

HLIB Research

PP 9484/12/2012 (031413)

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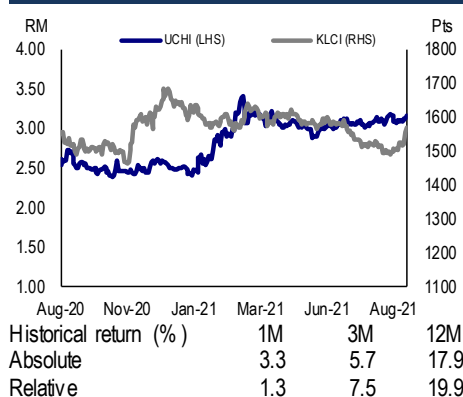
BUY (Maintain)

Target Price: **RM3.83**
Previously: **RM3.83**
Current Price: **RM3.16**

Capital upside	21.2%
Dividend yield	5.4%
Expected total return	26.6%

Sector coverage: EMS

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

Share price

Stock information

Bloomberg ticker	UCHIMK
Bursa code	7100
Issued shares (m)	453
Market capitalisation (RM m)	1,399
3-mth average volume ('000)	485
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	★ ★ ★

Major shareholders

Eastbow International Ltd	18.4%
Ironbridge Worldwide Ltd	7.8%
Public Mutual	5.5%

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)	17.3	16.5	15.7

Uchi Technologies

Stable showing

Uchi's 2Q21 core PAT of RM23.3m (+13.2% QoQ; +88.8% YoY) brought 1HFY21's sum to RM43.9m (+54.5% YoY). This came in line with our and consensus expectations at 51% and 50% 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. Uchi not only remains a compelling yield play (c.5.4%), we also expect the demand for automatic coffee machines to remain elevated supported by its main customer J's relentless expansion into new markets.

Within expectations. Uchi reported 2Q21 results with revenue of RM42.0m (+5.9% QoQ; +63.1% YoY) and core PAT of RM23.3m (+13.2% QoQ; +88.8% YoY). This brought 1HFY21's sum to RM43.9m (+54.5% YoY), which came in within expectations, accounting for 51%/50% of our/consensus full year forecasts. 1H21 core PAT was arrived after adjusting for (i) forex gain (-RM2.0m); (ii) loss on disposal of PPE (+RM37k); and (iii) loss on derivative of financial instrument (+RM2.3m).

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

QoQ. With stable demand for the group's products and services, revenue rose +5.9% to RM42.0m. While the weaker RM has nudged revenue expansion, sales in USD terms chart similar upward trend, increasing +4.2% from USD9.8m to USD10.2m. Subsequently, core PAT registered an increment of +13.2% to RM23.3m on the back of expansion in EBITDA margin (+3.2ppt).

YoY/YTD. Top line climbed by 63.1% YoY/33.1% YTD due to robust demand for the group's products and services coupled with low base effect from operation shut down when MCO1.0 first implemented. YoY sales to Asia Pacific recovered strongly with +99.9%, followed by Europe +63.0% and USA +2.0%. Core PAT staged an encouraging growth of +88.8% YoY and 56.4% YTD thanks to better EBITDA margin recorded (+6.8ppt YoY/6.7ppt YTD) coupled with lower effective tax rate (2Q21: 0.7% vs 2Q20: 1.9%).

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. Uchi not only remains a compelling yield play (c.5.4%), we also expect the demand for automatic coffee machines to remain elevated supported by its main customer J's relentless expansion into new markets. 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 strong 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.

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 >5% 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	2Q20	3Q20	4Q20	1Q21	2Q21
Revenue	25.7	40.4	53.6	39.6	42.0
COGS	(12.6)	(17.3)	(20.7)	(18.0)	(17.7)
EBITDA	13.2	23.1	32.8	21.7	24.3
D&A	(1.6)	(1.6)	(1.6)	(1.6)	(1.5)
EBIT	11.6	21.5	31.3	20.1	22.8
Net Interest Income	0.3	0.4	(1.2)	2.8	0.5
Associates	0.2	1.9	2.3	(2.6)	0.3
PBT	12.0	23.8	32.4	20.3	23.6
Tax	(0.2)	(0.1)	(0.0)	(0.2)	(0.2)
Reported PAT	11.8	23.7	32.3	20.2	23.4
Exceptionals	0.6	(1.3)	(0.3)	0.4	(0.1)
Core PAT	12.4	22.4	32.1	20.6	23.3

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)	18.9	17.3	16.5	15.7	15.3
EV/EBITDA (x)	15.8	14.8	13.9	13.2	12.8
DPS (sen)	16.0	17.0	17.0	18.0	18.7
Dividend yield (%)	5.1	5.4	5.4	5.7	5.9
BVPS (RM)	0.4	0.4	0.4	0.4	0.5
P/B (x)	8.8	7.9	7.5	7.1	6.8
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

Figure #1 Quarterly results comparison

FYE Dec (RM m)	2Q20	1Q21	2Q21	QoQ	YoY	1H20	1H21	YoY
Revenue	25.7	39.6	42.0	5.9%	63.1%	61.3	81.6	33.1%
EBITDA	13.2	21.7	24.3	12.2%	84.7%	30.4	45.9	51.0%
EBITDA margin	51.1	54.7	57.9	3.2%	6.8%	49.7	56.3	
EBIT	11.6	20.1	22.8	13.7%	97.6%	27.2	42.9	57.8%
PBT	12.0	20.3	23.6	16.1%	97.0%	28.5	43.9	54.3%
PAT	11.8	20.2	23.4	16.1%	99.3%	27.8	43.6	56.9%
Core PAT	12.4	20.6	23.3	13.2%	88.8%	28.4	43.9	54.5%
Reported EPS	2.6	4.5	5.2	16.1%	99.3%	6.2	9.7	56.9%
Core EPS	2.7	4.6	5.2	13.2%	88.8%	6.3	9.7	54.5%

Bursa, HLIB Research

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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.

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