

United Global Limited

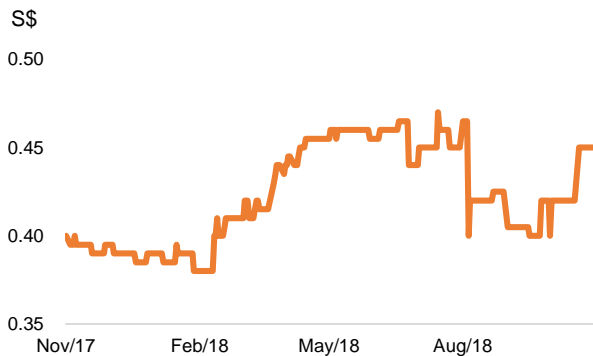
Date: 12 November 2018

BUY

**Target Price: S\$0.500
(+11.1%)**

UTG SP

Price: S\$0.450 (as at 9 November 2018)



Share price	1M	3M	6M	1Y
United Global	7.1%	0.0%	(2.2)%	12.5%
Catalist Index	(3.4)%	(14.1)%	(18.2)%	(18.8)%

Market capitalisation	S\$127.3 million US\$92.9 million
Current Price	S\$0.450
Shares outstanding	316,211,360
Free Float	13.0%
Major shareholder	Wiranto 45.5% Tan Thuan Hor 30.9%
Recommendation of other brokers	N/A

Source: Company data, Bloomberg, SGX Net, SAC Advisors

Analyst

Terence Chua +65 6532 3828

tchua@saccapital.com.sg

3Q18 adjusted profit after tax rose 14.1%

9M18 revenue formed 85.3% of our FY18 estimates. United Global ("UTG", the "Group", and the "Company") reported 9M18 revenue of US\$82.4 million that came ahead of our FY18 estimates. 3Q18 revenue rebounded from the 5.8% y-y decline last quarter to record an 18.3% increase this quarter on a y-y basis. The increase was driven by increases in both the Group's Manufacturing and Trading business. For 3Q18, revenue from the Group's manufacturing business segment increased 16.1% y-y due to an increase in sales volume and the average selling price.

Group's adjusted profit after tax rose 14.1% on a y-y basis reversing last quarter's decline. The Group's strong performance in both their Manufacturing and Trading segment saw the Group record a 14.1% y-y increase on their adjusted profit after tax after we strip out the one-off gain recorded by the Group last year from their acquisition of PT Pacific Lubritama Indonesia ("PLI"). Their strong performance this quarter also reversed their 13.1% decline in the previous quarter as the Group recorded a solid performance this quarter for all their business segments.

Maintain BUY with an unchanged target price of S\$0.50.

Our current target price implies a 11.1% upside to the current price, as we maintain our FY18 and FY19 earnings forecast pending our call with management later this week. We also see the stronger base oil prices benefiting the Group moving forward. Our target price implies a PE multiple of 16.6x and 14.6x for FY18E and FY19E respectively, which is not excessive in our view. UTG is in a net cash position, with high average ROE of 30% from FY18E-19E. Our target price of S\$0.50 is derived from our DCF (Cost of equity: 9.9% and terminal growth of 2.0%), equivalent to 16.6x FY18 P/E.

Key risks: (i) Fluctuations in base oil prices and cost of raw materials and (ii) wide exposure to different sectors.

Key Financials

Year ended Dec (US\$ '000)	FY2014A	FY2015A	FY2016A	FY2017A	FY2018E	FY2019E
Revenue	118,690	99,860	91,542	99,825	96,673	102,487
% Growth	N/A	-15.9%	-8.3%	9.0%	2.6%	6.0%
Gross profit	11,587	13,936	14,229	18,507	20,785	22,547
Gross margin (%)	9.8%	14.0%	15.5%	18.5%	21.5%	22.0%
Profit before tax	4,182	7,549	6,907	10,604	8,998	10,092
Net profit	3,366	6,241	5,646	9,172	7,289	8,276
% Growth	2.8%	85.4%	-9.5%	62.5%	-20.5%	9.2%
Net margin (%)	2.8%	6.2%	6.2%	9.3%	7.5%	8.1%
EPS (US\$ cents)*	1.4	2.6	2.2	3.1	2.2	2.5
EPS (S\$ cents)*	1.7	3.6	3.1	4.2	3.0	3.4
Core P/E (x)				11.3x	15.0x	13.2x
Net Debt/Equity				Net Cash	Net Cash	Net Cash

*Earnings per share for FY14 and FY15 was calculated based on the IPO pre-placement share capital of 240,012,360 shares

N/A: Not applicable

Exchange rate: USD/SGD: 1.38

3Q18 results reversed declines seen in previous quarter

9M18 revenue formed 85.3% of our FY18 estimates. UTG reported 9M18 revenue of US\$82.4 million that came ahead of our FY18 estimates. 3Q18 revenue rebounded from the 5.8% y-y decline last quarter to record an 18.3% increase this quarter on a y-y basis. The increase was driven by increases in both the Group’s Manufacturing and Trading business.

For 3Q18, revenue from the Group’s manufacturing business segment increased 16.1% y-y due to an increase in sales volume and the average selling price. The higher sales volume was driven primarily by their Singapore plant, while the increase in average selling price in this segment was due to the higher average selling price of their Indonesian plant due to a more favourable product mix. The Group’s revenue from Trading also benefitted from an increase in sales volume and average selling price in the quarter.

Group’s adjusted profit after tax rose 14.1% on a y-y basis reversing last quarter’s decline. The Group’s strong performance in both their Manufacturing and Trading segment saw the Group record a 14.1% y-y increase on their adjusted profit after tax after we strip out the one-off gain recorded by the Group last year from their acquisition of PLI. Their strong performance this quarter also reversed their 13.1% decline in the previous quarter as the Group recorded a solid performance this quarter for all their business segments.

UTG also recorded a stronger gross profit margin of 19.6% for the quarter after the unexpected decline last quarter saw their gross margin dip to 16.2%. For this quarter, the Group’s Manufacturing gross margin came in at 19.9%, a 1.2% decrease mainly due to changes in product mix, and more competitive pricing in 3Q18.

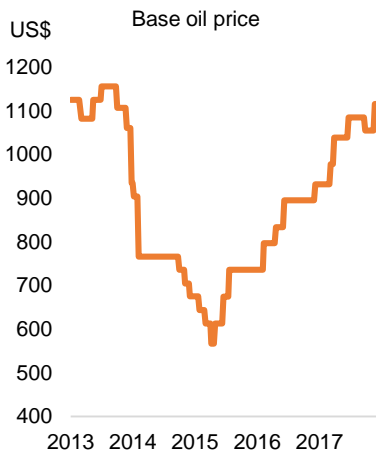
Maintain BUY with an unchanged target price of S\$0.50. Our current target price implies a 11.1% upside to the current price, as we maintain our FY18 and FY19 earnings forecast pending our call with management later this week. We also see the stronger base oil prices benefiting the Group moving forward. Our target price implies a PE multiple of 16.6x and 14.6x for FY18E and FY19E respectively, which is not excessive in our view. UTG is in a net cash position, with high average ROE of 30% from FY18E-19E. Our target price of S\$0.50 is derived from our DCF (Cost of equity: 9.9% and terminal growth of 2.0%), equivalent to 16.6x FY18 P/E.

% of revenue	3Q18	3Q17
Manufacturing	96.3%	97.8%
Trading	3.7%	2.2%
Group	100.0%	100.0%

Source: SAC Advisors, Company data

Revenue contribution (US\$m)	3Q18	3Q17
Manufacturing	25.9	22.3
Trading	1.0	0.4
Group	26.9	22.8*

Source: SAC Advisors, Company data
*Rounding difference



Source: Bloomberg, SAC Advisors

Recent Developments

Non-binding MOU with Repsol Lubricantes Y Especialidades, S.A

The Company announced on the 23 October 2018 that they have entered into a non-binding memorandum of understanding (the “**MOU**”) with Repsol Lubricantes Y Especialidades, S.A (“**Repsol**”) on 22 October 2018.

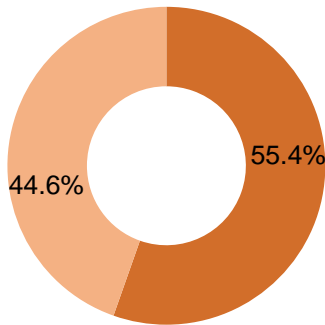
Pursuant to the MOU, Repsol will perform a feasibility study to explore the acquisition of an equity stake in United Oil Company Pte Ltd, a wholly-owned subsidiary of the Company. Upon the completion of the feasibility study, the Company and Repsol will discuss whether to proceed with the project and to negotiate the terms and conditions of the definitive agreement to be executed. The MOU will be in force for 6 months, with the option to extend for a further 6 months subject to mutual agreement.

About

Repsol Lubricantes Y Especialidades SA engages in upstream and downstream activities. The company explores, develops, and produces crude oil and natural gas; transports oil products, liquefied petroleum gas (LPG), and natural gas; refines and produces a range of oil products; and retails oil products, oil derivatives, petrochemicals, LPG, natural gas, and liquefied natural gas (LNG). The company was founded in 1968 and is based in Madrid, Spain. The company operates as a subsidiary of Repsol, S.A.

Company Background

Revenue Breakdown (FY2016)



■ Manufacturing ■ Trading

Source: Company data, SAC Advisors

- United Global is an established independent lubricant manufacturer and a lubricant, base oils and additives trader, providing a wide range of high quality, well-engineered lubricants and specialty fluids for automotive, industrial and marine applications as well as metal working fluids. It supplies lubricants globally to customers in over 30 countries and territories.
- Its business is divided into two main business segments:
 - (a) Manufacturing of lubricants: This is done under its in-house brands, such as “United Oil”, “U Star Lube” and “Bell 1”. It also provides OEM manufacturing for third party principals under their brands;



Source: Company data

- (b) Trading: Base oils, additives and lubricants. UTG buys from suppliers and on-sells to other customers who require such raw materials. It buys the raw materials in bulk, and sells them to other parties who may not be able to take advantage of the economies of scale that it enjoys by purchasing and transporting in large quantities, as well as long-term relationships with the suppliers. It also trades lubricants that are not manufactured by them.

Business Segment	Products / Services
Manufacturing	<ul style="list-style-type: none"> • Automotive • Industrial • Marine • Specialty Fluids • Metal Working Fluids
Trading	<ul style="list-style-type: none"> • Includes lubricants not manufactured by them

Income Statement (US\$'000)

	Fiscal Year Ended				
	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	99,860	91,542	99,825	96,673	102,487
Cost of sales	(85,924)	(77,313)	(81,318)	(75,889)	(79,940)
Gross Profit	13,936	14,229	18,507	20,785	22,547
Other income	202	87	0	0	0
Distribution cost	(1,939)	(1,647)	(2,196)	(2,900)	(3,075)
Administrative expenses	(4,490)	(5,039)	(5,990)	(8,617)	(9,111)
Other operating expenses	(6)	(616)	0	0	0
Finance costs	(154)	(107)	(107)	(269)	(269)
Profit before tax	7,549	6,907	10,214	8,998	10,092
Income tax	(1,308)	(1,261)	(1,838)	(1,710)	(1,817)
Profit after tax	6,241	5,646	9,172	7,289	8,276
Profit – Owners of the Company	6,241	5,646	8,713	6,924	7,862

Balance Sheet (US\$'000)

	Fiscal Year Ended				
	FY2015	FY2016	FY2017F	FY2018F	FY2019F
As at 31 Dec					
Cash and bank balances	9,209	14,275	12,231	18,849	25,648
Trade receivables	12,028	12,761	14,049	14,421	15,288
Inventories	3,302	4,452	3,658	3,684	3,881
Other assets	298	319	2,365	2,365	2,365
Total current assets	24,837	31,807	32,303	39,319	47,182
Property, Plant and Equipment	2,070	2,243	2,273	2,303	2,333
Investment in subsidiary	0	0	13,278	13,278	13,278
Other non-current assets	61	139	139	139	139
Total non-current assets	2,131	2,382	15,690	15,720	15,750
Total assets	26,968	34,189	47,993	55,039	62,932
Bank borrowings	3,171	2,986	2,986	2,986	2,986
Trade payables	4,910	7,575	6,084	6,127	6,455
Other current liabilities	13,439	5,661	7,201	7,386	7,544
Total current liabilities	21,250	16,222	16,271	16,499	16,985
Total non-current liabilities	78	130	130	130	130
Total liabilities	21,328	16,352	18,069	20,110	20,882
Share Capital	2,484	13,233	20,162	20,162	20,162
Retained earnings	3,156	7,760	13,472	19,786	26,642
Merger reserve	0	(3,156)	(3,156)	(3,156)	(3,156)
Equity attributable to shareholders	5,640	17,837	30,478	36,792	43,648
Non-controlling interests	0	0	1,114	1,618	2,169
Total Equity	5,640	17,837	31,592	38,411	45,817
Total liabilities and equity	26,968	34,189	47,933	55,039	62,932

Cash Flow Statement (US\$'000)

	Fiscal Year Ended				
	FY2015	FY2016	FY2017F	FY2018F	FY2019F
Profit before tax	7,549	6,907	10,983	12,447	13,431
Depreciation & amortisation	154	146	146	146	146
Change in working capital	9,685	706	(445)	(170)	(577)
Interest expense	(154)	(107)	(107)	(107)	(107)
Others	627	1,095	(1,870)	(2,258)	(2,311)
Net Cash (used in)/ from operations	16,607	6,557	8,707	10,058	10,582
Purchase of PPE	(333)	(510)	(176)	(176)	(176)
Acquisition of subsidiary	0	0	(13,314)	0	0
Others	1,500	23	0	0	0
Net Cash (used in)/ from investing	1,167	(487)	(13,490)	(176)	(176)
Net increase in equity	0	7,931	7,314	0	0
Net increase in debt	(1,674)	(185)	0	0	0
Dividends paid	(13,000)	(8,042)	(2,844)	(3,264)	(2,525)
Others	(213)	(928)	0	0	0
Net Cash (used in)/ from financing	(14,887)	(1,224)	4,470	(3,264)	(3,607)

Ratios

	Fiscal Year Ended				
	FY2015	FY2016	FY2017F	FY2018F	FY2019F
Profitability (%)					
Operating profit margin	7.7%	8.3%	11.8%	13.0%	13.2%
Profit before tax margin	7.6%	7.5%	11.7%	12.9%	13.1%
Profit after tax margin	6.2%	6.2%	9.6%	10.4%	10.7%
Liquidity (x)					
Current ratio	1.2	2.0	2.0	2.4	2.8
Quick ratio	1.0	1.7	1.8	2.2	2.5
Interest coverage ratio	50.1	71.3	103.6	117.3	126.5
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	N/A	14.4	11.3	15.0	13.2
Core P/E	N/A	11.3	11.9	11.2	10.3
Core P/E at target price	N/A	16.5	12.5	16.6	14.6
P/B	N/A	4.8	3.2	3.0	2.6
EV/EBITDA	N/A	9.8	7.8	8.0	6.5
Cash Conversion Cycle					
Trade receivable days	60	50	55	55	55
Inventory days	18	19	18	18	18
Trade payable days	27	30	30	30	30
CCC days	51	39	43	43	43
Returns					
Return on equity	49.9%	48.1%	35.4%	28.5%	26.0%
Return on capital employed	38.8%	38.1%	31.5%	26.2%	24.2%
Dividend payout ratio	N/A	36.0%	36.0%	36.0%	36.0%

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Nil	Nil

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