

26 January 2023

Uzma Berhad

Contract Win from Sarawak Shell

By Steven Chan / steven.chan@kenanga.com.my

UZMA has secured a five-year contract from Sarawak Shell, worth ~RM40m. Overall, we are positive on the contract win, reflective of the current rise in activity levels, despite its smallish size making up only ~2% of its current order book of ~RM2b. No changes to our FY23-24F earnings and TP of RM0.67, but we downgrade our call to MARKET PERFORM given the recent strength in its share price. Going forward, we feel that translating its current order book into earnings delivery is crucial to act as another re-rating catalyst.

New contract from Sarawak Shell. UZMA announced that its 70%-owned subsidiary Malaysian Energy Chemical & Services Sdn Bhd was awarded a contract from Sarawak Shell Berhad for the provision of kinetic hydrate inhibitor, corrosion inhibitor and associated services for the Shell Timi field. The duration of the contract is five years, effective January 2023 to 2028, with a value of approximately RM40m.

Positive on the contract win. Overall, we are positive on the contract award as it demonstrates UZMA's ability to continue winning jobs within the brownfield services space amidst the current elevated oil price environment. Nonetheless, the contract is rather smallish in size – making up only ~2% of its current order book of ~RM2b (of which roughly half is derived from umbrella contracts). We expect the job to fetch gross margins of ~40-45% - in line with its historical average.

No changes to forecasts. Given the smallish size of the contract, we made no changes to our FY23-24F earnings (implies earnings growth of 58-11%), as the job is deemed to be well within our job replenishment assumptions.

Downgrade to MARKET PERFORM, with an unchanged TP of RM0.67 – pegged to 10x PER, based on a 33% discount on valuations ascribed to other local-centric oil and gas equipment and services providers (e.g. DAYANG, VELESTO), given UZMA's far smaller market cap. There is no adjustment to TP based on ESG given a 3-star rating as appraised by us (see page 4).

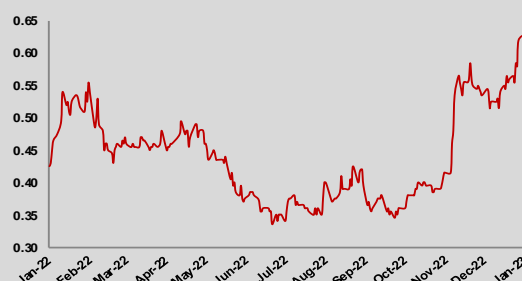
We continue to like UZMA for being a beneficiary of increased brownfield oil and gas activities, providing a wide range of services such as production enhancement and optimisation, as well as late-life operation and maintenance. However, given the recent rally in its share price, we believe these positives have been well priced in. Additionally, we believe it is crucial for the company to successfully materialise its current healthy order book into bottom-line earnings to meet profit growth expectations in order to serve as another re-rating catalyst.

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.

MARKET PERFORM

Price : **RM0.63**
Target Price : **RM0.67**

Share Price Performance



KLCI 1,499.45
YTD KLCI chg 0.3%
YTD stock price chg 20.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UZMA MK Equity
Market Cap (RM m)	221.8
Shares Outstanding	352.0
52-week range (H)	0.63
52-week range (L)	0.33
3-mth avg daily vol:	2,511,022
Free Float	62%
Beta	1.2

Major Shareholders

Tenggiri Tuah Sdn Bhd	31.4%
Urusharta Jamaah	4.3%
Vasudevan Brahmam	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
Net Profit	5.5	21.0	23.4
Core Net Profit	13.3	21.0	23.4
Consensus (NP)		23.1	26.1
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)	16.6	10.5	9.5
P/BV (x)	0.5	0.4	0.4
Gearing (x)	0.7	0.7	0.7
Div. Yield (%)	0.0	0.0	0.0



26 January 2023

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	Growth (%)					
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	Profitability (%)					
Net Profit	(22.9)	13.4	5.5	21.0	23.4	Operating Profit	3.5	10.7	8.9	13.0	11.0
Core Net Profit	9.9	24.8	13.3	21.0	23.4	PBT	-1.8	4.9	3.7	6.6	6.7
Balance Sheet						Core Net Profit	-4.1	3.5	1.4	5.0	5.0
FY June (RM m)	2020A	2021A	2022A	2023F	2024F	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	DuPont Analysis					
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	Leverage					
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	Valuations					
Minority Interest	33.0	450.4	30.4	30.4	30.4	EPS (sen)	2.8	7.0	3.8	6.0	6.7
Net Assets	457.1	450.4	474.6	495.7	519.1	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)	22.3	8.9	16.6	10.5	9.5
Equity	457.1	450.4	474.6	495.7	519.1	Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
Cashflow Statement						P/BV (x)	0.5	0.5	0.5	0.4	0.4
FY June (RM m)	2020A	2021A	2022A	2023F	2024F						
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

26 January 2023

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	0.540	0.630	16.67%	3,195.7	N	12/2022	12.4	11.7	7.9%	-5.1%	4.4	4.6	0.7	16.8%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.42	1.70	19.72%	1,644.0	Y	12/2022	10.2	11.2	170.1%	10.1%	13.9	12.6	1.2	8.6%	0.0	0.0%
DIALOG GROUP BHD	OP	2.73	3.10	13.55%	15,404.2	Y	06/2023	9.5	9.9	5.1%	4.8%	28.8	27.5	2.8	10.2%	2.8	1.0%
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	8.50	11.00	29.41%	68,000.0	Y	12/2022	87.2	68.8	-3.9%	-21.1%	9.7	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%
PETRON MALAYSIA REFINING	MP	4.56	4.65	1.97%	1,231.2	Y	12/2022	161.1	98.1	82.8%	-39.1%	2.8	4.6	0.5	20.1%	16.0	3.5%
UZMA BHD	MP	0.630	0.670	6.35%	221.8	Y	06/2023	6.6	7.3	57.9%	11.4%	9.6	8.6	0.4	4.3%	0.0	0.0%
VELESTO ENERGY BHD	OP	0.220	0.160	-27.27%	1,807.4	Y	12/2022	(0.7)	1.1	-135.6%	41.3%	N.A.	20.9	0.8	-2.8%	0.0	0.0%
WAH SEONG CORP BHD	OP	0.705	0.890	26.24%	545.9	Y	12/2022	6.2	9.9	101.7%	60.5%	11.4	7.1	0.9	7.8%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.70	3.05	12.96%	7,818.9	N	01/2023	17.3	17.4	22.1%	0.6%	15.6	15.5	2.9	19.5%	6.0	2.2%
SECTOR AGGREGATE					154,857.6					4.7%	-15.4%	13.0	15.4	1.5	11.1%		1.8%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Community Investment	★	★			
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★			
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Transition to Low-Carbon Future	★	★	★	★	
	Conservation & Biodiversity	★	★	★		
	Effluent/Waste Management	★	★	★		
	Water Management	★	★	★		
	Supply Chain Management	★	★			
	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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

