United U-Li Corporation

FY18 Below Expectations

FY18 NP of RM2.4m, makes up 32%/34% of our/consensus full-year estimates. Negative deviation is due to thinner-than-expected margins arising from higher operating costs. No dividend declared as expected. Reduced FY19E NP by 27%, introduces FY20E NP of RM4.2m. Maintain UNDERPERFORM with a lower Target Price of RM0.450 based on 0.3x ascribed to its FY19E BV/share.

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Results review. FY18 revenue improved by 2%, YoY, following a recovery in its cable support systems (CSS) products. However, NP fell by 85% due to the sharp decline in operating margins to 4% (-10ppt) likely due to weaker margins from both CSS and Electrical Lighting and fittings attributable to higher operating cost such as promotional expenses, and utilities charges. **QoQ,** 4Q18 registered net loss (NL) of RM1.2m from RM2.4m in 4Q18. This is likely attributable to the lower operating margin from the electrical lighting segment (-97%) to RM 0.1m likely from greater exposure from the same above-mentioned items.

Outlook. The outlook for the sector still remains uninspiring, underpinned by the weak prospects in the construction industry and stiff competition from other new players. ULICORP's performance is highly premised on their ability to fight off competition in this weak market given that they currently command a market share of c.40%, and the silver lining is the lower flat steel input cost, which has been on a downtrend.

Earnings review. Post results, we slash our FY19E earnings by 27% in anticipation of prolonged weakness from the above to top-line and bottom-line. We also introduce our FY20E numbers of RM4.2m.

Maintain UNDERPERFORM on ULICORP with a lower **TP of RM0.450** (from RM0.505) based on Fwd. PBV of 0.34x applied to FY19E BV/share of RM1.31, which is at its 5-year trough levels, -1.5SD levels in line with sector negative sentiments and challenging operating environment. We switched our valuation to PBV in anticipation of higher earnings volatility.

Risks to our call include: (i) higher-than-expected sales of CSS products, and (ii) lower-than-expected steel prices and overhead costs.

UNDERPERFORM ↔

Price:	**RM0.550**	
Target Price:	**RM0.450**	↓

Expected Capital Gain:	*-RM0.100*	*-18.2%*
Expected Divd. Yield:	*RM0.000*	*0.0%*
Expected Total Return:	*-RM0.100*	*-18.2%*

KLCI Index 1,713.45

Stock Information

Bloomberg Ticker	UULI MK Equity
Bursa Code	7133
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	217.8
Market Cap (RM m)	119.8
Par value per share (RM)	0.50
52-week range (H)	1.91
52-week range (L)	0.48
Free Float	52%
Beta	1.0
3-mth avg daily vol:	131,367

Major Shareholders

Pearl Deal M Sdn Bhd	37.2%
Rhb Asset Management	7.5%
Ting Siew Pin	3.4%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	203.5	159.6	144.3
EBIT	8.9	3.0	5.0
PBT	6.7	**2.3**	**5.6**
Net Profit	**2.9**	**1.7**	**4.2**
Core PATAMI	**2.9**	**1.7**	**4.2**
Consensus (NP)	-	7.0	N.A.
Earnings Revision	-	-27%	0%
Core EPS (sen)	1.7	2.2	3.2
Core EPS growth (%)	-81.1%	25.8%	43.8%
NDPS (sen)	0.0	0.0	0.0
NTA per Share (RM)	0.87	1.31	1.42
Price to NTA (x)	0.5	0.6	0.6
PER (x)	6.7	25.0	17.2
Debt-to-Equity ratio (x)	0.1	(0.1)	(0.0)
Return on Asset (%)	5.5%	2.0%	4.6%
Return on Equity (%)	6.9%	2.6%	6.1%
Net Div. Yield (%)	0.0%	0.0%	0.0%

Share Price Performance

	1 mth	*3 mths*	*12 mths*
Absolute (%)	-9.1%	-11.3%	-71.5%
Relative (%)	90.9%	88.7%	28.5%

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Results Highlights

FYE Dec (RM'm)	4Q18	3Q18	QoQ	3Q17	YoY	FY18	FY17	YoY
Turnover	**48.4**	**57.0**	**-15%**	**55.1**	**-12%**	**203.5**	**200.0**	**2%**
EBITDA	4.8	6.0	-20%	10.7	-55%	19.6	9.9	98%
Depreciation	-2.9	-2.3	25%	-2.6	14%	-10.7	0.0	n.m
EBIT	**1.8**	**3.7**	**-50%**	**8.1**	**-77%**	**8.9**	**29.4**	**-70%**
Interest inc/(exp)	-0.4	-0.5	-27%	-0.6	-38%	-2.3	-2.0	11%
Associates/JV	0.0	0.0	n.m	0.0	n.m	0.0	0.0	n.m
Exceptional items	0.0	0.0	n.m	0.0	n.m	0.0	0.0	n.m
Forex gain/(loss)	0.0	0.0	n.m	0.0	n.m	0.0	0.0	n.m
Pretax profit	**1.4**	**3.1**	**-54%**	**7.5**	**-81%**	**6.7**	**27.4**	**-76%**
Taxation	-2.7	-0.7	264%	-1.0	163%	-3.8	-8.1	-53%
Deferred tax	0.0	0.0	n.m	0.0	n.m	0.0	0.0	n.m
Profit after tax	**-1.2**	**2.4**	**-152%**	**6.5**	**-119%**	**2.9**	**19.2**	**-85%**
Minority interest	0.0	0.0	n.m	0.0	n.m	0.0	0.0	n.m
PATAMI	**-1.2**	**2.4**	**-152%**	**6.5**	**-119%**	**2.9**	**19.2**	**-85%**
Core PATAMI	**-1.2**	**2.4**	**-152%**	**6.5**	**-119%**	**2.9**	**19.2**	**-85%**
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	4%	6%		15%		4%	15%	10%
Pretax margin	3%	5%		14%		3%	14%	
NP margin	3%	5%		14%		3%	14%	
CNP margin	-3%	4%		12%		1%	10%	
EPS (sen)	-0.6	1.1		3.0		1.3	8.8	
Core EPS(sen)	-0.6	1.1		3.0		1.3	8.8	
BV/share (RM)	1.3	1.3		1.3		1.3	1.3	
Net gearing (x)	0.0	0.0		0.0		0.0	0.0	
Effective tax	185%	24%		14%		57%	30%	

Source: Company, Kenanga Research

Segmental Highlights

External Revenue	4Q18	3Q18	QoQ	3Q17	YoY	FY18	FY17	YoY
Cable Support	38.1	43.6	-13%	44.7	-15%	163.0	160.7	1%
Electrical Lighting	10.3	13.4	-23%	10.4	-1%	40.6	44.6	-9%
Pre-tax Segmentation								
Cable Support	1.4	1.4	3%	5.0	-71%	6.4	21.7	-70%
Electrical Lighting	0.1	1.9	-97%	2.6	-98%	0.9	6.2	-86%
Pre-tax margins								
Cable Support	4%	3%		11%		4%	13%	
Electrical Lighting	1%	14%		25%		2%	14%	

Source: Company, Kenanga Research

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BUILDING MATERIALS UNDER COVERAGE																	
ANN JOO RESOURCES BHD	1.48	797.3	Y	12/2019	-1.8%	0.9%	-31.2%	6.7%	6.2	9.0	8.5	0.6	0.6	6.5%	8.1%	1.25	UP
LAFARGE MALAYSIA BHD	1.89	1,605.9	Y	12/2019	0.4%	0.1%	-138.2%	-118.1%	N.A.	N.A.	N.A.	0.6	0.7	-10.0%	0.0%	1.85	MP
PRESS METAL ALUMINUM HOLDINGS BERHAD	4.20	16,640.0	Y	12/2019	-4.8%	0.9%	30.6%	6.2%	25.5	19.5	18.4	4.8	4.1	22.9%	1.7%	4.00	MP
UNITED U-LI CORPORATION BHD	0.550	119.8	Y	12/2019	-21.6%	-9.6%	-41.4%	147.1%	6.7	25.0	17.2	0.5	0.6	2.6%	0.0%	0.450	UP
WHITE HORSE BERHAD	1.34	306.0	Y	12/2018	-4.9%	-0.6%	-19.3%	-50.2%	N.A.	N.A.	N.A.	0.4	0.4	-0.6%	0.0%	1.20	UP
Simple Average					**-6.5%**	**-1.7%**	**-39.9%**	**-1.7%**	**21.3**	**17.9**	**14.7**	**1.4**	**1.3**	**3.9%**	**1.7%**		

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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