

Team Coverage

(603) 7890 8888

research.dept@apexsecurities.com.my

Recommendation: **Subscribe**

IPO Price: **RM 0.24**

Previous Target Price: -

Target Price: **RM 0.33**

Upside / Downside: **37.5%**

Company Brief

Principally involved in the provision of underground utilities engineering solutions, as well as the manufacture and trade of HDPE pipes.

Stock Information

Board	ACE Market
Sector	INDUSTRIAL
Bursa / Bloomberg Code	0310 / UUE MK
Syariah Compliant	Yes
Shares issued (m)	608.3
Market Cap (RM' m)	146.0
Free float (%)	26.7

Top 3 Shareholders (%)

Datuk Dr Ting	50.9
Hin Wai Mun	8.2
Chong Tuoo Cho	6.9

IPO Timetable Date

Opening of IPO application	28/5/2024
Closing of IPO application	18/6/2024
Balloting of IPO application	21/6/2024
Allotment of IPO shares	28/6/2024
Listing of IPO on Bursa Malaysia	2/7/2024

UUE Holdings Bhd

Underground Utilities Expert

Summary

- UUE is principally involved in the provision of underground utilities engineering solutions for electricity supply and telecommunications industry.
- Earnings growth recorded at double digit over the past years and is expect to chart similar growth rate over the foreseeable future, riding onto the rapid growth in utilities industry.
- We ascribe a **SUBSCRIBE** recommendation to UUE, with a fair value of **RM0.33**, premised to its attractive valuations coupled with promising growth prospects.

Company Background

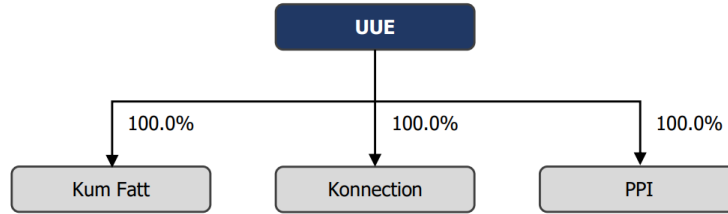
- UUE Holdings Bhd (UUE) is a holding company formed through the incorporation of Kum Fatt, Konnection, and PPI in 2009 and 2017 respectively. UUE specialises in provision of underground utilities engineering services in Malaysia and Singapore, with a focus on the Horizontal Directional Drilling (HDD) method for laying pipes, and also employs open cut and micro trenching excavation methods. UUE is involved in the manufacturing and trading of HDPE pipes and owns and operates a fleet of HDD machinery and equipment, including underground utility detectors and gyroscopic utility mapping devices, which enable them to better control costs.
- With more than a decade of business relationships with customers, UUE has been appointed as the exclusive engineering service provider for Komasi Engineering and Sutera. The Group have also been appointed as the main contractor by Maxis Broadband to supply, deliver, install, commission, and maintain equipment and outside plant for up to two years. As LPD, the Group is equipped with an unbilled order book value of RM223.4m, which is expected to be realised over the next three financial years. Based on the Group's revenue contribution from respective countries in 2022, UUE commands a market share stands of 0.7% in Malaysia and 0.1% in Singapore, respectively.

IPO Utilisation

Details of utilisation	Estimated time frame for utilisation	RM'm (%)
Business expansion		
Purchase of machinery and equipment	Within 24 months	15.8 (52.6%)
Working Capital	Within 12 months	10.9 (36.3%)
Defraying the listing expenses	Within 1 months	3.3 (11.1%)

Source: UUE

Corporate Structure



Source: UUE

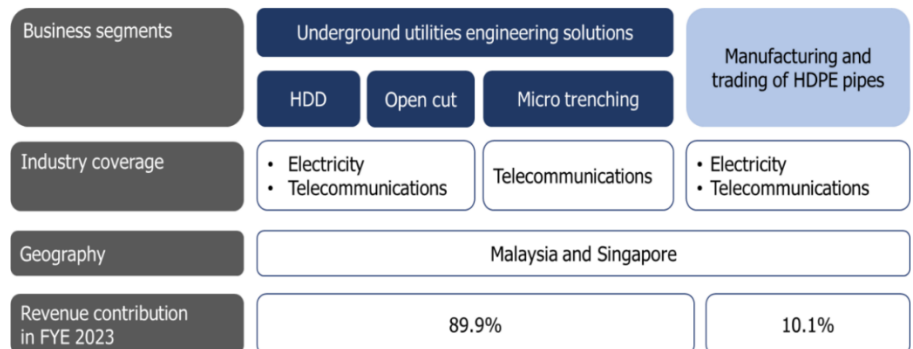
Company	Principal activities
Kum Fatt	Provision of underground utilities engineering services and solutions in Malaysia
Konnection	Provision of underground utilities engineering services and solutions in Singapore
PPI	Manufacturing and trading of HDPE pipes in Malaysia

Source: UUE

Business Overview

- UUE specialises in provision of underground utilities engineering solutions, HDD method for laying pipes, along with employing open cut and micro trenching excavation methods. The Group primarily operates as a subcontractor to main contractors in the utility and telecommunications sectors comprising cable and pipeline installation and maintenance works, project management, utility detection and mapping, and HDD technical expertise along with the necessary machinery, materials, and general labour. Deemed as a one-stop solution provider which not only provides convenience to customers by requiring fewer engagements with multiple parties, UUE also ensures better control over costs and quality of work. Meanwhile, UUE also manufactures and trades HDPE pipes which primarily support their core operations in Malaysia and Singapore. For labour-intensive jobs involving physical underground utilities engineering works, subcontractors were engaged to complete the tasks. UUE has 57 approved list of subcontractors which were regularly assessed prior to the approved list.

Business model



Source: UUE

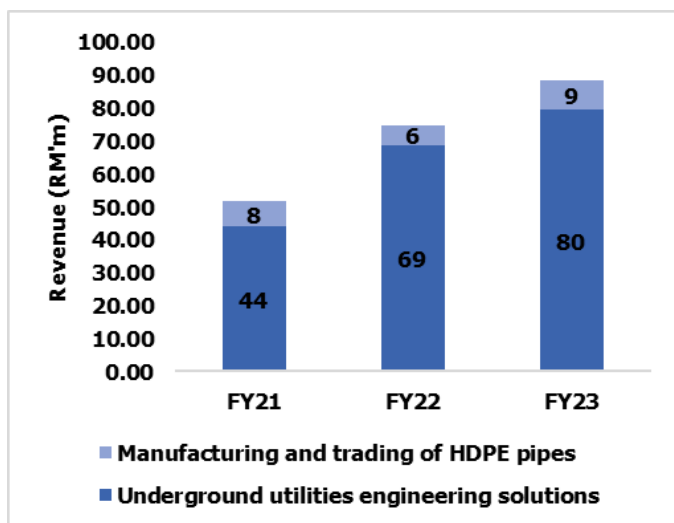
- Provision of underground utilities engineering solutions** includes procuring, supplying, delivering, installing, laying, constructing, relocating, testing, commissioning, inspecting, repairing, and maintaining underground and overhead utilities or product pipelines.
- HDD** is a method that minimizes disturbance to the surrounding environment and soil composition, offers accurate and flexible pipeline placement, shortens construction

periods, faces fewer external constraints, allows for more effective installation, and lowers construction costs.

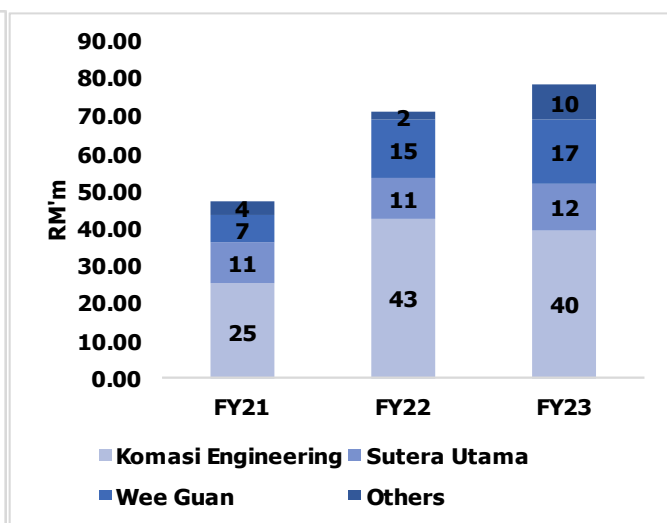
- (iii) **Open cut** is a cost-effective method for cable or pipeline routes located in non-pavement or grass verge areas. If the route is located on paved areas, UUE is required to restore the pavement after completing the cable laying work.
- (iv) **Micro trenching** is a technique for deploying cables (such as for broadband networks) using smaller dimensions than conventional trench digging equipment.
- (v) **Manufacturing of HDPE pipes** C.70% of the manufactured HDPE pipes are used to support underground utilities projects in Malaysia, while the remainder is exported to main contractors of underground utilities projects in Singapore.

- To maintain their market standing, UUE has implemented a quality management system certified to ISO 9001:2015 by Global Compliance Certification Pty Ltd. In HDPE pipe manufacturing, UUE not only procure raw materials from approved list of suppliers, but also conduct daily sampling inspections on 1 out of every 20 pipes produced, checking for thickness, size, and appearance. Over the past three years, no product defect claims or rectification requests have been received.
- With relationships spanning up to a decade, UUE has been appointed as the exclusive engineering service provider for top two customers; Komasi Engineering and Sutera Utama, since 2021. Thanks to the customers' strong bidding capability, UUE has broadened their service portfolio to encompass TNB, with contracts totalling RM46.2m from FY18 to FY23, and further increased to RM42.1m, RM175.8m and RM83.9m, for FY24F, FY25F, and FY26F, respectively. As of LPD, the group is kept busy with 101 ongoing projects with a total contract value of RM423.7m to be recognised over the next three years.

Revenue Breakdown (by business segment) Revenue contributed by major customers

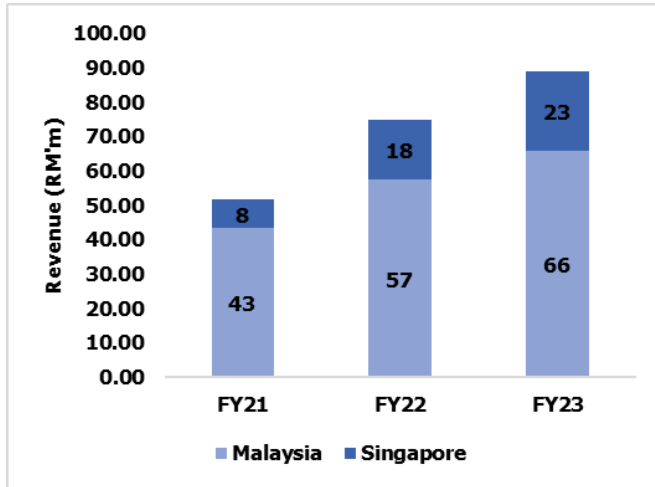


Source: UUE, Apex Securities



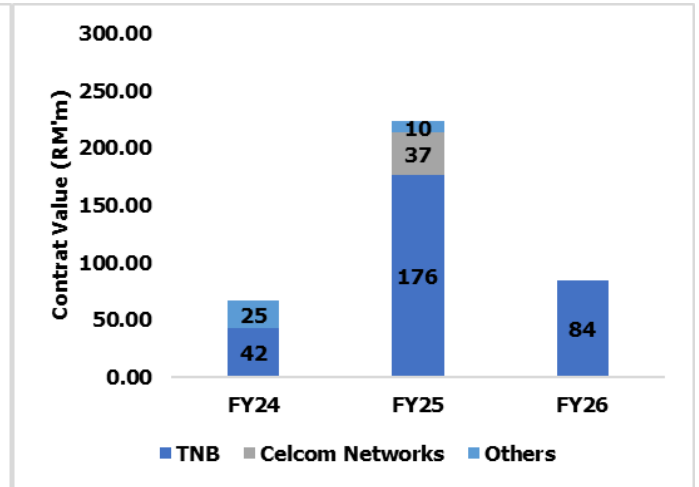
Source: UUE, Apex Securities

Revenue Breakdown (by geographical)



Source: UUE, Apex Securities

On-going projects breakdown

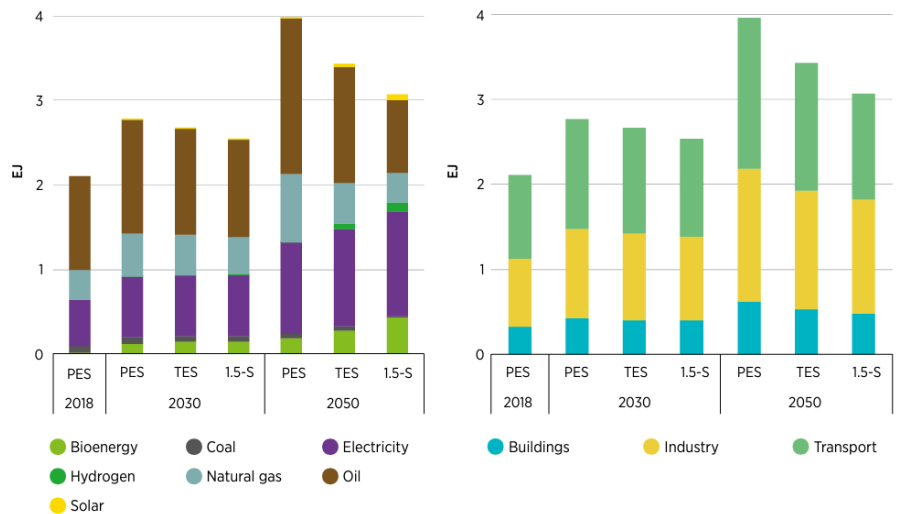


Source: UUE, Apex Securities

Industry Overview

- Capex for power generation, transmission, and distribution in Malaysia is closely linked to electricity consumption. According to IRENA, projected total final energy consumption is expected to nearly double by 2050 under the Planned Energy Scenario (PES), with energy demand forecasted to grow by 2.0% annually. The said growth, along with initiatives like the Grid of the Future and National Energy Transition Roadmap, as well as the expansion of data centres and electric vehicles, highlights the urgency requirement to enhance transmission and distribution grid infrastructure. This will directly benefit companies such as UUE, as increased underground cabling will be required to support these efforts.

Total final energy consumption by scenario and years



Source: IRENA

- Connectivity services remain a key driver of revenue growth and investments in communication utility infrastructure. In 2021, Digital Nasional Berhad (DNB) was established to advance the goals of the Malaysia Digital Economy Blueprint. The approved cost for 5G network and infrastructure deployment by DNB is RM12.5b. Additionally, an allocation of RM1.3b has been earmarked under Budget 2023 to extend the 5G network's reach throughout Malaysia. This investment will create job opportunities in underground utilities engineering solutions.
- Based on an independent market research report by Providence Analysis, civil engineering utilities work has risen to SGD10.2b in 2022, with a CAGR of 2.2% since 2016. Growth is expected to remain on course due to increasing population and the optimisation of land use. Several upcoming underground developments planned until 2030, including the Thomson-East Coast Line, Deep Tunnel Sewerage System Phase 2, Four-in-One Depot at Changi, North-South Corridor, and Cross Island Line, require essential infrastructures such as electricity, telecommunication, and water. All these are anticipated to drive further demand for civil engineering utilities works.
- In 2022, Providence estimates that UUE garnered a market share of 0.7% based on the capital expenditure incurred for recurring electricity generation, transmission and distribution in Malaysia of RM9.2b, with UUE's revenue from underground utilities engineering solutions in Malaysia at RM60.7m. While held a market share of 0.1% in Singapore, derived from awarded civil engineering work contracts of SGD7.3b, with UUE's revenue from underground utilities engineering solutions in Singapore amounting to SGD5.9m.

Investment Highlights

- **Specialised provider of HDD engineering solutions.** UUE is a trusted provider of HDD engineering solutions with a track record spanning 14 years, specialising in projects related to electricity supply at 11kV, 33kV, and 66kV levels, as well as telecommunications for fixed line and mobile network services. UUE offers comprehensive services including project planning and management, utility detection and mapping, and HDD technical expertise distinguishing itself from industry players that focus solely on specific areas.
- **In-house manufactured HDPE pipes.** UUE is involved in manufacturing HDPE pipes, with c.70.0% of these pipes complementing its provision of HDD engineering solutions, while the remainder is exported to Singapore's main contractors. This strategy allows UUE to maintain high margins through cost control and quality assurance. HDPE pipes manufactured not only comply industry standards but certified by SIRIM QAS International for use in water supply pipelines, providing the UUE with an additional source of end-user industry. With this high-quality assurance, UUE has been approved by TNB to supply these pipes for TNB's power sector projects since 2022.
- **Strong business relationships with customers.** Thanks to consistent delivery of quality and timely services, UUE has maintained decade-long business relationships with its top three customers, being appointed as the exclusive engineering service provider indefinitely. Leveraging onto customers' strong bidding capabilities, UUE further expanded customer portfolio to serving TNB, with contracts worth RM46.2m from FY18 to FY23. Contribution from the said customer is expected to further increase to RM42.1m, RM175.8m and RM83.9m, for FY24F, FY25F, and FY26F, respectively. As part of its strategic diversification from major customers,

UUE's clientele has further expanded to include the telecommunications sector, including prominent customers such as Maxis Broadband and Celcom Networks.

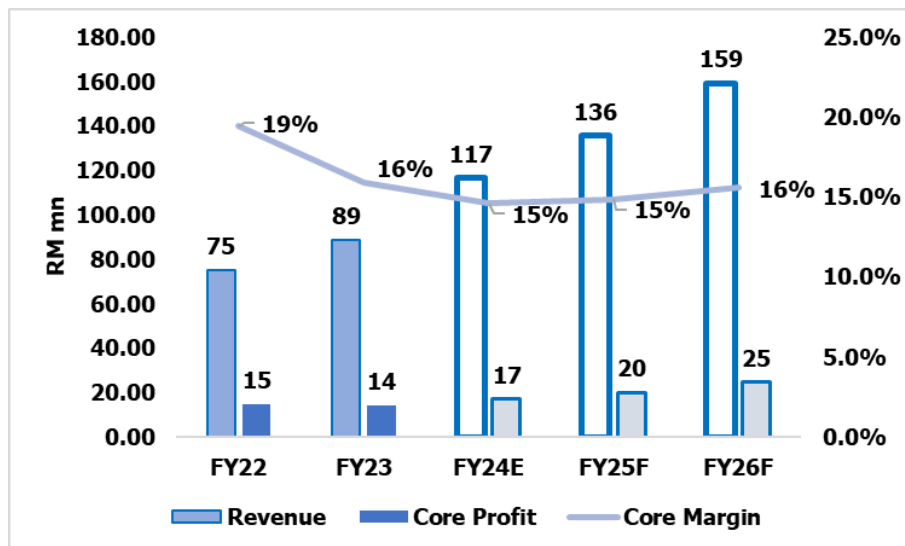
- **Lucrative margin.** Capitalising on in-house manufacturing of HDPE and a focus on project technicalities, UUE enjoys superior margins, with gross profit margins averaging 30.0% and core profit margins averaging 16.0% historically. By avoiding labour-intensive tasks such as physical underground utilities operations, electrical and structural work, traffic management, and maintenance, the Group relies on approved subcontractors. UUE's strategy of owning a fleet of HDD machinery and equipment, rather than leasing, further enhances cost efficiencies.
- **Quality assurance.** One of the key strengths of UUE is adoption of stringent QC and quality assurance systems accordance with ISO 9001:2015 standards and requirements. To tackle scaling and technically challenging HDD projects, UUE has 17 employees with over 5 years of experience ready to manage and supervise the entire HDD process. UUE also one of the few industry players to enforce all operations personnel to undergo training using VR HDD simulators before stepping into physical training in bid to enhance employee competency. UUE maintains a stringent list of 57 subcontractors, actively inspecting their qualifications. The Group also conduct daily sampling inspections on 1 out of every 20 pipes produced, checking for thickness, size, and appearance. These commitments have led to customer satisfaction and zero-defect claims over the past three years.
- **Exciting expansion plan.** UUE intends to expand their operations in Malaysia and Singapore. Plans include: i) expansion in Terengganu, Kelantan and Pahang to scale up business operations ii) acquire more machinery, including HDD machines, Maxi rig HDD machines, Lorries, and Excavators, to expand the range of underground utilities engineering solutions and ii) expanding in Singapore by actively participating in tenders and requests for quotations for HDD works. The expansion plan also entails venturing into subsea HDD works to further diversify and cater to different customer needs. As LPD, the Group has secured electricity supply projects with a total contract value of RM83.9m in the East Coast region covering Terengganu, Kelantan, and Pahang. According to DNB, these three regions still lack 5G coverage, presenting significant opportunities for demand in underground utilities, which aligns with UUE's strategic focus.

Financial Highlights

- From FY21 to FY23, UUE's achieved three-year revenue CAGR of 30.9% to RM88.7m, driven by: i) better recognition of on-going works from underground utilities engineering solutions and ii) stronger sales of HDPE pipes. In tandem with the revenue growth, UUE charted three-year core PBT CAGR of 35.0% to RM17.2m. We attribute the better performance of Singapore operations (CAGR of 64.5% to RM22.9mn) on higher demand for underground utilities engineering solutions. Meanwhile, Malaysia operations posted higher revenue of CAGR 23.3% to RM65.8m from on-going contracts in underground utilities engineering solutions.
- Going forward, we forecast UUE's core net profit at RM17.0m/RM20.2m/RM24.8m in FY24F/FY25F/FY26F driven by stability in GP margins at c.30.0%. Our expectations on FY24F/FY25F/FY26F respective sales growth of 31.4%/16.5%/17.4% are on the back of progressive recognition of RM223.4m of on-going orderbooks and growth in demand from underground utilities solution. Already, 10MFY24 core net profit at RM14.4m makes up to 84.7% of our forecasted

figures. While UUE does not adopt any formal dividend policy, we assume a dividend pay-out of remain similar to FY24 at <20.0% for FY25F and FY26F, which works out to DPS of 0.56sen and 0.69sen respectively.

Financial Performance



Source: UUE, Apex Securities

FYE Feb (RM' m)	FY22	FY23	FY24E	FY25F	FY26F
Revenue	74.9	88.7	116.5	135.7	159.3
EBITDA	20.4	19.4	25.0	30.4	37.3
Pre-tax Profit	18.6	17.2	22.3	26.5	32.6
Profit After Tax	14.6	14.1	17.0	20.2	24.8
Net Profit	14.6	14.1	17.0	20.2	24.8
Core Net Profit	14.6	14.1	17.0	20.2	24.8
Core EPS (sen)	2.6	2.6	3.1	3.7	4.5
Core P/E (x)	10.0	10.3	8.6	7.2	5.9
Dividend Yield (%)	3.7	2.6	1.9	2.3	2.9
P/B (x)	4.1	3.0	2.3	1.8	1.4
ROE (%)	46.9	33.5	30.3	27.9	27.3
Gearing (%)	15.6	3.6	5.8	Net Cash	Net Cash

Source: UUE, Apex Securities

Valuation & Recommendation

- Based on an IPO price of RM0.24 per share, UUE is priced at a trailing PE of 10.3x annualised FY23 EPS. We assign a target PE of 9.0x FY25F EPS, translating to a fair value of RM0.33 per share. The assigned valuation takes into account of several factors: i) UUE's involvement in manufacturing HDPE pipes complements its core business, ii) its established name presence in Singapore, which enjoys better margins, and iii) low downturn risks, as HDD technology can be applied to other industries such as higher power transmission (132kV, 275kV, and 500kV), water, sewerage, and piped gas.

Key Risks

- **Dependent on major customers.** UUE heavily relies on its top three customers, collectively contributing 84.0%, 92.1%, and 77.8% to the Group's revenue for FY21 to FY23 respectively.
- **Subjected to regulatory requirements.** Requirement to comply with relevant conditions, laws, and regulations governing the issuance and renewal of licenses for foreign employees, which typically need renewal every 1-2 years. Currently, the Group employs 149 foreign workers out of a total of 273.
- **Dependent on subcontractors.** Exposure to the risk of subcontractor non-performance, potentially leading to defects liability claims and reputational damage. Subcontracted services accounted for 64.3%, 63.7%, and 61.0% of total purchases from FY21 to FY23.

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
<p>Head Office: 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p> <p>Petaling Jaya Office: 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7620 1118</p>	<p>Head Office: Kong Ming Ming (ext 2002) Shirley Chang (ext 2026) Norisam Bojo (ext 2027) Ahmad Mujib (ext 2028)</p> <p>Institutional Dealing Team: Siti Nur Nadhirah (ext 2032)</p> <p>PJ Office: General Line: (603) 7620 1118 Azfar Bin Abdul Aziz (Ext 822)</p>	<p>Head Office: Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069) Chelsea Chew (ext 2070)</p>

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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