



UUE Holdings Bhd

Proxy to Booming Utility Sector

ACE Market
Construction Sector
Subscribe
IPO Price: RM0.24
Fair Value: RM0.46

Valuation / Recommendation

We recommend SUBSCRIBING to UUE Holdings, with a **FV of RM0.46 based on 13x FY25F EPS**, translating to a potential upside of 90% to the IPO price. We believe our target valuation of 13x PE is appropriate for a small-cap construction engineering company (vis-a-vis 19.7x PE for the KL Construction Index). Key catalysts for UUE include strong earnings delivery and major contract wins. We note that listed comparable peers such as MN Holdings (+41% YTD) and Jati Tinggi (+27% YTD) are trading at 22-29x PE, amid strong earnings growth expectations stemming from recent massive investment in data centres and RE projects in Malaysia.

Investment Highlights

Strong tailwind from booming utility sector. UUE is primarily engaged in providing underground utility engineering solutions, specialising in the horizontal directional drilling (HDD) method. With approximately 80% of its revenue coming from the electricity supply industry, it is not surprising that UUE has greatly benefited from TNB's increased capex spending in recent years to strengthen the national grid infrastructure. With the NETR initiatives further driving elevated capex spending by TNB in the coming years, we believe this augurs well for UUE and expect its revenue to grow at a double-digit 3-year CAGR of 23% over FY23-26F.

Growing geographical presence. UUE's geographical presence in Johor, Negeri Sembilan, Melaka and Selangor are strategic, as most of the new data centre deployments in Malaysia are concentrated in these states. We expect this to drive a robust orderbook for UUE going forward, which currently stands at RM223m (as of April 2024), representing up to 1.5 years of earnings visibility. The group has also recently started to pursue engineering projects in the East Coast states, and managed to secure projects worth RM84m so far. Last but not least, Singapore is also a significant market for UUE, with steady growth and contributing about 25% to its revenue over the last few years.

Superior margins than peers. Excluding listing expenses, UUE's recent PAT margins are trending around 15-16%, which is far superior to listed peers such as MN Holdings (6-7%) and Jati Tinggi Group (3-4%). We believe this is mainly due to two key differentiating factors, which are: 1) UUE mainly specialises and focuses on the trenchless HDD method, which offers better margins; and 2) The group has its own HDPE pipe manufacturing, which complements its main business.

Risk factors include (1) High customer concentration, (2) Dependency on subcontractors, and (3) Fluctuation of construction material costs.

FY Feb	FY22	FY23	FY24E	FY25F	FY26F
Revenue (RM m)	74.9	88.7	124.6	143.2	164.7
EBITDA (RM m)	21.7	21.2	28.7	34.6	39.4
PAT (RM m)	14.6	14.1	17.5	21.3	25.2
PAT Margin (%)	19.5	15.9	14.0	14.9	15.3
EPS (sen)	3.0	2.9	2.9	3.5	4.1
EPS Growth (%)	97.7	(3.1)	(1.8)	22.2	18.2
BV Per Share (sen)	7.4	10.0	14.3	16.1	18.2
PE (x)	10.0	10.3	8.4	6.8	5.8
Net Gearing (x)	0.3	0.0	Cash	Cash	Cash
ROE (%)	40.7	29.1	20.0	21.8	22.8

Business Overview

UUE is principally involved in the provision of underground utilities engineering solutions, specialising in the HDD method of laying pipes. The company also manufacture and trade HDPE pipes, mainly to support its engineering projects in Malaysia and Singapore.

Listing Details

Listing date	2 July 2024
New shares (m)	124.9
Offer for sale (m)	37.5
Funds raised (RM m)	30.0

Post Listing

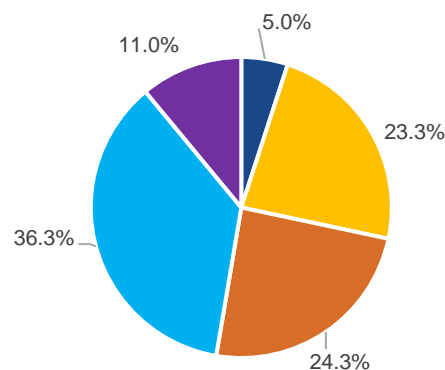
Ordinary shares (m)	608.3
Market cap (RM m)	146.0
Free float	5.0
P/E (FY24F)	8.4

Top 3 Shareholders

Datuk Dr Ting	50.9%
Hin Wai Mun	8.2%
Ting Meng Pheng	7.3%

Utilisation of Proceeds

	RM m
Purchase 3 units of HDD machines	1.5
Purchase 1 unit of Maxi Rig HDD machine	7.0
Purchase of lorries & excavators	7.3
Working capital	10.9
Estimated listing expenses	3.3

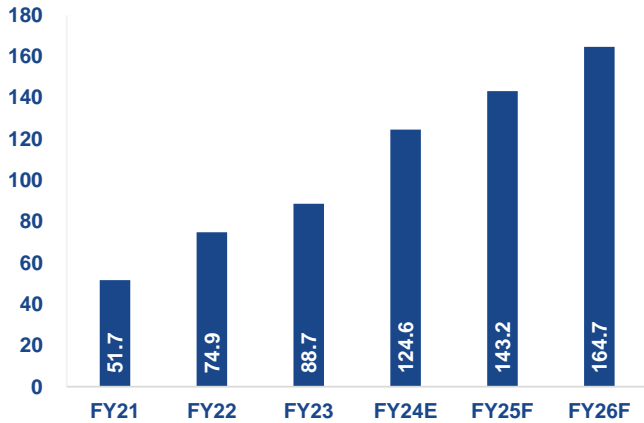


Source: Company, Mercury Securities



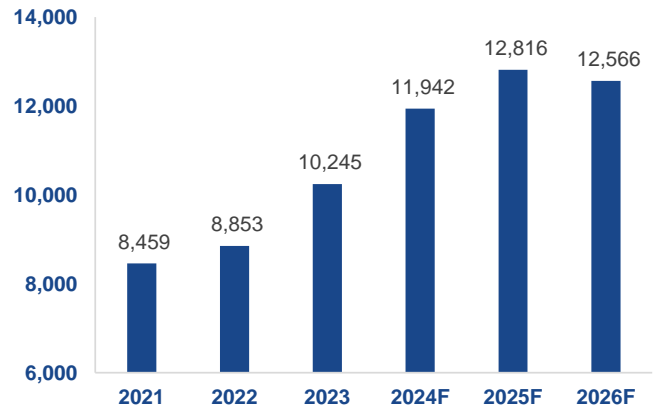
Financial Highlights and Valuation

Figure 1: UUE's revenue trend (in RM m)



Source: Company, Mercury Securities

Figure 2: TNB capex spending (in RM m)

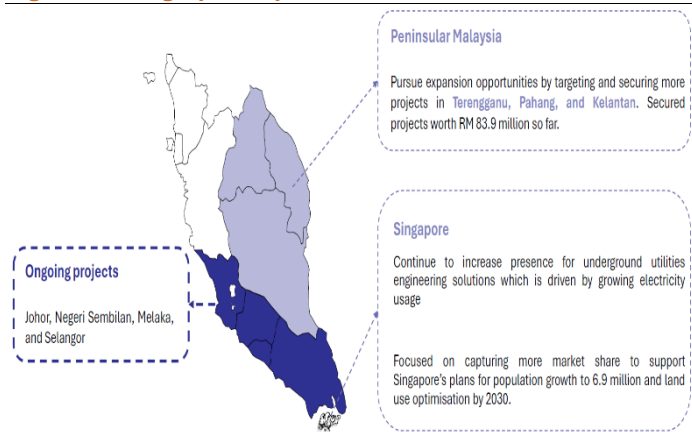


Source: Bloomberg Consensus, Mercury Securities

Strong tailwind from booming utility sector. UUE has achieved an impressive 2-year revenue CAGR of 31%, with overall sales rising from RM52m in FY21 to reach RM89m in FY23. As per the latest data, UUE also recorded RM104m sales for the 10-month financial period ending December 2023, representing a strong 41% year-over-year growth over the same period last financial year.

With approximately 80% of its revenue coming from the electricity supply industry, it is not surprising that UUE has greatly benefited from TNB's (Tenaga Nasional Bhd) increased capex spending in recent years to strengthen the national grid infrastructure. With the NETR (National Energy Transition Roadmap) further driving elevated capex spending by TNB in the coming years, we believe this augurs well for UUE and expect its revenue to grow at a double-digit 3-year CAGR of 23% over FY23-26F.

Figure 3: Geographical presence



Source: Company, Mercury Securities

Figure 4: Total workforce

Department	FYE2021	As at 30 April 2024
Project team comprising:	25	206
• Skilled workers	23	83
• General workers	-	116
• Project administration	2	7
Others	21	67
Total	46	273

Source: Bloomberg, Mercury Securities

Strategic geographical presence. Domestically, UUE completed or has ongoing underground utility engineering projects coming mainly from the states of Johor, Negeri Sembilan, Melaka, and Selangor. We believe UUE's geographical presence is strategic, as most of the new data centre deployments in Malaysia are concentrated in these states. Data centres consume significant amounts of electricity and require a stable supply. Because of that, it is common that TNB will need to expand or upgrade the electricity grid network at the proposed location for these data centres. We expect this to drive a robust orderbook for UUE going forward, which currently stands at RM223m (as of April 2024), translating up to 1.5 years of earnings visibility.



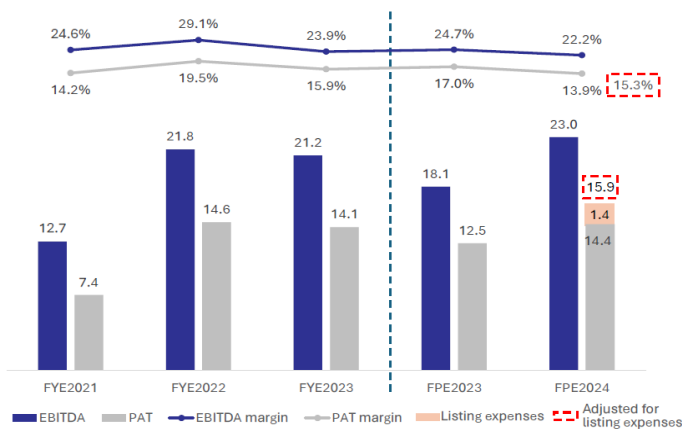
Growing presence in other regions. UUE has recently started to pursue engineering projects in the East Coast states of Peninsular Malaysia (i.e. Terengganu, Pahang, and Kelantan), and managed to secure projects worth RM84m so far. We view this positively for UUE because of ample opportunities in these states, underpinned by: 1) Ongoing government initiatives to improve rural infrastructure (not just electricity, but broadband as well); and 2) Huge potential for renewable energy projects.

Singapore is also a significant market for UUE, with steady growth and contributing about 25% to its revenue in the last few years. UUE mainly acts as an HDD subcontractor to Wee Guan Group, and participates in power supply projects (66kV and 230kV) coming from SP PowerAssets Ltd, the leading utility company in Singapore.

Expanding workforce and machineries. UUE has expanded its workforce several folds over the years and currently employs 273 workers as of April 2024. To support its business growth, the group will use close to RM9m from its IPO proceeds to purchase 3 new HDD machines (adding to the 18 machines it currently owns), 21 new lorries, and 5 new excavators. This should enable the group to have better cost control and flexibility in managing its projects.

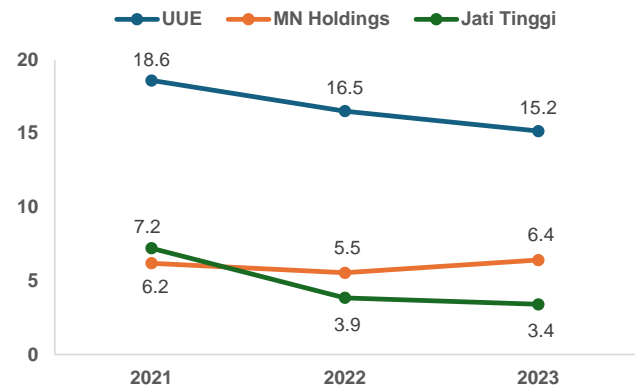
UUE will also specifically buy a Maxi-rig HDD machine (costing RM7m) that is used for longer distances, greater depths and larger diameter pipes (in contrast to the midi-rigs it currently owns). This will widen its capabilities to venture into the provision of subsea HDD works, paving the way for further growth opportunities in a new sub-segment.

Figure 5: UUE's EBITDA and PAT margins, %



Source: Company, Mercury Securities

Figure 6: UUE's PAT margin vs. peers (calendarised), %



Source: Companies, Mercury Securities

Superior margins than peers. As its revenue base grew larger, UUE's overall gross margins have stayed around the 30% mark. Excluding listing expenses, its recent PAT margins are also trending around 15-16%, which is far superior to listed peers such as MN Holdings (6-7%) and Jati Tinggi Group (3-4%). We believe this is mainly due to two key differentiating factors, which are: 1) UUE mainly specialises and focuses on the trenchless HDD method, which offers better margins; and 2) The group has its own HDPE pipe manufacturing, which complements its main business.

Healthy balance sheet. Pre-listing, UUE's net gearing was minimal at 0.04x (RM15m cash against RM17m debt). Its gearing level should turn net cash post-listing. The group does not plan to adopt a formal dividend payout policy. Nevertheless, considering its strong balance sheet and decent cashflow generation, we expect UUE to distribute 50% of its net profits as dividends over FY24-26F.

RM0.46 FV based on 13x FY25F EPS. We peg a target PE valuation of 13x for UUE, which we believe is appropriate for a small-cap construction engineering company (vs. 19.7x PE for the KL Construction Index). Key catalysts for the stock include strong earnings delivery and major contract wins.

We note that listed comparable peers such as MN Holdings (+41% YTD) and Jati Tinggi (+27% YTD) are trading at 22-29x PE amid strong earnings growth expectations stemming from recent massive investment in data centres and RE projects in Malaysia.



Peer Comparison (as at 6 June 2024)

Company	Bloomberg Ticker	Share Px (RM)	Mkt Cap	EPS Growth (%)		P/E (x)		P/B		ROE (%)		Net Dividend Yield (%)	
				2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
			RM m										
MN Holdings	MNHLDG MK	0.78	357.5	43.2	-	21.5	-	3.9	-	14.3	-	-	-
Jati Tinggi Group	JTGROU MK	0.36	139.1	35.1	-	29.3	-	3.6	-	10.6	-	-	-
Simple Average				39.1	-	25.4	-	3.8	-	12.5	-	-	-
UUE Holdings	UUE MK	0.24	146.0	19.1	(2.7)	8.7	7.1	2.4	1.7	21.5	21.4	-	6.3

Source: Bloomberg, Mercury Securities



Company Background

Specialist in HDD method of laying underground pipes. UUE is primarily engaged in providing underground utility engineering solutions, specialising in the horizontal directional drilling (HDD) method of laying pipes. Besides that, the company also utilises open-cut and micro-trenching excavation methods. Its end-user markets are mainly the electricity and telecommunications sectors in both Malaysia and Singapore.

UUE owns approximately 18 units of HDD machines and is supported by a workforce of 273 staff, the majority of whom are in the Project department. The group primarily handles the technical aspects of a project, including project planning, project management, site survey, tracing, utility mapping, commissioning, and handover. Meanwhile, labour-intensive works are typically outsourced 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.

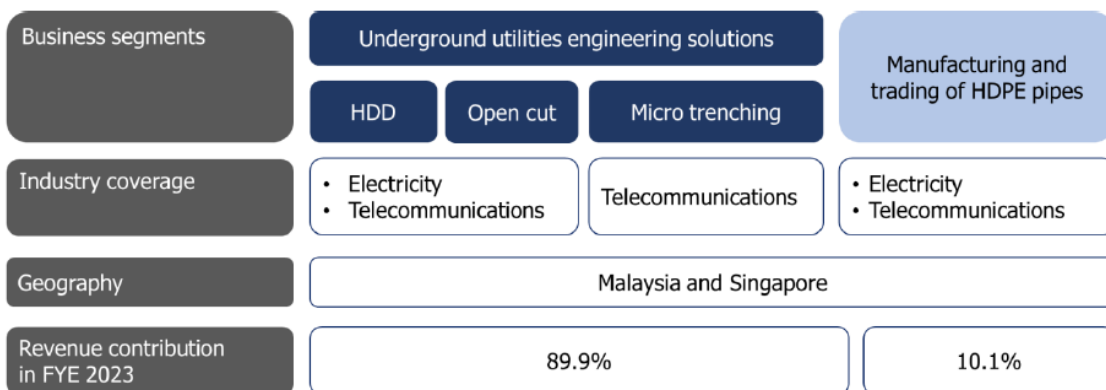
Compliment by own HDPE pipe manufacturing. UUE also manufactures and trades its own high-density polyethylene (HDPE) pipes to support its underground utility engineering projects. Approximately 70% of the HDPE pipes that UUE manufactures are utilised in the projects that the group undertake locally, while the remaining is typically exported to Singapore to be utilised by main contractors of underground utility projects. These HDPE pipes are usually used for electrical conduits and telecommunication conduits.

As of April 2024, UUE operates two pipe extrusion lines capable of producing HDPE pipes ranging in size from 75mm to 315mm. Following the expansion in 2022, the utilisation rate for UUE’s pipe manufacturing plant has been averaging about 50%.

Driven by Top 3 customers. As of FY23, UUE’s revenue is largely contributed by three key customers: Komasi Engineering (45%), Wee Guan Group (19%), and Sutera Utama (14%). UUE has an exclusive engineering service provider agreement with Komasi Engineering and Sutera Utama for all HDD-related projects, except for contracts that require Bumiputera participation only. The key end customers are mainly TNB, Celcom, and YTL Communications.

UUE acts as a subcontractor for HDD works to Wee Guan Group, where the latter is a general construction contractor based in Singapore.

Figure 7: Business overview



Source: Company



Figure 8: Key Management Team

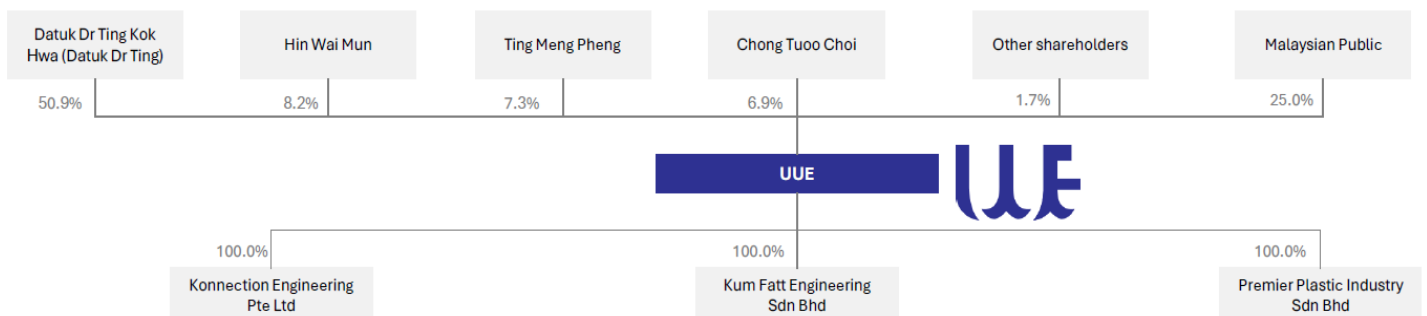
Name and Designation	Age	Profile
Datuk Dr Ting Kok Hwa Managing Director	49	<ul style="list-style-type: none"> B. Eng. in Electronic & Electrical from Liverpool John Moores University, UK 1997 MBA and PhD in Business Administration from Charisma University, Turks and Caicos Islands, UK 2017 and 2021 Oversees the group's strategy and corporate direction Started his career as a Project Engineer in 1999 and now has over 25 years of experience in underground utilities engineering projects.
Hin Wai Mun Executive Director	41	<ul style="list-style-type: none"> International Diploma in Computer Studies from Informatics College, Malaysia 2005 Managing day-to-day operations of engineering projects in Malaysia Started his career as a Civil Supervisor in 2005 and gained exposure to civil and HDD projects over the years.
Chong Tuoo Choi Executive Director	50	<ul style="list-style-type: none"> International Diploma in Computer Studies from NCC Education & Training, 1994 Managing day-to-day operations of engineering projects in Singapore Over 25 years of experience related to HDD works
Vincent Wong Soon Choy Chief Financial Officer	54	<ul style="list-style-type: none"> Bachelor of Commerce from Flinders University, Australia 1994 Member of MIA in 1999 and Member of CPA Australia in 1997 Responsible for the Group's accounting and financial matters. Various audit and accounting working experience before joining the group as CFO in 2018

Source: Company

Experienced senior management. The three key Executive Directors have extensive experience in HDD projects due to their past working experience in Komasi Engineering. In 2009, Datuk Dr Ting left Komasi Engineering to join his late father's firm, now known as Kum Fatt Engineering Sdn Bhd (Kum Fatt). In 2016, Mr Hin Wai Mun was appointed as Executive Director and became a shareholder of Kum Fatt.

Around the same time in 2009, Datuk Dr Ting also set up Konnection Engineering Pte Ltd (Konnection) to explore and bid for HDD projects in Singapore. Mr Chong Tuoo Choi joined Konnection in 2009, working his way up over the years and finally becoming an Executive Director in 2021.

Figure 9: Group Structure Post Listing



Source: Company



Future Plans & Business Strategies

Exploring HDD works opportunities in other states. UUE’s current and past completed underground utility engineering projects are mainly from the states of Johor, Negeri Sembilan, Melaka, and Selangor. The group plans to expand its operations regionally in Peninsular Malaysia, specifically focusing on the states of Terengganu, Kelantan, and Pahang by bidding for projects related to telecommunications and electricity supply. As of April 2024, UUE has already secured electricity supply projects in the abovementioned states with a total contract value of RM84m. The group aims to partner with certified main contractors that are financially stable and reliable to support its regional expansion.

Expanding into subsea HDD works with maxi rig machine. UUE currently owns 18 HDD machines, all of which are midi rigs. To expand its capability into providing subsea HDD works, the group plans to acquire a maxi rig HDD machine for RM7m using the IPO proceeds. Subsea HDD works refer to the HDD technique of drilling a tunnel from an entry point at the shore and through the sea bed to a pre-determined exit point along the coastline for the laying of underground pipes.

To venture into subsea HDD works, UUE will train its current employees and recruit experienced staff if needed. Management has also studied implementation methods of subsea HDD projects and will continue to improve its capabilities through site visits. The group will only market subsea HDD services after acquiring the necessary equipment and assembling a trained team.

Figure 10: Category and specification of HDD machines

Type of HDD machine	Thrust/Pull-back	Torque (kg-force m)	Bore length (m)	Pipe diameter (mm)	Depth (m)
Mini rig	up to 9,000	130	180	up to 300	4
Midi rig	up to 45,000	up to 2,700	300	up to 600	22
Maxi rig	> 45,000	>2700	1800	up to 1,200	60

Growing contribution from Singapore. Based on FY23 figure, sales from Singapore were about RM23m, translating to ~26% of revenue. Singapore is an important and growing market for UUE, driven by demand from the electricity supply industry to support Singapore’s plans to increase its overall population and optimise land use. Banking on its track record, the group intends to leverage the growth prospects of the Singapore market by actively participating in tenders for HDD works for electricity distribution projects.

Key Risks

High customer concentration. UUE’s revenue is largely contributed by three main customers: Komasi Engineering, Wee Guan Group, and Sutera Utama. For Malaysia, HDD projects are also mainly concentrated in the electricity supply industry, where TNB is ultimately the project owner and end customer. As such, UUE is very dependent on its immediate customers to continuously secure new projects from TNB.

Dependent on subcontractors for physical works. UUE usually engage subcontractors to scale up its HDD project capabilities and to carry out selected parts of its project works (largely physical-related). Subcontracted services accounted for 61-64% of its total revenue over FY21-23 respectively.

Fluctuation of construction material costs. UUE’s contracts generally do not cater for price fluctuations of construction materials. Any material increases in construction costs arising from materials costs, labour, and overheads will adversely affect its profit margin, particularly in situations where it cannot pass on the costs to its customers.



IPO Details

	Offer for Sale (m)	Public Issue (m)	Total (m)	(%)
<u>Retail Offering</u>				
Eligible Persons	-	40.6	40.6	6.7
Malaysian Public (Bumiputera)	-	15.2	15.2	2.5
Malaysian Public (Non-Bumiputera)	-	15.2	15.2	2.5
<u>Institutional Offering</u>				
Bumiputera investors approved by the MITI	37.5	38.6	76.0	12.5
Other institutional and selected investors	-	15.3	80.1	2.5
Total	37.5	124.9	162.4	26.7

Source: Company



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MERCURY SECURITIES SDN BHD
Registration No. 198401000672 (113193-W)
L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur
Telephone: (603) - 6203 7227
Website: www.mercurysecurities.com.my
Email: mercurykl@mersec.com.my