



UWC Berhad

“Bright prospects ahead”

Bloomberg: UWC MK | Reuters: UWCB.KL | Stock Code: 5292

Main Board

Technology

BUY

TP: RM3.67

Price: RM3.25

Valuation / Recommendation

We initiate coverage on UWC Berhad with a BUY recommendation with a TP of RM3.67 based on FY23F EPS of 10.4 sen and a PE of 35.3x, in line with the 10-year average of the technology industry. We like the stock for its attractive expansion plans and strong track record, well-positioned to leverage on the growing world semiconductor market which is forecasted by the World Semiconductor Trade Statistics (WSTS) to grow by 16.3% and 5.1% in 2022 and 2023.

Investment Highlights

One-stop solution centre. UWC is a one-stop solution centre providing module to full turnkey assembly manufacturing of automated test equipment (ATE) ranging from semiconductor to life-science industry. The new 5G mm wave tester project for smart devices and vehicle-to-vehicle (V2V) communication sensor emulator project is expected to commence by 2H22 and contribute RM50m to revenue annually. The company expects to sell 10 units of testers and 10 units of emulators per month.

Capacity expansion. In FY21, UWC acquired a 120k sq ft plant in Taiping to increase its production capacity on the provision of finishing treatment and sheet metal fabrication, which commenced operations in April 2022. The company also acquired a 12.1-acre land in Batu Kawan and plans to build a new factory with a built-up area of approximately 500k sq ft, which will increase its total floor space to more than 1 million sq ft, expected to complete within 1H24. Approximately RM200m worth of capex will be allocated for this plant, equally utilised across the next 3 years.

Bulk of the space will be utilised for the semiconductor segment, catered for customers from the front-end. We think that with the completion of the 4th plant in FY24, the company is well-positioned to leverage on the growing world semiconductor market which is forecasted by the World Semiconductor Trade Statistics (WSTS) to grow by 16.3% and 5.1% in 2022 and 2023. The company is also building a 30k sq ft mezzanine floor in its 2nd existing plant to expand its current capacity. The extra space will house 4 to 5 CNC machines, whereas construction of the floor is expected to complete within 1H23.

Strong order book and track record. The company has an order book of RM190m, expected to be fully recognized within 1H23, with the arrival of more workers. Under the leadership of Group CEO Dato’ Ng Chai Eng who is responsible for the overall management and business operations of UWC, the company was able to achieve a revenue and profit after tax record in FY21, and a 3-year revenue CAGR of 27.8% from FY18 to FY21, despite the COVID-19 pandemic in FY20.

Risk factor. (1.) Fluctuation of raw material prices (2.) Labour shortages.

INVESTMENT STATISTICS	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RM m)	219.1	285.0	330.4	383.3	444.6
EBITDA (RM m)	82.5	126.6	137.8	164.0	195.6
EBITDA Margin (%)	37.7	44.4	41.7	42.8	44.0
Pre-tax Profit (RM m)	72.6	114.8	123.7	146.8	174.8
Net Profit (RM m)	57.8	91.5	96.5	114.5	136.4
EPS (sen)	5.2	8.3	8.8	10.4	12.4
Dividend Yield (%)	0.4	0.3	0.4	0.5	0.6
BV Per Share (sen)	20.3	27.7	35.1	44.0	54.5
PE (x)	58.9	37.2	35.3	29.7	25.0
Net Gearing (%)	Net	Net	Net	Net	Net
	Cash	Cash	Cash	Cash	Cash
ROA (%)	20.6	25.5	21.5	20.7	20.2
ROE (%)	25.9	30.0	25.0	23.7	22.7

Sources: Mercury Securities, Company

Business Overview

UWC Bhd is an integrated engineering supporting service provider. The company provides fabrication services involving various processes of working with metal such as cutting, forming, joining and other associated processes. The company serve customers from a diverse range of industries such as, semiconductor, life-science and medical technology and heavy equipment. It also provides assembly services.

Stock Return Information

KLCI (pts)	1,418.44
Expected Share Return (%)	12.9
Expected Dividend Yield (%)	0.5
Expected Total Return (%)	13.4

Share Information

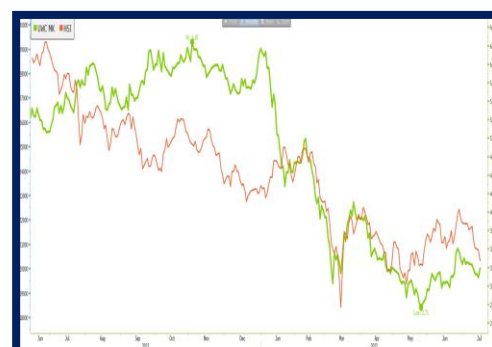
Market Cap (RM m)	3,579.4
Issued Shares (m)	1,104.4
52W High (RM)	6.34
52W Low (RM)	2.70
Estimated Free Float (%)	18.2
Beta vs FBM KLCI	0.8
3-month Average Vol. (m)	29.1

Top 3 Shareholders (%)

UWC Capital Sdn Bhd	52.51
Ng Chai Eng	8.04
Lau Chee Kheong	7.99

Price Performance

	1M	3M	12M
Absolute (%)	4.4	-11.4	-43.2
Relative to Index (%)	9.1	0.2	-36.1



Source: Bloomberg

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RESULTS (RM m) FYE July	3Q22	2Q22	qoq %	3Q21	yoy %	Comments
Revenue	87.3	79.9	9.3	71.8	21.6	
Other operating income	3.8	1.3	192.3	0.6	533.3	
Changes in inventories	10.1	0.3	3266.7	-	-	
Raw materials used	33.0	23.4	41.0	22.9	44.1	
Staff costs	17.3	14.2	21.8	11.3	53.1	
Depreciation expenses	4.0	3.7	8.1	3.3	21.2	
Impairment (losses) in trade receivables	0.5	-0.2	-	0.1	400.0	
Other operating expenses	8.3	8.2	1.2	7.4	12.2	
Shares of profit of an associate	-	-	-	-	-	
Profit from operations	38.0	32.2	18.0	27.3	39.2	
Finance costs	-	0.1	-	-	-	
Profit before tax	38.0	32.1	18.4	27.3	39.2	
Taxation	9.3	7.1	31.0	4.2	121.4	
PATMI	28.7	25.0	14.8	23.0	24.8	
Extraordinary losses (gains)	-	-	-	-	-	
Core net profit	28.7	25.0	14.8	23.0	24.8	
EPS (sen)	2.6	2.3	13.0	2.1	23.8	
Core EPS (sen)	2.6	2.3	13.0	2.1	23.8	



Sources: Mercury Securities, Bloomberg



MERCURY SECURITIES SDN BHD
(A participating organisation of Bursa Malaysia
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PROFIT & LOSS (RM m) FY July	FY20A	FY21A	FY22F	FY23F	FY24F
Net Revenue	219.1	285.0	330.4	383.3	444.6
Gross Profit	82.4	127.0	136.3	161.5	191.8
Other Operating Income	4.6	3.4	4.0	4.6	5.3
EBIT	72.0	113.9	122.6	145.7	173.7
Administrative Expenses	13.8	15.3	16.5	19.2	22.2
Profit from operations	73.2	115.1	123.8	146.9	174.9
Interest Expense	0.5	0.3	0.1	0.1	0.1
Profit Before Tax	72.6	114.8	123.7	146.8	174.8
Exceptional Items	-	-	-	-	-
Taxation	14.9	23.3	27.2	32.3	38.5
Minority Interests	0.0	0.0	0.0	0.0	0.0
Profit After Tax (PATMI)	57.8	91.5	96.5	114.5	136.4
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	57.8	91.5	96.5	114.5	136.4
BALANCE SHEET (RM m) FY July	FY20A	FY21A	FY22F	FY23F	FY24F
Cash and bank balances	57.8	71.7	87.0	117.7	166.9
Trade and other receivables	68.8	86.7	98.2	118.4	132.3
Inventories	43.5	53.4	76.7	81.8	97.5
Other current assets	0.6	20.9	10.3	10.3	9.1
Current Assets	170.7	232.7	272.2	328.1	405.7
Property, Plant & Equipment	93.0	109.3	160.8	209.1	253.9
Other non-current assets	16.8	17.3	15.7	16.3	17.0
Non-Current Assets	109.8	126.7	176.5	225.4	270.9
Trade and other payables	36.1	31.0	39.7	48.5	54.4
Short-term borrowings	2.1	1.5	1.4	1.3	1.2
Other current liabilities	5.2	7.8	7.6	7.3	7.1
Current Liabilities	43.3	40.3	48.6	57.2	62.7
Long-term borrowings	2.6	1.1	1.0	0.9	0.8
Other non-current liabilities	11.3	13.2	10.6	9.5	8.4
Non-current Liabilities	13.9	14.3	11.6	10.4	9.2
Share Capital	115.5	116.4	116.4	116.4	116.4
Retained Profits	107.8	188.3	270.4	367.7	483.6
Other Equity	0.0	0.0	0.0	0.0	0.0
Total Equity	223.3	304.7	386.7	484.1	600.0
CASH FLOW (RM m) FY July	FY20A	FY21A	FY22F	FY23F	FY24F
Profit before tax	72.6	114.8	123.7	146.8	174.8
Depreciation & Amortization	9.3	11.5	14.1	17.1	20.8
Interest income	-1.2	-0.8	0.0	0.0	0.0
Interest expense	0.5	0.3	0.1	0.1	0.1
Other operating cashflow	0.1	0.9	0.2	0.3	0.4
Operating profit/(loss) before working capital	81.4	126.7	138.0	164.3	196.0
Changes in working capital	-12.7	-33.0	-26.1	-16.5	-23.7
Cash generated from operations	68.7	93.7	111.9	147.8	172.3
Income tax paid	-13.0	-19.4	-27.2	-32.3	-38.5
Interest paid	-0.3	-0.1	-0.1	-0.1	-0.1
Cashflow from operations	55.3	74.2	84.6	115.5	133.8
Interest received	1.2	0.8	0.0	0.0	0.0
Other investing cashflow	0.0	-19.0	0.0	0.0	0.0
Purchase of property, plant, and equipment	-21.5	-28.6	-66.7	-66.7	-66.7
Proceeds from subscription of equity interest	0.0	0.1	0.0	0.0	0.0
Net cash (used in)/from investing activities	-20.3	-46.7	-66.7	-66.7	-66.7
Dividends paid	-11.0	-11.0	-14.5	-17.2	-20.5
Repayment of term loans	-2.2	-2.1	-0.2	-0.2	-0.2
Payment of lease liabilities	-11.4	-0.6	0.0	0.0	0.0
Other financing cashflow	-7.0	0.0	0.0	0.0	0.0
Cashflow from financing	-31.6	-13.6	-14.7	-17.4	-20.7

Sources: Mercury Securities, Company

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