

01 December 2022

Uzma

Benefitting from Improved Activities

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UZMA's 1QFY23 beat expectations thanks to improved work orders and job margins. Looking ahead, the group is poised to benefit from a recovery in local oil & gas sector activity levels, while its diversification into the solar energy space will help future-proof its longer-term prospects. We raise our FY23-24F net profit forecasts by 23-4%, lift our TP by 5% to RM0.67 (from RM0.64) and maintain our OUTPERFORM call.

Results exceeded expectations. 1QFY23 core net profit of RM13.6m beat expectations, coming in at 80% and 84% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecasts came largely from stronger recognition of work orders as well as the improved margins for its upstream oil and gas business.

Overall improved results. 1QFY23 earnings more than tripled YoY, amidst higher work orders as well as improved margins for its upstream oil and gas business, as last year was hampered by higher costs arising from the pandemic SOPs. Meanwhile QoQ, core profits also jumped 66%, slightly helped by improved sales from its trading division, but more prominently due to the lower tax expenses on reversal of over-provisions in the previous financial year.

Benefitting from a rise in brownfield activities. Given UZMA's unique positioning as a brownfield player in the local oil and gas space, we believe UZMA should eventually stand to benefit from the recovery of activities. Meanwhile, the group is also actively diversifying into the solar energy space, which might serve as a re-rating catalyst upon fruition.

Forecasts. Post-results, we raised our FY23-24F by 23-4% to account for the stronger work orders and improved job margins.

We like UZMA for: (i) it being a good proxy to elevated oil prices given its focus in the brownfield segment, providing a wide range of services such as well services, oil production enhancement and optimisation, as well as late-life operation and maintenance, and (ii) its diversification into the solar energy space which will help future-proof its long-term prospects.

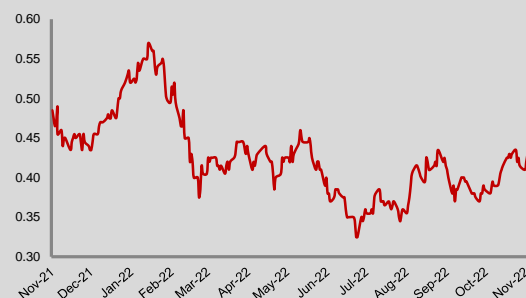
We raise our TP by 5% to RM0.67 (from RM0.64), pegged to an unchanged valuation of 10x PER – based on a 33% discount ascribed to other local-centric oil and gas equipment and service provider peers (e.g. DAYANG, VELESTO), given UZMA's far smaller market cap. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain **OUTPERFORM**.

Risks to our call include: (i) significant pull-back in oil prices, weighing on oil & gas activities, (ii) project cost overrun and delays, and (iii) escalating input cost.

OUTPERFORM ↔

Price : RM0.46
Target Price : RM0.67 ↑

Share Price Performance



KLCI 1,488.80
YTD KLCI chg -5.0%
YTD stock price chg 3.4%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker UZMA MK Equity
Market Cap (RM m) 161.9
Shares Outstanding 352.0
52-week range (H) 0.59
52-week range (L) 0.33
3-mth avg daily vol: 1,995,812
Free Float 51%
Beta 1.2

Major Shareholders

Tenggiri Tuah Sdn Bhd 34.6%
Urusharta Jamaah Sdn Bhd 12.9%
Principal I Small Cap 4.0%

Summary Earnings Table

FY June (RM m)	2022A	2023F	2024F
Turnover	385.1	423.6	465.9
EBIT	34.5	55.1	51.3
PBT	14.3	28.1	31.3
Net Profit	5.5	21.0	23.4
Core Net Profit	13.3	21.0	23.4
Consensus (NP)		16.2	21.1
Earnings Revision (%)		23.2	3.5
EPS (sen)	3.8	6.0	6.7
EPS growth (%)	-46.3	58.0	11.4
DPS (sen)	0.0	0.0	0.0
BV/share (RM)	1.3	1.4	1.5
PER (x)	12.2	7.7	6.9
P/BV (x)	0.3	0.3	0.3
Net-Gearing (x)	0.7	0.7	0.7
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
	FY23	FY22		FY22		FY23	FY22	
Y/E : June (RM'm)								
Revenue	121.8	116.0	5.0%	101.4	20.1%	121.8	101.4	20.1%
Cost of sales	(68.4)	(61.5)	11.2%	(59.7)	14.5%	(68.4)	(59.7)	14.5%
Gross profit	53.4	54.6	-2.1%	41.7	28.3%	53.4	41.7	28.3%
Other income	4.8	1.3	258.7%	0.7	611.5%	4.8	0.7	611.5%
Administrative expenses	(21.9)	(23.7)	-7.5%	(19.0)	15.4%	(21.9)	(19.0)	15.4%
Other expenses	(6.8)	(3.1)	121.0%	(3.0)	126.9%	(6.8)	(3.0)	126.9%
Depreciation	(11.7)	(12.1)	-3.5%	(12.3)	-5.4%	(11.7)	(12.3)	-5.4%
Operating Profit	17.9	17.1	4.7%	8.1	121.9%	17.9	8.1	121.9%
Finance costs	(5.0)	(3.5)	41.0%	(6.7)	-25.1%	(5.0)	(6.7)	-25.1%
Associates	(0.8)	0.9	-184.2%	(0.4)	102.7%	(0.8)	(0.4)	102.7%
Profit before tax	12.2	14.5	-15.9%	1.0	1073.8%	12.2	1.0	1073.8%
Tax expense	(2.3)	(9.1)	-75.1%	(0.5)	401.6%	(2.3)	(0.5)	401.6%
Non-controlling interest	(1.1)	(1.5)	-28.7%	(0.2)	352.7%	(1.1)	(0.2)	352.7%
Net profit	8.8	3.9	127.2%	0.3	2444.1%	8.8	0.3	2444.1%
Core net profit	13.6	8.2	66.0%	4.0	243.1%	13.6	4.0	243.1%
Gross margin	43.9%	47.0%		41.1%		43.9%	41.1%	
PBT margin	10.0%	12.5%		1.0%		10.0%	1.0%	
Net margin	7.2%	3.3%		0.3%		7.2%	0.3%	
Core net margin	11.2%	7.1%		3.9%		11.2%	3.9%	
Effective tax rate	18.6%	62.7%		43.5%		18.6%	43.5%	

Source: Company

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	OP	0.450	0.630	40.00%	2,663.1	N	12/2022	12.4	11.7	7.9%	-5.1%	3.6	3.8	0.6	16.8%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.40	1.70	21.43%	1,620.9	Y	12/2022	10.2	11.2	170.1%	10.1%	13.7	12.4	1.1	8.6%	0.0	0.0%
DIALOG GROUP BHD	OP	2.27	3.10	36.56%	12,808.6	Y	06/2023	9.5	9.9	5.1%	4.8%	24.0	22.9	2.4	10.2%	2.8	1.2%
MISC BHD	MP	7.20	7.30	1.39%	32,139.0	Y	12/2022	43.1	33.8	1.9%	-21.6%	16.7	21.3	0.9	5.6%	33.0	4.6%
PETRONAS CHEMICALS GROUP BHD	OP	8.54	11.00	28.81%	68,320.0	Y	12/2022	87.2	68.8	-3.9%	-21.1%	9.8	12.4	1.8	19.0%	43.6	5.1%
PETRONAS DAGANGAN BHD	MP	23.78	23.90	0.50%	23,624.3	Y	12/2022	70.4	74.0	27.6%	5.2%	33.8	32.1	4.2	12.5%	70.4	3.0%
SAPURA ENERGY BHD	MP	4.35	4.65	6.90%	1,174.5	Y	12/2022	161.1	98.1	82.8%	-39.1%	2.7	4.4	0.5	20.1%	16.0	3.7%
UZMA BHD	OP	0.460	0.670	45.65%	161.9	Y	06/2023	6.6	7.3	57.9%	11.4%	7.0	6.3	0.3	4.3%	0.0	0.0%
VELESTO ENERGY BHD	OP	0.145	0.160	10.34%	1,191.3	Y	12/2022	(0.7)	1.1	-135.6%	41.3%	N.A.	13.8	0.5	-2.8%	0.0	0.0%
WAH SEONG CORP BHD	OP	0.650	0.800	23.08%	503.3	Y	12/2022	6.2	8.8	101.7%	43.1%	10.5	7.4	0.8	7.8%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.35	3.15	34.04%	6,809.2	N	01/2023	21.9	24.1	16.3%	10.3%	10.7	9.7	1.8	18.3%	6.0	2.6%
Simple Average								38.9	31.7	30.1%	3.6%	13.3	13.3	1.4	11.0%		1.8%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Corporate Social Responsibility	★	★			
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★			
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Diversification from pure O&G	★	★	★	★	
	Emission Targets and Climate Goals	★	★	★		
	Occupational Health and Safety	★	★	★		
	Pollution control	★	★	★		
	Supply chain auditing	★	★			
	Energy efficiency	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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