

29 November 2018 | 3QFY18 Results Review

## United U-LI Corp Berhad

### *Operating costs remain high*

**Maintain NEUTRAL**

**Adjusted Target Price (TP): RM0.60**  
*(previously RM0.71)*

#### INVESTMENT HIGHLIGHTS

- **9MFY18 earnings missed expectations**
- **Earnings for 9MFY18 dropped 78.6% yoy to RM4.1m**
- **Trim earnings estimates by -41%/-16% in FY18F/F19F**
- **Maintain NEUTRAL with lower TP of RM0.60 (previously RM0.71)**


**9MFY18 earnings missed expectations.** United U-Li's (U-Li) results came in below our full year estimates, making up 38% of our estimates and 45% of consensus' forecast. The negative variance is mainly due to maintenance and raw material costs that remain high. As expected, no dividend was declared for the quarter.

**Earnings for 9MFY18 dropped 78.6% yoy to RM4.1m** due to higher raw material costs and operating costs despite revenue increasing by 4.9% to RM155.1m. The increase in revenue is mainly attributed to the 5.1% increase in sales from the cable support systems division. Gross profit margin was compressed to 24.5% from 35.0% a year ago due to higher raw material cost. Its lower profit margin is also a result of higher finance, maintenance, utilities and depreciation costs. The increase in volume is not enough to offset the fixed costs following the full operation of the Nilai plant which led to the decline in EBIT margin from 14.7% to 6.4%. Contribution from exports for the period has also declined to 11.4% from 14.3% in the previous year.

**3QFY18 profit was down by 63.4% to RM2.4m** although revenue increased by 3.4% to RM57.0m, which is contributed by the electrical lighting and fittings division that rose by 28%.

**Sequentially, EBIT improved by 87% due to lower admin and other operating costs** and slightly better gross profit margin in 3QFY18. This is also helped by revenue that jumped by 14.8%qoq.

**Trim earnings estimates by -41%/-16% in FY18F/F19F** to RM6.5m and RM10.9m respectively as we expect profit raw material and operating costs to remain elevated.

**Maintain NEUTRAL with lower TP of RM0.60 (previously RM0.71)** as we lower our earnings estimates. Our TP is derived from 12x PER on FY19F EPS of 5.0 sen and our valuation method is unchanged. We are Neutral on the stock due to persistently high raw material and operating costs. 

RETURN STATS	
Price (28 <sup>th</sup> Nov 2018)	RM0.62
Target Price	RM0.60
Expected Share Price Return	-3.2%
Expected Dividend Yield	+0.2%
<b>Expected Total Return</b>	<b>-3.0%</b>

STOCK INFO		
KLCI	1,686.55	
Bursa / Bloomberg	7133/ UULI MK	
Board / Sector	Main/ Industrial Products	
Syariah Compliant	Yes	
Issued shares (m)	217.8	
Market cap. (RM'm)	135.04	
Price over NA	0.47	
52-wk price Range	RM0.48-RM2.81	
Beta (against KLCI)	1.0x	
3-mth Avg Daily Vol	0.20	
3-mth Avg Daily Value	0.12	
Major Shareholders (%)		
Pearl Deal (M) Sdn Bhd	37.19	
RHB Asset Management	9.6	
Ting Siew Ping	3.38	
Price Performance (%)	Absolute	Relative
1 month	21.6	21.4
3 months	-6.1	-10.2
12 months	-77.3	-76.9

**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	8.59	14.50
<b>Net Profit (RM'm)</b>	<b>26.00</b>	<b>31.12</b>	<b>19.21</b>	<b>6.45</b>	<b>10.88</b>
EPS (sen)	19.01	21.43	13.23	2.96	4.99
EPS growth (%)	8.00%	12.76%	-38.26%	-77.64%	68.72%
PER (x)	3.26	2.89	4.69	20.95	12.42
Net Dividend (sen)	12.0	12.0	0.5	0.1	0.2
Dividend yield (%)	19.35%	19.35%	0.81%	0.16%	0.40%
Gearing (x)	-0.06	-0.03	0.02	-0.10	-0.16
ROE (%)	10.13	11.50	6.73	2.21	3.58
ROA (%)	8.40	9.29	5.32	1.75	2.64
NTA per share (RM)	1.88	1.86	1.97	1.34	1.39
Price to NTA (x)	0.33	0.33	0.32	0.46	0.45

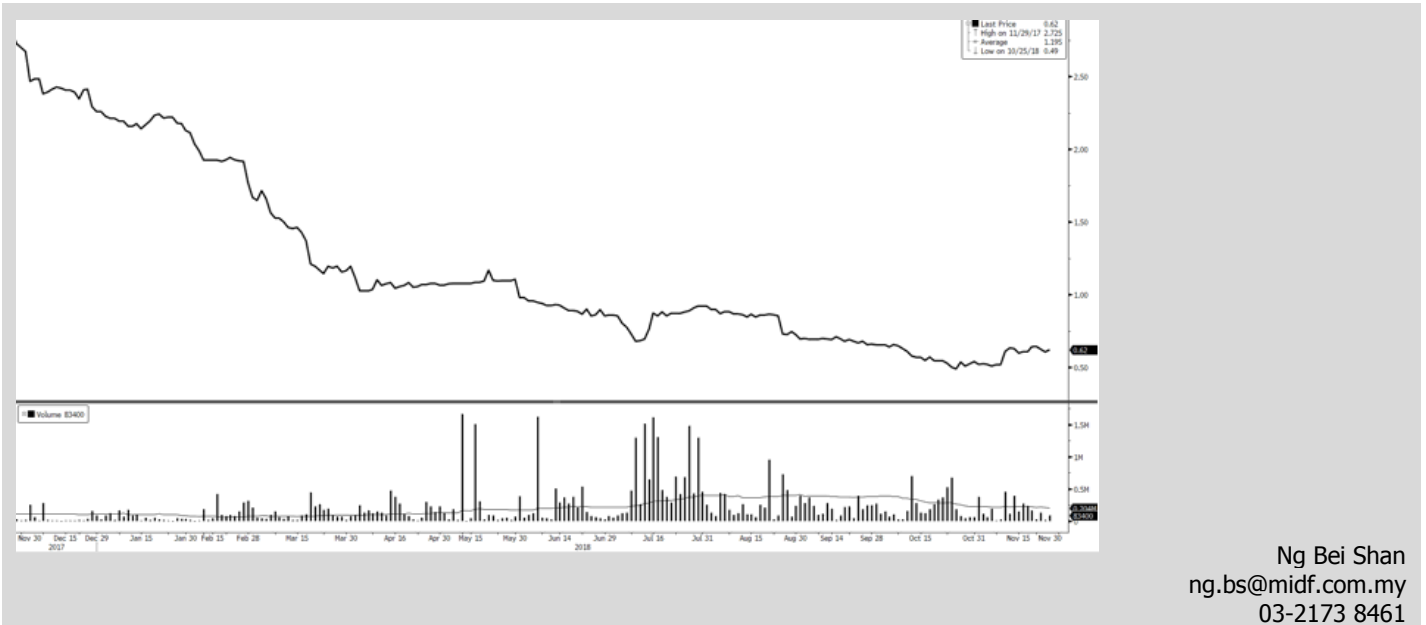
Source: Company, MIDF Research

**UNITED U-LI: 3QFY18 Results Summary**

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	3QFY18	YoY	QoQ	9MFY18	YoY	
Revenue (RM'm)	57.0	3.4%	14.8%	155.1	4.9%	Improvement in electrical lighting and fittings segment in 3QFY19
Gross Profit (RM'm)	14.0	-27.6%	1.2%	42.1	-28.9%	Raw material prices remain high
EBIT (RM'm)	3.7	-55.1%	87.2%	7.1	-73.3%	Higher utilities, maintenance costs
Pretax Profit (RM'm)	3.1	-58.5%	144.3%	5.2	-79.0%	Higher finance cost
Net Profit (RM'm)	2.4	-63.4%	113.7%	4.1	-78.6%	
EPS (sen)	1.1	-75.6%	113.7%	1.9	-85.7%	
DPS (sen)	0.0	N.M.	N.M.	0.0	N.M.	
Pretax margin (%/ppt)	5.5	-8.1	2.9	3.4	-13.5	

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.