Regional Company Guide

Universal Robina Corp

Version 8 |Bloomberg: URC PM Equity | Reuters: URC.PS

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Jun 2020

BUY

Last Traded Price (11 Jun 2020): P143(PCOMP : 6,476.24)
Price Target 12-mth:P178 (24% upside) (Prev P166)

Analyst

Regional Research Team
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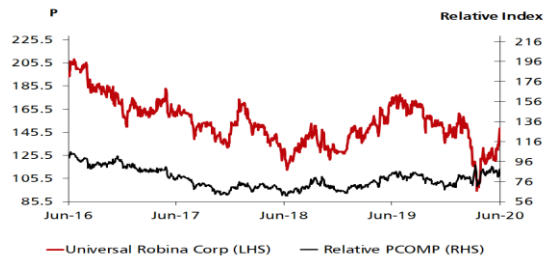
What's New

- **Decent 1Q20 EBIT despite initial pandemic impact**
- **Stay-at-home to stick around and work-from-home the new normal**
- **Packaged foods to benefit from emerging trends**
- **Reiterate BUY, TP raised to P178.00**

Price Relative



Forecasts and Valuation

FY Dec (P m)	2018A	2019A	2020F	2021F
Revenue	127,770	134,175	137,701	159,356
EBITDA	19,472	21,114	21,002	24,299
Pre-tax Profit	11,545	11,896	11,845	14,858
Net Profit	9,204	9,772	9,805	12,300
Net Pft (Pre Ex.)	9,459	10,337	10,370	12,866
EPS (P)	4.18	4.43	4.45	5.58
EPS Pre Ex. (P)	4.29	4.69	4.70	5.84
EPS Gth (%)	(15)	6	0	25
EPS Gth Pre Ex (%)	(11)	9	0	24
Diluted EPS (P)	4.18	4.43	4.45	5.58
Net DPS (P)	3.15	3.28	3.50	4.39
BV Per Share (P)	38.0	40.8	41.8	43.0
PE (X)	34.2	32.3	32.1	25.6
PE Pre Ex. (X)	33.3	30.5	30.4	24.5
P/Cash Flow (X)	21.5	20.2	17.4	17.9
EV/EBITDA (X)	17.2	15.8	15.7	13.6
Net Div Yield (%)	2.2	2.3	2.4	3.1
P/Book Value (X)	3.8	3.5	3.4	3.3
Net Debt/Equity (X)	0.2	0.1	0.1	0.1
ROAE (%)	11.1	11.2	10.8	13.2
Earnings Rev (%):			(18)	(10)
Consensus EPS (P):			4.8	5.4
Other Broker Recs:		B: 11	S: 2	H: 8

Source of all data on this page: Company, DBS Bank, Thomson Reuters, Bloomberg Finance L.P

Home is where the snacks are

Maintain BUY on Universal Robina Corp (URC); TP raised to P178.00. We cut our FY20F/21F earnings by 18%/10% in FY20F/FY21F and rollover valuation forecast base to next year. Our earnings estimates reflect flat growth this year amid lifestyle and operational disruptions stemming from COVID-19, followed by a strong FY21F recovery as transitory challenges dissipate. We recommend taking advantage of pullbacks to increase exposure to URC. Trading at 26x FY21F PE, the counter is attractive relative to our expected earnings recovery and current low interest rate environment. Our view of strong recovery in FY21F is premised on the following factors: more snacking at home, restocking of inventories, pricing power, and margin expansion (from favourable product mix and room for further gains from cost rationalisation initiatives). Furthermore, a corporate tax cut is likely forthcoming – could drop to as low as 25% from the current 30%.

Where we differ: Our FY20F earnings trails consensus estimates as we expect flat growth amid transitory challenges. For FY21F, our earnings forecast is ahead of consensus on strong recovery and higher EBIT margin assumptions.

Potential catalysts: (i) more pronounced recovery across domestic and international markets; (ii) lower input cost and higher-than-expected cost savings would lead to stronger margin improvements; (iii) product innovation and successful launch of new products; and (iv) corporate tax cut and supportive fiscal policy.

Valuation:

BUY, TP at P178.00. Our TP is derived from DCF and assumes a lower 8.4% WACC (adjusting for lower risk-free rate) and 3.0% long-term growth. Our TP implies 32x FY21F PE – slightly below mean.

Key Risks to Our View:

Risks to our call: (i) further weakness in key markets owing to weak consumer confidence and lower incomes; (ii) failure to deliver on key efficiency and innovation programmes; (iii) protracted impairment of distribution reach due to further lockdowns; (v) margin pressure from higher input cost and/or supply chain disruptions; (iv) excise tax on salty snacks and fast food products; and (vi) weakening regional currencies (on dollar strength).

At A Glance

Issued Capital (m shrs)	2,204
Mkt. Cap (Pm/US$m)	315,195 / 6,280
Major Shareholders (%)	
JG Summit Holdings	55.1
Free Float (%)	44.9
3m Avg. Daily Val (US$m)	4.2

GIC Industry :Consumer Staples / Food, Beverage & Tobacco

WHAT'S NEW

Home is where the snacks are

Branded Consumer Foods (BCF) – Philippines

We see strong recovery in FY21F earnings on the back of:

#1 Snacking at home trend

Amid disruptions caused by the COVID-19 pandemic, we are of the view that the retreat to more sedentary lifestyles and the rise of cocooning habits will likely stay well after lockdowns end. This is as working-from-home, remote learning, and "home-tainment" options are strongly encouraged to mitigate spread of COVID-19. **We expect this would increase the "snacking at home" trend, marked by more frequent and impulse-oriented eating occasions in-between traditional meals.** We expect to see higher expenditure on packaged and branded consumer foods, as these become indispensable indulgences for the working-from-home individuals, the bored home-schooled children, and even the stay-in average Joe, as they seek both comfort and distraction in food.

On one hand, URC's diverse BCF product portfolio and leading market share positions the company ahead of this emerging trend. In the Philippines, its categories range from **noodles and biscuits** – deemed 'essential' during calamities, demand will remain elevated as long as the health crisis persists; **powdered coffee** – busy individuals will prefer reaching pantry stocks at home rather than brave the limited access of cafés; **ready-to-drink tea –** as refreshing drink options for households; and **salty snacks and confectionery** – will benefit from impulse-oriented snacking and as consumers fulfil cravings and find comfort in food.

On the other, we believe that URC can further leverage on this snacking at home trend by: (a) **offering higher-margin large-format SKUs** – as consumers opt for products that offer both value and volume, giving rise to less need for convenient packaging and as the home becomes the hub of all activities; (b) **shifting focus to core brands** – reintroducing these to the next generation as kids stay locked out of classrooms and solidifying market share as snacking at home prevails for the time being; and (c) **expediting innovation towards functional and "better for you" categories** – demand for healthy alternatives should remain elevated for longer, especially in households with elderly and younger members.

We expect the boost in demand will be driven by reallocation of discretionary spending patterns amid savings build-up during and post lockdowns, stemming from higher consumption at home rather than at foodservice outlets such as cafes and restaurants.

#2 Inventory restocking as supply chain disruptions ease

Manufacturing and supply chain disruptions, stemming from reduced manpower supply and varying degrees of regional lockdowns, has impeded URC's ability to capture the extraordinary spike in demand. As lockdowns are lifted and with mass transportation resuming operations, **we expect these transitory challenges to dissipate, enabling URC to capitalise on the excess demand.**

Furthermore, we expect inventory restocking to keep demand elevated for longer. This should be driven by both (a) **modern trade** – consumers' stockpiling behaviour has led to lower order fill rates and shortage of certain SKUs. Based on our channel checks, as of end-May, these retailers were only holding 2 to 3 weeks of inventory, which is below the ideal of 4-5 weeks; and (b) **traditional mom-and-pop stores** – ongoing restocking as operations gradually resume. Even for stronger brands, we emphasise the importance of stock availability as key to retaining customers and ensuring shelf-space in the main trade channels.

#3 Power over buyers and muted competition from private labels to keep prices steady

We do not see any pressure to slash prices as we expect demand to be supported by (a) **shift to snacking at home** – this should maintain the purchasing velocity of URC's product offerings relative to other non-essential products; (b) **larger distribution base** – which has doubled since 2018, lowering its dependence on larger-scale retailers; and (c) **more diversified channel mix –** higher penetration within traditional trade channels with inherently lower bargaining power. We believe **these factors can increase URC's leverage over retailers,** as its product offerings remain relevant and essential during the crisis and beyond.

Meanwhile, for retail consumers, we expect savings build-up (as consumers spend more time at home) and stable inflation backdrop to provide tailwinds to new snacking habits. Nonetheless, should wallet sizes be impaired, we see limited ability to trade down as **there are limited to no private label alternatives within URC's key categories.** In terms of competition, we think consumers are likely to put better-known and trusted brands higher up the pecking order, before trying out private labels. Our channel checks confirm that lesser-known and low turnover brands had experienced abnormal demand spikes only after inventories of higher velocity brands were depleted, as seen during the initial weeks of community quarantines.

Branded Consumer Foods (BCF) – International

Overall, we see URC's international BCF segment gradually recovering as economies open up. We highlight that pre-COVID19 challenges have not gone away and will likely serve as speedbumps to any recovery. Nevertheless, we expect the recovery in domestic BCF to more than make up for the slack.

(a) **Vietnam** – early and protracted impact of the health crisis saw Vietnam's 1Q20 sales shrinking by 36% y-o-y, after having led growth in the international segment in the last two years. Management noted that 70% of Vietnam's revenue mix is from ready-to-drink beverages, which is largely consumed out of the home. Meanwhile, 20% of total sales is from Rong Do energy drink, and sales suffered from the closure of schools. Recovery should begin in 3Q20 as schools reopen in July.

(b) **Thailand –** with product concentration on biscuits and wafers, Thailand has been insulated to some degree. Sales in 1Q20 (-11% y-o-y) was dragged down mainly by the high base effect in January 2019.

(c) **Oceania** – benefitted from pantry stocking of biscuits and crisps, which tempered the decline of URC's international operations in 1Q20. Similar to domestic BCF, we see demand for Oceania's product offerings to remain elevated amid the rising snacking at home trend.

Agro-Industrial and Commodities (AIC)

With the shift in dining patterns to the home, more consumers are turning to cooking at home. We expect elevated demand across the AIC's supply chain, from pasta and processed packaged meats to upstream production of flour and feeds.

Deliberate efforts to right size live hogs' operations could still bleed into EBIT margins, but impact should be softened by firmer chicken and meat prices (due to shift in demand). We should moreover see a cyclically stronger 2H20 as sugar harvest season begins.

Scope for margin expansion

We see margins expanding further driven by:

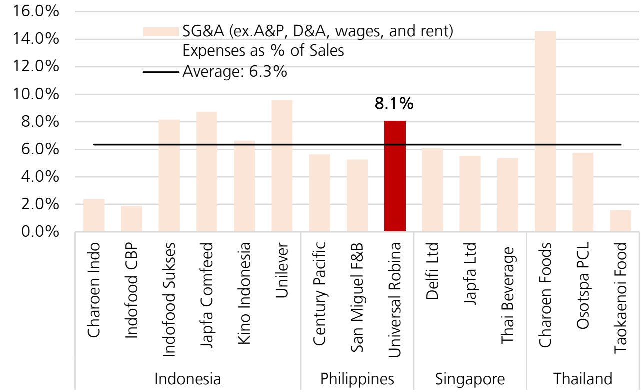
(a) **shift to bigger pack-sizes for at-home consumption** – the growing emergence of snacking at home trend is an opportune time to push the larger SKU formats, as we expect more consumers to opt for value and volume for consumption at home. From a margin standpoint, URC is essentially able to pass on economies of scale through value-for-money bundles that price-sensitive consumers appreciate.

(b) **softer commodity prices** – lower raw material costs such corn and soybean meal could support the margins of its feeds and farms businesses

(c) **higher contribution from processed meats where prices are relatively stable** – with limited foodservice options pushing consumers to their kitchens, people staying at home are cooking more home-prepared meals with preference for fresh meats sourced from trusted brands rather than wet-market alternatives.

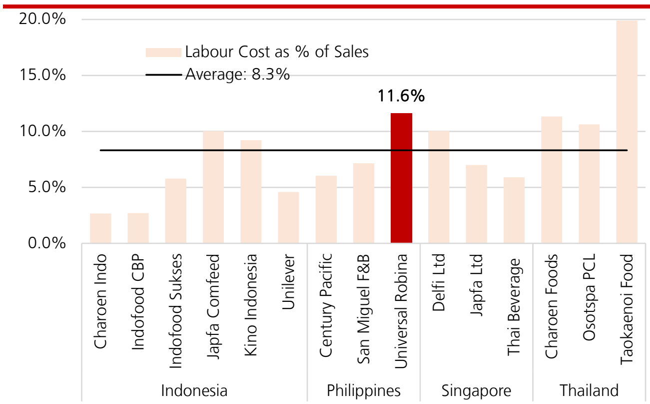
(d) **room for further gains from cost rationalisation initiatives** – it has been two years since management implement cost rationalisation initiatives. And we have seen it bear fruit in in FY19 with EBIT margins up 72 bps. In the next 12-24 months, we expect more gains from this initiative as EBIT margins are still nowhere near FY16 levels. Compared to peers, there is ample room for more efficiency gains.

SG&A expenses as % of Sales



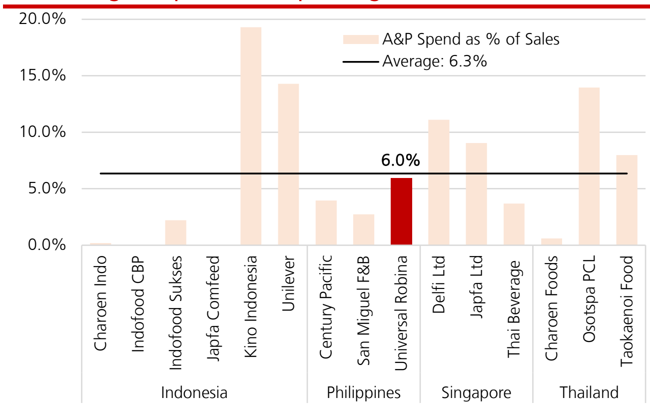
Source: Companies, DBS Bank

Total labour cost (from COGS + SGA) as % of Sales



Source: Companies, DBS Bank

Advertising and promotion spending as % of Sales



Source: Companies, DBS Bank

Valuation

Maintain BUY, TP raised at P178.00. Our TP is derived from DCF and assumes lower 8.4% WACC (as we adjust for lower risk-free rate – from 5.0% to 4.5%) and 3.0% long-term growth. Our P178.00 TP implies 32x FY21F PE – slightly below mean. We see upside to multiples given the low interest rate environment and the passage of the CREATE bill – which will lower corporate income tax rate to 25% from 30% currently.

Key risks to our view

Further softness in key markets, owing to weak consumer confidence and lower incomes. Pertinent to this is that a second wave of infections will derail our expected consumption recovery projection.

Failure to deliver on key efficiency and innovation programmes. Business disruption could hold back URC's efficiency and innovation pipeline amid challenging operating environment.

Impact on distribution reach due to further lockdowns. Reversion to more stringent mobility constraints amid a second wave of COVID-19 will again restrict freight movement across borders, ultimately leading to slower replenishment of products across retail channels.

Margin pressure from higher input cost and/or supply chain disruptions. Higher cost of raw materials (amid limited supply and/or cyclical fluctuations), impaired supply chain visibility, as well as increased cost to serve trade channels stemming from logistical challenges could erase gains from efficiency initiatives. The pandemic has highlighted the need for supply chain diversification and nimble manufacturing capabilities amid drastic shifts in demand and supply dynamics.

Excise tax on salty snacks and fast food products. State-run think tank National Tax Research Center is pushing to slap an excise tax of 10%-20% on junk food. Higher prices owing to excise tax will negatively impact demand for URC's key product offerings, such as noodles and salty snacks.

Weakening regional currencies (on dollar strength). URC's earnings performance in the past has been affected by swings in currency fluctuations. This adds uncertainties to URC's quarterly bottom-line performance.

1Q20 Earnings Recap

URC reported 1Q20 net income attributable of P2.0bn (-35% y-o-y), dragged mainly by P820m forex losses which, along with other non-operating expenses, slashed bottomline margins by 318bps to 5.9%. **Blended EBIT performance was decent – flat y-o-y despite operational impact of the COVID-19 pandemic – with negligible margin contraction of 0.2bps to 11.9%.**

Revenues were flat at P33.5bn –domestic Branded Consumer Foods (BCF-PH) and Commodity Foods Group (CFG) held their ground and offset the contraction from both URC's international BCF and Agro-Industrial operations.

- BCF-PH was steady for the quarter and contributed P16.0bn (+3% y-o-y) – with Jan-Feb growth clocking high-single digit rates, which softened after the government implemented lockdowns beginning mid-March. Favourable pricing and cost mix, along with controlled opex, enabled EBIT margins to expand by 180bps to 15.3% during the quarter.
- International BCF was softer, contracting 8% y-o-y to P9.7bn. Forex translation slashed 6ppts off topline growth. In local currency terms, Oceania grew strongly by 7% y-o-y, as products benefitted from pantry stocking of biscuit and crisps. In contrast, however, Vietnam (-36% y-o-y) and Thailand (-11% y-o-y) operations were severely affected by early and protracted impact of the health crisis. EBIT margins contracted by 207bps to 8.2% due to significantly lower volumes in Vietnam, lower exports, and unfavourable forex impact.
- Agri-Industrial and Commodity (AIC) operations grew by 9% y-o-y to P7.8bn. Revenues from Sugar and Renewables (SURE) segment increased by 23% y-o-y, mainly on higher volumes and better selling prices, while Flour operations similarly posted a modest 5% y-o-y growth on higher volumes of flour. These offset lower sales from URC's Farms and Feeds businesses, which respectively contracted by 25% and 1% amid downsizing initiatives and lower selling prices for the period. The segment's blended EBIT margins contracted by 230-bps to 17% in 1Q20.

Quarterly / Interim Income Statement (Pm)

FY Dec	1Q2019	4Q2019	1Q2020	% chg yoy	% chg qoq
Revenue	33,317	34,390	33,457	0.4	(2.7)
Cost of Goods Sold	(23,106)	(23,700)	(23,343)	1.0	(1.5)
Gross Profit	**10,211**	**10,689**	**10,114**	**(0.9)**	**(5.4)**
Other Oper. (Exp)/Inc	(6,260)	(6,710)	(6,148)	(1.8)	(8.4)
Operating Profit	**3,950**	**3,980**	**3,966**	**0.4**	**(0.3)**
Other Non Opg (Exp)/Inc	15.0	(847)	(53.6)	nm	(93.7)
Associates & JV Inc	(16.3)	(120)	(47.3)	(189.8)	(60.5)
Net Interest (Exp)/Inc	(315)	(368)	(299)	4.9	18.6
Exceptional Gain/(Loss)	207	504	(824)	nm	nm
Pre-tax Profit	**3,841**	**3,149**	**2,742**	**(28.6)**	**(12.9)**
Tax	(716)	(307)	(605)	(15.5)	97.2
Minority Interest	(87.8)	(67.0)	(151)	(71.7)	124.9
Net Profit	**3,038**	**2,775**	**1,986**	**(34.6)**	**(28.4)**
Net profit bef Except.	2,831	2,271	2,810	(0.7)	23.8
EBITDA	5,634	4,808	5,725	1.6	19.1
Margins (%)					
Gross Margins	30.6	31.1	30.2		
Opg Profit Margins	11.9	11.6	11.9		
Net Profit Margins	9.1	8.1	5.9		

Source of all data: Company, DBS Bank

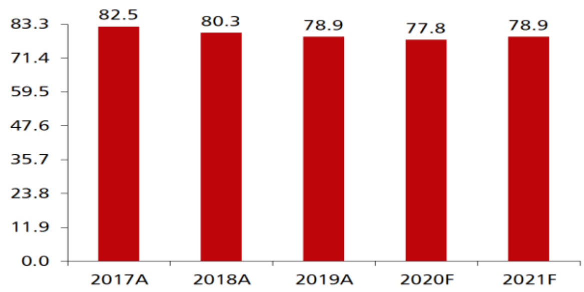
CRITICAL DATA POINTS TO WATCH

Branded business remains key driver of profitability. Amid newfound snacking habits, we see URC's branded business to lead the company's growth in the next two to three years. Key to this will be: 1) snacking at home trend and increased wallet allocation toward packaged foods; 2) inventory restocking providing tailwinds as demand normalises; 3) increased leverage over retailers, due in part to efforts to expand client base and distribution reach. On the overseas front, outlook is clouded by challenging operating environment, but current trends of COVID-19 infection rates indicate potentially faster-than-expected recovery. Favourable product-cost mix and controlled opex should boost URC's EBIT margins moving forward.

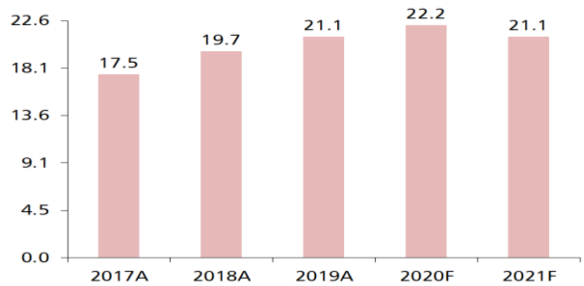
Non-branded business contribution stable at EBIT level, buoyed by sugar operations. Since 2018, contribution from URC's Agro-Industrial and Commodity operations has firmed up to contribute a third of URC's EBIT – mainly supported by its Sugar and Renewables (SURE) operations. Due in part to higher taxes as well as domestic supply-side constraints, sugar prices have hit multiple-year highs in recent quarters. URC had earlier explored a possible acquisition deal with Roxas Holdings, Inc.'s (ROX PM) subsidiary, Central Azucarera Don Pedro, Inc., but this was however thumbed down by the Philippines' anti-competition watchdog. Nonetheless, URC remains determined to leverage on better pricing and expand its scale. Early this month, management announced it is exploring another deal to acquire sugar milling and bio-ethanol distillery assets held by ROX in Najalin Agri-Ventures. The deal is pending regulatory approvals as of writing. We see downside risk to sugar prices amid calls for sugar import liberalisation, which should depress prices upon implementation.

URC's business is sensitive to currency fluctuations. As its international BCF scales up operations and raw materials are sourced overseas, the company has become increasingly sensitive to currency fluctuations. On the one hand, a stronger USD weakens the topline contribution of URC's international businesses (particularly from Oceania) upon translation. On the other, it has historically tempered the impact of unfavourable cost of imported raw materials. URC has exposure to several ASEAN currencies, as well as AUD, NZD, and USD. Note that URC recognises substantial foreign exchange gains and losses annually. In 2019, it reported around P558m in net foreign exchange losses. In 1Q20, negative foreign exchange impact clocked in at P820m and slashed URC's EBIT margins by some 245 bps during the quarter.

Branded % of total sales



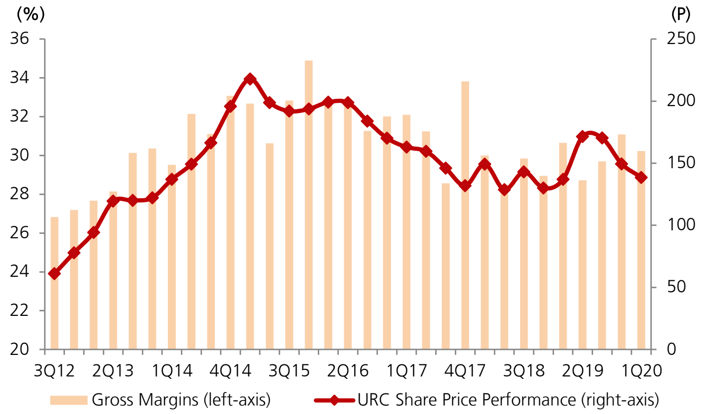
Non-branded % of total sales



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?

Margins

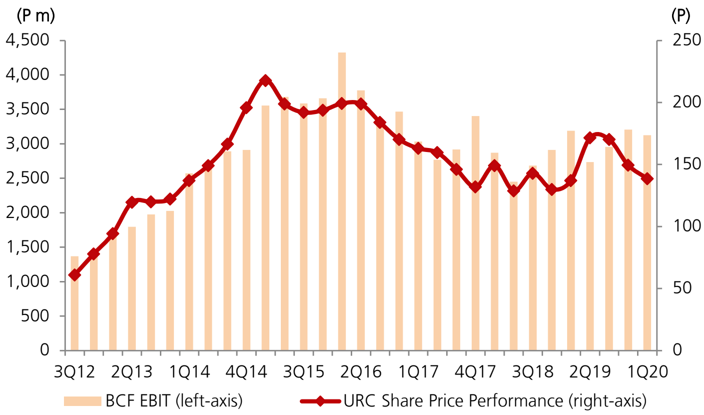


Source: Company, Refinitiv, DBS Bank

Remarks

URC's margins are affected by a confluence of factors, given its diversified business model. On one hand, its agro-industrial and commodities businesses are sensitive to demand and supply conditions. On the other, heavy investments in innovation as well as strong competition (limiting upside to pricing) is putting pressure on profits from its branded business operations.

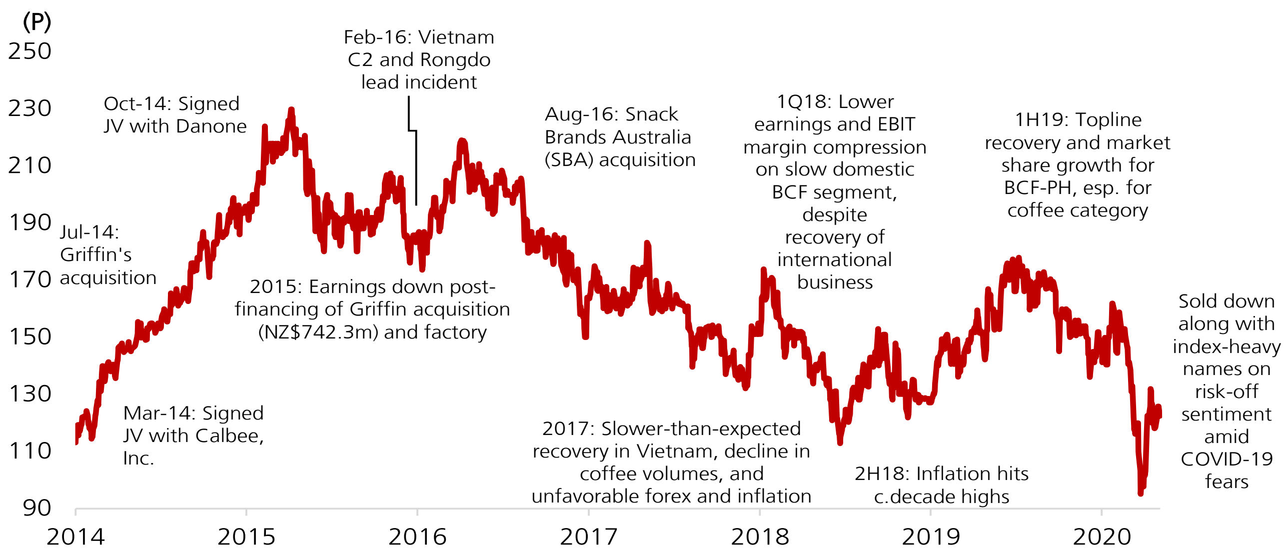
Branded business operating income



Source: Company, Refinitiv, DBS Bank

Branded business as key driver of profitability. From c.65% contribution nearly a decade ago, URC's branded consumer foods (BCF) business has grown to account for 79% of its operating income in 1Q20. We expect BCF's EBIT performance to be further boosted helped by efforts to optimise its product supply chain, route-to-market enhancement, and lean manufacturing efforts in the last two to three years.

Share price movement (historical trends)



Source: Refinitiv, Trade Press, Company

Balance Sheet:

Lower net debt position, gearing is low. As of at end-2019, URC had a net debt position of P13,750, significantly below P20,895 in FY18. Gearing ratio is low at 0.15. Cash conversion cycle has deteriorated to 56.5 days from 38.2 days at end-FY18 – due to shorter payable days and inventory ramp up.

Share Price Drivers:

Stronger-than-expected post-pandemic growth trajectory. We understand the uncertainties that the new normal could bring after lockdowns and stringent social distancing measures are lifted. However, we think stay-at-home habits will stay for longer – thus leading to elevated new normal volumes and demand for URC's core product offerings. An added boost will come from savings build-up (as consumers spend more time at home and there is less spending outdoors) and stable inflation backdrop providing tailwinds to snacking habits.

Margins to move in the right direction. For BCF-PH, we expect URC's EBIT margins to gradually improve helped by efforts to raise production efficiency and benefits from supply network redesign. On the overseas front, profitability hinges on the recovery in Vietnam and restructuring of its Oceania operations. For AIC, we think impact of downsizing of live hog operations will be felt for longer, however this will be offset to some extent by softer raw material input prices and higher contribution from subsegments with stable prices (such as processed chicken and meat).

Key Risks:

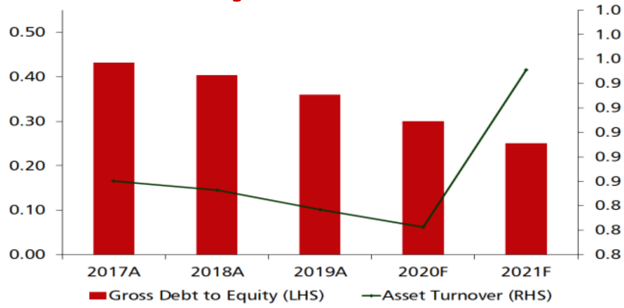
Reinstatement of lockdowns and community quarantines to underpin operating challenges for longer. Aside from demand shifts, our recovery projection assumes manpower, logistical, and supply chain challenges will subside sooner rather than later. If the outbreak returns, URC will experience some difficulties in serving elevated demand.

Further weakness in key markets, owing to weak consumer confidence and lower incomes. URC's volume and sales growth is dependent in consumer sentiment. Until we see material developments on a vaccine for COVID-19, pandemic-induced economic and financial risks on household consumption still exists.

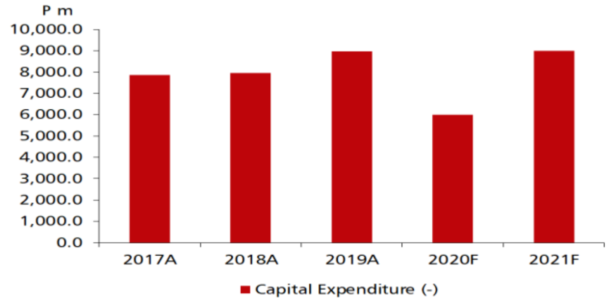
Company Background

Universal Robina (URC) is engaged in food manufacturing, operating under three major business segments: Branded Consumer Foods, Agro-Industrial, and Commodities. Major product lines under Branded Consumer Foods include sweet and savoury snacks, confectionery, RTD tea, instant coffee, and biscuits, among others. URC operates in the Philippines, key countries in the ASEAN region, and in Australia/New Zealand through Griffin's and SBA.

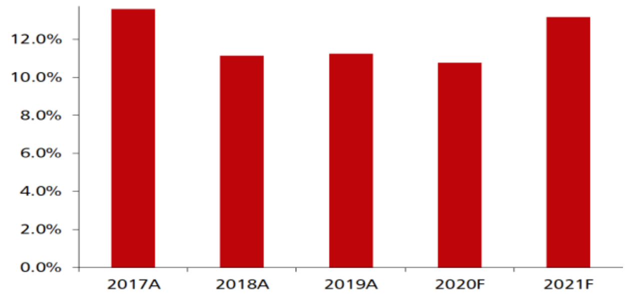
Leverage & Asset Turnover (x)



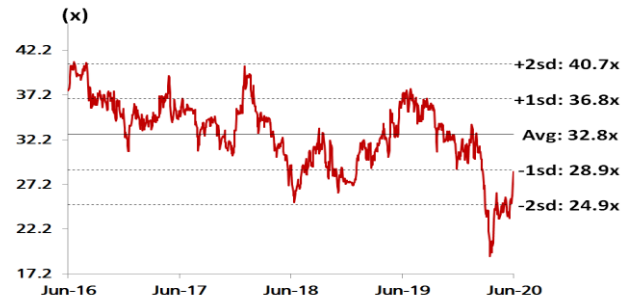
Capital Expenditure



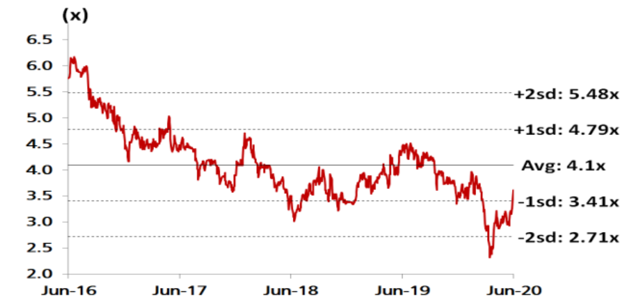
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

DBS
Live more, Bank less

Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
Branded % of total sales	82.5	80.3	78.9	77.8	78.9
Non-branded % of total	17.5	19.7	21.1	22.2	21.1

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (P m)					
Branded Consumer Foods	103,096	102,538	105,886	107,149	125,749
Agro-Industrial	10,111	11,693	13,138	14,189	15,608
Commodity Foods	11,801	13,539	15,150	16,362	17,998
Total	125,008	127,770	134,175	137,701	159,356
Operating profit(P m)					
Branded Consumer Foods	12,128	10,927	11,859	12,322	14,838
Agro-Industrial	1,780	1,285	1,577	1,703	1,873
Commodity Foods	2,916	3,528	4,091	4,418	4,860
Others	(1,873)	(2,359)	(1,883)	(2,432)	(2,665)
Total	14,952	13,381	15,643	16,011	18,906
Operating profitMargins					
Branded Consumer Foods	11.8	10.7	11.2	11.5	11.8
Agro-Industrial	17.6	11.0	12.0	12.0	12.0
Commodity Foods	24.7	26.1	27.0	27.0	27.0
Total	12.0	10.5	11.7	11.6	11.9

BCF to drive topline performance amid rising snacking at home habits

We expect EBIT margin improvement from favourable product-cost mix and gains from cost rationalisation initiatives

Income Statement (P m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	125,008	127,770	134,175	137,701	159,356
Cost of Goods Sold	(85,693)	(90,333)	(93,862)	(96,122)	(110,840)
Gross Profit	39,314	37,437	40,313	41,579	48,516
Other Opng (Exp)/Inc	(24,362)	(24,057)	(25,301)	(26,275)	(30,407)
Operating Profit	14,952	13,381	15,012	15,303	18,108
Other Non Opg (Exp)/Inc	277	(146)	(1,050)	(1,050)	(1,050)
Associates & JV Inc	(281)	(132)	(159)	(159)	(159)
Net Interest (Exp)/Inc	(1,202)	(1,302)	(1,342)	(1,686)	(1,476)
Exceptional Gain/(Loss)	204	(255)	(565)	(565)	(565)
Pre-tax Profit	13,950	11,545	11,896	11,844	14,858
Tax	(2,797)	(2,082)	(1,782)	(1,774)	(2,225)
Minority Interest	(265)	(258)	(343)	(265)	(333)
Preference Dividend	0	0	0	0	0
Net Profit	10,888	9,204	9,772	9,805	12,300
Net Profit before Except.	10,684	9,459	10,337	10,370	12,866
EBITDA	21,052	19,472	21,114	21,002	24,299
Growth					
Revenue Gth (%)	11.0	2.2	5.0	2.6	15.7
EBITDA Gth (%)	(1.9)	(7.5)	8.4	(0.5)	15.7
Opg Profit Gth (%)	(5.1)	(10.5)	12.2	1.9	18.3
Net Profit Gth (Pre-ex) (%)	(8.2)	(11.5)	9.3	0.3	24.1
Margins & Ratio					
Gross Margins (%)	31.4	29.3	30.0	30.2	30.4
Opg Profit Margin (%)	12.0	10.5	11.2	11.1	11.4
Net Profit Margin (%)	8.7	7.2	7.3	7.1	7.7
ROAE (%)	13.6	11.1	11.2	10.8	13.2
ROA (%)	7.5	6.1	6.1	5.9	7.3
ROCE (%)	10.0	9.0	9.8	9.5	11.5
Div Payout Ratio (%)	65.9	75.4	74.1	78.6	78.6
Net Interest Cover (x)	12.4	10.3	11.2	9.1	12.3

Source: Company, DBS Bank

Quarterly / Interim Income Statement (P m)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Revenue	33,317	33,724	32,744	34,390	33,457
Cost of Goods Sold	(23,106)	(24,036)	(23,019)	(23,700)	(23,343)
Gross Profit	**10,211**	**9,687**	**9,725**	**10,689**	**10,114**
Other Oper. (Exp)/Inc	(6,260)	(6,015)	(6,315)	(6,710)	(6,148)
Operating Profit	**3,950**	**3,672**	**3,410**	**3,980**	**3,966**
Other Non Opg (Exp)/Inc	15	(54)	(163)	(847)	(54)
Associates & JV Inc	(16)	(15)	(7)	(120)	(47)
Net Interest (Exp)/Inc	(315)	(373)	(287)	(368)	(299)
Exceptional Gain/(Loss)	207	(619)	(657)	504	(824)
Pre-tax Profit	**3,841**	**2,611**	**2,295**	**3,149**	**2,742**
Tax	(716)	(432)	(327)	(307)	(605)
Minority Interest	(88)	(87)	(101)	(67)	(151)
Net Profit	**3,038**	**2,092**	**1,867**	**2,775**	**1,986**
Net profit bef Except.	2,831	2,711	2,524	2,271	2,810
EBITDA	5,634	5,664	5,008	4,808	5,725
Growth					
Revenue Gth (%)	(0.4)	1.2	(2.9)	5.0	(2.7)
EBITDA Gth (%)	18.0	0.5	(11.6)	(4.0)	19.1
Opg Profit Gth (%)	19.8	(7.0)	(7.2)	16.7	(0.3)
Net Profit Gth (Pre-ex) (%)	22.8	(4.2)	(6.9)	(10.0)	23.8
Margins					
Gross Margins (%)	30.6	28.7	29.7	31.1	30.2
Opg Profit Margins (%)	11.9	10.9	10.4	11.6	11.9
Net Profit Margins (%)	9.1	6.2	5.7	8.1	5.9

URC recognizes substantial quarterly gains and losses from forex swings

Decent EBIT performance despite pandemic impact

Balance Sheet (P m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	48,254	51,950	54,626	53,719	55,321
Invts in Associates & JVs	552	521	422	263	104
Other LT Assets	45,132	45,055	48,760	48,760	48,760
Cash & ST Invts	14,953	13,443	20,899	20,296	15,218
Inventory	18,465	22,086	24,375	23,168	26,862
Debtors	16,116	14,405	15,999	16,419	19,002
Other Current Assets	4,168	4,475	3,572	3,572	3,572
Total Assets	**147,641**	**151,936**	**168,653**	**166,198**	**168,839**
ST Debt	2,009	2,461	3,848	3,848	3,848
Creditor	21,571	22,767	21,298	20,243	23,471
Other Current Liab	4,419	6,740	9,787	11,025	11,477
LT Debt	33,226	31,457	30,386	25,386	21,386
Other LT Liabilities	4,729	4,517	8,149	8,149	8,149
Shareholder's Equity	81,403	83,791	89,951	92,046	94,675
Minority Interests	283	202	5,234	5,499	5,832
Total Cap. & Liab.	**147,641**	**151,936**	**168,653**	**166,198**	**168,839**
Non-Cash Wkg. Capital	12,759	11,459	12,861	11,890	14,487
Net Cash/(Debt)	(20,282)	(20,475)	(13,335)	(8,939)	(10,017)
Debtors Turn (avg days)	46.6	43.6	41.4	43.0	40.6
Creditors Turn (avg days)	95.3	96.4	92.9	85.0	77.1
Inventory Turn (avg days)	85.0	88.1	98.0	97.3	88.3
Asset Turnover (x)	0.9	0.9	0.8	0.8	1.0
Current Ratio (x)	1.9	1.7	1.9	1.8	1.7
Quick Ratio (x)	1.1	0.9	1.1	1.0	0.9
Net Debt/Equity (X)	0.2	0.2	0.1	0.1	0.1
Net Debt/Equity ex MI (X)	0.2	0.2	0.1	0.1	0.1
Capex to Debt (%)	22.3	23.4	26.2	20.5	35.7

Source: Company, DBS Bank

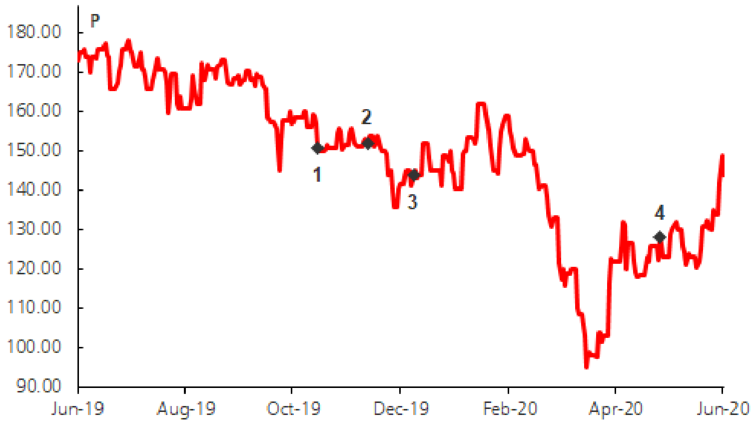
Cash Flow Statement (P m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	13,950	11,545	11,896	11,844	14,858
Dep. & Amort.	6,104	6,370	7,310	6,907	7,399
Tax Paid	(3,458)	(2,559)	(2,305)	(536)	(1,774)
Assoc. & JV Inc/(loss)	281	132	159	159	159
Chg in Wkg.Cap.	(2,185)	(1,059)	(2,391)	(268)	(3,048)
Other Operating CF	(438)	228	942	0	0
Net Operating CF	**14,254**	**14,658**	**15,611**	**18,106**	**17,593**
Capital Exp.(net)	(7,860)	(7,950)	(8,958)	(6,000)	(9,000)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	(350)	(407)	(125)	0	0
Div from Assoc & JV	19	32	16	0	0
Other Investing CF	(216)	(355)	7,314	0	0
Net Investing CF	**(8,408)**	**(8,680)**	**(1,753)**	**(6,000)**	**(9,000)**
Div Paid	(7,171)	(6,943)	(7,237)	(7,710)	(9,672)
Chg in Gross Debt	434	(531)	1,329	(5,000)	(4,000)
Capital Issues	0	0	0	0	0
Other Financing CF	41	22	(488)	0	0
Net Financing CF	**(6,696)**	**(7,452)**	**(6,397)**	**(12,710)**	**(13,672)**
Currency Adjustments	0	0	0	0	0
Chg in Cash	(850)	(1,474)	7,461	(603)	(5,078)
Opg CFPS (P)	7.5	7.1	8.2	8.3	9.4
Free CFPS (P)	2.9	3.0	3.0	5.5	3.9

Management announced P2-3bn reduction in FY20 capex budget amid cash conservation priorities

Source: Company, DBS Bank

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	24 Oct 19	151.00	166.00	HOLD
2:	21 Nov 19	152.00	166.00	HOLD
3:	17 Dec 19	144.00	166.00	BUY
4:	05 May 20	128.00	166.00	BUY

Source: DBS Bank

Analyst: Regional Research Team

DBS Bank Ltd recommendations are based on an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 12 Jun 2020 08:31:38 (HKT)
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