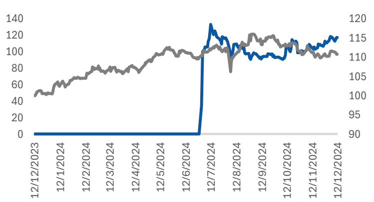
Tan Sue Wen
(603) 7890 8888 (ext 2095)
suewen.tan@apexsecurities.com.my

Recommendation:	BUY
Current Price:	RM 0.815
Previous Target Price:	N/A
Target Price:	RM 1.10
Capital Upside/Downside:	35.0%
Dividend Yield (%):	1.2%
Total Upside/Downside:	**36.2%**

Stock information	
Board	ACE
Sector	Industrial
Bursa / Bloomberg Code	0310 / UUE MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	608.3
Market Cap (RM' m)	495.8
52-Week Price Range (RM)	0.965-0.595
Beta (x)	N/A
Free float (%)	33.6
3M Average Volume (m)	2.4
3M Average Value (RM' m)	1.8

Top 3 Shareholders	(%)
Datuk Dr Ting	50.9
Hin Wai Mun	8.2
Datuk Ting Meng Pheng	7.3

Share Price Performance



	1M	3M	12M
Absolute (%)	11.6	28.3	N/A
Relative (%)	12.1	31.3	N/A

UUE Holdings Bhd

Underground Utilities Expert

Executive Summary

- **Specialist in underground utilities engineering services, focusing on HDD solutions essential for modern grid connectivity. We believe UUE is well positioned as a proxy to benefit from TNB's grid upgrade, given its exclusive subcontractor status with its top two customers, whom have been serving TNB for several years.**
- **Future core earnings growth will be driven by a robust contract pipeline for electricity works, margin expansion from DC-related projects, subsea development, and a higher proportional contribution from Singapore operations.**
- **We initiate coverage on UUE with a BUY recommendation and a target price (TP) of RM1.10, based on a 20.0x PER, pegged to FY26F fully diluted EPS of 5.5 sen and appraised with three-star ESG rating.**

Key Investment Highlights

Leveraging onto rising electricity demand. UUE specializes in HDD solutions, critical components for modern grid connectivity, and holds exclusive subcontractor status with its top two customers, whom have been serving TNB for several years. Through NETR initiatives and growing data centers pushing TNB's capex to RM90bn (2025-2030), we project a 31.1% three-year CAGR in UUE's core net profit, reaching RM43.1m by FY27F.

Sustainable orderbook replenishment. As of 31 Aug 2024, UUE's unbilled order book stood at RM217.0m, providing earnings visibility through FY27F. We expect the order book to grow by 20% annually, driven by UUE's exclusive HDD status, rising demand for data center connectivity, and stronger margins from its Singapore operations.

Venture into subsea HDD works. UUE has expanded into subsea HDD solutions, having purchased a RM7.0m Maxi rig HDD machine (expected completion Q4CY24) and signed an MoU with a Taiwan-based subsea specialist. We expect subsea earnings to make a meaningful contribution from FY26F, offering significant re-rating potential due to its niche specialisation.

Expansion plans. As of 6MFY25, UUE's manufacturing capacity utilisation reached 74.8%, nearing the optimal 80%. To meet rising demand, UUE plans to: (i) install at least a new three-line production facility by FY27F; (ii) expand capacity by 73% to 1,600 kg/hr at its existing facility, targeted for completion in CY25.

Valuation & Recommendation. We initiate coverage on UUE Holdings Berhad with a **BUY** recommendation and a target price of RM1.10, based on a 20.0x P/E multiple pegged to FY26F fully diluted EPS of 5.5 sen, and appraised with a three-star ESG rating.

Earnings Summary

FYE Feb (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	88.7	125.7	164.6	205.1	254.6
EBITDA	21.3	26.7	37.8	51.0	63.8
Pre-tax profit	17.3	21.5	32.0	44.0	56.6
Net profit	14.2	16.2	24.4	33.5	43.1
Core net profit	14.2	19.1	24.4	33.5	43.1
Core EPS (sen)	2.3	3.1	4.0	5.5	7.1
P/E (x)	34.8	25.9	19.8	16.3	14.0
P/B (x)	10.2	7.9	4.3	3.5	2.9
EV/EBITDA (x)	23.2	18.3	12.7	10.3	9.1
Dividend Yield (%)	0.7%	0.6%	0.9%	1.1%	1.5%
Net Gearing (%)	0.0	0.1	Net Cash	Net Cash	Net Cash

Source: Company, Apex Securities

KDN PP13226/06/2024 (035469)

Business Overview

Business Model. The Group engages in two core business operations: (i) underground utilities solutions and (ii) manufacturing and trading HDPE pipes.

Business Activities

Business segments	Underground utilities engineering solutions			Manufacturing and trading of HDPE pipes
	HDD	Open cut	Micro trenching	
Industry coverage	• Electricity • Telecommunications		Telecommunications	• Electricity • Telecommunications
Geography	Malaysia and Singapore			
Revenue contribution in FYE 2023	89.9%			10.1%

Source: Company, Apex Securities

(i) **HDD** is a type of trenchless excavation method used to install underground pipelines at depths ranging from 3m to 20m and is suitable for tunnels sized between 10mm and 1,000mm, with minimal surface-level disruption.
(ii) **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.
(iii) **Micro trenching** is a technique for deploying cables (such as for broadband networks) using smaller dimensions than conventional trench digging equipment.
(iv) **Manufacturing of HDPE pipes** C.40% of the manufactured HDPE pipes are used to support underground utilities projects in Peninsular Malaysia, while the remainder is distributed locally and exported to Singapore's main contractors.

Underground Utilities Solutions (84.2% of 6MFY25 revenue)

UUE specialise in the horizontal directional drilling (HDD) method of laying pipes (c.90% revenue contribution from the segment), for Malaysia and Singapore markets. UUE primarily handles the technical aspects of a project, including project planning, project management, site survey, tracing, utility mapping, commissioning, and handover, which forms their capability to offer end-to-end solutions and ensure timely project completion.

Revenue breakdowns. Based on 6MFY25, c.80% revenue mainly derived from the power sector, with remainder 20% from telecommunication sector. In power sector, UUE specialise in projects related to electricity supply at 11kV, 33kV, 66kV and even for 132kV levels. Contributions were mainly derived from three key customers namely Komasi Engineering, Sutera Utama and Wee Guan Group, whom all are notable utilities contractors in towns. The former two players appointed UUE as an exclusive HDD subcontractor since 2021, which helped the Group secure a stable flow of projects over the years. UUE has strategically expanded its portfolio by securing in-house tender contracts for data center-related infrastructure projects, with YTD orderbook nearing RM10.0m. While this figure remains modest, we believe it lays the foundation for market penetration in future tenders.

For telecommunication sector, UUE plays the role as one of the main contractors for Maxis and a sub-contractor for Celcom Digi, providing fixed-line and mobile network services. According to DNB, East Coast region still lack 5G coverage, presenting significant opportunities for demand in underground utilities, which align with UUE's strategic focus.

Cost analysis. We believe subcontractors, materials and labour costs remained the Group's biggest cost components c.>80% of Group's COGS. Unlike its peers, UUE preferable to owns HDD machines (c.18 units) instead of leasing, enable the Group to gain better control costs. For labour-intensive works, UUE traditionally outsource to subcontractors for tasks such as physical HDD works, cable laying, cable termination and jointing, milling and paving, electrical/structural works, traffic management, and cleaning. In our view, the ratio of reliance on subcontractors to reduce significantly when the Group scale up general worker scenario is unlikely, as subcontractors mainly serves as an arm for the Group to fastening completion of projects. As of Oct-2024, UUE has 354 total workforce, ~40% from general workers, remainder from skilled workers. Note that Budget 2025 announcement of which minimum wage hike to RM1,700, will translate to an additional ~RM300k/pa of operational cost to the Group. We believe the impact remains manageable and within the Group's control.

GP margins. Over the past four years, UUE consistently delivered gross profit margins of c.30%. We believe below factors positioned UUE as a leading contender for infrastructure utility jobs, ensuring the Group to consistently procure new business opportunities.

(i) One-stop solutions. 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. This provides convenience to customers by requiring fewer engagements with multiple parties, while also ensures better control over costs and quality of work.

(ii) Quality of work. UUE maintained >60 approved list of subcontractors which were regularly assessed prior to the approved list. 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.

(iii) In-house manufactured HDPE pipes. UUE own HDPE pipe manufacturing, which are the essential pipes used to support its underground utility engineering projects. (Further details at manufacturing segment)

(iv) Trusted player. We believe cash turnover is also one of the key factors contributing to the high margins. That said, having a strong cash turnover enables the Group to run multiple projects simultaneously. This allows the Group to price certain projects at a slight premium, which aligns well with the urgency of project needs. Based on the past three years, the average collection period is c.80 days, which is shorter than the peers' average of around 100 days.

Singapore fetches better margins. We note that underground utilities solutions in Singapore (contributing c.14% of total revenue) generally yield better margins, against operations in Malaysia. This is mainly attributed to the job scope where certain parts and most materials are provided by the main contractors. In essence, majority of the cost accounted for operation in Singapore are related to labour and working capital.

Orderbook. As of Aug-24, UUE's outstanding order book stands at RM217.0m, representing 1.7x cover ratio against FY24 revenue of RM125.7m, providing strong revenue visibility for the next three years until FY27F. Of this 83.0% comprises electricity supply-related jobs, while the remaining 17.0% is from telecommunications service providers. Currently the Group have holding tender book >RM200m, with c.5.0% of the tenders related to DC, 5% related to subsea, while the remainder is for utility infrastructure in Malaysia and Singapore.

Manufacturing and trading of HDPE pipes (15.8% of 6MFY25 revenue)

UUE manufactures and trades HDPE pipes which are essential used for electrical conduits and telecommunication conduits. As of Aug 2024, UUE operates two pipe extrusion lines capable of producing HDPE pipes ranging in size from 75mm to 315mm, with combined capacity up to 925kg/hr. The plant is running on 24hrs/7days with two shift per day, translating to about 80% utilisation rate YTD. We believe this is the cap of utilisation as the plant requires downtime to perform scheduled periodic maintenance.

Meanwhile, ongoing expansion plan for the facility revolves around upgrading of two existing lines and installing additional pipelines. The expansion will increase overall capacity by +73.0%, reaching 1,600kg/hr, with completion targeted for CY25. At this stage, Line 3 is ready to go online, pending SIRIM certification approval. This line will primarily cater to the production of smaller pipes (20-36mm), designed for water and fiber optic applications, and is expected to deliver cost efficiencies.

Capacity expansion in existing facility

Average Utilization Rate 1HFY25
74.8%

Capacity of Premier Plastic Industry Sdn Bhd ("PPI")	Existing	Upgrading
LINE 1	325 KG/HR	525 KG/HR
LINE 2	600 KG/HR	800 KG/HR
LINE 3		275 KG/HR
TOTAL	**925 KG/HR**	**1,600 KG/HR**

Source: Company, Apex Securities

In parallel, the Group is committed to the acquisition of a strategic land parcel in Kota Tinggi, Johor, with an investment of RM9.9m and construction cost of RM14.5m. The new facility will feature 6,000 sqm of manufacturing space and 8,100 sqm of warehousing. The remaining area will be allocated for office space. The facility will support the installation of at least three additional HDPE extrusion lines, which will create synergy with the Group's core business. We project the facility to be fully operational by FY27F onwards, assuming construction is completed by June CY26. At this juncture, we have yet to factor in our capacity assumptions, pending further clarification of the expansion plan.

Tentative timeline for the construction of the new facility

Indicative timeline	Details
January 2025	• Completion of the Proposed Acquisition of Land • Submission of planning permission to Majlis Perbandaran Kota Tinggi
March 2025	• Approved planning permission obtained • Submission of building plan to Majlis Perbandaran Kota Tinggi
April 2025	• Approved building plan obtained • Commencement of construction works for the factory, office and warehouse
June 2026	Completion of construction works for the factory, office and warehouse

Source: Company, Apex Securities

Revenue breakdowns. Approximately 40% of the HDPE pipes that UUE manufactures are utilised in their core operations in Malaysia and Singapore, while the remainder is distributed locally and exported to Singapore's main contractors in underground utility projects.

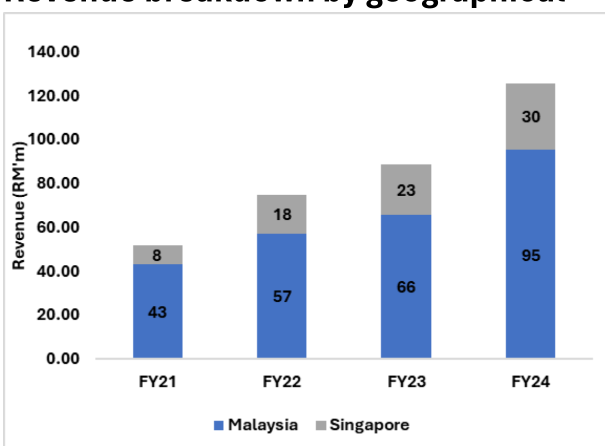
Cost analysis. HDPE resin and masterbatches are the key cost components in manufacturing production, with Petronas Chemicals and Lotte Chemical being the main suppliers in Malaysia. We note that HDPE resin selling prices depend on supply and demand dynamics and are correlated with oil prices, though with a lagged impact. HDPE is a type of thermoplastic polymer made from ethylene, which is derived from petroleum. That said, when crude oil prices increase, the cost of the raw materials used to make ethylene and thus HDPE resin also rises. According to IEA50, world oil supply is rising at a healthy clip, backed by expectations of the United States leading non-OPEC+ supply growth of 1.5 mb/d in both 2024 and 2025. Even with OPEC+ cuts remaining in place, global supply is expected to exceed demand by more than 1 mb/d next year. This signals that oil prices are likely to stay at a lower level throughout CY25, which should benefit UUE in sourcing HDPE resin at a lower cost.

GP margins. Based on the IPO prospectus, we note that manufacturing trends around ~20% GP margins, translating to an average GP of about RM2m over the past four years (FY21-FY24). While we believe the margins will gradually expand, growth will be capped by higher trading ratio. Below are two key components in justification of the lucrative margins:

(i) Recognised quality standards. UUE has implemented a quality management system certified to MS 1058: Part 2:2005, ISO 4427-2:2019 and SIRIM 52: 2022 by SIRIM QAS and is a registered approved vendor with TNB. UUE not only procures raw materials from an approved list of suppliers but also conducts daily sampling inspections in 1 out of every 20 pipes produced, checking for thickness, size, and appearance. With stringent quality assurance, the Group has not received any product defect claims or rectification requests to date. The strong quality assurance framework helps UUE consistently secure new business opportunities through goodwill and word-of-mouth.

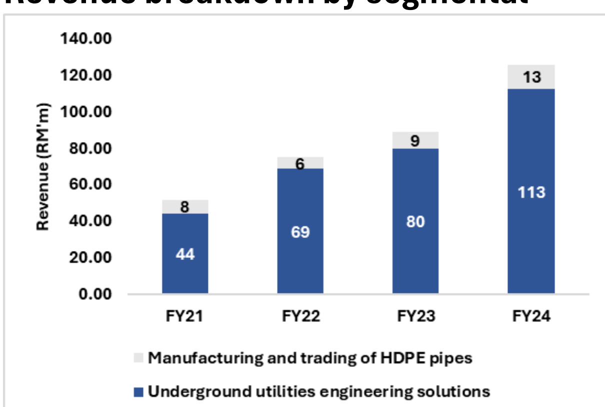
(ii) Trading activities. c.40% of the HDPE pipes manufactured by UUE are utilised internally, while the remainder is allocated to trading activities, including local distribution and exports to key utilities contractors in Singapore. We believe UUE remain as one of the preferred suppliers in the Singapore market, leveraging onto its strategic location in Johor Bahru to offer cost efficiencies and faster delivery options.

Revenue breakdown by geographical



Source: Company, Apex Securities

Revenue breakdown by segmental

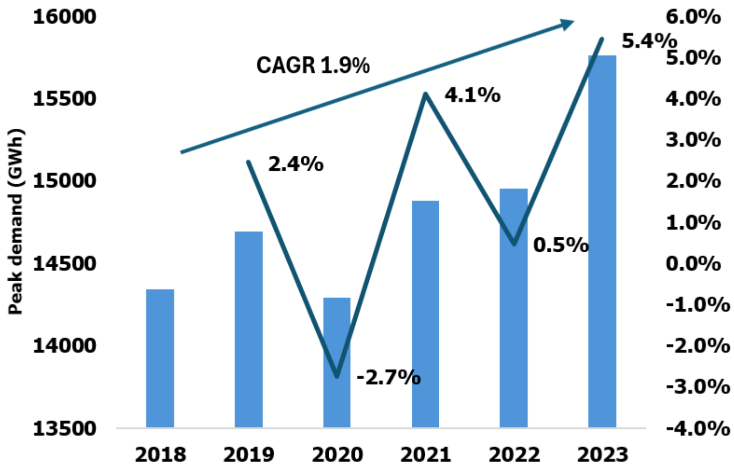


Source: Company, Apex Securities

Industry Overview

Growing electricity demand. From 2018 to 2023, Malaysia's electricity demand experienced a steady increase, with a five-year CAGR of 1.9%. Approximately 70% of this demand was driven by the commercial and industrial sectors, ~20% by domestic consumption, with the remainder attributed to exports and transmission losses. We note that in 2023, peak electricity demand surged to 15.8GWh, reflecting a 5.4% yoy increase compared to 2022. That said figure is likely to continue growing, as the Energy Commission projects Malaysia's electricity demand to grow at a 14-year CAGR of 4.4%, increasing from 19.4GWh in 2025 to 24.1GWh by 2039, driven by rising investments in data centers (DCs) and sustained population growth.

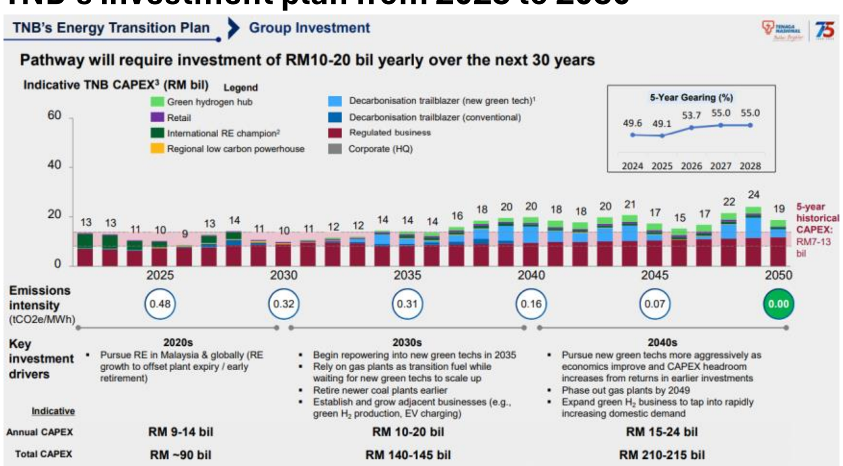
Electricity demand from 2018 to 2023



Source: EC, Apex Securities

This is evident by TNB adjusting its annual electricity demand growth projection to 2.5–3.0% for 2025–2030, up from the previous estimate of 1.0–2.0%. With the anticipated growth, TNB plans to invest RM90bn in Malaysia's grid over the same period, nearly doubling the RM46bn allocated between 2018 and 2024, to enhance and modernise its utility infrastructure.

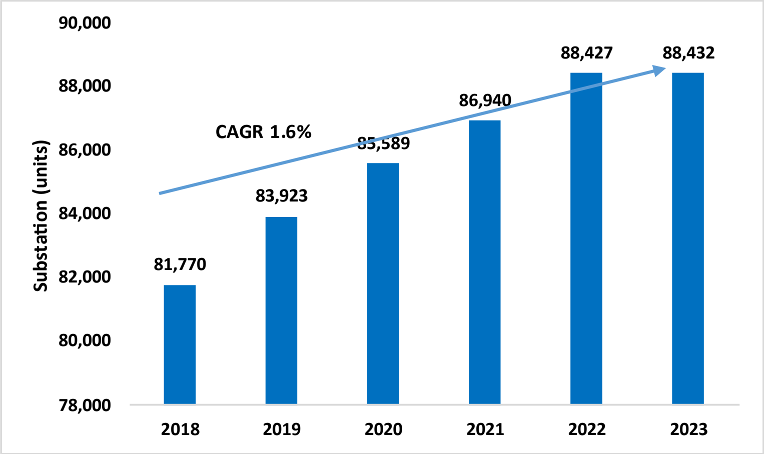
TNB's investment plan from 2025 to 2050



Source: TNB

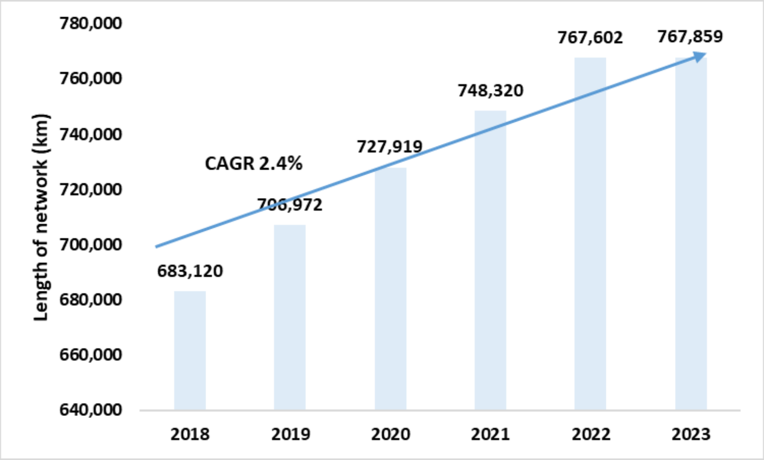
Growing power demand necessitates the expansion of power infrastructure to support increased power transmission. This is evident in the rising number of substations, which facilitate power transmission and distribution, as well as the proliferation of underground cables, both of which have grown in tandem with escalating power demand.

Total substation in Peninsular Malaysia from 2018 to 2023



Source: TNB, Apex Securities

Total length of network in Peninsular Malaysia from 2018 to 2023



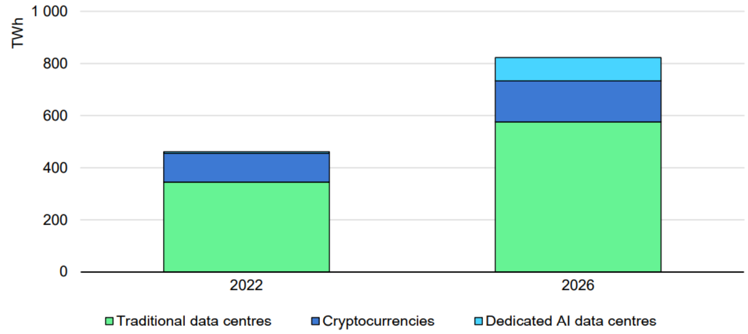
Source: TNB, Apex Securities

Generally, c.10-15% of substation construction costs are attributed to HDD-related expenses, but is still dependent onto (i) length and diameter of the underground conduits or pipes, and (ii) soil conditions and drilling challenges. Banking on UUE's proven track record in delivering underground utility engineering solutions for TNB electricity projects, this positions the Group in a sweet spot for an influx of job opportunities.

Data center demand enormous power. Since 2021, Malaysia has attracted approximately RM90bn worth of data center investments from leading global cloud service providers, including AirTrunk, Amazon, Bridge, Microsoft, GDS, Yondr Group, Google, K2, Keppel, and Equinix. The influx is driven by several key factors: (i) Malaysia's strategic location at the heart of ASEAN, (ii) robust fibre connectivity, (iii) more affordable land prices compared to neighbouring Singapore, and (iv) favourable government policies.

Unlike most industries, data centers are massive energy consumers, running 24/7 to keep services up and avoid downtime. For example, a 100MW data center can produce enough power to run roughly 80,000 homes. International Energy Agency (IEA) estimates that ~40% of a data center's energy goes to computing, another 40% is used for cooling, and the remaining 20% powers other processes. AI-driven data centers are even more energy-intensive than traditional, which are designed for high-performance parallel processing that can handle more intensive workloads. For e.g. OpenAI's ChatGPT uses 2.9 Wh per request, and with 9bn searches a day, that adds up to nearly 10 TWh of extra electricity each year. IEA predicts the global AI industry's energy consumption will skyrocket jumping from 7.3 TWh in 2023 to 73 TWh by 2026, representing a tenfold increase.

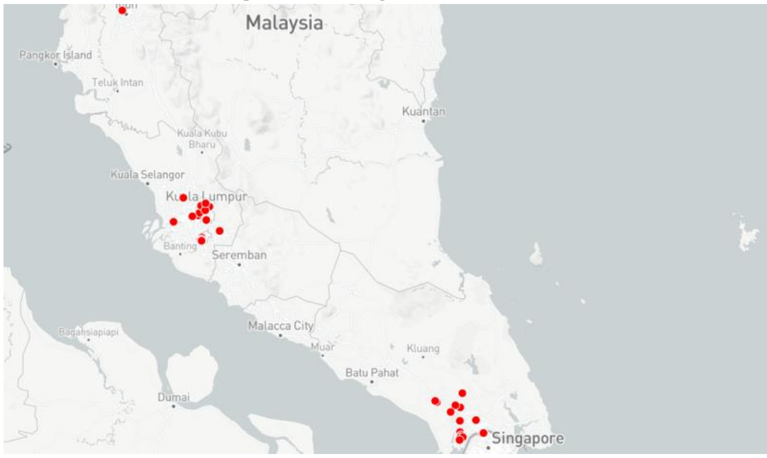
Expected electricity demand from data centres from 2022 and 2026F.



Source: IEA

Power supply, grid network stability, adoption of smart grid technology, and reliable power supply serves as the backbone for DC operations. Malaysia's data centre industry is primarily concentrated in Johor and Selangor, hosting ~60 facilities.

Data Center Map in Malaysia

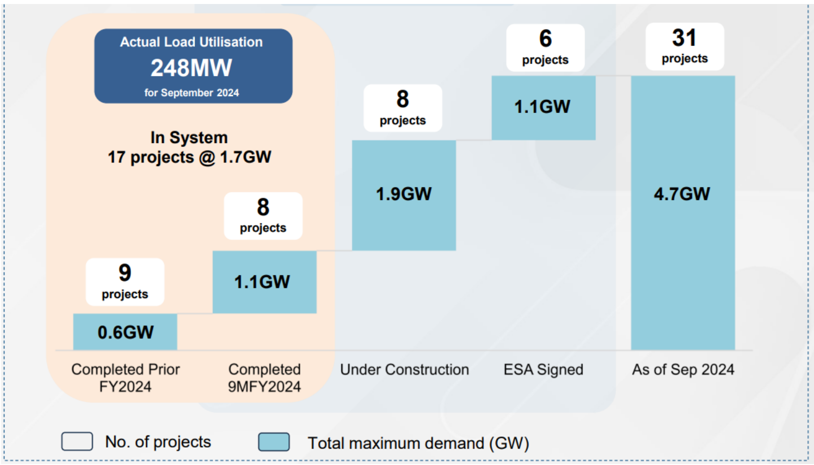


Source: Baxtel

Johor is rapidly emerging as a key data center hub in Malaysia, thanks to its availability of sizeable land bank for development and along with close proximity to Singapore. According to DC Byte report dated Mar 2024, Johor's total IT capacity is nearly 1,600 MW, with around 20% already live or under construction, and the remaining 80% committed and in early planning stages. The report also notes that Bridge Data Centres is leading the market in live IT capacity, with 69% market share, with GDS Holdings coming in second at 23%.

After commissioning the electricity supply to 17 data centers with a total energy demand of 1.7GW since 2023, TNB's latest filing highlights the need to supply an additional 3GW, on top of those signed in 2023, reflecting the strong demand for electricity from the rapidly growing data center projects.

Total electricity supply to be delivered by TNB

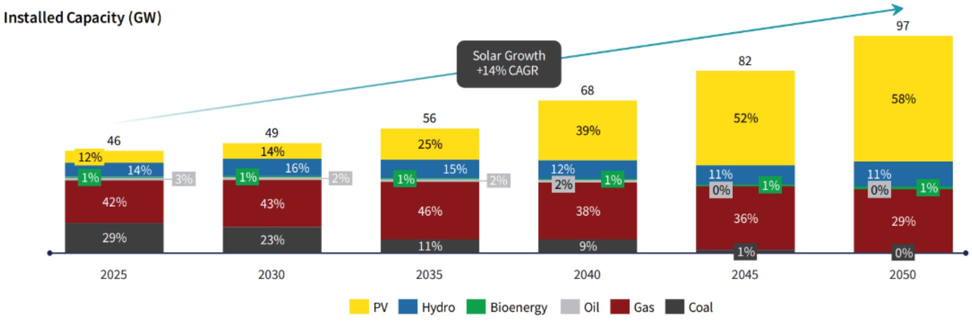


Source: TNB

Job scope covered in DC space. Data center owners work with M&E contractors to connect to TNB's public substations. Contracts usually revolves around laying underground cables to link the PMU substation to the data center's internal substation and building the internal substations. Cost of these contracts depends on the distance between the PMU and the data center, as well as the power requirements. UUE is a specialist in HDD solutions and can handle any part of the underground utilities process, whether it's for stepping down from transmission to distribution or connecting directly to the PMU site.

National Energy Transition Roadmap (NETR). To meet Malaysia's growing electricity demand, the government launched the National Energy Transition Roadmap (NETR) on 23 Aug 2023. This initiative aims to achieve net-zero emissions by shifting to clean energy. As part of the plan, RM420bn will be invested in grid infrastructure to reach 70% renewable energy capacity by 2050.

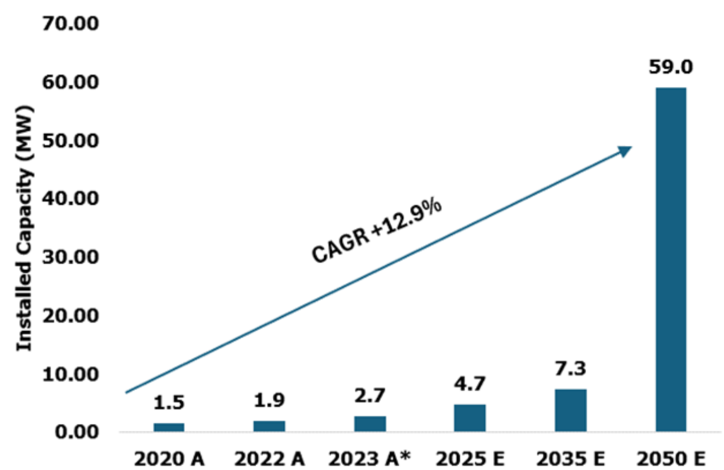
Projected power mix 2050



Source: NETR

One of the key aspects highlighted in the NETR is Malaysia's vast solar PV potential, with 269GW out of a total 290GW of RE resources. Malaysia's strategic location near the equator, with its dense solar radiation, leads to high energy output per square meter. Our analysis shows that to meet the 70% RE target by 2050, starting in 2025, annual RE installations need to more than double to 2.2GW per year until 2050. Solar power, expected to account for 58% of the capacity mix, will be a crucial component in achieving this target.

Malaysia Historical and Target Solar Installed

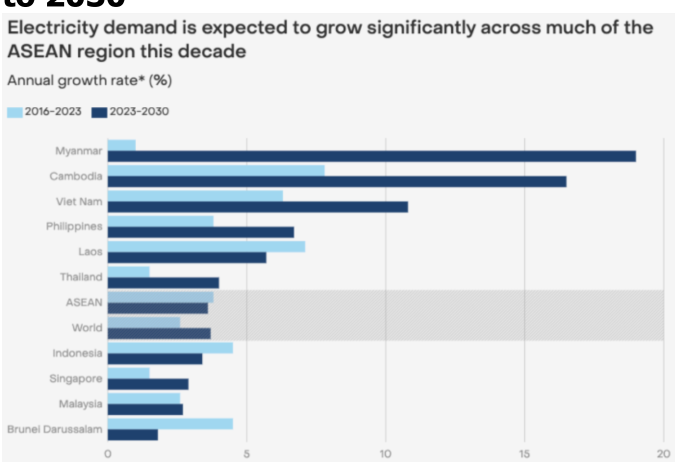


Source: MyRER, NETR, Apex Securities
2023 A as at [Aug 2023](#).*

With abundant potential, solar remains the key driver of Malaysia's energy transition. Solar farms are typically built in rural areas (cheaper land costs), and the generated power is transmitted through substations (33kV~132kV) to step up the voltage and connect to the grid. We see this creating plenty of opportunities for UUE in providing heavy-duty underground utility solutions to link solar farms to substations. UUE is well-positioned to capitalise on the recently awarded CGPP projects and the upcoming LSS5, expected to launch by the end of 2024.

ASEAN energy demand. Over the past two decades, ASEAN's energy demand has more than doubled, rising from 458 TWh in 2003 to 1,258 TWh in 2023. This sharp increase is driven by factors such as economic recovery after the pandemic, the rising use of electric vehicles, and the rapid development of data centres. According to the ASEAN Energy Outlook (AEO) 8, total power generation needs in 2030 are expected to range between 1,545 TWh and 1,567 TWh, highlights the urgency for the region to accelerate its clean energy transition.

Expected Electricity Demand in the ASEAN Region from 2016 to 2030

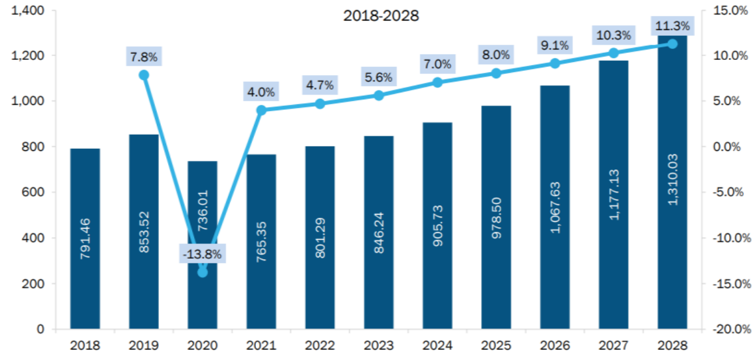


Source: Ember

Singapore, with its limited natural resources, is emerging as an important economic hub in Southeast Asia as heavily reliant on regional grid connectivity to import clean energy. Singapore aims to import up to 6 GW of low-carbon electricity by 2035, positioning itself towards the International Energy Agency's (IEA) target of 8.1 GW of low-carbon electricity imports by that same year. Despite being proposed nearly 30 years ago, cross-border energy interconnections in the ASEAN region remain unpopular. Out of the 18 planned key interconnections, only eight have been completed so far, leading to a combined cross-border transmission capacity of 7.7 GW.

Rising demand for subsea solutions. In this context, we will be using submarine power cables as a proxy for the growing demand for grid infrastructure in the APAC region. According to a forecast from Insight Partners Research, APAC is expected to experience the fastest growth in the submarine power cable market, with a nine-year compound annual growth rate (CAGR) of 8.0% from 2018 to 2028. Growth is largely driven by rising investments in offshore oil and gas projects, Southeast Asian nations' focus on clean energy development (particularly offshore wind farms), and the expansion of cross-border power transmission systems.

Expected APAC Submarine Power Cable from 2018 to 2028



Source: The Insight Partners

A new leg in subsea solutions. Another key trend is the increasing use of underwater data centers. These centers have gained traction due to factors like limited land availability, improved efficiency, fewer operational disruptions, and the ability to serve larger populations at a lower cost. Studies have shown that underwater data centers are eight times more reliable than their land-based counterparts. Currently, ASEAN operates 1.5 GW of data centers, with further growth expected, signalling significant demand for subsea infrastructure.

UUE's position. The surge in demand for subsea solutions is creating significant opportunities in the submarine cable market, particularly for companies like UUE, which are exploring subsea development and Horizontal Directional Drilling (HDD) technology. We understand that UUE is specifically in charge of the tail-end phase of submarine power cable installations, where the cable connects to the onshore infrastructure. This position is critical for the success of the overall project, as it involves precise and reliable installation. We expect that UUE's role in this part of the process will result in lucrative profit margins, given the Group's specialised services. We are favourable towards this development, with potential to uplift group margins as UUE secures higher volumes of projects.

Investment Highlights

Benefit from rising electricity demand. We see UUE as one of the best proxies to benefit from TNB's grid upgrade plan (RM90bn from 2025-2030), which presents numerous contract opportunities in the long run. UUE is a specialist in HDD solutions, a critical component in modern grid connectivity, offering lower cost recovery and a more environmentally friendly alternative compared to other methods. UUE holds exclusive subcontractor status with its top two customers, whom have been working with TNB for several years. With the NETR initiatives and the growing trend of data centers that drive higher capex by TNB in the coming years, we believe this augurs well for UUE and expect its earnings to grow at a double-digit three-year CAGR of 31.1% over FY25F-FY27F to RM43.1m.

Lucrative margins. In the past four years, UUE's core PAT margins have been trending at ~15%, which is significantly higher than its listed peers whom delivers single digit. We believe this can be explained by (i) UUE capability to offer one-stop solution approach, compared to others that focus solely on specific areas, (ii) quality of work, supported by an experienced team and >60 approved subcontractors, (iii) synergy from in-house HDPE pipe production rather than outsourcing to third parties, (iv) strong cash turnover, the average collection period is c.80 days, which is shorter than its peers' range of 100 days, and (v) lucrative margins from operations in Singapore (GP>50%). Moving forward, we expect core PAT margins to gradually expand to a range of 15-17% over FY25F-FY27F, with more project billing from skewed towards higher-margin projects involving data center and subsea contracts.

Sustainable orderbook replenishment. As of 31 Aug 2024, UUE holds an unbilled order book of RM217.0m (c.97% coming from Peninsular Malaysia and the remaining 3% from Singapore) which will sustain earnings visibility till FY27F. YTD, the Group has secured nearly RM10m from data centers. We expect order book to grow by c.20% annually, driven by its exclusive HDD subcontractor status with its top two customers, ensuring a steady flow of projects over the years. With the data center orders in hand and its first order in the Northern region valued at RM27.0m, we believe these lay a solid foundation for the Group to secure more business in the field moving forward.

Venture into subsea HDD works. To reduce concentration risk, UUE expanded service portfolio into subsea HDD solutions. To kick start, the Group decided to (i) purchase a Maxi rig HDD machine (RM7.0m) instead of leasing, and (ii) signed a MoU with a Taiwan-based company that specialise in subsea solutions. We expect subsea development to start contributing in FY26F onwards, though at a smaller scale since UUE is mainly focused on onshore HDD along coastal areas (projected 6% of total revenue in FY26F). Still, we're optimistic over this move, as it offers attractive margins and higher specialisation, which could potentially act as a re-rating, once meaningful contributions from the field materialise.

Expansion plans. As of 6MFY25, utilisation of UUE's manufacturing capacity reached 74.8%, which is close to the optimal level of ~80%. To meet the growing demand for underground utilities solutions, UUE plans to: (i) construct a new factory and warehouse with a combined area of 14,100 sqf. and install a minimum of three production lines (with commercial operations expected to start in FY27) and (ii) expand capacity by +73% to 1,600 kg/hr at existing facilities, with completion targeted for CY26. We are sanguine over the expansion, as it plays a key role in supporting the Group’s growth, particularly in its HDD solutions.

Financial Highlights

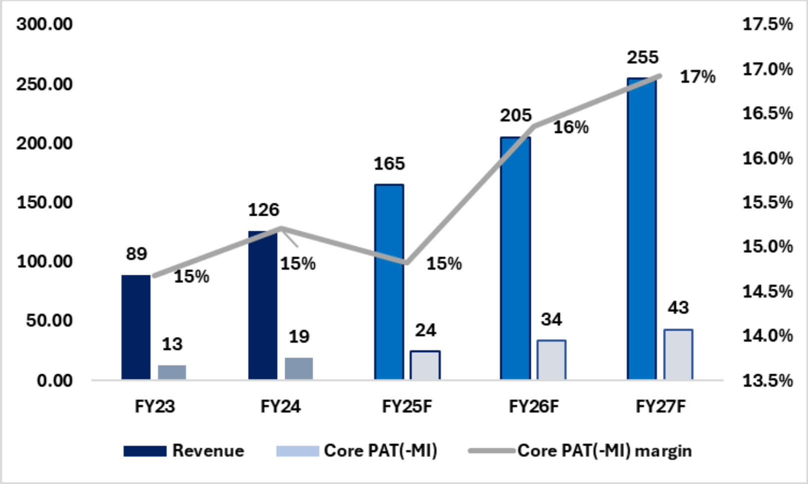
Resilient growth. In 2QFY25, UUE reported a 13.1% qoq increase in core net profit, reaching RM6.5m. Improvement was mainly driven by robust performance from underground utilities, which ~20% contributed from Singapore operations that fetch better margins. UUE remains in a healthy financial position, with a gearing ratio of 0.2x, net cash of RM15.9m, and an average cost of debt around 5.5%.

Earnings outlook. Moving forward, we project UUE's core earnings to grow by 27.7% yoy in **FY25F** to RM24.4m, mainly driven by: 1) stronger contribution from electricity works in Malaysia operations, 2) project billings from existing telecom contracts, 3) significant improvement in manufacturing operations, supported by ~60% trading activities, and 4) consistent earnings recognition from Singapore operations.

FY26F-FY27F: We project UUE's core earnings to grow by 37.5%/28.5% yoy to RM33.5m/RM43.1m, mainly driven by: 1) margin expansion from Singapore operations, with expectations of full-scale operations, compared to the current focus on specific projects that yield better margins, 2) revenue contribution from subsea development, which is expected to deliver high margins, 3) sustained growth in Malaysia operations, supported by the NETR initiatives and fast-track data center expansion, and 4) expanded manufacturing capacities, which will drive stronger trading activities.

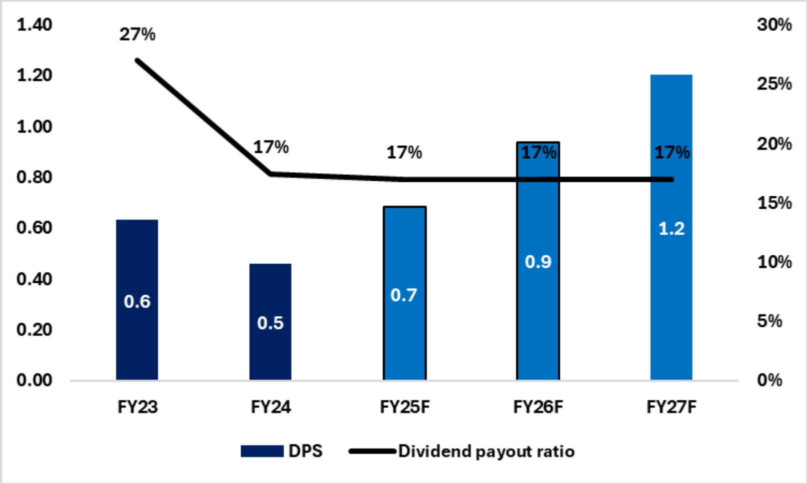
UUE does not have a formal dividend policy. As of FY24, UUE has rewarded shareholders with dividends, achieving a payout ratio of ~17%. Moving forward, we forecast a 17% payout ratio for FY25F–27F, which would translate to a forward yield of c.1%

Revenue, earnings and margin from FY22 to FY27F



Source: Apex Securities

Dividend payout ratio trend



Source: Apex Securities

Valuation & Recommendation

Initiation Coverage. We initiate coverage on UUE Group Berhad with a **BUY** recommendation and a TP of RM1.10, based on assigned 20x P/E multiple to FY26F fully diluted EPS of 5.5 sen and appraised with three-star ESG rating. The assigned P/E multiple reflects a premium over general MEP peers, justified by UUE's (i) **specialisation in HDD solutions** as its niche with high margins, (ii) strong proxies to benefit from TNB's grid upgrade plan, leveraging **relationships with key main contractors**, and (iii) **expansion into subsea development**, which is expected to drive margin expansion.

Transfer to main market. We gather that UUE has met the SC guidelines for the Profit Test, achieving at least RM20m in PBT for the latest FY and a cumulative RM30m over the past three years. As of the last closing price on 11th Dec 2024, the market capitalization is stands at RM496m approaching RM500m. We believe it is only a matter of time before UUE achieves that, which should attract more institutional investors interest.

Peers Comparison

UUE's closest listed peers in the utilities infrastructure segment are MN Holdings and Jati Tinggi. Note that its peers do not manufacture HDPE pipes and are only involved in a mix of underground utility solutions, including HDD, open trenching, and micro trenching. In comparison, ~90% of UUE's revenue comes from underground utilities, with a strong focus on HDD solutions.

Peers comparison

Company	FYE	Price (RM) as at 11Dec24	P/E (x) 2025F	P/E (x) 2026F	P/B (x) 2025F	P/B (x) 2026F	Dividend Yield (%)	Target Price (RM)	Potental Upside	ESG Rating
UUE Holdings Bhd	Feb	0.815	20.3	14.8	4.3	3.5	N/A	1.10	34.1%	★★★
MN Holdings Bhd	Jun	1.14	14.6	12.0	3.8	2.9	0.1	N/A	N/A	N/A
Jati Tinggi Holding Bhd	Nov	0.42	34.7	N/A	4.2	N/A	N/A	N/A	N/A	N/A

Investment Risk

Major customer concentration. UUE relies heavily onto its top three customers, which we reckon collectively contributing ~80% to the Group's revenue.

Dependent on subcontractors. Exposure to the risk of subcontractor non-performance, potentially leading to defects liability claims and reputational damage. We reckon subcontracted services accounted >60% of total purchases.

Orderbook replenishment. Failure to secure expected orderbook replenishment (in-house projection of c.20% growth annually) may dampen earnings growth prospects.

Financial Highlights

Income Statement

FYE Feb (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	**88.7**	**125.7**	**164.6**	**205.1**	**254.6**
Gross Profit	**26.6**	**37.8**	**48.6**	**62.9**	**77.4**
EBITDA	**21.3**	**26.7**	**37.8**	**51.0**	**63.8**
Depreciation & Amortisation	-2.7	-3.7	-4.2	-5.2	-5.2
EBIT	**18.6**	**23.1**	**33.6**	**45.8**	**58.6**
Net Finance Income/ (Cost)	-1.3	-1.6	-1.6	-1.8	-2.1
Associates & JV	0.0	1.0	2.0	3.0	4.0
Pre-tax Profit	**17.3**	**21.5**	**32.0**	**44.0**	**56.6**
Tax	-3.1	-5.3	-7.6	-10.5	-13.5
Profit After Tax	**14.2**	**16.2**	**24.4**	**33.5**	**43.1**
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	**14.2**	**16.2**	**24.4**	**33.5**	**43.1**
Exceptionals	-1.2	2.9	0.0	0.0	0.0
Core Net Profit	**13.0**	**19.1**	**24.4**	**33.5**	**43.1**

Key Ratios

FYE Sep	FY23	FY24	FY25F	FY26F	FY27F
EPS (sen)	2.1	3.1	4.0	5.5	7.1
P/E (x)	38.1	25.9	20.3	14.8	11.5
P/B (x)	10.2	7.9	4.3	3.5	2.8
EV/EBITDA (x)	23.2	18.4	13.3	9.7	8.0
DPS (sen)	0.6	0.5	0.7	0.9	1.2
Dividend Yield (%)	0.8%	0.6%	0.8%	1.2%	1.5%
EBITDA margin (%)	24.0%	21.3%	23.0%	24.9%	25.1%
EBIT margin (%)	21.0%	18.3%	20.4%	22.3%	23.0%
PBT margin (%)	19.5%	17.1%	19.5%	21.5%	22.2%
PAT margin (%)	16.1%	12.9%	14.8%	16.4%	16.9%
NP margin (%)	16.1%	12.9%	14.8%	16.4%	16.9%
CNP margin (%)	14.7%	15.2%	14.8%	16.4%	16.9%
ROE (%)	26.8%	30.4%	21.3%	23.6%	24.2%
ROA (%)	15.2%	16.0%	13.9%	15.8%	16.7%
Gearing (%)	35.0%	36.4%	21.4%	19.4%	17.6%
Net gearing (%)	3.6%	7.5%	Net Cash	Net Cash	Net Cash

Valuations	FY26F
Core EPS (RM)	0.055
P/E multiple (x)	20.0
Fair Value (RM)	**1.10**
ESG premium/discount	0.0%
Implied Fair Value (RM)	**1.10**

Source: Company, Apex Securities

Balance Sheet

FYE Feb (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash	15.3	18.1	30.7	27.9	46.1
Receivables	22.0	32.4	38.9	46.7	56.0
Inventories	2.4	3.5	3.8	4.1	4.5
Other current assets	24.1	40.7	61.6	78.1	97.0
Total Current Assets	**63.8**	**94.8**	**135.0**	**156.8**	**203.6**
Fixed Assets	10.9	13.7	30.5	45.1	45.1
Intangibles	11.1	10.9	10.5	10.2	10.0
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Total Non-Current Assets	**22.0**	**24.6**	**41.0**	**55.4**	**55.2**
Short-term debt	12.8	20.1	20.8	23.4	26.7
Payables	8.2	17.4	20.9	25.6	31.9
Other current liabilities	4.2	8.8	8.8	9.4	10.0
Total Current Liabilities	**25.2**	**46.3**	**50.5**	**58.4**	**68.6**
Long-term debt	4.2	2.8	3.7	4.1	4.7
Other non-current liabilities	7.9	7.4	7.4	7.4	7.4
Total Non-Current Liabilitie	**12.1**	**10.1**	**11.0**	**11.5**	**12.1**
Shareholder's equity	48.5	62.9	114.5	142.3	178.1
Minority interest	0.0	0.0	0.0	0.0	0.0
Total Equity	**48.5**	**62.9**	**114.5**	**142.3**	**178.1**

Cash Flow

FYE Feb (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Pre-tax profit	**17.3**	**21.5**	**32.0**	**44.0**	**56.6**
Depreciation & amortisation	2.7	4.9	4.9	4.7	4.6
Changes in working capital	4.1	17.4	24.2	19.4	21.6
Others	-12.0	-15.9	-15.9	-15.9	-15.9
Operating cash flow	**12.1**	**7.0**	**6.0**	**21.1**	**28.8**
Net capex	-3.2	-3.0	-20.6	-19.5	-5.0
Others	4.9	-1.9	0.0	0.0	0.0
Investing cash flow	**1.7**	**-4.9**	**-20.6**	**-19.5**	**-5.0**
Dividends paid	-3.8	-2.8	-4.1	-5.7	-7.3
Others	-7.4	0.7	31.4	1.3	1.7
Financing cash flow	**-11.3**	**-2.1**	**27.2**	**-4.4**	**-5.6**
Net cash flow	**2.6**	**-0.1**	**12.6**	**-2.8**	**18.2**
Forex	0.5	0.6	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	8.6	11.6	12.2	24.7	21.9
Ending cash	**11.6**	**12.2**	**24.7**	**21.9**	**40.1**

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★	Kum Fatt Engineering Sdn Bhd organised a tree planting initiative at their office premises, planting six trees as part of their effort to contribute to environmental sustainability
Waste & Effluent	★★★	Ensure responsible waste management and disposal
Energy	★★★	Invested RM346,200 in a solar energy project by Premier Plastic Sdn Bhd to reduce greenhouse gas emissions
Water	★★★	Usage of rainwater at its factory which minimise water consumption
Compliance	★★★	Adhere to all relevant environmental regulatory and legal requirements

Social

Diversity	★★★	Workforce is balanced with c.50% young employees and 50% experienced and mid-career professionals
Human Rights	★★★	Compliant with the Employment Act 1955, ensuring employee rights are protected
Occupational Safety and Health	★★★	Participated in the NASAM Happy Walk 2023, with 29 staff members joining stroke survivors to raise awareness about stroke recovery
Labour Practices	★★★	Committed to providing fair and competitive compensation to all employees

Governance

CSR Strategy	★★★	Donated RM30,000 to Yayasan Sultanah Fatimah for the renovation of classrooms and to promote inclusive education at SJK(C) Chien Chi
Management	★★★	Actively involved in UUE's sustainability initiatives
Stakeholders	★★★	Contributed RM10,000 to Pertubuhan Kebajikan Komuniti Masyarakat Negeri Melaka to support 100 impoverished families by providing essential food supplies like rice, cooking oil, and sugar

Overall ESG Scoring: ★★★

Recommendation Framework:
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.

ESG Rating Framework:
★★★★★ : Appraised with 3% premium to fundamental fair value
★★★★ : Appraised with 1% premium to fundamental fair value
★★★ : Appraised with 0% premium/discount to fundamental fair value
★★ : Appraised with -1% discount to fundamental fair value
★ : Appraised with -5% discount to fundamental fair value

As of **Thursday, 12 Dec, 2024**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) nil.