

29 August 2019

Uzma Berhad

4Q19 Recovered From Losses

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4Q19 bounced from losses sequentially, driven by higher revenue due to improved performance from Setegap Petroleum Ventures - exceeding our forecast but below consensus' expectations. While FY19 had been another underwhelming year, we posit that the low-base could translate into some recovery moving forward. Maintain MARKET PERFORM, with TP of RM0.61.

Exceeded our, but below consensus' expectation. UZMA recorded FY19 core net profit of RM9.7m (arrived after adjustment for non-core items, e.g. re-measurement gains, impairments and unrealised forex) – exceeding our full-year forecast of RM7.2m due to our over-conservative margins assumption. However, the results were below market's expectations by 35% of consensus forecasts, possibly due to consensus' low fixed costs assumption. No dividends were declared, as expected.

Weak YoY, but rebounded from losses QoQ. 2Q19 recorded core net profit of RM7.2m, rebounding sequentially from core losses of RM4.9m last quarter, thanks to higher revenue (+25%) while core fixed operating costs stayed relatively flat. The improved revenue was driven by improved performance from Setegap Petroleum Ventures (consolidated since Jan 2019). YoY, 2Q19 core net profit plunged 38%, despite the surge in revenue (+68%), dragged by its elevated fixed costs which have been plaguing the company for the past several quarters.

Cumulatively, FY19 core net profit plunged 75% YoY, dragged by higher fixed costs (operating, finance and tax expenses). Particularly, the company recorded losses in 3Q19, and only RM0.5m core profit in 1Q19, due to the aforementioned higher costs and operational utilisation issues.

Better numbers for FY20? While FY19 had largely been another underwhelming year, we posit that the low-base earnings could potentially set up FY20 as a recovery year. Operationally, the D18 project is currently running at full capacity after some downtime earlier, while the full-year consolidation of Setegap Petroleum Ventures would also help contribute additional revenue. Overall, we view UZMA as a conceptual beneficiary of higher brown-field activities from Petronas.

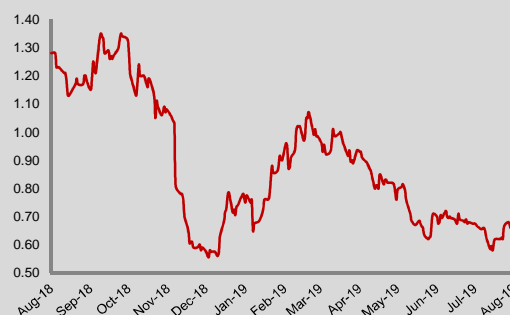
Maintain MARKET PERFORM. Nonetheless, we lowered our TP to RM0.61, pegged to 0.4x PBV on FY20E (from RM0.76 at 0.5x PBV previously), as we feel lingering earnings delivery risks may still be present, coupled with the absence of dividends in the foreseeable future to support valuations. Our ascribed valuation is close to -1.5SD below its 5-year mean. Post-results, we made no changes to our FY20E numbers, while simultaneously introducing FY21E numbers.

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 : **RM0.625**
Target Price : **RM0.610** ↓

Share Price Performance



KLCI 1,589.82
YTD KLCI chg -6.0%
YTD stock price chg 8.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UZMA MK Equity
Market Cap (RM m)	200.0
Shares Outstanding	320.0
52-week range (H)	1.51
52-week range (L)	0.55
3-mth avg daily vol:	3,517,416
Free Float	48%
Beta	1.6

Major Shareholders

Tenggiri Tuah Sdn Bhd	34.2%
Kumpulan Wang Persaraan	9.4%
Urusharta Jamaah Sdn Bhd	8.2%

Summary Earnings Table

FY June (RM'm)	2019A	2020E	2021E
Turnover	443.4	409.9	409.5
EBIT	63.8	41.0	41.0
PBT	42.9	39.9	55.6
Net Profit	29.7	21.1	30.4
Core Net Profit	9.7	21.1	30.4
Consensus (NP)		22.3	30.3
Earnings Revision (%)		-	-
EPS (sen)	3.0	6.6	9.5
EPS growth (%)	-81.3	118.6	43.9
DPS (sen)	0.0	0.0	0.0
BV/share (RM)	1.5	1.5	1.6
PER (x)	20.7	9.5	6.6
P/BV (x)	0.4	0.4	0.4
Net-Gearing (x)	1.0	1.0	1.0
Div. Yield (%)	0.0	0.0	0.0

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Income Statement								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	12M end-June	12M end-June	Y-o-Y
	CY19	CY19		CY18		CY19	CY18	
Y/E : June (RM'mil)								
Revenue	138.9	111.4	24.7%	82.5	68.4%	443.4	384.1	15.5%
Cost of sales	(84.3)	(72.8)	15.9%	(56.6)	49.0%	(281.8)	(244.7)	15.2%
Gross profit	54.6	38.7	41.2%	25.9	110.8%	161.7	139.4	16.0%
Other income	0.6	56.6	-99.0%	0.4	43.2%	59.2	6.6	797.5%
Admin and Operating expenses	(29.6)	(72.9)	-59.4%	(28.1)	5.2%	(157.0)	(103.8)	51.2%
Operating profit	25.6	22.3	14.7%	(1.8)	-1498.6%	63.8	42.2	51.3%
Unrealised forex	3.7	(8.3)	-144.7%	10.5	-64.8%	3.1	(9.7)	-131.8%
Finance costs	(8.1)	(7.9)	2.6%	(7.9)	2.7%	(29.1)	(24.6)	18.3%
Associates	(0.3)	(0.5)	-29.6%	1.3	-125.9%	5.2	6.4	-19.9%
Profit before tax	20.8	5.6	272.0%	2.1	906.1%	42.9	14.3	201.0%
Tax expense	(6.1)	(1.3)	385.8%	(0.2)	2480.3%	(7.7)	4.5	-270.0%
Non-controlling interest	(2.9)	(1.9)	55.8%	(0.4)	565.6%	(5.5)	(1.6)	236.5%
Net profit	11.8	2.5	375.0%	4.6	157.8%	29.7	17.2	73.0%
Core net profit	7.2	(4.9)	-245.7%	11.5	-37.8%	9.7	38.1	-74.7%
Gross margin	39.3%	34.7%		31.4%		36.5%	36.3%	
Operating margin	18.4%	20.0%		-2.2%		14.4%	11.0%	
PBT margin	15.0%	5.0%		2.5%		9.7%	3.7%	
Net margin	8.5%	2.2%		5.6%		6.7%	4.5%	
Core net margin	5.2%	-4.4%		14.0%		2.2%	9.9%	
Effective tax rate	29.5%	22.6%		11.5%		18.0%	-31.8%	

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 BERHAD	0.215	1,263.5	N	12/2019	14.3%	-19.8%	38.4%	2.2%	5.6	4.0	4.0	0.4	0.4	9.3%	0.0%	0.180	UP
DAYANG ENTERPRISE HLDGS BHD	1.35	1,302.5	Y	12/2019	22.2%	4.4%	-33.9%	9.1%	7.9	12.0	11.0	1.2	1.1	9.5%	0.0%	1.45	MP
DIALOG GROUP BHD	3.47	19,564.9	Y	06/2020	17.7%	6.1%	4.5%	9.7%	36.5	34.9	31.9	5.2	4.9	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.810	1,296.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	89.4	37.3	0.5	0.5	0.6%	0.0%	1.05	OP
MISC BHD	7.20	32,139.0	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	24.3	18.7	17.7	0.9	0.9	4.9%	4.2%	7.60	MP
PANTECH GROUP HOLDINGS BHD	0.500	375.0	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.6	8.4	7.9	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	6.90	55,200.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.1	15.9	13.9	1.8	1.7	11.1%	3.1%	7.70	MP
PETRONAS DAGANGAN BHD	21.84	21,697.0	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	25.9	23.0	21.3	3.7	3.5	15.6%	3.0%	22.45	MP
SAPURA ENERGY BHD	0.265	4,223.9	Y	01/2020	5.9%	20.7%	1875.6%	258.5%	N.A.	87.5	24.4	0.3	0.3	0.4%	0.0%	0.430	OP
SERBA DINAMIK HOLDINGS	4.37	6,417.3	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.7	14.3	12.6	3.1	2.7	20.2%	2.1%	5.25	OP
UZMA BHD	0.625	200.0	Y	06/2020	-7.6%	-0.1%	117.5%	44.1%	20.6	9.5	6.6	0.4	0.4	4.2%	0.0%	0.610	MP
VELESTO ENERGY BHD	0.300	2,464.7	Y	12/2019	5.3%	6.2%	119.7%	152.0%	N.A.	162.2	64.4	0.9	0.9	0.5%	0.0%	0.350	OP
WAH SEONG CORP BHD	0.630	485.4	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	7.7	9.5	11.6	0.5	0.5	5.4%	0.0%	0.620	UP
YINSON HOLDINGS BHD	6.65	7,185.3	Y	01/2020	0.1%	70.2%	-7.1%	55.9%	27.3	29.4	18.9	4.2	3.8	13.5%	0.9%	7.75	OP
Simple Average					0.6%	10.5%	212.3%	50.0%	17.5	37.0	20.2	1.7	1.6	8.4%	1.3%		

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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