

2QFY11 RESULTS UPDATE

12 September 2011

# Unimech Group Berhad

Price : RM0.795

Market Capitalization : RM 108.6 mln

Market : Main Market

Sector : Trading/Services

Recommendation : Buy

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

## Unimech: 2QFY11 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Year to date		
	Jun 11	Mar 11	% chg	Jun 10	% chg	1HFY11	1HFY10	% chg
Turnover	47.3	49.4	-4.3%	38.7	22.3%	96.7	72.3	33.8%
Operating profit	9.3	7.0	33.1%	7.5	23.8%	16.3	12.3	32.3%
Interest cost	(0.8)	(0.8)		(0.5)		(1.6)	(0.8)	
Pre-tax profit	8.3	6.2	34.4%	7.1	17.0%	14.6	11.6	25.0%
Tax	(2.0)	(1.7)		(1.8)		(3.7)	(2.9)	
Net profit	5.4	4.0	35.6%	5.0	9.6%	9.5	7.9	20.0%
Reported EPS (sen)	4.4	3.3		3.7		7.7	5.8	
Op profit margin	19.6%	14.1%		19.4%		16.8%	17.0%	
Pre-tax margin	17.7%	12.6%		18.5%		15.1%	16.1%	
Net profit margin	11.5%	8.1%		12.8%		9.8%	10.9%	
NA per share (RM)	1.30							

## 2QFY11 Results Review

- Unimech Group Berhad (Unimech) produced another set of consistent results with 2QFY11 net profit coming in at RM5.4 mln, taking 1HFY11 net profit to RM9.5 mln. The results were within our expectations with 1HFY11 profit reaching 53% of our full year projection.
- Unimech's 1HFY11 turnover and net profit increased 33.8% and 20.0% y-o-y to RM96.7 mln and RM9.5 mln respectively, mainly on higher demand for its valves, fittings and related products. The industrial valves and related products division remains the largest business segment, contributing 79% to Group revenue and 89% to operating profit in 1HFY11. To recap, Unimech's other key businesses include heat and steam engineering systems; manufacture of electronic products and electronic automation control systems; as well as design, fabrication and assembly of pumps.
- Sequentially, 2QFY11 revenue declined a modest 4.3% on lower contribution from the industrial valves and related products division. However, despite the lower turnover, net profit surged 35.6% to RM5.4 mln, due to higher gross profit margin achieved during the quarter under review. The improved performance in 2QFY11 made up for the lower margin experienced in 1QFY11, and as a result, Unimech's 1HFY11 operating profit margin was sustained at 16.8%, which is comparable to the 17% margin achieved a year ago.
- Meanwhile, Unimech's operations also remain firmly supported by a solid balance sheet with a low net gearing of 0.26x and a NTA/share of RM1.22 as at end-June 2011.
- With 1HFY11 results in line with our expectations, we continue to maintain our current FY11 revenue and net profit estimates of RM182.1 mln and RM17.9 mln respectively.
- No dividend was declared for the quarter under review.

## Recommendation

We maintain a **Buy** recommendation on Unimech, but lower our fair value to **RM1.05** (from RM1.18). Our fair value is derived from ascribing a PER of 8x (from 9x) against our FY11 net profit projection. The reduced benchmark PER is in tandem with the lower average PER of small-cap companies in the industrial products segment, following the recent sell down in the broader equity market.

We continue to like Unimech for its earnings growth prospects, underpinned by the steady rise in the demand for its industrial valves and related products. Its consistency in earnings delivery is also another plus point for the Group.

We view the recent fall in Unimech's share price as a reflection of the uncertain macroeconomic environment and poor investor sentiment, as the Group's fundamentals remain intact and backed by solid a balance sheet. Valuation, at prospective FY11 PER of 6x and P/BV of 0.6x, remains undemanding, in addition to the attractive potential net dividend yield of approximately 5%.

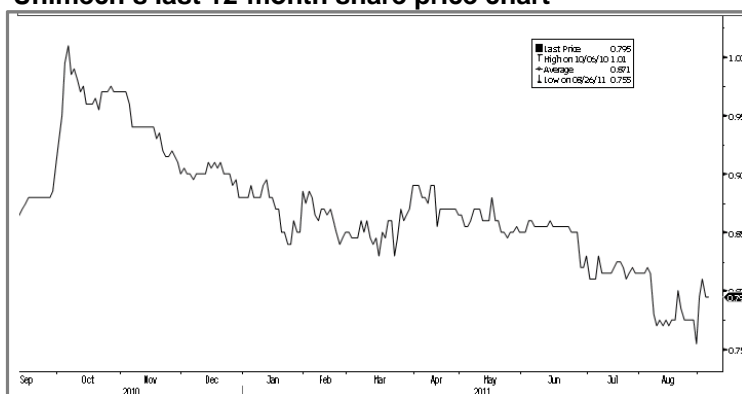
### Per Share Data

FYE Dec	FY09	FY10	FY11f
Book Value (RM)	1.02	1.07	1.41
Cash Flow (sen)	13.9	16.2	16.2
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 (%)	3.5%	4.5%	5.0%
ROE (%)	9.6%	11.0%	10.2%
Net Gearing (x)	0.1	0.2	0.3

### P&L Summary (RM mIn)

FYE Dec (RM mIn)	FY09	FY10	FY11f
Revenue	120.1	158.2	182.1
Operating profit	20.0	25.7	27.3
Net Int Exp	(1.3)	(2.1)	(3.3)
Pre-tax Profit	18.9	24.2	25.5
Eff. Tax Rate	23.2%	25.6%	25.0%
Net Profit	13.4	16.1	17.9
Op Profit Margin (%)	16.6%	16.3%	15.0%
Pre-tax Margin (%)	15.7%	15.3%	14.0%
Net Margin (%)	11.2%	10.2%	9.9%

### Unimech's last 12-month share price chart



source: Bloomberg

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**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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