

28 February 2018 | 4QFY17 Results Review

United U-LI Corporation Berhad

Earnings growth to resume in FY18

Maintain BUY

Target Price (TP): RM3.23
(previously RM4.68)

INVESTMENT HIGHLIGHTS

- **FY17 earnings weaker than expected**
- **Earnings forecast reduced**
- **Nilai plant to start stronger earnings contribution in 2HFY18.**
- **Announced 1 for 2 bonus issue**
- **Maintain BUY with lower TP of RM3.23**

FY17 earnings weaker than expected. United U-Li's (U-Li) results came in below our full year estimates, making up 72.5% of our estimates and 70.7% of consensus' forecast. This is mainly due to higher than expected raw material costs and operating costs. However, it has declared an interim dividend of 0.5sen.

FY17 profits fell 38.3% yoy to RM19.2m due to higher raw material costs and operating costs. Revenue dipped marginally by 0.55% to RM200m while gross profit margin fell to 37.2% from 40.9% a year ago. Operating costs including administration costs (+12% yoy), selling and distribution costs (+9% yoy) and other expenses (+19% yoy) have risen compared to FY16.

Earnings forecast reduced. FY18F earnings is reduced to RM31.3m from RM45.3m as we assume lower revenue growth, higher raw materials and higher operating costs. We have reduced our topline estimate by 6.3% to RM235.9m from RM251.8m to factor in a more gradual contribution from the new plant.


Nilai plant to start stronger earnings contribution in 2HFY18.

That said, we are positive as the contribution from the Nilai plant should start to pick up in 2HFY18 as operations stabilise. Recall that the plant has only started in early 2017. Demand for cable support and electrical products is expected to be healthy due to the slew of mega projects in the country as it is a market leader for cable support products locally. Meanwhile, it has also re-started to grow its export markets through overseas projects.

Announced 1-for-2 bonus issue. On a brighter note, the company has announced a 1-for-2 bonus issue on a date to be decided later. Upon completion of this exercise, its share base will be increased to 217.8m, which should further improve the liquidity of the stock.

RETURN STATS	
Price (27 Feb 2018)	RM2.88
Target Price	RM3.23
Expected Share Price Return	+12.2%
Expected Dividend Yield	+1.7%
Expected Total Return	+13.9%

STOCK INFO		
KLCI	1,871.46	
Bursa / Bloomberg	7133/ UULI MK	
Board / Sector	Main/ Industrial Products	
Syariah Compliant	Yes	
Issued shares (m)	145.20	
Market cap. (RM'm)	418.18	
Price over NA	1.47	
52-wk price Range	RM2.75-RM4.93	
Beta (against KLCI)	0.67x	
3-mth Avg Daily Vol	0.04	
3-mth Avg Daily Value	0.13	
Major Shareholders (%)		
Pearl Deal (M) Sdn Bhd	37.19	
RHB Asset Management	10.57	
Kumpulan Wang Persaraan	3.23	
Price Performance (%)	Absolute	Relative
1 month	-10.0	-10.1
3 months	-15.3	-34.9
12 months	-34.5	-40.8

Maintain BUY with lower TP of RM3.23 (previously RM4.68). We have lowered our TP due to lower FY18F EPS forecast of 21.56 sen from 31.22 sen. Our valuation method is unchanged at 15x PER. We maintain BUY as we expect earnings growth to resume in FY18 due to higher capacity expected for Nilai plant. 

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	179.19	201.07	199.96	235.92	253.80
Pretax Profit (RM'm)	35.68	43.48	27.35	41.75	47.09
Net Profit (RM'm)	26.00	31.12	19.21	31.31	35.32
EPS (sen)	19.01	21.43	13.23	21.56	24.32
EPS growth (%)	8.00%	12.76%	-38.26%	62.95%	12.80%
PER (x)	15.15	13.44	21.76	13.36	11.84
Net Dividend (sen)	12.0	12.0	0.5	5.0	5.5
Dividend yield (%)	4.17%	4.17%	0.17%	1.74%	1.91%
Gearing (x)	-0.06	-0.03	0.02	-0.09	-0.13
ROE (%)	10.13	11.50	6.73	9.61	9.46
ROA (%)	8.40	9.29	5.32	8.00	8.08
NTA per share (RM)	1.88	1.86	1.97	2.24	2.57
Price to NTA (x)	1.53	1.55	1.47	1.28	1.12

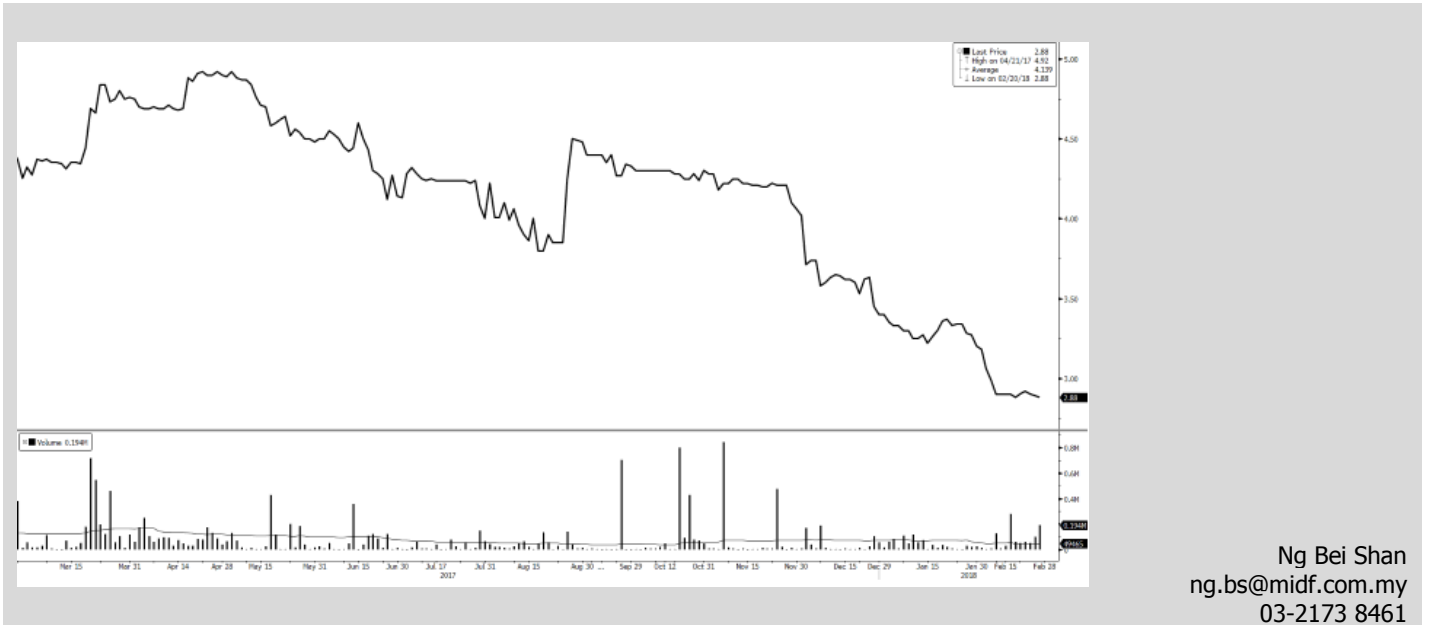
Source: Company, MIDF Research

UNITED U-LI: 4QFY17 Results Summary

(RM'm, unless otherwise stated)	4QFY17	YoY	QoQ	FY17	YoY	
Revenue (RM'm)	52.1	4.6%	-5.5%	200.0	-0.55%	
Gross Profit (RM'm)	15.1	-21.6%	-21.6%	74.3	-11.17%	Higher raw mat cost for the cable tray division
EBIT (RM'm)	2.8	-71.5%	-65.4%	29.4	-34.51%	Higher labour, distribution, admin costs
Pretax Profit (RM'm)	2.4	-74.8%	-67.9%	27.4	-37.10%	
Net Profit (RM'm)	0.2	-96.7%	-97.4%	19.2	-38.25%	
EPS (sen)	0.1	-96.7%	-97.4%	13.2	-38.25%	
DPS (sen)	0.5	-83.3%	N.M.	0.5	-95.83%	
Pretax margin (%/ ppt)	4.6	-14.5	-9.0	13.7	-7.9ppt	

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.