

24 Aug 2018

## UG Healthcare

### Management: Increased Capacity To Drive Efficiency

**Maintain BUY with TP of SGD0.32, offering 39% upside, pegged to 12x FY19F EPS. We met with management and came out optimistic on the outlook. In the new manufacturing block, an additional 500m (pa) glove capacity production should be in full commercialisation by Oct 2018 – this should bolster production efficiency. We forecast FY19 & FY20 net profit growth of 16% and 23% respectively – and we believe continued glove output growth will catalyse share price upside.**

**Expect stronger earnings for FY19.** UG Healthcare recorded FY18 net profit growth of 77%, on the back of revenue rising 20%. The new block with production capacity of 500m units of gloves pa (raising total capacity to 2.9bn) should drive FY19 output. FY19 utilisation rate is expected to be higher YoY due to production efficiency. We forecast FY19 revenue and net profit growth of 14% and 16% respectively.

**Further capacity expansion plans beyond FY19.** UG is planning for another potential pa increase of 300m gloves (estimated to require capex of MYR15m) at a future date yet to be decided – this could raise total output to 3.2bn gloves. Management will first monitor the production of the initial 500m gloves before deciding on the start date for the 300m capacity increase.

**More efficiency ahead.** UG intends to use the additional 500m pa glove capacity for its own branded products. Management indicated that the additional capacity will facilitate the production of the same type of gloves on a particular line, thereby minimising stoppage time to switch the type of gloves – this will enhance production efficiency. Management guided for gross profit margin of close to 20% (FY18: 16.4%) once the 500m capacity production is in steady state.

**Management sees limited effects from the US-China trade war** on its glove exports. This is because UG's gloves are for medical usage and not produced in the US.

**More dividends ahead?** For FY18, UG declared a first and final dividend of SGD0.00235/share (payout ratio of 10%) – with shareholders having the option to receive either in scrip or cash. Management indicated they are aiming for a consistent dividend policy going forward.

**Our TP of SGD0.32 is pegged to FY19F P/E of 12x**, a discount to the peer average of 30x – this factors in the much smaller production output of UG vs its other peers, most of which are listed on Bursa Malaysia.

**Key risks** include higher gas and raw material prices, which could narrow margins.

Forecasts and Valuations	Jun17	Jun18	Jun19F	Jun20F	Jun21F
Total turnover (SGDm)	65.24	78.06	89.00	99.00	110.00
Reported net profit (SGDm)	2.44	4.34	5.02	6.15	7.35
Recurring net profit (SGDm)	2.44	4.34	5.02	6.15	7.35
Recurring net profit growth (%)	(55.16)	77.37	15.78	22.53	19.48
Recurring EPS (SGD¢)	1.28	2.26	2.62	3.21	3.84
DPS (SGD¢)	0.00	0.24	0.31	0.39	0.58
Recurring P/E (x)	18.02	10.16	8.77	7.16	5.99
P/B (x)	1.19	1.05	0.95	0.85	0.76
P/CF (x)	na	na	na	na	na
Dividend Yield (%)	0.00	1.02	1.37	1.68	2.50
EV/EBITDA (x)	15.27	9.73	9.93	9.37	8.65
Return on average equity (%)	6.58	10.96	11.36	12.53	13.38
Net debt to equity (%)	41.33	47.93	60.62	72.53	78.43
Our vs consensus EPS (adjusted) (%)			0.00	0.00	0.00

Source: Company data, RHB

Healthcare | Medical Equipment & Devices

**Buy** (Maintained)

Target Price:	SGD0.32
Price:	SGD0.23
Market Cap:	USD30.7m
Bloomberg Ticker:	UGHC SP

#### Share Data

Avg Daily Turnover (SGD/USD)	0.02m/0.01m
52-wk Price low/high (SGD)	0.18 – 0.25
Free Float (%)	30
Shares outstanding (m)	191
Estimated Return	39%

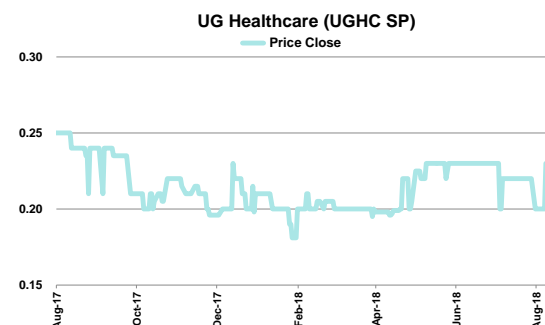
#### Shareholders (%)

ZEN UG	49.4
Raydion Direct Global	12.7

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	0.0	(4.3)	10.0	(12.0)
Relative	5.3	2.1	4.3	18.7	(10.5)

Source: Bloomberg



Source: Bloomberg

#### Analyst

Leng Seng Choon CFA  
65 6232 3890

[leng.seng.choon@rhbgroup.com](mailto:leng.seng.choon@rhbgroup.com)



Figure 1: UG Healthcare P&amp;L

P&L FYE (Jun) (SGDm)	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
	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 forecasts

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