

United Global Limited

Date: 27 February 2019

BUY

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

UTG SP

Price: S\$0.450 (as at 26 February 2019)

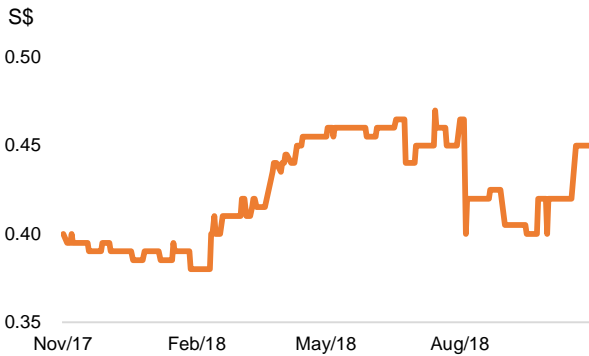
4Q18 profit after tax rose 2.9%, FY18 profit 4.3% above our estimates

FY18 revenue came ahead of our FY18 estimates. United Global (“UTG”, the “Group”, and the “Company”) reported FY18 revenue of US\$108.5 million which came ahead of our FY18 estimates. 4Q18 revenue declined by 16.7% due to competitive pressures from their manufacturing segment. Despite this, FY18 revenue formed 112.2% of our full year estimates. In the fourth quarter, the Group saw weaker contribution from their manufacturing segment, with revenue from this segment falling 17.8% on a year-on-year (“y-y”) basis. Their Trading segment however, bucked the trend with a 15.8% y-y increase, though the Group’s revenue still registered an overall decline of 16.7% y-y.

Group’s profit after tax rose 2.9% on a y-y basis with FY18 profit coming 4.3% ahead of our estimates. During the quarter, the Group saw a decline in their overall cost of sales in-line with the decrease in revenue. Overall, gross profit was lower by 8.9% but gross profit margin improved from 18.8% last year to 20.6%. The lower administrative and distribution costs for the period saw the Group record profit before tax which was 13.5% higher than the previous period.

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.



Share price	1M	3M	6M	1Y
United Global	0.0%	7.1%	4.7%	9.8%
Catalist Index	(2.3%)	(6.8%)	(21.9%)	(51.1%)

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

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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

FY18 revenue formed 112% of our FY18 estimates

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Revenue contribution (US\$m)	4Q18	4Q17
Manufacturing	24.8	30.1
Trading	1.3	1.1
Group	26.0	31.2

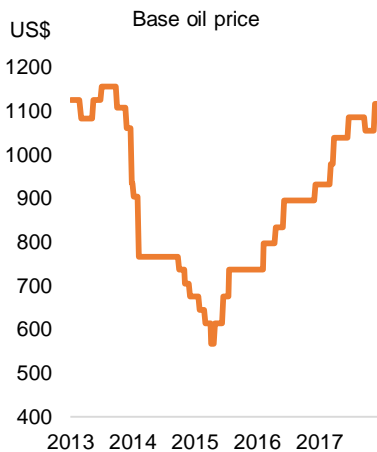
Source: SAC Advisors, Company data

For FY18, revenue increased by US\$8.6 million or 8.7%, from US\$99.8 million in FY2017 to US\$108.4 million in FY2018. Revenue from their manufacturing business segment increased mainly due to an increase in sales volume with marginal decrease in their average selling price. The higher sales volume was mainly contributed by their Singapore plant, as well as the Group’s 12-months consolidation from PLI. The decrease in revenue from the trading business segment was mainly due to a decrease in sales volume as a result of the elimination of inter-group base oil and additives cross selling from their Singapore plant to PLI.

Geographically, the increase in revenue was mainly attributable to an increase in revenue contribution from Singapore, Malaysia and Indonesia of US\$3.1 million, US\$1.7 million, and US\$1.7 million respectively in FY2018. Revenue from Singapore increased by US\$3.1 million or 20.6% in FY2018, mainly due to increase in its manufacturing business segment mainly from third-party principals’ brands.

Group’s profit after tax rose 2.9% on a y-y basis with FY18 profit coming 4.3% ahead of our estimates. During the quarter, the Group saw a decline in their overall cost of sales in-line with the decrease in revenue. Overall, gross profit was lower by 8.9% but gross profit margin improved from 18.8% last year to 20.6%. The lower administrative and distribution costs for the period saw the Group record profit before tax which was 13.5% higher than the previous period.

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.



Source: Bloomberg, SAC Advisors

Recent Developments

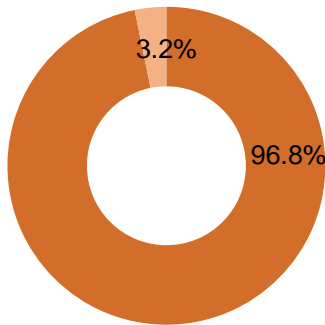
Proposed Joint venture with Mr Philip Chee

The Company announced that United Fuels Company Pte Ltd (“**United Fuels Company**”), a wholly-owned subsidiary of the Company, and United Fuels Alliance Pte. Ltd. (“**United Fuels Alliance**”), a wholly-owned subsidiary of United Fuels Company, had entered into a joint venture & shareholders’ agreement dated 14 December 2018 with Mr Chee Choon Ming Philip (“**Mr Chee**”) (the “**JV Agreement**”).

Pursuant to the JV Agreement, United Fuel Company and Mr Chee will use United Fuel Alliance as the joint venture vehicle (the “**JV Company**”) for the trading of petrol and related products. Mr Chee is an independent unrelated third party to the Group and its Directors, controlling shareholders and their associates.

Company Background

Revenue Breakdown (FY2018)



■ 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	47,993	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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Company	Nature of business relation	Date of business relation
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Analyst name	Quantum of position
Nil	Nil

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