

# United Global Limited

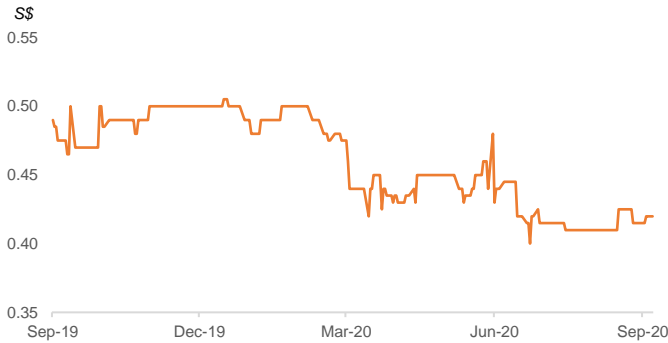
Date: 9 September 2020

## HOLD

**Target Price: S\$0.445  
(+6.0%)**

**UTG SP**

**Price: S\$0.420** (as at 8 September 2020)



Share price	1M	3M	6M	1Y
United Global	2.4%	-5.6%	-4.6%	-11.6%
Catalist Index	3.9%	30.6%	35.6%	20.4%

<b>Market capitalisation</b>	S\$132.8 million US\$97.6 million
<b>Current Price</b>	S\$0.420
<b>Shares outstanding</b>	316.2 million
<b>Free Float</b>	13.4%
<b>Major shareholder</b>	Wiranto 39.9% Tan Thuan Hor 32.9%
<b>Recommendation of other brokers</b>	N/A

Source: Company data, Bloomberg, SAC Capital

## Analyst

Lam Wang Kwan +65 6232 3237  
[lamwk@saccapital.com.sg](mailto:lamwk@saccapital.com.sg)

## Key Financials

Year ended Dec	FY2016A	FY2017A	FY2018A	FY2019A	FY2020E	FY2021E
<b>Revenue (US\$'000)</b>	91,542	99,825	108,472	102,471	166	174
<b>Growth (%)</b>	-8.3%	9.0%	8.7%	-5.5%	-99.8%	5.0%
<b>Gross profit (US\$'000)</b>	14,229	18,507	20,480	19,703	(266)	(244)
<b>Share of profit of JV</b>	0	7	38	4	4,602	4,838
<b>Profit before tax (US\$'000)</b>	6,907	10,604	9,418	68,254	3,171	3,428
<b>Net profit (US\$'000)</b>	5,646	9,172	7,599	66,463	3,092	3,342
<b>Growth (%)</b>	-9.5%	62.5%	-17.2%	774.6%	-95.3%	8.1%
<b>EPS (US\$ cents)*</b>	2.2	3.1	2.4	21.0	1.0	1.1
<b>EPS (S\$ cents)*</b>	3.5	1.6	3.3	28.6	1.3	1.4
<b>P/E (x)</b>	12.1	26.0	12.9	1.5	31.6	29.2
<b>Net Debt/Equity</b>	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash

Exchange rate: USD/SGD: 1.36

## Post-sale of 40% of lubricant business

**1HFY20 reflected effect of the sale of 40% stake in UOC.** At end Nov 2019, United Global sold a 40% stake in core lubricant manufacturing and trading business, United Oil Company Pte. Ltd., to Madrid-listed international oil and gas company Repsol S.A.. Though retaining a 60% stake, UOC was de-consolidated from 1 Dec 2019 and is classified as a joint venture. Its contribution is now a line item in the P&L. As a result, revenue in 1HFY20 fell to US\$38,000, reflecting only the operations of nano-fibre oil absorbent materials. These products are sold to another joint venture, M-TechX United Pte Ltd.

**Lubricant business remains an integral part.** UOC's revenue fell 46.3% to US\$34.0m in 1HFY20. Manufacturing revenue declined 25% to US\$33.2m with lower demand and ASP, in line with lower raw material costs. Trading revenue decimated to US\$0.8m as the joint venture partner did not pass through orders. As a result, gross profit dropped 16.9% to US\$8.4m in 1HFY20. However, as trading commands thin margins, gross margin improved 8.7 percentage point to 24.6%. Net profit was 20.1% lower at US\$3.8m in 1HFY20. United Global's share was US\$2.8 million.

Orders for nano-fibre oil absorbent materials are slow to build up, and the plant is operating at below capacity. This resulted in a small gross loss of US\$0.1m. Overall group's net profit was 63.5% lower at US\$1.7m.

**Maintain our HOLD call at lower target price of S\$0.445.** While we expect the synergy derived from the joint venture to continue to drive United Global going forward, we expect net profit to fall with a reduced stake of 60%. However, United Global has net cash of US\$32.5m and has the financial means to embark on growth and expansion plans. Our target price of S\$0.445 is derived from DCF valuation (WACC: 9.9%; terminal growth: 1.5%).

**Key risks:** (i) Fluctuations in prices of base oil and cost of raw materials, and (ii) exposure to a diverse range of sectors.

## Net profit lowered by 63.5% due to de-consolidation of UOC

**Completion of sale of 40% stake in UOC.** United Global had, on 26 November 2019, sold 40% of its equity stake in its wholly-owned principal subsidiary, United Oil Company Pte. Ltd. to Repsol Downstream Internacional S.A., a subsidiary of Madrid-listed international oil and gas company Repsol S.A.. Post the transaction, United Global reported its interest in UOC Group as a line item in the profit and loss statements as “Share of profit of joint ventures” and a corresponding entry in the balance sheet as “Investment in joint ventures”. As a result of the de-consolidation of UOC, United Global reported revenue of US\$38,000 for 1HFY20 from its only operating subsidiary which is engaged in the manufacture of nano-fibre oil absorbent materials. These products are sold to its 40%-owned joint venture company, M-TechX United Pte Ltd.

United Global (US\$'000)	1H20	1H19
Revenue	83 <sup>(1)</sup>	63,285
Gross Profit	(133)	10,077
Share of profit of JV	2,276	15
<b>Net Profit</b>	<b>1,677</b>	<b>4,627</b>

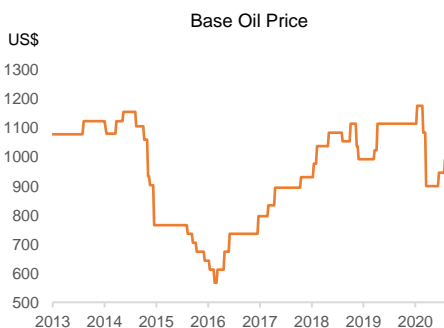
<sup>(1)</sup> Revenue generated from manufacturing nano-fibre oil absorbent materials for joint venture company, M-TechX United Pte Ltd. Post-disposal of partial stake in UOC, results from the Group's lubricants business is reported as a line item in the profit and loss statements as “Share of profit of joint ventures”.

UOC Group (US\$'000)	1H20	1H19
Revenue	33,967	63,285
Gross Profit	8,370	10,077
Gross Margin	24.6%	15.9%
<b>Net Profit</b>	<b>3,832</b>	<b>4,794</b>

Source: Company Data, SAC Capital

**Lubricant business remains an integral part of United Global.** UOC reported a 46.3% fall in revenue to US\$34.0m in 1HFY20 due to a decline in revenue for both manufacturing and trading businesses. Manufacturing saw sales down by 25.2% yoy due to lower sales volume and average selling price, mainly at its Singapore plant. Trading revenue decreased by 95.8% in the absence of a one-time trading agreement with a joint venture partner.

As a result, gross profit fell 16.9% to US\$8.4m in 1HFY20. However, as trading commands thin margins, gross margin improved 8.7 percentage point to 24.6%, also aided by lower raw material cost. Overall, profit for the year for UOC stood at US\$3.8m, 20.1% lower yoy. United Global's share was US\$2.8m.



Source: Bloomberg, SAC Capital

Orders for nano-fibre oil absorbent materials are slow to build up, and the plant is operating at below capacity. This resulted in a small gross loss of US\$0.1m. Overall, it recorded net profit of US\$1.7m for 1HFY20, which was 63.5% lower yoy.

**Robust cash position for right M&A opportunity.** As at 30 Jun 2020, United Global has a total cash and cash equivalents amounting to US\$32.5m. The Group is also debt-free. The Group's strong financials put it in a favourable position to ride out the demand uncertainty from Covid-19 pandemic and volatility in base oil price. At the same time, it also provides the Group with the funds to pursue growth plan or venture into new businesses.

**Maintain our call at HOLD at a lower target price at S\$0.445.** While we expect the synergy derived from the joint venture to continue to drive United Global going forward, we expect net profit to fall as compared to previous years due to the disposal of the 40% stake. However, United Global is also in a strong net cash position to embark on growth and expansion plans. Our target price of S\$0.445 is derived from DCF valuation (WACC: 9.9%; terminal growth: 1.5%).

## Company Background

- 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.
- It has two key 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. Following the disposal of UOC to Repsol Downstream International S.A. in November 2019, the Group is now able to manufacture exclusive Repsol-branded products and sell them in Singapore, Indonesia, Malaysia and Vietnam.



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.

**Production of nano-fiber materials.** In 2017, United Global set up a 40% joint venture with Japan’s M-TechX Group to produce oil-absorbent nano-fiber materials for various industrial and commercial industries. In 3Q18, United Global officially launched nano-fiber products. It mainly exports these products to Japan and is developing markets in Indonesia.

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

## Income Statement (US\$'000)

FYE Dec	FY2017	FY2018	FY2019	FY2020E	FY2021E
<b>Revenue</b>	<b>99,825</b>	<b>108,472</b>	<b>102,471</b>	<b>166</b>	<b>174</b>
Cost of sales	(81,318)	(87,992)	(82,768)	(432)	(418)
<b>Gross profit</b>	<b>18,507</b>	<b>20,480</b>	<b>19,703</b>	<b>(266)</b>	<b>(244)</b>
Other income	1,714	301	62,828	1,252	1,252
Distribution cost	(2,470)	(2,902)	(2,332)	(24)	(25)
Administrative expenses	(6,837)	(8,154)	(11,700)	(2,144)	(2,144)
Other expenses	(40)	(81)	(61)	(61)	(61)
<b>Share of profit of joint venture</b>	<b>7</b>	<b>38</b>	<b>4</b>	<b>4,602</b>	<b>4,838</b>
Finance expenses	(277)	(264)	(188)	(188)	(188)
<b>Profit before tax</b>	<b>10,604</b>	<b>9,418</b>	<b>68,254</b>	<b>3,171</b>	<b>3,428</b>
Income tax expense	(1,353)	(1,738)	(1,709)	(79)	(86)
<b>Profit for the year</b>	<b>9,251</b>	<b>7,680</b>	<b>66,545</b>	<b>3,092</b>	<b>3,342</b>
<b>Profit/(loss) attributable to:</b>					
<b>Owners of the Company</b>	<b>9,172</b>	<b>7,599</b>	<b>66,463</b>	<b>3,092</b>	<b>3,342</b>
Non-controlling interests	79	81	82	0	0
<b>Basic and diluted earnings per share (US\$ cents)</b>	<b>3.10</b>	<b>2.40</b>	<b>21.00</b>	<b>0.98</b>	<b>1.06</b>

## Cash Flow Statement (US\$'000)

FYE Dec	FY2017	FY2018	FY2019	FY2020E	FY2021E
<b>Profit before tax</b>	<b>10,604</b>	<b>9,418</b>	<b>68,254</b>	<b>3,171</b>	<b>3,428</b>
Depreciation of PPE	404	774	988	189	202
Share of profit of joint ventures	(7)	(38)	(4)	(4,602)	(4,838)
Others	(3,008)	(1,913)	(62,395)	(79)	(86)
Changes in working capital	(3,448)	(3,938)	14,332	(55)	2
<b>Net Cash (used in)/ from operations</b>	<b>4,545</b>	<b>4,303</b>	<b>21,175</b>	<b>(1,377)</b>	<b>(1,292)</b>
Purchase of PPE	(853)	(693)	(246)	(271)	(298)
Others	(5,329)	(1,344)	22,320	0	0
<b>Net Cash (used in)/ from investing</b>	<b>(6,182)</b>	<b>(2,037)</b>	<b>22,074</b>	<b>(271)</b>	<b>(298)</b>
Net Increase in Debt	216	(1,866)	(8,459)	0	0
Dividends paid	(2,174)	(2,835)	(1,162)	(618)	(668)
Others	611	(20)	(29)	0	0
<b>Net Cash (used in)/ from financing</b>	<b>(1,347)</b>	<b>(4,721)</b>	<b>(9,650)</b>	<b>(618)</b>	<b>(668)</b>

## Balance Sheet (US\$'000)

FYE Dec	FY2017	FY2018	FY2019	FY2020E	FY2021E
Cash and bank balances	10,555	7,536	39,775	37,509	35,251
Trade and Other Receivable	19,650	21,850	12,788	8,970	8,979
Inventories	13,064	15,073	185	342	331
Others	239	713	0	0	0
<b>Total current assets</b>	<b>43,508</b>	<b>45,172</b>	<b>52,748</b>	<b>46,821</b>	<b>44,561</b>
PPE	8,135	10,328	2,822	2,904	2,999
Investment in joint ventures	179	569	54,248	58,850	63,688
Others	4,853	3,626	6	6	6
<b>Total non-current assets</b>	<b>13,167</b>	<b>14,523</b>	<b>57,076</b>	<b>61,760</b>	<b>66,694</b>
<b>Total assets</b>	<b>56,675</b>	<b>59,695</b>	<b>109,824</b>	<b>108,581</b>	<b>111,255</b>
Bank Borrowings	8,930	7,145	0	0	0
Trade and Other Payables	9,564	10,653	6,443	2,727	2,726
Finance leases	57	37	36	36	36
Others	3,627	3,566	1	1	1
<b>Total current liabilities</b>	<b>22,178</b>	<b>21,401</b>	<b>6,480</b>	<b>2,764</b>	<b>2,763</b>
Bank Borrowings	21	0	0	0	0
Finance leases	152	111	77	77	77
Others	667	820	0	0	0
<b>Total non-current liabilities</b>	<b>840</b>	<b>931</b>	<b>77</b>	<b>77</b>	<b>77</b>
Share capital	21,425	21,425	21,425	21,425	21,425
Reserves	(3,413)	(4,495)	(2,988)	(2,988)	(2,988)
Retained earnings	14,758	19,522	84,830	87,303	89,977
<b>Equity attributable to owners of the Company</b>	<b>32,770</b>	<b>36,452</b>	<b>103,267</b>	<b>105,740</b>	<b>108,414</b>
Non-controlling interests	887	911	0	0	0
<b>Total equity</b>	<b>33,657</b>	<b>37,363</b>	<b>103,267</b>	<b>105,740</b>	<b>108,414</b>
<b>Total equity and liabilities</b>	<b>56,675</b>	<b>59,695</b>	<b>109,824</b>	<b>108,581</b>	<b>111,255</b>

## Ratios

FYE Dec	FY2017	FY2018	FY2019	FY2020E	FY2021E
<b>Profitability (%)</b>					
Gross profit/(loss) margin	18.5	18.9	19.2	n.m.	n.m.
Profit/(loss) before tax margin	10.6	8.7	66.6	n.m.	n.m.
Net margin	9.2	7.0	64.9	n.m.	n.m.
<b>Liquidity (x)</b>					
Current ratio	2.0	2.1	8.1	16.9	16.1
Quick ratio	1.4	1.4	8.1	16.8	16.0
Net Debt to Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Valuation (x)</b>					
P/E	26.0	12.9	1.5	31.6	29.2
P/E (ex-cash)	9.5	11.9	0.9	19.5	18.7
P/B	2.9	2.6	0.9	0.9	0.9
<b>Returns (%)</b>					
Return on equity	36.2	22.0	95.1	3.0	3.1
Return on asset	20.2	13.1	78.4	2.8	3.0
<b>Dividend payout ratio</b>	<b>0.0</b>	<b>10.4</b>	<b>1.7</b>	<b>20.0</b>	<b>20.0</b>

n.m.: not meaningful

**DISCLAIMERS AND DISCLOSURES**

This report has been prepared and distributed by SAC Capital Private Limited (“**SAC Capital**”) which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report has been prepared for the purpose of general circulation, we have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons and does not purport to be comprehensive or contain all necessary information which a prospective investor may require in arriving at an investment decision. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities. This report is confidential and the information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Capital. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Capital has not independently verified all the information set out in this report, all reasonable care and effort has been taken to ensure that the facts stated herein are accurate, this report might contain certain forward looking statements and forward looking financial information which are based on certain assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the subject company to be materially different from those expressed herein. Predictions, projections or forecasts of the economy or market trends are not indicative of the future performance of the subject company. The inclusion of such statements and information should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions of the subject company or that the forecast results will or are likely to be achieved.

Our opinion and facts set out in this report are based on the market, economic, industry and other applicable conditions prevailing as at the date of the preparation of this report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report, that may or may not have affected our opinion contained herein.

This report contains forward-looking statement which are based on assumptions or forecasts and are subject to uncertainties which may result in the actual result or performance to be materially different from the opinion or facts set out herein. Caution should be exercised in placing undue reliance on such statements. such assumptions or forecasts may change over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report.

No representation or warranty, expressed or implied, is made and no responsibility is accepted by the company, SAC Capital, or any of their affiliates, advisers or representatives as to the fairness, accuracy, completeness or adequacy of such information or facts, in this report or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.

SAC Capital and its associates, directors, and/or employees may have positions in the securities covered in the report and may also perform or seek to perform other corporate finance and/or capital markets related services for the company whose securities are covered in the report. SAC Capital and its related companies may from time to time perform advisory services or solicit such advisory services from the entity mentioned in this report (“**Other Services**”). This report is therefore classified as a non-independent report. However, the research professionals involved in the preparation of this report are independent of those possible or actual business relationships as they have not and will not participate in the solicitation or provision of such business.

As at the date of this report, SAC Capital does not have proprietary positions or interests in the subject company, except for:

Party	Quantum of position
Nil	Nil

As at the date of this report, SAC Capital, has had business relations with the subject company within the past 12 months, as disclosed hereunder:

Nature of Business Relation	Date of Business Relation
Continuing Sponsor	Ongoing Relations

As at the date of this report, none of the analysts who covered the securities in this report have any proprietary position or material interest in the subject companies covered here in, except for:

Analyst name	Quantum of position
Nil	Nil

#### **ANALYST CERTIFICATION/REGULATION AC**

As noted above, research analyst(s) of SAC Capital who produced this report hereby certify that

- (i) The views expressed in this report accurately reflect his/her personal views about the subject corporation(s);
- (ii) The report was produced independently by him/her;
- (iii) He/she does not on behalf of SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and
- (iv) He/she has not received and will not receive any compensation directly or indirectly related to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.