Uzma

Well Positioned to Capitalise on Up-cycle

OUTPERFORM ↔

Price : **RM0.76**
Target Price : **RM1.05** ↔

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A recent visit to UZMA's yards in Labuan confirms our view that the company is indeed riding on the current oil price up-cycle. It has found itself a niche in the production and supply of oilfield chemicals, possessing an edge over its competitors with hydraulic work over units (HWU) that are designed and assembled in-house. We maintain our forecasts, TP of RM1.05 and OUTPERFORM call.

We came away from a recent 2-day visit to UZMA's yards under 70%-owned Malaysia Energy Chemical & Services (MECAS) and 86%-owned Setegap Ventures Petroleum (SVP) in Labuan feeling upbeat over its overall prospects. The key takeaways are as follows:

1. **Day 1 (6 Nov 2023), MECAS Yard:** MECAS is on track to achieve RM60m revenue in FY24 and gradually work its way back to RM100m per annum top line achieved before the pandemic. It reported a significant drop in revenues in 2020-2022 as its competitors undercut prices which it did not follow suit to defend its market share. The demand for oilfield chemicals is recovering and UZMA expects its EBIT margin to improve from FY24 onwards (vs. FY23).

   To recap, MECAS specialises in production-related/oilfield chemicals. There are stringent technical requirements from the clients, which results in high entry barrier, at least for local players. MECAS is currently already servicing three out of the total four deepwater projects in Malaysia, which speaks for its proven ability in producing reliable chemical blends to be used in deepwater upstream projects. At present, MECAS's order backlog from deepwater projects stand at RM30m. Its products are used in several areas of production, namely:

   (i) asset integrity (corrosion inhibitors);

   (ii) phase separation (demulsifier separating crude from water and sand) and water clarifier);

   (iii) flow assurance (ensuring crude produced to be at the right viscosity to flow through the pipes);

   (iv) enhanced oil recovery chemicals;

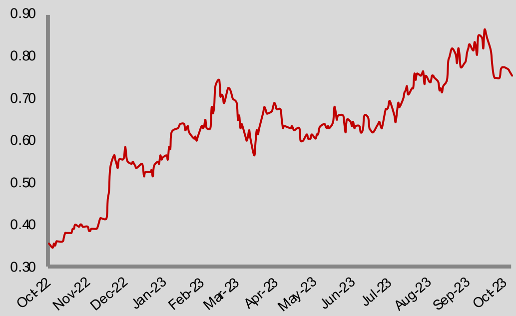
   (v) water injection chemicals; and

   (vi) deep water chemicals (US National Aerospace Standard or NAS class chemicals).

2. **Day 2 (7 Nov 2023), SVP Yard:** We sighted its hydraulic work over units (HWU) and coiled tubing equipment, which happened to be brought back to the yard for maintenance before being redeployed offshore again. UZMA expects these units to be in high demand in FY24 with plug & abandonment (P&A) for 50-60 wells (vs. 40 in FY23), which points to further top line growth in its brown field services.

   UZMA has an edge over its competitors given that its units are fully designed and assembled in-house, enabling differentiation. UZMA is pitching light-weight HWU units to its clients providing a cheaper solution for projects utilising smaller platforms. Typically, small platforms are serviced (oilfield work over jobs) by jack-up rigs (due to platform area limitation), which are very costly especially in recent times. Hence, we believe demand for its lightweight HWU units would gradually improve in the coming years due to rising jack-up rig DCRs.

Share Price Performance



KLCI	1,457.60
YTD KLCI chg	-2.5%
YTD stock price chg	45.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UZMA MK Equity
Market Cap (RM m)	296.2
Shares Outstanding	387.2
52-week range (H)	0.87
52-week range (L)	0.38
3-mth avg daily vol:	2,635,116
Free Float	64%
Beta	1.1

Major Shareholders

Tenggiri Tuah Sdn Bhd	31.4%
Urusharta Jamaah Sdn Bhd	4.3%
Principal I Small Cap	1.9%

Summary Earnings Table

FY June (RM m)	2023A	2024F	2025F
Turnover	474.0	577.8	599.5
EBIT	59.1	73.3	76.1
PBT	43.5	50.4	51.8
Net Profit	**39.0**	**39.5**	**40.5**
Core Net Profit	**39.0**	**39.5**	**40.5**
Consensus (NP)	-	43.3	43.5
Earnings Revision (%)	-	-	-
EPS (sen)	10.1	10.2	10.5
EPS growth (%)	166.4	1.2	2.7
DPS (sen)	-	-	-
BV/share (RM)	1.5	1.6	1.7
PER (x)	7.5	7.4	7.3
P/BV (x)	0.5	0.5	0.5
Net-Gearing (x)	0.6	0.5	0.4
Div. Yield (%)	-	-	-

In addition, UZMA also owns the largest coiled tubing unit (CTU) fleet in the local market with market share of c.70% currently. In the past (during the early 2000s), this market was typically dominated by foreign companies (namely Haliburton and Schlumberger) hence it was a remarkable achievement by UZMA to be able to penetrate the CTU market which requires competitive execution and technical know-how. For the CTU business, UZMA is also bidding for a potential job by Exxon Mobil which could potentially bring up its market share from 70% to 90%. The CTU business caters to both green field and brown field projects; hence. we believe this business could also see a ramp up in FY24 onwards due to anticipated increase in local upstream activities. The group currently owns 13 CTU units. On top of that, we also visited its lab at the yard which provide testing and simulation results of its well cementing solutions (used for well development) which mixes cement with retardant enabling its cement solution to have different hardening time frames which caters for different situations in oil wells.

3. **ESP technology to undergo testing in 2QFY24.** The group's proposed electrical submersible pump (ESP) technology (for brown field well production enhancement) will be on trial in Dulang for Petronas and if it proves to be a successful endeavour, UZMA will be able to expand its market for more ESP technology application (potentially 70 ESP units) in Malaysia brown fields as a solution for production enhancement. This avenue for enhancing production for oil producers is common in the US market, though still new in Malaysia.
4. **Manpower costs increased significantly but covered by strong work rates.** UZMA's overall staff costs (particularly contract workers) have risen closer to pre-2014 levels (when the upstream market had a high level of activities). Fortunately, its revenue per unit of work done has risen more on improved terms offered by its clients, and hence we believe its EBIT margin will be on an uptrend.
5. **Improvement in business driven by both brown field and green field.** UZMA said that there is a pickup in demand for brown field production enhancement-focused jobs (HWU and production chemicals) from its major clients. From FY24 onwards, the group sees higher activities coming from exploration and development in local upstream industry which would benefit UZMA as well as it provides cementing, oilfield chemical services (certain products track crude production of clients) as well as geological studies.

Forecasts. Maintained as we have already reflected in our forecasts a pick-up in work orders but a more conservative view on its margins due to lingering concerns on operational cost hikes in the near to medium term. The revenue projection would be backed by RM2b order book and RM1.9b tender book.

We also keep our TP of RM1.05 pegged to 10x PER on FY25F EPS, which is consistent with average PER for small-mid cap upstream service players. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 6).

We like the company for: (i) it being a major player in brown field upstream services sub segment which is undergoing a boom in activities (ii) its lean cost structure following cost rationalisation efforts in recent years; and (iii) its oilfield chemical business which rides on expanding green field projects.

Risks to our call include: (i) a sharp plunge in crude oil prices, (ii) poor project execution leading to cost overruns and delays, and (iii) cost inflation, particularly, staff and input costs.

Chemical Filtration Unit

Source: Company, Kenanga Research

Chemical Storage Tanks

Source: Petronas, Kenanga Research

Chemical Stored in Barrels

Source: Company, Kenanga Research

Demonstration of Chemical Products

Source: Petronas, Kenanga Research

HWU Unit

Source: Company, Kenanga Research

Hydraulic Unit within HWU

Source: Company, Kenanga Research

CTU Unit

Source: Company, Kenanga Research

Support Equipment

Source: Company, Kenanga Research

Income Statement

FY Jan (RM m)	2021A	2022A	2023A	2024F	2025F
Revenue	389.0	377.9	474.0	577.8	599.5
Operating Profit	18.2	35.8	59.1	73.3	76.1
Interest Exp	-24.9	-20.1	-18.0	-25.2	-26.7
Associate & JV	2.7	1.3	2.4	2.4	2.4
PBT	-4.0	17.0	43.5	50.4	51.8
Taxation	-3.3	-10.4	-3.1	-9.6	-9.9
Non-controlling interest	-0.7	-1.5	-1.3	-1.3	-1.3
Net Profit	-8.0	5.0	39.0	39.5	40.5
Core Net Profit	**22.4**	**13.3**	**39.0**	**39.5**	**40.5**

Balance Sheet

FY Jan (RM m)	2021A	2022A	2023A	2024F	2025F
Fixed Assets	519.1	496.8	542.5	520.7	496.5
Intangible Assets	203.5	204.9	206.1	206.1	206.1
Other long term assets	47.0	47.7	39.6	39.6	39.6
Inventories	35.8	46.2	47.2	46.9	48.7
Receivables	135.3	170.1	327.7	201.0	208.6
Other CA	158.7	183.7	88.4	257.4	266.2
Cash	136.8	110.6	95.6	3.3	8.6
Total Assets	1236.2	1260.0	1347.2	1275.0	1274.2
Payables	177.8	221.6	209.4	197.7	206.4
ST Borrowings	208.1	216.7	184.7	84.7	34.7
Other ST Liability	6.9	4.6	95.5	95.5	95.5
LT Borrowings	305.2	234.1	212.3	212.3	212.3
Other LT Liability	37.5	58.4	75.1	75.1	75.1
Minorities Int.	30.9	29.6	30.4	30.4	30.4
Perpetual securities	40.9	40.9	40.9	40.9	40.9
Net Assets	**428.9**	**454.2**	**499.0**	**538.4**	**579.0**
Share Capital	290.1	307.5	307.5	307.5	307.5
Reserves	138.8	146.7	191.4	230.9	271.4
Equity	**428.9**	**454.2**	**499.0**	**538.4**	**579.0**

Cashflow Statement

FY Jan (RM m)	2021A	2022A	2023A	2024F	2025F
Operating CF	118.2	51.2	146.9	42.3	91.3
Investing CF	-52.1	-18.6	-86.3	-34.7	-36.0
Financing CF	-70.0	-63.7	-74.1	-100.0	-50.0

Financial Data & Ratios

FY Jan	2021A	2022A	2023A	2024F	2025F
Growth					
Revenue (%)	-29.58	-2.85	25.42	21.89	3.76
Operating Profit (%)	-6.54	96.99	64.91	24.07	3.78
PBT (%)	-58.88	-522.35	155.51	16.06	2.61
Net Profit (%)	-65.04	-40.51	192.93	1.18	2.66
Profitability (%)					
Operating Margin	4.68	9.48	12.47	12.69	12.69
PBT Margin	-1.04	4.50	9.17	8.73	8.63
Net Margin	5.76	3.52	8.23	6.83	6.76
Effective Tax Rate	-80.83	61.31	7.12	19.07	19.09
ROA	1.81	1.06	2.90	3.10	3.18
ROE	5.22	2.93	7.82	7.33	7.00
DuPont Analysis					
Net Margin (%)	5.76	3.52	8.23	6.83	6.76
Assets Turnover (x)	0.31	0.30	0.35	0.45	0.47
Leverage Factor (x)	2.88	2.77	2.70	2.37	2.20
ROE (%)	5.22	2.93	7.82	7.33	7.00
Leverage					
Debt/Asset (x)	0.42	0.36	0.29	0.23	0.19
Debt/Equity (x)	1.09	0.91	0.74	0.51	0.40
N. Debt/(Cash	376.43	340.23	301.34	293.69	238.38
Net Debt/Equity (x)	0.88	0.75	0.60	0.55	0.41
Valuations					
EPS (sen)	6.36	3.78	10.08	10.20	10.47
DPS (sen)	0.00	0.00	0.00	0.00	0.00
BVPS (RM)	1.42	1.49	1.47	1.58	1.68
PER (x)	11.95	20.08	7.54	7.45	7.26
Div. Yield (%)	0.00	0.00	0.00	0.00	0.00
P/BV (x)	0.53	0.51	0.52	0.48	0.45

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	0.535	0.600	12.1%	3,168.6	N	12/2023	11.0	13.6	-15.4%	23.6%	4.9	3.9	0.5	11.8%	0.0	0.0%
DIALOG GROUP BHD	OP	2.13	3.10	45.5%	12,018.7	Y	06/2024	9.9	10.3	11.6%	3.9%	21.5	20.7	1.9	8.9%	3.0	1.4%
MISC BHD	MP	7.30	7.62	4.4%	32,585.3	Y	12/2023	57.5	54.9	32.4%	-4.5%	12.7	13.3	0.8	6.7%	30.0	4.1%
PETRONAS CHEMICALS GROUP BHD	MP	7.31	7.20	-1.5%	58,480.0	Y	12/2023	23.2	48.0	-71.2%	107.0%	31.5	15.2	1.5	4.7%	16.2	2.2%
PETRONAS DAGANGAN BHD	MP	22.90	24.90	8.7%	22,750.1	Y	12/2023	106.0	92.6	41.3%	-12.6%	21.6	24.7	4.0	18.3%	106.0	4.6%
PETRON MALAYSIA REFINING	MP	4.52	4.65	2.9%	1,220.4	Y	12/2023	103.0	97.8	-7.6%	-5.0%	4.4	4.6	0.5	11.9%	21.0	4.6%
UZMA BHD	OP	0.765	1.05	37.3%	296.2	Y	06/2024	10.2	10.5	1.3%	2.5%	7.5	7.3	0.6	7.6%	0.0	0.0%
VELESTO ENERGY BHD	UP	0.255	0.190	-25.5%	2,095.0	Y	12/2023	0.6	1.3	-45.8%	104.6%	40.4	19.8	0.9	2.2%	0.0	0.0%
WAH SEONG CORP BHD	UP	1.01	0.890	-11.9%	782.1	Y	12/2023	6.9	9.9	-31.6%	43.4%	14.6	10.2	1.2	8.8%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.42	3.79	56.6%	7,034.4	N	01/2024	29.0	29.9	13.7%	3.0%	8.3	8.1	1.4	18.4%	2.0	0.8%
Sector Aggregate					**142,584.3**					**-30.2%**	**25.0%**	**17.7**	**14.1**	**1.3**	**9.8%**		**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.***

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