

30 May 2019

Uzma Berhad

3Q19 Plunges Into Losses

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3Q19 results came in drastically below expectations as it plunged into losses, dragged by unusually high operating costs. While we view UZMA as a conceptual beneficiary of increased brownfield activities locally, continued earnings under-delivery have prompted us to re-evaluate our stance. Hence, we downgrade its rating to UP with a lowered TP of RM0.69.

Drastically below expectations. 9M19 results came in drastically below expectations, recording core net profit of RM2.5m, making up merely 9% of our and consensus full-year estimate, as 3Q19 plunged into core loss of RM4.9m (after stripping-off non-core items such as impairments, unrealised forex, and re-measurement gains) due to unusually high operating costs, suspected to be caused by high project development costs coupled with accounting adjustments from under-recognition of costs in the prior quarters. No dividends were declared, as expected.

3Q19 plunged into losses. As mentioned earlier, 3Q19 plunged into core losses of RM4.9m (versus core profit of RM6.9m in 2Q19, and RM7.7m last year), dragged by the unusually high operating costs. Nonetheless, revenue managed to post some growth (+21% YoY, +6% QoQ) following the consolidation of Setegap Ventures Petroleum as the acquisition to up its stake to 64% was completed in Jan 2019.

Repeated earnings under-delivery. Although we believe UZMA conceptually should benefit from the increase in local brownfield activities by Petronas, the company has, nonetheless, repeatedly under-delivered in terms of earnings. To recap, earlier in 1Q19, the company only managed to post core earnings of merely RM0.5m, dragged by operational issues faced in its D18 water injection facility and Uzmapress production enhancement equipment units. While the company managed to stage a recovery in the subsequent quarter, we believe the unusually high operating costs recorded this quarter, plunging the quarter into losses, has once again thrown forward earnings' expectations into disarray. *As such, post-results, we slashed our FY19E/FY20E earnings by 73%/30%.* On a more positive note, the company's order-book still remains strong at around ~RM1.2b, providing revenue visibility for the next ~3 years, with potential upsides from tender-book of ~RM3b consisting mostly of local job bids.

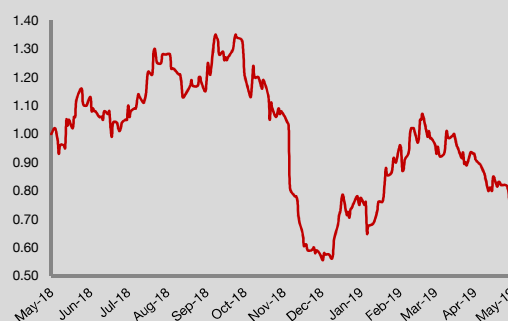
Downgrade to UNDERPERFORM (from MARKET PERFORM previously) given its lack of earnings delivery, with no dividends expected in the foreseeable future to support valuations of the share. We cut our TP to RM0.69 (from RM0.97 previously), pegged to 0.45x PBV of FY20E – slightly below -1.5SD of its 3-year mean.

Risks to our call: (i) higher-than-expected margins, (ii) faster-than-expected order-book recognition, (iii) slowdown in jobs flow among local oil and gas brownfields, and (iv) significant job wins of sizable value.

UNDERPERFORM ↓

Price : **RM0.805**
Target Price : **RM0.690** ↓

Share Price Performance



KLCI 1,623.67
YTD KLCI chg -4.0%
YTD stock price chg 40.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UZMA MK Equity
Market Cap (RM m)	257.6
Shares Outstanding	320.0
52-week range (H)	1.51
52-week range (L)	0.55
3-mth avg daily vol:	1,996,957
Free Float	46%
Beta	1.6

Major Shareholders

Tenggiri Tuah Sdn Bhd	34.2%
Kumpulan Wang Persaraan	10.1%
Employees Provident Fund	9.4%

Summary Earnings Table

FY June (RM'm)	2018A*	2019E	2020E
Turnover	541.9	410.4	409.9
EBIT	52.8	28.7	41.0
PBT	25.0	17.8	39.9
Net Profit	26.5	7.2	21.1
Core Net Profit	51.6	7.2	21.1
Consensus (NP)		28.8	33.7
Earnings Revision (%)		-73.2	-29.9
EPS (sen)	16.1	2.3	6.6
EPS growth (%)	N.M.	N.M.	N.M.
DPS (sen)	0.0	0.0	0.0
BV/share (RM)	1.4	1.5	1.5
PER (x)	5.0	35.8	12.2
P/BV (x)	0.6	0.6	0.5
Net-Gearing (x)	0.7	0.9	0.8
Div. Yield (%)	0.0	0.0	0.0

*FY18A consists of 18 months as the company has changed their financial year-end from December to June.

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Income Statement								
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	9M end-	9M end-	Y-o-Y
	CY19	CY18		CY18		Mar	Mar	
Y/E : June (RM'mil)						CY19	CY18	
Revenue	111.4	105.6	5.5%	91.9	21.2%	304.5	301.6	1.0%
Cost of sales	(72.8)	(68.1)	6.9%	(52.2)	39.5%	(197.4)	(188.1)	5.0%
Gross profit	38.7	37.5	3.1%	39.8	-2.8%	107.1	113.5	-5.7%
Other income	56.6	1.8	3016.5%	5.2	996.0%	58.6	6.2	847.8%
Admin and Operating expenses	(72.9)	(26.7)	173.2%	(25.4)	186.9%	(127.4)	(75.7)	68.3%
Operating profit	22.3	12.6	76.9%	19.5	14.2%	38.3	44.0	-13.0%
Unrealised forex	(8.3)	0.9	-982.6%	(11.4)	-27.2%	(0.6)	(20.3)	-97.0%
Finance costs	(7.9)	(7.8)	1.9%	(5.6)	40.5%	(21.0)	(16.7)	25.7%
Associates	(0.5)	3.5	-113.2%	(0.1)	471.6%	5.5	5.2	5.8%
Profit before tax	5.6	9.3	-39.7%	2.4	136.3%	22.1	12.2	81.3%
Tax expense	(1.3)	(1.0)	31.1%	(2.0)	-37.9%	(1.6)	1.8	-188.1%
Non-controlling interest	(1.9)	(0.1)	1167.1%	(0.4)	327.3%	(2.6)	(1.4)	88.0%
Net profit	2.5	8.2	-69.6%	(0.1)	N.M.	17.9	12.6	42.2%
Core net profit	(4.9)	6.9	N.M.	7.7	N.M.	2.5	26.6	-90.7%
Gross margin	34.7%	35.5%		43.3%		35.2%	37.6%	
Operating margin	20.0%	11.9%		21.2%		12.6%	14.6%	
PBT margin	5.0%	8.8%		2.6%		7.3%	4.0%	
Net margin	2.2%	7.7%		-0.1%		5.9%	4.2%	
Core net margin	-4.4%	6.6%		8.4%		0.8%	8.8%	
Effective tax rate	22.6%	10.4%		85.9%		7.1%	-14.7%	

Source: Company

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BUMI ARMADA BERHAD	0.200	1,175.3	N	12/2019	14.3%	-19.8%	38.4%	2.2%	5.2	3.8	3.7	0.3	0.3	9.3%	0.0%	0.180	UP
DAYANG ENTERPRISE HLDGS BHD	0.890	858.7	Y	12/2019	22.2%	4.4%	-43.1%	4.0%	5.2	9.2	8.8	0.8	0.8	8.3%	0.0%	0.800	UP
DIALOG GROUP BHD	3.30	18,606.4	Y	06/2019	-22.9%	14.8%	10.1%	13.5%	43.4	39.4	34.7	5.3	5.1	13.2%	1.0%	3.80	OP
MALAYSIA MARINE AND HEAVY EN	0.670	1,072.0	Y	12/2019	-10.1%	-25.6%	845.5%	123.4%	N.A.	73.9	33.1	0.4	0.5	0.6%	0.0%	0.770	MP
MISC BHD	6.81	30,398.1	Y	12/2019	0.8%	-2.9%	21.2%	10.1%	23.0	19.0	17.2	0.9	0.9	4.6%	4.4%	6.65	MP
PANTECH GROUP HOLDINGS BHD	0.500	374.7	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.6	8.4	7.9	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	8.34	66,720.0	Y	12/2019	-9.8%	7.7%	-15.9%	17.0%	13.4	15.9	13.6	2.2	2.0	13.2%	3.1%	8.75	MP
PETRONAS DAGANGAN BHD	24.80	24,637.7	Y	12/2019	-5.6%	2.0%	33.0%	2.2%	29.4	22.1	21.7	4.2	4.0	18.4%	3.2%	24.95	MP
SAPURA ENERGY BHD	0.295	4,702.1	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	97.4	27.2	0.4	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.06	5,962.1	Y	12/2019	18.6%	9.7%	12.2%	8.0%	15.5	13.9	12.8	2.9	2.5	19.4%	2.2%	4.80	OP
UZMA BHD	0.805	257.6	Y	06/2019	-24.3%	-0.1%	-86.0%	193.1%	5.0	35.8	12.2	0.6	0.5	1.5%	0.0%	0.690	UP
WAH SEONG CORP BHD	0.690	531.6	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	8.4	10.4	12.7	0.6	0.6	5.4%	0.0%	0.620	UP
YINSON HOLDINGS BHD	4.75	5,130.8	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	19.5	21.0	13.5	3.0	2.7	13.5%	1.3%	5.50	OP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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