

3 April 2024

Industrial Products | Furniture

Topmix (TOPMIX MK)

A Top Player For Renovation Decorative Surfaces

- **MYR0.43 FV, based on 15x FY24F P/E.** Topmix intends to raise MYR25.6m from its IPO to fund business expansion and working capital. As one of the Top 3 decorative surface providers in Malaysia, it is well-positioned to benefit from the growth in commercial and residential property markets, and supportive government initiatives aimed at encouraging home ownership. Cross-selling opportunities from product expansion, geographical expansions, and all-inclusive in-house solutions fuel its 3-year earnings CAGR of 17.8% (FY22-25).
- **One-stop centre for renovation decorative surfaces.** Topmix is dedicated to delivering environmentally-friendly decorative surface solutions to Malaysia's renovation industry. Backed by certifications like UL GREENGUARD, GREENGUARD Gold, Singapore Green Label, and MyHIJAU standards, its high pressure laminate (HPL) products offer low chemical emissions – catering to an increasingly eco-conscious customer base. Its HPL products are priced at least 40% lower than foreign counterparts. Responding to market demands, Topmix is introducing taller HPL products for seamless wall finishes in high-ceiling properties. With a vast customer base of over 1000 interior designers, the company is expanding its product range to include compact panels, PVC edging, wall panels, and other decorative solutions to position itself as a comprehensive furnishing hub for residential and commercial properties.
- **Beneficiary of Malaysia's vibrant property market.** With a diverse product range of 480 designs, including approximately 190 unique and exclusive HPL designs, Topmix is poised for significant growth in the renovation sector, especially with its asset-light business model with outsourced manufacturing. As a brand owner, Topmix remains committed to introducing innovative designs aligned with evolving market trends, facilitated by collaborative efforts in product design. This expansive product portfolio positions Topmix to capitalise on the burgeoning construction and property industries in Malaysia.
- **Expansion plans fuel growth.** With Topmix brand dominating the largest market share in Malaysia's southern region, the company is poised for further expansion. Plans include increasing warehouse capacity at its central region office to accommodate growth, and establishing a sales office, showroom, and warehouse in Penang to tap into the under-explored northern market. To penetrate a new market segment, the company will venture into manufacturing melamine-faced chipboard (MFC) by June. This move aims to provide cost-effective surface decorative materials to both existing customers and untapped furniture manufacturers in Malaysia.
- **Earnings forecast and valuation.** We project a 3-year earnings CAGR of 17.8%, and ascribe 15x P/E to its FY24F earnings to derive MYR0.43 FV. The valuation is justifiable against 16x 1-year forward P/E of KLPROD on its superior ROE, net margin, and higher earnings growth. Key risks: Shortage of supplies, absence of long-term contracts, FX fluctuations, and market trend changes.

Fair Value (Return):	MYR0.43 (+38%)
IPO Price:	MYR0.31
Closing Application Date:	4 Apr 2024
Indicative Listing Date	23 Apr 2024

Analyst

Queenie Tan
+603 2302 8127
queenie.tan@rhbgroup.com



Company Description

Topmix primarily engages in the design, marketing, and sale of its environmentally certified surface decorative products to the renovation industry in Malaysia.

IPO Details

Public Issue of new shares (m)	82.7
Offer for sale of existing shares (m)	19.7
Shares outstanding (m)	393.9
Implied market cap	MYR122.1m

Major Shareholders (%)

J And T Resources SB	55.0
Teo Quek Siang	11.6
Tan Lee Hong	7.4

Utilisation of IPO Proceeds

	MYRm
Expansion into assembly of melamine faced chipboard products	5.3
Business expansion, marketing and sale	6.0
Working Capital	11.3
Listing expenses	3.0
TOTAL	25.6

Additional Data

Listing Market	ACE
Bursa Code	0302

Forecasts and Key Data	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	39	66	72	89	117
Recurring net profit (MYRm)	4.4	8.5	9.0	11.2	14.0
Recurring net profit growth (%)	87.0	93.1	5.4	24.7	24.4
Recurring EPS (sen)	1.42	2.74	2.56	2.55	3.54
Recurring P/E (x)	21.8	11.3	10.7	10.9	8.8
P/BV (x)	4.5	3.2	2.5	1.7	1.5
P/CF (x)	83.7	12.0	9.4	18.9	16.3
Dividend yield (%)	0.5	0.0	0.7	1.6	2.3
EV/EBITDA (x)	19.8	10.2	9.3	6.3	5.0
ROE (%)	22.5	33.0	23.4	18.3	18.0
Net debt to equity (%)	1.2	0.6	0.3	Net Cash	Net Cash

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Overview And Valuation

Financial overview. Over a span of three financial years, Topmix's revenue surged from MYR27.5m in FY20 to MYR65.8m in FY22, marking a remarkable 2-year revenue CAGR of 54.7%. This growth was primarily driven by a substantial increase in sales volume – from 461,587 units in FY20 to 812,255 units in FY22. The heightened demand for surface decorative products was fuelled by a surge in renovation and refurbishment activities during the FY20-FY22 period.

To maintain competitiveness and cater to local demand, Topmix introduced new HPL product designs and forged collaborations with third-party décor paper suppliers for joint-HPL product designs under the Topmix brand. In its 2021/2023 product catalogue release, Topmix unveiled 44 new generic HPL product designs, 46 newly joint-designed HPL designs, and 11 new internally-designed HPL products. These additions significantly expanded the HPL product range, offering customers a wider array of design options, colourways, tones, and product size configurations. Additionally, Topmix has focused on customer acquisition and retention initiatives to attract long-term customers, and continuously refines its marketing strategy based on customer feedback.

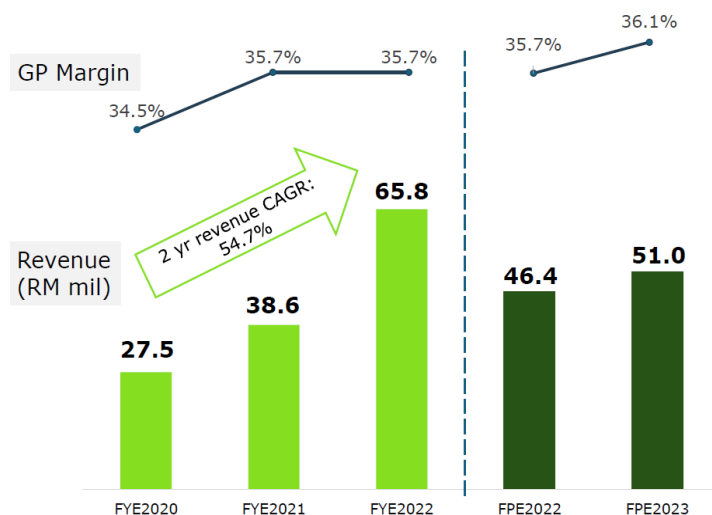
Topmix's bottomline witnessed remarkable growth, nearly doubling every year from FY20 to FY22, resulting in an impressive 2-year earnings CAGR of 90%. Notably, there was a substantial enhancement in profit after tax margin (PATM), climbing from 8.6% in FY20 to 13% in FY22. This improvement can be primarily attributed to enhancements in gross profit margin (GPM) and the optimisation of operating leverage.

Forecasts. With its expansion of product range and potential cross-selling opportunity, we forecast a 3-year earnings CAGR of 17.8%, driven by growth of the property market in Malaysia. We anticipate that the GPM of each product category will remain stable, with HPL products continuing to serve as the primary revenue driver. Additionally, we project that the new business segment - MFC - will contribute MYR2.25m in FY24 and MYR12m in FY25, with a targeted GPM of 25%.

Valuation. There are no direct peers listed in Malaysia, but companies like Aica, Greenlam, and An Cuong also distribute HPL products in Malaysia. They are trading at a market-cap weighted average 1-year forward P/E of 20.4x. We are assigning a 15x P/E based on Topmix's FY24F earnings to arrive at a FV of MYR0.43. The valuation is justifiable against 16x 1-year forward P/E of KLPROD on its superior ROE, net margin, and higher earnings growth. The valuation represents a c.22% discount from the 20x 1-year forward consensus P/E of international providers (as shown in Figure 3) due to its smaller market capitalisation.

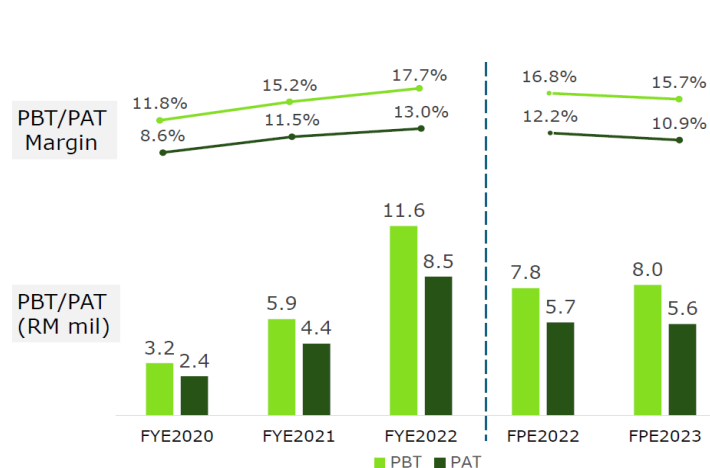
Dividends and balance sheet. While the company does not have any dividend policy, we are assuming a dividend payout of 20% of its PAT – translating to yields of 1.6% and 2.2% in FY24F and FY25F. Topmix has a healthy balance sheet, with no borrowings and a net cash per share of 4.13 sen post IPO.

Figure 1: Revenue and GP margin



Source: Company data

Figure 2: Profitability & PAT margin



Source: Company data

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Figure 3: Peer comparison

Company	Country	FYE	Mkt Cap (USDm)	Price	P/E (x)			Div. yield (%)	ROE (%)	EV/ EBITDA	NP growth (%)		PEG
				1-Apr-24 (Local currency)	Actual	1 Yr Fwd	2 Yr Fwd	1 Yr Fwd	1 Yr Fwd	1 Yr Fwd	1 Yr Fwd	2 Yr Fwd	
Topmix	MA	12/2023	26.0	0.31	11.3	11.1	8.9	4.2	18.1	6.4	24.7	24.4	0.4
Local furniture by-product providers													
Heveaboard	MA	12/2024	39.5	0.33	-49.3	47.8	22.7	3.0	21.2	Na	-203.1	110.2	0.2
Evergreen Fibreboard	MA	12/2024	55.4	0.31	-7.1	24.9	13.4	Na	21.2	Na	-128.5	85.7	0.2
Mkt. cap weighted average			48.7		-24.6	34.4	17.3	3.0	21.2		-159.5	95.9	0.2
Simple average			47.4		-28.2	36.3	18.1	3.0	21.2		-165.8	97.9	0.2
International peers													
Aica Kogyo	JN	03/2024	1650.3	3704.00	22.2	16.5	15.1	3.1	74.3	7.3	34.4	9.1	1.7
Greenlam Industries	IN	03/2024	800.9	523.30	50.1	48.4	37.6	0.2	75.1	25.3	3.4	28.9	1.3
An Cuong Wood Working	VN	12/2024	242.9	39950.00	13.3	11.0	9.4	5.5	21.2	7.9	20.0	18.1	0.5
Mkt. cap weighted average			1270.9		29.7	25.5	21.3	2.4	69.7	12.7	23.9	15.8	1.4
Simple average			898.0		28.5	25.3	20.7	2.9	56.9	13.5	19.3	18.7	1.2

Source: Bloomberg, RHB

Company Overview

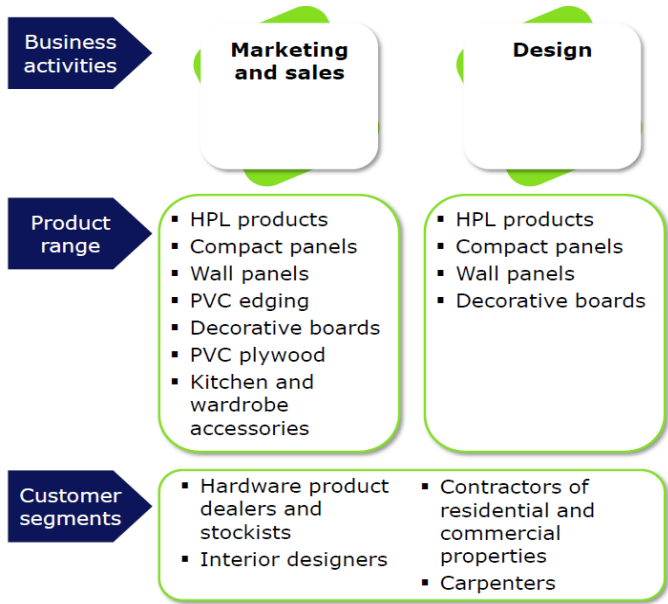
Topmix is principally involved in the marketing and sales of its own brands of surface decorative products. It also undertakes the design of surface decorative products internally as well as jointly-designed with third-party décor paper suppliers. While its primary market is Malaysia – accounting for 99.9% of its FY22 sales – Topmix also exports its products to other countries ie Indonesia, Singapore, Sri Lanka, and the Philippines. Its customer base comprises hardware product dealers, stockists, interior designers, residential and commercial property contractors, and carpenters.

Its revenue is generated from three product categories:

- i. **HPL products (94.4% of FY22 revenue):** A decorative laminate produced by layers of decorative paper and kraft paper treated under high temperature and pressure. There are two main categories – generic HPL and design HPL. The design HPL can be jointly-designed HPL or internally-designed HPL.
 - a. **Generic HPL products (73.6% of FY22 HPL products revenue).** Topmix sources and procures generic HPL products from OEMs of HPL products. The Group only purchases finished generic HPL products from the original equipment manufacturers (OEM). The OEMs supply to the company on exclusive basis, and are not able to sell, market, or distribute these generic HPL products to any other third-party in Malaysia. However, Topmix does not have exclusivity to the designs of generic HPL products.
 - b. **Jointly-designed HPL products (26.4% of FY22 HPL products revenue).** The company collaborates with third-party décor paper suppliers to jointly design décor papers, marketing a range of HPL products. These products feature exclusive colourways of décor paper, with design and colourway rights granted exclusively to Topmix in the Malaysian market. OEMs procure the jointly-designed décor paper from the third-party supplier, while Topmix sources the finished HPL products from the OEMs. These products are then supplied exclusively to the company in Malaysia by the OEMs.
 - c. **Internally-designed HPL products (0.1% of FY22 HPL products revenue).** Topmix provides customisation services for décor paper, accommodating customers with limited production volume. Customers collaborate with the company to finalise the artwork for the décor paper. The internally-designed décor paper is either printed internally or sent for printing by third-party décor paper suppliers. Once printed, the décor paper is delivered to OEMs for manufacturing.
- ii. **Other surface decorative products (5.2% of FY22 revenue):** These include compact panels, PVC edging, wall panels, decorative boards, and PVC plywood under the Dekotop, Dekoedge, Dekowall, Dekoboard, and Topply brand names. The company's surface decorative products are used in a variety of commercial and residential interior surface applications, including counter tops, table tops, furniture, wall decorations, partitions, signboards, and door panels.
- iii. **Kitchen and wardrobe accessorises (0.45% of FY22 revenue):** The company holds exclusive dealership of Starax, a Turkish brand of space-saving kitchen and wardrobe accessories, in Malaysia. Starax serves as a complementary to the current range of surface decorative products as it offers customers a more holistic and seamless design and product range for kitchens, living rooms, and bedrooms.

Topmix is led by a seasoned key senior management team with extensive experience in the surface decorative products industry. Heading this team is the Managing Director Teo Quek Siang, who is tasked with developing business strategies and establishing the overall direction of the company. He also supervises the execution of these strategies and brings over 18 years of expertise in the surface decorative products industry.

Figure 4: Business model



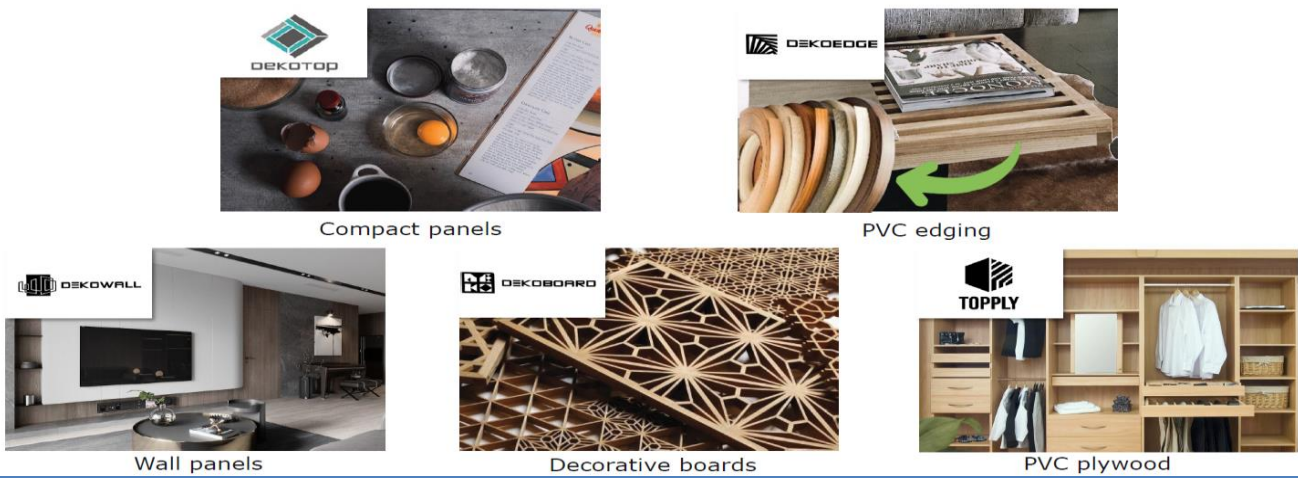
Source: Company data

Figure 5: HPL products




Source: Company data

Figure 6: Other surface decorative products




Source: Company data

Figure 7: Kitchen and wardrobe accessories

**Exclusive dealership of kitchen and wardrobe accessories**

- Complementary to our surface decorative products
- Offer customers a more holistic and seamless design and product range for kitchens, living rooms and bedrooms.



Source: Company data

Figure 8: Certifications attained



UL GREENGUARD

PRODUCT CERTIFIED FOR LOW CHEMICAL EMISSIONS
UL.COM/GG
UL 2818



GREENGUARD Gold Certification

PRODUCT CERTIFIED FOR LOW CHEMICAL EMISSIONS
UL.COM/GG
UL 2818
GOLD

✓ Products tested and scientifically proven to have low chemical emissions



Singapore Green Label

✓ Environmentally preferred products that meet certain eco-standards.



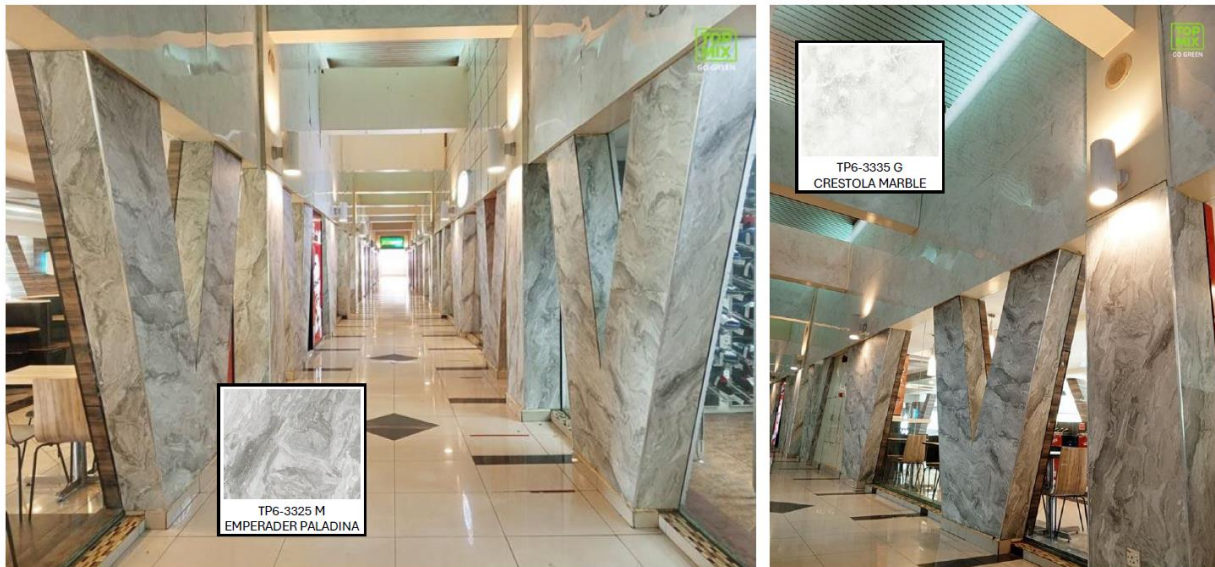
MyHIJAU

✓ Certified products and services that meet local and international environmental standards

Source: Company data

Figure 9: Project profiles

Project @ R&R Ayer Keroh

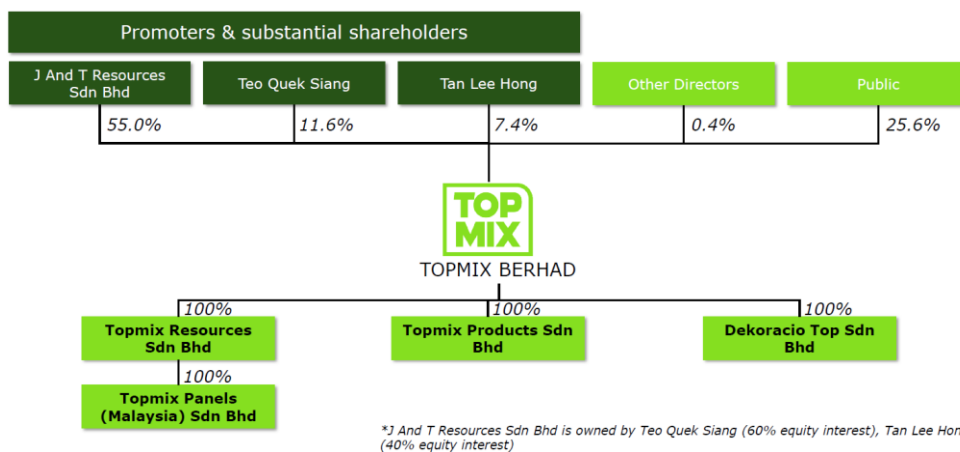


Project @ Eco Summer Johor Bahru



Source: Company data

Figure 10: Post-IPO shareholding structure



Source: Company data

Future Plans And Strategies

Expand into the assembly of MFC products. Topmix recognises the opportunity to diversify and extend its line-up of surface decorative products. To facilitate this expansion, it plans to:

- i. Construct a new factory for MFC assembly on vacant land within its Skudai factory area, specifically designated as Building 2. Construction of Building 2 began in Mar 2023 and was finalised by Dec 2023. Topmix anticipates receiving the Certificate of Completion and Compliance (CCC) by Apr 2024, approvals from the Johor State Forestry Department and the Department of Occupational Safety and Health (DOSH) by Jun 2024, and commencing operations in the same month. The total construction expenditure for Building 2 is projected as MYR2.5m. Of this sum, MYR1.44m will be financed through bank loans, with the remaining MYR1.06m to be covered by internally-generated funds. It plans to utilise MYR1.44m from the Public Issue proceeds to repay the bank loans within three months of its listing.
- ii. Installing one MFC assembly line with a maximum daily production capacity of approximately 500 pieces, based on eight operating hours, within Building 2. Additionally, Topmix will install a cold room in Building 2. Recognising that the MFC products assembly line will occupy significant space in Building 2, the company plans to install testing equipment in Building 1. It aims to procure machinery, equipment, and motor vehicles for a total of MYR2.11m. Of this amount, MYR1.88m from the proceeds of the Public Issue will be allocated to repay finance leases, intended for the acquisition of machinery and motor vehicles. Furthermore, Topmix intends to recruit eight employees to manage the MFC products assembly line, allocating MYR270k over 12 months from internally-generated funds for this purpose.
- iii. Topmix has earmarked MYR2m of the proceeds for the purchase and installation of enterprise resource planning (ERP) software. The plan is to implement the ERP software across the company to oversee daily operational functions, including accounting, procurement, supply chain, and assembly.

Expand footprint in northern region. The company has identified potential markets, primarily in Penang. It plans to utilise MYR3.08m from the proceeds to finance the establishment of a sales office in Penang. This will cover the cost of setting up the sales office, including the showroom and warehouse (MYR1.9m), the purchase of motor vehicles (MYR340k) and office equipment (MYR70k), as well as the manpower requirements for 12 months (MYR770k).

Strengthen Topmix HPL mobile application to increase brand and product awareness. The company plans to engage a third-party software developer to enrich the functionality and versatility of its mobile application by integrating augmented reality technology and introducing a 360° virtual tour of the showroom at its headquarters in Skudai. Topmix will set aside MYR600k of the proceeds from the Public Issue to finance the enhancement of the Topmix HPL mobile application within 24 months of the listing.

Increase marketing and sales activities. The company has allocated MYR1.36m to reinforce marketing and sales efforts, including participation in trade exhibitions (MYR900k), hiring additional marketing and sales personnel for the Johor and Selangor offices (MYR360k), as well as advertising products in trade publications and organising product presentations (MYR100k). Additionally, Topmix has earmarked MYR940k to expand its warehouse capacity in the central region. This allocation will cover the recruitment of new staff, procurement of motor vehicles, and leasing of a new warehouse in the central region.

Enhance sales of jointly-designed and internally-designed HPL products. Topmix will enhance marketing and sales efforts by advertising its products in trade magazines and organising product presentations for both current and potential customers. Additionally, the company will utilise digital platforms, including its website, social media profiles, and Topmix HPL mobile application, to amplify the promotion of jointly-designed and internally-designed HPL products.

IPO Details

Figure 11: Indicative IPO timeline

Opening of application	27 Mar 2024
Closing of application	4 Apr 2024
Balloting of applications	8 Apr 2024
Allotment of the IPO shares to successful applicants	18 Apr 2024
Listing	23 Apr 2024

Source: Company data, RHB

Figure 12: Utilisation of IPO proceeds

	Estimated timeframe	MYRm	% of proceeds
Expansion into assembly of MFC products	Within 60 months	5.32	20.74
Business expansion, marketing and sales	Within 24 months	5.98	23.32
Working Capital	Within 24 months	11.34	44.24
Listing expenses	Within 1 month	3.00	11.70
Total		25.64	100.0

Source: Company data, RHB

Figure 13: Offering structure

	No. of IPO shares	% of enlarged share base ⁽¹⁾
Public Issue of new shares:		
Malaysian public via balloting	19,693,000	5.0
Pink form allocations	7,877,000	2.0
Private placement to selected Bumiputera investors approved by MITI	49,232,000	12.5
Private placement to selected investors	5,907,000	1.5
Total	82,709,000	21.0
Offer for sale:		
Private placement to selected investors	19,693,000	5.0
Total	102,402,000	26.0

Source: Company data, RHB

Key Risks:

- i. Shortage of supplies;
- ii. Absence of long-term contracts;
- iii. FX fluctuations;
- iv. Changes in market trend.

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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KUALA LUMPUR

RHB Investment Bank Bhd

Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia

Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL

10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)

90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470