

United Global Limited

Date: 22 May 2019

BUY

Target Price: S\$0.500
(+5.3%)

UTG SP

Price: S\$0.475 (as at 21 May 2019)

S\$
0.50

0.45

0.40

0.35

Jan/2018 May/2018 Sep/2018 Jan/2019 May/2019

Share price	1M	3M	6M	1Y
United Global	0.0%	8.9%	8.9%	6.5%
Catalist Index	-2.3%	-5.4%	-12.8%	-33.4%

Market capitalisation	S\$134.3 million US\$98.1 million		
Current Price	S\$0.475		
Shares outstanding	316,211,360		
Free Float	12.7%		
Major shareholder	Wiranto	39.8%	
	Tan Thuan Hor	31.0%	
Recommendation of other brokers	N/A		

Source: Company data, Bloomberg, SGX Net, SAC Advisors

Analyst

Lam Wang Kwan +65 6232 3237

lamwk@saccapital.com.sg

Terence Chua +65 6232 3236

tchua@saccapital.com.sg

United Global 1Q19 results review

United Global ("UTG", "Company", or "Group") reported revenue of US\$23.9 million for 1Q2019, a decrease of US \$7.1 million or 23.0% as compared to the US\$30.9 million revenue recorded in 1Q2018. The decrease was due to a decrease in revenue from the manufacturing business segment, which was partially offset by an increase in revenue from the trading business segment. Looking at the segmental breakdown, revenue from manufacturing segment decreased by US\$10.3 million or 34.1% mainly attributed to a decrease in sales volume due to slower business in the Group's Indonesia plant. However, the decrease was partially offset by an increase in the average selling price.

Gross profit took a dip, but gross profit margin improved. For 1Q2019, gross profit for the manufacturing segment decreased by 19.3% to US\$4.6 million while gross profit for the trading business stayed flat at US\$0.1 million. Overall, United Global's 1Q2019 gross profit decreased by US\$1.1 million or 19.0% to US\$4.7 million from US\$5.9 million recorded in 1Q2018. However, the Group's gross profit margin improved by 100 basis point from 18.9% in 1Q2018 to 19.9% in 1Q2019. The increase was attributable to higher gross margin achieved by the manufacturing business segment which recorded a 430 basis point increase from 19.1% in 1Q2018 to 23.4% in 1Q2019 due to lower raw materials cost.

Maintain BUY with an unchanged target price of S\$0.50. Our current target price implies a 5.3% upside to the current price of S\$0.475, as we keep our FY19 earnings forecast unchanged while we await further development for the discussion between United Global and Spain's Repsol Lubricantes Y Especialidades S.A. We believe that an agreement between the two parties will significantly impact the Group's financials. As of now, Our target price implies a PE multiple of 15.1x and 14.7x for FY18 and FY19E respectively. 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 15.1x 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	FY2018A	FY2019E
Revenue	118,690	99,860	91,542	99,825	108,472	102,487
% Growth	N/A	-15.9%	-8.3%	9.0%	8.7%	-5.5%
Gross profit	11,587	13,936	14,229	18,507	20,480	22,547
Gross margin (%)	9.8%	14.0%	15.5%	18.5%	18.9%	22.0%
Profit before tax	4,182	7,549	6,907	10,604	9,418	10,092
Net profit	3,366	6,241	5,646	9,251	7,680	8,276
% Growth	2.8%	85.4%	-9.5%	63.9%	-17.0%	7.8%
Net margin (%)	2.8%	6.2%	6.2%	9.3%	7.1%	8.1%
EPS (US\$ cents)*	1.4	2.6	2.2	3.1	2.4	2.5
EPS (S\$ cents)*	1.7	3.6	3.1	4.2	3.3	3.4
P/E (x)				11.7x	14.8x	14.4x
Net Debt/Equity			Net Cash	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

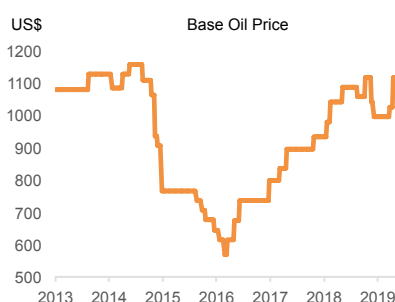
N/A: Not applicable

Exchange rate: USD/SGD: 1.37

1Q2019 results affected by manufacturing segment

Revenue Contribution (US\$ million)	1Q19	1Q18
Manufacturing	19.9	30.2
Trading	3.9	0.7
Group	23.8	30.9

Source: SAC Advisors



Source: Bloomberg, SAC Advisors

Gross profit (US\$ million)	1Q19	1Q18
Manufacturing	4.6	5.8
Trading	0.1	0.1
Group	4.7	5.9

Source: SAC Advisors

Gross margin	1Q19	1Q18
Manufacturing	23.4%	19.1%
Trading	2.0%	10.7%
Group	19.9%	18.9%

Source: SAC Advisors

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Gross profit took a dip, but gross profit margin improved. For 1Q2019, gross profit for the manufacturing segment decreased by 19.3% to US\$4.6 million while gross profit for the trading business stayed flat at US\$0.1 million. Overall, United Global's 1Q2019 gross profit decreased by US\$1.1 million or 19.0% to US\$4.7 million from US\$5.9 million recorded in 1Q2018. However, the Group's gross profit margin improved by 100 basis point from 18.9% in 1Q2018 to 19.9% in 1Q2019. The increase was attributable to higher gross margin achieved by the manufacturing business segment which recorded a 430 basis point increase from 19.1% in 1Q2018 to 23.4% in 1Q2019 due to lower raw materials cost.

Maintain BUY with an unchanged target price of S\$0.50. Our current target price implies a 5.3% upside to the current price of S\$0.49, as we keep our FY19 earnings forecast unchanged while we await further development for the discussion between United Global and Spain's Repsol Lubricantes Y Especialidades S.A. (refer to page 3). We believe that an agreement between the two parties will significantly impact the Group's financials. However, due to the uncertainty, it will not be appropriate to include the assumption of its success in our financial model at this point and thus we withhold from making adjustment to our financial projection until further announcement. As of now, Our target price implies a PE multiple of 15.1x and 14.7x for FY18 and FY19E respectively, which is not excessive in our view. United Global is also in a net cash position. 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 15.1x FY18 P/E.

Recent Developments

Extension of non-binding MOU with Repsol

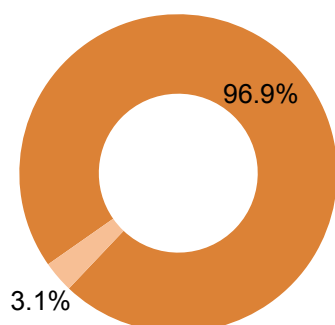
On 22 October 2018, United Global announced the signing of non-binding memorandum of understanding (“**MOU**”) with Spain’s Repsol Lubricantes Y Especialidades, S.A. (“**Repsol**”), which shall continue in force for a period of six months from the date of the MOU, and with the option to extend for a further six months subject to mutual agreement.

Pursuant to the MOU, Repsol is to perform a feasibility study to explore the acquisition of an equity stake in United Oil Company Pte Ltd, a wholly-owned subsidiary of United Global. Upon the completion of the Feasibility Study, the Company and Repsol will discuss whether to proceed with the equity stake acquisition and to negotiate the terms and conditions of the definitive agreement to be executed.

On 23 April 2019, United Global released an update that the MOU had been extended for a period of six months to October 2019. All the other terms and conditions of the MOU remain unchanged.

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

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Company	Nature of business relation	Date of business relation
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