

29 August 2019

United U-Li Corporation 1H19 Below Expectations

1H19 registered CNL of RM1.3m which is below our/consensus full-year estimates. Negative deviation is due to lower-than-expected revenue, thinner-than-expected margins arising from higher production and operating costs. No dividend declared as expected. Reduced FY19E earnings to CNL of RM2.2m and slash FY20E earnings by 94% to RM0.4m. Maintain UNDERPERFORM with a lower Target Price of RM0.400 based on 0.3x ascribed to its FY20E BV/share.

Below expectations. 1H19 results came in below our/consensus full-year estimates. The deviation is largely due to lower revenue generated coupled with higher labour cost. No dividend was declared, as expected.

Results review. YoY, 1H19 registered CNL of RM1.3m compared to CNP of RM1.7m in 1H18, mainly due to decrease in revenue to RM89.0m (-9%) coupled with lower gross profit margin of 25% (-3ppt) and CNP margin deteriorating to negative from 2% margin. QoQ, 2Q19 recorded CNP of RM0.1m largely due to slight increase in revenue by 1% coupled with improved net profit margin that resulted from cost-saving measure undertaken by the company and better profit margin contribution from LED products.

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 from profit to CNL of RM2.2m and FY20E earnings by 94% to CNP RM0.4m in view of softer market demand despite the revival of several mega infrastructure projects, coupled with higher production cost, which is further depressing profit margins.

Maintain UNDERPERFORM on ULICORP with a lower TP of RM0.400 (from RM0.480) based on Fwd. PBV of 0.3x applied to FY20E BV/share of RM1.31, which is at its 5-year trough levels, and -1.5SD-level is also inline with sector negative sentiments and challenging operating environment.

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: RM0.485
Target Price: RM0.400 ↓

Expected Capital Gain: -RM0.085 -17.5%
Expected Div. Yield: RM0.000 0.0%
Expected Total Return: -RM0.085 -17.5%

KLCI Index 1,589.82

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)	105.6
Par value per share (RM)	0.50
52-week range (H)	0.80
52-week range (L)	0.39
Free Float	54%
Beta	0.9
3-mth avg daily vol:	452,406

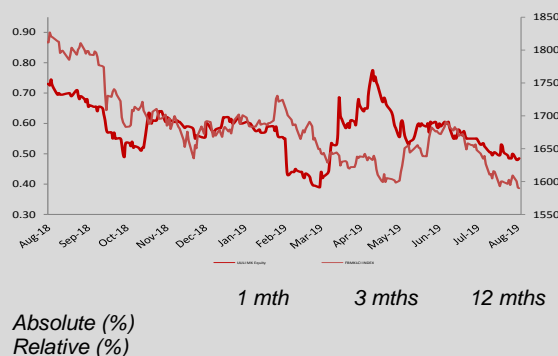
Major Shareholders

Pearl Deal M Sdn Bhd	37.2%
Rhb Asset Management Sdn Bhd	5.7%
Prudential Unit Trusts Bhd	3.2%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	203.5	159.6	144.3
EBIT	8.9	-3.0	3.2
PBT	6.7	5.2	1.0
Net Profit	2.9	-2.2	0.4
Core PATAMI	3.8	-2.2	0.4
Consensus (NP)	N.A.	5.2	7.4
Earnings Revision	N.A.	N.M.	-94%
Core EPS (sen)	1.7	-1.0	0.2
Core EPS growth (%)	-81.1	-158.8	-118.4
NDPS (sen)	0	0	0
NTA per Share (RM)	1.31	1.31	1.31
PER (x)	28.5	N.A.	24.3
PBV (x)	0.4	0.4	0.4
Debt-to-Equity ratio (x)	-0.0	-0.1	0.1
Return on Asset (%)	0.8	-0.6	0.1
Return on Equity (%)	1.0	-0.8	0.1
Net Div. Yield (%)	0.0	0.0	0.0

Share Price Performance



Adrian Ng Wei Gek
adrian.ng@kenanga.com.my
+603-2172 2639

29 August 2019

Results Highlights								
	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
FYE Dec (RM'm)								
Turnover	44.9	44.0	2%	49.6	-9%	89.0	98.1	-9%
EBITDA	3.2	2.0	59%	4.5	-29%	5.2	8.6	-39%
Depreciation	-2.8	-2.9	-4%	-2.7	3%	-5.8	-5.4	6%
EBIT	0.4	-0.9	-141%	1.8	-79%	-0.5	3.2	-117%
Interest inc/(exp)	-0.3	-0.3	-7%	-0.5	-48%	-0.6	-1.0	-46%
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	0.1	-1.2	-109%	1.3	-92%	-1.1	2.1	-152%
Taxation	0.0	-0.2	-101%	-0.2	-102%	-0.2	-0.4	-47%
Deferred tax	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Profit after tax	0.1	-1.5	-108%	1.1	-90%	-1.3	1.7	-179%
Minority interest	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
PATAMI	0.1	-1.5	-108%	1.1	-90%	-1.3	1.7	-179%
Core PATAMI	0.1	-1.5	-108%	1.1	-90%	-1.3	1.7	-179%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	1%	-2%		4%		-1%	3%	
Pretax margin	0%	-3%		3%		-1%	2%	
NP margin	0%	-3%		3%		-1%	2%	
CNP margin	0%	-3%		2%		-2%	2%	
EPS (sen)	0.1	-0.7		0.5		-0.6	0.8	
Core EPS(sen)	0.1	-0.7		0.5		-0.6	0.8	
BV/share (RM)	1.3	1.3		1.3		1.3	1.3	
Net gearing (x)	-0.1	0.0		0.1		-0.1	0.1	
Effective tax	-3%	-19%		13%		-20%	20%	

Source: Company, Kenanga Research

Segmental Highlights								
	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
External Revenue								
Cable Support	37.0	36.6	1%	40.6	-9%	73.6	81.3	-9%
Electrical Lighting	8.0	7.4	7%	9.0	-11%	15.4	16.9	-9%
Pre-tax Segmentation								
Cable Support	0.4	0.8	-53%	1.6	-75%	1.2	3.6	-66%
Electrical Lighting	-0.1	-2.0	-96%	-0.1	-15%	-2.1	-1.1	92%
Pre-tax margins								
Cable Support	1%	2%		4%		2%	4%	
Electrical Lighting	-1%	-27%		-1%		-13%	-6%	

Source: Company, Kenanga Research

29 August 2019

Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				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.			
BUILDING MATERIALS UNDER COVERAGE																		
ANN JOO RESOURCES BHD	1.23	637.6	Y	12/2019	-19.4%	12.5%	-124.9%	702.4%	5.2	N.A.	147.9	0.5	0.5	-2.4%	0.0%	1.10	UP	
PRESS METAL ALUMINUM HOLDINGS BERHAD	4.83	19,503.8	Y	12/2019	-1.5%	10.4%	-16.5%	61.5%	28.7	34.3	21.3	5.8	5.3	15.4%	0.9%	5.50	OP	
UNITED U-LI CORPORATION BHD	0.485	105.6	Y	12/2019	-21.6%	-9.6%	-158.8%	543.1%	28.5	N.A.	24.3	0.4	0.4	-0.8%	0.0%	0.400	UP	
WHITE HORSE BERHAD	1.17	267.0	Y	12/2019	-12.9%	0.8%	-66.8%	-98.8%	N.A.	N.A.	N.A.	0.4	0.4	-5.4%	0.0%	1.00	UP	
Simple Average					-13.9%	3.5%	-91.8%	302.1%	20.8	34.3	64.5	1.8	1.6	1.7%	0.2%			

Source: Bloomberg, Kenanga Research

29 August 2019

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%

**** The Expected Total Return might contain rounding discrepancy.**

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

This report has been prepared by Kenanga Investment Bank Berhad pursuant to the Mid and Small Cap Research Scheme ("MidS") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaim any and all liability, howsoever arising, out of or in relation to the administration of MidS and/or this report.

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

This report is accessible at www.bursamids.com too.

