25 February 2021

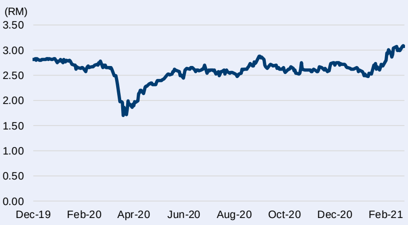
Outthink. Outperform.

AFFIN HWANG CAPITAL

Results Note | **RM3.07 @ 24 February 2021**

"A robust set of earnings and DPS surprises"

Share price performance



	1M	3M	12M
Absolute (%)	14.6	18.5	15.4
Rel KLCI (%)	17.0	19.7	10.0

	BUY	HOLD	SELL
Consensus	2	1	-

Source: Bloomberg

Stock Data

Sector	Technology
Issued shares (m)	451.5
Mkt cap (RMm)/(US$m)	1,386.3/343.1
Avg daily vol - 6mth (m)	1.2
52-wk range (RM)	1.70-3.17
Est free float	60.5%
Stock Beta	0.86
Net cash / (debt) (RMm)	156.7
ROE (CY21E)	47.8%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Eastbow International	18.5%
Ironbridge Worldwide	7.8%
Public Mutual	5.6%

Source: Affin Hwang, Bloomberg

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Uchi Technologies (UCHI MK)

BUY (maintain)
Up/Downside: +26%

Price Target: RM3.88
Previous Target (Rating): RM2.92 (Buy)

Profits and DPS above expectations

- **Another record quarter as both revenue and earnings surge**
- **FY20 results grossly above expectations on stronger-than-expected revenue and margins**
- **Maintain BUY with a higher TP of RM3.88. Yields at ~5-6% are attractive**

Revenue and earnings surged further in 4Q20

4Q20 revenue and core profit surged by 33% and 41% qoq respectively, even after the strong previous quarter, which had recovered from order backlogs due to production halts during the Movement Control Order (MCO) in 2Q20. With the strong revenue and hence better operating leverage coupled with favourable revenue mix, EBITDA margin further improved by 2.9ppts qoq. Overall, this has been the strongest quarter ever reported by Uchi, both in terms of revenue and profit, which we believe is being underpinned by strong demand for household appliances spurred by the work-from-home trend.

2020 results above expectations, DPS ahead of expectations

Cumulatively, Uchi's 2020 core profit of RM85m (+10% yoy) came in above expectations, accounting for 120% and 124% of our and the street's full-year estimates respectively. Revenue in US$ terms had contracted by 1.8% yoy and we believe this was also better than management's earlier revenue guidance of a single-digit decline. The earnings surprise was largely due to a combination of better-than-expected revenue and EBITDA margin. DPS for the full year amounted to 17 sen (FY19: 16 sen), which was also a positive surprise.

Maintain BUY with a higher 12-month TP of RM3.88

We update our 2021-22E EPS to incorporate the FY20 financial results and also introduce our 2023E EPS of 21.2sen (+6% yoy). We lift our target price to RM3.88 based on a higher target PE of 21x or +2SD its 5-year historical mean, on 2021E EPS (from RM2.92 based on a PE of 18x or +1SD). While valuations are high relative to historical average, the stock continues to trade at a significant discount to sector PE mean. Given the ample market liquidity and stock's attractiveness as a high-quality dividend play, we think that stock PE multiples can continue to re-rate. We also like Uchi for its strong relationship with its key customer and how it remains the sole supplier of its coffee modules. Its customer, which manufactures deep freezers used within the vaccine logistics supply chain, could provide a near-term earnings catalysts. Key risks include weaker demand, weaker RM against the US$ and gain/loss of customers.

Earnings & Valuation Summary

FYE 31 Dec	2019	2020	2021E	2022E	2023E
Revenue (RMm)	156.7	155.3	167.2	175.8	186.7
EBITDA (RMm)	84.4	89.8	93.6	96.7	102.7
Pretax profit (RMm)	79.0	84.6	90.2	93.2	98.8
Net profit (RMm)	75.9	83.8	87.3	90.1	95.6
EPS (sen)	16.8	18.6	19.3	20.0	21.2
PER (x)	18.2	16.5	15.9	15.4	14.5
Core net profit (RMm)	77.4	85.2	87.3	90.1	95.6
Core EPS (sen)	17.1	18.9	19.3	20.0	21.2
Core EPS growth (%)	15.5	10.1	2.5	3.2	6.1
Core PER (x)	17.9	16.3	15.9	15.4	14.5
Net DPS (sen)	16.0	17.0	18.0	18.0	20.0
Dividend Yield (%)	5.2	5.5	5.9	5.9	6.5
EV/EBITDA	14.8	13.7	13.2	12.7	11.9
Chg in EPS (%)			+16.5	+14.8	new
Affin/Consensus (x)			1.2	1.1	-

Source: Company, Affin Hwang estimates

Fig 1: Results Comparison

FYE Dec (RMm)	4Q FY19	3Q FY20	4Q FY20	QoQ % chg	YoY % chg	FY19	FY20	YoY % chg	Comments
Revenue	39.4	40.4	53.6	*32.5*	*35.8*	156.7	155.2	*(0.9)*	While FY20 revenue is lower due to the pandemic, revenue has improved strongly over the past 2 quarters
Op costs	(17.1)	(14.8)	(18.0)	*21.8*	*5.6*	(72.2)	(65.4)	*(9.4)*	
EBITDA	**22.4**	**25.6**	**35.5**	***38.7***	***58.9***	**84.4**	**89.8**	***6.4***	
EBITDA margin (%)	*56.7*	*63.4*	*66.3*	*2.9ppt*	*9.6ppt*	*53.9*	*57.9*	*4.0ppt*	Improvement driven by revenue mix
Depn and amort	(1.6)	(1.6)	(1.6)	*(0.9)*	*(4.9)*	(7.0)	(6.4)	*(8.0)*	
EBIT	20.7	24.0	34.0	*41.3*	*64.0*	77.5	83.4	*7.7*	
Int expense	0.0	0.0	0.0	-	-	0.0	0.0	-	
Int and other inc	0.8	0.6	0.5	*(9.0)*	*(39.7)*	3.0	2.6	*(13.5)*	
Exceptional items	(1.0)	(0.8)	(2.1)	*174.5*	*101.7*	(1.4)	(1.4)	*(4.8)*	Forex losses for the quarter
Pretax	**20.5**	**23.8**	**32.4**	***35.9***	***57.8***	**79.0**	**84.6**	***7.1***	
Tax	(0.8)	(0.1)	(0.0)	*(72.5)*	*(96.5)*	(3.1)	(0.8)	*(73.5)*	
Tax rate (%)	*3.9*	*0.4*	*0.1*	*n.m*	*n.m*	*3.9*	*1.0*	*n.m*	
Net profit	**19.7**	**23.7**	**32.3**	*36.3*	*64.0*	**75.9**	**83.8**	*10.4*	
EPS (sen)	4.5	5.4	7.4	*36.3*	*64.0*	17.4	19.2	*10.4*	
Core net profit	**20.8**	**24.5**	**34.4**	*40.7*	*65.9*	**77.4**	**85.2**	*10.1*	Above expectations - 20% above our forecast and a higher 24% above street 2020 estimates

Source: Affin Hwang, Company

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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