

25 September 2024

Industrial Products & Services | Equipment

## Crest Group (CREST MK)

### Testing The Waters Of Regional Expansion

- **MYR0.49 FV, based on 18x FY25F P/E.** Crest Group aims to raise MYR45.7m from its IPO, primarily to fund its new headquarters and business expansion plans. Our 18x P/E target is benchmarked against the automated test equipment (ATE) players and the projected 3-year earnings CAGR of 9.8% is based on the anticipated recovery of the semiconductor industry and the group's expanding presence in key markets like Thailand and China.
- **Crest Group is primarily engaged in the provision of imaging, analytical, and testing solutions.** These solutions are used in quality inspection, sample analysis, and R&D across various industries, such as semiconductors, electronics, automotive, oil and gas, aviation, life sciences, healthcare, as well as research and academic institutions. It also provides after-sales services.
- **Expansion plans.** The group has earmarked MYR15.8m from its IPO proceeds to fund the acquisition of a property for a new headquarters in Selangor, centralising its operations in Malaysia's Central region. MYR5.9m is allocated for the purchase of demonstration equipment to enhance its sales and marketing efforts. Furthermore, MYR14.5m has been set aside for regional expansion, with a focus on increasing market share in China, Thailand, and Vietnam, while targeting new industries such as healthcare and life sciences.
- **Forecasts.** We are projecting a 3-year earnings CAGR of 9.8%, largely supported by the semiconductor recovery, which is expected to drive increased capex spending. Additionally, the group's regional expansion, with a focus on China, Vietnam, and Thailand, should contribute towards its growth. Crest Group aims to broaden its client base across the semiconductor, E&E, academia, healthcare, and life sciences sectors, enhancing diversification and stabilising its revenue streams. Further, the group will strengthen its after-sales services, which provides a recurring income stream. Its strategic positioning within these high-growth industries and regions underpins earnings growth.
- **Valuation.** We ascribe an 18x P/E to the group's FY25F earnings, to arrive at a fair value of MYR0.49. Our target P/E is benchmarked against ATE players. Our target P/E represents a 30% discount to comparable peers, reflecting its smaller market capitalisation, lower-margin and only distribution-focused business model. We believe the stability of its distribution business, which caters to a diverse range of markets, acts as a counter-cyclical factor against fluctuations in the semiconductor cycle, but may not offer exciting growth compared to ATE peers at the same time. Additionally, its strong cash flow supports business expansion and the ability to dish out a minimum dividend payout of 30%.
- **Key risks** include order fluctuations, labour shortages, escalation of input costs, technology obsolescence and FX fluctuations.

Fair Value (Return):	MYR0.49 (+41%)
IPO Price:	MYR0.35
Closing Application Date:	25 September 2024
Indicative Listing Date	9 October 2024

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#### Company Description

Crest Group is mainly involved in the distribution of imaging, analytical, and test equipment solutions, as well as provision of after-sales services.

#### IPO Details

Public issue of new shares (m)	130.7
Offer for sale of existing shares (m)	103.9
Shares outstanding (m)	865.6
Implied market cap	MYR303m

#### Major Shareholders (%)

Climan	55.0
Lim Siong Wai	6.0
Au Chun Mun	5.7

#### Utilisation of IPO Proceeds

	MYRm
New Headquarters	15.8
Business expansion	14.5
Purchase of demonstration equipment	5.9
Expansion of services and support team	3.6
Listing expenses	6.0

**TOTAL** 45.7

#### Additional Data

Listing Market	ACE
Bursa Code	0323

#### Note:

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

Forecasts and Key Data	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	170.2	187.6	202.3	228.9	256.5
Recurring net profit (MYRm)	17.3	20.1	21.0	23.7	26.6
Recurring net profit growth (%)	8.7	16.3	4.6	12.8	12.3
Recurring EPS (MYR)	0.02	0.02	0.02	0.03	0.03
Recurring P/E (x)	17.5	15.1	14.4	12.8	11.4
P/BV (x)	5.6	5.0	2.5	2.2	1.9
Dividend Yield (%)	0.0	0.0	2.1	2.4	2.7
EV/EBITDA (x)	8.2	6.5	4.9	3.9	3.1
ROE (%)	33.8	33.7	18.1	17.9	17.6
Net debt to equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

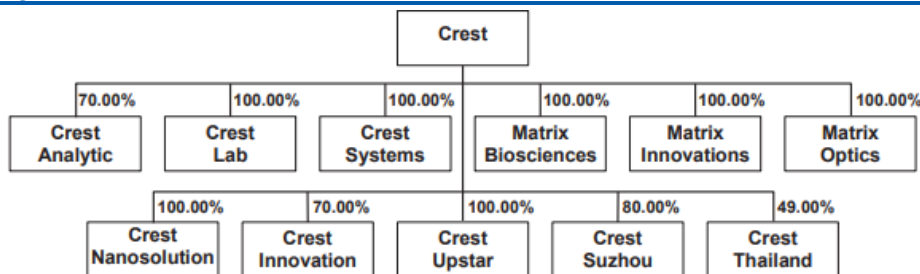
Source: Company data, RHB

## Company Overview

Crest Group is primarily engaged in the provision of imaging, analytical, and testing solutions. These solutions are used in quality inspection, sample analysis, and R&D across various industries, such as semiconductors, electronics, automotive, oil and gas, aviation, life sciences, healthcare, and research and academic institutions.

- i. **Provision of imaging, analytical and test solutions (84.98% of FY23 revenue).** Imaging, analytical, and test solutions are designed for quality inspection, sample analysis, and R&D through detailed imaging and testing. These solutions allow for in-depth scans and magnification to detect defects not visible to the naked eye. The group's offerings include pre-sales consulting, equipment sales and customisation, installation, commissioning, and user training;
- ii. **Provision of after-sales services (15.02% of FY23 revenue).** The group offers after-sales services, including technical support, maintenance, and the sale of spare parts and consumables. After the warranty period, customers can continue to use these services for a fee. It also supports customers that use equipment supplied by their principals, even if they did not engage Crest Group for the initial solutions.

Figure 1: Corporate structure



Source: Company data, RHB

Figure 2: Examples of products



Source: Company data, RHB

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Crest Group provides imaging, analytical, and test solutions as well as after-sales services directly to end-user customers, including manufacturers and industry players in sectors such as semiconductors, electronics, automotive, oil and gas, aviation, life sciences, healthcare, as well as research and academic institutions. These customers use the group's solutions for quality inspection, sample analysis, and R&D. In addition to serving these end-users, the group also provides solutions to intermediaries, such as automation solution providers, that integrate its services into their own offerings. Furthermore, Crest Group sells equipment and after-sales services to dealers who resell them to their own customers.

Figure 3: Top customers in FY23

Customer	Principal activities	Length of relationship (years)	Sales (MYRm)	Percentage (%)
Customer Group E	Advanced imaging; optical and portable; advanced analytical and testing; and sample management solutions	10	10.1	5.4
Customer Group G	Advanced imaging; advanced analytical and testing; and sample management solutions	7	9.2	4.9
Khon Kaen University	Advanced imaging solutions	10	5.5	2.9
Scientific and Technological Research Equipment Centre Chulalongkorn University	Advanced analytical and testing solutions	10	5.5	2.9
Tokyo Sangyo Co Ltd	Advanced imaging; advanced analytical and testing solutions	10	4.9	2.6
<b>Total</b>			<b>35.1</b>	<b>18.7</b>

Source: Company data, RHB

The group sources its equipment from principals and dealers. These suppliers provide the necessary imaging, analytical, and test equipment based on its proposed solutions. Additionally, for custom solutions, Crest Group may integrate equipment with third-party hardware, such as robotic arms or wafer handling systems, and third-party software, like Manufacturing Execution Systems (MES). These third-party components are either developed by service providers or purchased directly from its principals.

Figure 4: Top suppliers in FY23

Supplier	Equipment sourced	Length of relationship (years)	Purchases (MYRm)	Percentage (%)
Supplier Group A	Advanced imaging; optical and portable; advanced analytical and testing; and sample management equipment	8	51.9	40.9
Supplier Group B	Advanced imaging; optical and portable; advanced analytical and testing; and sample management equipment	8	30.1	23.7
Supplier Group D	Advanced imaging equipment	16	4.8	3.8
Supplier Group C	Optical and portable; and advanced analytical and testing equipment	11	4.0	3.2
Ulvac-Phi, Inc	Advanced analytical and testing equipment	10	2.5	2.0
<b>Total</b>			<b>93.2</b>	<b>73.5</b>

Source: Company data, RHB

The group is led by an experienced and technically skilled key management team, with an average of 28 years of industry experience and in-depth knowledge of its business operations. Lim Siong Wai (Managing Director), Au Chun Mun (Executive Director), and Yap Kian Meng (Executive Director) possess the relevant background in science, which they have leveraged to build and expand the group's imaging, analytical, and test business over the years. The management team has strong industry and functional expertise, developed through years of experience in their respective fields. They also take an active, hands-on approach in leading their departments to drive the group's growth.

## Future Plans and Strategies

**New headquarters in Selangor for operations in central region of Malaysia.** The group plans to use MYR15.8m of its IPO proceeds to partially fund the acquisition of a property to establish a new headquarters in Selangor, centralising its operations in the Central region of Malaysia. Currently operating from three rented premises in Puchong and Subang Jaya, it aims to relocate to a commercial or light industrial property of approximately 1,858 sq m in the Klang Valley. The total cost for the new HQ is c.MYR20m. An additional MYR3.6m will be allocated from internal funds for renovations and equipment purchases.

Management plans to purchase the property within 36 months after listing and begin renovations immediately. The new headquarters will streamline operations, improve management, and provide expanded space for future growth. It will also feature a demonstration room of 186 sq m for showcasing new equipment and conducting internal employee training. This centralisation and expansion will support the company's future growth and business expansion in Malaysia.

**New additional demonstration equipment in Malaysia, China and Thailand offices.** The group aims to enhance its sales and marketing activities by upgrading its demonstration rooms in Malaysia, Singapore, China, and Thailand, where customers can experience the features and capabilities of the latest equipment. To stay competitive and keep up with technological advancements, it plans to purchase new models of demonstration equipment as they are introduced to the market. Outdated or obsolete equipment will either be replaced or sold to customers.

It has allocated MYR5.9m from its IPO proceeds to purchase the latest equipment models over the next 36 months. This will help provide better customer experience and further support the company's growth and business expansion.

**Expanding its overseas presence** by establishing a new branch office in Ho Chi Minh City to tap into Vietnam's growing imaging, analysis, and testing industry, valued at USD1.9bn in 2023. The company has seen increasing revenue from Vietnam and aims to expand its 0.02% market share by capitalising on growing demand. Moreover, it plans to open new branch offices in Chengdu and Shenzhen to grow the business in China, where the industry is valued at CNY202.7bn in 2023. The company has captured a 0.03% market share and plans to increase this by expanding its customer base and improving its service to local clients. These offices will complement the existing Suzhou office. Crest Group will also hire a new team to target life sciences and healthcare customers in Thailand, which will allow it to diversify and expand its offerings in Thailand.

The setup of new offices (Vietnam, Chengdu, and Shenzhen) will cost c.MYR1.3m, covering rental, renovations, and equipment, and will be funded entirely by IPO proceeds. These offices are expected to be operational within 36 months of the IPO. Additionally, the group plans to hire new personnel for these offices and strengthen its team in Thailand.

**Expanding services and support team.** Crest Group aims to expand its technical support and maintenance services by increasing its service and support team. This expansion focuses on strengthening the after-sales segment, which contributed between 15.0% and 26.3% of total revenue in recent financial years. It will hire two new service managers: one in Selangor and one in Penang to manage technical support operations. Additionally, the group is looking to hire eight new service personnel: five in Selangor and one each in its offices in China, Thailand, and Singapore. The estimated cost for this expansion over the first three years is MYR3.6m, which will be fully funded by the IPO proceeds. This strategic hiring will enhance its service capacity, improve financial performance through additional recurring income, and strengthen its after-sales business segment.

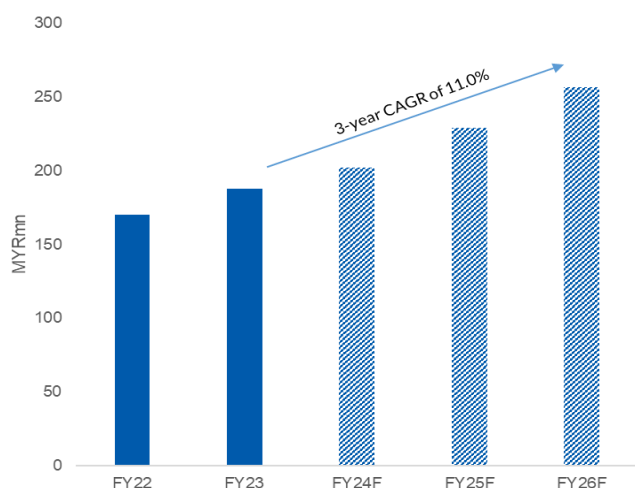
## Financial Overview And Valuation

**Financial overview.** Crest Group's FY20-23 revenue CAGR of 14.7% was mainly driven by the provision of imaging, analytical, and test solutions segment, with significant growth from Thailand and China, with both countries achieving individual revenue CAGRs of 25% during this period. These two markets together contributed 51.1% of FY23 revenue, surpassing Malaysia's share. The group's core earnings (excluding one-off listing expenses) recorded a 3-year CAGR of 18.8%, with margin improving slightly to 10.7% in FY23 from 9.6% in FY20.

**Dividends.** Crest Group has a 30% dividend payout policy. Assuming a consistent payout ratio, projected DPS for FY24-26 is in the 0.7-0.9 sen range, implying c.2.1-2.7% yield at the IPO price.

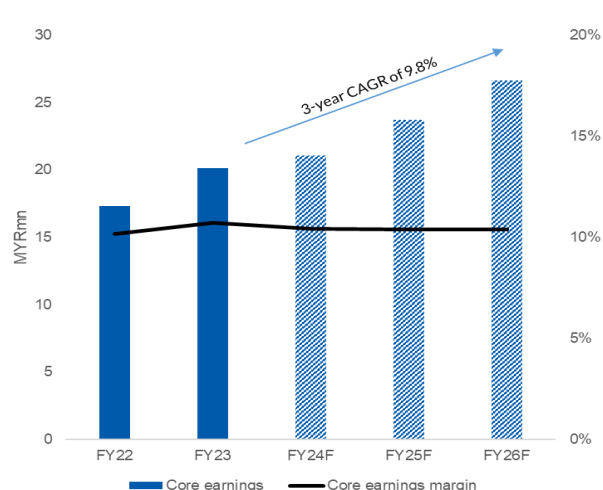
**Earnings forecasts.** We are projecting a 3-year earnings CAGR of 9.8%, largely supported by the semiconductor recovery, which is expected to drive increased capex spending. Additionally, the group's regional expansion, with a focus on China, Vietnam, and Thailand, should contribute to growth. Crest Group aims to broaden its client base across the semiconductor, E&E, academia, healthcare, and life sciences sectors, enhancing diversification and stabilising its revenue streams. Furthermore, the company will strengthen its after-sales services, which provides a recurring income stream. Management believes strategic positioning within these high-growth industries and regions underpins earnings growth.

Figure 5: Revenue trend



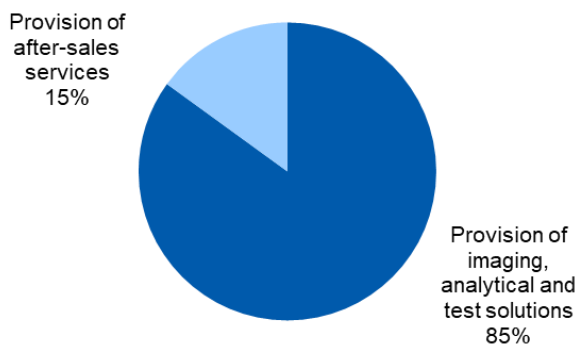
Source: Company data, RHB

Figure 6: Core earnings trend



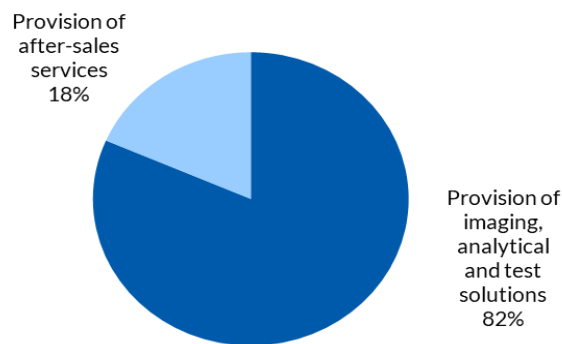
Source: Company data, RHB

Figure 7: FY23 revenue breakdown



Source: Company data, RHB

Figure 8: FY23 gross profit breakdown



Source: Company data, RHB

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**Valuation.** We ascribe 18x P/E to the group's FY25F earnings, to arrive at a fair value of MYR0.49. Our target P/E is benchmarked against ATE players, but the group's operations align more closely with QES Group, as both companies focus primarily on distributorship. Our target P/E represents a 30% discount to comparable peers, reflecting its smaller market capitalisation and lower-margin contributions from the distribution segment. We believe the stability of its distribution business, which caters to a diverse range of markets, acts as a counter-cyclical factor against fluctuations in the semiconductor cycle, but may not offer exciting growth compared to the ATE peers at the same time. Additionally, its strong cash flow supports business expansion, and ability to dish out a minimum dividend payout of 30%.

Figure 9: Peer comparison

	FYE	Share price (MYR)	Mkt cap (MYRm)	P/E (x)			EV/ EBITDA (x) 1-yr fwd	EPS growth (%)		ROE (%) 1-yr fwd	Dvd. yld (%) 1-yr fwd
				Actual	1-yr fwd	2-yr fwd		1-yr fwd	2-yr fwd		
<b>Crest Group</b>	Dec	0.35	303.0	15.1	14.4	12.8	4.9	4.6	12.8	18.1	2.1
<b>Related peers</b>											
ViTrox Corp	Dec	3.35	6337.6	49.4	48.0	32.5	37.5	3.0	47.7	13.8	0.6
Greatech	Dec	2.2	5521.4	35.8	29.1	24.3	23.3	22.8	20.1	25.2	na
Pentamaster Corp	Dec	3.68	2617.6	29.4	28.3	23.0	14.8	3.8	23.2	9.2	0.6
Mi Technovation	Dec	1.96	1750.1	31.8	23.6	19.7	12.6	34.4	20.3	6.9	2.2
QES Group	Dec	0.56	467.1	25.3	21.0	17.6	11.3	20.2	19.4	12.4	1.1
TT Vision Holdings	Dec	0.84	402.4	37.5	37.6	18.0	24.1	-0.3	108.4	10.5	na
Elsoft Research	Dec	0.45	308.1	43.9	39.5	19.9	26.7	11.0	98.7	5.8	1.1
Aemulus Holdings	Sep	0.28	188.0	-3.4	na	na	na	na	na	na	na
MMS Ventures	Dec	0.48	95.3	-30.9	na	na	na	na	na	na	na
VisDynamics Holdings	Oct	0.33	86.7	30.6	na	na	na	na	na	na	na
<b>Mkt. Cap Weighted Avg.</b>				<b>38.4</b>	<b>35.5</b>	<b>26.2</b>	<b>25.9</b>	<b>13.1</b>	<b>34.0</b>	<b>15.8</b>	<b>0.6</b>
<b>Simple Average</b>				<b>24.9</b>	<b>32.5</b>	<b>22.1</b>	<b>21.5</b>	<b>13.6</b>	<b>48.2</b>	<b>12.0</b>	<b>0.8</b>

Source: Company data, RHB, Bloomberg



## IPO Details

Figure 10: Indicative IPO timeline

Opening of Application	18 September 2024
Closing of Application	25 September 2024
Balloting of applications	30 September 2024
Allotment of the IPO Shares to successful applicants	7 October 2024
Listing	9 October 2024

Source: Company data, RHB

Figure 11: Utilisation of IPO proceeds

	Estimated timeframe	MYRm	% of proceeds
Setup of a new centralised headquarters	Within 36 months	15.8	34.5
Business expansion	Within 36 months	14.5	31.7
Purchase of additional demonstration equipment	Within 36 months	5.9	12.8
Expansion of technical support and maintenance team	Within 36 months	3.6	7.9
Listing expenses	Within 3 months	6.0	13.1
<b>Total</b>		<b>45.7</b>	<b>100.0</b>

Source: Company data, RHB

Figure 12: Offering structure

	No. of IPO shares	% of enlarged share base <sup>*</sup>
<b>Public Issue of new shares:</b>		
Malaysian public	43,280,000	5.0
Pink Form allocations	12,984,000	1.5
Bumiputera	74,441,300	8.6
	<b>130,705,300</b>	<b>15.1</b>
<b>Offer for sale:</b>		
Private placement to selected investors	103,890,000	12.0
<b>Total</b>	<b>234,595,300</b>	<b>27.1</b>

Note: Based on the enlarged issued share capital of 865,598,000 shares after IPO

Source: Company data, RHB

## Key Risks

- Dependent on the ability to maintain business relationship with existing customers and to secure new customers;
- Reliant on equipment principals;
- Subject to technology advance and evolution;
- Exposure to FX fluctuation;
- Dependent towards key senior management for the continued success of the group.

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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