3QFY11 RESULTS UPDATE **30 November 2011**

Unimech Group Berhad

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

Price :	**RM0.855**
Market Capitalization :	**RM114.2 mln**
Market :	**Main Market**
Sector :	**Trading/Services**
Recommendation :	**Buy**

Unimech: 3QFY11 results

FYE Dec		**Quarter-on-Quarter**		**Year-on-Year**		**Year to date**		
(RM mln)	**Sep 11**	**Jun 11**	**%chg**	**Sep 10**	**%chg**	**9MFY11**	**9MFY10**	**%chg**
Turnover	45.3	47.3	-4.2%	42.9	5.7%	142.0	115.1	23.3%
Operating profit	8.5	9.3	-8.3%	6.2	36.2%	24.8	18.5	33.6%
Interest cost	(1.7)	(0.8)		(0.5)		(3.4)	(1.2)	
Pre-tax profit	7.4	8.3	-11.7%	5.9	25.0%	21.9	17.5	25.0%
Tax	(1.9)	(2.0)		(1.7)		(5.6)	(4.6)	
Net profit	5.0	5.4	-8.9%	3.7	35.9%	14.4	11.5	25.0%
Reported EPS (sen)	4.0	4.4		2.7		11.7	8.6	
Op profit margin	18.8%	19.6%		14.6%		17.4%	16.1%	
Pre-tax margin	16.3%	17.7%		13.8%		15.4%	15.2%	
Net profit margin	10.9%	11.5%		8.5%		10.2%	10.0%	
NA per share (RM)	1.31							

3QFY11 Results Review

- Unimech Group Berhad (Unimech)'s earnings resilience continued after posting a sturdy set of 3QFY11 results with net profit rising 35.9% y-o-y, bringing 9MFY11 net profit to RM14.4 mln. The results exceeded our expectations, having reached 80% of our earlier FY11 projection.

- 9MFY11 revenue and net profit were 23.3% and 25.0% higher y-o-y at RM142.0 mln and RM14.4 mln respectively, due to sustained increase in sales of its valves, fittings and related products. According to management, the improved performance was largely driven by robust demand growth in Indonesia where Unimech is said to be one of the top five suppliers of valves, fittings and related products in the country. Meanwhile, we understood that demand from local market had remained stable, providing comfortable support to the Group's earnings.

- As expected, the valves, fittings and related products category continues to contribute the bulk of Unimech's revenue and operating profit at approximately 80% and 90% respectively. Its other businesses, namely heat and steam engineering systems; manufacture of electronic products and electronic automation control systems; as well as design, fabrication and assembly of pumps made up the remaining revenue and operating profit of the Group.

- Sequentially, 3QFY11 revenue and net profit fell 4.2% and 8.9% respectively due to lower contribution from the industrial valves and related products division. We view the decline in the quarter under review as ordinary fluctuations in the course of Unimech's business.

- On balance sheet strength, Unimech's operations also remain firmly supported by a solid balance sheet with a low net gearing of 0.2x, backed by a NTA/share of RM1.24 as at end-September 2011.

- In view of the stronger-than-expected performance, we raise our FY11 revenue and net profit by 6% and 8% respectively to RM192.8 mln and RM19.3 mln respectively. We also introduce our FY12 projections, where we forecast revenue at RM235.2 mln (+22% y-o-y) and net profit at RM22.4 mln (+16% y-o-y). The big jump expected in FY12 was owing to the inclusion of contributions from its Thai operations, run by TM Unimech Co. Ltd. (TMU), which was an associate company prior to this. Following acquisition of additional stake in TMU in October 2011 by Unimech's 97%-owned subsidiary, Unimech Holdings (Thailand) Co. Ltd., the latter currently holds an 80.6%-stake in TMU.

- We are heartened by Unimech's steadily growing earnings stream, unperturbed by the weak macroeconomic indicators and the European debt crisis. Management attributed its resilient performance to the diversified industry clientele that it serves, and hence not overly dependent on a particular industry. This is made possible because Unimech's valves and fitting products are used in a wide variety of industries. We were also made to understand that its operations in Thailand were not affected by the floods, though business did slow down a little as some of its clients' operations suffered disruptions. We opine that it is possible that business in Thailand may pick up pace soon as some customers would have to replace equipments damaged in the floods, and the replacement exercise would almost certainly involved parts such as valves, fittings, steel castor wheels etc.

Recommendation

We maintain a **Buy** recommendation on Unimech with a higher fair value of **RM1.25** (from RM1.05), derived from ascribing an unchanged PER of 8x against our revised FY11 net profit projection. We continue to like Unimech for its consistent earnings delivery track record and positive earnings growth prospects, underpinned by the expected steady rise in the demand for its industrial valves and related products. Its ability to deliver double-digit revenue and net profit growth thus far despite the global economic slowdown is definitely no mean feat. We view its current valuations, at prospective FY11 PER of 5.4x and P/V of 0.6x, remain undemanding, especially considering its attractive potential net dividend yield of 5.5% (based on Unimech's guided 30% payout from net profit).

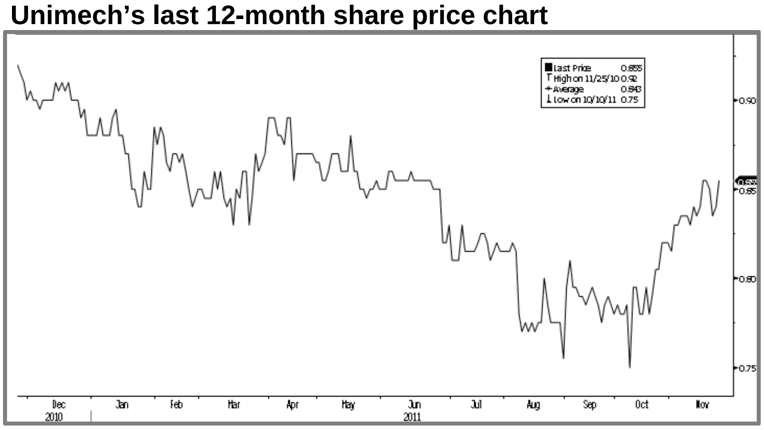
Per Share Data

FYE Dec	FY09	FY10	FY11f
Book Value (RM)	1.02	1.07	1.38
Cash Flow (sen)	13.9	16.3	19.2
Earnings (sen)	9.8	11.8	15.7
Dividend (sen)	2.8	3.6	4.7
Payout Ratio (%)	28.2%	30.4%	30.0%
PER (x)	8.7	7.2	5.4
P/Cash Flow (x)	6.2	5.3	4.5
P/Book Value (x)	0.8	0.8	0.6
Dividend Yield (%)	3.2%	4.2%	5.5%
ROE (%)	9.6%	11.0%	11.4%
Net Gearing (x)	0.1	0.2	0.2

P&L Summary

FYE Dec (RM mln)	FY09	FY10	FY11f	FY12f
Revenue	120.1	158.2	192.8	235.2
Operating profit	20.0	25.7	33.4	41.4
Net Int Exp	(1.3)	(2.1)	(4.1)	(5.1)
Pre-tax Profit	18.9	24.2	29.5	36.2
Eff. Tax Rate	23.2%	25.6%	26.0%	26.0%
Net Profit	13.4	16.1	19.3	22.4
Op Profit Margin (%)	16.6%	16.3%	17.3%	17.6%
Pre-tax Margin (%)	15.7%	15.3%	15.3%	15.4%
Net Margin (%)	11.2%	10.2%	10.0%	9.5%

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

DISCLAIMER

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