

United Global Limited

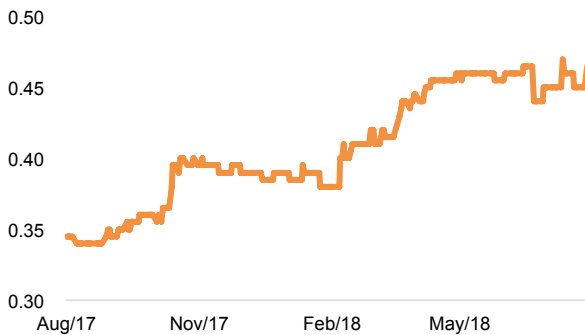
Date: 14 August 2018

BUY

Target Price: S\$0.500
(+7.5%)

UTG SP

Price: S\$0.465 (as at 13 August 2018)



Share price	1M	3M	6M	1Y
United Global	3.3%	(0.0)%	22.4%	34.8%
Catalist Index	(3.4)%	(14.1)%	(18.2)%	(18.8)%

Market capitalisation	S\$147.0 million US\$108.9 million		
Current Price	S\$0.465		
Shares outstanding	316,211,360		
Free Float	13.0%		
Major shareholder	Wiranto Tan Thuan Hor	45.5% 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

1H18 revenue ahead

1H18 revenue ahead of our estimates. United Global ("UTG", the "Group", and the "Company") reported 1H18 revenue of US\$55.5 million that came ahead (57.3%) of our FY18 estimates. 2Q18 revenue however, was 5.8% lower on a year-on-year basis after accounting for the change in product mix from the PLI acquisition. For 2Q18, revenue from their manufacturing business segment increased due to an increase in sales volume and partially offset with the decrease in average selling price. The higher sales volume was contributed by PLI of Indonesia and also in their Singapore plant. The decrease in ASP from their manufacturing business segment in 2Q18 was mainly due to the lower average selling price of PLI.

Competitive pricing and foreign exchange loss saw net profit recording a dip in 1H18. The profit for the period declined by 13.1% due to (i) changes in product mix, (ii) more competitive pricing resulting in a 6.7% slip in their overall gross profit margin and (iii) a foreign exchange loss of US\$0.4 million in 2Q18. Contributions from its Indonesian subsidiary, PLI however, saw the Group achieve a net profit attributable to shareholders of US\$3.2 million for the 1H18.

Maintain BUY with an unchanged target price of S\$0.50. Our current target price implies a 7.5% upside to the current price, as we maintain our FY18 and FY19 earnings forecast pending our meeting with management later this week. The Company has declared an interim dividend of S\$0.5 cents for 1H18, translating to a 1.1% dividend yield for this half-year. 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.

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)				11.9x	11.2x	10.3x
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

FY18 results review

1H18 revenue ahead of our estimates. UTG reported 1H18 revenue of US\$55.5 million that came ahead (57.3%) of our FY18 estimates. 2Q18 revenue however, was 5.8% lower on a year-on-year basis after accounting for the change in product mix from the PLI acquisition. For 2Q18, revenue from their manufacturing business segment increased due to an increase in sales volume and partially offset with the decrease in average selling price. The higher sales volume was contributed by PLI of Indonesia and also in their Singapore plant. The decrease in ASP from their manufacturing business segment in 2Q18 was mainly due to the lower average selling price of PLI.

% of revenue	2Q18	2Q17
Manufacturing	98.4%	52.1%
Trading	1.6%	47.9%
Group	100.0%	100.0%

Source: SAC Advisors, Company data

For the 1H18, the revenue increased by US\$9.7 million or 21.1%, from US\$45.8 million for 1H17 to US\$55.5 million for 1H18. The Group recorded a 6-months contribution from PLI which was acquired by the Group on 20 July 2017. The revenue contribution from PLI are all recorded under the manufacturing business segment. Prior to the acquisition of PLI, the Group had sold raw materials (categorised under the trading business segment) and certain finished products with minimal volume (categorised under the manufacturing business segment) to PLI. The consolidation of PLI's accounts since July 2017 eliminates the inter-group cross selling, thereby reducing both the revenue and sales volume (particularly under the trading business segment) from the Group's existing business in Singapore.



Source: Bloomberg

Competitive pricing and foreign exchange loss saw net profit recording a dip in 1H18. The profit for the period declined by 13.1% due to (i) changes in product mix, (ii) more competitive pricing resulting in a 6.7% slip in their overall gross profit margin and (iii) a foreign exchange loss of US\$0.4 million in 2Q18. Contributions from its Indonesian subsidiary, PLI however, saw the Group achieve a net profit attributable to shareholders of US\$3.2 million for the 1H18.

Maintain BUY with an unchanged target price of S\$0.50. Our current target price implies a 7.5% upside to the current price, as we maintain our FY18 and FY19 earnings forecast pending our meeting with management later this week. The Company has declared an interim dividend of S\$0.5 cents for 1H18, translating to a 1.1% dividend yield for this half-year. 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.

Recent Developments

Nano-fibre JV set to begin mass production in 3Q18

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.

During the 1H18 results release, management informed that the new nano-fibres oil absorbent JV has completed the trial run in June 2018, and is expected to begin production in the third quarter of 2018.

Background

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.

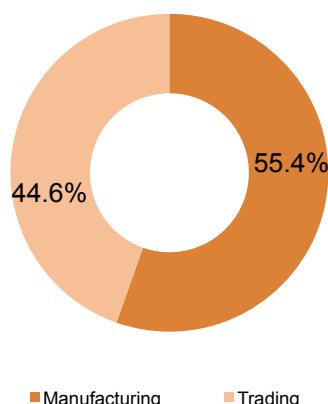
In the near term, however, we do not expect this venture to have a material impact on earnings.

"We are pleased to report that our joint venture with Japan's M-TechX Group to produce oil-absorbing nano-fibre materials for various industries, has completed its trial production recently, and is scheduled to move on to mass production in the third quarter of this year,"

~Jacky Tan, CEO and Managing Director

Company Background

Revenue Breakdown
(FY2016)



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;



United Oil



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	11.2	10.3
Core P/E	N/A	11.3	11.9	11.2	10.3
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.