

04 June 2019

# Uzma Berhad

## Post-briefing Takeaways

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We returned from an analyst briefing from UZMA feeling neutral, with our view remaining mostly intact. While there were indeed some positive takeaways, such as clarity regarding the unusual high costs incurred in 3Q19, and upcoming job bids (e.g. LSS3), we still remain largely cautious over the quality of earnings delivery. Hence, we reiterate our UP call, with TP of RM0.61.

**3Q19 results recap.** Just to recap, UZMA's 3Q19 results plunged into Core Losses of RM4.9m (after stripping-off non-core items such as impairments, unrealised forex, and re-measurement gains), dragged by unusually high operating costs, although revenue did manage to post growth (21% YoY, 6% QoQ) thanks to full consolidation of Setegap Ventures Petroleum after its full acquisition was completed in Jan 2019.

**Unusually high operating costs clarified.** We gathered that the aforementioned unusually high operating costs incurred during the quarter were due to a combination of various "one-offs", which included accounting treatments (i.e. from under-recognition of costs in the prior periods), book-keeping errors, D18-related costs (downtime, and finalisation of closed discussion), new project start-up costs, as well as costs related to the Setegap Ventures Petroleum consolidation. Another noteworthy note to mention is that its net-gearing has ballooned to 1.0x, from 0.8x in the previous quarter, due to additional borrowings incurred during the acquisition of Setegap Ventures Petroleum, although ~39% of its total borrowings are project-specific (namely D18 and Tanjung Baram).

**Tendering for LSS3.** On a more positive note, the company has confirmed that it is currently in the midst of tendering for several Large Scale Solar 3 (LSS3) bids, at varying equity stakes ranging from 40% to 80%. We reckon these projects to fetch IRR of around ~10%. And while no tender values were being disclosed, based on our back-of-envelope assumptions, we guesstimate UZMA to be bidding roughly ~RM200-300m worth of tenders for LSS3. Separately, Setegap Ventures Petroleum is also expected to contribute an additional ~RM900m worth of order-book, of which roughly ~60% are firmed value. We guesstimate this would bring its total group's order-book to slightly below RM2b, and tender-book to around ~RM3b (actual order and tender-book values were not disclosed in the briefing).

**Maintain UNDERPERFORM,** given lack of earnings delivery, with no dividends expected in the foreseeable future to support valuations of the share. Overall, we returned from the briefing feeling neutral. While there were some positive takeaways (e.g. LSS3 bids and other upcoming projects) and the clarity regarding the high costs incurred in 3Q19, we still see little visibility in earnings. Post-briefing, we lowered our TP to RM0.61 (from RM0.69 previously), pegged to 0.4x PBV on FY20E (from 0.45x, previously) at around -1.5 S.D. below its 5-year historical mean valuations, as we remain sceptical over its earnings delivery. No changes were made to our FY19-20E numbers.

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

# UNDERPERFORM ↔

Price : **RM0.710**  
Target Price : **RM0.610** ↓

### Share Price Performance



KLCI 1,655.31  
YTD KLCI chg -2.1%  
YTD stock price chg 23.5%

### Stock Information

|                      |                |
|----------------------|----------------|
| Shariah Compliant    | Yes            |
| Bloomberg Ticker     | UZMA MK Equity |
| Market Cap (RM m)    | 227.2          |
| Shares Outstanding   | 320.0          |
| 52-week range (H)    | 1.51           |
| 52-week range (L)    | 0.55           |
| 3-mth avg daily vol: | 1,961,314      |
| Free Float           | 47%            |
| Beta                 | 1.5            |

### Major Shareholders

|                          |       |
|--------------------------|-------|
| Tenggiri Tuah Sdn Bhd    | 34.2% |
| Kumpulan Wang Persaraan  | 9.6%  |
| Employees Provident Fund | 9.4%  |

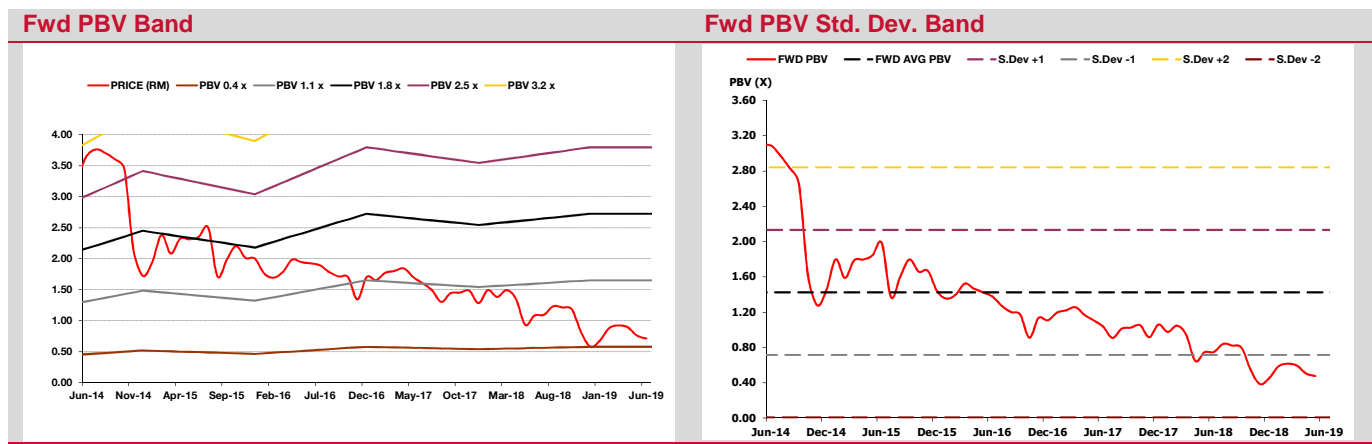
### Summary Earnings Table

| 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        |
| <b>Net Profit</b>      | <b>26.5</b> | <b>7.2</b> | <b>21.1</b> |
| <b>Core Net Profit</b> | <b>51.6</b> | <b>7.2</b> | <b>21.1</b> |
| Consensus (NP)         |             | 14.8       | 24.2        |
| Earnings Revision (%)  |             | -          | -           |
| 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)                | 4.4         | 31.6       | 10.8        |
| P/BV (x)               | 0.5         | 0.5        | 0.5         |
| 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.

| Income Statement       |             |             |             |            |             | Financial Data & Ratios  |       |       |        |       |       |
|------------------------|-------------|-------------|-------------|------------|-------------|--------------------------|-------|-------|--------|-------|-------|
| FY June (RM m)         | 2015A       | 2016A       | 2018A*      | 2019E      | 2020E       | FY June (RM m)           | 2015A | 2016A | 2018A* | 2019E | 2020E |
| Revenue                | 510.8       | 471.1       | 541.9       | 410.4      | 409.9       | <b>Growth (%)</b>        |       |       |        |       |       |
| EBITDA                 | 38.8        | 79.8        | 102.9       | 63.4       | 75.4        | Revenue                  | 7.9   | -7.8  | 15.0   | -24.3 | -0.1  |
| Depreciation           | (14.3)      | (19.0)      | (50.1)      | (34.7)     | (34.4)      | EBITDA                   | -33.5 | 105.6 | 29.0   | -38.4 | 18.9  |
| Operating Profit       | 24.5        | 60.7        | 52.8        | 28.7       | 41.0        | Operating Profit         | -51.9 | 148.0 | -13.1  | -45.6 | 42.7  |
| Interest Expense       | (8.5)       | (14.8)      | (38.3)      | (24.8)     | (22.8)      | PBT                      | 9.2   | -11.3 | -50.5  | -28.9 | 124.1 |
| Associate              | 0.3         | 0.3         | 0.1         | 4.3        | 11.1        | Core Net Profit          | 7.4   | -27.5 | 79.7   | -86.0 | 192.9 |
| JV                     | 6.4         | 4.3         | 10.4        | 9.6        | 10.6        | <b>Profitability (%)</b> |       |       |        |       |       |
| PBT                    | 57.0        | 50.5        | 25.0        | 17.8       | 39.9        | EBITDA                   | 7.6   | 16.9  | 19.0   | 15.4  | 18.4  |
| Taxation               | (11.4)      | (6.4)       | 3.6         | (3.2)      | (9.2)       | Operating Profit         | 4.8   | 12.9  | 9.7    | 7.0   | 10.0  |
| Minority Interest      | (6.0)       | (4.8)       | (2.1)       | (7.4)      | (9.6)       | PBT                      | 11.2  | 10.7  | 4.6    | 4.3   | 9.7   |
| <b>Net Profit</b>      | <b>5.3</b>  | <b>39.3</b> | <b>26.5</b> | <b>7.2</b> | <b>21.1</b> | Core Net Profit          | 1.0   | 8.3   | 4.9    | 1.8   | 5.1   |
| <b>Core Net Profit</b> | <b>39.6</b> | <b>28.7</b> | <b>51.6</b> | <b>7.2</b> | <b>21.1</b> | Effective Tax Rate       | 20.0  | 12.7  | -14.4  | 18.0  | 23.0  |
|                        |             |             |             |            |             | ROA                      | 0.6   | 3.4   | 2.6    | 0.6   | 1.9   |
|                        |             |             |             |            |             | ROE                      | 1.5   | 9.8   | 5.8    | 1.5   | 4.3   |
|                        |             |             |             |            |             | <b>DuPont Analysis</b>   |       |       |        |       |       |
|                        |             |             |             |            |             | Net Margin               | 1.0   | 8.3   | 4.9    | 1.8   | 5.1   |
|                        |             |             |             |            |             | Assets Turnover          | 0.6   | 0.4   | 0.5    | 0.4   | 0.4   |
|                        |             |             |             |            |             | Leverage Factor          | 2.3   | 2.9   | 2.2    | 2.4   | 2.3   |
|                        |             |             |             |            |             | ROE                      | 1.5   | 9.8   | 5.8    | 1.5   | 4.3   |
|                        |             |             |             |            |             | <b>Leverage</b>          |       |       |        |       |       |
|                        |             |             |             |            |             | Debt/Total Asset         | 0.4   | 0.4   | 0.4    | 0.4   | 0.4   |
|                        |             |             |             |            |             | Total Debt/Equity        | 0.6   | 0.4   | 0.3    | 0.1   | 0.1   |
|                        |             |             |             |            |             | Net Cash/(Debt)          | 223.9 | 440.7 | 324.2  | 417.8 | 396.7 |
|                        |             |             |             |            |             | Net Debt/Equity          | 0.6   | 1.1   | 0.7    | 0.9   | 0.8   |
|                        |             |             |             |            |             | <b>Valuations</b>        |       |       |        |       |       |
|                        |             |             |             |            |             | EPS (sen)                | 12.4  | 9.0   | 16.1   | 2.3   | 6.6   |
|                        |             |             |             |            |             | NDPS (sen)               | 0.0   | 0.0   | 0.0    | 0.0   | 0.0   |
|                        |             |             |             |            |             | BV/Share (RM)            | 1.1   | 1.3   | 1.4    | 1.5   | 1.5   |
|                        |             |             |             |            |             | PER (x)                  | 5.7   | 7.9   | 4.4    | 31.6  | 10.8  |
|                        |             |             |             |            |             | Div. Yield (%)           | 0.0   | 0.0   | 0.0    | 0.0   | 0.0   |
|                        |             |             |             |            |             | P/BV                     | 0.6   | 0.6   | 0.5    | 0.5   | 0.5   |

Source: Kenanga Research  
 \*FY18A consists of 18 months as the company changed their financial year end from December to June.



Source: Bloomberg, Kenanga Research

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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  | 0.925      | 892.4      | Y         | 12/2019 | 22.2%          | 4.4%       | -43.1%               | 4.0%       | 5.4                     | 9.6        | 9.2        | 0.8     | 0.8        | 8.3%       | 0.0%             | 0.800      | UP     |
| DIALOG GROUP BHD             | 3.33       | 18,775.6   | Y         | 06/2019 | -22.9%         | 14.8%      | 10.1%                | 13.5%      | 43.8                    | 39.8       | 35.1       | 5.4     | 5.2        | 13.2%      | 1.0%             | 3.80       | OP     |
| MALAYSIA MARINE AND HEAVY EN | 0.710      | 1,136.0    | Y         | 12/2019 | -10.1%         | -25.6%     | 845.5%               | 123.4%     | N.A.                    | 78.3       | 35.1       | 0.4     | 0.5        | 0.6%       | 0.0%             | 0.770      | MP     |
| MISC BHD                     | 6.95       | 31,023.0   | Y         | 12/2019 | 0.8%           | -2.9%      | 21.2%                | 10.1%      | 23.5                    | 19.4       | 17.6       | 0.9     | 0.9        | 4.6%       | 4.3%             | 6.65       | MP     |
| PANTECH GROUP HOLDINGS BHD   | 0.510      | 382.2      | Y         | 02/2020 | 1.3%           | 5.9%       | 1.3%                 | 6.4%       | 8.7                     | 8.6        | 8.1        | 0.7     | 0.6        | 7.6%       | 3.1%             | 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        | 25.70      | 25,531.8   | Y         | 12/2019 | -5.6%          | 2.0%       | 33.0%                | 2.2%       | 30.5                    | 22.9       | 22.5       | 4.3     | 4.1        | 18.4%      | 3.1%             | 24.95      | MP     |
| SAPURA ENERGY BHD            | 0.290      | 4,622.4    | Y         | 01/2020 | 5.9%           | 20.7%      | 1875.6%              | 258.5%     | N.A.                    | 95.8       | 26.7       | 0.3     | 0.3        | 0.4%       | 0.0%             | 0.430      | OP     |
| SERBA DINAMIK HOLDINGS       | 4.00       | 5,874.0    | Y         | 12/2019 | 18.6%          | 9.7%       | 12.2%                | 8.0%       | 15.3                    | 13.6       | 12.6       | 2.8     | 2.5        | 19.4%      | 2.2%             | 4.80       | OP     |
| UZMA BHD                     | 0.710      | 227.2      | Y         | 06/2019 | -24.3%         | -0.1%      | -86.0%               | 193.1%     | 4.4                     | 31.6       | 10.8       | 0.5     | 0.4        | 1.5%       | 0.0%             | 0.61       | UP     |
| WAH SEONG CORP BHD           | 0.670      | 516.2      | Y         | 12/2019 | -47.7%         | -7.7%      | -18.8%               | -18.1%     | 8.2                     | 10.1       | 12.3       | 0.5     | 0.5        | 5.4%       | 0.0%             | 0.620      | UP     |
| YINSON HOLDINGS BHD          | 5.01       | 5,411.7    | Y         | 01/2020 | 0.1%           | 70.2%      | -7.1%                | 55.9%      | 20.6                    | 22.2       | 14.2       | 3.1     | 2.8        | 13.5%      | 1.2%             | 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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