

United Global Limited

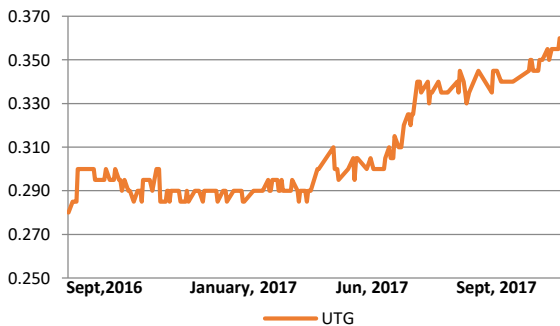
Date: 17 October 2017

BUY

Target Price: S\$0.500
(+40.8%)

UTG SP

Price: S\$0.355 (as at 16 October 2017)



| Share price | 1M | 3M | 6M | 1Y |
|----------------|-------|-------|-------|-------|
| United Global | 5.9% | 5.9% | 20.0% | 24.1% |
| Catalist Index | -1.8% | -1.5% | 12.3% | 2.6% |

| | |
|--|--------------------------------------|
| Market capitalisation | S\$112.3 million US\$81.9 million |
| Current Price | S\$0.355 |
| 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 6221 5590

tchua@saccapital.com.sg

Key Financials

| Year ended Dec (US\$'000) | FY2014A | FY2015A | FY2016A | FY2017E | FY2018E | FY2019E |
|---------------------------|---------|---------|---------|----------|----------|----------|
| Revenue | 118,690 | 99,860 | 91,542 | 94,181 | 96,673 | 102,487 |
| % Growth | N/A | -15.9% | -8.3% | 2.9% | 2.6% | 6.0% |
| Gross profit | 11,587 | 13,936 | 14,229 | 18,836 | 20,785 | 22,547 |
| Gross margin (%) | 9.8% | 14.0% | 15.5% | 20.0% | 21.5% | 22.0% |
| Profit before tax | 4,182 | 7,549 | 6,907 | 10,983 | 12,447 | 13,431 |
| Net profit | 3,366 | 6,241 | 5,646 | 8,556 | 9,578 | 10,463 |
| % Growth | 2.8% | 85.4% | -9.5% | 51.5% | 11.9% | 9.2% |
| Net margin (%) | 2.8% | 6.2% | 6.2% | 9.6% | 10.4% | 10.7% |
| EPS (US\$ cents)* | 1.4 | 2.6 | 2.2 | 2.9 | 3.0 | 3.3 |
| EPS (S\$ cents)* | 1.7 | 3.6 | 3.1 | 3.9 | 4.2 | 4.6 |
| Core P/E (x) | | | | 9.2x | 8.7x | 7.9x |
| 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: 1.37

Powering ahead – Upgrade to our TP

Stellar 1H17 results. United Global Limited reported [1H17 results that came ahead of our estimates](#) (see link for our note on UTG's 1H17 results). 1H17 revenue and net profit were 8.3% and 33.7% higher yoy, in spite of a 13.1% drop in volume. Gross margin rose from 14.5% in 1H16 to 17.2% in 1H17, on the back of a 24.7% improvement in average selling prices.

Results ahead of our estimates. Revenue were 2.8% ahead of our estimates. The pleasant surprise was the surge in gross margins, which handily beat our forecast of 16.0% to hit 17.2%. The strong outperformance also means that UTG's earnings came in at 56.7% of our full year estimate.

Integration of PT Pacific Lubritama Indonesia from 2H17 is expected to boost earnings and margins. The acquisition of 95%-owned PLI in July 2017 will lift earnings and overall margins from 2H17. UTG's blending capacity tripled to 124,000 MT, and it adds 17,000 MT storage tanks capacity and jetty access to 12,000 MT ocean tanker capacity.

Maintain BUY with an upgraded target price of S\$0.50. Our new target price implies a 40.8% upside to the current price, as we lift our FY17 and FY18 earnings forecast by 33% and 43%, respectively. This gives a PE multiple of 9.2x for FY17, with an expected 3.7% dividend yield. UTG is in a net cash position, with high average ROE of 30% from FY17E-19E. Our target price of S\$0.50 is derived from DCF (Cost of equity: 9.9% and terminal growth of 2.0%), equivalent to 12.2x FY18 P/E.

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

1H17 Results

1H17 revenue and net profit were 8.3% and 33.7% higher respectively on a y-y basis. This was fuelled by a 27.1% increase in revenue from the manufacturing segment, driven both by volume growth (13.9%) and higher selling price (+11.6%). Trading activities, on the other hand, posted a 10.7% decline in revenue, as volume fell 25.9%.

Prices of lubricants, UTG's core products, are highly correlated to that of base oils and additives. Price of base oil has recovered from the trough in early 2016 and has been on an uptrend. Year to date, it has risen by 11.5%. With ample stock on hand, gross margin will benefit in the short term, as ASP rises ahead of raw material price increase.

Manufacturing segment commands a better gross margin of 24.6%, compared with 6.5% for trading business. With a bigger share of manufacturing revenue, overall gross margin was lifted by 2.7% point to 17.2%.

Trading revenue were mainly derived from selling raw materials to PLI. Volume fell 25.9% in 1H17 due to lower sales to third party customers. UTG's strategy is to drive the manufacturing business, both for its house brands as well as OEM brands. The acquisition of PLI adds to its manufacturing capacity.

| 1H17 vs. 1H16 | Sales vol. | ASP |
|---------------|----------------|--------------|
| Manufacturing | 13.9% | 11.6% |
| Trading | (25.9%) | 20.6% |
| Group | (13.1%) | 24.7% |

Source: SAC Advisors



Source: Bloomberg

| Gross margin | 1H16 | 1H17 |
|---------------|--------------|--------------|
| Manufacturing | 24.1% | 24.6% |
| Trading | 4.8% | 6.5% |
| Group | 14.5% | 17.2% |

Source: SAC Advisors

| P&L Highlights US\$m | 1H16 | 1H17 | Comments |
|-------------------------|------------|------------|--|
| Revenue | 42.3 | 45.8 | Propelled by higher manufacturing volume and 24.7% rise in overall ASP |
| Cost of sales | (36.2) | (37.9) | Benefitted from lower-cost inventory on hand |
| Gross Profit | 6.1 | 7.9 | Higher manufacturing share lifted gross margin |
| Administrative expenses | (2.1) | (2.6) | |
| Profit before tax | 3.3 | 4.4 | |
| Net profit | 2.7 | 3.6 | |

Source: SAC Advisors

| % of Revenue | 1H16 | 1H17 |
|---------------|---------------|---------------|
| Manufacturing | 50.2% | 59.0% |
| Trading | 49.8% | 41.0% |
| Group | 100.0% | 100.0% |

Source: SAC Advisors

1H17 Highlights

1H17 results beat prompts our upgrade

The strong results beat has prompted us to relook our earnings estimates and we have revised our earnings estimates after we attended the 1H17 management briefing.

| Income Statement Highlights US\$m | FY2017E (initial) | FY2017E (new) | Comments |
|-----------------------------------|----------------------|------------------|--|
| Revenue | 94.2 | 94.2 | Unchanged. Includes 6-month contribution from PLI. |
| Cost of sales | (79.1) | (75.3) | |
| Gross Profit | 15.1 | 18.8 | +25%. Effect of PLI acquisition and change in revenue mix. |
| Operating expenses | (6.7) | (7.7) | +15%. Higher integration costs. |
| Profit before tax | 8.3 | 11.0 | Gross margin expansion. |
| Net profit | 6.4 | 8.6 | +33% . |

Source: SAC Advisors

UTG sells raw materials such as base oils and additives, and lubricants to PLI. PLI blends and processes them and sells these as processed additives and lubricants. Post acquisition, UTG will be able to capture the manufacturing margin at PLI level. As a result, manufacturing will account for the bulk of revenue, and with this, we raise projected overall gross margin from 16%, to 20.0% in FY17, 21.5% in FY18 and 22.0% in FY19.

In addition, we expect a 15.5% increase in operating costs from the integration of PLI in FY17. Overall, earnings estimates are raised by 33%, 43% and 42% in FY17 to FY19 respectively.

Maintain BUY with an upgraded target price of S\$0.50. Our new target price represents a 40.8% increase to the last closing price. The stock is currently trading at 9.2x FY17 P/E, with an expected 3.7% dividend yield. UTG is in a net cash position, with high average ROE of 30% from FY17E-19E. Our target price of S\$0.50 is derived from our DCF model (Cost of equity: 9.9% and terminal growth of 2.0%), representing 12.2x FY18 P/E.

Recent Developments

United Oil formed JV with M-TechX

In Oct 17, UTG, through 100%-owned United Oil Company Pte Ltd, entered into a 40:60 joint venture with M-TechX Incorporated and M-TechX Asia Pte Ltd to commercialise a new product.

Based in Japan, M-TechX owns a new and exclusive technology for mass production and commercialisation of nano-fibre. These products are used in oil absorbent sectors. The JV will undertake research and development of the technology to deploy the products for the filter and ballast water sectors, in Singapore, Indonesia, Japan and the rest of the world.

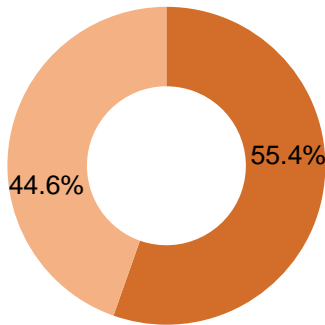
United Oil will provide a US\$4 million interest-free shareholder's loan to the JV for working capital. The loan will be disbursed in four tranches, and repayable within 2 years of disbursement for each tranche.

This investment is UTG's first foray beyond lubricants business. If the product takes off, UTG will be able to leverage on its existing network in 37 countries to distribute it.

In the near term, however, we do not expect this venture to have a material impact on earnings.

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 | FY2017F | FY2018F | FY2019F |
| Revenue | 99,860 | 91,542 | 94,181 | 96,673 | 102,487 |
| Cost of sales | (85,924) | (77,313) | (75,345) | (75,889) | (79,940) |
| Gross Profit | 13,936 | 14,229 | 18,836 | 20,785 | 22,547 |
| Other income | 202 | 87 | 0 | 0 | 0 |
| Distribution cost | (1,939) | (1,647) | (2,072) | (2,223) | (2,460) |
| Administrative expenses | (4,490) | (5,039) | (5,674) | (6,007) | (6,549) |
| Other operating expenses | (6) | (616) | 0 | 0 | 0 |
| Finance costs | (154) | (107) | (107) | (107) | (107) |
| Profit before tax | 7,549 | 6,907 | 10,983 | 12,447 | 13,431 |
| Income tax | (1,308) | (1,261) | (1,977) | (2,365) | (2,418) |
| Profit after tax | 6,241 | 5,646 | 9,006 | 10,082 | 11,014 |
| Net profit | 6,241 | 5,646 | 8,556 | 9,578 | 10,463 |

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 | 11.5 | 9.2 | 8.5 | 7.8 |
| Core P/E | N/A | 11.3 | 9.2 | 8.5 | 7.8 |
| Core P/E at target price | N/A | 16.7 | 12.9 | 12.2 | 11.1 |
| P/B | N/A | 3.8 | 2.6 | 2.3 | 1.9 |
| EV/EBITDA | N/A | 7.4 | 5.5 | 4.1 | 3.1 |
| 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% |

DISCLAIMERS AND DISCLOSURES

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

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 Advisors. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Advisors 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 contains 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, SAC Advisors 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 Advisors, SAC Capital and their 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 related services for the company whose securities are covered in the report. SAC Advisors 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 have not and will not participate in the solicitation of such business.

As at the date of this report, SAC Advisors and its associates, including SAC Capital, do not have proprietary positions in the subject company, except for:

| Party | Quantum of position |
|-------|---------------------|
| Nil | Nil |

As at the date of this report, SAC Advisors and its associates, including SAC Capital, has/have had business relations with the subject company within the past 12 months, as disclosed hereunder:

| Company | Nature of business relation | Date of business relation |
|-----------------------|-----------------------------|---------------------------|
| United Global Limited | 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 Advisors 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 Advisors or 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.