Smelling the coffee

Uchi's 2Q17 results were above expectations. We raise our 2017-19 EPS forecasts by 14%-30% to account for the improved near-term outlook resulting from better demand for high-end automated coffee machines from its end-customer Jura. With the improved prospects, undemanding valuation (2018E PE of 13x) and attractive 2018E yield of 7.6%, we upgrade Uchi to BUY and with a higher TP of RM2.67.

1H17 results above expectations

Revenue and profits for 1H17 were ahead of our expectations (core net profit was 56% of our previous 2017 forecast and 54% of the street's) largely due to better-than-expected sales. 1H17 revenue was up 11% due to stronger demand for Uchi's coffee modules and biotech laboratory equipment. On a sequential basis, while 2Q17 revenue was weaker due to both the lower sales volumes and adverse currency impact, the 9ppt improvement in the EBITDA margin lifted core earnings by 17% qoq. We think that the sharp margin improvement is not sustainable; the EBITDA margin has traditionally been volatile because of changes in the product mix as well as R&D expenditure that is expensed. We think a longer-term EBITDA margin at the 50% level would be sustainable given Uchi's niche product manufacturing strategy.

Positive outlook revision – it's been a while

After years of a rather somber outlook (due to weak macro conditions in Europe, its key market), management has guided for mid to high single-digit revenue growth (US$ terms) for 2017 (1H17: +3%) on the back of incoming orders that have been positive and encouraging. We think that this could be due to its customer Jura, which is gaining market share in its own markets (+9.5% unit growth in 2016) and aiming for further growth this year.

Upgrade to BUY; 12-month TP raised to RM2.67

We like Uchi's management team, niche market strategy, strong cash position and 'sticky' customers. In view of the more upbeat guidance, we raise our 2017-19E EPS by 14-30%. With likely stronger earnings growth and more attractive dividend yields of 7-8% (2017-19E), we now value the stock using a PE of 16x (previously 14x) on CY18E EPS, which is at a 10% discount to the target PE for the FBMKLCI. With the EPS and PE multiple revisions, we raise our TP to RM2.67 (from RM1.81) and upgrade the stock to BUY from Hold. Risks: a slowdown in global demand for automated high-end coffee machines, new competition and a loss of its customer base.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	112.6	120.9	131.5	147.8	154.6
EBITDA (RMm)	58.1	59.9	67.1	75.4	78.9
Pretax profit (RMm)	50.4	57.1	65.8	74.2	77.6
Net profit (RMm)	49.3	55.5	64.5	72.7	76.1
EPS (sen)	11.3	12.7	14.8	16.7	17.4
PER (x)	18.6	16.5	14.2	12.6	12.1
Core net profit (RMm)	54.9	58.2	64.5	72.7	76.1
Core EPS (sen)	12.6	13.3	14.8	16.7	17.4
Core EPS growth (%)	43.1	6.1	10.8	12.7	4.6
Core PER (x)	16.7	15.7	14.2	12.6	12.1
Net DPS (sen)	11.0	13.0	14.0	16.0	17.0
Dividend Yield (%)	5.2	6.2	6.7	7.6	8.1
EV/EBITDA (x)	12.8	12.0	10.6	9.3	8.7
Chg in EPS (%)			+14.0	+26.1	+29.6
Affin/Consensus (x)			1.1	1.3	1.3

Source: Company, Affin Hwang forecasts, Bloomberg

Results Note

Uchi Tech

UCHI MK
Sector: Technology

RM2.10 @ 23 August 2017

BUY (upgrade)

Upside: 27%

Price Target: RM2.67

Previous Target: RM1.81

Price Performance

	1M	3M	12M
Absolute	+11.7%	+13.5%	+27.3%
Rel to KLCI	+10.8%	+13.1%	+20.8%

Stock Data

Issued shares (m)	438.0
Mkt cap (RMm)/(US$m)	919.8/215.0
Avg daily vol - 6mth (m)	0.7
52-wk range (RM)	1.62-2.12
Est free float	46.7%
BV per share (RM)	0.59
P/BV (x)	3.03
Net cash/ (debt) (RMm) (2Q17)	211.8
ROE (2017E)	25%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Eastbow International Ltd	19.0%
Ironbridge Worldwide	8.1%
LTH	5.8%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q17	QoQ % chg	YoY % chg	1H17	YoY % chg	Comments
Revenue	31.5	*(3.1)*	*15.9*	63.9	*10.7*	2Q17 revenue weaker due to lower US$ sales, which declined 0.7% qoq, and adverse impact from appreciation of the RM. For 1H17, sales in US$ terms were higher by 3% yoy
Op costs	(13.9)	*(19.5)*	*2.5*	(31.3)	*7.1*	
EBITDA	17.5	*15.6*	*29.4*	32.7	*14.3*	
EBITDA margin (%)	*55.7*	*+9.0ppt*	*+5.8ppt*	*51.1*	*+1.6ppt*	1H17 margin largely stable. Sharp improvement in 2Q17 due to low base in 1Q17
Depn and amort	(1.6)	*(0.3)*	*4.9*	(3.1)	*4.4*	
EBIT	15.9	*17.5*	*32.4*	29.5	*15.5*	
Int expense	0.0	*0.0*	*0.0*	0.0	*0.0*	
Int and other inc	1.6	*3.2*	*27.7*	3.1	*19.1*	
EI	(0.9)	*72.0*	*(17.3)*	(1.3)	*(38.4)*	Largely related to forex
Pretax profit	**16.7**	*14.1*	*36.1*	31.3	*20.4*	
Core pretax	**17.5**	*16.0*	*32.0*	**32.7**	*15.8*	
Tax	(0.4)	*(3.7)*	*(1.6)*	(0.7)	*6.4*	
Tax rate (%)	*2.2*	*n.m*	*n.m*	*2.4*	*n.m*	
MI	0.0	0.0	0.0	0.0	0.0	
Net profit	**16.3**	*14.6*	*37.3*	**30.6**	*20.8*	
EPS (sen)	3.7	*14.6*	*37.3*	7.0	*20.8*	
Core net profit	**17.2**	*16.5*	*32.9*	**31.9**	*16.1*	Accounts for 56% and 54% of our previous and consensus 2017 estimates

Source: Affin Hwang, Company

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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