

28 November 2019

Uzma Berhad

1QFY20 Within Expectations

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1QFY20 results came in within expectations, with YoY improvements helped by operational normalcy returning to D18 project, on top of consolidation of Setegap Venture Petroleum. Overall, we see UZMA as a prime beneficiary of increased brownfield activities in Malaysia, with the group also positioned to benefit from plug and abandonment umbrella contract awards. **Maintain MARKET PERFORM**, but with lower TP of RM0.85.

Within expectations. 1QFY20 core net profit of RM7.2m (arrived after stripping off unrealised forex) came in within expectations at 22%/28% of our/consensus full-year earnings forecasts. No dividends were declared, as expected.

Earnings helped by lower taxes. YoY, 1QFY20 core net profit leapt significantly from 1QFY19 of merely RM0.5m. To recap, 1QFY19 disastrous earnings were dragged by operational hiccups in its D18 water injection project, which only registered an operational efficiency of only 40-50%. Since then, D18 has resumed to operational normalcy, with the project now at >90% operational efficiency. Additionally, the quarter was also helped by consolidation of Setegap Ventures Petroleum (acquisition completed in Jan 2019).

QoQ, 1QFY20 stayed flat, helped by lower effective tax rates (9% vs. 30%). On the core PBT level, earnings actually declined, dragged by slightly lower revenue on slower job billings, coupled with higher administrative and operating expenses.

Beneficiary of higher brownfield activities. We see UZMA as one of the first names to benefit from increased brownfield oil and gas activities locally, given its market leading position in Malaysia within the production enhancement space. Additionally, we believe UZMA is also positioned to benefit from more plug and abandonment jobs awards (via umbrella contracts).

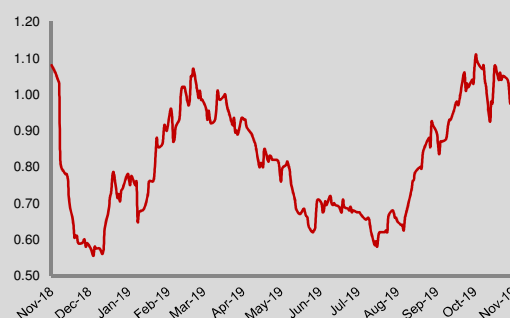
Maintain MARKET PERFORM. Despite the in-line set of results, we trim both our FY20-21E earnings forecasts by 7%, as we slightly increased our costs assumptions. Our tax assumptions are kept unchanged (at 25%) to guard against any normalisation of tax rates in the coming quarters. Following the earnings cut, our TP is also lowered to RM0.85 (from RM1.05 previously), pegged to 0.5x PBV – which is -1SD from its 12-month mean, implying forward PER of c.9x. Note that our valuations have been lowered down a notch (from 0.6x previously), given the sequentially heightened opex despite lowered revenue, warranting slight concerns.

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.

MARKET PERFORM ↔

Price : **RM0.840**
Target Price : **RM0.850** ↓

Share Price Performance



KLCI 1,587.18
YTD KLCI chg -6.1%
YTD stock price chg 46.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UZMA MK Equity
Market Cap (RM m)	268.8
Shares Outstanding	320.0
52-week range (H)	1.17
52-week range (L)	0.55
3-mth avg daily vol:	12,234,160
Free Float	34%
Beta	1.5

Major Shareholders

Tenggiri Tuah Sdn Bhd	34.1%
Employees Provident Fund	9.4%
Urusharta Jamaah Sdn Bhd	8.2%

Summary Earnings Table

FY June (RM m)	2019A	2020E	2021E
Turnover	443.4	538.3	549.9
EBIT	63.8	80.7	88.0
PBT	42.9	49.3	54.0
Net Profit	29.7	30.6	33.6
Core Net Profit	9.7	30.6	33.6
Consensus (NP)		26.1	31.9
Earnings Revision (%)		-7.2	-6.5
EPS (sen)	3.0	9.6	10.5
EPS growth (%)	-81.3	217.3	9.6
DPS (sen)	0.0	0.0	0.0
BV/share (RM)	1.5	1.6	1.7
PER (x)	27.9	8.8	8.0
P/BV (x)	0.6	0.5	0.5
Net-Gearing (x)	1.0	0.9	0.8
Div. Yield (%)	0.0	0.0	0.0



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Income Statement								
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
	FY20	FY19		FY19		FY20	FY19	
Y/E : June (RM m)								
Revenue	133.8	138.9	-3.7%	87.5	52.9%	133.8	87.5	52.9%
Cost of sales	(82.0)	(84.3)	-2.7%	(56.6)	45.0%	(82.0)	(56.6)	45.0%
Gross profit	51.8	54.6	-5.1%	31.0	67.1%	51.8	31.0	67.1%
Other income	0.4	0.6	-33.4%	0.4	-5.3%	0.4	0.4	-5.3%
Admin and operating expenses	(34.9)	(29.6)	18.1%	(28.0)	24.9%	(34.9)	(28.0)	24.9%
Operating profit	17.2	25.6	-32.7%	3.4	405.9%	17.2	3.4	405.9%
Unrealised forex	2.4	3.7	-34.8%	6.8	-64.2%	2.4	6.8	-64.2%
Finance costs	(7.4)	(8.1)	-9.3%	(5.4)	37.0%	(7.4)	(5.4)	37.0%
Associates	0.3	(0.3)	-203.4%	2.4	-86.2%	0.3	2.4	-86.2%
Profit before tax	12.6	20.8	-39.5%	7.2	74.3%	12.6	7.2	74.3%
Tax expense	(1.1)	(6.1)	-81.6%	0.6	-274.3%	(1.1)	0.6	-274.3%
Non-controlling interest	(2.0)	(2.9)	-29.1%	(0.6)	220.2%	(2.0)	(0.6)	220.2%
Net profit	9.4	11.8	-20.1%	7.2	30.3%	9.4	7.2	30.3%
Core net profit	7.2	7.2	0.0%	0.5	1379.0%	7.2	0.5	1379.0%
Gross margin	38.7%	39.3%		35.4%		38.7%	35.4%	
Operating margin	12.9%	18.4%		3.9%		12.9%	3.9%	
PBT margin	9.4%	15.0%		8.3%		9.4%	8.3%	
Net margin	7.0%	8.5%		8.3%		7.0%	8.3%	
Core net margin	5.4%	5.2%		0.6%		5.4%	0.6%	
Effective tax rate	9.0%	29.5%		-8.9%		9.0%	-8.9%	

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 BHD	0.525	3,085.2	N	12/2019	-15.9%	0.0%	34.4%	2.3%	13.7	10.2	9.9	0.9	0.9	9.0%	0.0%	0.530	MP
DAYANG ENTERPRISE HLDGS BHD	2.00	2,026.1	Y	12/2019	0.3%	31.9%	4.6%	6.0%	14.1	13.5	12.7	2.1	1.8	14.2%	0.0%	2.35	OP
DIALOG GROUP BHD	3.37	19,001.1	Y	06/2020	17.7%	6.1%	4.5%	9.7%	35.5	33.9	30.9	5.0	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.885	1,416.0	Y	12/2019	-10.1%	43.0%	-445.8%	121.1%	N.A.	N.A.	62.4	0.6	0.6	-1.1%	0.0%	1.05	OP
MISC BHD	8.30	37,049.1	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	28.0	21.5	20.4	1.0	1.1	4.9%	3.6%	8.90	OP
PANTECH GROUP HOLDINGS BHD	0.495	371.2	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.5	8.4	7.9	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.13	57,040.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.5	16.4	14.3	1.9	1.8	11.1%	3.0%	7.70	MP
PETRONAS DAGANGAN BHD	23.96	23,803.2	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	28.4	25.2	23.4	4.0	3.9	15.6%	2.8%	22.75	MP
SAPURA ENERGY BHD	0.280	4,463.0	Y	01/2020	5.9%	20.7%	-445.5%	236.1%	N.A.	N.A.	54.9	0.3	0.3	-1.4%	0.0%	0.330	OP
SERBA DINAMIK HOLDINGS	4.35	6,388.0	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.7	14.2	12.5	3.1	2.7	20.2%	2.1%	5.25	OP
UZMA BHD	0.840	268.8	Y	06/2020	21.4%	2.2%	215.5%	9.8%	27.7	8.8	8.0	0.6	0.5	6.2%	0.0%	0.850	MP
VELESTO ENERGY BHD	0.380	3,121.9	Y	12/2019	5.3%	17.2%	119.7%	298.0%	N.A.	205.4	51.6	1.1	1.1	0.5%	0.0%	0.400	OP
WAH SEONG CORP BHD	1.19	916.8	Y	12/2019	-13.9%	22.7%	-6.2%	26.9%	14.6	15.5	12.2	1.0	0.9	5.3%	0.0%	1.30	MP
YINSON HOLDINGS BHD	6.63	7,152.6	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	27.2	33.2	19.9	4.2	3.8	11.9%	0.9%	7.75	OP
Simple Average					1.3%	17.0%	-36.1%	58.9%	20.5	33.8	24.4	1.9	1.8	8.5%	1.2%		

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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