



UG Healthcare Corporation Ltd

Below book value and earnings stable



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SINGAPORE | HEALTHCARE | 3Q22 UPDATE

19 May 2022

- 3Q22 PATMI fell 69% YoY to S\$10.7mn. YTD3Q22 revenue/PATMI were within expectations at 80%/81% of our FY22e forecasts. Glove selling prices fell by around 30% YoY and glove volume sales were flat YoY.
- The price of generic nitrile gloves prices is still weakening albeit at a slower pace. UGHC can ramp up its trading business to take advantage of these weak prices. Latex prices are stable with healthy demand from China and South America.
- Our BUY recommendation and FY22e earnings forecast are unchanged. The target price is pegged to a 30% discount to the Big 4 glove makers, or 5x FY22e PE. We find valuations attractive. The company is trading below book value, 17% unlevered ROE and 57% of the market capitalisation is backed by net cash of S\$77mn. We expect earnings to be stable in FY22e/FY23e. UGHC is taking advantage of low nitrile prices by outsourcing to other manufacturers. Latex glove prices are stable with demand from emerging markets. New capacity is earmarked for latex gloves.

BUY (Maintained)

CLOSING PRICE	SGD 0.220
FORECAST DIV	SGD 0.005
TARGET PRICE	SGD 0.320
TOTAL RETURN	47.7%

COMPANY DATA

Bloomberg CODE:	UGHC SP
O/S SHARES (MN):	623.8
MARKET CAP (USD mn / SGD mn):	99 / 137
52 - WK HI/LO (SGD):	0.72 / 0.21
3M Average Daily T/O (mn):	0.84

MAJOR SHAREHOLDERS

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

Results at a glance

SGD '000	3Q22	3Q21	YoY	2Q22	QoQ	Comments YoY%
Revenue	64,253	93,458	-31.2%	57,160	12.4%	ASP declined around 50%.
Gross profit	20,429	58,574	-65.1%	20,469	-0.2%	
PBT	15,676	46,465	-66.3%	12,089	29.7%	
PATMI	10,682	34,332	-68.9%	10,687	0.0%	
Gross Margins	31.8%	62.7%	-30.9%	35.8%	-4.0%	
Net cash	76,695	49,842	53.9%	73,102	4.9%	57% of market cap. is in cash.

Source: Company, PSR

The Positive

+ More QoQ stability in margins. Gross margins have started to stabilise after a euphoric 58% in FY21. We expect gross margins to stabilise around current levels due to improving latex and distribution margins.

The Negative

- Ramp up of new capacity dependent on labour availability. The new glove factory will raise production capacity by another 1.2bn pieces to 4.6bn. The plant is expected to be completed in May 2022 with production commencing in June. The ability to ramp up production will depend on the arrival of foreign workers. Many industries are queuing up to secure these workers.

Outlook

Chinese manufacturers continue to disrupt generic nitrile glove prices. Their short lead times and aggressive pricing (US\$18-19), suggest excess capacity or inventory available from Chinese manufacturers. UGHC will look to outsource their nitrile customer orders from these lower-cost factories. The low prices will allow the distribution business to enjoy attractive margins. UGHC has built up a distribution network, namely in Europe, for nitrile gloves. The new plant will raise the production capacity of latex gloves and support earnings in FY23e. The major challenge in FY23e will be cost pressures from higher minimum wages (effective 1st May) and the increase in gas tariffs.

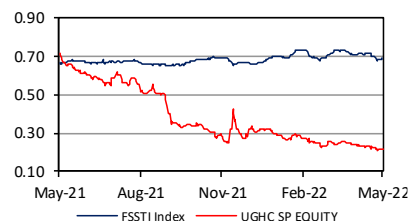
Maintain BUY with an unchanged target price of S\$0.32

After four quarters of falling glove prices, we believe stability has started to creep in. UGHC's new capacity, flexibility to outsource and strong branding and distribution network in emerging markets will allow the company to stabilise earnings.

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(8.3)	(20.0)	(31.3)
STI RETURN	(2.7)	(5.3)	4.6

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	45.2
Net Profit	13.4	118.3	39.6	40.9
EPS (SGD cents)	2.3	19.4	6.4	6.6
P/E (X)	9.7	1.1	3.4	3.3
Dividend Yield	3.2%	2.8%	2.3%	2.7%
ROE	24.7%	60.7%	17.1%	15.1%
ROA	11.9%	44.1%	13.2%	11.8%

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	81,819
EBITDA	3,129	16,393	119,400	43,309	45,221
Depreciation & amortisation	(1,608)	(2,443)	(3,017)	(4,119)	(4,704)
EBIT	1,506	13,930	116,365	39,172	40,499
Net Finance Inc/(Exp)	(1,618)	(1,985)	(604)	(470)	(548)
Profit before tax	2,763	18,057	159,403	50,465	50,852
Taxation	(546)	(2,971)	(39,459)	(10,093)	(9,153)
Minority interest	290	(1,684)	(1,684)	(807)	(834)
PATMI	2,507	13,402	118,260	39,564	40,865

Per share data (SGD Cents)

Y/E Jun	FY19	FY20	FY21	FY22e	FY23e
EPS, Reported	0.4	2.3	19.4	6.4	6.6
DPS	0.3	0.7	0.6	0.5	0.6
BVPS	7.5	9.2	31.6	37.5	43.8

Cash Flow

Y/E Jun, SGD '000	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	2,763	18,057	159,403	50,465	50,852
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	48,528
Tax paid	(523)	125	(31,814)	(10,093)	(9,153)
Cashflow from ops	(6,367)	10,989	80,958	58,743	38,827
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	22,711
CCE, end	6,615	9,292	68,429	94,715	117,425

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	117,437
Inventories	31,031	33,723	72,408	61,183	68,297
Total current assets	61,750	75,987	201,484	210,294	246,443
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	346,787
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	5,765
Shareholder Equity	43,364	54,272	194,760	231,397	270,013

Valuation Ratios

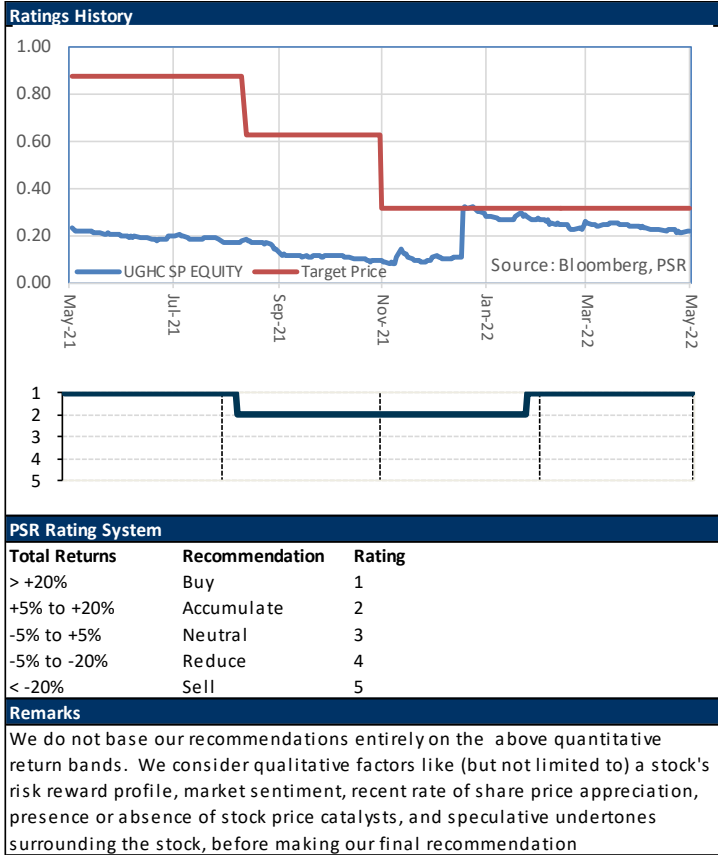
Y/E Jun	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	50.9	9.7	1.1	3.4	3.3
P/B (X)	2.9	2.4	0.7	0.6	0.5
EV/EBITDA (X)	53.1	9.8	0.7	1.2	0.6
Dividend Yield (%)	1.2	3.2	2.8	2.3	2.7

Growth & Margins

Growth					
Revenue	17.5%	57.2%	134.7%	-33.0%	11.6%
EBITDA	-38.8%	423.9%	628.4%	-63.7%	4.4%
EBIT	-59.0%	825.0%	735.4%	-66.3%	3.4%
Net profit, adj.	-42.2%	434.6%	782.4%	-66.5%	3.3%
Margins					
Gross margin	20.4%	29.5%	58.0%	34.8%	32.3%
EBITDA margin	3.4%	11.4%	35.3%	19.1%	17.9%
EBIT margin	1.6%	9.7%	34.4%	17.3%	16.0%
Net profit margin	2.7%	9.3%	34.9%	17.5%	16.2%

Key Ratios

ROE	5.8%	24.7%	60.7%	17.1%	15.1%
ROA	2.5%	11.9%	44.1%	13.2%	11.8%
Net Gearing	70.5%	44.9%	Net cash	Net cash	Net cash
Net Debt/EBITDA (X)	9.8	1.5	-0.5	-2.0	-2.4



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