPS (sen)	19.01	21.43	13.23	14.33	15.95
EPS growth (%)	8.00%	12.76%	-38.26%	8.31%	11.26%
PER (x)	8.73	7.75	12.54	11.58	10.41
Net Dividend (sen)	12.0	12.0	0.5	0.7	3.6
Dividend yield (%)	7.23%	7.23%	0.30%	0.43%	2.17%
Gearing (x)	-0.06	-0.03	0.02	-0.09	-0.14
ROE (%)	10.13	11.50	6.73	6.77	6.90
ROA (%)	8.40	9.29	5.32	5.51	5.50
NTA per share (RM)	1.88	1.86	1.97	2.12	2.31
Price to NTA (x)	0.88	0.89	0.84	0.78	0.72

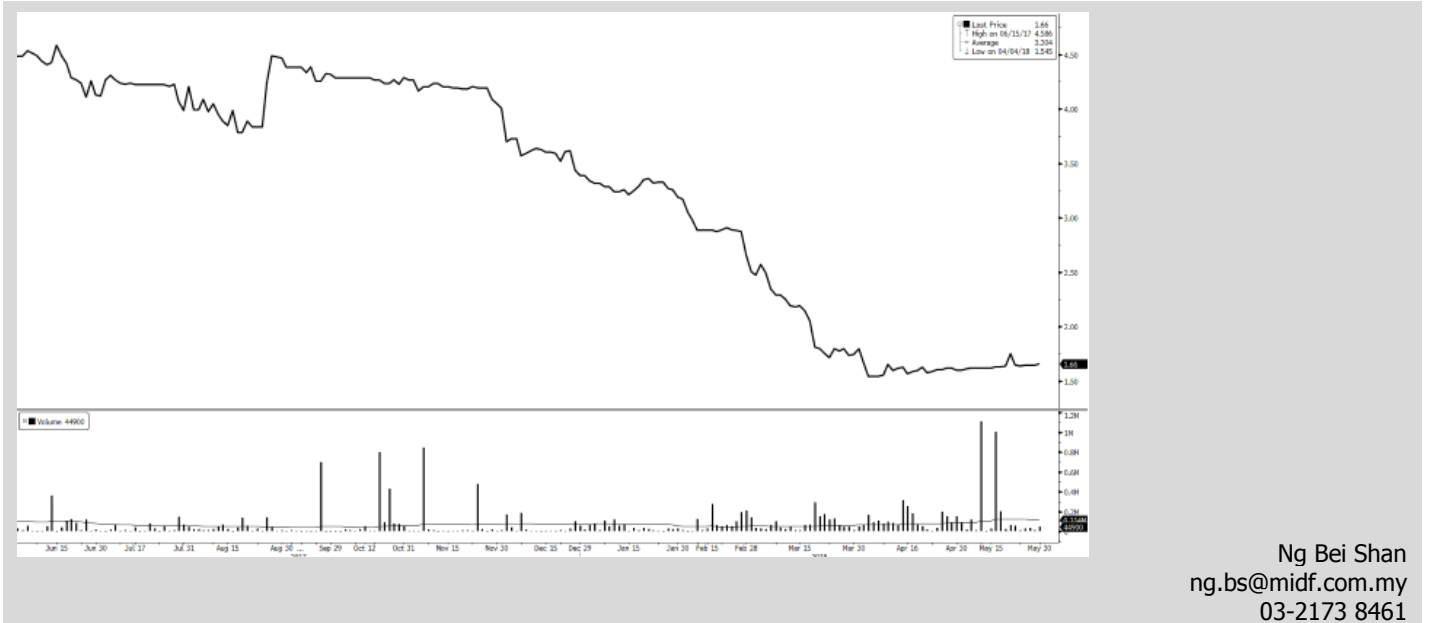
Source: Company, MIDF Research

## UNITED U-LI: 1QFY18 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	1QFY18	YoY	QoQ	3MFY18	YoY	
Revenue (RM'm)	48.5	4.8%	-6.9%	48.5	4.76%	Higher sales of cable support system
Gross Profit (RM'm)	14.3	-9.4%	-5.7%	14.3	-9.43%	Higher raw material costs
EBIT (RM'm)	1.5	-61.1%	-46.7%	1.5	-61.08%	High operating costs
Pretax Profit (RM'm)	0.9	-75.0%	-64.2%	0.9	-75.04%	Higher finance costs
Net Profit (RM'm)	0.6	-81.0%	258.1%	0.6	-81.03%	
EPS (sen)	0.4	-81.0%	258.1%	0.4	-81.03%	
DPS (sen)	0.0	N.M.	N.M.	0.0	N.M.	
Pretax margin (%/ppt)	1.8	-5.7	-2.8	1.8	-5.7	

Source: Company, MIDF Research

## DAILY PRICE CHART



Source: Bloomberg

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.