HLIB Research
PP 9484/12/2012 (031413)

Syifaa' Mahsuri Ismail
syifaa@hlib.hongleong.com.my
(603) 2083 1710

Uchi Technologies

Sales continue to expand

BUY (Maintain)

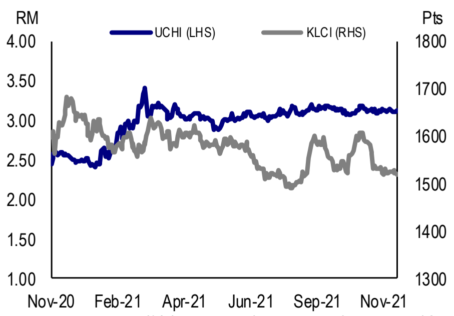
Target Price:	**RM3.83**
Previously:	**RM3.83**
Current Price:	**RM3.13**

Capital upside	22.4%
Dividend yield	5.4%
Expected total return	27.8%

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	0.3	-1.3	20.5
Relative	5.0	2.1	26.8

Stock information

Bloomberg ticker	UCHI MK
Bursa code	7100
Issued shares (m)	453
Market capitalisation (RM m)	1,412
3-mth average volume ('000)	559
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)	17.1	16.3	15.5

Uchi's 3Q21 revenue of RM44.4m (+5.8% QoQ; +9.9% YoY) translated into core PAT of RM24.5m (+4.9% QoQ; +9.1% YoY) which brought 9M21's sum to RM68.4m (+34.5% YoY). This came in within expectations, accounting for 79%/78% of our/consensus full year forecasts. Management has guided for high single digit revenue growth in USD for FY21 aided by strong demand from the Art of Living segment. Maintain BUY, TP of RM3.83 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's 3Q21 revenue of RM44.4m (+5.8% QoQ; +9.9% YoY) translated into core PAT of RM24.5m (+4.9% QoQ; +9.1% YoY) which brought 9M21's sum to RM68.4m (+34.5% YoY). This came in within expectations, accounting for 79%/78% of our/consensus full year forecasts. 9M21 core PAT was arrived after adjusting for (i) forex gain (-RM2.5m); (ii) loss on disposal of PPE (+RM37k); and (iii) loss on derivative of financial instrument (+RM2.8m).

Dividend. Declared interim dividend of 9.0 sen per share (3Q20: 7.5 sen per share). The entitlement date will be announced in due course. 9M21 dividend amounted to 9.0 sen per share (9M20: 7.5 sen per share).

QoQ. Revenue inched up by 5.8% to RM44.4m due to the higher demand for the group's products and services. While the weaker RM has nudged revenue expansion, sales in USD terms chart similar upward trend, increasing +3.9% from USD10.2m to USD10.6m. In turn, core PAT rose by +4.9% to RM24.5m.

YoY/YTD. Sales staged a 9.9% YoY/23.9% YTD increment due to healthy demand for the group's products and services coupled with low base effect from operation shut down when MCO1.0 was first implemented. Sales to Asia Pacific continue to rebound strongly YoY with +74.3% followed by Europe +9.1% that both offset the weaker sales in the US -28.8%. Core PAT chalked in growth of +34.5% YTD to RM68.4m. The stronger profit was aided by expansion in EBITDA margin (+4.0ppt YTD) coupled with lower effective tax rate (9M21: 0.8% vs 9M20: 1.5%).

Outlook. We laud the group's performance in maintaining growth trajectory with a resilience pace of revenue increase. This commendable showing was recorded despite the 60% operation constraints during the Phase 1 restrictions. Management has guided for high single digit revenue growth in USD for FY21 buoyed by strong demand from the Art of Living segment. Uchi not only remains a decent 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 owning to 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			99%	99%	100%

Quarterly financial summary

FYE Dec	3Q20	4Q20	1Q21	2Q21	3Q21
Revenue	40.4	53.6	39.6	42.0	44.4
COGS	(17.3)	(20.7)	(18.0)	(17.7)	(19.0)
EBITDA	**23.1**	**32.8**	**21.7**	**24.3**	**25.4**
D&A	(1.6)	(1.6)	(1.6)	(1.5)	(1.4)
EBIT	21.5	31.3	20.1	22.8	24.0
Net Interest Income	0.4	(1.2)	2.8	0.5	1.2
Associates	1.9	2.3	(2.6)	0.3	(0.4)
PBT	**23.8**	**32.4**	**20.3**	**23.6**	**24.7**
Tax	(0.1)	(0.0)	(0.2)	(0.2)	(0.2)
Reported PAT	**23.7**	**32.3**	**20.2**	**23.4**	**24.5**
Exceptionals	(1.3)	(0.3)	0.4	(0.1)	(0.0)
Core PAT	**22.4**	**32.1**	**20.6**	**23.3**	**24.5**

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**

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)	18.7	17.1	16.3	15.5	15.1
EV/EBITDA (x)	15.5	14.6	13.7	13.0	12.6
DPS (sen)	16.0	17.0	17.0	18.0	18.7
Dividend yield (%)	5.1	5.4	5.4	5.8	6.0
BVPS (RM)	0.4	0.4	0.4	0.4	0.5
P/B (x)	8.7	7.8	7.4	7.0	6.7
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

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**

Figure #1 Quarterly results comparison

FYE Dec (RM m)	3Q20	2Q21	3Q21	QoQ	YoY	9M20	9M21	YoY (%)
Revenue	40.4	42.0	44.4	*5.8%*	*9.9%*	101.7	126.0	*23.9%*
EBITDA	23.1	24.3	25.4	*4.4%*	*9.8%*	53.5	71.3	*33.2%*
EBITDA margin	57.2	57.9	57.1	*-0.8%*	*0.0%*	52.6	56.6	
EBIT	21.5	22.8	24.0	*5.2%*	*11.6%*	48.7	66.9	*37.4%*
PBT	23.8	23.6	24.7	*4.8%*	*3.8%*	52.3	68.7	*31.3%*
PAT	23.7	23.4	24.5	*4.6%*	*3.3%*	51.5	68.1	*32.2%*
Core PAT	22.4	23.3	24.5	*4.9%*	*9.1%*	50.9	68.4	*34.5%*
Reported EPS	5.3	5.2	5.4	*4.6%*	*3.3%*	11.4	15.1	*32.2%*
Core EPS	5.0	5.2	5.4	*4.9%*	*9.1%*	11.3	15.1	*34.5%*

Bursa, HLIB Research

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 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 26 November 2021, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:
(a) -.

2. As of 26 November 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.