

Flash Note: UG Healthcare Corporation Limited

Date: 25 August 2017

Results Note

UG Healthcare Corporation Limited (“UGHC”) reported Q4 FY17 results on 24 August 2017 after market close. Revenue for Q4 FY17 came in 22.5% higher on a year-on-year (“y-y”) basis, though the significant increase in average raw materials prices, gas tariff hike, higher depreciation charge for the new production lines and the foreign workers’ levy weighed on over profitability.

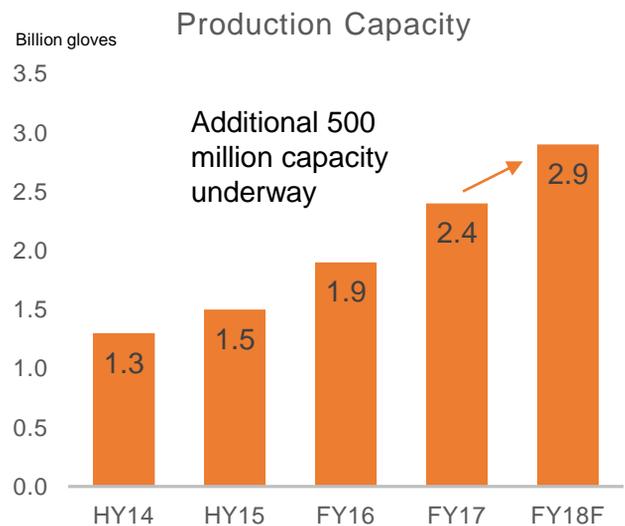
Fourth quarter results review

1. **Revenue:** UGHC reported fourth quarter revenue that was 22.5% higher on a y-y basis. For the full year, UGHC reported an overall 10.9% increase in total revenues of S\$65 million for FY17. The higher revenue in the fourth quarter was mainly driven by the increase in the volume of gloves produced and sold at a slightly higher average selling price.
2. **Gross profit:** Despite the revenue increase, gross profit narrowed by 2.1% on the significant increase in raw materials prices, gas tariff hikes and the increase in labour costs as UGHC ramped up additional hiring in preparation for the additional capacity that is scheduled to come on-stream in March 2018. The result is that gross margins narrowed by about 400 basis points to 11.6%.
3. **Net profit attributable to owners:** Overall, net profit attributable to owners of the company declined by 43.5% owing to administrative expenses due to (i) the losses incurred by the UK subsidiary in hedging contracts, this is owing to the recent strengthening of the British pound against the US dollar, and (ii) the increase in general administrative running expenses from its expansion plans.
4. **Dividends:** No dividend has been proposed or declared by the Directors for the full year ended 30 June 2017 as the Group conserves cash for their expansion plans.

Expansion of Production Capacity

UGHC achieved a full year production capacity of 2.4 billion gloves at end-FY17, in-line with their plans. UGHC is on track in the execution of its expansion plans, and construction of a new production facility on an adjoining piece of land is underway, with commercialisation of the production lines expected by March 2018.

This is expected to increase annual production capacity by 500 million gloves per annum. The additional capacity will be progressively rolled out to achieve a total of 2.9 billion gloves in production capacity by end of FY2018.



Source: Company data, SAC Advisors

About UGHC

UGHC and together with its subsidiaries is an established natural latex and nitrile examination gloves manufacturer and distributor. Currently, the Group has two manufacturing facilities in Seremban, Malaysia. To complement this manufacturing platform, it has established an extensive distribution network globally through its own distribution companies based in the USA, UK, Germany, the PRC and Nigeria, as well as through third party distributors.

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