

# Unity Group (1539 HK)

## Emerging energy saving company expanding to Malaysia and Middle East

Unity, a LED light energy management contract (EMC) service provider, has solidified its presence in Malaysia following a couple of agreements signed with the local governments since 2022. We expect these agreements will potentially boost Unity's leasing service revenue with a CAGR of 100% in FY25E-26E (Mar year-end). Financially, Unity has gone through the difficult years following the completion of its debt structuring scheme. More importantly, the introduction of Abu Dhabi capital in 2023 will not only enhance the shareholding structure and balance sheet, but also open the door to business expansion in the fast-growing Middle East market. We forecast Unity to deliver core EPS CAGR of 1.8x in FY25E-26E, and breakthroughs in the Middle East to offer further upside to our current forecast. Initiate with **BUY** and TP of HK\$0.64.

- Company background.** Unity is mainly engaged in (1) LED lighting systems (mainly EMC model and trading), and (2) renewable energy project construction. The business covers Hong Kong (China), the Chinese mainland, Japan and Indonesia traditionally, with Malaysia and the Middle East being the growth regions.
- Malaysia project the key growth driver.** Back in Feb 2022, Unity undertook a large-scale energy-saving project from a Malaysia state government agency, namely "Light Source in the Darkness" project. The project aims to help local condominiums in Selangor solve lighting problems and improve energy efficiency through the installation of LED lighting system, with Unity enjoying revenue sharing from energy saving throughout the contract period. The ultimate target of the project is to install 6mn units of LED lights for 8,320 condominiums in Selangor by around 2025E. Given that the target is ambitious, we only model 1.5mn units in total by FY26E.
- ORIX Finance to provide funding.** To satisfy the growing capital requirement for the Malaysia project, Unity has started cooperating with ORIX Finance (a wholly-owned subsidiary of ORIX Corporation [8591 JP / IX US, NR]) since early 2023. ORIX Finance will provide Unity with receivables-based financing. We think such cooperation could help Unity reduce the initial cash outflow at the fast-growing stage of LED lights installation.
- Valuation.** Given that we forecast 1.8x earnings CAGR over FY25E-26E, we believe PEG is a good valuation methodology to capture Unity's robust growth outlook. Our TP of HK\$0.64 is based on 100x FY25E P/E, on the back of ~100% EPS growth in FY26E, which is equivalent to 1x PEG.
- Key risks:** (1) Interest rate risk; (2) currency risk, (3) a lack of operating cash flow at the initial stage, and (4) potential project delays.

### Earnings Summary

(YE 31 Mar)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (HK\$ mn)	80	47	125	223	402
YoY growth (%)	49.6	(42.1)	168.5	78.0	80.6
Adjusted net profit (HK\$ mn)	(37.0)	(38.7)	4.8	21.2	42.9
EPS (Adjusted) (HK\$ cents)	(2.21)	(1.62)	0.17	0.63	1.28
P/E (x)	na	na	70.7	78.3	38.6
P/B (x)	7.6	7.3	5.6	5.2	4.6
Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	(347.6)	(17.0)	9.2	6.9	12.6
Net gearing (%)	51.4	126.3	9.2	22.2	49.7

Source: Company data, Bloomberg, CMBIGM estimates

**BUY**

**Target Price** HK\$0.64  
**Up/Downside** 29.3%  
**Current Price** HK\$0.50

### China Capital Goods

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### Stock Data

Mkt Cap (HK\$ mn)	1,658.0
Avg 3 mths t/o (HK\$ mn)	2.0
52w High/Low (HK\$)	0.67/0.11
Total Issued Shares (mn)	3349.4

Source: FactSet

### Shareholding Structure

WONG Man Fai Mansfield	57.4%
Asia JIT Capital	10.6%

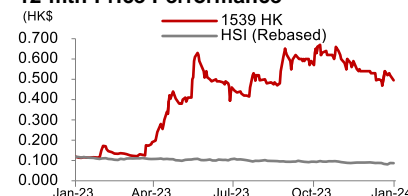
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-8.3%	0.9%
3-mth	-21.4%	-13.2%
6-mth	11.2%	44.2%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

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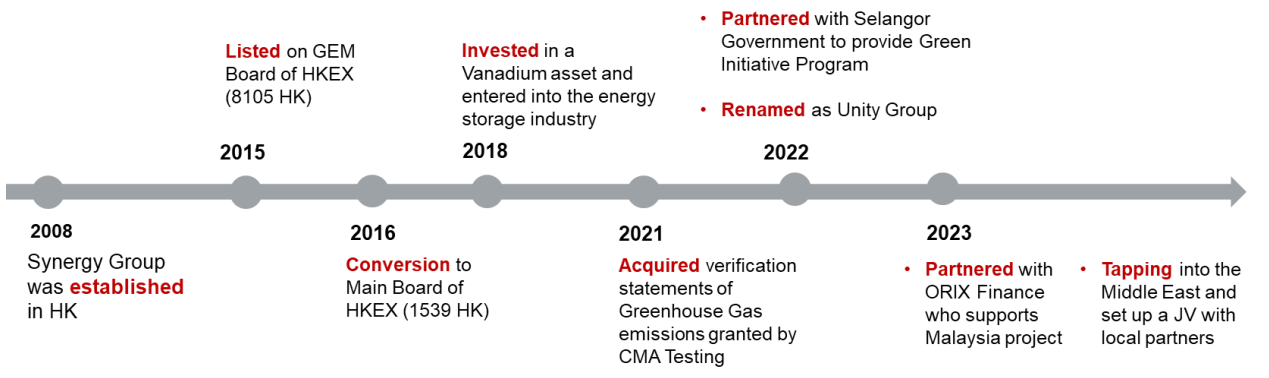
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## Company overview

Established in 2008 and headquartered in Hong Kong, Unity Group (formerly Synergy Group) is an integrated energy-saving and management solutions provider. Unity was listed on the GEM Board of HKEX in 2015 and converted to the Main Board in 2016.

Unity is mainly engaged in two major business segments: (1) LED lighting systems, and (2) renewable energy project construction. Unity mainly operates LED lighting under the Energy Management Contract (EMC) business model. Its business covers regions including Hong Kong (China), the Chinese mainland, Japan and Indonesia traditionally, with Malaysia and the Middle East being the key growth regions.

**Figure 1: Business milestones of Unity Group**



Source: Company data, CMBIGM

**Figure 2: Unity's global footprint**



Source: Company data, CMBIGM

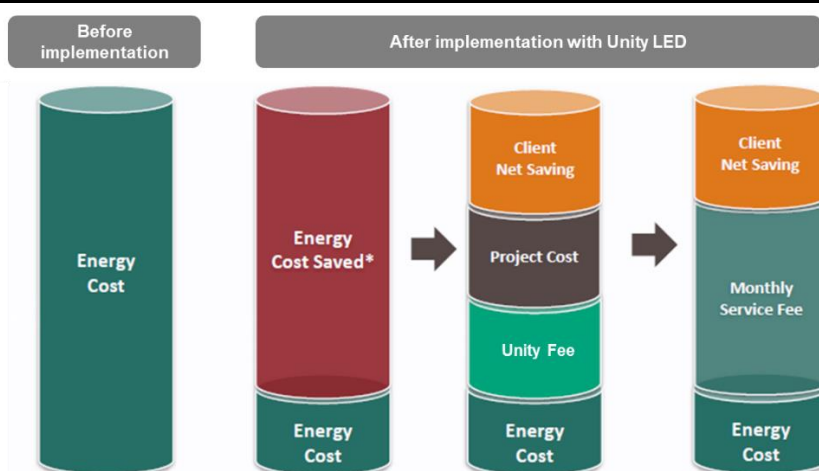
## Key growth drivers

### EMC for LED lighting systems in overseas market

Unity specializes in the design and provision of energy-efficient LED lighting devices and systems. Unity’s LED products feature high energy saving (80% saving) and a long lifespan (100k hours of design life, 3.3-5.0x of LEDs in the market), according to the company.

High upfront costs and a lack of awareness on the energy saving potential by end-users have limited the usage of LED lighting. To address the pain point, Unity adopts the Energy Management Contract (EMC) business model. Under the model, Unity provides customers with a series of lighting solutions at zero upfront cost, which include services of project design, project financing, lighting installation, as well as monitoring and maintenance. Unity shares part of the energy cost saved in the form of monthly energy management fee, which allows it to enjoy a steady cash inflow throughout the project.

**Figure 3: Unity’s EMC business model for LED lighting solutions**



Source: Company data, CMBIGM

**Figure 4: Comparison of Unity’s LED and market LED products**

	Unity LEDs	Market LEDs
Energy and operation savings	81%	50%
Product life cycle	100k hours	20k-30k hours
Heat generation	75% reduction	High heat generation
Lux performance	2-4% reduction per year	10-20% reduction per year
Product failure rate	≤0.01% per year	10-15% after 2 <sup>nd</sup> year
LED driver	own R&D stable driver 1% power loss	12% power loss High failure rate
Maintenance frequency	Low	High

Source: Company data, CMBIGM

## Malaysia: The key growth driver over the coming years

### ■ EMC project in Selangor, Malaysia

**Strategic goal:** Back in Feb 2022, Unity signed an MOU with Lembaga Perumahan dan Hartanah Selangor (LPHS), a Malaysia state government agency, and Odesi Ecob Sdn Bhd (ODESI), a property technology company, to undertake a large-scale energy-saving project, namely “Light Source in the Darkness” project (“the Malaysia project”). The project aims to help local condominiums in Selangor to install LED lighting system in order to solve lighting problems and improve energy efficiency. The ultimate target of the project is to install 6mn units of LED lights for 8,320 condominiums in Selangor over the coming years. The total value of the project could potentially reach HK\$6.9bn.

**Tactical target:** In Sep 2023, Unity and LPHS entered into an agreement, which sets some near-term targets and KPI for the project. According to the agreement, a total of 800k units of LED lights will be installed by Mar 2024. Under the EMC, the annual power saving is estimated at MYR60mn (~HK\$100mn). The corresponding total contract value (assuming a 10-year useful life for the LED lighting) could reach ~HK\$1bn.

### ■ Expanding to other regions in Malaysia

Apart from Selangor, Unity also targets to expand the business model to other five states in Malaysia, including Johor, Penang, Perak, Negeri Sembilan and Melaka, according to another collaboration agreement signed in Jun 2022. It targets to install >10mn units of LED lighting for >10k condominiums in those five regions.

### ■ Penetration into the local market

Thanks to the increasing market exposure brought by the Malaysia project, Unity has further tapped into the local market in Malaysia. In Sep 2023, Unity signed an agreement with GCH Retail, one of the largest retail chain operators in Malaysia, for the provision of LED lighting energy-saving services for 45 stores of GCH Retail.

We believe, with the rising demand for energy-saving solutions in the residential and commercial sectors driven by favorable government policies and growing awareness in Malaysia, Unity will likely acquire more local commercial and retail clients in the future.

## Cooperation with ORIX Finance to support the EMC business model

To satisfy the growing capital requirement for the Malaysia project, Unity has started cooperating with ORIX Finance (a wholly-owned subsidiary of **ORIX Corporation (8591 JP / IX US, NR)**) since early 2023. ORIX will provide receivables-based financing for the Malaysia project. Such cooperation could help Unity reduce the initial cash outflow at the fast-growing stage of LED lights installation.

As of end-Nov 2023, Unity completed drawdown of ~HK\$10mn (1st / 2nd phase: HK\$7mn / 3mn), based on 50% of the receivables of 24 completed condominiums contracts (1st / 2nd drawdown: 20 / 4 condominiums).

Under the EMC, we estimate each LED light will generate NPV of ~HK\$400, based on a useful life of 10 years (figure 6).

**Figure 5: Malaysia project contract amount and funding**

	No of condominium	Orix funding (HK\$)	% of total contract	Total contract amount (HK\$)	Contract amount / condo (HK\$)	Estimated contract amount / LED light (HK\$)
Stage 1	20	7,000,000	50%	14,000,000	700,000	350
Stage 2	4	3,000,000	50%	6,000,000	1,500,000	750
<b>Total</b>	<b>24</b>	<b>10,000,000</b>		<b>20,000,000</b>	<b>833,333</b>	<b>417</b>

**\*Assumption:**

- 1) No. of LED lights for each condo: 2,000
- 2) 1HKD/MYR fx rate 0.6

Source: Company data, CMBIGM estimates

**Figure 6: Malaysia project: Estimated cash flow projection and NPV of each LED light**

	FY0	FY1	FY2	FY3	FY4	FY5	FY6	FY7	FY8	FY9	FY10
(HK\$)											
<b>Cash flow for each LED light</b>											
Revenue from electricity saving		88	88	88	88	88	88	88	88	88	88
Unit cost		-80									
Funding from Orix	175										
Repayment		-27	-31	-35	-39	-44					
Interest expense		-22	-19	-15	-11	-6					
<b>Net cash flow (before SG&amp;A and tax)</b>	<b>175</b>	<b>-42</b>	<b>38</b>	<b>38</b>	<b>38</b>	<b>38</b>	<b>88</b>	<b>88</b>	<b>88</b>	<b>88</b>	<b>88</b>
PV of net cash flow (before SG&A and tax)	175	-37	29	26	23	20	41	36	31	28	24
<b>NPV of each LED light</b>	<b>396</b>										
<b>Key assumptions:</b>											
<b>Annual electricity savings per LED light</b>											
MYR		75									
HK\$		125									
<b>Revenue sharing ratio (For Unity)</b>		<b>70%</b>									
<b>Discount rate</b>		<b>12%</b>									
<b>Interest rate</b>											
3M HIBOR		4.8%									
Spread		8.0%									
<b>Total</b>		<b>12.8%</b>									

Source: Company data, CMBIGM estimates

Note 1: The cash flow projection is based on the arrangement of the Malaysia project funding from ORIX Finance.

Note 2: The cash flow analysis has not taken into consideration SG&A and tax.

Figure 7: Malaysia's policies to incentivise the usage of LED lighting

Scheme	Organization	Time	Objectives	Key content	Criteria/ Eligibility
<b>Green Technology Financing Scheme (GTFS)</b>	Malay government; Malaysian Green Tech and Climate Change Corp	2010 - 2025 (extended)	<p>To support the development of sustainable tech start-ups and help SME implement low-carbon practices</p> <ul style="list-style-type: none"> <li>- <b>For Producers:</b> To finance investment for the production of green products</li> <li>- <b>For Users:</b> To finance investment for the utilization of green products</li> <li>- <b>For Energy Service Companies (ESCOs):</b> To finance investment or assets related to energy efficient product and/or energy performance contracting</li> </ul>	<p>1) The guaranteed value will be increased to RM3bn until 2025 for financing ranging from RM10mn to RM500mn</p> <p>2) Financing via term loan facilities / bond issuance / sukuk</p> <p>3) As a soft loan supported by the government, of which the government will bear 2% of total interest and guarantee 60% of the total approved loan</p> <p>4) Tenure: - Producers: up to 15 yrs - Users: up to 10 yrs - ESCOs: up to 5 yrs</p>	<p>1) The project must align with the targets of addressing climate change, biodiversity, and environmental challenges</p> <p>2) For Producer / User company: legally registered Malaysian-owned companies that have at least 51% / 70% Malaysian shareholding</p> <p>3) For Utilization Sector: application of Green Technology such as rational use of energy / replacement of equipment / waste and reject reduction / use of green materials (such as energy efficient lighting, including LED)</p> <p>4) A company can apply financing more than once, while an expansion or a new project is limited to the maximum amount determined (RM10mn for users)</p> <p>5) GTFS can only finance projects which are ready for commercialization but not R&amp;D projects and existing property, plant &amp; equipment</p>
<b>Green Investment Tax Allowance (GITA) &amp; Green Income Tax Exemption (GITE)</b>	Malay government; Malaysian Green Technology and Climate Change Corporation	2014 - 2025 (extended)	<p>1) To attain the Malaysia's goal to generate 20% of energy consumption from renewable sources by 2025 and reduce 45% of GHG emission intensity by 2030</p> <p>3) Objectives of the tax incentives: - Tax Allowance (ITA) for the purchase of green technology assets and income - Tax Exemption (ITE) on the use of green technology services and undertakes solar leasing activity</p>	<p>1) GITA Asset: 100% of qualifying capital expenditure incurred on approved green technology asset</p> <p>2) GITA Project: 100% of qualifying capital expenditure incurred on green technology project</p> <p>3) GITE Services: Income Tax Exemption of 70% on statutory income for qualifying green services</p> <p>4) GITE Leasing: Income Tax Exemption of 70% on statutory income for solar leasing activity for a period up to 10 years of assessment.</p>	<p>1) GITA Assets: Companies that acquire qualifying green technology assets for their own use/consumption, e.g. energy management system, energy saving lighting (LED)</p> <p>2) GITA Projects: Companies that undertake qualifying green technology projects for business or own consumption, e.g. renewable energy, energy efficiency and green building projects</p> <p>3) GITE Services: Qualifying green technology service provider companies that are specifically listed, e.g. renewable energy, energy efficiency and green building projects</p> <p>4) GITE Leasing: Qualifying green technology service provider companies that are specifically listed, e.g. leasing services of renewable energy (solar PV) projects</p>

Source: Malaysian Green Technology and Climate Change Corporation (MGTC), CMBIGM

## Tapping into Middle East market along with local strategic partnerships

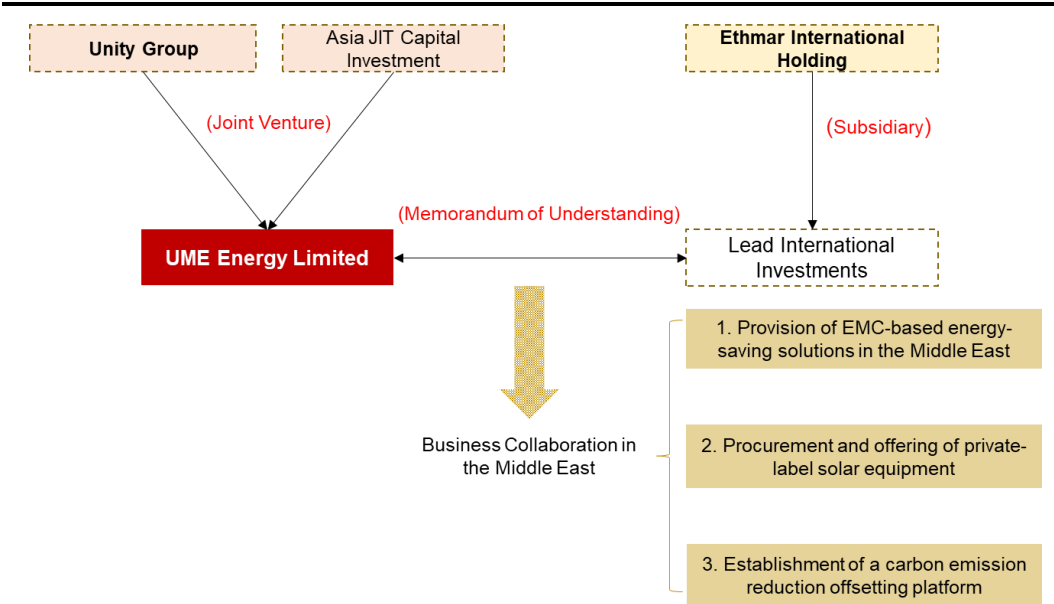
In Jun 2023, Unity signed an agreement with Asia JIT, an investment fund in Abu Dhabi, where Asia JIT will subscribe convertible bonds issued by Unity (US\$10mn completed finally).

In Sep 2023, Unity expanded its cooperation with Asia JIT by setting up a joint venture, namely UME Energy Limited (“UME”), for business collaboration in the Middle East.

UME entered into a memorandum of understanding (MOU) with Lead International Investments (“LII”), a subsidiary of Ethmar International Holding (“EIH”). We believe that support from a local partner will help Unity expand into the UAE market and other regions in the Middle East.

**Background of Ethmar International Holding:** EIH is a royal-led conglomerate headquartered in Abu Dhabi, and is chaired by H.H Sheikh Hamdan Bin Mohammed Bin Zayed Al Nahyan, a son of the President of the UAE. EIH operates a diversified business portfolio covering nine sectors including energy, real estate, technology, investments, healthcare, tourism and hospitality, financial services, etc.

**Figure 8: Cooperation framework between joint venture UME and LII under MOU**



Source: Company data, CMBIGM



According to Mordor Intelligence, the market size of LED lighting market in the Middle East is expected to grow at a CAGR of 8.2% from US\$3.7bn in 2023E to US\$5.5bn in 2028E, driven by increasing construction activities, supportive government policies and the growing energy-efficient awareness.

According to the MOU, the cooperation between UME and LII involves two major areas:

**1) Provision of EMC-based energy-saving solutions.**

UME will first target ~700 commercial and residential buildings in Abu Dhabi, and further expand to UAE and the rest of the Middle East.

**2) Procurement and offering of private-label solar equipment.**

The target is to meet the demand for a potential of 100GW of the solar projects with investment amount of US\$15bn by 2030.

### **Cooperating with Tongwei to offer co-branded solar equipment**

Unity has partnered with TW Solar, a subsidiary of **Tongwei (600438 CH, NR)** (the largest polysilicon manufacturer and solar cell provider) since Sep 2023. They target to provide co-branded solar module products for clients in the Middle East, Central Asia, Southeast Asia and East Asia, who target ground-mounted and rooftop solar power generation markets.

## China: Renewable energy project construction

Unity offers full-cycle PV solar project solutions, covering project financing consultation, project design and planning, equipment procurement and installation, as well as plant management, operation and maintenance. Unity provides various business models, including EMC, EPC (engineering, procurement and construction) and BOT (build, operate and transfer), etc.

Unity undertakes projects in Hong Kong (China), the Chinese mainland, Malaysia and other regions. For example, in Oct 2022, Unity entered into an agreement with Zhuhai Xiangbang Environmental Protection Building Materials, with a target to build a rooftop grid-connected distributed solar PV generation system with total capacity of 600kW for Xiangbang's production plant in Zhuhai. The project was completed in Feb 2023.

**Figure 9: Unity's 600kW rooftop grid-connected solar PV project for Zhuhai Xiangbang's production plant**



Source: Company data, CMBIGM

## Targets 2.6GW of renewable energy projects with PowerChina

In Dec 2022, Unity established a strategic cooperation relationship with a subsidiary of **PowerChina (601669 CH, NR)** to co-develop renewable energy projects with the local governments in the Chinese mainland.

Unity targets to achieve ~2.6GW of total capacity of renewable energy system projects (with estimated contract amount of RMB5.7bn for survey & design, equipment procurement & construction services) covering the Greater Bay Area, Yunan and Hainan. These projects offer visibility for revenue over the coming 5-6 years, in our view.

**Figure 10: Unity's project construction pipeline**

Project name	Total capacity (MW)	Annual progress capacity (MW)	Est. total value (RMB k)	EPC ASP (RMB/W)
清远清新区山塘镇渔光互补光伏项目	200	200	910,000	4.55
四会市亚洲金属园区地面集中式光伏项目	100	100	490,000	4.90
梅州市兴宁新圩镇地面集中式光伏项目	300	100	465,000	1.55
云南铝业尾矿库治理分布式光伏项目	161	161	708,400	4.40
茂名高州独立共享储能电站项目	100	100	250,000	2.50
茂名高州镇江镇农光互补光伏项目	800	150	750,000	0.94
惠州龙门农光互补光伏项目	500	200	900,000	1.80
阳江阳春合水镇农光互补光伏项目	150	150	735,000	4.90
三亚崖州区果光互补光伏项目	300	100	500,000	1.67
<b>Total</b>	<b>2611</b>	<b>1261</b>	<b>5,708,400</b>	<b>2.19</b>

Source: Company data, CMBIGM

## Debt restructuring completed + introduction of Middle East capital

### Debt restructuring

The COVID-19 related lockdown and the weak demand for LED products in Hong Kong and other Southeast Asia regions resulted in sharp revenue declines for Unity between FY19 (revenue: HK\$245mn) and FY23 (HK\$47mn). Net loss was reported between FY20 and FY23. Unity therefore entered into a debt crisis during the period.

In 2021, Unity started carrying out rescue plans with an aim to improve its financial position. In 2022, Unity issued a total of 1.7bn shares (HK\$0.1 per share) to raise HK\$110mn and settle debts of HK\$60mn.

The situation further improved in 2023 when a debt restructuring scheme is finally agreed with creditors. The outstanding debt of the Company (amount due to scheme creditors: HK\$174mn) was repaid through two settlement options, i.e. cash and equities. Unity issued 730mn new shares (HK\$0.143/share) to settle an amount of HK\$104mn due to the scheme creditors. The outstanding amount will be repaid in cash over the following 30 months.

### Introduction of Asia JIT

The aforementioned introduction of Asia JIT through issuing CBs (US\$10mn) has not only enhanced the cash position of Unity, but also open the door to the Middle East market. According to HKEX, Unity CBs amounting to US\$7.5mn have been converted to equities.

## Earnings projection

### Segment breakdown

#### **Leasing service (65% of total revenue in FY24E): Strong revenue growth driven by the Malaysia project**

- The Malaysia project has kicked off and started generating revenue since FY23 (Mar year-end). In 1HFY24, the Malaysia project contributed ~HK\$13.5mn of revenue (45k units of LED lights installed), accounting for 33.5% of Unity's total revenue.
- We estimate Unity to install ~250k units of LED lights in Malaysia in FY24E, up 3.8x YoY. We estimate this will generate ~HK\$77mn of revenue in FY24E, which will account for 62% of the total revenue (revenue generated will be in the form of finance leasing revenue and interest income). In FY24E, we forecast the annual LED lights installation volume to double to 500k units.
- We forecast segment profit margin to expand from 35% in FY24E to 40% in FY26E, driven by the scale effect of LED light installation.

#### **Trading of energy-saving products (22% of revenue in FY24E).**

- We forecast the segment revenue to grow 50% YoY in FY24E, driven by higher demand in 1HFY23. We forecast the segment to maintain ~20% revenue growth in FY25E-26E.
- We forecast the segment margin to reach 75% in FY24E, which is driven by the reversal of financial asset impairment. We expect the segment margin to normalize at 33% in FY25E-26E.

**Consultant service (11% of revenue in FY24E).** We forecast the segment revenue in FY24E to rebound 1.7x from a very low base in FY23. Given the business's project-based nature with low visibility, we conservatively project ~5% revenue growth in FY25E-26E. We forecast the segment margin to stay high at 90%.

**Renewable energy service (2% of revenue in FY24E).** We expect the segment to see 30% revenue growth starting in FY25E, on the back of the agreement signed with PowerChina.

### **Strong earnings recovery in FY24E-26E**

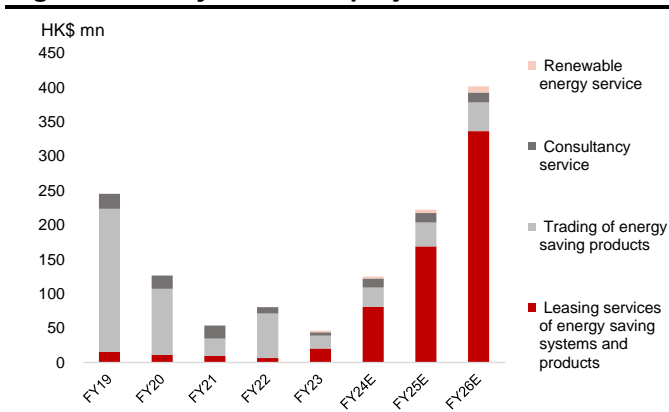
Unity reported HK\$18mn of net profit in 1HFY24. Excluding non-cash gains on reversal of impairment, core net profit was ~HK\$2.4mn. This is the first time the Company achieved profit since FY19.

We forecast Unity to achieve HK\$4.8mn of core net profit in FY24E. On the back of strong LED light installation growth, we forecast HK\$21mn/HK\$43mn of core net profit in FY25E/26E, representing a 177% EPS CAGR in FY25E-26E.

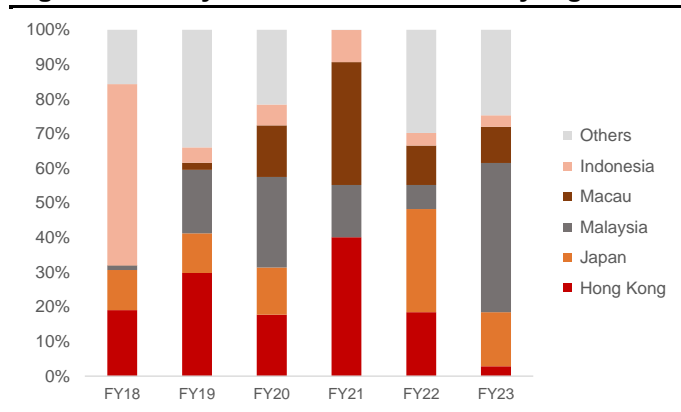
**Figure 11: Key operating assumptions for Unity**

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue (HK\$ mn)</b>							
Leasing services of energy saving systems and products	11	10	7	20	81	169	337
Trading of energy saving products	96	25	65	19	28	35	42
Consultancy service	19	19	9	5	13	14	14
Renew able energy service	0	0	0	3	3	5	9
<b>Total (Continuous operations)</b>	<b>127</b>	<b>54</b>	<b>80</b>	<b>47</b>	<b>125</b>	<b>223</b>	<b>402</b>
Discontinued operations	3	-	-	-	-	-	-
<b>Total revenue</b>	<b>129</b>	<b>54</b>	<b>80</b>	<b>47</b>	<b>125</b>	<b>223</b>	<b>402</b>
<b>Growth (YoY)</b>							
Leasing services of energy saving systems and products	-27.3%	-12.0%	-32.8%	209.8%	297.4%	108.0%	99.2%
Trading of energy saving products	-53.8%	-74.1%	159.9%	-71.3%	50.0%	25.0%	20.0%
Consultancy service	-27.3%	-12.0%	-32.8%	-9.0%	-35.0%	10.0%	10.0%
Renew able energy service	-	-	-	-	3.0%	30.0%	30.0%
<b>Total (Continuous operations)</b>	<b>-48.4%</b>	<b>-57.5%</b>	<b>49.6%</b>	<b>-42.1%</b>	<b>168.5%</b>	<b>78.0%</b>	<b>80.6%</b>
Discontinued operations	137.3%	-100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total revenue</b>	<b>-47.6%</b>	<b>-58.4%</b>	<b>49.6%</b>	<b>-42.1%</b>	<b>168.5%</b>	<b>78.0%</b>	<b>80.6%</b>
<b>Breakdown</b>							
Leasing services of energy saving systems and products	8.6%	18.3%	8.2%	43.9%	65.0%	76.0%	83.8%
Trading of energy saving products	74.3%	46.2%	80.4%	39.8%	22.2%	15.6%	10.4%
Consultancy service	14.9%	35.5%	11.4%	10.4%	10.5%	6.2%	3.6%
Renew able energy service	-	-	-	5.8%	2.2%	2.2%	2.2%
<b>Total (Continuing operations)</b>	<b>97.9%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
Discontinued operations	2.1%	-	-	-	-	-	-
<b>Total revenue</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Segment profit</b>							
Leasing services of energy saving systems and products	4	-8	-18	-30	28	64	135
Trading of energy saving products	6	-179	-23	8	21	11	14
Consultancy service	8	6	-2	-11	12	12	13
Renew able energy service	-	-	-	0	0	0	0
<b>Total (Continuous operations)</b>	<b>18</b>	<b>-181</b>	<b>-43</b>	<b>-33</b>	<b>61</b>	<b>88</b>	<b>162</b>
Discontinued operations	-3	-	-	-	-	-	-
<b>Total segment results</b>	<b>16</b>	<b>-181</b>	<b>-43</b>	<b>-33</b>	<b>61</b>	<b>88</b>	<b>162</b>
<b>Segment margin</b>							
Leasing services of energy saving systems and products	38.4%	-78.1%	-269.2%	-146.5%	35.0%	38.0%	40.0%
Trading of energy saving products	6.0%	-719.5%	-35.9%	43.8%	75.0%	33.0%	33.0%
Consultancy service	43.3%	30.7%	-18.5%	-232.8%	90.0%	90.0%	90.0%
Renew able energy service	-	-	-	0.2%	0.3%	2.0%	3.0%
Average (Continuous operations)	14.6%	-336.1%	-53.0%	-71.1%	48.9%	39.6%	40.3%
Discontinued operations	-2.1%	-	-	-	-	-	-
<b>Average</b>	<b>12.5%</b>	<b>-336.1%</b>	<b>-53.0%</b>	<b>-71.1%</b>	<b>48.9%</b>	<b>39.6%</b>	<b>40.3%</b>

Source: Company data, CMBIGM estimates

**Figure 12: Unity's revenue projection**

Source: Company data, CMBIGM estimates

**Figure 13: Unity's revenue breakdown by region**

Source: Company data, CMBIGM

## Initiate with BUY

Taking into consideration Unity's Malaysia and Middle East growth story, we find no comparable peers that offer such value of scarcity in the market.

Given that we forecast Unity to deliver 1.8x earnings CAGR in FY25E-26E, we believe PEG is a good valuation methodology that can capture Unity's buoyant growth outlook. Our TP of HK\$0.64 is based on 100x FY25E P/E, on the back of ~100% EPS growth in FY26E, which is equivalent to 1x PEG. Initiate coverage on the stock with a BUY rating.

**Figure 14: Peers' valuation**

Ticker	Company	Price (local currency)	Market cap (US\$ mn)	PE (x)		PB (x)		Yield (%) FY23E
				FY23E	FY24E	FY23E	FY24E	
<b>A share</b>								
603515 CH Equity	OPPLE LIGHTING-A	16.24	1,688	12.7	11.4	1.8	1.6	3.3
000541 CH Equity	FOSHAN ELEC-A	5.48	1,031	23.8	17.0	1.3	1.3	2.2
002745 CH Equity	MLS CO LTD-A	7.19	1,486	21.0	15.4	0.8	0.7	1.4
603303 CH Equity	HENGDIAN GROUP-A	11.17	742	14.5	12.1	1.5	1.4	3.2
600261 CH Equity	ZHEJIANG YANKO-A	2.90	555	n/a	n/a	n/a	n/a	n/a
002724 CH Equity	OCEAN'S KING L-A	6.20	666	n/a	n/a	n/a	n/a	n/a
300625 CH Equity	GUANGDONG PAK -A	12.65	492	n/a	n/a	n/a	n/a	n/a
605365 CH Equity	LEEDARSON IOT -A	15.67	1,100	24.9	17.6	2.3	2.1	1.2
002638 CH Equity	DONGGUAN KINGS-A	2.23	449	n/a	n/a	n/a	n/a	n/a
<b>A-share average</b>				<b>19.4</b>	<b>14.7</b>	<b>1.5</b>	<b>1.4</b>	<b>3.2</b>

Source: Bloomberg, CMBIGM estimates

Note: Data as of 31 Jan 2024.

## Risk factors

**Currency risk.** Malaysia will become the major revenue driver over the coming years. The Company will face currency risk on any unexpected depreciation of Malaysia Ringgit. We understand the Company has no intention to hedge the currency risk at present.

**Interest rate risk.** The interest rate offered by ORIX Finance is based on HIBOR + 8 basis points. A prolonged high interest rate environment will exert pressure on Unity.

**Lack of operating cash inflow in the near-term.** Under the EMC model, cash revenue will be received throughout the useful life of the LED lights. At the initial stage, we expect operating cash outflow given the fast-growing installation volume.

**Potential delays on LED light installation.** Unity has set an aggressive target of 6mn units of LED light installation. We do not rule out the possibility of project delays arising from the shortage of labour, lack of cash flow and high interest cost.

## Appendix

**Figure 15: Management profile of Unity Group**

Name	Age	Position(s)	Profile
Wong Man Fai Mansfield	49	Chief Executive Officer, Chairman of the Board, Executive Director	<ul style="list-style-type: none"> <li>Appointed as Director since Dec 2011. He is primarily responsible for overall corporate strategies, development management and operation.</li> <li>Serves as director of Synergy Lighting Limited, Synergy Group Worldwide Limited, etc.</li> <li>Mr. Wong has over 16 years of experience in management.</li> <li>Mr. Wong obtained a bachelor's degree in electrical engineering from the University of Arizona in 1996 and a master's degree in engineering (electrical) from Cornell University in 1997.</li> </ul>
Cheng Chi Kuen	50	Chief Operation Officer	<ul style="list-style-type: none"> <li>Appointed as chief operation officer since Jun 2011. He is responsible for overseeing business operations sales and marketing, office administration and human resources management.</li> <li>Mr. Cheng has over 15 years of experience in management. Previous working experience as below:               <ol style="list-style-type: none"> <li>Served as the co-founder and a director of Synergy Green Technology Limited, one of the shareholders of Synergy Cooling Management Limited.</li> <li>Worked in Zymmetry Limited, formerly known as Mission System Consultant Limited, a global sourcing and manufacturing solutions provider for the apparel industry and served as senior marketing manager of Asia Pacific region.</li> </ol> </li> <li>Mr. Cheng obtained a master's degree in business administration from the University of Bradford in 2013.</li> <li>Mr. Cheng became a Certified ESG Planner in 2022.</li> </ul>
David K. S. Lu	52	Chief Investment Officer	<ul style="list-style-type: none"> <li>Appointed as chief investment officer since Feb 2022. He is responsible for managing investment portfolio, formulating investment strategy and advising on potential investment projects.</li> <li>Mr. Lu has over 20 years of experience in global capital markets, equity investment and fund management. Previous working experience as below:               <ol style="list-style-type: none"> <li>Served as a director of Churchill Investment Limited.</li> </ol> </li> <li>Mr. Lu obtained a bachelor of science degree in operations research and industrial engineering from Cornell University.</li> <li>Mr. Lu became a Certified ESG Planner in 2022.</li> </ul>
Wong Ho Kwan	37	Chief Financial Officer, Company Secretary	<ul style="list-style-type: none"> <li>Appointed as chief financial officer and company secretary since 2021</li> <li>Mr. Wong has over 15 years of experience in investment banking and accounting. Previous working experience as below:               <ol style="list-style-type: none"> <li>Served as an assurance manager at PricewaterhouseCoopers.</li> <li>Worked in the field of corporate finance and investment since 2016 and has been active in private equity and M&amp;A projects with a private equity investment company and a Chinese investment bank.</li> </ol> </li> <li>Mr. Wong obtained a bachelor of science degree in Mathematics from the Chinese University of Hong Kong in 2007.</li> <li>Mr. Wong is a member of Hong Kong Institute of Certified Public Accountants and Chartered Accountants Australia and New Zealand, and a Certified Financial Risk Manager.</li> </ul>
Tsang Sze Wai Claudius	46	Non-executive Director	<ul style="list-style-type: none"> <li>Appointed as non-executive director since 2022</li> <li>Mr. Tsang has over 20 years of experience in capital markets, with a strong track record of success in Special Purpose Acquisition Company ("SPAC"), private equity, M&amp;A transactions and PIPE Investments. Previous working experience as below:               <ol style="list-style-type: none"> <li>Worked at Lehman Brothers from 2007 to 2008 and managed private equity projects and proprietary funds.</li> <li>Worked in Templeton Asset Management Ltd as the North Asia co-head of private equity and a partner of Templeton Private Equity Partners from 2008 to 2020.</li> <li>Has served as the chief executive officer and Chairman of Model Performance Acquisition Corp (Nasdaq: MPAC) and A SPAC I Acquisition Corp (Nasdaq: ASCA), and also successfully listed A SPAC II Acquisition Corp (Nasdaq: ASCA) as chief executive officer since 2021.</li> </ol> </li> <li>Mr. Tsang obtained a Bachelor degree of engineering from the Chinese University of Hong Kong and a Bachelor degree of law from Tsinghua University in 1998 and 2005, respectively. Mr. Tsang obtained his MBA from the University of Chicago Booth School of Business in 2017. He also obtained Postgraduate Certificate in Sustainable Business, University of Cambridge Institute of Sustainability Leadership in Jun 2023.</li> <li>Mr. Tsang is a charter holder of Chartered Financial Analyst from the CFA Institute.</li> </ul>

Source: Company data, CMBIGM

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
<b>Revenue</b>	<b>54</b>	<b>80</b>	<b>47</b>	<b>125</b>	<b>223</b>	<b>402</b>
Cost of goods sold	(27)	(48)	(19)	(41)	(69)	(121)
<b>Gross profit</b>	<b>26</b>	<b>33</b>	<b>28</b>	<b>84</b>	<b>154</b>	<b>281</b>
<b>EBIT</b>	<b>(261)</b>	<b>(354)</b>	<b>(13)</b>	<b>26</b>	<b>30</b>	<b>61</b>
Interest income	0	0	1	1	1	1
Interest expense	(56)	(49)	(23)	(4)	(7)	(11)
<b>Net Interest income/(expense)</b>	<b>(55)</b>	<b>(49)</b>	<b>(23)</b>	<b>(4)</b>	<b>(6)</b>	<b>(10)</b>
<b>Pre-tax profit</b>	<b>(307)</b>	<b>(396)</b>	<b>(35)</b>	<b>24</b>	<b>26</b>	<b>52</b>
Income tax	24	9	11	(4)	(4)	(9)
<b>After tax profit</b>	<b>(283)</b>	<b>(387)</b>	<b>(24)</b>	<b>20</b>	<b>21</b>	<b>43</b>
Minority interest	3	5	(1)	0	0	0
Discontinued operations	0	0	0	0	0	0
<b>Net profit</b>	<b>(280)</b>	<b>(383)</b>	<b>(25)</b>	<b>20</b>	<b>21</b>	<b>43</b>
<b>Adjusted net profit</b>	<b>(2)</b>	<b>(37)</b>	<b>(39)</b>	<b>5</b>	<b>21</b>	<b>43</b>

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Mar (HK\$ mn)						
<b>Current assets</b>	<b>243</b>	<b>254</b>	<b>202</b>	<b>316</b>	<b>371</b>	<b>474</b>
Cash & equivalents	8	26	18	93	99	50
Account receivables	198	187	155	187	240	377
Inventories	1	1	2	10	5	21
Prepayment	9	13	12	12	12	12
Other current assets	27	27	15	15	15	15
<b>Non-current assets</b>	<b>162</b>	<b>164</b>	<b>172</b>	<b>194</b>	<b>213</b>	<b>266</b>
PP&E	16	7	4	2	1	0
Right-of-use assets	0	0	0	0	0	0
Investment in JVs & assos	58	66	67	69	70	71
Intangibles	0	0	0	0	0	0
Financial assets at FVTPL	28	29	26	26	26	26
Other non-current assets	60	62	75	97	116	169
<b>Total assets</b>	<b>405</b>	<b>418</b>	<b>374</b>	<b>510</b>	<b>583</b>	<b>740</b>
<b>Current liabilities</b>	<b>334</b>	<b>209</b>	<b>204</b>	<b>150</b>	<b>153</b>	<b>207</b>
Short-term borrowings	82	33	9	9	9	9
Account payables	17	32	9	37	39	93
Other current liabilities	233	142	184	102	102	102
Lease liabilities	1	2	3	3	3	3
<b>Non-current liabilities</b>	<b>16</b>	<b>63</b>	<b>43</b>	<b>72</b>	<b>122</b>	<b>182</b>
Long-term borrowings	0	0	0	10	60	120
Convertible bonds	0	0	0	20	20	20
Other non-current liabilities	16	63	43	43	43	43
<b>Total liabilities</b>	<b>350</b>	<b>272</b>	<b>247</b>	<b>222</b>	<b>275</b>	<b>389</b>
<b>Total shareholders equity</b>	<b>62</b>	<b>158</b>	<b>138</b>	<b>298</b>	<b>319</b>	<b>362</b>
Minority interest	(8)	(12)	(11)	(11)	(11)	(11)
<b>Total equity and liabilities</b>	<b>405</b>	<b>418</b>	<b>374</b>	<b>510</b>	<b>583</b>	<b>740</b>



<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar (HK\$ mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>(307)</b>	<b>(396)</b>	<b>(35)</b>	<b>24</b>	<b>26</b>	<b>52</b>
Depreciation & amortization	40	5	3	2	2	1
Tax paid	0	0	0	(4)	(4)	(9)
Change in working capital	(22)	(21)	(2)	(34)	(65)	(151)
Others	291	399	25	2	5	9
<b>Net cash from operations</b>	<b>2</b>	<b>(14)</b>	<b>(9)</b>	<b>(9)</b>	<b>(37)</b>	<b>(98)</b>
<b>Investing</b>						
Capital expenditure	(0)	(1)	(0)	(1)	(1)	(1)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	15	0	7	1	1	1
<b>Net cash from investing</b>	<b>15</b>	<b>(1)</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Financing</b>						
Dividend paid	0	0	0	0	0	0
Net borrowings	(20)	(40)	3	10	50	60
Proceeds from share issues	18	114	0	58	0	0
Others	(18)	(42)	(9)	15	(7)	(11)
<b>Net cash from financing</b>	<b>(19)</b>	<b>32</b>	<b>(5)</b>	<b>84</b>	<b>43</b>	<b>49</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	9	8	26	18	93	99
Exchange difference	1	1	(1)	0	0	0
<b>Cash at the end of the year</b>	<b>8</b>	<b>26</b>	<b>18</b>	<b>93</b>	<b>99</b>	<b>50</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar</b>						
Revenue	(58.4%)	49.6%	(42.1%)	168.5%	78.0%	80.6%
Gross profit	(62.4%)	23.5%	(14.9%)	202.2%	83.3%	83.2%
EBIT	na	na	na	na	16.2%	101.9%
Net profit	na	na	na	na	5.4%	102.8%
Adj. net profit	na	na	na	na	340.6%	102.8%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar</b>						
Gross profit margin	49.0%	40.5%	59.5%	67.0%	69.0%	70.0%
Adj. net profit margin	(2.9%)	(46.0%)	(83.2%)	3.8%	9.5%	10.7%
Return on equity (ROE)	(146.4%)	(347.6%)	(17.0%)	9.2%	6.9%	12.6%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar</b>						
Net debt to equity (x)	1.2	0.5	1.3	0.1	0.2	0.5
Current ratio (x)	0.7	1.2	1.0	2.1	2.4	2.3
Receivable turnover days	1,788.4	873.4	1,340.6	500.0	350.0	280.0
Inventory turnover days	11.5	8.0	28.4	50.0	40.0	40.0
Payable turnover days	188.9	186.4	390.8	200.0	200.0	200.0
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Mar</b>						
P/E	na	na	na	70.7	78.3	38.6
P/B	1.8	7.6	7.3	5.6	5.2	4.6
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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