

28 February 2020

# Uzma Berhad

## 1HFY20 Within Expectations

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**Stronger 1HFY20 results came in within expectations, thanks to operational normalcy for D18 project, as well as higher activities and call-out contracts. 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 and TP of RM0.85.**

**Within our expectations.** 1HFY20 core net profit of RM15.2m (arrived after stripping-off unrealised forex) came in within our expectation at 50% of our full -year earnings forecast. However, the results exceeded market's expectation, at 57% of consensus full-year estimates. We believe this was due to slightly lower-than-expected fixed costs (e.g. finance costs) compared to the assumptions used by consensus, as revenue and operating profit lines seemingly were in-line with consensus estimates. No dividends were announced, as expected.

**Overall improved earnings.** 1HFY20 core profits more than doubled YoY, given the disastrous core earnings in 1QFY19, where the quarter saw operational hiccups in its D18 water injection project, registering an operational efficiency of only 40-50%. Since then, D18 has resumed to operational normalcy, with the project now at >90% operational efficiency.

For 2QFY20, core net profit of RM8.2m leapt 19% YoY. Apart from higher activities and call-out contracts, the higher earnings were also partially contributed by the consolidation of Setegap Ventures Petroleum since Jan 2019. Sequentially, core earnings also improved 17% QoQ, from higher activities and additional call-out contracts.

**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). Nonetheless, we feel that cost optimisation is imperative, and UZMA would need to successfully convert on-hand contracts to work orders with profitable margins in order to deliver earnings growth.

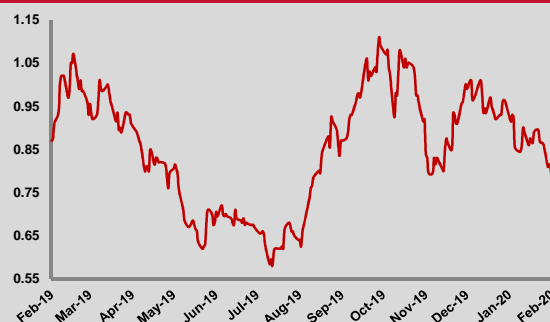
**Maintain MARKET PERFORM**, with unchanged TP of RM0.85, pegged to 0.5x PBV which is -1SD from its 12-month mean, implying forward PER of c.9x.

**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 : **RM0.785**  
Target Price : **RM0.850** ↔

### Share Price Performance



KLCI 1,505.59  
YTD KLCI chg -5.2%  
YTD stock price chg -18.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UZMA MK Equity
Market Cap (RM m)	251.2
Shares Outstanding	320.0
52-week range (H)	1.17
52-week range (L)	0.55
3-mth avg daily vol:	7,403,203
Free Float	50%
Beta	1.8

### Major Shareholders

Tenggiri Tuah Sdn Bhd	34.1%
Urusharta Jamaah Sdn Bhd	8.2%
Employees Provident Fund	7.7%

### 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
<b>Net Profit</b>	<b>29.7</b>	<b>30.6</b>	<b>33.6</b>
<b>Core Net Profit</b>	<b>9.7</b>	<b>30.6</b>	<b>33.6</b>
Consensus (NP)		26.9	33.5
Earnings Revision (%)		-	-
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)	26.0	8.2	7.5
P/BV (x)	0.5	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								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
	FY20	FY20		FY19		FY20	FY19	
<b>Y/E : June (RM'mil)</b>								
Revenue	149.5	133.8	11.8%	105.6	41.6%	283.3	193.1	46.7%
Cost of sales	(93.9)	(82.0)	14.4%	(68.1)	37.9%	(175.9)	(124.7)	41.1%
<b>Gross profit</b>	<b>55.7</b>	<b>51.8</b>	<b>7.5%</b>	<b>37.5</b>	<b>48.5%</b>	<b>107.4</b>	<b>68.4</b>	<b>56.9%</b>
Other income	0.3	0.4	-12.0%	1.8	-80.9%	0.7	2.0	-63.4%
Admin and operating expenses	(35.1)	(34.9)	0.5%	(26.7)	31.5%	(70.1)	(54.5)	28.6%
<b>Operating profit</b>	<b>20.9</b>	<b>17.2</b>	<b>21.4%</b>	<b>12.6</b>	<b>65.8%</b>	<b>38.1</b>	<b>16.0</b>	<b>138.1%</b>
Unrealised forex	(1.5)	2.4	-160.3%	0.9	-255.0%	1.0	7.7	-87.5%
Finance costs	(7.5)	(7.4)	2.4%	(7.8)	-2.8%	(14.9)	(13.1)	13.4%
Associates	(0.0)	0.3	-106.2%	3.5	-100.6%	0.3	6.0	-94.7%
<b>Profit before tax</b>	<b>11.9</b>	<b>12.6</b>	<b>-5.9%</b>	<b>9.3</b>	<b>27.8%</b>	<b>24.5</b>	<b>16.5</b>	<b>48.1%</b>
Tax expense	(1.2)	(1.1)	5.1%	(1.0)	23.0%	(2.3)	(0.3)	630.0%
Non-controlling interest	(3.9)	(2.0)	92.0%	(0.1)	2586.3%	(6.0)	(0.8)	660.8%
<b>Net profit</b>	<b>6.8</b>	<b>9.4</b>	<b>-28.4%</b>	<b>8.2</b>	<b>-17.4%</b>	<b>16.2</b>	<b>15.4</b>	<b>5.0%</b>
<b>Core net profit</b>	<b>8.2</b>	<b>7.0</b>	<b>17.2%</b>	<b>6.9</b>	<b>18.8%</b>	<b>15.2</b>	<b>7.4</b>	<b>105.7%</b>
Gross margin	37.2%	38.7%		35.5%		37.9%	35.4%	
Operating margin	14.0%	12.9%		11.9%		13.4%	8.3%	
PBT margin	7.9%	9.4%		8.8%		8.6%	8.6%	
Net margin	4.5%	7.0%		7.7%		5.7%	8.0%	
Core net margin	5.5%	5.2%		6.6%		5.4%	3.8%	
Effective tax rate	10.0%	9.0%		10.4%		9.5%	1.9%	

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	0.335	1,968.6	N	12/2020	1.4%	4.8%	10.3%	12.5%	7.0	6.3	5.6	0.6	0.6	9.2%	0.0%	0.420	OP
DAYANG ENTERPRISE HLDGS BHD	2.57	2,886.7	Y	12/2020	8.7%	9.0%	8.6%	9.9%	13.8	12.7	11.6	2.1	1.8	15.0%	0.0%	3.40	OP
DIALOG GROUP BHD	3.39	19,113.9	Y	06/2020	17.7%	6.1%	4.5%	9.7%	35.7	34.1	31.1	5.0	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.755	1,208.0	Y	12/2020	3.2%	28.4%	360.0%	23.2%	N.A.	127.2	103.2	0.5	0.5	0.4%	0.0%	0.890	OP
MISC BHD	7.76	34,638.7	Y	12/2020	3.4%	5.4%	0.6%	1.0%	21.5	21.4	21.2	1.0	1.0	4.6%	3.9%	8.70	OP
PANTECH GROUP HOLDINGS BHD	0.480	359.7	Y	02/2020	1.3%	5.9%	-19.3%	8.9%	8.2	10.2	9.4	0.7	0.6	6.1%	4.2%	0.570	OP
PETRONAS CHEMICALS GROUP BHD	5.80	46,400.0	Y	12/2020	0.2%	5.3%	18.4%	14.2%	16.5	13.9	12.2	1.6	1.5	10.8%	3.6%	6.35	OP
PETRONAS DAGANGAN BHD	21.52	21,379.1	Y	12/2020	1.3%	2.0%	10.7%	2.2%	26.0	23.5	23.0	3.6	3.5	15.0%	3.4%	21.35	MP
SAPURA ENERGY BHD	0.200	3,195.8	Y	01/2020	67.1%	N.M.	N.M.	N.M.	N.A.	N.A.	N.A.	0.2	0.2	-3.2%	0.0%	0.330	OP
SERBA DINAMIK HOLDINGS	2.32	7,154.5	Y	12/2020	15.0%	15.0%	13.0%	12.4%	14.4	12.7	11.3	2.9	2.3	20.1%	2.4%	3.05	OP
UZMA BHD	0.785	251.2	Y	06/2020	21.4%	2.2%	215.5%	9.8%	25.9	8.2	7.5	0.5	0.5	6.2%	0.0%	0.850	MP
VELESTO ENERGY BHD	0.320	2,629.0	Y	12/2019	7.6%	2.6%	105.0%	19.4%	82.2	40.1	33.6	0.9	0.9	2.3%	0.0%	0.430	OP
WAH SEONG CORP BHD	1.29	993.9	Y	12/2020	16.5%	4.1%	-3.4%	6.6%	14.2	14.7	13.8	1.0	1.0	6.7%	0.0%	1.40	MP
YINSON HOLDINGS BHD	7.12	7,618.7	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	29.2	35.6	21.4	4.5	4.0	11.9%	0.8%	8.80	OP
<b>Simple Average</b>					<b>11.8%</b>	<b>9.7%</b>	<b>36.1%</b>	<b>2.1%</b>	<b>24.5</b>	<b>27.7</b>	<b>23.5</b>	<b>1.8</b>	<b>1.6</b>	<b>8.5%</b>	<b>1.4%</b>		

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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