United Global Limited

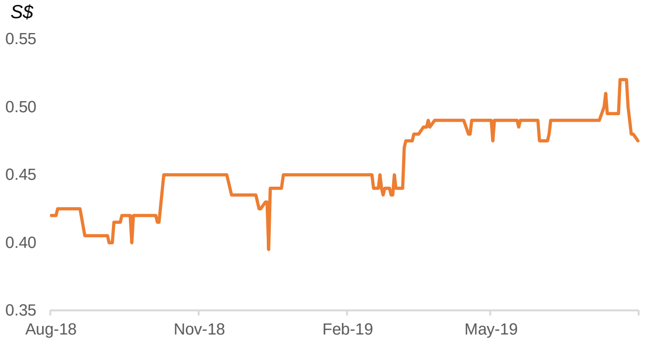
Date: 20 August 2019

HOLD

Target Price: S$0.500 (+5.3%)

UTG SP

Price: S$0.475 (as at 19 August 2019)



Share price	1M	3M	6M	1Y
United Global	-3.1%	-3.1%	5.6%	13.1%
Catalist Index	-4.9%	-4.6%	-9.7%	-26.5%

Market capitalisation	S$150.2 million US$109.6 million	
Current Price	S$0.475	
Shares outstanding	316.2 million	
Free Float	12.7%	
Major shareholder	Wiranto Tan Thuan Hor	39.8% 31.0%
Recommendation of other brokers	N/A	

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

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1H19 results review

1H19 revenue rose 14.0% to US$63.3m, on the back of higher trading revenue from sales to a joint venture in 2Q. Trading operations accounted for 34% of 1H revenue, but only marginally to earnings. Manufacturing revenue fell 23.5% year-on-year to US$41.6m, impacted by a slowdown in Indonesia due to the Lebaran and General Election. Higher revenue from low-margined trading operations drove gross margin lower by 1.8 percentage point to 15.9%.

**1H19 net profit surged 46.2% to US$4.6 million,** thanks to a stronger Indonesian Rupiah. In Indonesia, the raw materials are priced in US$ (about 80% of COGS), while sales are denominated in Rupiah. On the other hand, sales out of Singapore to the rest of Asia Pacific are transacted in US$, while costs are in S$.

Restructured sales team to improve manufacturing sales. The group restructured its Indonesian sales team in May 2019 to address the fall in revenue from manufacturing, and to win market share.

Maintain our earnings estimate for FY19E. We expect average selling price to track the lower crude oil price, leading to lower revenue in 2H19. Net margins are likely to trend higher to 8.1%, with a higher proportion of sales from manufacturing, offset by the additional costs to restructure the Indonesian sales team.

Our DCF valuation (cost of equity: 9.9%, terminal growth: 2%) arrived at a target price of S$0.50, which is near to current share price. We therefore change our rating to HOLD. Likely catalysts for re-rating are: 1) if it successfully sealed a favourable deal with Spain's Repsol Lubricantes Y Especialidades S.A. (refer to page 3); 2) an upswing in demand from the industrial and auto sectors in the region. Our target price implies a PE multiple of 15.1x and 14.7x for FY18 and FY19E respectively. Balance sheet is sitting on net cash.

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

Key Financials

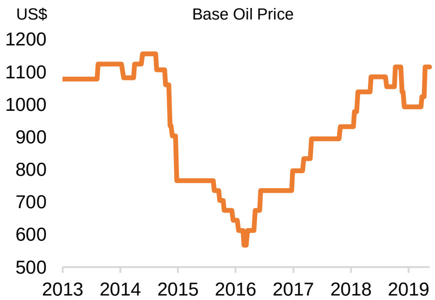
Year ended Dec (US$'000)	FY2014A	FY2015A	FY2016A	FY2017A	FY2018A	FY2019E
Revenue	118,690	99,860	91,542	99,825	108,472	102,487
% Growth	N/A	-15.9%	-8.3%	9.0%	8.7%	-5.5%
Gross profit	11,587	13,936	14,229	18,507	20,480	22,547
Gross margin (%)	9.8%	14.0%	15.5%	18.5%	18.9%	22.0%
Profit before tax	4,182	7,549	6,907	10,604	9,418	10,092
Net profit	3,366	6,241	5,646	9,251	7,680	8,276
% Growth	2.8%	85.4%	-9.5%	63.9%	-17.0%	7.8%
Net margin (%)	2.8%	6.2%	6.2%	9.3%	7.1%	8.1%
EPS (US$ 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

1H19 results boosted by higher trading volume

Revenue Contribution (US$ million)	1H19	1H18
Manufacturing	**41.6**	54.4
Trading	**21.7**	1.1
Group	**63.3**	**55.5**

Source: SAC Advisors



Source: Bloomberg, SAC Advisors

Gross profit (US$ million)	1H19	1H18
Manufacturing	**9.8**	9.7
Trading	**0.3**	0.1
Group	**10.1**	**9.8**

Source: SAC Advisors

Gross margin	1H19	1H18
Manufacturing	**23.4%**	17.9%
Trading	**1.5%**	9.4%
Group	**15.9%**	**17.7%**

Source: SAC Advisors

United Global posted 1H19 revenue of US$63.3m, a 14.0% yoy increase, or US$7.8m. The increase was mainly attributed to higher trading volume from an one-off sale to a joint venture partner in 2Q. Revenue from the manufacturing segment dipped 23.5% to US$41.7m due to lower volume from the Group's Indonesia plant, despite a higher average selling price. According to the Management, the slower sales were largely due to Lebaran and General Election. The one-off sale to the JV lifted trading revenue by US$20.5m increase to US$21.7m.

1H19 net profit surged 46.2% to US$4.6m. Gross profit margin of the manufacturing segment improved by 5.5% point to 23.4% in 1H19. While the cost of raw materials declined, there was a lag of about 2 months in the adjustment of the average selling prices. On the other hand, trading segment saw gross profit margin declined by 7.9% point to 1.5% for 1H19, impacted by the one-off sales to a joint venture. Overall, gross profit margin eased 1.8% point to 15.9% in 1H19.

Gross profit edged higher by 2.5% to US$10.1 million. Net profit rose by a stronger 46.2% to US$4.6m due to the stronger Rupiah. In Indonesia, sales are denominated in Rupiah while raw materials are paid in US$. On the other hand, sales booked out of Singapore are denominated in US$, while costs are incurred in S$.

Restructured sales team to improve manufacturing sales. United Global recently restructured its sales team in Indonesia while it seek to address the slide of manufacturing sales, and to garner market share. United Global hired a number of new sales personnel, who previously worked with other major oil and gas companies, and expanded its sales team to 10 headcount. The Group is also working on improving the productivity and efficiency of the Indonesia plant.

Change our call to HOLD. At the time of publication of this report, United Global's share price had hit our target price of S$0.50. We are maintaining our earnings forecast and target price. Our target price implies a PE multiple of 15.1x and 14.7x for FY18 and FY19E respectively. United Global is in a net cash position. Our target price of S$0.50 is derived from DCF valuation (cost of equity: 9.9%; terminal growth: 2.0%).

Potential catalysts for re-rating will take place if: 1) it conclude its discussions with Spain's Repsol Lubricantes Y Especialidades S.A. (refer to page 3) with a firm deal favourable to United Global. The two parties have until Oct 2019 to arrive at a decision; 2) an upswing in demand from the industrial and auto sectors in the region.

Recent Developments

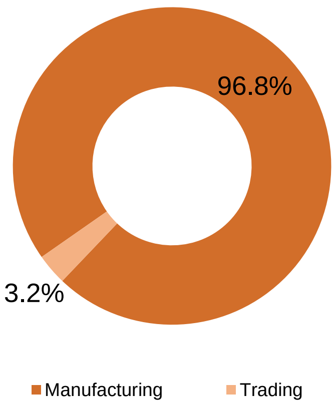
Extension of non-binding MOU with Repsol

On 22 October 2018, United Global announced the signing of non-binding memorandum of understanding with Spain's Repsol Lubricantes Y Especialidades, S.A. ("**Repsol**"). The parties agreed to extend the deadline for the negotiation to October 2019.

Repsol is exploring the possibility of acquiring a stake in United Oil Company Pte Ltd, currently 100%-owned by United Global. United Oil Company Pte Ltd is the main operating vehicle of the group, which also owns 95% of the Indonesia arm.

Company Background

Revenue Breakdown (FY2018)



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	• Automotive • Industrial • Marine • Specialty Fluids • Metal Working Fluids
Trading	• Includes lubricants not manufactured by them

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