

1QFY11 RESULTS UPDATE

30 May 2011

Unimech Group Berhad

Price : RM0.85

Market Capitalization : RM 116.1 mln

Market : Main Market

Sector : Trading/Services

Recommendation : Buy

Bursa / Bloomberg Code: 2084 /UGB MK
Shariah-Compliant Stock

Unimech: 1QFY11 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year	
	Mar 11	Dec 10	% chg	Mar 10	% chg
Turnover	49.4	43.2	14.3%	33.6	47.0%
Operating profit	7.0	6.7	4.3%	4.8	45.4%
Interest cost	(0.8)	(0.6)		(0.3)	
Pre-tax profit	6.2	6.3	-2.1%	4.5	37.8%
Tax	(1.7)	(1.3)		(1.2)	
Net profit	4.0	4.6	-13.2%	2.9	37.7%
Reported EPS (sen)	3.3	3.8		2.2	
Op profit margin	14.1%	15.5%		14.3%	
Pre-tax margin	12.6%	14.7%		13.4%	
Net profit margin	8.1%	10.7%		8.7%	
NA per share (RM)	1.25				

1QFY11 Results Review

- Unimech Group Berhad (Unimech)'s 1QFY11 results were within our expectations with net profit of RM4.0 mln reaching 22.4% of our FY11 projection of RM17.9 mln.
- 1QFY11 turnover of RM49.4 mln surged 47.0% y-o-y and 14.3% q-o-q, mainly attributed to the increase in demand for the Group's valves, instruments and fittings products. The valves, instruments and fittings division registered a commendable 62.1% and 66.6% y-o-y growth in turnover and operating profit respectively; and continues to be the anchor business segment of Unimech, accounting for 80.0% of turnover and 94.5% of operating profit in 1QFY11.
- In tandem with the impressive turnover growth, 1QFY11 net profit too, soared 37.7% y-o-y to RM4.0 mln from RM2.9 mln. Nevertheless, on a sequential basis, net profit was lower by 13.2%, which management attributed to lower gross margin and higher opex incurred in the quarter under review.
- Unimech's operations continue to be supported by a relatively conservative capital structure with low borrowings of RM50.5 mln, which translated into a net gearing of only 0.2x as at end-March 2011. However, the Group's net gearing may increase going forward as we understand management is likely to seek borrowings to part finance its expansion plans. Meanwhile, NTA/share stood at RM1.18 at 1QFY11.
- In terms of investment risks, the Group remains exposed to the fluctuations in steel prices and foreign currency exchange rates for its overseas operations.
- With no surprises in the 1QFY11 results, we maintain our current FY11 revenue and net profit estimates of RM182.1 mln and RM17.9 mln respectively.
- Unimech had proposed a first and final single tier dividend of 3.6 sen per share for FY10, which is in line with its dividend policy of 30% payout in net profit.

Recommendation

We reiterate our **Buy** call on Unimech with an unchanged fair value of **RM1.18**, derived from assigning a PER of 9x against our FY11 net profit forecast. The target multiple reflects the average PER of small-cap companies in the industrial products segment. We continue to like Unimech for its i) strong earnings growth prospects, especially in Malaysia, Indonesia and Singapore, ii) expectation of receiving product certification from the National Water Services Commission in this financial year, and iii) anticipation of increase in its market share in the water works, waste water treatment and marine & shipbuilding sectors.

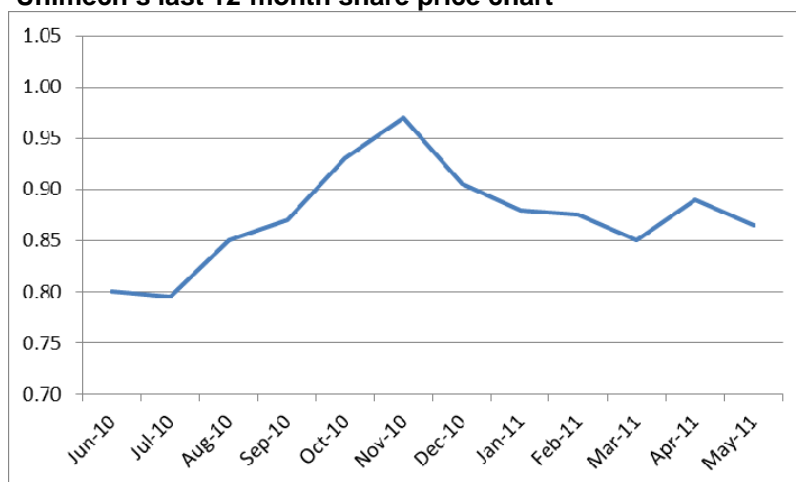
Per Share Data

FYE Dec	FY09	FY10	FY11f
Book Value (RM)	1.02	1.07	1.19
Cash Flow (sen)	17.6	21.8	25.8
Earnings (sen)	9.8	11.8	13.2
Dividend (sen)	2.8	3.6	4.0
Payout Ratio (%)	28.2%	30.4%	30.3%
PER (x)	8.8	7.4	6.6
P/Cash Flow (x)	5.0	4.0	3.4
P/Book Value (x)	0.8	0.8	0.7
Dividend Yield (%)	3.3%	4.3%	4.7%
ROE (%)	9.6%	11.0%	10.2%
Net Gearing (x)	0.1	0.2	0.3

P&L Summary (RM m ln)

FYE Dec (RM m ln)	FY09	FY10	FY11f
Revenue	120.1	158.4	182.1
Operating profit	20.0	25.2	27.3
Net Int Exp	(1.3)	(1.9)	(3.3)
Pre-tax Profit	18.9	23.9	25.5
Eff. Tax Rate	23.0%	24.8%	25.0%
Net Profit	13.4	16.2	17.9
Op Profit Margin (%)	16.6%	15.9%	15.0%
Pre-tax Margin (%)	15.7%	15.1%	14.0%
Net Margin (%)	11.2%	10.2%	9.9%

Unimech's last 12-month share price chart



source: Bloomberg

Analyst: Nicole Tan Yoke Ping (nicole@zj.com.my)

RATING GUIDE

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

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ZJ Advisory Sdn Bhd (Co No: 645449-V)
(An investment adviser licensed by the Securities Commission)
Suite 22B, 22nd Floor, Sunway Tower,
No 86, Jalan Ampang, 50450 Kuala Lumpur
Tel (603) 2032 2328 Facsimile (603) 2032 1328
