



UWC Berhad

“Bright prospects ahead”

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

Main Board

Technology

BUY

TP: RM4.38

Last Closing Price: RM4.07

Initiated Price: RM3.25

Valuation / Recommendation

Results were within expectations, achieving 104.6% and 110.0% of our full year revenue and profit forecasts for FY22. The company delivered a record PAT of RM30m for the quarter which represents qoq (4.5%) and yoy (53.1%) growth mainly due to higher contributions from the semiconductor industry.

We maintain a BUY recommendation on UWC Berhad with a revised TP of RM4.38 based on FY24F EPS 12.4 sen and PE of 35.3x, in line with the 10-year average of the technology industry. We like the stock due to its attractive growth prospects, well-positioned to leverage on the growing semiconductor industry which is forecasted by IDC to grow at a 5-year CAGR of 4.93% from 2021 to 2026.

Investment Highlights

Commencement of new products. The box-build assembly for 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.

The company expects to launch its 10nm functional tester products within 2023 and expects to sell 45 – 50 units annually. We think that there will be a slow down in demand due to the transition to 7nm testers.

Strong order book. The company has an order book of RM192m as of 31st August 2022, expected to be fully recognized within 3 to 6 months, with the arrival of more workers.

Capacity expansion. The company’s factories are currently fully utilized at 80% utilization rate. 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 IDC. 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.

Dividend. Dividend of 2.91 sen per share was declared on 4Q22, ex on 20th Sept 2022. (FY22 – 2.91 sen, FY21 – 1.67 sen)

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	345.6	383.3	444.6
EBITDA (RM m)	82.5	126.6	154.4	164.0	195.6
PATMI	57.8	91.5	106.8	114.5	136.4
EPS (sen)	5.2	8.3	9.7	10.4	12.4
Dividend Yield (%)	0.4	0.3	0.9	1.0	1.0
BV Per Share (sen)	20.3	27.7	36.1	44.0	54.5
PE (x)	77.4	48.9	41.9	39.0	32.8
Net Gearing (%)	Net Cash				
ROA (%)	20.6	25.5	23.3	20.7	20.2
ROE (%)	25.9	30.0	26.9	23.7	22.7

Sources: Mercury Securities, Company

RESULTS (RM m)	4Q22	3Q22	qoq %	4Q21	yoy %
FY July					
Revenue	103.1	87.3	18.1	63.9	61.3
Other income	4.4	3.8	15.8	1.0	340.0
Changes, inventories	19.6	10.1	94.1	4.4	345.5
Raw materials used	18.3	33.0	-44.5	25.6	-28.5
Staff costs	16.8	17.3	-2.9	11.7	43.6
Depreciation	4.2	4.0	5.0	3.5	20.0
Impairment (losses)	0.1	0.5	-80.0	-	-
Other expenses	10.9	8.3	31.3	4.7	131.9
Associate	-	-	-	-	-
Operation profit	39.6	38.0	4.2	24.0	65.0
Finance costs	-	-	-	-	-
Profit before tax	39.6	38.0	4.2	23.9	65.7
Taxation	9.6	9.3	3.2	4.3	123.3
PAT	30.0	28.7	4.5	19.6	53.1
EPS (sen)	2.7	2.6	3.8	1.8	50.0

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)	1,477.39
Expected Share Return (%)	7.6
Expected Dividend Yield (%)	-
Expected Total Return (%)	7.6

Price Performance

	1M	3M	12M
Absolute (%)	3.0	37.0	-26.8
Relative to Index (%)	5.0	37.3	-22.2

Share Information

Market Cap (RM m)	4,537.6
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	0.9
3-month Average Vol. (m)	29.1

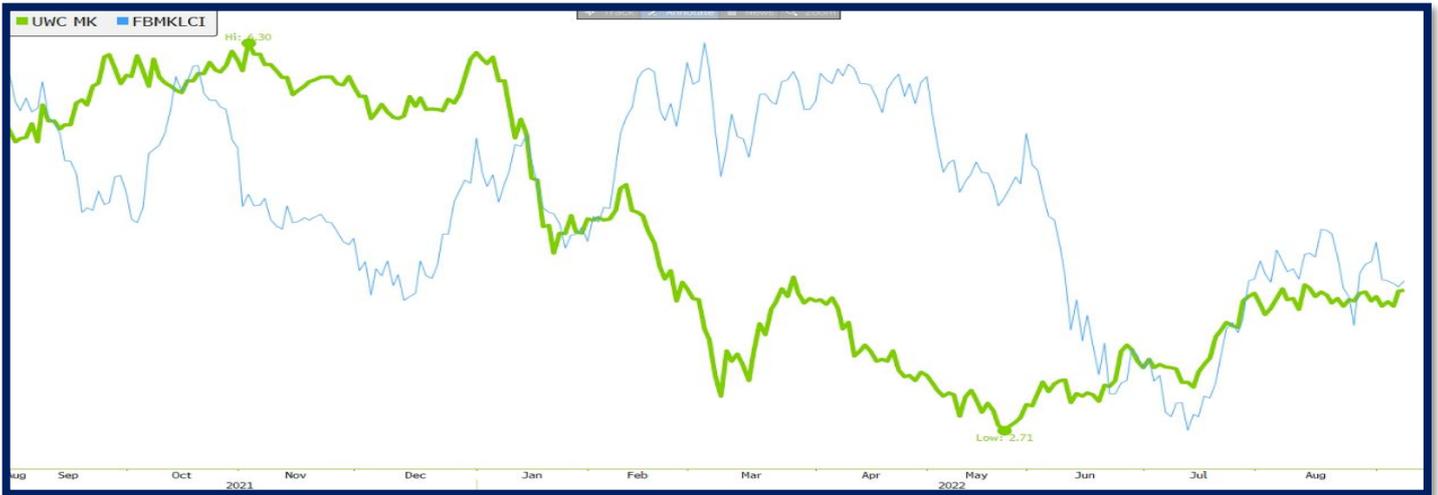
Top 3 Shareholders (%)

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

Sources: Mercury Securities, Company, Bloomberg

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Sources: Mercury Securities, Bloomberg

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SELL	Stock's total return is expected to be -10% or worse over the next 12 months (including dividend yield)

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