

29 August 2018 | 2QFY18 Results Review

United U-LI Corp Berhad

The tough gets going

Maintain NEUTRAL

Adjusted Target Price (TP): RM0.71
(previously RM1.15)

INVESTMENT HIGHLIGHTS

- **1HFY18 earnings missed expectations**
- **Earnings for 1HFY18 dropped 86.4%yoy to RM1.7m**
- **Sequentially, EBIT improved by 30% due to lower admin costs**
- **Trim earnings estimates by -47.9%/-44.3% in FY18F/F19F**
- **Maintain NEUTRAL with lower TP of RM0.71 (previously RM1.15)**

1HFY18 earnings missed expectations. United U-Li's (U-Li) results came in way below our full year estimates, making up merely 8.3% of ours and 10.3% of consensus' forecasts. The negative variance can be attributed to higher maintenance and raw material costs. As expected, no dividend was declared for the quarter.

Earnings for 1HFY18 dropped 86.4%yoy to RM1.7m due to higher raw material costs and operating costs even though revenue increased by 5.8% to RM98.1m. Gross profit margin was compressed to 29.6% from 43.0% 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 19.9% to 3.5%. Contribution from exports for the period has also declined to 12.2% from 16.2% in the previous year, which is disappointing as we previously anticipated that exports will be one of the key sales drivers following its capacity expansion. That said, export sales may pick up in 2HFY18.

Sequentially, EBIT improved by 30% due to lower admin costs in 2QFY18. This is due to revenue that climbed by 2.3% to RM49.6m.

Trim earnings estimates by -47.9%/-44.3% in FY18F/F19F to RM10.9m and RM12.9m respectively due to higher raw material prices and operating costs estimates.

Maintain NEUTRAL with lower TP of RM0.71 (previously RM1.15). Our TP is derived from 12x PER of FY19F EPS of 5.9 sen. We maintain our valuation method of 12x PER and roll our base year into FY19F.



RETURN STATS	
Price (28 th Aug 2018)	RM0.725
Target Price	RM0.71
Expected Share Price Return	-1.9%
Expected Dividend Yield	+0.4%
Expected Total Return	-1.5%

STOCK INFO		
KLCI	1,826.9	
Bursa / Bloomberg	7133/ UULI MK	
Board / Sector	Main/ Industrial Products	
Syariah Compliant	Yes	
Issued shares (m)	217.8	
Market cap. (RM'm)	157.91	
Price over NA	0.55	
52-wk price Range	RM0.67-RM2.99	
Beta (against KLCI)	1.0x	
3-mth Avg Daily Vol	0.39	
3-mth Avg Daily Value	0.33	
Major Shareholders (%)		
Pearl Deal (M) Sdn Bhd	37.19	
RHB Asset Management	9.8	
Ting Siew Ping	3.38	
Price Performance (%)	Absolute	Relative
1 month	-20.3	-22.8
3 months	-15.2	-35.9
12 months	-75.8	-76.7

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17F	FY18F	FY19F
Revenue (RM'm)	179.19	201.07	199.96	206.56	221.16
Pretax Profit (RM'm)	35.68	43.48	27.35	14.47	17.22
Net Profit (RM'm)	26.00	31.12	19.21	10.85	12.91
EPS (sen)	19.01	21.43	13.23	4.98	5.93
EPS growth (%)	8.00%	12.76%	-38.26%	-62.34%	18.97%
PER (x)	3.81	3.38	5.48	14.55	12.23
Net Dividend (sen)	12.0	12.0	0.5	0.2	0.3
Dividend yield (%)	16.55%	16.55%	0.69%	0.34%	0.41%
Gearing (x)	-0.06	-0.03	0.02	-0.10	-0.15
ROE (%)	10.13	11.50	6.73	3.66	4.16
ROA (%)	8.40	9.29	5.32	2.95	3.14
NTA per share (RM)	1.88	1.86	1.97	1.36	1.42
Price to NTA (x)	0.39	0.39	0.37	0.53	0.51

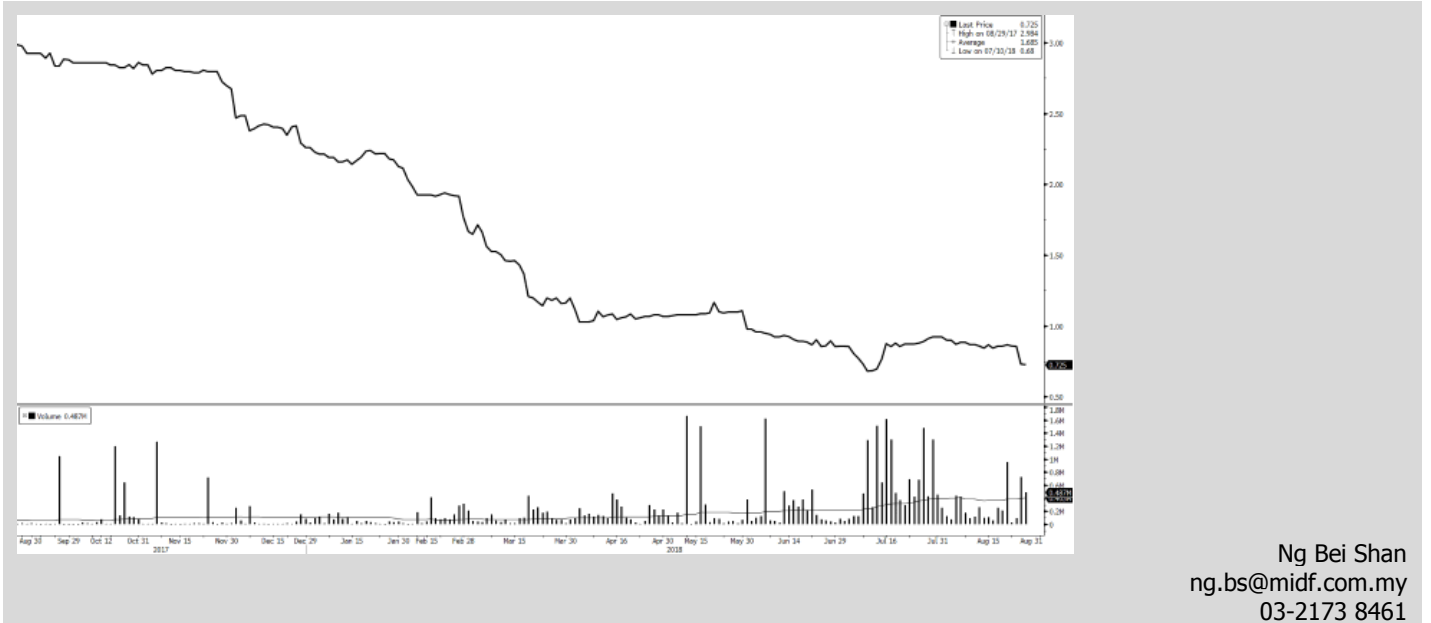
Source: Company, MIDF Research

UNITED U-LI: 2QFY18 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY18	YoY	QoQ	FY18	YoY	
Revenue (RM'm)	49.6	6.8%	2.3%	98.1	5.8%	Higher sales of cable support system
Gross Profit (RM'm)	13.8	-42.8%	-3.2%	28.1	-29.6%	Higher raw material costs
EBIT (RM'm)	2.0	-86.6%	30.0%	3.5	-81.3%	High operating costs
Pretax Profit (RM'm)	1.3	-90.9%	48.0%	2.1	-87.8%	Higher finance costs
Net Profit (RM'm)	1.1	-88.2%	85.5%	1.7	-86.4%	
EPS (sen)	0.5	-92.2%	85.5%	0.8	-91.0%	
DPS (sen)	0.0	N.M.	N.M.	0.0	N.M.	
Pretax margin (%/ppt)	2.6	-27.6	0.8	4.3	-14.5	

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.