

30 November 2023

Industrials Products & Services | Metal Sheet Fabrication

Coraza Integrated Technology (CORAZA MK)

Dipping Into The Red

Neutral (Maintained)

Target Price (Return): MYR0.50 (-3.9%)
Price (Market Cap): MYR0.52 (USD55.2m)
ESG score: 2.5 (out of 4)
Avg Daily Turnover (MYR/USD) 0.69m/0.15m

- **Still NEUTRAL, new MYR0.50 TP from MYR0.57, 4% downside.** Coraza Integrated Technology's 9M23 earnings missed expectations, mainly due to weaker-than-expected margins dragged by softer sales. Essentially, the share price weakness (YTD: -33%) may have largely priced in the challenging immediate term outlook. While we are expecting an improved demand outlook in FY24F (Dec), we think it will not match FY22's high. Hence, current valuation – trading close to its mean – is not attractive as the recovery will be gradual.
- **Below expectations.** Coraza recorded 9M23 core loss of MYR0.6m (9M22 core profit: MYR11.4m), which came in below ours and Street's estimates. The negative deviation could be attributed to weaker-than-expected sales and margins. Note that we stripped off the unrealised FX gain of MYR1.5m to arrive at the core profit. Geographically, 9M23 sales in Malaysia (-39%), Singapore (-38%), and the US (-48%) all declined with slower orders from all customers.
- **Results review.** 9M23 revenue fell 39.6% YoY to MYR64.9m due to persistent deferral of orders from semiconductor customers, stemming from a cyclical downturn in the semiconductor market and an ongoing inventory glut. 9M23 GP margin dipped 8.3ppts to 16.4% as a result of underutilisation and the absorption of fixed costs. QoQ, 3Q23 revenue was 25% lower due to the aforementioned slowdown in demand. Correspondingly, 3Q23 dipped into a first quarterly core loss since listing of MYR1.1m.
- **Outlook.** The near-term outlook remains unexciting due to the prolonged downcycle and cautious capex spending in the sector, resulting in lacklustre orders from customers. The lower sales volume is expected to persist into 4Q23F – leading to diseconomies of scale and negative operating leverage. That said, FY24F could potentially see a gradual volume recovery as customers' inventory adjustments may have come to an end. To capitalise on this potential recovery, Coraza has outlined its mid-term growth plans, including increasing its capacity and expanding machining capabilities for high-tolerance and complex components to broaden its customer base. In fact, it has attracted new customers with some of the products under the New Product Introduction (NPI) stage.
- **Forecast and ratings.** Post results, we now forecast a MYR1.5m loss for FY23, while cutting our FY24-25 estimate by 6-5%, taking into account persisting challenges and slow capex spending in the sector. Correspondingly, our TP is lowered to MYR0.50, based on unchanged 20x FY24F P/E or close to its mean. We also revise our ESG score to 2.5 from 2.8 due to insufficient disclosures on emissions and a lack of concrete action plan on carbon. Our TP includes a 10% ESG discount.
- **Key downside risks:** Dependence on major customers, labour shortages, and FX rate fluctuations. The opposite would constitute upside risks.

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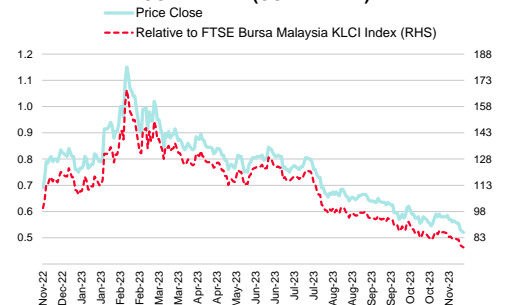
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(32.0)	(8.8)	(20.0)	(34.2)	(24.6)
Relative	(28.7)	(9.1)	(19.4)	(37.1)	(22.5)
52-wk Price low/high (MYR)	0.52 – 1.15				

CORAZA MK (CORAZA MK)



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	106	143	79	135	163
Recurring net profit (MYRm)	12	18	(2)	14	18
Recurring net profit growth (%)	81.7	49.6	(108.4)	-	29.1
Recurring P/E (x)	21.43	14.32	na	18.72	14.50
P/B (x)	6.1	2.9	1.7	1.6	1.4
P/CF (x)	2,740.15	14.67	10.32	27.56	12.23
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	14.45	8.54	29.81	8.28	6.42
Return on average equity (%)	36.0	22.5	(1.3)	8.6	10.1
Net debt to equity (%)	45.5	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 2.5 (out of 4)

E: MODERATE

Coraza has taken active steps to manage its environmental risks. It has established policies and procedures to manage disposal of scheduled waste in a responsible manner.

S: GOOD

Coraza ensures a high level of safety and health is maintained, and policies and procedures are put in place in line with labour practice guidelines. It has a good mixture of races among its local employees, and ensures all employees, regardless of race, are treated equally.

G: GOOD

Coraza has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance.

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.02	0.04	(0.00)	0.03	0.04
Industrials Products & Services	BVPS	0.09	0.18	0.31	0.34	0.37
Coraza Integrated Technology	Return on average equity (%)	36.0	22.5	(1.3)	8.6	10.1
CORAZA MK / 240						
Neutral						
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
20x P/E on FY24F EPS	Recurring P/E (x)	21.43	14.32	na	18.72	14.50
	P/B (x)	6.1	2.9	1.7	1.6	1.4
	FCF Yield (%)	(3.7)	0.7	(5.9)	(8.1)	0.4
	EV/EBITDA (x)	14.45	8.54	29.81	8.28	6.42
	EV/EBIT (x)	17.62	10.97	na	13.64	10.11
Key drivers	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Riding on the wave of semiconductors growth; and	Total turnover	106	143	79	135	163
ii. Expansion of production capacity and capabilities.	Gross profit	30	37	12	34	41
	EBITDA	19	29	7	26	33
	Depreciation and amortisation	(3)	(6)	(9)	(10)	(12)
	Operating profit	16	22	(2)	16	21
	Net interest	(0)	(0)	1	2	1
	Pre-tax profit	16	19	(2)	17	22
	Taxation	(3)	(4)	0	(3)	(4)
	Reported net profit	13	15	(2)	14	18
	Recurring net profit	12	18	(2)	14	18
Key risks	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Downside risks:	Change in working capital	(16.2)	(6.9)	18.0	(13.0)	(7.4)
i. Dependence on major customers;	Cash flow from operations	0.1	17.5	24.9	9.3	21.0
ii. Labour shortages; and	Capex	(9.5)	(15.6)	(40.0)	(30.0)	(20.0)
iii. FX rate fluctuations.	Cash flow from investing activities	(9.5)	(15.3)	(40.0)	(30.0)	(20.0)
The opposite of these factors constitute upside risks.	Cash flow from financing activities	4.0	21.8	85.0	(6.5)	1.3
	Cash at beginning of period	5.6	4.5	27.0	96.9	69.7
	Net change in cash	(5.5)	24.0	69.9	(27.2)	2.3
	Ending balance cash	0.1	28.5	96.9	69.7	72.0
Company Profile	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Coraza is an integrated engineering supporting services provider with more than 20 years of operating history. Its services include the fabrication of sheet metal, precision machining, and related services like design and development (D&D), and value-added sub module assembly services forwarding.	Total cash and equivalents	4.5	27.0	96.9	69.7	72.0
	Tangible fixed assets	29.0	42.1	73.1	93.0	101.0
	Total assets	97.6	140.5	210.2	226.9	250.1
	Short-term debt	14.5	8.7	18.7	14.7	14.7
	Total long-term debt	9.2	5.4	15.4	11.4	11.4
	Total liabilities	55.5	51.5	58.3	61.3	66.9
	Total equity	42.1	89.0	151.8	165.6	183.3
	Total liabilities & equity	97.6	140.5	210.2	226.9	250.1
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	26.8	35.1	(45.0)	70.8	20.9
	Recurrent EPS growth (%)	81.7	49.6	(108.4)	0.0	29.1
	Gross margin (%)	28.6	26.1	15.2	24.9	25.2
	Operating EBITDA margin (%)	18.0	19.9	8.2	19.1	20.2
	Net profit margin (%)	12.1	10.3	(1.9)	10.2	10.9
	Capex/sales (%)	9.0	10.9	50.7	22.3	12.3
	Interest cover (x)	19.8	29.3	(2.6)	26.0	39.9

Source: Company data, RHB

30 November 2023

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Results at a Glance

Figure 1: Results review

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
Revenue	38.6	20.9	15.7	(25.0)	(59.3)	107.4	64.9	(39.6)	Weaker sales from the semiconductor industry.
Gross profit	9.1	3.3	0.9	(71.3)	(89.6)	26.6	10.7	(59.9)	
GP margin (%)	23.6	15.7	6.0			24.8	16.4		Margin contracted due to underutilisation and absorption of fixed costs.
Adjusted EBITDA	7.1	2.4	(0.7)	N.m.	N.m.	19.8	4.9	(75.2)	
Adjusted EBITDA margin (%)	18.5	11.7	(4.4)			18.4	7.6		
Depreciation	(1.7)	(2.0)	(2.2)	(8.7)	(28.5)	(4.0)	(6.4)	(60.8)	
Adjusted EBIT	5.4	0.4	(2.9)	N.m.	N.m.	15.7	(1.5)	N.m.	
EBIT margin (%)	14.1	2.1	(18.3)			14.7	(2.4)		
Interest income	0.1	0.1	0.2	68.8	78.0	0.3	0.4	36.3	
Interest expense	(0.2)	(0.2)	(0.1)	19.0	29.1	(0.6)	(0.5)	6.9	
El/Others	0.1	0.7	(0.7)	N.m.	N.m.	(1.0)	1.5	N.m.	Unrealised FX gains/losses, gains on disposal of PPE, and listing expenses in 1Q22.
Reported PBT	5.4	1.0	(3.6)	N.m.	N.m.	14.5	(0.2)	N.m.	
Tax	(1.4)	(0.0)	1.8	N.m.	N.m.	(4.0)	1.1	N.m.	
Effective tax rate (%)	24.9	4.8	49.6			27.9	528.5		
Net profit	4.1	1.0	(1.8)	N.m.	N.m.	10.5	0.9	(91.5)	
Core profit	4.0	0.3	(1.1)	N.m.	N.m.	11.4	(0.6)	N.m.	Below expectations.
Core net margin (%)	10.3	1.4	(6.9)			10.6	(0.9)		

Source: Company, RHB

30 November 2023

Industrials Products & Services | Metal Sheet Fabrication

Emissions And ESG

Trend analysis

Not available

Emissions (tCO2e)

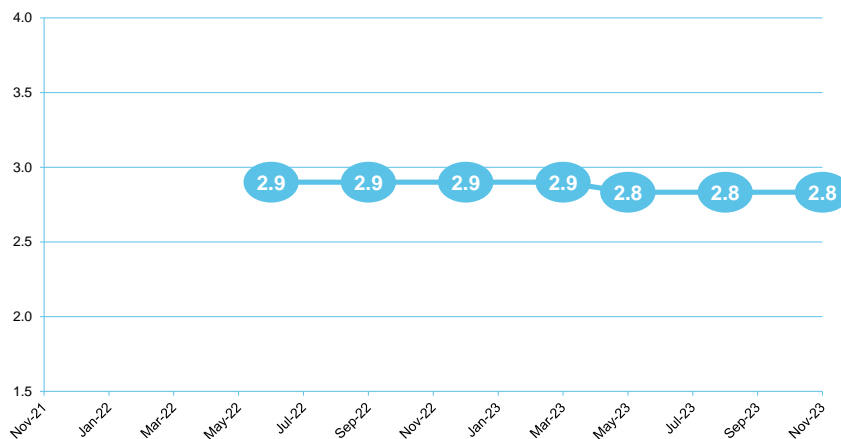
	Dec-20	Dec-21	Dec-22
Scope 1	-	-	-
Scope 2	-	-	-
Scope 3	-	-	-
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

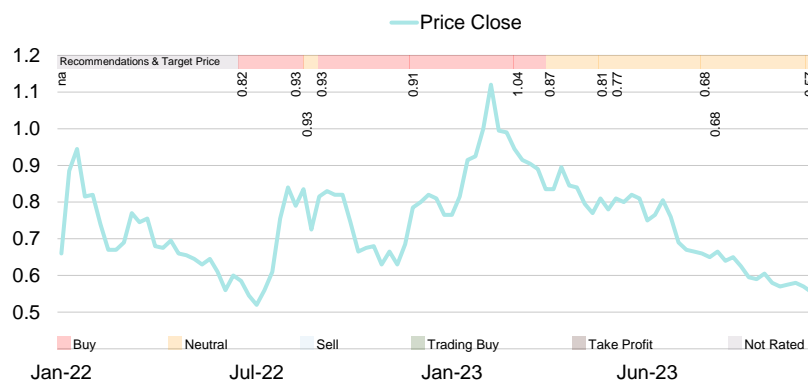
- The company underscores the importance of proper waste management for a healthy and sustainable environment.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-16	Neutral	0.57	0.57
2023-08-25	Neutral	0.68	0.65
2023-08-15	Neutral	0.68	0.69
2023-05-29	Neutral	0.77	0.79
2023-05-15	Neutral	0.81	0.77
2023-03-30	Neutral	0.87	0.85
2023-03-01	Buy	1.04	0.98
2022-11-29	Buy	0.91	0.69
2022-09-09	Buy	0.93	0.82
2022-08-26	Neutral	0.93	0.84
2022-08-16	Buy	0.93	0.82
2022-06-29	Buy	0.82	0.58

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

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
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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