

COMPANY UPDATE

Uzma (UZMA MK)

Solar Revenues To Flow From FY23, Priced In Cost Uncertainties

While maintenance O&G activities should gradually recover, Uzma's aggressive non-O&G diversification (especially into solar) is expected to contribute to meaningful revenue from FY23. We factor in solar revenue forecasts for FY23/24, but remain conservative on earnings given the overall uncertainties on all LSS4 projects. That said, current price levels have largely factored in these risks, and earnings delivery remains crucial for re-rating. Maintain BUY with adjusted target price of RM0.56.

WHAT'S NEW

- **Upcoming 3QFY22 results on 26 May 22.** The quarter is expected to be weak in tandem with slow activities during the monsoon season. That said, we understand that revenue is likely better qoq (2QFY22: RM76m, core profit: RM2m), which can be largely attributed to the relaxation of COVID-19 quarantine measures. Some projects in the previous quarter were deferred to 2022, resulting in RM20m/10m revenue and gross profit impact. Four new projects commenced operations towards end-3QFY22 (ie Mar 22), which are the three-year Risk Transfer Incentive Contract (RTIC) for Petronas for Production Enhancement services, Plug & Abandonment (P&A) works for Enquest, two-year non-rig assisted (NRA) electric wireline logging for ExxonMobil, and P&A for T7Global, whereby Uzma is the subcontractor for the hydraulic workover units (HWU).
- **Beneficiary of improving demand for well intervention/workover services.** The Petronas Activity Outlook (PAO) for 2022-24 and our recent sector reports highlighted the need to accelerate maintenance and production enhancement capex, as it is increasingly critical for Petronas to ramp up volumes to fulfil customer demand for energy security. Despite activities remaining slow in early-22, project tenders for such works have intensified, and Uzma is one of the clear beneficiaries given its service offerings. For example, Velesto Energy (HOLD/ Target: RM0.12) is stepping up on its HWU bids as it sees greater opportunities to improve HWU utilisation. Nevertheless, any new contract award may still be slow and not likely reflected in the FY22 horizon.
- **Solar projects snapshot.** About 27% of the RM0.9b orderbook for solar projects are under the Engineering, Construction and Procurement (EPC) scope of works. Based on this, Uzma's solar unit may potentially recognise RM270m in revenue for FY23. Uzma has ownership of 89MW of solar capacities, comprising its Large Scale Solar (LSS) 4 project (50MW), 9MW for Net Energy Metering (NEM) works (recently secured 5MW from Sime Darby), and another 30MW solar farm for a "Client N" by way of EPC involvement. Uzma has "ownership" for this solar project as the EPC payment will be deferred and paid throughout the power purchase agreement (PPA) period.

KEY FINANCIALS

Year to 30 Jun (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	552	384	463	614	721
EBITDA	95	92	88	98	124
Operating profit	40	40	38	50	76
Net profit (rep./act.)	(23)	18	9	19	30
Net profit (adj.)	(2)	20	13	19	30
EPS (sen)	(0.6)	6.3	3.8	5.5	8.4
PE (x)	n.m.	7.2	11.8	8.1	5.4
P/B (x)	0.3	0.3	0.3	0.3	0.3
EV/EBITDA (x)	5.4	5.5	5.8	5.2	4.1
Dividend yield (%)	0.0	0.0	0.0	0.0	2.2
Net margin (%)	(4.1)	4.6	2.0	3.2	4.1
Net debt/(cash) to equity (%)	94.3	76.6	60.5	74.1	85.6
Interest cover (x)	3.1	3.7	3.8	3.9	4.3
ROE (%)	n.a.	3.7	1.8	3.6	5.3
Consensus net profit	-	-	15	23	30
UOBKH/Consensus (x)	-	-	0.90	0.85	0.99

Source: Uzma, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	RM0.45
Target Price	RM0.56
Upside	+25.5%
(Previous TP)	RM0.57

COMPANY DESCRIPTION

Uzma is an oil & gas company that provides integrated reservoir services to upstream players. Its three main businesses are: a) geoscience and petroleum engineering services, b) drilling and well services, and c) project oilfield and operation services.

STOCK DATA

GICS sector	Energy
Bloomberg ticker:	UZMA MK
Shares issued (m):	352.0
Market cap (RMm):	158.4
Market cap (US\$m):	36.4
3-mth avg daily t'over (US\$m):	0.4

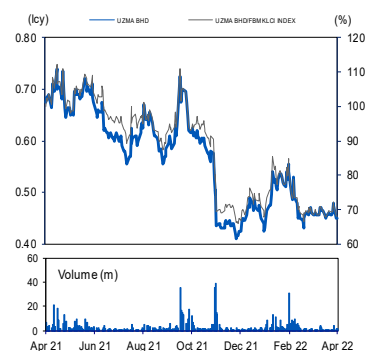
Price Performance (%)

52-week high/low	RM0.740/RM0.410			
1mth	3mth	6mth	1yr	YTD
(2.2)	5.9	(26.8)	(36.2)	1.1

Major Shareholders

	%
Tenggiri Tuah	34.5
FY22 NAV/Share (RM)	1.39
FY22 Net Debt/Share (RM)	0.91

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **A bumpy ride to reach long-term solar targets.** Solar is expected to be the key driver of the non-O&G diversification, with potential revenue targets to hit RM0.5b in the near term (by 2025) driven by EPC, and long-term revenue base of >RM1b (beyond 2030), assuming >1.5GW of operated renewable capacities. This is positive for ESG, as very few O&G players have laid out such roadmaps. However, the ride will be bumpy. Firstly, the deferred EPC payments from "Client N" will increase working capital strain (receivables). Secondly, the LSS4 winners will need to contend with uncertain solar panel costs, which surged since the time of LSS4 bidding, while the timeline for project delivery is getting shorter before the commercial operation dates (COD) of 2023-24.
- Uzma guided that solar panel costs had declined from peak levels. Although costs are still above the original budget, project IRR can still be matched, depending on optimisation/value engineering and the EPC income. Potentially, the government may allow COD deferral for the LSS asset owners, presumably to wait for solar costs to normalise. If COD remains fixed, there is the issue of longer delivery times due to supply chain disruptions. Purchase orders (PO) for the smaller projects will need to be done by mid-22, while POs for larger (50MW) capacities by late-22. We understand that the EPC for 50MW project will progress to the construction phase soon, while for the 30MW project the land clearing will begin after the Raya festive periods.
- **May look at potential solar M&As.** Uzma is still keen to bid for solar projects for the upcoming LSS5 and beyond, as Malaysia has a large potential to have up to 270GW of solar capacities. Uzma is also open to acquire brownfield projects from LSS1 or LSS2, whereby the five-year moratorium has expired, with remaining PPA periods of 15 years. These are estimated at capacities of about 370MW. The base and feed-in tariffs were more lucrative vs the recent LSS, at RM0.40/kWh to RM0.90/kWh (granted, costs were very different). Given its balance sheet, Uzma will need to be selective on the right pricing and projects, ie with minimal legacy problems or technical setbacks that can be resolved. Assuming this, the M&A of existing cash-generating assets may be a positive angle to accelerate Uzma's non-O&G returns and decarbonisation plans.

EARNINGS REVISION/RISK

- **Adjust FY22F-24 earnings by 0/0/6%.** We raised revenue forecasts for FY23/24 by 23-28%, given that works for solar projects had started (minimal impact for FY22). On earnings, we are still cautiously optimistic vs management's expectation, given the risks mentioned above that are applicable to all LSS4 projects. Uzma is still in an early learning curve and the delivery is crucial until the projects reach COD.

VALUATION/RECOMMENDATION

- **Maintain BUY with adjusted target price of RM0.56 (from RM0.57)** based on an unchanged valuation of 10x FY23F PE. Uzma is not only expected to benefit from better O&G maintenance, it is among the better small-cap stocks in terms of its ESG agenda. Although Uzma remains highly dependent on Petronas' work orders, our valuation horizon (at FY23) now factors some positives from the non-O&G diversification, but earnings delivery will be its most crucial earnings re-rating factor for the stock. That said, its share price level is trading at close to its five-year low, which we believe has priced most of the risks in. At this price level, the stock can be attractive for investors who have a longer term view and prepared for the near term volatilities.
- **We ignore any DCF valuation of the solar projects,** until clear earning delivery is proven. Our rough back of envelope calculations suggest the 50MW LSS4 project may offer RM0.14/share DCF upside once COD commences, based on IRR of 8%.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

• Environmental	
- Carbon (CO2) reduction.	There is no public disclosure yet on detailed emissions but Uzma is clearly serious on net-zero carbon targets in line with the below points.
- Clear non-O&G diversification roadmap.	Non-O&G diversification underway and guided to become 40% of revenue mix by FY25. Solar to lead the non-O&G growth with long-term target revenue generation of >RM1b beyond 2030.
• Social	
- Diversity.	>20% female proportion amongst 880 staff force (as per FY21 report).
- Safety (HSE).	Lost Time Injury Frequency (LTIF) remains low at almost 0.
• Governance	
-	5 out of 8 board members are independent, with wide industry expertise.

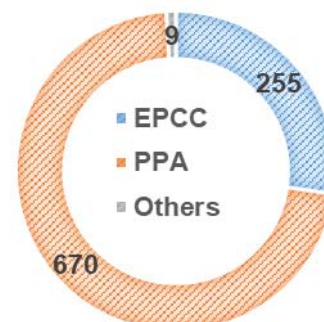
SNAPSHOT, UZMA MAIN SOLAR PROJECTS

Name	Uzma Environenergy Solar PV Park
Location	Bukit Selambau, Sungai Petani, Kedah,
Capacity	50MW for 182 acres of land
Startup	COD 29 Sep 2023
Developer	Uzma Kuala Muda
Offtaker	Tenaga Nasional, 21 years
Expected capex	RM140m (also EPC revenue)
Equity funding	15%
IRR/ Expected income	8% IRR at RM0.18-0.19/kWh. Expected income: RM19m; These exclude EPC

Name	"Client N" Solar PV Park
Location	Bukit Badong, Selangor
Capacity	29.9MW
Startup	COD June 2023
Developer	NA. Note : Uzma is EPC Contractor only
Offtaker	NA.
Expected capex	RM90m (also EPC revenue)
Equity funding	NA, by way of deferred payment
IRR/ Expected income	Expected income: RM12m throughout PPA period by way of deferred payment for EPC

Source: Media, UOB Kay Hian.

SOLAR ORDERBOOK RM935M AS OF OCT 21



Source: Uzma

SEGMENTAL FORECASTS

RMm	FY22F	FY23F	FY24F
Group revenue	462.9	613.6	721.1
- Services	441.1	376.7	424.2
- Trading	21.9	36.9	51.9
- Setegap (85%)	163.8	163.8	163.8
- New Energy	20.0	200.0	245.0
EBIT	38.1	49.6	75.9
- Services	11.8	20.2	44.9
- Trading	1.8	3.3	4.8
- Setegap (85%)	24.6	26.2	26.2
- New Energy	1.2	12.0	12.3
EBIT margins (%)	8.2%	8.1%	10.5%
- Services (%)	2.7%	5.4%	10.6%
- Trading (%)	8.0%	8.8%	9.2%
- Setegap (%)	15.0%	16.0%	16.0%
- New Energy	6%	6%	6%
FCF	20.7	(70.3)	(55.1)

Source: UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (RMm)	2021	2022F	2023F	2024F
Net turnover	384	463	614	721
EBITDA	92	88	98	124
Deprec. & amort.	52	50	48	49
EBIT	40	38	50	76
Total other non-operating income	7	n.a.	n.a.	n.a.
Associate contributions	3	3	3	3
Net interest income/(expense)	(25)	(23)	(25)	(29)
Pre-tax profit	23	13	27	49
Tax	(4)	(3)	(7)	(13)
Minorities	(1)	(1)	(1)	(7)
Net profit	18	9	19	30
Net profit (adj.)	20	13	19	30

BALANCE SHEET

Year to 30 Jun (RMm)	2021	2022F	2023F	2024F
Fixed assets	537	516	526	543
Other LT assets	236	245	260	276
Cash/ST investment	137	136	101	86
Other current assets	359	427	592	727
Total assets	1,269	1,324	1,478	1,633
ST debt	208	200	261	341
Other current liabilities	195	268	354	415
LT debt	305	257	246	238
Other LT liabilities	39	39	39	39
Shareholders' equity	491	529	549	575
Minority interest	31	31	30	27
Total liabilities & equity	1,269	1,324	1,478	1,633

CASH FLOW

Year to 30 Jun (RMm)	2021	2022F	2023F	2024F
Operating	118	51	(10)	11
Pre-tax profit	19	13	27	49
Tax	(4)	(3)	(7)	(13)
Deprec. & amort.	52	50	48	49
Working capital changes	35	(9)	(79)	(74)
Other operating cashflows	17	0	0	0
Investing	(52)	(30)	(60)	(66)
Capex (growth)	(59)	(30)	(60)	(66)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	7	0	0	0
Financing	(70)	(16)	33	37
Dividend payments	(5)	(5)	(5)	(5)
Issue of shares	0	25	0	0
Proceeds from borrowings	50	24	98	103
Loan repayment	(100)	(60)	(60)	(60)
Others/interest paid	(15)	0	0	0
Net cash inflow (outflow)	(4)	4	(38)	(18)
Beginning cash & cash equivalent	110	91	96	61
Changes due to forex impact	31	41	42	43
Ending cash & cash equivalent	137	136	101	86

KEY METRICS

Year to 30 Jun (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	23.9	19.0	16.0	17.3
Pre-tax margin	6.0	2.9	4.5	6.9
Net margin	4.6	2.0	3.2	4.1
ROA	1.4	0.7	1.4	1.9
ROE	3.7	1.8	3.6	5.3
Growth				
Turnover	(30.5)	20.5	32.5	17.5
EBITDA	(3.2)	(4.1)	11.3	27.0
Pre-tax profit	n.a.	(42.4)	104.9	80.7
Net profit	n.a.	(49.1)	115.3	51.5
Net profit (adj.)	n.a.	(33.2)	45.8	51.5
EPS	n.a.	(39.3)	45.8	51.5
Leverage				
Debt to total capital	49.5	44.9	46.7	49.0
Debt to equity	104.5	86.3	92.4	100.6
Net debt/(cash) to equity	76.6	60.5	74.1	85.6
Interest cover (x)	3.7	3.8	3.9	4.3

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