

14 October 2024

Industrial Products | Sanitary Ware

Sorento Capital (SORENTO MK)**Bathroom And Kitchen Sanitary Ware Provider**

Fair Value (Return):	MYR0.47 (+27%)
IPO Price:	MYR0.37
Closing Application Date:	15 Oct 2024
Indicative Listing Date	28 Oct 2024

- **MYR0.47 FV based on 13x FY25F(Jun) P/E.** Sorento Capital aims to raise MYR57.4m from its IPO to repay its bank borrowings, expand its distribution reach, carry out marketing and fund its working capital. The company is set to benefit from the property boom nationwide which is expected to boost its project-based sales and replacement market sales via dealers from higher renovation activities. With a 25.5% earnings CAGR (2024-2027F), the IPO price values the stock at 10x FY25F P/E.
- **Riding the property and tourism boom.** Its products, known for functionality and aesthetics, are approved by IKRAM, WaterMark, The Construction Industry Development Board (CIDB), National Water Services Commission (SPAN) and MyHijau, ensuring customers get the highest quality and safest products on the market. Coupled with its sustained focus on hygiene, Sorento is well-positioned to capitalise on the booming property and construction activities. Demand for its products correlates with the higher demand for accommodation and public sanitary facilities to support the resurgence of tourism industry.
- **Beneficiary of the stronger MYR.** The company's leadership in the sanitary ware industry, combined with the strengthening of MYR/CNY (+6.4% YTD), have provided a competitive edge in terms of cost efficiency. As key raw materials are imported from China, the stronger MYR has led to lower procurement costs, enhancing profit margin. Additionally, Sorento raised its selling prices in August this year, further improving profitability while maintaining its market leadership position.
- **Extensive distribution channels.** Increased number of exclusive Sorento retail stores will lead to double wins in the form of amplified brand recognition and wider distribution reach nationwide to accelerate its market share gain. Over the next three years, the company aims to expand its current dealer network of 664 by recruiting another 200 new dealers across Malaysia. Meanwhile, it will focus on the underexplored affordable housing market by property developers, with initiatives like the 1Malaysia Housing Programme (PR1MA).
- **Target on affordability.** The projected growth of Malaysia's hardware store market is expected to reach USD495.5m in 2024, with a 2024F-2029F CAGR of 10.1% (Statista). This presents a key opportunity for the company's mass-market brands, i-Born and Cabana. These brands are tailored for budget-conscious customers, offering affordable yet durable sanitary ware.
- **Forecasts and valuation.** We project a 3-year earnings CAGR of 25.5% and ascribe a 13x P/E to its FY25F earnings to derive our MYR0.47 FV. The valuation is in line with the peer average of 13x.
- **Key risks:** FX fluctuations, slowdown in property market, and dependence on third-party manufacturers.

Analyst

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**Company Description**

Sorento Capital is principally involved in the marketing, distribution and sale of own-brand bathroom and kitchen sanitary wares. It is also the appointed distributor for foreign third-party brands.

IPO Details

Public Issue of new shares (m)	155.0
Offer for sale of existing shares (m)	74.0
Shares outstanding (m)	860
Implied market cap	MYR318.2m

Major Shareholders (%)

Loo Chai Lai	64.1
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Utilisation of IPO proceeds

Branding and promotional marketing	6.00
Expansion of dealer network	6.00
Working capital for purchase of inventories	31.35
Repayment of bank borrowings	9.00
Estimated listing expenses	5.00
Total	57.35

Additional Data

Listing Market	ACE
Bursa Code	0326

Note:

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

Forecasts and Key Data	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover (MYRm)	112	152	182	218	262
Recurring net profit (MYRm)	25	24	31	39	48
Recurring net profit growth (%)	95.5	-2.8	28.0	26.2	22.3
Recurring EPS (sen)	2.90	2.84	3.88	4.57	5.59
Recurring P/E (x)	12.7	13.1	10.2	8.1	6.6
P/BV (x)	6.3	4.8	2.1	1.8	1.4
P/CF (x)	1252.8	30.0	49.1	10.4	8.7
Dividend yield (%)	2.3	-1.9	2.1	2.5	3.0
EV/EBITDA (x)	26.3	25.1	17.4	14.0	11.2
ROE (%)	60.2	42.1	31.0	23.7	24.0
Net debt to equity (%)	0.1	0.1	Net Cash	Net Cash	Net Cash

Source: Company data, RHB

Financial Overview and Valuation

Financial overview. Revenue increased from MYR66.11m in FY21 to MYR151.55m in FY24, achieving a CAGR of 31.85% over the past four years. The growth was mainly driven by the introduction of new bathroom and kitchen sanitary ware products, upward price revisions, increased home renovation activities, continuous promotional campaign, as well as growth in the number of dealers and project customers.

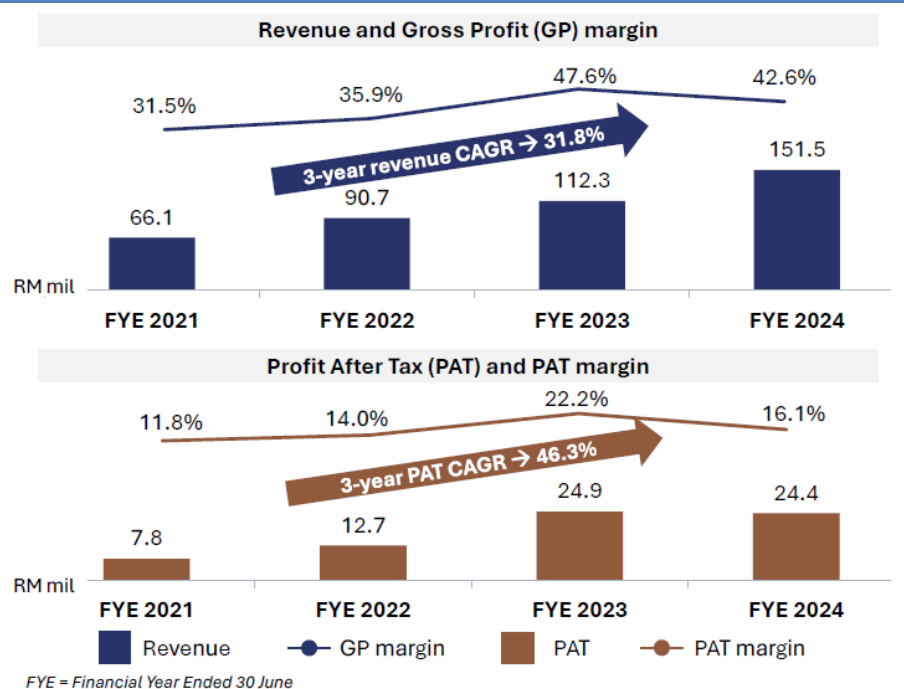
Sorento has maintained a healthy GPM of over 30%, ie 31.4%, 35.9%, 47.6%, and 42.50% for the past four years. This gross margin level indicates that the company is managing its cost of goods sold (COGS) effectively relative to its revenue with a strong pricing power and efficient cost management. PBT margin grew from 15.0% in FY21 to 21.5% in FY24. This was due to the better economies of scale when higher sales were generated, especially 351 new projects during FY24.

Forecasts. We forecast a 3-year revenue CAGR of 20% on average annual growth in all distribution channels. The demand of sanitary ware products will be driven by the property market growth and resurgence of the tourism industry. Due to the stronger MYR, Sorento, being a net importer and having strong pricing power from the price gap with its competitors, should see its net margin grow going forward. Hence, we forecast a 3-year earnings CAGR of 25.5%.

Valuation. We ascribed a 13x P/E based on its FY25F earnings to arrive at the MYR0.47 FV. The valuation is in line with the 13x FY25F P/E of its local peers (Figure 2).

Dividends and balance sheet. While the company does not have a dividend policy, we are assuming a dividend payout of 20% of its PAT, which translates to yields of 2.1% and 2.5% in FY25F and FY26F. Sorento will have a cash position of MYR52.2m post IPO.

Figure 1: Revenue and profit margin



Source: Company data

14 October 2024

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Figure 2: Peer comparison

Company	Country	FYE	Mkt Cap (USDm)	Price		P/E (x)		Div. yield (%)	ROE (%)	EV/ EBITDA	NP growth (%)		PEG
				10-Oct-24 (Local currency)	Actual	+1 Yr	+2 Yr	+1 Yr	+1 Yr	+1 Yr	+1 Yr	+2 Yr	
Sorento Capital (SORENTO)	MA	06/2025	74.2	0.37	13.1	10.2	8.1	2.1	31.0	17.4	28.0	26.2	NA
Local peers – players related to interior finishes													
Topmix (TOPMIX MK)	MA	12/2024	45.0	0.49	24.4	NA	NA	NA	NA	NA	NA	NA	NA
Heveaboard (HAVE MK)	MA	12/2024	38.2	0.29	NA	166.2	40.5	3.4	23.0	2.2	-127.9	310.4	0.1
Evergreen Fibreboard (EVF MK)	MA	12/2024	61.0	0.3	NA	15.2	10.0	NA	22.9	3.9	-149.2	51.1	0.2
Minox International Group (MINOX MK)	MA	12/2024	22.2	0.3	24.7	NA	NA	NA	NA	NA	NA	NA	NA
Mkt. Cap Weighted Avg.			46.3		9.9	43.7	13.0	0.8	13.7	1.9	-84.1	90.1	0.1
Simple Avg.			41.6		24.6	90.7	25.3	3.4	22.9	3.1	-138.5	180.8	0.2
International peers													
Carysil (CARYSIL IN)	IN	03/2025	277.1	818.5	39.6	24.5	19.0	0.3	22.9	15.4	-61.9	-28.5	NA
Arrow Home Group Co (001322 CH)	CH	12/2024	1149.1	8.4	19.2	22.6	18.4	0.9	23.1	9.6	-15.3	22.7	0.8
Globe Union Industrial Corp (9934 TT)	TA	12/2024	219.3	17.3	11.3	10.6	10.2	NA	77.0	5.1	6.3	3.7	2.8
Mkt. Cap Weighted Avg.			878.4		21.6	21.3	17.4	0.7	30.2	10.0	-20.3	11.5	0.9
Simple Avg.			548.5		23.4	19.2	15.9	0.6	41.0	10.1	-23.6	-0.7	1.8

Source: Bloomberg, RHB

Company Overview

Established since 2005, Sorento is principally involved in the marketing, distribution and sale of bathroom and kitchen sanitary ware. It has an extensive range of bathroom and kitchen sanitary ware products under its house brands, namely Sorento, which is its flagship brand, Mocha, Cabana and i-Born. It is also the appointed distributor for foreign third-party brands of bathroom and kitchen sanitary ware products, namely Bravat and Infinity. Its extensive range of bathroom and kitchen sanitary ware enables the company to serve a wide range of customers as a one-stop bathroom and kitchen sanitary ware solutions provider.

Its business segments comprise the following:

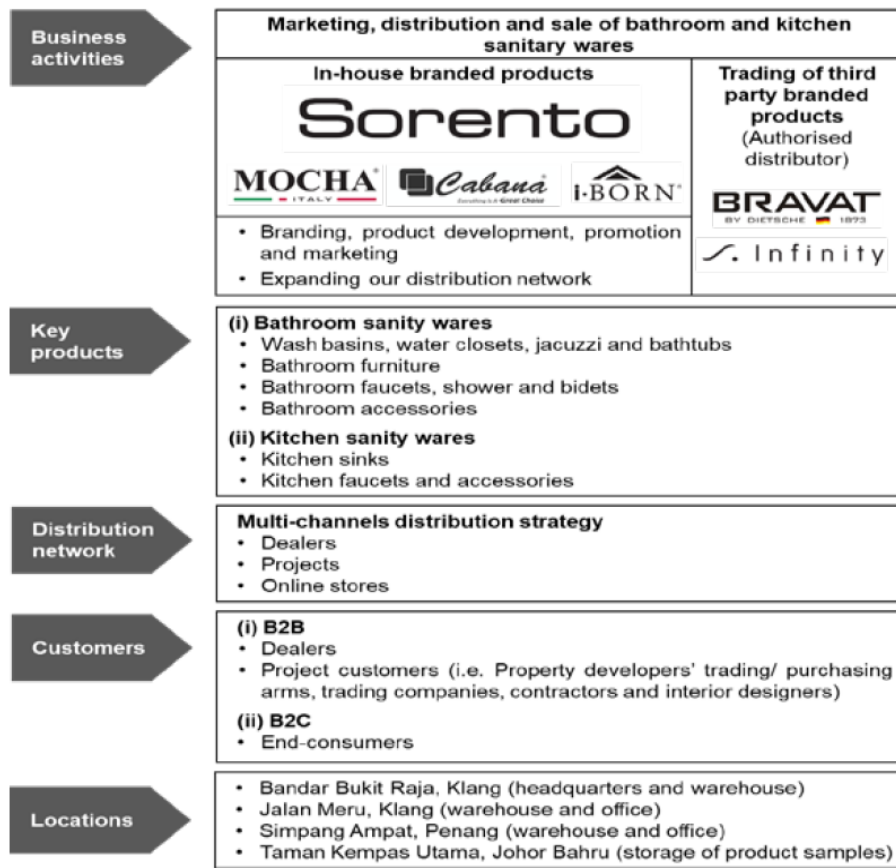
- i. **Dealers (64.5% of FY24 revenue).** Dealers comprise wholesalers and retailers. Wholesalers generally purchase in large quantities to be distributed to other retailers or sold through their retail channels. Retail customers comprise home improvement or hardware retailers and chain store retailers that may sell the products through their physical retail stores and/or through e-commerce platforms. The dealers purchase products outright from Sorento on a purchase-order basis, to be sold to their customers;
- ii. **Project-based sales (35.1% of FY24 revenue).** Sorento supplies its products to residential and commercial property projects, including new build, refurbishment and renovation projects. Its project customers include property developers trading/purchasing arms, trading companies, contractors and interior designers. It submits proposals with recommended products and pricing to project customers, based on the requirements for their projects. Generally, for project sales, it will receive purchase orders from its customers to confirm as their supplier. Some project customers will issue a letter of award or letter of confirmation as a supplier. The purchase orders and letter of award/letter of confirmation include information on the brand, type and quantity of products to be delivered, as well as the estimated delivery period;
- i. **Online (0.4% of FY24 revenue)** – Sorento markets and sells its products directly to end customers through third-party e-commerce platforms namely Lazada and Shopee. It adheres to its product pricing guide when setting the retail prices of its products sold on its online stores to prevent sales cannibalisation with its dealers.

Sorento is led by a dedicated and experienced management team:

- i. Loo Chai Lai, the Managing Director, oversees the company's overall finance, business operations and business development strategies;
- ii. Loo Jing Kai, the Executive Director, is responsible for overseeing the sales and purchasing as well as warehouse and customer service functions of the company;
- iii. Lee Chee Keong, the Executive Director, is responsible for the company's project-based sales and marketing.

They are supported by other key senior management.

Figure 3: Business model



Source: Company data

Figure 4: Various brands



Source: Company data

Figure 5: Bathroom sanitary ware



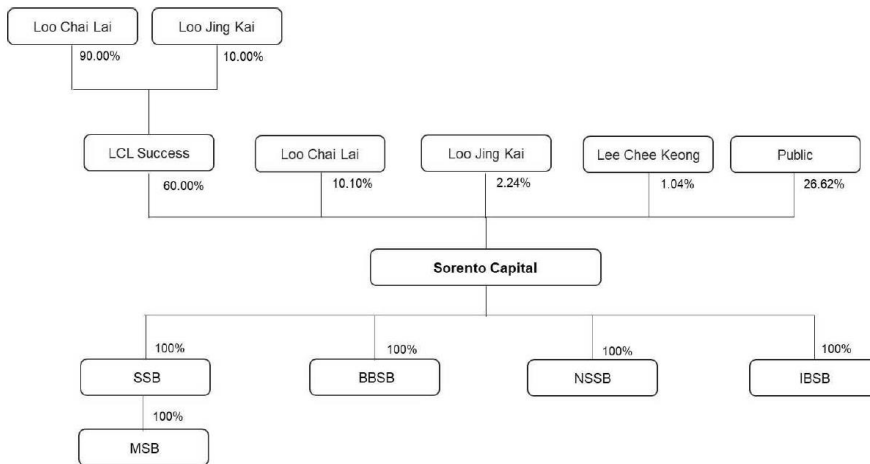
Source: Company data

Figure 6: Kitchen sanitary ware



Source: Company data

Figure 7: Corporate and shareholding structure post IPO



Source: Company data

Future Plans And Strategies

Grow market share by strengthening support to existing dealers and expanding the network of dealers. Sorento has established a dedicated team to manage the sales and marketing activities for its dealer segment. This will in turn enhance the visibility of the company's brands and products, and drive the growth of its market share and financial performance.

In FY24, it had a network of 664 dealers. Sorento targets to recruit approximately 200 new dealers throughout Malaysia over the next three years. In order to facilitate this plan and enhance its support for existing and new dealers, the company intends to implement the following initiatives over the next three years:

- i. Continue to motivate sales efforts and performance through incentive trips for the dealers who meet the sales targets;
- ii. Provide subsidy to existing and new dealers;
- iii. Provide subsidy to existing and new dealers that will sell its house brands exclusively at their stores;
- iv. Provide subsidy to existing and new dealers to operate Sorento concept stores which will showcase the Sorento products exclusively, focusing on higher-end product range.

Grow revenue from project-based sales. Project-based sales would provide the company with large volume orders and amplify its brand visibility within property projects, which will in turn enhance the growth of its financial performance and sustainability. This approach fosters customer awareness and enables its brands to be more recognisable when customers seek similar products for their future purchases. The presence of its products in property projects not only reinforces brand recognition among end consumers but also signals a reputable and trustworthy brand image to property developers, contractors and interior designers, further enhancing its brand's market standing.

In addition to residential projects, it intends to increase participation in other building segments such as affordable housing, hotels and offices, comprising new builds and renovation projects. While some of these projects typically have shorter delivery lead times, the company has extensive industry knowledge and strong understanding of the market trends to plan its product inventory to cater to projects with shorter delivery lead time. Sorento is also supported by its established network of third-party manufacturers and has sufficient warehouse space to cater for the anticipated increase in orders for the products.

Sorento plans to utilise MYR31.4m from the IPO proceeds within 24 months from the date of the listing to fund the purchase of product inventory. This product inventory will support both sales to dealers and projects.

Enhance its brand recognition through investment in branding and marketing activities in Malaysia. Sorento intends to roll out a brand elevation initiative to uplift its brand positioning which includes the development of its company profile, brand story, product videos and marketing materials. The company aims to develop informative materials in the form of videos and infographics for better engagement. Furthermore, it intends to establish an online resource library with a comprehensive database of product specifications, design concepts, product brochures as well as detailed product training videos, including installation guides and maintenance instructions.

IPO Details

Figure 8: Indicative IPO timeline

Opening of application	7 Oct 2024
Closing of application	15 Oct 2024
Balloting of applications	18 Oct 2024
Allotment of the IPO shares to successful applicants	25 Oct 2024
Listing	28 Oct 2024

Source: Company data

Figure 9: Utilisation of IPO proceeds

	Estimated timeframe	MYRm	% of proceeds
Branding and promotional marketing	Within 36 months	6	10.5
Expansion of dealer network	Within 36 months	6	10.5
Working capital for purchase of inventories	Within 24 months	31.35	54.7
Repayment of bank borrowings	Within 12 months	9	15.7
Estimated listing expenses	Within 1 month	5	8.7
Total		57.35	100.0

Source: Company data

Figure 10: Offering structure

	No. of IPO shares	% of enlarged share base
Public issue of new shares:		
Malaysia public	43,000,000	5.0
Pink form allocations	16,000,000	1.8
Private placement to <i>bumiputra</i> investors	96,000,000	11.2
	155,000,000	18.0
Offer for sale of existing shares:		
Private placement to <i>selected</i> investors	62,500,000	7.3
Private placement to <i>bumiputra</i> investors	11,500,000	1.3
	74,000,000	8.6
Total	229,000,000	26.6

Source: Company data

Key Risks

- i. FX fluctuations;
- ii. Slowdown in property and renovation industry;
- iii. Dependence on third-party manufacturers;
- iv. Dependence on branding and market perception;
- v. Risks on the maintenance or renewal of product certifications and approvals;
- vi. Product defects caused by third-party manufacturers or logistic service providers.

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Analyst	Company
-	-

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