

11 March 2019

Healthcare | Medical Equipment & Devices

UG Healthcare (UGHC SP)

Buy (Maintained)

Capacity Increase To Drive Volume Production

Target Price (Return)	SGD0.32 (+56%)
Price:	SGD0.205
Market Cap:	USD29m
Avg Daily Turnover (SGD/USD)	0.1m/0.1m

- **Reiterate BUY with unchanged SGD0.32 TP, giving 56% upside.** Our TP is pegged to 10x FY20F EPS, which is at a discount to the peer average of 17.6x, factoring in UG's relatively smaller production output. After clarifications with management, we remain bullish on UG given its capacity expansion, which will drive volume production and earnings.
- **Increased volume production from Phase 1 of production capacity expansion.** For 2QFY19, UG reported revenue expansion of 15% YoY. In Jan 2019, Phase 1 of production capacity expansion (500m gloves pa) went into full commercialisation, after initial production that started in Oct 2018. With the latest expansion, total production capacity is now at 2.9bn gloves pa. We therefore expect 2HFY19 to record a sequential increase in the number of gloves produced.
- **2HFY19 earnings to recover from 2QFY19's weakness.** Whilst UG recorded 2QFY19 gross profit growth of 30% YoY, net profit fell 73% YoY, due to higher marketing and administrative expenses, and increased expenses from the expansion in production lines, which did not achieve optimal production levels in 2QFY19. We expect 2HFY19 earnings to pick up on increased volume output.
- **UG to increase capacity further in FY20.** UG is planning to increase production capacity by another 300m pieces pa at the new production facility sometime in FY20. Thereafter, total capacity will increase to 3.2bn pieces pa.
- **Maintain BUY with SGD0.32 TP,** which is pegged to 10x FY20F EPS, a discount to the peer average forward P/E of 17.6x – this factors in UG's much smaller production output vs its peers, most of which are listed on Bursa Malaysia.
- **Key risks include higher gas and raw material prices,** which could narrow margins.

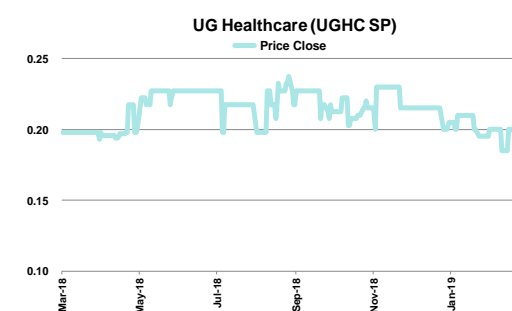
Analyst

Leng Seng Choon, CFA, PBM
+65 6232 3890
leng.seng.choon@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.7)	5.1	(4.7)	(14.6)	0.0
Relative	(9.3)	4.8	(7.9)	(17.1)	7.7
52-wk Price low/high (SGD)	0.18 – 0.25				



Source: Bloomberg

Forecasts and Valuation	Jun-17	Jun-18	Jun-19F	Jun-20F	Jun-21F
Total turnover (SGDm)	65.2	78.1	89.0	99.0	110.0
Recurring net profit (SGDm)	2.4	4.3	5.0	6.1	7.3
Recurring net profit gr (%)	(55.2)	77.4	15.8	22.5	19.5
Recurring P/E (x)	16.1	9.1	7.8	6.4	5.3
P/B (x)	1.06	0.94	0.85	0.76	0.68
P/CF (x)	na	na	na	na	na
Dividend Yield (%)	0.0	1.1	1.5	1.9	2.8
EV/EBITDA (x)	14.0	9.0	9.3	8.8	8.2
Return on average equity (%)	6.6	11.0	11.4	12.5	13.4
Net debt to equity (%)	41.3	47.9	60.6	72.5	78.4
Interest coverage	5.1	6.8	6.2	6.2	6.9

Source: Company data, RHB

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Figure 1: UG's P&L

P&L, Year end: Jun (SGD m)	FY17	FY18	FY19F	FY20F	FY21F
Revenue	65.2	78.1	89.0	99.0	110.0
Cost of sales	(55.6)	(65.3)	(72.5)	(79.9)	(88.6)
Gross profit	9.7	12.8	16.5	19.1	21.5
Other income	1.8	4.2	2.7	2.3	2.6
Gross profit + Other income	11.5	17.0	19.2	21.4	24.1
Marketing & distribution expenses	(1.8)	(1.8)	(2.2)	(2.6)	(2.8)
Administrative expenses	(6.6)	(8.9)	(9.8)	(10.2)	(11.0)
Other expenses	(0.6)	(1.2)	(1.6)	(1.8)	(2.0)
Finance costs	(0.5)	(0.8)	(0.9)	(1.1)	(1.2)
Associates	0.5	0.6	0.9	1.1	1.2
PBT	2.6	5.0	5.6	6.8	8.3
Income tax	(0.4)	(0.7)	(0.9)	(1.2)	(1.4)
Profit	2.2	4.3	4.6	5.6	6.8
Non-controlling interests	(0.3)	(0.0)	(0.4)	(0.5)	(0.5)
Net profit	2.4	4.3	5.0	6.1	7.3

Source: Company data, RHB

Figure 2: Peer comparison

Name	Price @	Local	Mkt Cap (\$m)		P/E(x)			P/BV	ROE	ROA	
			(LC)	(USD)	Hist	Curr	Fwd				
MEDICAL - MALAYSIA											
CG MK Equity	COMFORT GLOVE BHD	0.84	MYR	469	115	20.1	16.7	11.9	1.7	9.1	6.7
HART MK Equity	HARTALEGA HOLDINGS BHD	4.96	MYR	16,536	4,042	34.2	33.1	29.0	7.5	23.3	17.3
KRI MK Equity	KOSSAN RUBBER INDUSTRIES	3.76	MYR	4,809	1,175	23.9	20.2	17.7	3.7	16.3	10.2
SUCB MK Equity	SUPERMAX CORP BHD	1.54	MYR	2,019	494	17.3	14.4	12.7	1.9	10.9	6.6
TOPG MK Equity	TOP GLOVE CORP BHD	4.58	MYR	11,708	2,862	26.5	22.8	20.4	4.7	19.2	10.5
MEDICAL - SINGAPORE											
RSTON SP Equity	RIVERSTONE HOLDINGS LTD	1.09	SGD	808	594	18.8	14.9	13.7	3.4	19.3	15.7
Average (excluding UGHC)						23.4	20.3	17.6			

Source: Bloomberg data

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RHB Research Institute Sdn Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Wisma Mulia, 20th Floor
Jl. Jenderal Gatot Subroto No. 42
Jakarta 12710
Indonesia
Tel : +6221 2783 0888
Fax :+6221 2783 0777

HONG KONG

RHB Securities Hong Kong Ltd.
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

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**RHB Research Institute Singapore
Pte Ltd.**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211