



UG Healthcare Corporation Ltd

Great quarter though ASPs are trending down

SINGAPORE | HEALTHCARE | 3Q21 UPDATE

- 3Q21 PATMI beat estimates, up 56-fold YoY to S\$34.3mn. 9M21 PATMI forms 83% of our FY21e forecast. Operating leverage and gross margins were better than modelled.
- Glove prices likely peaked in the March quarter. Nitrile producers from China are disrupting the market with aggressive prices to penetrate the market.
- We raise FY21e PATMI by 7% to S\$115.3mn for higher margins and lower operating expenses. FY22e PATMI is cut by 17% to S\$74mn as we lower gross margins by 5% points to 37% in view of ASP uncertainties. Prices have peaked and are trending down. UG Healthcare counters this by building up its core customer base and brand name to maintain price premiums. Supporting FY22e growth is a 58% surge in capacity to 4.6bn pieces.
- Target price still pegged at a 30% discount to Big 4 glove makers. This implies 7x FY22e P/E for a target price of S\$0.85, down from S\$1.03 as we cut FY22e earnings.

Results at a glance

SGD '000	3Q21	3Q20	YoY	2Q21	QoQ	Comments
Revenue	93,458	38,586	142.2%	88,239	5.9%	Volume sold down on QoQ basis.
- Europe	48,473	15,234	218.2%	38,736	25.1%	
- S America	17,199	12,319	39.6%	20,329	-15.4%	
- Asia	13,677	3,147	334.6%	16,293	-16.1%	
Gross profit	58,574	7,538	677.0%	56,103	4.4%	
PBT	46,465	-1,181	n.m.	46,177	0.6%	
PATMI	34,332	606	n.m.	32,260	6.4%	
Gross Margins	62.7%	19.5%	43.1%	63.6%	-0.9%	Record margin due to selling prices.
Net cash	49,842	n.m.	n.m.	32,547	53.1%	

Source: Company, PSR

The Positives

+ Stellar gross margins. Gross margins more than tripled from a year ago to 62.7%. QoQ, margins were moderately lower due to higher raw-material costs.

+ Huge operating leverage. No details on operating expenses were provided. Our estimates are based on the difference between PBT and gross margins. Operating expenses - including associate income - were around 13% of 3Q21 revenue. This was above our modelled 14.7%. Higher prices have not lead to an equivalent rise in administration or marketing expenses. .

+ Cash build-up from record earnings. Record earnings raised net cash to S\$49.9mn from 2Q21's S\$32.5mn.

The Negative

- Shipment delays persisted. Container shortages are stretching out delivery times. Shipments that typically take one month have extended to three months. The worst hit are countries such as Brazil where freight rates are lower than in developed countries such as the U.S. and Europe. There wil delays in recognising revenue and more working capital has been tied up as inventory.

14 May 2021

BUY (Maintained)

CLOSING PRICE	SGD 0.670
FORECAST DIV	SGD 0.015
TARGET PRICE	SGD 0.85
TOTAL RETURN	29.1%

COMPANY DATA

Bloomberg CODE:	UGHC SP
O/S SHARES (MN):	616.3
MARKET CAP (USD mn / SGD mn):	310 / 413
52 - WK HI/LO (SGD):	1.14 / 0.1
3M Average Daily T/O (mn):	4.19

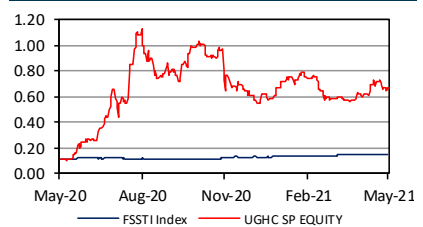
MAJOR SHAREHOLDERS

Zen UG Pte Ltd	49.6%
Raydion Direct Global Inc	12.3%
Employees Provident Fund Board	4.9%

PRICE PERFORMANCE

	1MTH	3MTH	YTD
COMPANY	9.8	(9.9)	14.7
STI RETURN	(0.6)	8.2	11.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Jun, SGD (mn)	FY19	FY20	FY21e	FY22e
Revenue	91.7	144.2	334.2	390.1
EBITDA	3.1	16.6	128.1	80.7
Net Profit	2.5	13.6	115.4	74.7
EPS (SGD cents)	0.4	2.3	18.8	12.2
P/E (X)	155.0	29.2	3.6	5.5
Dividend Yield	0.4%	1.1%	2.2%	3.0%
ROE	5.8%	25.0%	57.2%	26.7%
ROA	2.5%	12.0%	40.7%	20.9%

Source: Company, PSR

VALUATION METHOD

7x PE Multiple FY22e

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Outlook

With glove prices trending down, buyers will not hold much stock. Some customers are already de-stocking from two months' inventories to just a week. De-stocking plus aggressive pricing by manufacturers from China have created a peak in glove prices. China's nitrile producers are new with less established distribution channels. They are offering lower prices to penetrate new markets and expanding aggressively. Manufacturers in Malaysia and Thailand are lowering prices to maintain their distributor customers.

UG's longer-term goal is to build up its customer base, pricing and brand name in its key markets. For instance, a 10-15% pricing premium will yield higher margins and could defend the company against competitors that either sell at or below to gain ground with customers.

UG is also on track to expand capacity by 58% from 3Q21's 2.9bn to 4.6bn in FY22. Net expansion is 1.7bn, with 500mn already commissioned in April and the remaining 1.2bn to begin from July 2021. Our FY22e revenue growth forecasts are premised on this surge in capacity. Plans for another factory after this phase will be announced when they are finalised.

Maintain BUY with lower target price of S\$0.85, from S\$1.03

Our target price for UG is set at a 30% discount to the Big 4 glove makers. Historically, UG's discount was around 40%. As industry valuations are about 10x P/E, our target P/E for FY22e is 7x, translating to a target price of S\$0.85.

We raise FY21e PATMI by 7% to S\$115.4mn for higher margins and lower operating expenses. FY22e PATMI is lowered by 17% to S\$74.7mn as we cut gross margins by 5% points to 37%. This is around 40% below the margins in FY21e as build in a buffer for uncertain glove prices. The jump in capacity plus exposure to low-penetration markets such as Brazil, China and Africa should enable UG to support revenue growth.

Figure 2: Big 4 are trading at 10x 2-year forward earnings

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Share Px Local Crcy	Mkt. Cap. (US\$ m)	PE Yr 0	PE Yr +1	PE Yr +2	P/BV Yr 0	Dividend Yield	ROE Yr 0	EBITDA Margin
Rubber Gloves												
Top Glove	1.9%	-13.4%	-12.6%	5.35	10,381	24.1	4.1	10.4	5.4	1.2%	111.9%	33.5%
Hartalega Holdings	-1.8%	-25.0%	-21.5%	9.53	7,902	11.3	7.8	15.3	6.6	1.4%	76.8%	58.9%
Supermax Corp	4.1%	-23.6%	-20.6%	4.77	3,027	23.8	3.2	5.6	3.8	0.0%	105.1%	34.8%
Kossan Rubber	23.3%	4.7%	-5.8%	4.24	2,623	10.0	3.1	8.8	3.5	0.0%	89.3%	42.9%
Riverstone	5.2%	3.7%	27.0%	1.41	1,568	10.0	5.0	9.2	4.8	4.6%	60.3%	48.8%
Comfort Gloves	0.9%	-19.0%	-23.1%	2.30	324	4.6	3.8	6.2	2.3	0.7%	63.9%	42.4%
Rubberex Crop.	-3.2%	-17.8%	-14.3%	1.20	242	7.6	3.9	5.7	2.6	0.0%	45.0%	40.3%
UG Healthcare	9.8%	-10.1%	14.5%	0.67	310	29.2	3.6	5.5	2.0	2.2%	57.2%	38.3%
	3.4%	-15.3%	-13.0%		26,375	14.7	4.5	9.9	5.2	1.2%	93.4%	43.3%
Big 4 Glove Makers	3.0%	-17.2%	-16.2%		23,932	17.3	4.5	10.2				

Source: PSR, Bloomberg

Financials

Income Statement

Y/E Jun, SGD '000	FY18	FY19	FY20	FY21e	FY22e
Revenue	78,060	91,715	144,209	334,216	390,105
Gross profit	12,764	18,719	42,519	207,199	143,629
EBITDA	5,111	3,129	16,573	128,076	80,741
Depreciation & amortisation	(1,432)	(1,608)	(2,443)	(2,869)	(3,259)
EBIT	3,670	1,506	14,110	125,188	77,463
Net Finance Inc/(Exp)	(758)	(1,618)	(1,985)	(1,276)	(526)
Profit before tax	5,047	2,763	18,057	166,477	95,930
Taxation	(734)	(546)	(2,791)	(38,290)	(17,267)
Minority interest	22	290	(1,684)	(12,819)	(3,933)
PATMI	4,335	2,507	13,582	115,369	74,730

Per share data (SGD Cents)

Y/E Jun	FY18	FY19	FY20	FY21e	FY22e
EPS, Reported	0.8	0.4	2.3	18.8	12.2
DPS	0.2	0.3	0.7	1.5	2.0
BVPS	7.3	7.5	9.2	32.8	45.6

Cash Flow

Y/E Jun, SGD '000	FY18	FY19	FY20	FY21e	FY22e
CFO					
Profit before tax	5,047	2,763	18,057	166,477	95,930
Adjustments	3,837	736	2,551	995	1,230
WC changes	(7,581)	(7,652)	(7,782)	(65,522)	(19,002)
Cash generated from ops	1,303	(4,153)	12,826	101,951	78,158
Tax paid	(947)	(523)	125	(38,290)	(17,267)
Cashflow from ops	(402)	(6,367)	10,989	62,386	60,365
CFI					
CAPEX, net	(4,679)	(8,532)	(3,288)	(10,000)	(10,000)
Others	265	1,643	441	169	1,374
Cashflow from investments	(4,414)	(6,889)	(2,847)	(9,831)	(8,626)
CFE					
Share issuance, net	-	-	-	19,088	-
Loans, net of repayments	7,953	11,499	(3,224)	(15,000)	(15,000)
Dividends	-	(103)	(104)	-	-
Others	-	-	(410)	-	-
Cashflow from financing	7,953	11,396	(3,738)	4,088	(15,000)
Net change in cash	3,137	(1,860)	4,404	56,642	36,739
CCE, end	8,475	6,615	9,275	65,917	102,656

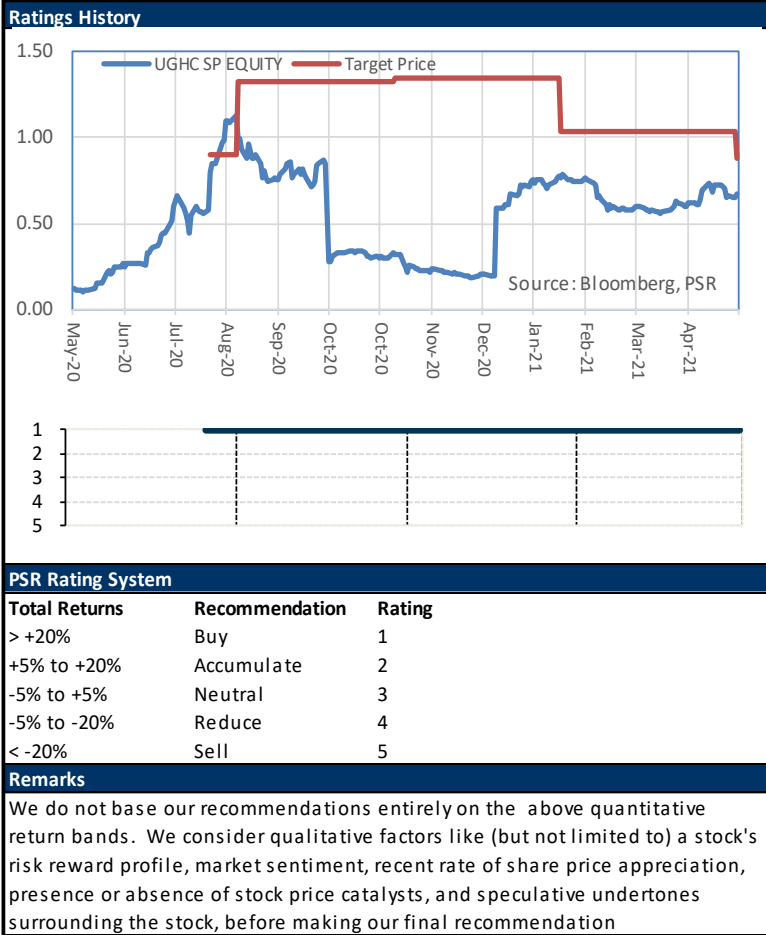
Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Jun, SGD '000	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
Trade and other receivables	25,138	24,052	32,858	80,212	93,625
Cash	6,731	4,871	9,292	65,934	102,673
Inventories	22,130	31,031	33,723	90,238	105,328
Total current assets	55,184	61,750	75,987	236,498	301,741
PPE & IA	23,615	32,340	31,778	38,890	45,611
Others	6,385	4,999	5,250	8,250	9,450
Total non-current assets	30,000	37,339	37,028	47,140	55,061
Total Assets	85,184	99,089	113,015	283,638	356,802
LIABILITIES					
Accounts payable	13,625	14,184	18,469	56,817	66,318
Bank borrowings	21,362	32,239	30,520	15,520	520
Derivatives	753	-	-	-	-
Others	-	-	-	-	-
Total current liabilities	35,740	46,424	50,815	74,163	68,664
Deferred tax liabilities	2,092	3,201	3,142	3,142	3,142
Long-term borrowings	5,478	6,100	4,595	4,595	4,595
Others	-	-	191	191	191
Total non-current liabilities	7,570	9,301	7,928	7,928	7,928
Total Liabilities	43,310	55,725	58,743	82,091	76,592
Equity					
Non-controlling interests	(83)	1,036	2,051	14,870	18,803
Shareholder Equity	41,874	43,364	54,272	201,547	280,210

Valuation Ratios

Y/E Jun	FY18	FY19	FY20	FY21e	FY22e
P/E (X)	88.8	155.0	29.2	3.6	5.5
P/B (X)	9.2	9.0	7.3	2.0	1.5
EV/EBITDA (X)	83.9	141.5	26.3	2.8	3.9
Dividend Yield (%)	0.4%	0.4%	1.1%	2.2%	3.0%
Growth & Margins					
Growth					
Revenue	19.7%	17.5%	57.2%	131.8%	16.7%
EBITDA	-35.5%	-38.8%	429.7%	672.8%	-37.0%
EBIT	123.0%	-59.0%	836.9%	787.2%	-38.1%
Net profit, adj.	77.4%	-42.2%	441.8%	749.4%	-35.2%
Margins					
Gross margin	16.4%	20.4%	29.5%	62.0%	36.8%
EBITDA margin	6.5%	3.4%	11.5%	38.3%	20.7%
EBIT margin	4.7%	1.6%	9.8%	37.5%	19.9%
Net profit margin	5.6%	2.7%	9.4%	34.5%	19.2%
Key Ratios					
ROE	10.4%	5.8%	25.0%	57.2%	26.7%
ROA	5.1%	2.5%	12.0%	40.7%	20.9%
Net Gearing	39.9%	70.5%	44.9%	Net cash	Net cash
Net Debt/EBITDA (X)	3.3	9.8	1.5	-0.4	-1.2



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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