

HLIB Research

PP 9484/12/2012 (031413)

Syifaa' Mahsuri Ismail
syifaa@hlib.hongleong.com.my

(603) 2083 1710

BUY (Maintain)

Target Price: RM3.83
Previously: RM3.83
Current Price: RM3.19

Capital upside	20.1%
Dividend yield	5.3%
Expected total return	25.4%

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	3.2	-2.7	23.6
Relative	3.5	0.1	18.9

Stock information

Bloomberg ticker	UCHIMK
Bursa code	7100
Issued shares (m)	452
Market capitalisation (RM m)	1,443
3-mth average volume ('000)	804
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)	17.4	16.6	15.8

Uchi Technologies

Resilient demand

We walked away from the meeting feeling confident about the group's prospect moving forward. Despite the reduction in the manufacturing operations due to FMCO, management does not expect this to have any significant impact on the productivity. Excluding FMCO mandate of 60%, the utilisation rate for Malaysia and China operations are healthy at 85%/75%, respectively. Order outlook from its customers appears to be robust for both Art of Living and Biotech segments and management has guided for high single digit revenue growth in USD for FY21 (from low single digit previously). Maintain BUY, with unchanged TP of RM3.83 based on PE multiple of 19x pegged to FY22 EPS.

We had a meeting with management recently and walked away feeling confident about the group's prospect moving forward.

Expect minimal impact from FMCO. With the recent implementation of Full Movement Control Order (FMCO; 1-28 June), Uchi has been allowed to operate albeit at a reduced capacity of 60%. From what we gather, the group has taken the necessary measure in reducing the workforce on site by arranging for non-operational employees to work-from-home. Despite the reduction in the manufacturing operations, management does not expect this to have any significant impact on the productivity. Excluding FMCO period, the utilisation rate for Malaysia's operation is healthy at >85%, while China is operating at <75%.

Benefiting from strong end demand in indispensable business. Despite many other businesses feeling the brunt from the pandemic, we are comforted to know that Uchi is still expecting a healthy order pipeline for both Art of Living and Biotech segments. With the pandemic inducing a "new normal", consumers are increasingly switching to home-brewed alternatives. Additionally, with Customer J's recently launched coffee machine with cold brew option, we expect demand to remain elevated buoyed by the rising popularity of chilled brews. Note that this is the first of its kind to offer cold brew with a touch of a button.

Supply chain delay mitigated. With supply chain disruptions in light of raw material shortages, high freight cost and port congestion, the group has taken necessary efforts in mitigating the issues by (i) increasing safety buffer stock (safety stocks are kept for a long lead time components to facilitate smoother operations taking into account of obsolescence concerns), (ii) reviewing alternative supply sources and (iii) working closely with suppliers and customers.

Outlook. Despite Covid-19 headwinds, we are impressed by the group's resilience in maintaining revenue growth trajectory. To recap, 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). Commendable YoY performance was recorded despite the 10-day temporary production halt due to positive Covid-19 cases. Note that this was the highest 1Q revenue recorded despite being the seasonally weaker period for the group. Management has guided for a high single digit revenue growth in USD for FY21 (from low single digit previously) driven by strong demand from its customers. 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.

Forecast. Unchanged.

Reiterate **BUY**, with unchanged TP of **RM3.83** based on PE multiple of 19x pegged to FY22 EPS. We like Uchi for its (i) stable earnings drivers for 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 upper 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)	19.1	17.4	16.6	15.8	15.4
EV/EBITDA (x)	15.9	15.0	14.0	13.3	12.9
DPS (sen)	16.0	17.0	17.0	18.0	18.7
Dividend yield (%)	5.0	5.3	5.3	5.7	5.9
BVPS (RM)	0.4	0.4	0.4	0.4	0.5
P/B (x)	8.9	8.0	7.6	7.2	6.9
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

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 17 June 2021, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -

2. As of 17 June 2021, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -

Published & printed by:**Hong Leong Investment Bank Berhad (10209-W)**

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

Stock rating guidelines

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.

Sector rating guidelines

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

The stock rating guidelines as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.