

United Global Limited

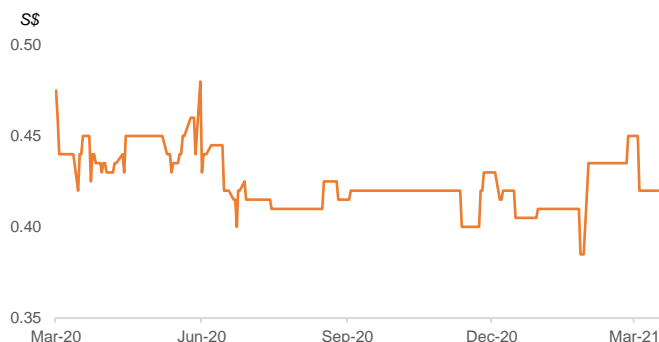
Date: 18 March 2021

HOLD

Target Price: S\$0.445
(+6.0%)

UTG SP

Price: S\$0.420 (as at 17 March 2021)



Share price	1M	3M	6M	1Y
United Global	-3.4%	+3.7%	0.0%	-4.5%
Catalist Index	-3.1%	+7.2%	+12.0%	+62.7%

Market capitalisation	S\$132.8 million US\$99.1 million		
Current Price	S\$0.420		
Shares outstanding	316.2 million		
Free Float	11.8%		
Major shareholder	Wiranto 39.9% Tan Thuan Hor 32.9% Wiranto Edy 6.6%		
Recommendation of other brokers	N/A		

Source: Company data, Bloomberg, SAC Capital

Analyst

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Seeking new business opportunities

De-consolidation of key lubricant business. Following the disposal of a 40% stake in the lubricant business in Dec 2019, United Global equity-accounted for its 60% share of profit, or US\$5.4m in FY2020. Revenue therefore shrunk to a mere US\$175,000, derived from the manufacture of nano-fibre oil absorbent materials. This unit is still running at sub-optimal level. With the absence of a one-off disposal gain of US\$62m in FY2019, net profit fell to US\$3.2m.

Performance of the lubricant business. Revenue from the lubricant unit under UOC fell 18.2% to US\$89.7m, a result of lower product prices and demand. However, gross profit rose 3.8% to US\$22.5m due to lower cost of production in line with lower crude oil prices. Gross margin gained 5.3ppt to 25.1%. Net profit was 10.7% higher at US\$11.0m.

Embarking on new businesses. With net cash and cash equivalent of US\$35m (S\$0.147/share), it has embarked on three new businesses: 1) logistics or shipping businesses, 2) trading of petrol related products, and 3) materials recycling. These businesses are unlikely to contribute significantly in the next 2 years.

Maintain HOLD. The stock is trading at near book value of US\$0.314. With the lack of near-term catalyst, and earnings visibility from the new businesses, we do not expect any significant upward share price re-rating. While global economic recovery post-COVID is likely to benefit the lubricant business, cash contribution to UGL is limited to dividend distribution from the unit. Hence, we maintain our HOLD rating a target price of S\$0.445.

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

Key Financials

Year ended Dec (US\$'000)	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021E
Revenue	91,542	99,825	108,472	102,471	175	174
Growth (%)	-8.3%	9.0%	8.7%	-5.5%	-99.8%	5.0%
Gross profit	14,229	18,507	20,480	19,703	(264)	(244)
Share of profit of JV	0	7	38	4	5,393	4,838
Profit before tax	6,907	10,604	9,418	68,254	3,241	3,428
Net profit	5,646	9,172	7,599	66,463	3,241	3,342
Growth (%)	-9.5%	62.5%	-17.2%	774.6%	-95.1%	8.1%
EPS (US cents)*	2.2	3.1	2.4	21.0	1.0	1.1
EPS (S cents)*	3.4	1.6	3.2	28.2	1.4	1.4
P/E (x)	12.1	26.0	12.9	1.5	30.6	29.2
Net Debt/Equity	Net cash	Net cash	Net cash	Net cash	Net cash	Net cash

Exchange rate: USD/SGD: 1.34

Seeking new business opportunities

United Global (US\$'000)	FY20	FY19
Revenue	175 ⁽¹⁾	102,471
Gross Profit	(264)	19,703
Share of profit of JV	5,393	4
Net Profit	3,240	66,545

⁽¹⁾ Revenue generated from manufacturing nano-fibre oil absorbent materials for joint venture company, M-TechX United Pte Ltd. Post-disposal of partial stake in UOC, results from the Group's lubricants business is reported as a line item in the profit and loss statements as "Share of profit of joint ventures".

UOC Group (US\$'000)	FY20	FY19
Revenue	89,664	109,604
Gross Profit	22,484	21,652
Gross Margin	25.1%	19.8%
Net Profit	10,987	9,921

Source: Company Data, SAC Capital

First post-disposal full year results. United Global reported a revenue of US\$175,000 for FY2020, consisting only of sales generated from its nano-fibre oil absorbent manufacturing business. The Group recorded gross losses of US\$264,000 as the unit's capacity is operating at low utilisation and unable to cover the fixed overheads. Share of profit of joint ventures (mainly arising from the Group's 60% share in the lubricant business under UOC) stood at US\$5.4 million for the full year. For the year, the Group also wrote down the value of its inventories by US\$1.0 million. Overall, the Group achieved a net profit of US\$3.2 million for its first full year earnings report post the disposal of the 40% stake.

Performance of the lubricant business. UOC reported a 18.2% fall in revenue from US\$109.6 million in FY2019 to US\$89.7 million in FY2020 due to a decline in revenue for both manufacturing and trading businesses. Manufacturing sales were down by 2.4% yoy mainly due to lower average selling price while trading revenue decreased by 92.8% in the absence of a one-time trading agreement with a joint venture partner. Despite the fall in revenue, overall gross profit increased by 3.8% yoy to US\$22.5 million due to higher gross margin from both segments. Manufacturing business recorded a 1.9 percentage points increase in gross profit margin from 23.4% in FY2019 to 25.3% in FY2020 attributed to lower materials cost for the year while trading business recorded a 7.0 percentage points increase in gross profit margin due to higher average trading price. As a result, the overall margin improved by 5.3 percentage point to 25.1% in FY2020. Overall, profit for the year for UOC stood at US\$11.0 million, 10.7% higher yoy.

Looking for new business opportunities. On top of its lubricant business and its nano-fibre oil absorbent manufacturing business, United Global has identified three new business segments to grow recurring revenue. These are 1) logistics or shipping businesses, 2) trading of petrol related products and 3) materials recycling and sustainability businesses.

On 26 January 2021, United Global, acquired an indirect 22.05% stake in PT Latitude Inti Mitra Abadi (LIMA) for US\$2.0 million. PT LIMA is a logistics company that operates in the Indonesian and Malaysian waters. It owns five sets of tugboats and barges, and one container vessel.

Maintain our call at HOLD. While the Group's lubricant business had continued to perform, its contribution is now limited to the 60% shareholding in UOC Group. As the Group continues to actively look for new opportunities to expand and diversify its business, its strong net cash of US\$35 million will allow United Global to embark on its growth and expansion plans. In the meantime, we maintain our Hold call at the target price of S\$0.445 per share amidst the lack of near-term catalysts.

Income Statement (US\$'000)

FYE Dec	FY2017	FY2018	FY2019	FY2020	FY2021E
Revenue	99,825	108,472	102,471	175	174
Cost of sales	(81,318)	(87,992)	(82,768)	(439)	(418)
Gross profit	18,507	20,480	19,703	(264)	(244)
Other income	1,714	301	62,828	1,174	1,252
Distribution cost	(2,470)	(2,902)	(2,332)	(23)	(25)
Administrative expenses	(6,837)	(8,154)	(11,700)	(2,016)	(2,144)
Other expenses	(40)	(81)	(61)	(1,018)	(61)
Share of profit of joint venture	7	38	4	5,393	4,838
Finance expenses	(277)	(264)	(188)	(5)	(188)
Profit before tax	10,604	9,418	68,254	3,241	3,428
Income tax expense	(1,353)	(1,738)	(1,709)	(1)	(86)
Profit for the year	9,251	7,680	66,545	3,240	3,342
Profit/(loss) attributable to:					
Owners of the Company	9,172	7,599	66,463	3,241	3,342
Non-controlling interests	79	81	82	(1)	0
Basic and diluted earnings per share (US\$ cents)	3.10	2.40	21.00	1.02	1.06

Cash Flow Statement (US\$'000)

FYE Dec	FY2017	FY2018	FY2019	FY2020	FY2021E
Profit before tax	10,604	9,418	68,254	3,241	3,428
Depreciation of PPE	404	774	988	404	202
Share of profit of joint ventures	(7)	(38)	(4)	(5,393)	(4,838)
Others	(3,008)	(1,913)	(62,395)	712	(86)
Changes in working capital	(3,448)	(3,938)	14,332	(2,932)	2
Net Cash (used in)/ from operations	4,545	4,303	21,175	(3,968)	(1,292)
Purchase of PPE	(853)	(693)	(246)	(11)	(298)
Others	(5,329)	(1,344)	22,320	6,091	0
Financial Assets	0	0	0	(25,000)	0
Net Cash (used in)/ from investing	(6,182)	(2,037)	22,074	(18,920)	(298)
Net Increase in Debt	216	(1,866)	(8,459)	0	0
Dividends paid	(2,174)	(2,835)	(1,162)	(7,137)	(668)
Others	611	(20)	(29)	(34)	0
Net Cash (used in)/ from financing	(1,347)	(4,721)	(9,650)	(7,171)	(668)

Balance Sheet (US\$'000)

FYE Dec	FY2017	FY2018	FY2019	FY2020	FY2021E
Cash and bank balances	10,555	7,536	39,775	9,716	10,251
Financial Assets	0	0	0	25,000	25,000
Trade and Other Receivable	19,650	21,850	12,786	3,512	8,979
Inventories	13,064	15,073	185	2,045	331
Others	239	713	0	5	0
Total current assets	43,508	45,172	52,748	40,282	44,561
PPE	8,135	10,328	2,822	2,381	2,999
Investment in joint ventures	179	569	54,248	59,503	63,688
Others	4,853	3,626	6	0	6
Total non-current assets	13,167	14,523	57,076	61,884	66,694
Total assets	56,675	59,695	109,824	102,166	111,255
Bank Borrowings	8,930	7,145	0	0	0
Trade and Other Payables	9,564	10,653	6,443	2,865	2,726
Finance leases	57	37	36	38	36
Others	3,627	3,566	1	0	1
Total current liabilities	22,178	21,401	6,480	2,903	2,763
Bank Borrowings	21	0	0	0	0
Finance leases	152	111	77	40	77
Others	667	820	0	0	0
Total non-current liabilities	840	931	77	40	77
Share capital	21,425	21,425	21,425	21,425	21,425
Reserves	(3,413)	(4,495)	(2,988)	(3,135)	(2,988)
Retained earnings	14,758	19,522	84,830	80,934	89,977
Equity attributable to owners of the Company	32,770	36,452	103,267	99,224	108,414
Non-controlling interests	887	911	0	(1)	0
Total equity	33,657	37,363	103,267	99,223	108,414
Total equity and liabilities	56,675	59,695	109,824	102,166	111,255

Ratios

FYE Dec	FY2017	FY2018	FY2019	FY2020	FY2021E
Profitability (%)					
Gross profit/(loss) margin	18.5	18.9	19.2	n.m.	n.m.
Profit/(loss) before tax margin	10.6	8.7	66.6	n.m.	n.m.
Net margin	9.2	7.0	64.9	n.m.	n.m.
Liquidity (x)					
Current ratio	2.0	2.1	8.1	13.9	16.1
Quick ratio	1.4	1.4	8.1	13.2	16.0
Net Debt to Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	26.0	12.9	1.5	30.1	29.2
P/E (ex-cash)	9.5	11.9	0.9	27.1	18.7
P/B	2.9	2.6	0.9	1.0	0.9
Returns (%)					
Return on equity	36.2	22.0	95.1	3.2	3.1
Return on asset	20.2	13.1	78.4	3.1	3.0
Dividend payout ratio	0.0	10.4	1.7	220.2	20.0

n.m.: not meaningful

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