

05 December 2022

# Uzma

## Good Times Are Back

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We returned from an analyst briefing feeling positive about UZMA's prospects. The group is poised to continue benefitting from the increase in local activity levels, and expected to post stronger earnings ahead. Meanwhile, the group is also actively expanding its solar business, and currently is in bids for several government-driven solar programmes. We maintain our forecasts, TP of RM0.67 and OUTPERFORM call.

**Post results' analyst briefing.** We recently attended a post results' analyst briefing organised by UZMA. To recap, its recently announced 1QFY23 results saw core earnings surging 66% QoQ and more than tripled YoY, thanks to improved activities especially as new projects commenced.

Overall, we returned from the analyst briefing feeling positive, with our upbeat views on the stock mostly remaining intact. The key takeaways are as follows:

- Bottom-line boosted by trading business.** Also contributing to its bottom-line this quarter was the group's trading business, of which it is starting to ramp up efforts. Although this may result in slight erosion in overall group margins, as trading margins are far lower than upstream oil and gas margins, this new business will undoubtedly still contribute to the group's bottom-line. Note that the group's margins have been steadily rising over the past few years as the group gradually shift its focus away from lower margin jobs.
- Promising jobs.** Post winning its recent D18 water injection contract, its O&G order book currently stands at ~RM2b, of which roughly half is from umbrella contracts. Meanwhile, its new energy order book still stands at ~RM1b, mostly from the LSS4 PPA. The group is currently bidding new solar jobs worth of RM145m, which consists of government-driven solar programmes such as NEM as well as the newly launched VPPA.
- Stronger quarters ahead.** In tandem with the gradual recovery of local oil and gas activity levels, the group foresees that upcoming quarters will continue growing from strength to strength. Petronas has indicated increased decommissioning and brownfield activities, as stated in its activity outlook, which will benefit UZMA.

**Forecasts.** Maintained.

**Maintain OUTPERFORM**, with an unchanged TP of RM0.67 – pegged to 10x PER based on 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).

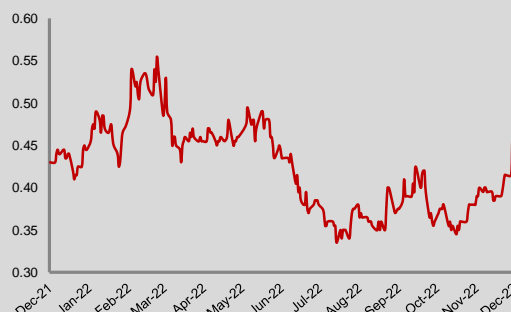
We like UZMA for: (i) it being a good proxy to elevated oil prices given its focus in the brownfield segment, providing a wide range of services such as well services, oil production enhancement and optimisation, as well as late-life operation and maintenance, and (ii) its diversification into the solar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

**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 : RM0.535  
Target Price : RM0.67 ↔

### Share Price Performance



KLCI 1,481.80  
YTD KLCI chg -5.5%  
YTD stock price chg 20.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UZMA MK Equity
Market Cap (RM m)	188.3
Shares Outstanding	352.0
52-week range (H)	0.59
52-week range (L)	0.33
3-mth avg daily vol:	2,219,535
Free Float	51%
Beta	1.2

### Major Shareholders

Tenggiri Tuah Sdn Bhd	31.4%
Urusharta Jamaah	4.3%
Vasudevan Brahmah	1.9%

### Summary Earnings Table

FY June (RM m)	2022A	2023F	2024F
Revenue	385.1	423.6	465.9
EBIT	34.5	55.1	51.3
PBT	14.3	28.1	31.3
<b>Net Profit</b>	<b>5.5</b>	<b>21.0</b>	<b>23.4</b>
<b>Core Net Profit</b>	<b>13.3</b>	<b>21.0</b>	<b>23.4</b>
Consensus (NP)		18.1	21.5
Earnings Revision (%)		-	-
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)	14.1	8.9	8.0
P/BV (x)	0.4	0.4	0.4
Gearing (x)	0.7	0.7	0.7
Div. Yield (%)	0.0	0.0	0.0

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Income Statement						Financial Data & Ratios					
FY June (RM m)	2020A	2021A	2022A	2023F	2024F	FY June	2020A	2021A	2022A	2023F	2024F
Revenue	552.4	384.2	385.1	423.6	465.9	<b>Growth (%)</b>					
Operating Profit	19.5	41.1	34.5	55.1	51.3	Revenue	23.7	-30.5	0.2	10.0	10.0
Interest Expense	(30.6)	(24.9)	(20.7)	(27.0)	(20.0)	Operating Profit	-70.5	110.9	-16.1	59.8	-6.9
PBT	(9.8)	18.8	14.3	28.1	31.3	PBT	-123.5	-292.4	-23.9	95.8	11.4
Taxation	(5.8)	(4.2)	(7.4)	(7.0)	(7.8)	Core Net Profit	404.1	149.8	-46.3	58.0	11.4
Minority Interest	(7.3)	(1.2)	(1.5)	0.0	0.0	<b>Profitability (%)</b>					
<b>Net Profit</b>	<b>(22.9)</b>	<b>13.4</b>	<b>5.5</b>	<b>21.0</b>	<b>23.4</b>	Operating Profit	3.5	10.7	8.9	13.0	11.0
<b>Core Net Profit</b>	<b>9.9</b>	<b>24.8</b>	<b>13.3</b>	<b>21.0</b>	<b>23.4</b>	PBT	-1.8	4.9	3.7	6.6	6.7
<b>Balance Sheet</b>						Core Net Profit	-4.1	3.5	1.4	5.0	5.0
<b>FY June (RM m)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023F</b>	<b>2024F</b>	Effective Tax Rate	-59.4	22.5	51.5	25.0	25.0
Fixed Assets	509.7	519.1	490.8	490.8	490.8	ROA	-1.7	1.1	0.4	1.6	1.7
Intangible Assets	213.9	207.6	211.4	211.4	211.4	ROE	-5.0	3.0	1.2	4.2	4.5
Other Fixed Ass.	49.5	47.0	54.2	54.2	54.2	<b>DuPont Analysis</b>					
Inventories	41.1	35.8	39.9	43.9	48.3	Net Margin	-4.1	3.5	1.4	5.0	5.0
Receivables	212.7	135.3	166.8	183.5	201.8	Assets Turnover	0.4	0.3	0.3	0.3	0.3
Other Current As.	146.0	187.6	184.7	184.7	184.7	Leverage Factor	2.9	2.8	2.6	2.6	2.7
Cash	144.4	136.8	106.3	132.7	204.4	ROE	-5.0	3.0	1.2	4.2	4.5
Total Assets	1,317.4	1,269.2	1,254.2	1,301.2	1,395.6	<b>Leverage</b>					
Payables	202.2	187.9	190.8	209.9	230.9	Debt/Total Asset	0.4	0.4	0.4	0.4	0.4
ST Borrowings	195.2	208.1	216.8	238.4	262.3	Total Debt/Equity	0.5	0.5	0.6	0.6	0.6
Other ST Liability	7.6	6.9	5.8	5.8	5.8	Net Cash/(Debt)	430.9	376.4	344.2	365.6	343.9
LT Borrowings	380.2	305.2	233.8	259.9	286.0	Net Debt/Equity	0.9	0.8	0.7	0.7	0.7
Other LT Liability	42.1	38.5	61.1	61.1	61.1	<b>Valuations</b>					
Minority Interest	33.0	450.4	30.4	30.4	30.4	EPS (sen)	2.8	7.0	3.8	6.0	6.7
<b>Net Assets</b>	<b>457.1</b>	<b>450.4</b>	<b>474.6</b>	<b>495.7</b>	<b>519.1</b>	DPS (sen)	0.0	0.0	0.0	0.0	0.0
Share Capital	290.1	290.1	307.5	307.5	307.5	BV/Share (RM)	1.3	1.3	1.3	1.4	1.5
Reserves	167.0	160.3	167.1	188.2	211.6	PER (x)	19.0	7.6	14.1	8.9	8.0
<b>Equity</b>	<b>457.1</b>	<b>450.4</b>	<b>474.6</b>	<b>495.7</b>	<b>519.1</b>	Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
<b>Cashflow Statement</b>						P/BV (x)	0.4	0.4	0.4	0.4	0.4
<b>FY June (RM m)</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023F</b>	<b>2024F</b>						
Operating CF	160.6	118.4	52.4	102.3	98.5						
Investing CF	(135.8)	(52.1)	(26.1)	(26.1)	(26.1)						
Financing CF	15.6	(70.3)	(59.8)	(49.8)	(0.7)						

Source: Kenanga Research

## 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.
<b>Stocks Under Coverage</b>																	
BUMI ARMADA BHD	OP	0.495	0.630	27.27%	2,929.4	N	12/2022	12.4	11.7	7.9%	-5.1%	4.0	4.2	0.6	16.8%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.38	1.70	23.19%	1,597.7	Y	12/2022	10.2	11.2	170.1%	10.1%	13.5	12.3	1.1	8.6%	0.0	0.0%
DIALOG GROUP BHD	OP	2.33	3.10	33.05%	13,147.2	Y	06/2023	9.5	9.9	5.1%	4.8%	24.6	23.5	2.4	10.2%	2.8	1.2%
MISC BHD	MP	7.21	7.30	1.25%	32,183.6	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	8.52	11.00	29.11%	68,160.0	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	23.00	23.90	3.91%	22,849.4	Y	12/2022	70.4	74.0	27.6%	5.2%	32.7	31.1	4.1	12.5%	70.4	3.1%
SAPURA ENERGY BHD	MP	4.36	4.65	6.65%	1,177.2	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	0.535	0.670	25.23%	188.3	Y	06/2023	6.6	7.3	57.9%	11.4%	8.2	7.3	0.3	4.3%	0.0	0.0%
VELESTO ENERGY BHD	OP	0.160	0.160	0.00%	1,314.5	Y	12/2022	(0.7)	1.1	-135.6%	41.3%	N.A.	15.2	0.6	-2.8%	0.0	0.0%
WAH SEONG CORP BHD	OP	0.620	0.800	29.03%	480.1	Y	12/2022	6.2	8.8	101.7%	43.1%	10.1	7.0	0.8	7.8%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.48	3.15	27.02%	7,185.5	N	01/2023	21.9	24.1	16.3%	10.3%	11.3	10.3	1.9	18.3%	6.0	2.4%
<b>Simple Average</b>								<b>38.9</b>	<b>31.7</b>	<b>30.1%</b>	<b>3.6%</b>	<b>13.4</b>	<b>13.5</b>	<b>1.4</b>	<b>11.0%</b>		<b>1.8%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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