

Outthink. Outperform.

Flattish 1Q17 yoy

Uchi's 1Q17 core net profit was flattish at RM14.7m (+1% yoy). This was nevertheless within expectations and accounted for 26% of our and street 2017 estimates. Management continues to guide for flattish sales in 2017 with few near term re-rating catalysts. Maintain HOLD as 2017-19E dividend yields of c.7% look attractive. We raise our TP to RM1.85 after rolling forward our valuation horizon.

1Q17 core earnings flat yoy, within expectations

Uchi reported 1Q17 revenue and core net profit of RM32.5m (+6% yoy) and RM14.7m (+1% yoy), respectively. The latter accounted for 26% of our and street 2017 estimates and thus was within expectations. Despite the revenue growth in 1Q17, EBITDA margins were softer by 2.4ppts yoy, declining to 46.7%. We believe this was due to product mix and related to the timing of new product launches. We are also not too worried about the margin compression as management has consistently demonstrated effective cost control over the years. Moreover, historical EBITDA margins have ranged between 46% and 53%.

1Q17 earnings up 4% qoq

1Q17 revenue and net profit were higher by 2.5% and 3.7%, respectively, despite a 2.9% decline in sales in US\$ terms. Earnings growth has thus continued to be driven by the weaker RM vis-à-vis the US\$. The 1Q17 EBITDA margin was nevertheless flat at 46.7% (+0.6% qoq).

Maintain HOLD; raising TP to RM1.85

We leave our forecasts unchanged, as we expect flattish earnings growth over 2017-19. We await further order visibility from its new deep freezer product and, as such, we think near-term earnings will continue to be supported by its coffee modules and laboratory precision equipment, for which management expects flattish sales in 2017. We keep our HOLD rating as the stock's 2017-19E yields of 7% look attractive. That said, we raise our 12-month TP from RM1.81 to RM1.85 (based on an unchanged 14x on 2018E EPS) after rolling forward our valuation horizon. Risks include a high dependency on a few customers, greater- or weaker-than-expected demand and a sharp fluctuation of the US\$ vs. the RM.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	112.6	120.9	119.2	121.7	124.2
EBITDA (RMm)	58.1	59.9	60.8	62.0	63.4
Pretax profit (RMm)	50.4	57.1	57.7	58.9	59.9
Net profit (RMm)	49.3	55.5	56.6	57.7	58.7
EPS (sen)	11.3	12.7	13.0	13.2	13.4
PER (x)	16.6	14.8	14.5	14.2	14.0
Core net profit (RMm)	54.9	58.2	56.6	57.7	58.7
Core EPS (sen)	12.6	13.3	13.0	13.2	13.4
Core EPS growth (%)	43.1	6.1	(2.8)	1.9	1.7
Core PER (x)	15.0	14.1	14.5	14.2	14.0
Net DPS (sen)	11.0	13.0	13.0	13.0	13.0
Dividend Yield (%)	5.9	6.9	6.9	6.9	6.9
EV/EBITDA (x)	11.1	10.4	10.2	9.8	9.5
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Affin Hwang forecasts, Bloomberg

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

Uchi Tech

UCHI MK

Sector: Technology

RM1.88 @ 22 May 2017

HOLD (maintain)

Downside 1.6%

Price Target: RM1.85

Previous Target: RM1.81



Price Performance

	1M	3M	12M
Absolute	+1.1%	+5.6%	+21.6%
Rel to KLCI	+0.3%	+1.9%	+12.0%

Stock Data

Issued shares (m)	436.6
Mkt cap (RMm)/(US\$m)	820.9/190.4
Avg daily vol - 6mth (m)	0.5
52-wk range (RM)	1.49-1.89
Est free float	53.8%
BV per share (RM)	0.58
P/BV (x)	3.26
Net cash/ (debt) (RMm) (1Q17)	196.0
ROE (2017E)	22.1%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Eastbow International Ltd	19.1%
Ironbridge Worldwide	8.1%
Public Islamic	3.7%
ASB	3.1%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	1Q17	QoQ % chg	YoY % chg	Comments
Revenue	32.5	2.5	6.1	Higher revenue due to exchange rate. In US\$ terms, 1Q17 sales were flat (+0.4% yoy). Qoq, revenue in US\$ terms was down 2.9% to US\$7.3m.
Op costs	(17.3)	1.5	11.1	
EBITDA	15.1	3.7	0.8	Margins largely stable; have been in 46-53% range over past 3 years.
EBITDA margin (%)	46.7	+0.6ppt	-2.4ppt	
Depn and amort	(1.6)	4.4	4.0	Largely related to forex.
EBIT	13.6	3.7	0.5	
Int expense	0.0	-	-	
Int and other inc	1.5	(2.8)	11.3	
EI	(0.5)	(73.5)	(57.2)	
Pretax profit	14.6	14.1	6.4	
Core pretax	15.1	3.0	1.5	
Tax	(0.4)	(19.3)	15.5	
Tax rate (%)	2.6	n.m	n.m	
Net profit	14.2	15.4	6.2	
EPS (sen)	3.3	15.4	6.2	
Core net profit	14.7	3.7	1.2	Accounts for 26% of our and street 2017 estimates.

Source: Affin Hwang, Company data



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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