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Maybank Investment Banking Group

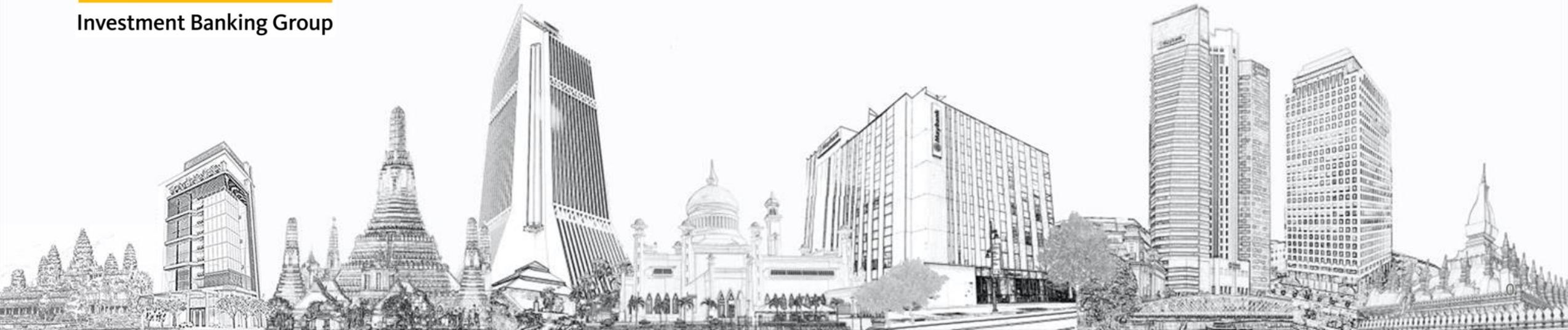
ASEAN'S INVESTMENT BANK

What investors / analysts want in terms of disclosures

- Wong Chew Hann, Maybank IBG Research (1 Nov 2022)



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Our role, as analysts

Our role, as analysts

To provide

- a **recommendation** or an opinion which may induce investors to take action (e.g. buy, hold, sell) on a specific stock.

Based on

- our understanding of the PLC's background (and management),
- the business & operating environment and outlook (against sector and economic cycle),
- our valuation of the stock (based on projected earnings, cash flow and balance sheet), considering also trading liquidity.

For MIBG Research ...

- we have also integrated **ESG** consideration in recommendations.

Our role, as analysts

Analysts are ...

- **licensed** under the Capital Market Securities Act, to provide investment advisory services.

Products

- our written ‘products’ are (usually):
 - ✓ initiation,
 - ✓ results commentary,
 - ✓ company update.
- and:
 - ✓ marketing,
 - ✓ non-deal roadshow.

Information channels

- Our ‘information channels’ are (usually):
 - ✓ management,
 - ✓ PLCs’ financial statements (annual & quarterly),
 - ✓ industry sources,
 - ✓ PLC’s competitors (for channel checks).

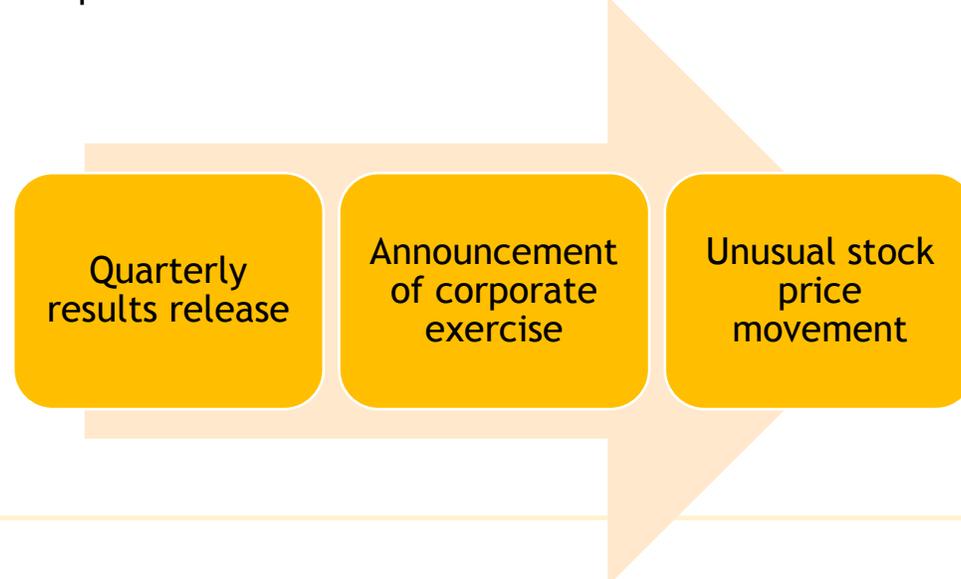


What we want

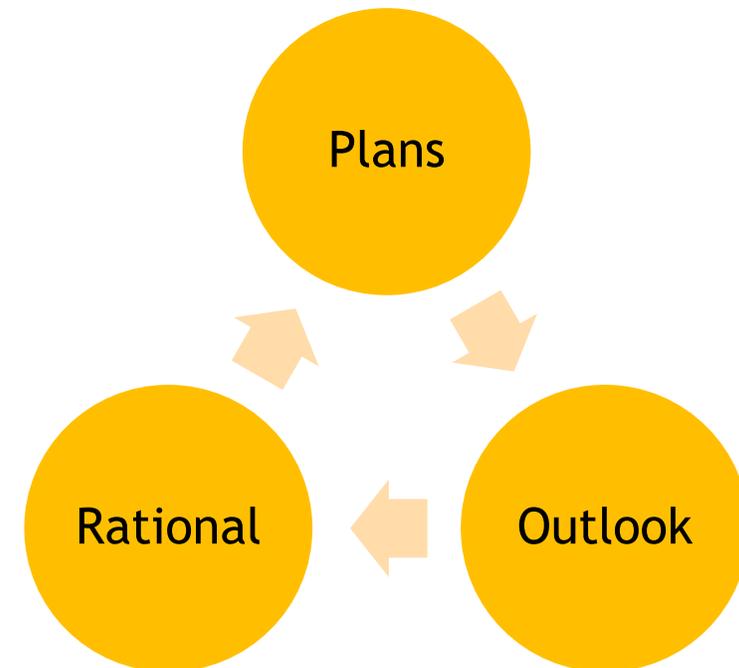
What we want

- **More detailed disclosure** - especially on announcement of major corporate exercise.
- **Management access** - and, FAST - especially during:
 - quarterly results release,
 - announcement of corporate exercises,
 - unusual stock price movement

Speed of clarification is of essence.



- **Management access** - we also want to hear from key management (CEO / MD, CFO), apart from IRO, especially on:
 - PLC's plans / outlook, and
 - rationale for major corporate exercises.



What we want



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- In **building financial model** (during initiation), we want:
 - more granular **historical data** (past 5 years),
 - PLC's **mid-to-long plans** (new business ventures, new markets, inorganic growth plans),
 - PLC's **targets** (financial & non-financial, ESG initiatives).

- Some examples of data:
 - Construction - yearly job wins, outstanding orderbook at end-FY, yearly tender book size & win rates, project margins (or a range), details of latest outstanding orderbook.
 - Property development - yearly sales, yearly launches, target sales/launches, project margins (or a range), inventory levels.
 - Retail & manufacturing - yearly sales volume (by main products), average selling prices / ASPs (for main products), cost breakdown (materials, labour, others).

In a nutshell, key historical data that will enable to build a financial model.



What we do not want

What we do not want

- Material non-public information that will affect the stock price movement.
- Selective dissemination of non-public information.
- Unsupported and/or not realistic broad statements.



ESG parameters

Maybank IBG Research's ESG parameters



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Business Model & Industry Issues

- Due to the diversity of its business operations, UJM's ESG responsibility (on a combined basis) is heavier, and its ESG risks inevitably higher than that of its construction peers.
- Key mitigating factors are UJM's conviction to the highest levels of governance and ethical business conduct throughout all its operations, while its sustainability framework, established in 2017 and comprising 4 pillars - marketplace, environment, community, workplace [link] - provides the guide towards its environmental and social targets. The group's new Sustainability Roadmap FY23-FY25 is integrated into divisional roadmaps, accompanied by specific internal performance measures.
- In our view, UJM's ESG risks are manageable. Building on these efforts will strengthen its investment case.
- UJM also scored above-average in our proprietary scoring methodology (see next page) with an overall score of 63/100.

Material E issues

- Group-wide: 1) From FY22, UJM has started making reference to recommendations outlined by the TCFD framework; 2) Energy: 4% of FY22 energy mix was renewable energy, i.e. solar; 3) Waste: 7.7% of FY22 waste footprint was reused / recycled; 4) Carbon footprint: Scope 1, 2 and 3 GHG up substantially in FY22 (13x FY21) as emission assessment was expanded across ALL its Malaysian ops beginning FY22.
- Construction: Completed green buildings to date comprise 18 GB (FY21: 14), 4 GreenRE (FY21: 1) and 4 LEED (FY21: 1) projects. In FY22, 67% of waste (FY21: 55%) was recycled.
- Property: All on-going and new projects (of ~50 ha each) undergo the Environmental Impact Assessment (EIA).
- Industry: Air, water, noise quality are monitored & mitigating measures implemented. In FY22, 32% of waste was recycled.
- In FY22, UJM's Industry Div received fines totaling MYR4k for non-compliance in handling of scheduled wastes at its quarry and KP factory.

Material S issues

- UJM's staff force is diversified in ethnicity (Malaysia workforce in FY22: Bumiputera 44%, Chinese 27%, Indian 8%), and gender (women made up one-third). In FY22, MYR703k was spent on training, clocking 28,699 hrs (FY21: ~24,800 hrs).
- Besides diversity and inclusion, UJM's Human Rights Policy provides guiding principles in areas of workplace security, no child labour nor exploitation in any forms, health & safety, and community rights. Its labour union represents 3% of its workforce (all in the Port division).
- In FY22, UJM contributed MYR4.5m (FY21: MYR2.9m) or 1.4% of pretax profit to the community in the form of charitable (12%) and investment initiatives (8%). This included The COVID-19 Response Programme - aid/support to shelter homes for the underprivileged, medical support, food supply/cash vouchers to food banks, soup kitchens, NGOs, etc.
- UJM Scholarship Award Programme (since 1994) has benefitted ~330 students, including 10 in FY22 (FY21: 10).

Key G metrics and issues

- UJM's Board comprises 11 Directors (since 25 Aug 2022) of which 9 are Non-Executive (incl. Chairman) and 2 are Executive. Of its Non-Exec Directors, 6 (55% of total) are Independent. Independent Directors have not served a cumulative term of >9 years each, per recommendation of the Malaysian Code on Corporate Governance.
- There are now 3 women on UJM's Board (27% representation), short of the 30% requirement but improved over FY22's 18%.
- UJM provides detailed disclosure on remuneration of directors but not its top senior management. In FY22, remuneration to directors was 2% of pretax profit. Disclosures of its top 5 senior management's remuneration are in bands of MYR0k.
- UJM has been audited by PricewaterhouseCoopers since FY2000, at least.
- An Anti-Bribery and Corruption (ABC) System manages and consolidates policies and processes in compliance with the ABC laws, with UJM's ABC Policy forming part of the ABC System, setting out the parameters. UJM has also adopted the (i) Code of Conduct and Ethics for Employees, (ii) Code of Business Conduct for Third Parties (where ABC principles are extended to associates, business partners and supply chain), and (iii) Whistleblowing Policy, amongst others.
- Transactions with related parties that arose within the Group have been fair and reasonable, and there were no material contracts involving Directors and major shareholders during our period of review (FY16-FY22).

Policies in-place

Board Policy	Corporate Codes & Policies	Sustainability Policies
Board Diversity Policy	Anti-Bribery and Corruption Policy	Community Investment Policy
Directors' Fit & Proper Policy	Code of Conduct and Ethics for Employees	Diversity and Inclusion Policy
	Code of Business Conduct for Third Parties	Environment Policy
	Corporate Disclosure Policy	Human Rights Policy
	External Auditors Policy	Responsible Supply Chain Policy
	Privacy Policy	Occupational Safety and Health Policy
	Remuneration Policy	Quality Policy
	Whistleblowing Policy	

SOURCE: www.majbank.com, FY22 Annual Report

Risk Rating & Score - derived by Sustainalytics and measures the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores indicating present or potential significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. **Score Momentum** - indicates changes to the company's score since the last update. A **positive** integer indicates a company's improving risk score, a **positive** integer indicates a deterioration. **Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incidents, with the impact severity scores of these events ranging from Category 0-3 (no report), 1 - negligible risk, ... 5 - poor business risk & indicative of potential structural deterioration at the company.

October 21, 2022

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Quantitative parameters (Score: 44)

Particulars	Unit	FY19	FY20	FY21	FY22	GM (FY21)
Scope 1 GHG emissions	tCO2e	17179	14769	12167	28312	2998
Scope 2 GHG emissions	tCO2e	2155	2028	1776	38995	14845
Total	tCO2e	19334	16797	13943	67307	17843
Scope 3 GHG emissions	tCO2e	14521	21314	19227	365818	NA
Total	tCO2e	33855	38111	33190	433125	NA
GHG intensity (Scope 1 and 2)	tCO2e/m2	NA	NA	NA	NA	NA
Energy consumed	MWh	38683	48420	42730	69455	22111
Share of renewable energy use in operations	%	NA	NA	NA	4.0%	Notable
Waste reused and recycled	%	NA	NA	NA	7.7%	NA
Cases of environmental non-compliance	number	0	1	1	1	0
% of women in workforce	%	33.3%	33.3%	33.3%	36.0%	34.8%
% of women in management roles	%	29.0%	31.0%	32.0%	34.0%	23.0%
Lost time injury frequency (LTIF) rate	number	3.07	2.92	6.31	0.63	1.94
Community investments as % of PBT	%	0.3%	1.2%	0.6%	1.4%	2.0%
UJM scholarship (aux supported since 1994)	number	>315	>330	>340	>350	471
MD/CEO remuneration as % of PBT	%	0.59%	2.04%	0.33%	0.65%	0.56%
Board (ex-CEO) remuneration as % of PBT	%	0.65%	0.46%	0.72%	1.35%	0.86%
Independent directors on the Board	%	73%	70%	64%	55%	57%
Female directors on the Board	%	18%	20%	18%	18%	43%

- Qualitative Parameters (Score: 83)**
- Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?
Yes - targets and priorities are addressed under UJM Group's Sustainability Roadmap FY23-25, supported by the Group Sustainability Steering Team.
 - Is the senior management salary linked to fulfilling ESG targets?
Yes - sustainability-related key performance indicators are in the balance scorecard of senior management for FY22.
 - Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?
Yes - beginning FY22, UJM has started making reference to the recommendations outlined by the TCFD framework.
 - Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?
Yes - In FY22, UJM calculated 6 out of 15) categories under Scope 3 of its Mission ops - purchased goods & services, waste generated, business travels, employee commute, downstream leased assets. Investments: this will be expanded to its ops in India in FY22.
 - What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?
UJM has conducted a group-wide carbon assessment to build its emissions profile that will help formulate its Climate Strategy to be introduced in FY23. The Industry Div continues to explore methods to reduce its energy intensity with the use of polycarbonylic Ether additives when manufacturing concrete piles. In FY22, UJM has installed 3,784 kWp solar rooftop photovoltaic panels at 6 of its factories under its Industry Div and 317 kWp at The Arc located in its Bandar Rimbau property development; it intends to expand this to its Port and Toll ops. Its new SMART BS plant helps to lessen wastages vs. conventional construction methods.
 - Does carbon offset form part of the net zero/carbon neutrality target of the company?
Pending - UJM's Carbon Reduction Strategy is at the development stage (carbon reduction assessment is ongoing) and will be shared in its FY23 annual report.

Target (Score: 80)

Particulars	Target	Achieved
Net zero carbon emissions by 2050	Net 0	N/A
Incorporate SDG 13: Climate Action in UJM's Sustainability Framework	FY23-25E	N/A
Formulate a Carbon Reduction Strategy	FY23E	N/A
Zero fatality & zero accident at all site ops	Zero	Yes
"Green" projects to replenish its construction orderbook	Green	Yes

Impact
NA

Overall score: 63

As per our ESG matrix, UJM Corporation (UJMK) has an overall score of 63.

ESG score	Weights	Scores	Final Score
Quantitative	50%	44	22
Qualitative	25%	83	21
Target	25%	80	20
Total			63

As per our ESG assessment, UJM has an established framework and internal policies, but needs to formalise its Carbon Reduction Strategy and formalise its net-zero target. UJM's overall ESG score is 63, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

October 21, 2022

Maybank IBG Research's ESG parameters



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- “E” - energy (% renewable), water & waste (% reused or recycled), carbon footprint (GHG Scope 1, 2 & 3 and how are they managed), environmental non-compliance, bio-diversity conservation efforts, green buildings (for construction).
- “S” - workforce diversity especially gender (% of women in workforce, % of women in management), workforce's welfare (including accommodation, human capital development), workplace security, lost time injury frequency (LTIF); community investments (% of earnings).
- “G” - Board composition (independent directors, women directors, disclosures of directors' and key management's remuneration), external auditors, policies like ABC, Code of Conduct and Ethics for Employees and 3rd Parties, Whistleblowing, related party transactions.

Maybank IBG Research's ESG parameters

- Other considerations - ESG or Sustainability Policy, capturing of Scope 3 emissions, carbon offsetting, and net zero / carbon neutrality targets.

- Points for consideration:
 - EPF has identified two sustainable investment targets: i) a fully ESG compliant portfolio by 2030, and ii) a climate neutral portfolio by 2050.
 - PNB, in its Sustainability Framework launched in April this year, outlined 10 commitments under the 3 pillars of “E”, “S” and “G”.
 - KWAP has progressively embedded ESG considerations into its investment decisions since over a decade ago; it began monitoring its investee companies’ corporate governance practice and responsibility towards social and environmental aspects since 2009.



Questions?

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