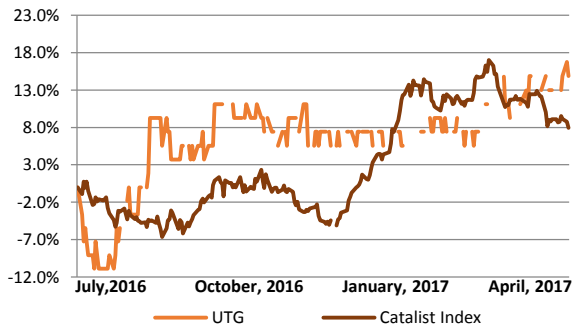
United Global Limited

Date: 11 August 2017

BUY

Target Price: S$0.370 (+7.2%)

UTG SP
Price: S$0.345 (as at 10 August 2017)



Share price	1M	3M	6M	1Y
United Global	1.5%	9.7%	15.0%	23.2%
Catalist Index	-1.8%	-1.5%	12.3%	15.3%

Market capitalisation	S$97.6 million US$69.7 million
Current Price	S$0.345
Shares outstanding	282,812,360
Free Float	13.0%
Major shareholder	Wiranto 45.5% Tan Thuan Hor 30.9%
Recommendation of other brokers	N/A

Source: Company data, Bloomberg, SGX Net, SAC Advisors

Analyst
Terence Chua +65 6221 5590
tchua@saccapital.com.sg

Powering ahead

Stellar 1H17 results. United Global Limited ("**UTG**") reported 1H17 results that came ahead of our estimates. For 1H17, revenue and profit attributable to owners of the company came in at 8.3% and 33.7% higher on a year-year ("**y-y**") basis. Gross margins also improved from 14.5% from a year ago to 17.2% on better average selling prices ("**ASP**") for the Group.

Results ahead of our estimates. Revenue came in 2.8% higher than our estimates, but the biggest surprise arguably came from their gross margins which handily beat our forecast of 16.0% to hit 17.2%. The strong outperformance also means that UTG's earnings came in at 56.7% of our full year earning estimate.

An interim dividend of 0.50 Singapore cents per share has been declared, in-line with previous years and represents 38.5% of the weighted average earnings per share for the half year 2017.

Maintain BUY with an unchanged target price of S$0.370. We have kept our earning estimates and target price unchanged for now, pending our meeting with the management. The stock is currently trading at 11.5x FY17 P/E, with a 3.0% dividend yield. UTG is also currently in a net cash position, with high average ROE of 23% from FY17E-19E. Our target price of S$0.37 is derived from our DCF (Cost of equity: 7.5% and terminal growth of 2.0%), representing 10.1x FY17 P/E.

Key risks: (i) Exposure to fluctuations in base oil prices and cost of raw materials and (ii) wide exposure to different sectors.

Key Historical Financials

Year ended December (US$'000)	FY2014A	FY2015A	FY2016A	FY2017E	FY2018E	FY2019E
Revenue	118,690	99,860	91,542	94,181	96,673	102,487
% Growth	N/A	-15.9%	-8.3%	2.9%	2.6%	6.0%
Gross profit	11,587	13,936	14,229	15,069	15,468	16,398
Gross profit margin (%)	9.8%	14.0%	15.5%	16.0%	16.0%	16.0%
Profit before tax	4,182	7,549	6,907	8,253	8,677	9,434
Profit attributable to owners	3,366	6,241	5,646	6,429	6,677	7,349
% Growth	2.8%	85.4%	-9.5%	13.9%	3.9%	10.1%
Profit after tax margin (%)	2.8%	6.2%	6.2%	7.2%	7.3%	7.5%
Basic EPS (US$ cents)*	1.4	2.6	2.2	2.2	2.1	2.3
Basic EPS (S$ cents)*	1.7	3.6	3.1	3.0	3.0	3.3
Core P/E (x)				10.1x	10.3x	9.4x
Net Debt/Equity			Net Cash	Net Cash	Net Cash	Net Cash

**Earnings per share for FY14 and FY15 was calculated based on the IPO pre-placement share capital of 240,012,360 shares*

N/A: Not applicable

Exchange rate: USD/SGD: 1.40

1H17 Financial Highlights

UTG announced 1H17 results with revenue and net profit coming in 8.3% and 33.7% higher respectively on a y-y basis. This was due to an increase in revenue from the manufacturing segment by 27.1%. Though this was partially offset by a decrease in revenue from the trading segment by 10.7%.

Revenue from the manufacturing segment was boosted by an increase in both sales volume and ASP. The increase in ASP was in turn boosted by higher base oil price on a y-y basis. The drop in revenue from the trading segment was mainly attributed to the fall in sales volume by 25.9% on a y-y basis, though this was mitigated by a 20.6% increase in ASP. We will be getting clarification from management on the reason for a fall in this segment.

Change in 1H17 vs. 1H16	Sales vol.	ASP
Manufacturing	13.9%	11.6%
Trading	(25.9%)	20.6%
Group	**(13.1%)**	**24.7%**

Source: SAC Advisors

Income Statement Highlights S$'000	HY2017E	HY2017A	Comments
Revenue	47,091	45,815	Ahead. Boosted by manufacturing segment and an overall 24.7% increase in average selling price, though this was partially offset by a 13.1% decrease in sales volume.
Less: Cost of sales	(39,959)	(37,948)	
Gross Profit	**7,535**	**7,867**	Ahead. Gross margin higher than last year by 270 basis points.
Administrative expenses	(2,508)	(2,567)	In-line.
Profit before income tax	4,127	4,365	Ahead. See comment on Revenue.
Profit attributable to owners of Group	**3,215**	**3,639**	**Ahead. See comment on Revenue.**
Earnings per share (basic and diluted)	**1.10**	**1.30**	**Ahead. See comment on Revenue.**

Source: SAC Advisors

% of Revenue	1H17	1H16
Manufacturing	59.0%	50.2%
Trading	41.0%	49.8%
Group	**100.0%**	**100.0%**

Source: SAC Advisors

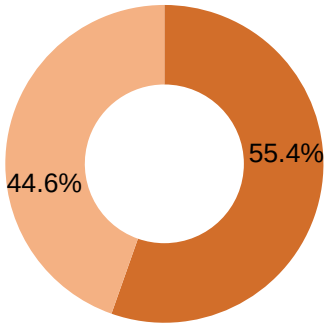
The biggest surprise however, came from their gross profit which increased 27.9% on a y-y basis. This meant that their gross margins improved by a huge 270 and 120 basis points from last year and our own estimates respectively. We see the gross margin expansion as significantly more important than revenue as the latter can be affected by fluctuations in the ASP which in turn is affected by the cost of raw materials.

The gross margin beat means that their bottom-line also came in higher than our own estimates.

We maintain our Buy call with target price of S$0.370.

Company Background

Revenue Breakdown (FY2016)



Source: Company data, SAC Capital

- United Global is an established independent lubricant manufacturer and a lubricant, base oils and additives trader, providing a wide range of high quality, well-engineered lubricants and specialty fluids for automotive, industrial and marine applications as well as metal working fluids. They supply lubricants globally to customers from over 30 countries and territories.

- Their business is divided into two main business segments:

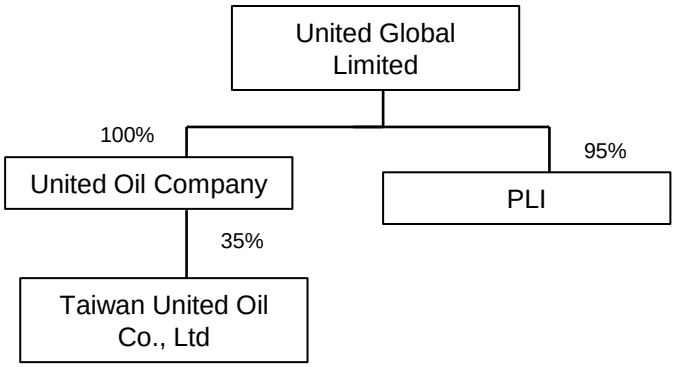
(a) Manufacturing of lubricants: This is done under their in-house brands, such as "United Oil", "U Star Lube" and "Bell 1", and manufacturing lubricants for third party principals for their respective brands; and

Source: Company data

(b) Trading: Base oils, additives and lubricants. This is done by buying from their suppliers and on-selling these to other customers who require such raw materials. They are able to derive revenue from trading by buying their raw materials in bulk, and selling them to other parties who may not be able to take advantage of the economies of scale that they have by purchasing and transporting in large quantities, as well as their long-term relationships with their suppliers. They also trade lubricants that are not manufactured by them.

Business Segment	Products / Services
Manufacturing	• Automotive • Industrial • Marine • Specialty Fluids • Metal Working Fluids
Trading	• Includes lubricants not manufactured by them

Corporate Structure



Source: Company data

Overview on Corporate Structure

Principal business activities:
(i) United Oil Company Pte Ltd: Manufacturing and distribution of petroleum and oil-based products.

(ii) Taiwan United Oil Co., Ltd: Distribution of lubricants.

Income Statement (US$'000)

	Fiscal Year Ended				
	FY2015	FY2016	FY2017F	FY2018F	FY2019F
Revenue	**99,860**	**91,542**	**94,181**	**96,673**	**102,487**
Cost of sales	(85,924)	(77,313)	(79,917)	(82,032)	(86,965)
Gross Profit	**13,936**	**14,229**	**15,069**	**15,468**	**16,398**
Other income	202	87	0	0	0
Distribution cost	(1,939)	(1,647)	(1,694)	(1,643)	(1,640)
Administrative expenses	(4,490)	(5,039)	(5,015)	(5,040)	(5,217)
Other operating expenses	(6)	(616)	0	0	0
Finance costs	(154)	(107)	(107)	(107)	(107)
Profit before tax	**7,549**	**6,907**	**8,253**	**8,677**	**9,434**
Income tax	(1,308)	(1,261)	(1,485)	(1,649)	(1,698)
Profit for the year/period	**6,241**	**5,646**	**6,767**	**7,028**	**7,736**
Profit attributable to owners of company	**6,241**	**5,646**	**6,429**	**6,677**	**7,349**

Cash Flow Statement (US$'000)

	Fiscal Year Ended				
	FY2015	FY2016	FY2017F	FY2018F	FY2019F
Profit before tax	**7,549**	**6,907**	**8,253**	**8,677**	**9,434**
Depreciation & amortisation	154	146	146	146	146
Change in working capital	9,685	706	(259)	(587)	(694)
Interest expense	(154)	(107)	(107)	(107)	(107)
Net Cash (used in)/ from operations	**16,607**	**6,557**	**6.232**	**6,915**	**7,295**
Purchase of PPE	(333)	(510)	(176)	(176)	(176)
Acquisition of subsidiary	0	0	(5,685)	0	0
Net Cash (used in)/ from investing	**1,167**	**(487)**	**(5,861)**	**(176)**	**(176)**
Net increase in equity	0	7,931	0	0	0
Net increase in debt	(1,674)	(185)	0	0	0
Dividends paid	(13,000)	(8,042)	(2,461)	(2,359)	(2,525)
Net Cash (used in)/ from financing	**(14,887)**	**(1,224)**	**(2,461)**	**(2,359)**	**(2,525)**

Balance Sheet (US$'000)

	Fiscal Year Ended				
	FY2015	FY2016	FY2017F	FY2018F	FY2019F
As at 31 Dec					
Cash and bank balances	9,209	14,275	10,139	14,520	19,114
Trade receivables	12,028	12,761	14,049	14,421	15,288
Inventories	3,302	4,452	3,880	3,983	4,222
Other assets	298	319	2,027	2,026	2,027
Total current assets	**24,837**	**31,807**	**30,095**	**34,950**	**40,651**
Property, Plant and Equipment	2,070	2,243	2,273	2,303	2,333
Investment in subsidiary	0	0	13,278	13,278	13,278
Other non-current assets	61	139	139	139	139
Total non-current assets	**2,131**	**2,382**	**15,690**	**15,720**	**15,750**
Total assets	**26,968**	**34,189**	**45,785**	**50,670**	**56,400**
Bank borrowings	3,171	2,986	2,986	2,986	2,986
Trade payables	4,910	7,575	6,453	6,624	7,022
Other current liabilities	13,439	5,661	6,818	6,862	6,984
Total current liabilities	**21,250**	**16,222**	**16,257**	**16,472**	**16,992**
Total non-current liabilities	78	130	130	130	130
Total liabilities	**21,328**	**16,352**	**18,069**	**20,110**	**20,882**
Share Capital	2,484	13,233	20,162	20,162	20,162
Retained earnings	3,156	7,760	11,728	16,046	20,871
Merger reserve	0	(3,156)	(3,156)	(3,156)	(3,156)
Equity attributable to shareholders	**5,640**	**17,837**	**28,734**	**33,052**	**37,877**
Non-controlling interests	0	0	664	1,015	1,402
Total Equity	**5,640**	**17,837**	**29,398**	**34,067**	**39,279**
Total liabilities and equity	**26,968**	**34,189**	**45,785**	**50,670**	**56,400**

Ratios

	Fiscal Year Ended				
	FY2015	FY2016	FY2017F	FY2018F	FY2019F
Profitability (%)					
Operating profit margin	7.7%	8.3%	8.9%	9.1%	9.3%
Profit before tax margin	7.6%	7.5%	8.8%	9.0%	9.2%
Profit after tax margin	6.2%	6.2%	7.2%	7.3%	7.5%
Liquidity (x)					
Current ratio	1.2	2.0	1.9	2.1	2.4
Quick ratio	1.0	1.7	1.6	1.8	2.1
Interest coverage ratio	50.1	71.3	78.1	82.1	89.2
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	N/A	13.6	10.1	10.3	9.4
Core P/E	N/A	8.9	10.1	10.3	9.4
Core P/E at target price	N/A	12.0	12.3	12.5	11.4
P/B	N/A	3.1	2.3	2.1	1.8
EV/EBITDA	N/A	5.8	6.0	5.1	4.0
Cash Conversion Cycle					
Trade receivable days	59.5	49.4	54.4	54.4	54.4
Inventory days	17.1	18.3	17.7	17.7	17.7
Trade payable days	26.5	29.5	29.5	29.5	29.5
CCC days	50.1	38.3	42.7	42.7	42.7
Returns					
Return on equity	49.9%	48.1%	27.6%	21.6%	20.7%
Return on capital employed	38.8%	38.1%	24.5%	19.7%	19.1%
Dividend payout ratio	N/A	36.0%	36.0%	36.0%	36.0%

DISCLAIMERS AND DISCLOSURES

This report has been prepared and distributed by SAC Advisors Private Limited ("**SAC Advisors**") which is a holder of a capital markets services licence and an exempt financial adviser in Singapore. SAC Advisors is a wholly-owned subsidiary of SAC Capital Private Limited ("**SAC Capital**") which is also a capital markets services licensee.

This report has been prepared for the purpose of general circulation. We have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons and does not purport to be comprehensive or contain all necessary information which a prospective investor may require in arriving at an investment decision. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities.

This report is confidential and the information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Advisors. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Advisors has not independently verified all the information set out in this report, all reasonable care and effort has been taken to ensure that the facts stated herein are accurate, this report contains certain forward looking statements and forward looking financial information which are based on certain assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the subject company to be materially different from those expressed herein. Predictions, projections or forecasts of the economy or market trends are not indicative of the future performance of the subject company. The inclusion of such statements and information should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions of the subject company or that the forecast results will or are likely to be achieved.

Our opinion and facts set out in this report are based on the market, economic, industry and other applicable conditions prevailing as at the date of the preparation of this report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report, that may or may not have affected our opinion contained herein.

This report contains forward-looking statement which are based on assumptions or forecasts and are subject to uncertainties which may result in the actual result or performance to be materially different from the opinion or facts set out herein. Caution should be exercised in placing undue reliance on such statements. such assumptions or forecasts may change over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report.

No representation or warranty, expressed or implied, is made and no responsibility is accepted by the Company, SAC Capital, SAC Advisors or any of their affiliates, advisers or representatives as to the fairness, accuracy, completeness or adequacy of such information or facts, in this report or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.

SAC Advisors, SAC Capital and their associates, directors, and/or employees may have positions in the securities covered in the report and may also perform or seek to perform other corporate finance related services for the company whose securities are covered in the report. SAC Advisors and its related companies may from time to time perform advisory services, or solicit such advisory services from the entity mentioned in this report ("**Other Services**"). This report is therefore classified as a non-independent report. However, the research professionals involved in the preparation of this report have not and will not participate in the solicitation of such business.

As at the date of this report, SAC Advisors and its associates, including SAC Capital, do not have proprietary positions in the subject company, except for:

Party	Quantum of position
Nil	Nil

As at the date of this report, SAC Advisors and its associates, including SAC Capital, has/have had business relations with the subject company within the past 12 months, as disclosed hereunder:

Company	Nature of business relation	Date of business relation
United Global	Continuing Sponsor	Ongoing relations

As at the date of this report, none of the analysts who covered the securities in this report have any proprietary position or material interest in the subject companies covered here in, except for:

Analyst name	Quantum of position
Nil	Nil

ANALYST CERTIFICATION/REGULATION AC
As noted above, research analyst(s) of SAC Advisors who produced this report hereby certify that

(i) The views expressed in this report accurately reflect his/her personal views about the subject corporation(s);

(ii) The report was produced independently by him/her;

(iii) He/she does not on behalf of SAC Advisors or SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and

(iv) He/she has not received and will not receive any compensation directly or indirectly related to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.