

20 January 2025

Industrial Products | Steel Manufacturing

Colform Group (COLFORM MK)

Leading IBS Provider In Sabah

Fair Value (Return):	MYR0.55 (+53%)
IPO Price:	MYR0.36
Closing Application Date:	23 Jan 2025
Indicative Listing Date	10 Feb 2025

- **MYR0.55 FV based on 13x FY25F P/E.** Colform Group plans to raise MYR41.2m through its IPO to fund product diversification, storage expansion, and entry into West Malaysia. Backed by government support for Industrialised Building System (IBS) adoption and increased development budgets for Sabah, the group is well-positioned for growth. A record-high construction orderbook underpins strong revenue and margin expansion, with a projected 42.7% earnings CAGR (2023-2026F). With a FY25F ex-cash P/E of 6x, the IPO valuation is compelling.
- **Qualified one-stop steel products provider.** With a proven 20-year track record, Colform primarily serves East Malaysia, offering a range of steel and related products. Its diverse customer base includes walk-in clients, hardware shops, stockists, and various segments within the construction industry's value chain, including contractors and property developers.
- **Evolving from steel manufacturer to leading IBS contractor.** Colform is transitioning downstream from steel manufacturing to becoming a leading IBS contractor in Sabah. As a Construction Industry Development Board (CIDB) G7 contractor, it undertakes IBS steel framing, construction, and engineering projects. This shift integrates its operations, boosting margins and reducing reliance on steel price volatility (as evidenced by its recent performance). By 23 Dec 2024, Colform's orderbook hit a record MYR34.6m, with MYR15m from its high-margin supply and installation services segment.
- **Sabah's push for IBS and infrastructure projects.** In Sabah, IBS and steel roofs are preferred due to logistical advantages, cost-effectiveness, ease of installation, and sustainability, reflecting regional and government-driven priorities. Budget 2025 has allocated MYR6.7bn for Sabah's development, increasing the state's special grants to MYR600m, and including plans to upgrade 543 schools and build 44 new schools nationwide. The Sabah State Government plans to construct 3,000 homes under the Rumah Mesra Sabah Maju Jaya programme with a MYR250m funding. Government incentives, such as tax allowances and funding for IBS adoption, together with construction industry growth, further support growth. Furthermore, Sabah infrastructure projects like the Pan Borneo Highway, bodes well for Colform's downstream steel products and trading of highway guardrail (OEM) products which is approved by the Public Works Department (PWD).
- **Forecasts and valuation.** We project a 3-year earnings CAGR of 42.7% and ascribe a 13x P/E to its FY25F earnings to derive our MYR0.55 FV. The valuation is in line with the average trailing P/E of its peers.
- **Key risks:** Steel prices and FX fluctuations, supply chain disruptions, and a shortage of foreign workers.

Analyst

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Company Description

Colform Group is a steel and building materials specialist, principally involved in the manufacturing, processing and trading of steel products, as well as the trading of building materials. It also provides supply and installation services using its steel products including IBS steel framing systems as well as project management services for construction projects.

IPO Details

Public Issue of new shares (m)	114.4
Offer for sale of existing shares (m)	54.0
Shares outstanding (m)	600.0
Implied market cap	MYR216m

Major Shareholders (%)

Kang Ming Trading	70.86
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Utilisation of IPO proceeds

Working capital	18.1
Establishment of colour coil coating production line	9.0
Business expansion to West Malaysia	5.1
Construction of storage facility	4.5
Estimated listing expenses	4.5
Total	41.2

Additional Data

Listing Market	ACE
Bursa Code	0341

Forecasts and Key Data	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	63	93	103	121	154
Recurring net profit (MYRm)	8	11	18	25	32
Recurring net profit growth (%)	-56.7	46.3	58.9	43.8	27.1
Recurring EPS (sen)	1.26	2.12	3.51	4.22	5.37
Recurring P/E (x)	28.5	19.5	12.3	8.5	6.7
P/BV (x)	2.0	3.0	1.5	1.3	1.1
P/CF (x)	-56.3	33.1	26.3	11.7	11.0
Dividend yield (%)	-0.3	-9.6	0.0	0.0	0.0
EV/EBITDA (x)	20.0	10.9	5.4	4.3	3.2
ROE (%)	10.9	17.0	19.3	16.6	17.8
Net debt to equity (%)	net cash	net cash	net cash	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.

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Financial Overview And Valuation

Financial overview. Colform achieved an exceptional revenue of MYR85.5m in FY21, primarily driven by the manufacturing of downstream steel products and processing of steel coils. This surge was largely attributed to the elevated global steel prices, which were a consequence of supply chain disruptions caused by the COVID-19 pandemic. However, as steel prices stabilised in FY22 and customers ceased panic buying, revenue softened accordingly. In FY23, with the construction industry rebounding post the pandemic and higher demand from contractor clients, the group's revenue rose significantly, climbing from MYR61.7m to MYR89.2m.

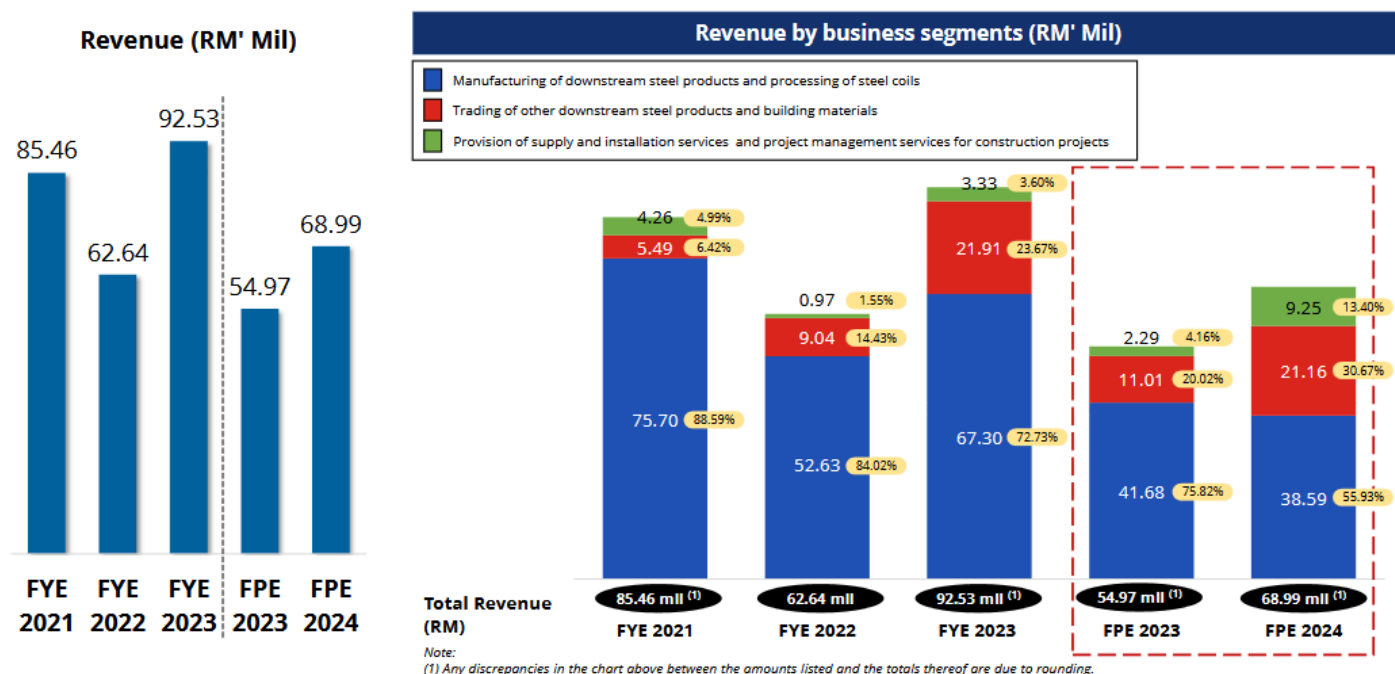
Colform has maintained a healthy GPM of over 20% – ie 31.6%, 23.4%, and 22.7% – for the past three years. This is mainly attributable to robust sales growth in steel products and building materials, both of which command higher GPMs. Nonetheless, the group's PBT margins fell from 26.8% in FY21 to 17.5% in FY23 as a result of higher administrative expenses – primarily attributable to elevated directors' remunerations.

Forecasts. Given the strong orderbook in hand and tendering momentum from the positive construction outlook in West Malaysia, we forecast a 3-year revenue CAGR of 18.5%. Its FY26 sales will also be driven by the expected commencement of its new colour coil coating production line, which the group can cross-sell to Colform's existing customer base. The MYR15m orderbook for provision of supply and installation services will also lift its manufacturing and trading segment by at least another MYR15mm, as raw material costs are typically of equal value as project management costs. We expect to see margins expansion for the group primarily contributed by an improving product mix, especially from the higher sales growth thanks to the provision of supply and installation services. As such, we forecast a 3-year earnings CAGR of 42.7%.

Valuation. We ascribe a 13x P/E based on its FY25F earnings to arrive at the MYR0.55 FV. The valuation is in line with the 13x trailing P/E of its local peers (Figure 4). It is also justifiable due to Colform's expected strong earnings growth, higher profit margin, and healthy balance sheet.

Dividends and balance sheet. While the group does not have a dividend policy, we are assuming no dividend payout in FY24 and beyond as it channels all funds for expansion. Colform will have a post-IPO net cash position of MYR55.9m.

Figure 1: Revenue

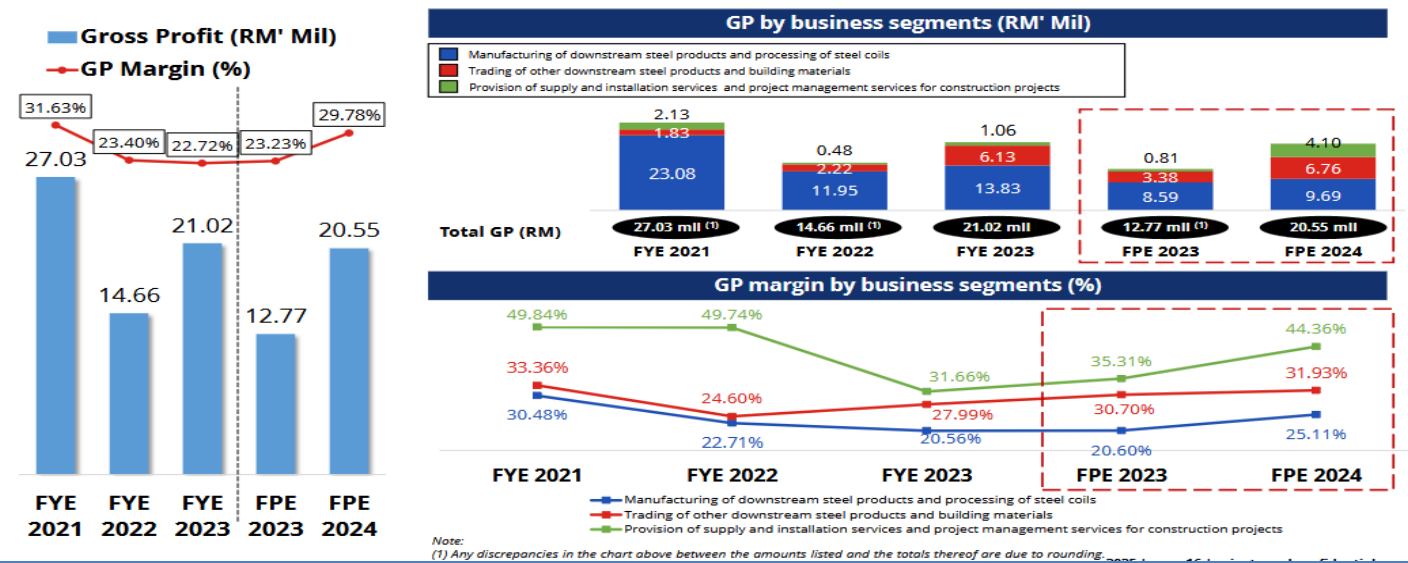


Source: Company data

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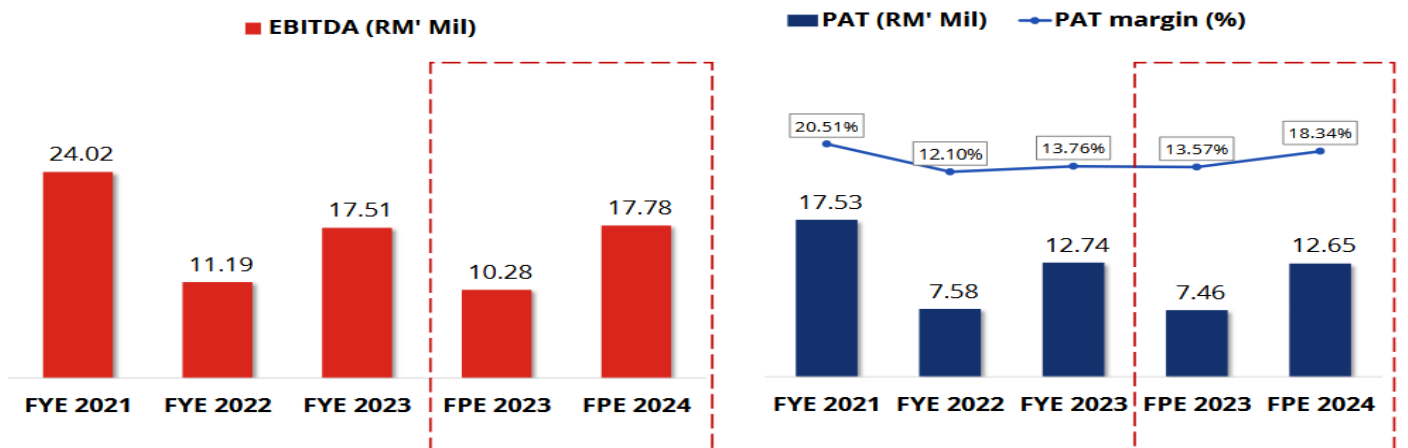
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Figure 2: Gross profit



Source: Company data, RHB

Figure 3: Profitability



Source: Company data, RHB

Figure 4: Peer table

Company	Revenue 3-year CAGR	Net profit 3-year CAGR	GPM	EBITDA margin	Net profit margin	Net gearing (latest)	Trailing P/E	Current market cap
Colform Group	4.1%	-14.8%	22.7%	21.2%	13.8%	Net Cash	19.5	216
Peers								
Astino	4.8%	8.8%	15.2%	9.1%	5.9%	Net Cash	7.9	303
Ajiya	-7.3%	31.1%	16.7%	21.0%	18.2%	Net Cash	7.8	439
Asteel Group	4.6%	-63.7%	12.8%	3.3%	-2.5%	143.8	na	34
Eonmetall Group	14.4%	-229.6%	12.2%	11.8%	-3.9%	50.1	na	85
Plytec Holding	20.9%	-22%	24.0%	15.6%	3.9%	25.9	32.5	209
Leform	-0.5%	na	3.6%	3.5%	-1.3%	0.9	na	200
Bwys Group	5.2%	-15.7%	20.6%	16.9%	7.2%	72.6	13.7	241
Mkt. cap weighted average	-0.3%	-8.8%	15.9%	14.0%	7.6%		13.4	
Simple average	4.1%	-63.4%	15.0%	11.6%	3.9%		15.5	

Source: Bloomberg, RHB

Company Overview

Colform is a steel and building materials specialist that is principally involved in the manufacturing, processing and trading of steel products, as well as the trading of building materials. It also provides supply and installation services using its steel products – including IBS steel framing systems – as well as project management services for construction projects.

The group's business segments comprise the following:

- i. **Manufacturing of downstream steel products and processing of steel coils (72.7% of FY23 revenue)** – Colform is involved in the manufacturing of downstream steel products that can be broadly categorised into two categories, namely protective and decorative steel products, as well as structural steel products and accessories. For instance, protective and decorative steel products – including roofing sheets, roofing accessories, wall claddings, and roller shutters. On the other hand, structural steel products and accessories include purlins and battens, door and window frames, floor decks, and IBS steel framing systems. It is also involved in the processing of steel coils by slitting steel coils to form slitted steel coils;
- ii. **Trading of other downstream steel products and building materials (23.7% of FY23 revenue)** – Colform is also involved in the trading of downstream steel products and building materials, which include I-Beams, steel sections, insulation materials, fibre cement board, transparent roofing sheets, guardrails and other accessories, all of which are products the group does not manufacture. Nevertheless, it may occasionally trade products that it manufactures due to logistics challenges;
- iii. **Provision of supply and installation services and project management services for construction projects (3.6% of FY23 revenue)** – Colform provides supply and installation services using its steel products including IBS steel framing systems for construction projects. Under its provision of supply and installation services, the steel products are manufactured in-house according to specifications provided by the group's customers for each construction project and thereafter supplied to its customers on a project basis. Colform also provides installation services for its steel products which it outsources to third-party subcontractors. Colform's customers consist of main contractors and subcontractors of construction projects.

Colform is led by a dedicated and experienced management team in their respective fields:

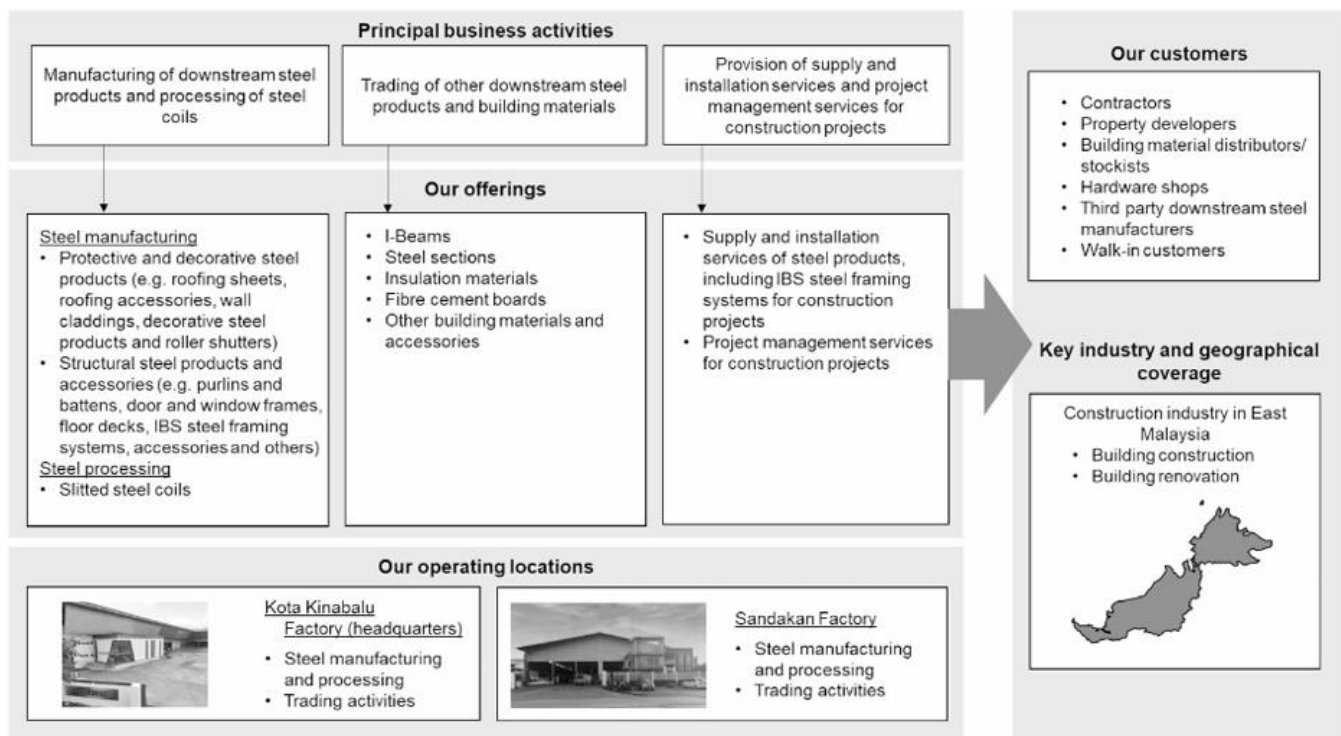
- i. Managing Director Kang Ket Hung, is primarily responsible for determining the group's strategic direction and growth, formulating business plans and directions as well as overseeing Colform's overall operations;
- ii. Promoter and Non-Independent Executive Director Kang Phui Ting is responsible for assisting in the expansion of the group's business, particularly in procurement activities and logistic operations;
- iii. Promoter and Non-Independent Executive Director Kang Phui Yie is responsible for managing the Project and Technical Design Department (supply and installation). Over the years, Kang has acquired a certain level of knowledge and experience which includes an understanding of the technical requirements of steel products, as well as the use of the relevant software in relation to engineering calculations and structural analysis of IBS steel framing systems and roof truss systems.

They are supported by other key senior management.

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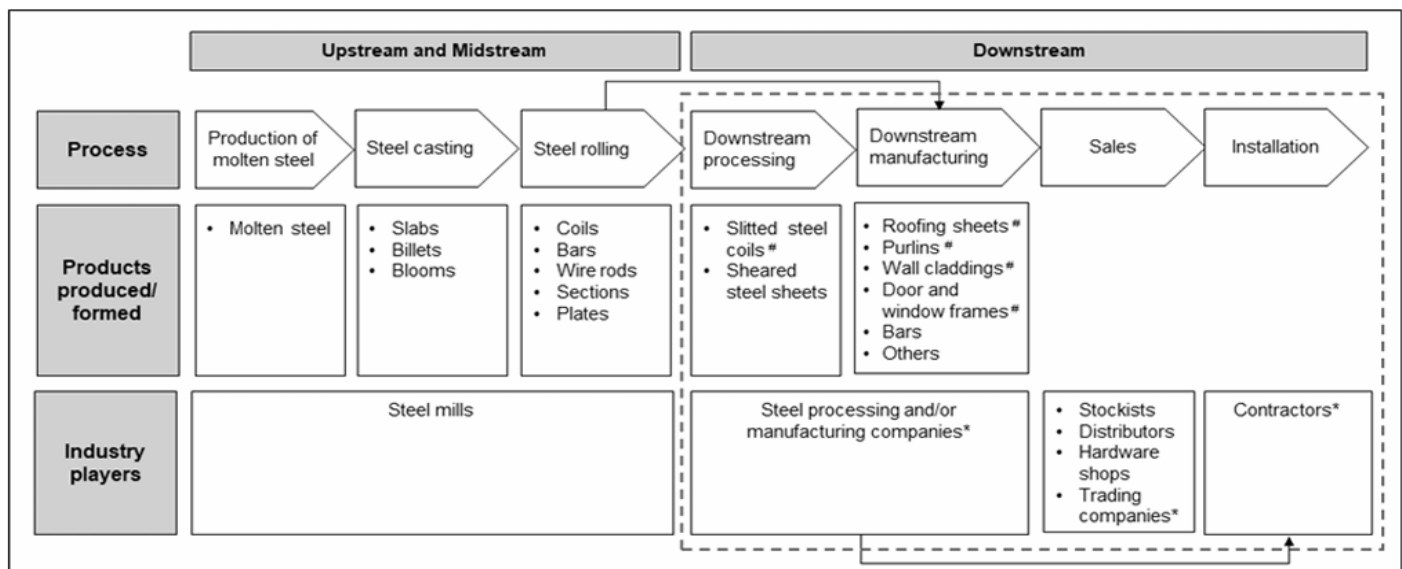
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Figure 5: Business model



Source: Company data

Figure 6: Colform's involvement in the steel industry's value chain



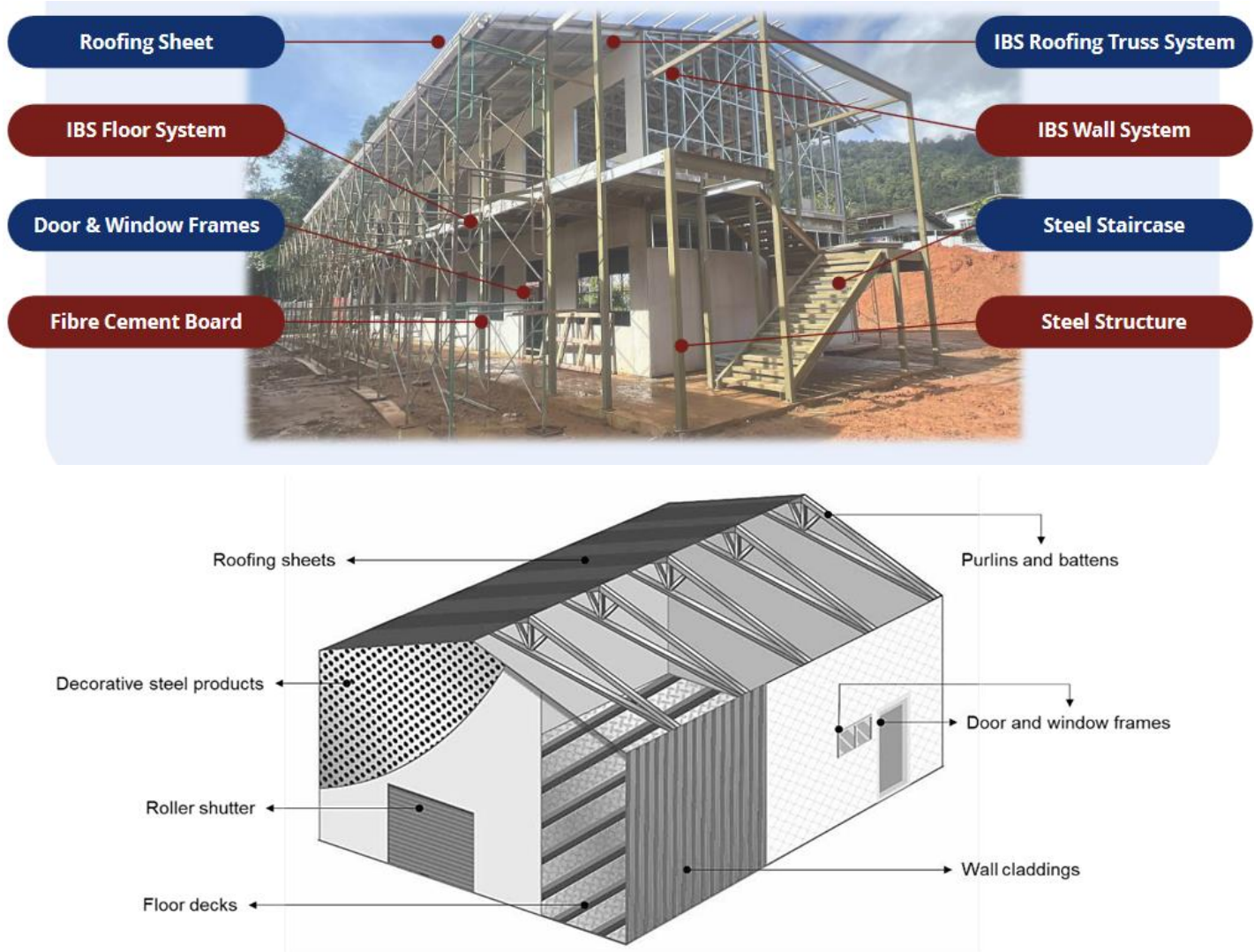
Source: Company data

Figure 7: Operational facilities



Source: Company data

Figure 8: Product range



Source: Company data

Figure 9: Downstream steel product manufacturing and steel coils processing



Source: Company data

Figure 10: Trading of steel products and building materials



Source: Company data

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Figure 11: Certificates and licenses

CIDB IBS Cert (KK)

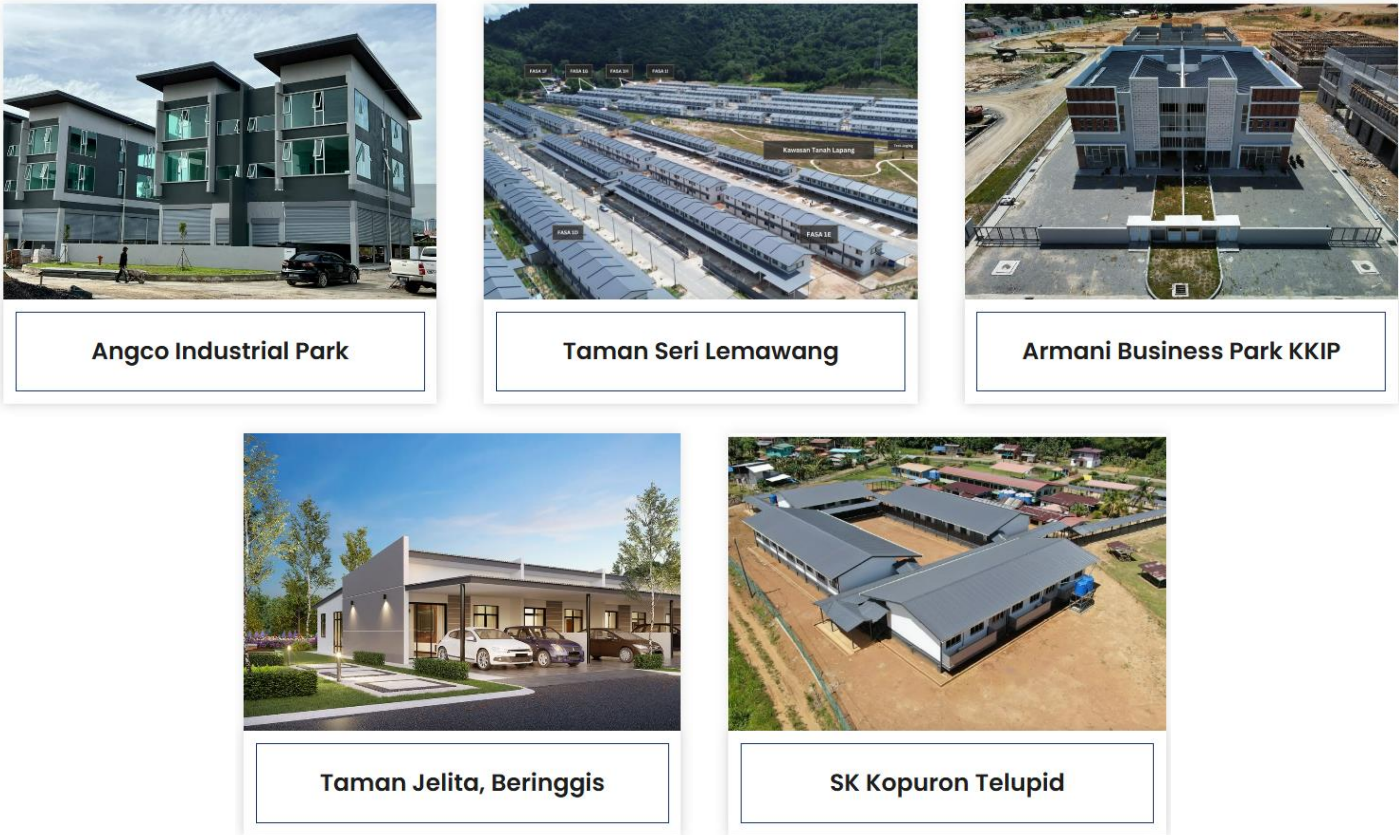


CIDB IBS Cert (Sandakan)



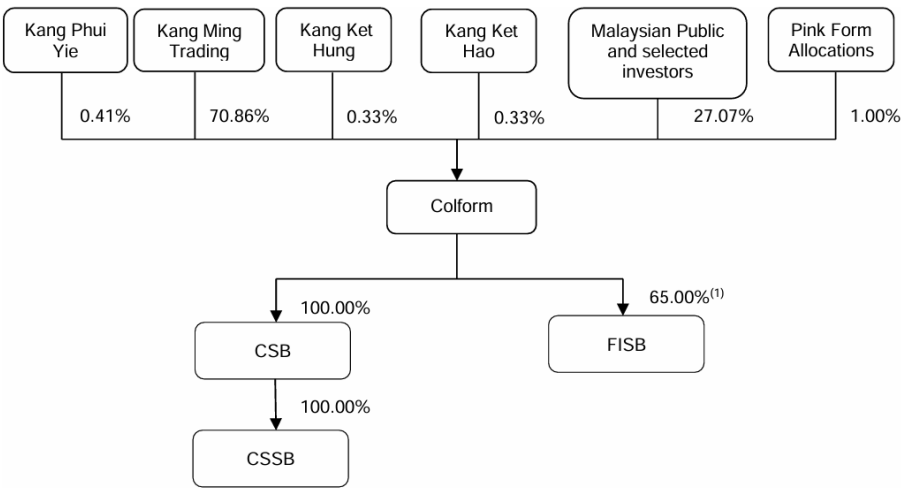
Source: Company data

Figure 12: Project references



Source: Company data

Figure 13: Corporate and shareholding structure post the IPO



Source: Company data

Future Plans And Strategies

Business expansion to West Malaysia. Colform intends to expand its business to West Malaysia by setting up a factory in Klang, Selangor, ie renting an industrial unit with a total built-up area measuring approximately 50,000sq ft to set up the Klang factory. This factory will consist of a production area for manufacturing operations, storage and office. The group also intends to move machines from the Kota Kinabalu factory to the Klang facility for the manufacturing of certain downstream steel products. This includes two units of roll-forming machines to produce various roofing and cladding profiles (roofing sheets), one unit of shearing and bending machine to produce various roofing accessories, three units of roll-forming machines to produce various truss profiles (purlins and battens), and one unit of computer numerical controlled (CNC) roll forming machine to produce IBS wall framing systems with pre-punched connecting joints in various sizes and thickness (IBS wall systems).

The products it plans to manufacture in the Klang factory are among its key products under the steel manufacturing segment. These products require greater customisation and are generally large and long dimensions that are not feasible for transportation from the Kota Kinabalu and Sandakan factories to the Klang facility. The reduction in manufacturing capacity at the Kota Kinabalu factory is not expected to impact its operations in Sabah, as the remaining manufacturing capacity at this facility is sufficient to meet manufacturing needs.

Furthermore, Colform will deliver trading products stored at the Klang factory for sale to customers in West Malaysia by directly importing trading products from overseas suppliers to this facility and shipping trading products that are readily available at the Kota Kinabalu factory to the Klang factory. The group intends to directly import trading products with higher demand in West Malaysia from its overseas suppliers to the Klang factory. Conversely, for trading products with a lower demand in West Malaysia, Colform will deliver these products that are readily available at the Kota Kinabalu factory to the Klang factory to fulfil customers' orders. This is because such orders are generally in smaller quantities, which may not meet the minimum order for the group to source and transport the trading products directly from its overseas suppliers to the Klang facility at cost-effective prices and rates. Trading products it intends to sell in West Malaysia include steel hollow, wire mesh, fibreglass wool, fibre cement board, polyvinyl chloride or PVC gutter, Ceiling-T, and guard rails.

Initiation of production of colour-coated coils in-house. Colform intends to produce colour-coated coils in-house by installing a colour coil coating production line at the Kota Kinabalu factory to carry out the colour coating of steel coils. Furthermore, with the installation of a colour coil coating production line, the group will be able to customise the colours of its steel coils according to its own internal specifications and/or customers' specifications upon request. In addition, producing colour-coated coils in-house will also reduce the dependency on its suppliers of colour-coated coils, as well as enable it to better control the quality of its raw materials and simultaneously control raw material costs.

Storage space expansion. Colform intends to expand its storage space in Kota Kinabalu by constructing a storage facility adjacent to its Kota Kinabalu factory. This new storage facility is estimated to have a total built-up area of approximately 40,000sq ft. The group plans to obtain approval from the relevant government authorities on the planning permit and building plan. Construction of the new storage facility is expected to be completed by 4Q26.

Enterprise resource planning (ERP) investment to streamline operations. Colform plans to invest in an ERP system to streamline its business operations and processes. The ERP system can assist the group in tackling limitations such as lacking time management function and fixed asset management function. It also allows Colform to integrate a multitude of business processes to enable the synchronisation of data between different departments.

Furthermore, the ERP system the group intends to invest in will enable centralised management across all its business locations from its headquarters at the Kota Kinabalu factory. This, in our view, will allow a centralised information and management hub for the record of all business information to enable seamless communication between departments and enhance Colform's operational and management efficiencies.

IPO Details

Figure 14: Indicative IPO timeline

Opening of application	15 Jan 2025
Closing of application	23 Jan 2025
Balloting of applications	27 Jan 2025
Allotment of the IPO shares to successful applicants	6 Feb 2025
Listing	10 Feb 2025

Source: Company data

Figure 15: Utilisation of IPO proceeds

	Estimated timeframe	MYRm	% of proceeds
Business expansion to West Malaysia	Within 30 months	5.1	12.4
Working capital	Within 24 months	18.1	43.9
Establishment of colour coil coating production line	Within 18 months	9.0	21.8
Construction of a storage facility	Within 18 months	4.5	10.9
Estimated listing expenses	Within 1 month	4.5	10.9
Total		41.2	100.0

Source: Company data

Figure 16: Offering structure

	No. of IPO shares	% of enlarged share base
Public issue of new shares:		
Malaysia public via balloting	30,000,000	5.0
Eligible persons	6,000,000	1.0
Private placement to <i>selected investors</i>	3,424,000	0.6
Private placement to <i>Bumiputera investors</i>	75,000,000	12.5
	114,424,000	19.1
Offer for sale of existing shares:		
Private placement to <i>selected investors</i>	54,000,000	9.0
Total	168,424,000	28.1

Source: RHB

Key Risks:

- i. Steel price fluctuation;
- ii. FX fluctuation;
- iii. Foreign supply chain disruptions;
- iv. Lack of long-term contracts.

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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