United Global Limited

Renewed energy

SINGAPORE | INDUSTRIAL | INITIATION

- UGL intends to leverage its new 60:40 JV with Repsol in UOC to expand UOC's scale and reach. UOC's revenue dropped 18.2% YoY in FY20 due to lower manufacturing ASP and trading revenue but gross margins improved 5.3 ppts.
- Global lubricant market projected to reach US$182.6bn by 2025. Growth in ASEAN expected to be 2.0% CAGR from 2019 to 2029, with growth accelerating from 2024 as its developing economies recover from the pandemic.

Company background

UGL is an established, independent lubricant manufacturer with a wide range of high-quality, well-engineered products under its in-house "United Oil" brand and a host of third-party brands. It also trades base oils, additives and lubricants.

Through its 60%-owned United Oil Company (UOC), its new JV with Madrid-listed oil major Repsol (REP SM, Not Rated), the group manufactures a wide range of lubricants and specialty fluids for the automotive, industrial and marine industries. These are distributed to about 40 countries.

UGL has four other businesses: United Innovations, United Supply Chain, United Renewables and United Fuels.

Highlights

1. **Leverage JV with Repsol.** UOC was a 100% subsidiary of UGL before UGL divested a 40% stake in it to Repsol in November 2019. UOC contributed US$5.39mn to UGL's net profit in FY20. Its revenue fell 18.2% YoY to US$89.7mn due to lower manufacturing ASPs and trading revenue. However, gross profit increased 3.8% to US$22.5mn on the back of a 5.3ppt improvement in gross margins to 25.1%. Manufacturing margins improved with the help of lower raw-material costs while trading benefitted from higher ASPs. UGL's network of distributors spans 40 countries. It intends to leverage Repsol's international brand presence to accelerate the growth and regional expansion of UOC.
2. **Global lubricant industry continues to expand.** The global lubricant market is projected to reach US$182.6bn by 2025, from US$157.6bn in 2020. This would translate to a CAGR of 3.0%. ASEAN, where UOC derived about 55% of its FY19 revenue, is expected to remain heavily dependent on lubricants. Automotive lubricants account for a larger share of the market than industrial lubricants because the region is not yet fully industrialised. Overall lubricant demand in ASEAN is expected to grow at a moderate 2.0% CAGR from 2019 to 2029. Growth rates are expected to gather pace from 2024 to 2029, as ASEAN's developing economies recover from the pandemic.
3. **Ample means for expansion.** UGL has had net cash since its listing in 2016. As at 31 December 2020, net cash was S$9.7mn. The company has also remained debt-free since 4QFY19. This puts UGL in a comfortable position to pursue future acquisitions or business expansion.

The report is produced by Phillip Securities Research under the 'Research Talent Development Grant Scheme' (administered by SGX).

22 March 2021

Non-rated

CLOSING PRICE	SGD 0.42
FORECAST DIV	NA
TARGET PRICE	NA
TOTAL RETURN	NA

COMPANY DATA

Bloomberg CODE:	UTG SP
O/S SHARES (MN) :	316.2
MARKET CAP (USD mn / SGD mn) :	99 / 133
52 - WK HI/LO (SGD) :	0.46 / 0.34
3M Average Daily T/O (mn) :	0.04

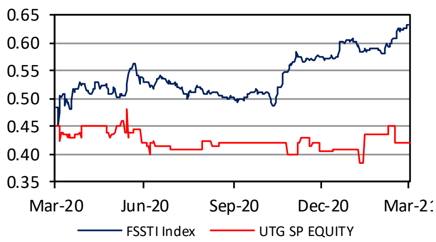
MAJOR SHAREHOLDERS

WIRANTO	39.9%
TAN THUAN HOR	30.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(3.4)	0.0	2.6
STI RETURN	8.8	10.2	40.8

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, USD (mn)	FY17	FY18	FY19	FY20
Revenue	99.8	108.5	102.5	0.2
EBITDA	11.4	10.6	69.6	3.7
PATMI	9.2	7.6	66.5	3.2
EPS (US cents)	2.9	2.4	21.0	1.0
EPS (SGD cents)	3.9	3.2	28.2	1.4
P/E (X)	10.8	13.0	1.5	30.5
Dividend Yield	2.9%	2.9%	7.6%	2.4%
ROE	27.3%	20.3%	64.4%	3.3%
ROA	16.2%	12.7%	60.5%	3.2%

Source: Company, PSR

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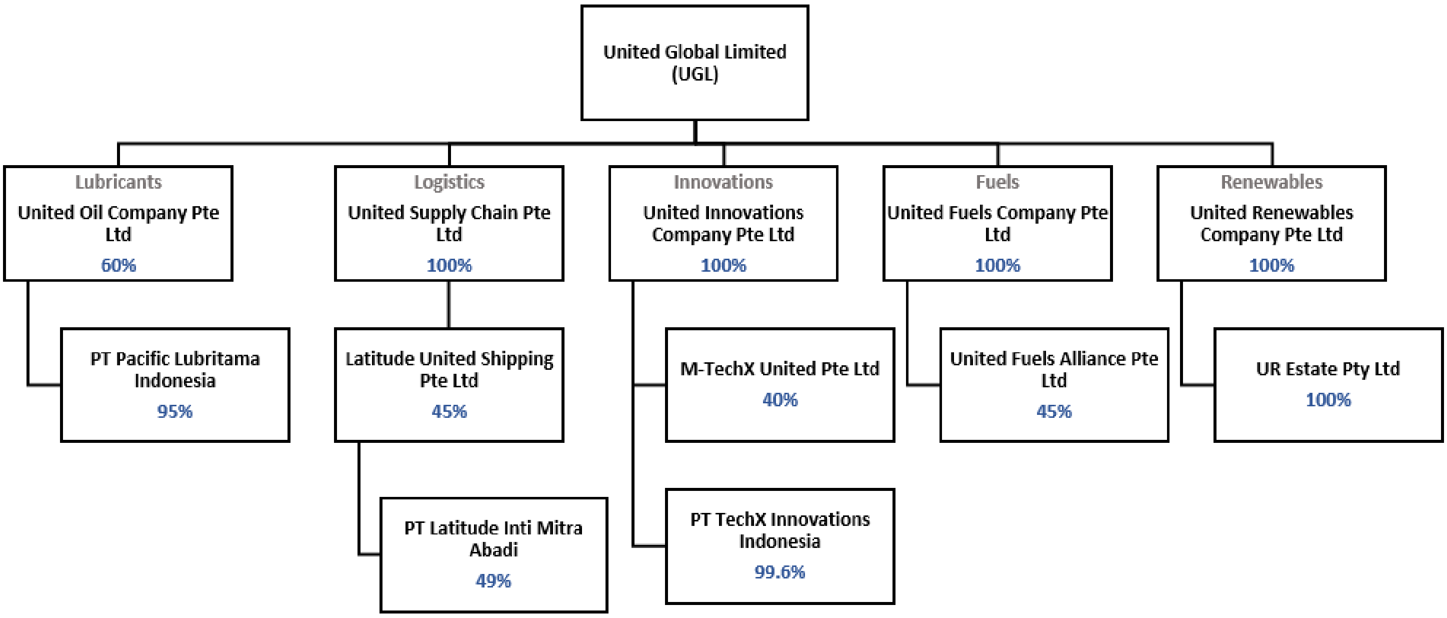
About UGL

UGL was founded in March 1999 by Wiranto and Jacky Tan as a holding company for wholly-owned subsidiary, UOC. Operations started in April 1999 when UOC took over a lubricant blending facility from an international oil company. UGL was listed on the Catalist on 8 July 2016.

On 26 November 2019, UGL disposed of a 40% stake in its wholly-owned principal subsidiary, UOC, to Repsol Downstream Internacional S.A., a subsidiary of Repsol S.A.

Apart from lubricants, UGL has four other businesses: United Innovations, which makes nano-fibre oil-absorbent materials; United Supply Chain, which was set up to diversify the group into logistics; United Fuels, which trades petrol-related products; and United Renewables, which is exploring opportunities in material recycling and clean energy.

Figure 1: Group structure



Source: Company, PSR

Revenue

Manufacturing accounted for 81.4% of UGL's FY19 revenue.

After disposing of a 40% stake in UOC, UGL booked UOC contributions for the month of December 2019 and the whole of FY20 under the equity accounting method.

UOC, which is UGL's lubricant arm, was UGL's major revenue contributor. After its deconsolidation, UGL's FY20 revenue consisted only of contributions from its other subsidiaries, specifically its nano-fibre oil-absorbent manufacturing business under United Innovations. These products are sold to another joint venture, M-TechX United Pte Ltd.

After its stake disposal, UGL's revenue fell 99.8% YoY in FY20 to US$175k. Its share of lubricant profits from the JV was US$5.4mn. An increase in other income in FY19 could be attributed to gains from the disposal of subsidiaries of US$24.8mn and gains from the group's revaluation of its remaining stakes in joint ventures of US$37.2mn.

The group reported gross losses in FY20 as its nano-fibre oil-absorbent manufacturing business operated way below capacity due to slow orders.

Expenses

Cost of sales decreased 99.5% YoY to US$439k in FY20. This tracked the group's revenue decline following the deconsolidation of UOC. Distribution costs also dropped 99.0% to US$23k.

Margins

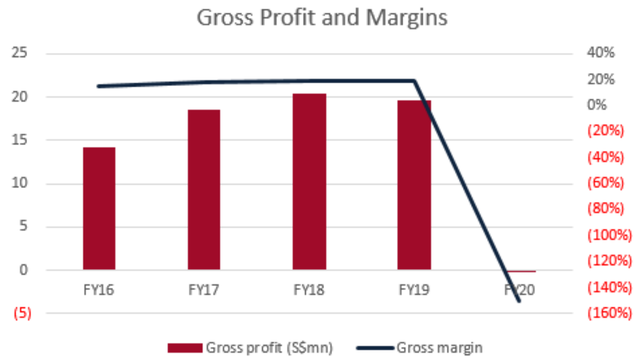
EBITDA margins were stable at about 10% from FY16 to FY18. Margins surged to 68% following an increase in other income of US$62.5mn in FY19, from US$0.3mn in FY18. They further increased to 2,086% in FY20 as EBITDA was much higher than revenue following the revenue recognition of UOC under share of JV profits.

Gross margins were stable from FY15 to FY19, at 14-19%. However, they fell to a negative 151% in FY20. This reflected the gross loss at its nano-fibre oil-absorbent manufacturing business due to slow orders. UGL was not able to generate sufficient revenue to cover non-cash expenses of depreciation of property, plant and equipment.

Dividend policy

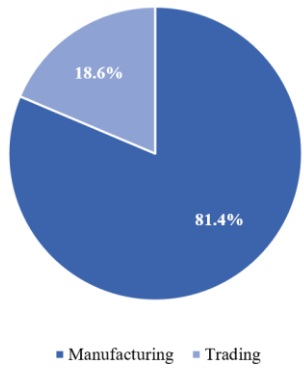
UGL does not have a fixed dividend policy. It has been paying dividends every year since listing. It proposed a final DPS of 1.0 Singapore cent for FY20, representing a payout of 73.4%.

Figure 5: Gross profits and margins declined following the deconsolidation of UOC



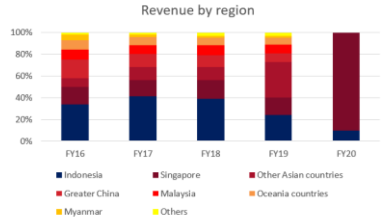
Source: PSR, Company

Figure 2: Revenue breakdown in FY19



Source: PSR, Company

Figure 3: Singapore accounted for 90% of UGL's revenue in FY20



Source: PSR, Company

Figure 4: UOC's range of lubricants are used by industries including automobile and industrial

Source: Company

Balance sheet

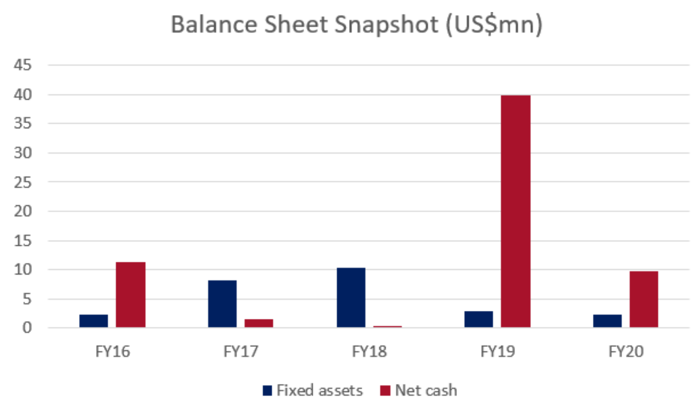
Assets. After its stake sale of UOC, UOC is booked on its balance sheet as an "investment in joint ventures". This item increased by 9.7% to US$59.5mn in FY20. An increase in non-current assets was partially offset by a decline in PPE, of 16% from US$2.82mn to US$2.38mn.

Liabilities. UGL maintained its net-cash position from FY16 to FY20 and has been debt-free since 4QFY19.

Cash flow

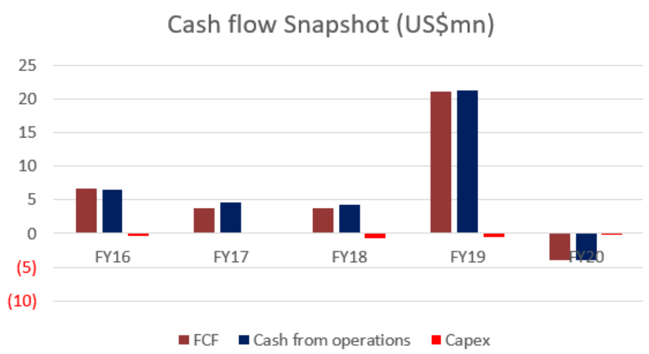
Cash flow from operations turned from a positive US$21.2mn in FY19 to a negative US$4.0mn in FY20. FCF also turned from positive US$21.2mn in FY19 to negative US$4.0mn in FY20 due to the same reasons. This reflected the deconsolidation of UOC in FY19 and slow orders at United Innovations. Meanwhile, capex remained low at US$11k in FY20.

Figure 6: Spike in net cash in FY19 from the partial disposal of UOC



Source: Company, PSR

Figure 7: FCF and cash from operations fell after the deconsolidation of UOC



Source: Company, PSR

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Risks

1. **Expansion of other businesses uncertain.** UGL intends to expand its four other businesses but there has been no announcements of concrete plans yet. Hence, their future revenue contributions remain uncertain. Currently, its nano-fibre oil-absorbent manufacturing business is operating below capacity due to slow orders. United Innovations' revenue also appears capped by low international demand for their nano-fibre oil-absorbent materials.
2. **Low barriers to entry.** Barriers to entry are low, with several contract manufacturers able to offer similar products and services, apart from premium lubricants. UGL also faces competition from other new entrants, including vertical expansion by existing customers who develop their own manufacturing capabilities.

UOC's lubricant business

Business

UOC makes lubricants and trades base oils.

Manufacturing of lubricants includes the processing of base oils, additives and lubricants for UOC's and OEMs' brands. This business contributed 92% to group revenue on average from FY18 to FY20. UOC also sells premium lubricants in developed countries including Australia.

Products include automotive, industrial and marine lubricants and specialty and metal working fluids.

Trading refers to the trading of base oils, additives and lubricants. UOC buys in bulk from suppliers and sells to both local and overseas third parties which may require smaller quantities.

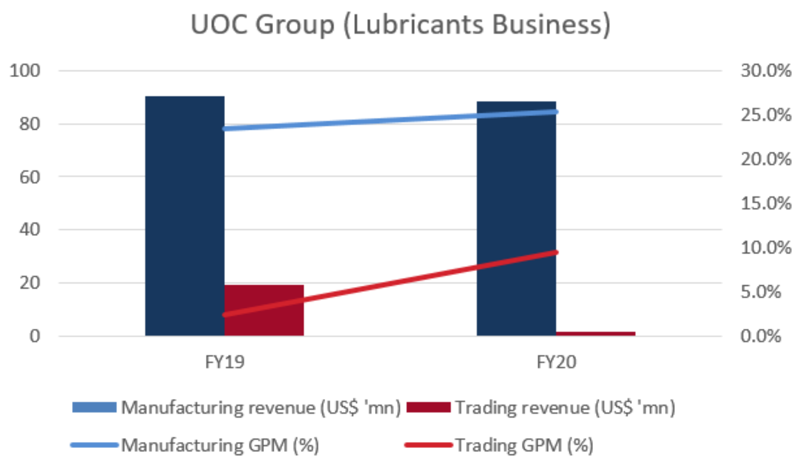
Revenue

Manufacturing revenue dipped in 1H20, from lower sales volumes and ASPs as the pandemic disrupted UOC's operations in 2Q20. Gross margins increased 2.6ppts to 24.8% as raw-material costs were lower.

FY20 manufacturing revenue slid US$2.1mn to US$88.3mn due to lower ASPs. Still, gross margins improved by 1.9ppts to 25.3%. Trading revenue was down 92.8% to US$1.4mn as goods could not be exported to its JV partner in FY20. But gross margins were up 7.0 ppts to 9.4% on the back of higher average trading selling prices.

The lubricant business was resilient even during the pandemic and is poised for growth on the back of the economic recovery. UGL's strategic partnership with Repsol is expected to provide UOC with a platform for scaling greater heights.

Figure 8: Both manufacturing and trading revenue decreased, but gross margins increased



Source: Company, PSR

Lubricant industry

The lubricant industry is largely dominated by international oil majors such as Royal Dutch Shell (RDSA NA, Not Rated), Chevron Corporation (Caltex) (CVX US, Not Rated), Castrol (CSRTL IN, Not Rated) and ExxonMobil (XOM US, Not Rated), as well as national oil companies such as Petronas (PCHEM MK, Not Rated), Sinopec (SHI US, Not Rated) and PetroChina (PTR US, Not Rated).

The market is projected to reach US$182.6bn by 2025, from US$157.6bn in 2020, representing a CAGR of 3.0%.

Global lubricant markets have rebounded since the global financial crisis in 2008. Asia has been fuelling demand for lubricants, as global businesses and manufacturers locate their manufacturing plants in this part of the world for its better value-cost proposition.

In 2020, the transportation and industrial sectors were hit hard by the pandemic as economic activities stalled. This hurt demand for lubricants for machinery and equipment. Motor-vehicle sales in Southeast Asia were down 29.0% to 2.45mn units in 2020, from 3.46mn in 2019. Sales in the Asia Pacific shed 5.6% to 34mn units. With world GDP expected to grow 5.2% in 2021 according to the IMF, motor-vehicle sales are forecast to rise again.

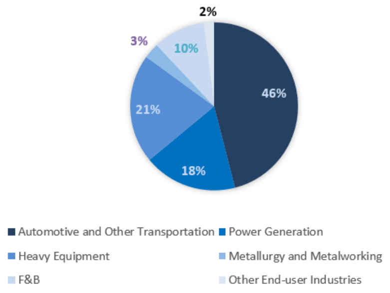
In ASEAN, Indonesia has the largest vehicle population. It also has a large industrial sector. Both make it the biggest lubricant market in ASEAN. Indonesia accounts for one-third of ASEAN's annual car sales. In 2021, automotive lubricants are still expected to account for a larger share of the lubricant market than industrial lubricants as the region is not yet fully industrialised. Overall lubricant demand in ASEAN is expected to grow at a moderate CAGR of 2.0% from 2019 to 2029. Growth rates are expected to pick up from 2024 to 2029, as ASEAN's developing economies recover from the pandemic.

ASEAN's industrial-lubricant demand is also expected to grow from an expanding manufacturing sector. Combined manufacturing GDP in Indonesia, Malaysia and Singapore grew at a CAGR of 2.6% over the past five years to US$355.4bn in 2020. This year, real GDP growth in ASEAN's six largest nations - Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam – is expected to average 6%, according to Global Data.

Impact of EVs. UOC sells mainly to developing countries in emerging Asia, where electric-vehicle adoption is not expected to be the top priority in the next decade or so due to their high costs. Automobiles that consume petrol are expected to retain their dominance, meanwhile. Moreover, Repsol has introduced a range of EV fluids which are lubricants customised to the needs of electric engines and transmission. This could be another line of products for UOC.

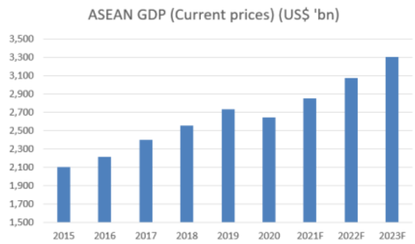
Regional competitors. Major competitors of UOC include AP Oil International Limited (APOIL SP, Not Rated) and Eneos ItalSing Pte Ltd (Not Listed). AP Oil concentrates on the marine sector while UOC serves more automobile and industrial businesses. ItalSing also sells crankcase lubricants, on top of industrial lubricants and transmission fluids.

Figure 9: Automotive and other transportation took up almost half of ASEAN's lubricant market by volume in 2019



Source: Mordor Intelligence, PSR

Figure 10: ASEAN economies poised for a robust recovery



Source: CEIC, PSR

Valuation

Figure 11: Peer comparisons

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Mkt Cap. (US$ 'mn)	Share Px Local Crcy	P/B	Dividend yield (%)	ROE (%)	EV/ EBITDA
UNITED GLOBAL	-3.4%	3.7%	-14.3%	99	0.42	1.00	2.4%	3.2%	-45.5
AP OIL INTL LTD	-4.5%	9.7%	-1.2%	21	0.17	0.50	2.9%	3.8%	0.5
ROYAL DUTCH SH-A	7.9%	14.3%	-32.8%	115,564	17.59	1.05	3.7%	-12.7%	8.1
CHEVRON CORP	8.1%	18.8%	-14.0%	199,549	103.59	1.52	1.6%	-7.4%	12.9
EXXON MOBIL CORP	7.4%	31.6%	-19.4%	238,051	56.23	1.53	6.2%	-12.9%	14.8
	7.7%	23.4%	-20.3%	553,284		1.43	4.0%	-10.8%	12.70

Source: Bloomberg, PSR

Appendix 1: UOC's blending plant in Singapore

Figure 12: UOC's lubricant blending facility in Tuas

Source: Company

Appendix 2: Products offered by UOC Group

Figure 13: A wide array of lubricants, for use in industries including automobile and industrial

Source: Company

Financials

Income Statement

Y/E Dec, USD '000	FY17	FY18	FY19	FY20
Revenue	**99,825**	**108,472**	**102,471**	**175**
Gross profit	18,507	20,480	19,703	(264)
EBITDA	**11,377**	**10,623**	**69,587**	**3,650**
Depreciation & amortisation	(496)	(941)	(1,145)	(404)
EBIT	**10,881**	**9,682**	**68,442**	**3,246**
Finance costs	(277)	(264)	(188)	(5)
Profit before tax	**10,604**	**9,418**	**68,254**	**3,241**
Taxation	(1,353)	(1,738)	(1,709)	(1)
Minority intrest	(79)	(81)	(82)	1
PATMI	**9,172**	**7,599**	**66,463**	**3,241**

Per share data

Y/E Dec	FY17	FY18	FY19	FY20
EPS (USD cents)	2.9	2.4	21.0	1.0
EPS (SGD cents)	3.9	3.2	28.2	1.4
DPS (SGD cents)	1.2	1.2	3.2	1.0
BVPS (USD cents)	10.6	11.8	32.7	31.4
BVPS (SGD cents)	14.3	15.9	43.8	42.1

Cash Flow

Y/E Dec, USD '000	FY17	FY18	FY19	FY20
CFO				
Profit before tax	**10,604**	**9,418**	**68,254**	**3,241**
Adjustments	(675)	1,152	(59,641)	(4,277)
WC changes	(3,448)	(3,938)	14,332	(3,220)
Cash generated from ops	**6,481**	**6,632**	**22,945**	**(4,256)**
Others	(1,936)	(2,329)	(1,770)	288
Cashflow from ops	**4,545**	**4,303**	**21,175**	**(3,968)**
CFI				
CAPEX, net	(781)	(578)	(20)	(11)
Others	(5,401)	(1,459)	22,094	(18,909)
Cashflow from investments	**(6,182)**	**(2,037)**	**22,074**	**(18,920)**
CFF				
Loans, net of repayments	226	(1,805)	(6,183)	-
Dividends paid	(2,174)	(2,835)	(1,162)	(7,137)
Others	601	(81)	(2,305)	(34)
Cashflow from financing	**(1,347)**	**(4,721)**	**(9,650)**	**(7,171)**
Cash at start of period	**12,228**	**9,119**	**6,080**	**39,775**
Net change in cash	(2,984)	(2,455)	33,599	(30,059)
Ending cash	**9,119**	**6,080**	**39,775**	**9,716**

Source: Company, PSR

Balance Sheet

Y/E Dec, USD '000	FY17	FY18	FY19	FY20
ASSETS				
Trade and other receivables	19,650	21,850	12,788	3,516
Cash and bank balances	10,555	7,536	39,775	9,716
Inventories	13,064	15,073	185	2,045
Others	239	713	-	25,005
Total current assets	**43,508**	**45,172**	**52,748**	**40,282**
PPE, Investment Properties, IA	10,829	12,836	2,822	2,381
Investment in joint ventures	179	569	54,248	59,503
Others	2,159	1,118	6	-
Total non-current assets	**13,167**	**14,523**	**57,076**	**61,884**
Total Assets	**56,675**	**59,695**	**109,824**	**102,166**
LIABILTIES				
Trade and other payables	9,564	10,653	6,443	2,865
ST borrowings	8,930	7,145	-	-
Others	3,684	3,603	37	38
Total current liabilities	**22,178**	**21,401**	**6,480**	**2,903**
Deferred tax liabilities	230	344	-	-
LT borrowings	21	-	-	-
Others	589	587	77	40
Total non-current liabilities	**840**	**931**	**77**	**40**
Total Liabilities	**23,018**	**22,332**	**6,557**	**2,943**
Equity				
Share capital	21,425	21,425	21,425	21,425
Retained earnings	14,758	19,522	84,830	80,934
Reserves	(3,413)	(4,495)	(2,988)	(3,135)
Non-controlling interests	887	911	-	(1)
Shareholder Equity	**33,657**	**37,363**	**103,267**	**99,223**

Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20
P/E (X)	10.8	13.0	1.5	30.5
P/B (X)	2.9	2.6	1.0	1.0
EV/EBITDA (X)	8.6	9.4	0.9	24.7
Dividend Yield (%)	2.9%	2.9%	7.6%	2.4%
Growth & Margins				
Growth				
Revenue	9.0%	8.7%	-5.5%	-99.8%
EBITDA	62.2%	-6.6%	555.1%	-94.8%
EBIT	55.1%	-11.0%	606.9%	-95.3%
Margins				
Gross margin	18.5%	18.9%	19.2%	-150.9%
EBITDA margin	11.4%	9.8%	67.9%	2085.7%
EBIT margin	10.9%	8.9%	66.8%	1854.9%
Net profit margin	9.2%	7.0%	64.9%	1852.0%
Key Ratios				
ROE (%)	27.3%	20.3%	64.4%	3.3%
ROA (%)	16.2%	12.7%	60.5%	3.2%
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash
Net Debt/EBITDA (X)	-0.1	0.0	-0.6	-2.7

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