

HLIB Research

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BUY (Maintain)**Target Price:****RM3.83****Previously:****RM3.83****Current Price:****RM3.04**

Capital upside	26.0%
Dividend yield	5.6%
Expected total return	31.6%

Sector coverage: EMS

Company description: Uchi is a renowned original design manufacturer (ODM) of electronic control modules based in Penang, Malaysia.

Share price

Historical return (%)	1M	3M	12M
Absolute	-3.8	-1.0	16.9
Relative	-1.6	-0.4	6.9

Stock information

Bloomberg ticker	UCHIMK
Bursa code	7100
Issued shares (m)	452
Market capitalisation (RM m)	1,375
3-mth average volume ('000)	1,646
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★★

Major shareholders

Eastbow International Ltd	18.4%
Ironbridge Worldwide Ltd	7.8%
Public Mutual	5.6%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI – core (RM m)	82.9	87.0	91.4
EPS – core (sen)	18.3	19.2	20.1
P/E (x)	16.6	15.8	15.1

Uchi Technologies

Highest ever 1Q since 2007 despite seasonal weakness

Uchi reported 1Q21 revenue of RM39.6m (-26.1% QoQ; +11.4% YoY) and core PAT of RM20.6m (-35.7% QoQ; +28.2% YoY). This came in within our and consensus expectations at 23.7% and 23.8% of full year forecasts. Management has guided for low single digit revenue growth in USD for FY21 buoyed by strong demand from the Art of Living segment. Maintain BUY, TP of RM3.83 is unchanged based on PE multiple of 19x pegged to FY22 EPS. We like Uchi for its (i) stable earnings drivers being the sole supplier and R&D partner for its customers; (ii) involvement in indispensable market of coffee and biotech division that could serve as future catalysts in this pandemic era; (iii) business commanding higher margin vs peers; and (iv) decent dividend yield of ~6%.

Within expectations. Uchi reported 1Q21 results with revenue of RM39.6m (-26.1% QoQ; +11.4% YoY) and core PAT of RM20.6m (-35.7% QoQ; +28.2% YoY). This came in within our and consensus expectations accounting for 23.7% and 23.8% of full year forecasts, respectively. Core PAT was arrived after adjusting for (i) forex gain (-RM2.1m); (ii) loss on disposal of PPE (+RM16k); and (iii) loss on derivative of financial instrument (+RM2.6m).

Dividend. None declared (1Q20: None). Uchi typically declares dividend later on in the financial year.

QoQ. Revenue declined by -26.1% to RM39.6m on the back of (i) seasonal weakness as sales for the group is historically stronger in the 2H; and (ii) weaker USD (1Q21: RM4.04/USD vs 4Q20: RM4.13/USD). Note that 1Q21 was affected by 10-day temporary plant closure from 25 Jan to 4 Feb due to positive Covid-19 cases among its employees. Subsequently, core PAT fell by -35.7% to RM20.6m on the back of decline in sales and lower EBITDA margin recorded (-6.7ppt).

YoY. Top line climbed by 11.4% due to robust demand for the group's products and services. Sales increased in Europe (+12.6%) and USA (>100%) which more than offset the decline in Asia Pacific (-42.1%). Core PAT staged an encouraging growth of +28.2% from better EBITDA margin recorded (+6.1ppt) coupled with lower effective tax rate (1Q21: 0.7%, 1Q20: 2.8%).

Outlook. Despite Covid-19 headwinds, we are impressed by the group's resilience in maintaining growth trajectory with a steady pace of revenue increase. Management has guided for low single digit revenue growth in USD for FY21 buoyed by strong demand from the Art of Living segment. With dividend yield of c.6%, Uchi remains an attractive stock as we opine the demand for its coffee machines to remain robust taking cue from its main Customer J's active expansion into new markets. Additionally, with the vaccine development against Covid-19 picking up at urgent pace, we see potential for growing biotech contribution from the production of ultra-low temperature control modules.

Forecast. Unchanged.

Maintain BUY, TP of **RM3.83** is unchanged based on PE multiple of 19x pegged to FY22 EPS. We like Uchi for its (i) stable earnings drivers being the sole supplier and R&D partner for its customers; (ii) involvement in indispensable market of coffee and biotech division that could serve as future catalyst in this pandemic era; (iii) business commanding higher margin vs peers; and (iv) decent dividend yield of ~6% with tendency to tilt on the high side, acting as an support of any downside risk.

Financial Forecast

All items in (RM m) unless otherwise stated

Income statement

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Revenue	156.7	155.3	165.6	173.6	180.0
COGS	(74.3)	(69.2)	(74.3)	(78.3)	(82.6)
EBITDA	82.3	86.1	91.2	95.3	97.4
D&A	(6.9)	(6.4)	(6.2)	(6.0)	(5.9)
EBIT	75.4	79.7	85.0	89.2	91.5
Net Interest Income	3.0	2.6	2.8	3.0	3.2
Associates	0.7	2.4	-	-	-
PBT	79.0	84.6	87.8	92.3	94.7
Tax	(3.1)	(0.8)	(0.9)	(0.9)	(0.9)
Reported PAT	75.9	83.8	87.0	91.4	93.8
Exceptionals	(0.3)	(0.9)	-	-	-
Core PAT	75.7	82.9	87.0	91.4	93.8
HLIB/Consensus			101%	105%	100%

Balance sheet

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Cash	136.9	156.7	168.8	180.0	190.7
Receivables	13.9	18.8	18.1	19.0	19.7
Inventories	16.5	15.3	15.3	16.1	17.0
PPE	45.5	40.8	38.6	37.6	36.7
Other	17.3	20.0	20.0	20.0	20.0
Assets	230.1	251.6	260.8	272.7	284.1
Payables	31.1	35.9	34.6	36.5	38.5
Provision for warranty	1.6	1.4	1.4	1.4	1.4
Other	35.2	35.0	35.0	35.0	35.0
Liabilities	67.9	72.2	71.0	72.8	74.8
Share capital	70.8	74.6	74.6	74.6	74.6
Retained earnings	86.3	98.2	108.6	118.6	128.0
Others	5.0	6.6	6.6	6.6	6.6
Equity	162.2	179.4	189.8	199.9	209.2

Cash Flow Analysis

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
PBT	75.9	83.8	87.8	92.3	94.7
D&A	6.9	6.4	6.2	6.0	5.9
Working capital	2.9	2.1	(0.6)	0.1	0.4
Taxation	(3.7)	(2.1)	(0.9)	(0.9)	(0.9)
Others	2.0	(4.5)	1.0	-	-
CFO	84.1	85.7	93.6	97.6	100.1
Capex	(0.7)	(0.7)	(5.0)	(5.0)	(5.0)
Others	3.0	3.1	-	-	-
CFI	2.3	2.5	(5.0)	(5.0)	(5.0)
Dividends	(62.8)	(71.9)	(76.5)	(81.3)	(84.4)
Others	0.8	3.8	-	-	-
CFF	(62.1)	(68.1)	(76.5)	(81.3)	(84.4)
Net CF	24.3	20.0	12.1	11.2	10.7
Beginning cash	113.7	136.9	156.7	168.8	180.0
Forex	(1.1)	(0.3)	-	-	-
Ending cash	136.9	156.7	168.8	180.0	190.7

Quarterly financial summary

FYE Dec	1Q20	2Q20	3Q20	4Q20	1Q21
Revenue	35.6	25.7	40.4	53.6	39.6
COGS	(18.3)	(12.6)	(17.3)	(20.7)	(18.0)
EBITDA	17.3	13.2	23.1	32.8	21.7
D&A	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
EBIT	15.6	11.6	21.5	31.3	20.1
Net Interest Income	3.2	0.3	0.4	(1.2)	2.8
Associates	(2.3)	0.2	1.9	2.3	(2.6)
PBT	16.5	12.0	23.8	32.4	20.3
Tax	(0.5)	(0.2)	(0.1)	(0.0)	(0.2)
Reported PAT	16.0	11.8	23.7	32.3	20.2
Exceptionals	0.1	0.6	(1.3)	(0.3)	0.4
Core PAT	16.1	12.4	22.4	32.1	20.6

Valuation Ratios

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
Core EPS (sen)	16.7	18.3	19.2	20.1	20.7
P/E (x)	18.2	16.6	15.8	15.1	14.7
EV/EBITDA (x)	15.1	14.2	13.3	12.6	12.2
DPS (sen)	16.0	17.0	17.0	18.0	18.7
Dividend yield (%)	5.3	5.6	5.6	5.9	6.2
BVPS (RM)	0.4	0.4	0.4	0.4	0.5
P/B (x)	8.5	7.6	7.2	6.9	6.6
EBITDA margin	52.5	55.4	55.1	54.9	54.1
EBIT margin	48.1	51.3	51.4	51.4	50.8
PBT margin	50.5	54.5	53.1	53.2	52.6
Net margin	48.3	53.4	52.5	52.7	52.1
ROE (%)	46.7	46.2	45.8	45.7	44.8
ROA (%)	32.9	33.0	33.4	33.5	33.0
Net gearing	Cash	Cash	Cash	Cash	Cash

Assumptions

FYE Dec	FY19	FY20	FY21f	FY22f	FY23f
RM:USD	4.2	4.2	4.0	4.0	4.0

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1Q20	4Q20	1Q21	QoQ	YoY
Revenue	35.6	53.6	39.6	-26.1%	11.4%
EBITDA	17.3	32.8	21.7	-34.1%	25.3%
EBITDA margin	48.6	61.3	54.7		
EBIT	15.6	31.3	20.1	-35.8%	28.4%
PBT	16.5	32.4	20.3	-37.2%	23.3%
PAT	16.0	32.3	20.2	-37.6%	25.8%
Core PAT	16.1	32.1	20.6	-35.7%	28.2%
Reported EPS	3.5	7.2	4.5	-37.6%	25.8%
Core EPS	3.6	7.1	4.6	-35.7%	28.2%

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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