

25 August 2017 | 2QFY17 Results Review

United U-LI Berhad

Nilai plant to boost performance in coming quarters

Maintain BUY

Target Price (TP): RM4.88

INVESTMENT HIGHLIGHTS


- **Positive impact from Nilai plant to be stronger in 2HFY17**
- **Pre-tax profit almost quadrupled qoq to RM14.0m**
- **Export markets to be an important driver going forward**
- **Maintain BUY and TP of RM4.88**

Positive impact from Nilai plant to be stronger in 2HFY17.

United U-Li's (U-Li) net profit of RM12.6m came within our expectation, making up 37% of our full year assumption and 35% of consensus'. We expect a better second half as operations of its new Nilai plant becomes more optimal. Recall that the Nilai plant has only started operations earlier this year.

Pre-tax profit almost quadrupled qoq to RM14.0m. U-Li's PBT profit has improved significantly as the utilisation rate at the Nilai plant improves. Notably, operating profit has also improved significantly due to lower administration costs and better efficiency, which led to better PBT margin 30.2% during the quarter compared to 7.4% in Q1.

Export markets to be an important driver going forward. Sales from overseas have declined by 45% to RM7.06m as U-Li lacked the capacity to take up orders from its overseas customers previously. As the operations at the Nilai plant continues to improve further, we believe that U-Li will recapture the sales opportunities from its overseas customers. Demand from Malaysia is still strong at RM39.4m, a small slip of 6% yoy as construction activities continue to flourish.

Maintain BUY with TP of RM4.88. We maintain our earnings estimates at RM33.92m for FY17F and RM47.21m for FY18F respectively. Hence, we make no changes to our TP, which is derived from 15x PE on FY18F EPS of 32.51 sen. We continue to like U-LI for its growth potential from both local and overseas markets and healthy balance sheet. 

RETURN STATS

Price (24 th Aug 2017)	RM3.85
Target Price	RM4.88
Expected Share Price Return	26.7%
Expected Dividend Yield	3.1%
Expected Total Return	29.8%

STOCK INFO

KLCI	1,771.36	
Bursa / Bloomberg	7133/ UULI MK	
Board / Sector	Main/ Industrial Products	
Syariah Compliant	No	
Issued shares (m)	145.20	
Market cap. (RM'm)	559.02	
Price over NA	2.04	
52-wk price Range	RM3.36-RM4.93	
Beta (against KLCI)	0.60x	
3-mth Avg Daily Vol	0.04	
3-mth Avg Daily Value	0.16	
Major Shareholders (%)		
Pearl Deal (M) Sdn Bhd	37.19	
RHB Asset Management	11.11	
Kumpulan Wang Persaraan	3.23	
Price Performance (%)	Absolute	Relative
1 month	-9.2	-9.8
3 months	-7.0	-15.3
12 months	-6.6	-11.6

INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17F	FY18F
Revenue (RM'm)	172.28	179.19	201.07	222.79	271.03
Pretax Profit (RM'm)	30.76	35.68	43.48	44.63	61.71
Net Profit (RM'm)	23.23	26.00	31.12	33.92	47.21
EPS (sen)	17.60	19.01	21.43	23.36	32.51
EPS growth (%)	40.03	8.00	12.76	8.99	39.19
PER (x)	21.88	20.26	17.96	16.48	11.84
Net Dividend (sen)	10.0	12.0	12.0	12.0	12.0
Dividend yield (%)	2.60	3.12	3.12	3.12	3.12
Gearing (x)	0.09	0.09	0.09	0.09	0.09
ROE (%)	11.32	10.13	11.50	10.54	12.22
ROA (%)	9.54	8.40	9.29	8.98	10.71
NTA per share (RM)	1.55	1.88	1.86	2.22	2.66
Price to NTA (x)	2.48	2.05	2.07	1.74	1.45

Source: Company, MIDF Research

UNITED U-LI: 2QFY17 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY17	YoY	QoQ	6MFY17	YoY	
Revenue (RM'm)	46.5	-15.3%	0.3%	92.8	-6.79%	Revenue decreased due to bottleneck at suppliers' facilities
Pretax Profit (RM'm)	14.0	29.6%	306.8%	17.5	-9.39%	
Net Profit (RM'm)	9.4	8.9%	198.9%	12.6	-16.15%	Margins picked up significantly qoq due high start-up cost of new plant in Q1
EPS (sen)	6.49	8.9%	199.1%	8.7	-16.17%	
Pretax margin (%/ ppt)	30.2	10.5	22.7	18.8	-0.5	Lower administration costs, better efficiency

Source: Company, MIDF Research

DAILY PRICE CHART



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Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.