



UG Healthcare Corporation Ltd

Stability and value creeping up

SINGAPORE | HEALTHCARE | 2Q22 RESULTS

- 1H22 PATMI fell 67% YoY to S\$21.2mn. Revenue/PATMI were within expectations at 52%/54% of our FY22e forecasts. Glove selling prices fell by more than 50% and glove production was disrupted in the three months of July to September 2021.
- We believe industry glove prices are still slipping in 1Q22, but at a slower pace of around 10% QoQ to US\$20-25.
- We maintain our FY22e earnings forecast. Some stability is creeping up in glove selling prices. Any rebound in prices will remain elusive due to the huge influx of nitrile capacity, especially from China. Our target price is unchanged at S\$0.32 and pegged at a 30% discount to the Big 4 glove makers. This implies 5x FY22e PE. We raise our recommendation from ACCUMULATE to BUY. We see value in the share price as the company is trading below its book value of 33.8 cents and 43% of the market capitalisation is net cash.

Results at a glance

SGD '000	2Q22	2Q21	YoY	1Q22	QoQ	Comments YoY%
Revenue	57,160	88,239	-35.2%	60,118	-4.9%	
Gross profit	20,469	56,103	-63.5%	24,081	-15.0%	
PBT	12,089	46,177	-73.8%	13,822	-12.5%	
PATMI	10,687	32,260	-66.9%	10,559	1.2%	
Gross Margins	35.8%	63.6%	-27.8%	40.1%	-4.2%	ASP declined around 50%.
Net cash	73,102	32,547	124.6%	80,471	-9.2%	43% of market cap. is in cash.

Source: Company, PSR

The Positive

+ Stronger balance sheet. Net cash in 1H21 was S\$73.1mn (1H20: \$32.5mn), boosted by free cash flows of S\$21.5mn. Net cash represents 43% of the market capitalisation.

The Negative

- Further delay in new capacity. The new 1.2bn glove factory in Seremban will be delayed from March 2022 to May 2022. Construction work stopped from June to August due to lockdowns and labour shortages. It only resumed in mid-September. Meanwhile, the focus for the company will be on glove branding efforts and sourcing of new factory workers.

Outlook

Glove prices especially for nitrile are still declining but at a slower pace. Chinese manufacturers remain the largest price disrupter in the industry prompting Malaysian peers to either match or come closer to the lower prices. The ample capacity in China is reflected by their short delivery times to meet customer orders.

UGHC can fare better than peers despite lower prices by: (i) Outsourcing more customer orders to third party factories to take advantage of these lower factory prices; (ii) UGHC enjoys higher prices as a distributor to end customers. Such end customers pay a premium due to the smaller order quantities of cartons or pellets; (iii) UGHC is experiencing glove demand from new industries such as farming and beauty; and (iv) Emerging market customers are upgrading their quality standards as health awareness has risen significantly due to the pandemic. UGHC's exposure to emerging markets and latex gloves such as Brazil, China and Nigeria is around 45% of sales.

Upgrade to BUY from ACCUMULATE with an unchanged target price of S\$0.32

We find valuations of the company turning more attractive and the pace of decline in glove prices tapering off.

15 February 2022

BUY (Upgraded)

CLOSING PRICE	SGD 0.270
FORECAST DIV	SGD 0.005
TARGET PRICE	SGD 0.320
TOTAL RETURN	20.4%

COMPANY DATA

Bloomberg CODE:	UGHC SP
O/S SHARES (MN):	623.8
MARKET CAP (USD mn / SGD mn):	125 / 168
52 - WK HI/LO (SGD):	0.77 / 0.25
3M Average Daily T/O (mn):	5.72

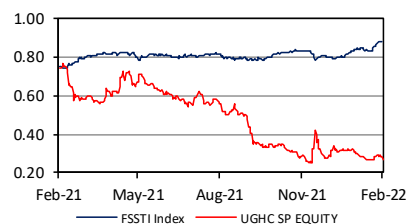
MAJOR SHAREHOLDERS

Zen UG Pte Ltd	47.8%
Raydion Direct Global Inc	12.3%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(9.5)	3.6	(10.9)
STI RETURN	5.7	6.5	9.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Jun, SGD (mn)	FY20	FY21	FY22e	FY23e
Revenue	144.2	338.4	226.6	253.0
EBITDA	16.4	119.4	43.3	58.7
Net Profit	13.4	118.3	39.6	54.1
EPS (SGD cents)	2.3	19.4	6.4	8.8
P/E (X)	11.9	1.4	4.2	3.1
Dividend Yield	2.6%	2.3%	1.9%	2.2%
ROE	24.7%	60.7%	17.1%	19.1%
ROA	11.9%	44.1%	13.2%	15.0%

Source: Company, PSR

VALUATION METHOD

5x PE Multiple FY22e

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Financials

Income Statement

Y/E Jun, SGD '000	FY19	FY20	FY21	FY22e	FY23e
Revenue	91,715	144,209	338,401	226,603	252,952
Gross profit	18,719	42,519	196,160	78,966	100,957
EBITDA	3,129	16,393	119,400	43,309	58,705
Depreciation & amortisation	(1,608)	(2,443)	(3,017)	(4,119)	(4,704)
EBIT	1,506	13,930	116,365	39,172	53,983
Net Finance Inc/(Exp)	(1,618)	(1,985)	(604)	(470)	(548)
Profit before tax	2,763	18,057	159,403	50,465	68,978
Taxation	(546)	(2,971)	(39,459)	(10,093)	(13,796)
Minority interest	290	(1,684)	(1,684)	(807)	(1,104)
PATMI	2,507	13,402	118,260	39,564	54,079

Per share data (SGD Cents)

Y/E Jun	FY19	FY20	FY21	FY22e	FY23e
EPS, Reported	0.4	2.3	19.4	6.4	8.8
DPS	0.3	0.7	0.6	0.5	0.6
BVPS	7.5	9.2	31.6	37.5	46.0

Cash Flow

Y/E Jun, SGD '000	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	2,763	18,057	159,403	50,465	68,978
Adjustments	736	2,551	4,315	2,130	2,103
WC changes	(7,652)	(7,782)	(50,372)	16,711	(4,427)
Cash generated from ops	(4,153)	12,826	113,346	69,306	66,654
Tax paid	(523)	125	(31,814)	(10,093)	(13,796)
Cashflow from ops	(6,367)	10,989	80,958	58,743	52,311
CFI					
CAPEX, net	(8,532)	(3,288)	(19,677)	(25,000)	(15,000)
Others	1,643	441	761	1,277	1,967
Cashflow from investments	(6,889)	(2,847)	(18,916)	(23,723)	(13,033)
CFE					
Share issuance, net	-	-	18,672	-	-
Loans, net of repayments	11,499	(3,224)	(19,855)	(5,000)	-
Dividends	(103)	(104)	(1,088)	(3,735)	(3,083)
Others	-	(410)	(634)	-	-
Cashflow from financing	11,396	(3,738)	(2,905)	(8,735)	(3,083)
Net change in cash	(1,860)	4,404	59,137	26,286	36,195
CCE, end	6,615	9,292	68,429	94,715	130,909

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Jun, SGD '000	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Trade and other receivables	24,052	32,858	60,635	54,385	60,708
Cash	4,871	9,292	68,441	94,727	130,921
Inventories	31,031	33,723	72,408	61,183	68,297
Total current assets	61,750	75,987	201,484	210,294	259,927
PPE & IA	32,340	31,778	49,357	70,220	80,498
Others	4,999	5,250	17,446	18,646	19,846
Total non-current assets	37,339	37,028	66,803	88,866	100,344
Total Assets	99,089	113,015	268,287	299,160	360,271
LIABILITIES					
Accounts payable	14,184	18,469	34,755	33,990	43,002
Bank borrowings	32,239	30,520	9,957	4,957	4,957
Derivatives	-	-	-	-	-
Others	-	-	-	-	-
Total current liabilities	46,424	50,815	62,951	57,186	66,198
Deferred tax liabilities	3,201	3,142	4,524	4,524	4,524
Long-term borrowings	6,100	4,595	5,303	5,303	5,303
Others	-	191	749	749	749
Total non-current liabilities	9,301	7,928	10,576	10,576	10,576
Total Liabilities	55,725	58,743	73,527	67,762	76,774
Equity					
Non-controlling interests	1,036	2,051	4,124	4,931	6,035
Shareholder Equity	43,364	54,272	194,760	231,397	283,497

Valuation Ratios

Y/E Jun	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	62.5	11.9	1.4	4.2	3.1
P/B (X)	3.6	2.9	0.9	0.7	0.6
EV/EBITDA (X)	62.9	11.6	0.9	1.9	0.8
Dividend Yield (%)	1.0	2.6	2.3	1.9	2.2

Growth & Margins

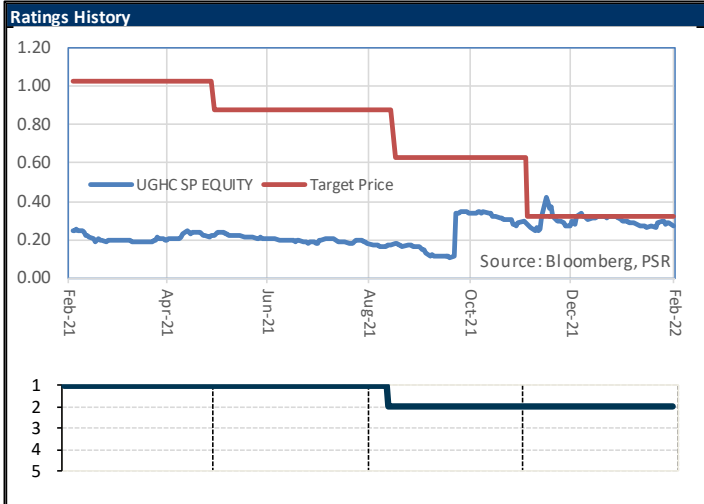
Growth					
Revenue	17.5%	57.2%	134.7%	-33.0%	11.6%
EBITDA	-38.8%	423.9%	628.4%	-63.7%	35.5%
EBIT	-59.0%	825.0%	735.4%	-66.3%	37.8%
Net profit, adj.	-42.2%	434.6%	782.4%	-66.5%	36.7%

Margins

Gross margin	20.4%	29.5%	58.0%	34.8%	39.9%
EBITDA margin	3.4%	11.4%	35.3%	19.1%	23.2%
EBIT margin	1.6%	9.7%	34.4%	17.3%	21.3%
Net profit margin	2.7%	9.3%	34.9%	17.5%	21.4%

Key Ratios

ROE	5.8%	24.7%	60.7%	17.1%	19.1%
ROA	2.5%	11.9%	44.1%	13.2%	15.0%
Net Gearing	70.5%	44.9%	Net cash	Net cash	Net cash
Net Debt/EBITDA (X)	9.8	1.5	-0.5	-2.0	-2.1



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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