

4QFY11 RESULTS UPDATE

5 March 2012

Unimech Group Berhad

Price : RM0.85

Market Capitalization : RM113.5 mln

Market : Main Market

Sector : Trading/Services

Recommendation : Buy

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

Unimech: 4QFY11 results

FYE Dec (RM mln)	Quarter-on-Quarter			Year-on-Year		Year to date		
	Dec 11	Sep 11	%chg	Dec 10	%chg	FY11	FY10	%chg
Turnover	51.8	45.3	14.4%	43.1	20.2%	193.8	158.2	22.5%
Operating profit	8.5	8.5	0.0%	7.2	18.4%	33.3	25.7	29.3%
Interest cost	(1.2)	(1.7)		(0.9)		(4.5)	(2.1)	
Pre-tax profit	7.7	7.4	4.7%	6.7	15.6%	29.6	24.2	22.4%
Tax	(2.1)	(1.9)		(1.4)		(7.7)	(6.0)	
Net profit	5.2	5.0	4.1%	4.6	12.7%	19.6	16.1	21.4%
Reported EPS (sen)	4.2	4.0		4.6		16.0	13.1	
Op profit margin	16.4%	18.8%		16.7%		17.2%	16.3%	
Pre-tax margin	14.9%	16.3%		15.5%		15.3%	15.3%	
Net profit margin	10.0%	10.9%		10.6%		10.1%	10.2%	
Net assets/share (RM)	1.41							

4QFY11 Results Review

- Unimech Group Berhad (Unimech) continued to deliver another set of consistent and solid results with 4QFY11 net profit rising 11.7% y-o-y to RM4.6 mln. The results were within our expectations as FY11 net profit of RM19.6 mln was just a tad ahead of our estimate of RM19.3 mln.
- Amid uncertainties in the global economy, Unimech performed commendably by expanding both FY11 revenue and net profit by double-digit growth rate. Turnover was 22.5% higher y-o-y, principally due to much improved sales at its core division, Valves, Instruments and Fittings (VIF) division which grew 33.6% y-o-y. Management noted that Indonesia has been and remains a key growth market for the VIF business where the Group is said to be one of the top five suppliers of valves, fittings and related products in the country.
- VIF is the largest business segment at Unimech, contributing 80.6% and 89.3% to FY11 revenue and operating profit respectively. The remainder was contributed by Electronics, Pumps and other industrial products sold by the Group.
- On a quarterly basis, 4QFY11 turnover and net profit rose 20.2% and 12.7% y-o-y respectively on increased sales from the Indonesian market, as well as due to consolidation of its Thailand's operation following the acquisition of a majority stake by Unimech in the latter in October 2011.
- On balance sheet strength, Unimech's operations remains firmly supported by a solid balance sheet with a low net gearing of 0.3x, backed by a BV/share of RM1.41 as at end-December 2011.
- With no surprises in the 4QFY11 results, we maintain our existing FY12 net profit projection of RM22.4 mln at this juncture.

- There was no dividend declared during the quarter review. However, we believe the Board will recommend a final dividend closer to its annual general meeting. Based on its 30% dividend payout policy, we estimate the net dividend amount to be approximately 4.8 sen, which translates into a health net dividend yield of 5.6%.

Recommendation

We maintain a **Buy** recommendation on Unimech with a slightly higher fair value of **RM1.28** (from RM1.25), derived from ascribing a target PER of 7x (from 8x) against our rolled-over FY12 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 commendable. We view its current valuations, at prospective FY12 PER of 4.7x and P/B of 0.5x, as undemanding, especially considering its attractive potential net dividend yield of 5.6%. Moderating factors, however, include its low share trading liquidity as well as small market capitalization which may dampen certain investors' (e.g. institutional investors) interest in the stock.

Per Share Data

FYE Dec	FY10	FY11	FY12f
Book Value (RM)	1.07	1.41	1.66
Cash Flow (sen)	16.3	19.4	21.7
Earnings (sen)	11.8	16.0	18.2
Dividend (sen)	3.6	4.8	5.5
Payout Ratio (%)	30.4%	30.0%	30.0%
PER (x)	7.2	5.3	4.7
P/Cash Flow (x)	5.2	4.4	3.9
P/Book Value (x)	0.8	0.6	0.5
Dividend Yield (%)	4.2%	5.6%	6.4%
ROE (%)	11.0%	11.3%	11.0%
Net Gearing (x)	0.2	0.3	0.3

P&L Summary

FYE Dec (RM mln)	FY09	FY10	FY11	FY12f
Revenue	120.1	158.2	193.8	224.0
Operating profit	20.0	25.7	33.3	39.4
Net Int Exp	(1.3)	(2.1)	(4.5)	(5.7)
Pre-tax Profit	18.9	24.2	29.6	33.8
Eff. Tax Rate	23.2%	25.6%	26.0%	26.0%
Net Profit	13.4	16.1	19.6	22.4
Op Profit Margin (%)	16.6%	16.3%	17.2%	17.6%
Pre-tax Margin (%)	15.7%	15.3%	15.3%	15.1%
Net Margin (%)	11.2%	10.2%	10.1%	10.0%

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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