

28 August 2019

Healthcare | Medical Equipment & Devices

UG Healthcare (UGHC SP)

Buy (Maintained)

Capacity Rise Delay, Valuation Attractive; BUY

Target Price (Return)	SGD0.30 (+67%)
Price:	SGD0.18
Market Cap:	USD25m
Avg Daily Turnover (SGD/USD)	0.01m/0.01m

- **Reiterate BUY with new SGD0.30 TP from SGD0.32, 67% upside.** Our TP is pegged to 11x FY20F (Jun) EPS, which is at a discount to the 19x peer average, factoring in UG Healthcare's relatively smaller production output. Whilst FY19 net profit disappointed, the 47% YoY rise in gross profit reflects strength. We believe continued growth in gross margin will strengthen FY20 earnings.
- **FY19 revenue and gross profit rose.** Full-year revenue was up 17% YoY. The new production facility – which achieved full commercialisation at end January – led to additional annual capacity of 500m pieces of gloves. There was overall production efficiency and economies of scale, which contributed to the 47% YoY rise in FY19 gross profit. GPM rose 4ppts to 20.4% for the full year. Management sees GPM rising further over the next few years on economies of scale.
- **Weak 4QFY19 net profit despite higher revenue.** UG's earnings for this period stood at SGD0.54m (-59% YoY), mainly due to higher marketing, distribution, administrative, and finance expenses. This was on top of 4QFY19 revenue rising 20% YoY. With the Jul 2018 consolidation of its Brazilian subsidiary, costs rose. However, goods sold from parent to subsidiary are not factored as group revenue – unless sold to end customers. This led to 4QFY19 reporting net profit being SGD0.6m weaker.
- **Slight delay in increasing production capacity.** Given the ongoing macroeconomic uncertainties, UG has postponed – slightly – the initial timing to increase production capacity by another 300m gloves annually. The 3.2bn gloves pa capacity target should now be achieved in FY21 instead of FY20. For FY20F, UG will upgrade some of its existing production lines to further enhance production efficiency and economies of scale.
- **The company is recommending a FY19 final dividend of 0.259 cents/share.** This translates into a payout ratio of 20%. Shareholders have the option of receiving the dividend in scrip or cash.
- **Our TP is pegged to 11x FY20F EPS,** a discount to peer average forward P/E of 19x – this factors in UG's much smaller production output vs peers, most of which are listed on Bursa Malaysia. We cut FY20F net profit 13% to SGD5.3m while raising FY20F revenue 9% – this was offset by increased marketing and administrative expenses.
- **Key risks include** higher gas and raw material prices, which could narrow margins going forward.

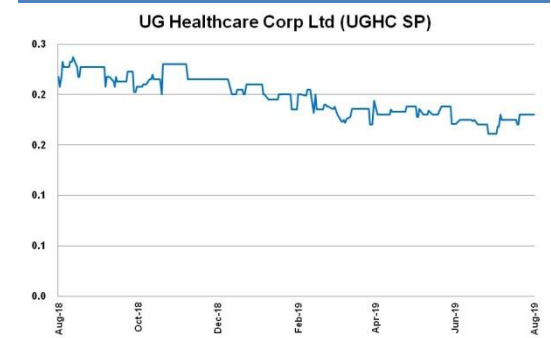
Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(16.3)	11.8	(4.3)	(10.0)	(18.2)
Relative	(16.3)	20.6	(1.0)	(4.4)	(13.3)
52-wk Price low/high (SGD)	0.16 – 0.25				



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (SGDm)	78.1	91.7	108.0	120.0	128.0
Recurring net profit (SGDm)	4.3	2.5	5.3	6.6	7.3
Recurring net profit gr (%)	77.4	(42.2)	112.0	24.7	9.6
Recurring P/E (x)	7.9	13.9	6.5	5.3	4.8
P/BV (x)	0.82	0.82	0.74	0.66	0.59
P/CF (x)	na	na	na	na	61.89
Dividend Yield (%)	1.3	1.4	1.8	2.3	2.5
EV/EBITDA (x)	8.3	13.0	8.6	7.7	6.8
ROE (%)	11.0	5.9	11.9	13.3	13.0
Net debt to equity (%)	47.9	79.8	80.4	83.4	81.9
Interest coverage (x)	6.8	2.3	3.6	4.3	5.1

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Singapore	Recurring EPS (SGD)	2.26	1.30	2.75	3.43	3.76
Healthcare	DPS (SGD)	0.00	0.00	0.00	0.00	0.00
UG Healthcare	BVPS (SGD)	0.22	0.22	0.24	0.27	0.31
UGHC SP	ROE (%)	11.0	5.9	11.9	13.3	13.0
BUY						
Valuation basis	Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
P/E methodology.	Recurring P/E (x)	7.9	13.9	6.5	5.3	4.8
	P/B (x)	0.8	0.8	0.7	0.7	0.6
	FCF Yield (%)	-14.7	-43.9	-14.5	-20.3	-17.1
	Dividend yield (%)	1.3	1.4	1.8	2.3	2.5
	EV/EBITDA (x)	8.3	13.0	8.6	7.7	6.8
	EV/EBIT (x)	6.7	9.5	5.4	4.3	3.5
Key drivers	Income statement (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Production capacity increases, which will enhance efficiency.	Total turnover	78	92	108	120	128
	Gross profit	13	19	22	24	27
	EBITDA (adj.)	7	5	8	10	12
	Depreciation & amortisation	1	2	2	2	2
	Operating profit	5	4	7	8	10
	Net interest	(1)	(2)	(2)	(2)	(2)
	Pre-tax profit	5	3	6	7	9
	Taxation	(1)	(1)	(1)	(1)	(2)
	Net profit	4	3	5	7	7
	Recurring net profit	4	3	5	7	7
Key risks	Cash flow (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
High gas and raw material prices could narrow margins.	Change in working capital	1	(4)	(0)	1	4
	Cash flow from operations	(0)	(6)	(3)	(2)	1
	Capex	(5)	(9)	(2)	(5)	(7)
	Cash flow from investing activities	(5)	(8)	(0)	(3)	(5)
	Dividends paid	0	(0)	0	0	0
	Cash flow from financing activities	8	12	10	10	10
	Cash at beginning of period	4	7	5	11	16
	Net change in cash	3	(2)	7	5	6
	Ending balance cash	7	5	11	16	23
Company Profile	Balance sheet (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
UG Healthcare is a disposable gloves manufacturer with its own established global downstream distribution network. It markets and sells disposable gloves products under its proprietary <i>Unigloves</i> brand.	Total cash and equivalents	7	5	11	16	23
	Tangible fixed assets	23	31	31	34	39
	Total investments	0	0	0	0	0
	Total assets	85	98	115	134	159
	Short-term debt	21	32	42	52	62
	Total long-term debt	5	6	7	8	9
	Total liabilities	43	55	68	82	99
	Total equity	42	43	47	53	60
	Total liabilities & equity	85	98	115	134	159
	Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Revenue growth (%)	19.7	17.5	17.8	11.1	6.7
	Recurrent EPS growth (%)	77.4	(42.7)	112.0	24.7	9.6
	Gross margin (%)	16.4	20.4	20.6	20.4	20.9
	Operating EBITDA margin (%)	8.4	5.8	7.8	8.5	9.6
	Net profit margin (%)	5.6	2.7	4.9	5.5	5.7
	Capex/sales (%)	6.0	10.3	1.9	4.2	5.1
	Interest cover (x)	6.8	2.3	3.6	4.3	5.1

Source: Company data, RHB

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Figure 1: UG's P&L

P&L, FYE Jun (SGDm)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	78.1	91.7	108.0	120.0	128.0
Cost of sales	(65.3)	(73.0)	(85.7)	(95.5)	(101.2)
Gross profit	12.8	18.7	22.3	24.5	26.8
Other income	4.2	1.8	1.9	2.6	3.6
Gross profit + other income	17.0	20.5	24.2	27.1	30.4
Marketing & distribution expenses	(1.8)	(2.8)	(2.9)	(3.0)	(3.2)
Administrative expenses	(8.9)	(12.3)	(13.0)	(14.0)	(15.0)
Other expenses	(1.2)	(1.8)	(1.8)	(2.0)	(2.0)
Finance costs	(0.8)	(1.6)	(1.8)	(1.9)	(2.0)
Associates	0.6	0.7	1.1	1.2	1.2
PBT	5.0	2.8	5.8	7.4	9.4
Income tax	(0.7)	(0.5)	(1.0)	(1.3)	(1.6)
Profit	4.3	2.2	4.8	6.1	7.8
Non-controlling interests	(0.0)	(0.3)	(0.5)	(0.5)	0.5
Net profit	4.3	2.5	5.3	6.6	7.3

Source: Company data, RHB

Figure 2: Peer comparison

Ticker	Name	Price@	Local	Mkt cap (m)		P/E(x)			P/BV	ROE	ROA
		26-Aug-19	Curr	(LC)	(USD)	Hist	Curr	Fwd	(x)	(%)	(%)
	Medical - Malaysia										
CG MK	Comfort Glove	0.80	MYR	466	111	15.5	13.3	11.4	1.6	10.7	7.4
HART MK	Hartalega	5.01	MYR	16,825	4,005	39.2	34.6	30.9	7.3	19.5	14.7
KRI MK	Kossan Rubber Industries	4.18	MYR	5,346	1,273	23.6	22.2	19.9	4.0	16.9	10.5
SUCB MK	Supermax	1.49	MYR	1,946	463	16.5	14.8	13.3	1.8	10.9	6.7
TOPG MK	Top Glove	4.66	MYR	11,929	2,840	30.4	28.9	24.5	4.8	16.6	7.4
	Medical - Singapore										
RSTON SP	Riverstone	0.93	SGD	689	497	16.3	15.4	14.2	2.9	18.4	15.3
Average (excluding UG)						23.6	21.5	19.0			

Source: Bloomberg

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