

United Global Limited

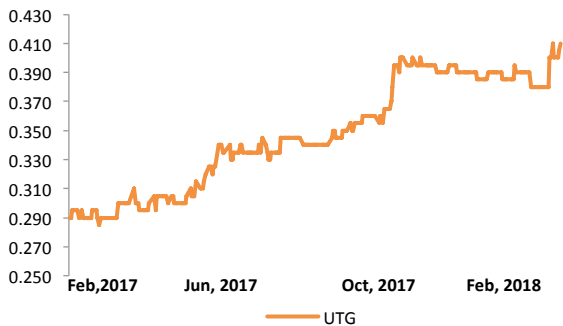
Date: 1 March 2018

BUY

Target Price: S\$0.500
(+22.0%)

UTG SP

Price: S\$0.410 (as at 28 February 2018)



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\$129.6 million US\$96.0 million
Current Price	S\$0.410
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	12,447	13,431
Net profit	3,366	6,241	5,646	9,172	9,578	10,463
% Growth	2.8%	85.4%	-9.5%	62.5%	11.9%	9.2%
Net margin (%)	2.8%	6.2%	6.2%	9.3%	10.4%	10.7%
EPS (US\$ cents)*	1.4	2.6	2.2	3.1	3.0	3.3
EPS (S\$ cents)*	1.7	3.6	3.1	4.2	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: 1.35

Powering ahead – Yet another beat

FY17 results ahead of our estimates. United Global Limited (“UTG”, “Company”, or “Group”) reported FY17 results that handily beat our estimates. Total revenue of US\$99.8 million was 6% above our full year estimates, helped by higher sales volume. The net profit attributable to shareholders came in at US\$9.2 million, handily beating our full year estimates by 7.1%. A final dividend of S\$0.007 has been declared by the Company, which - when approved at the Annual General Meeting - represent a full year dividend yield of 2.9%.

Net profit attributable to shareholders up 62.5%. Despite already upgrading our numbers in October last year to account for the strong 1H results, UTG still managed to report full year net profit ahead of our estimates. This was helped mainly by an increase in revenue contribution from Indonesia, other Asian countries and Singapore. Overall gross profit margin increased by 3.0% to 18.5% in FY17 due mainly to higher contribution from their manufacturing business segment. This however, was lower than our own estimates by 1.5%, as the change in the Group’s product mix acted as a drag on their manufacturing gross profit margins. Overall, the strong performance this year was also helped by the recognition of a one-off negative goodwill recognition of US \$1.4 million.

Maintain BUY with an unchanged target price of S\$0.50. Our current target price implies a 22.0% upside to the current price, as we maintain our FY18 and FY19 earnings forecast pending our meeting with management next week. Our target price implies a PE multiple of 12.7x and 12.2x for FY17 and FY18E respectively, which is not excessive in our view. 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.

FY17 Results

FY17 revenue and net profit were 9.0% and 62.5% higher respectively on a y-y basis. This was boosted by the consolidation of PLI accounts since June 2017, though partially offset by PLI's lower average selling price (“ASP”) and a change in the product mix.

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.

The revenue mix has changed in FY17 vs. FY16 as UTG consolidates the operations of PLI. The revenue from the manufacturing segment increased mainly due to an increase in sales volume from PLI. The drop in the trading business however, was mainly due to the elimination of the inter-group base oil and additives cross selling from their Singapore plant to PLI. This however, was mitigated by an increase in the ASP’s in the trading segment from the higher base oil price during the year.

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	FY16	FY17
Manufacturing	23.7%	21.5%
Trading	5.4%	6.9%
Group	15.5%	18.5%

Source: SAC Advisors

% of Revenue	FY16	FY17
Manufacturing	55.4%	79.6%
Trading	44.6%	20.4%
Group	100.0%	100.0%

Source: SAC Advisors

P&L Highlights US\$m	FY17E	FY17A	Comments
Revenue	94.2	99.8	Propelled by higher manufacturing volume.
Cost of sales	(75.3)	(81.3)	
Gross Profit	18.8	18.5	Dragged by a shift in product mix from the consolidation of PLI
Administrative expenses	(5.7)	(6.8)	Higher from consolidation with PLI
Profit before tax	9.0	10.6	Same comment as revenue
Net profit	8.6	9.1	Recognition of one-off negative goodwill

Source: SAC Advisors

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.

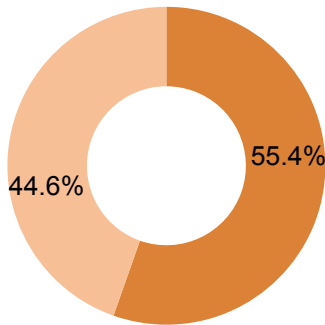
United Oil will provide a US\$4 million interest-free shareholder's loan to the JV for working capital. The loan will be disbursed in four tranches, and repayable within 2 years of disbursement for each tranche.

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%

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