

29 February 2024

Industrials Products & Services | Metal Sheet Fabrication

Coraza Integrated Technology (CORAZA MK)

Buy (from Neutral)

Positioned For The Next Earnings Upcycle; U/G BUY

Target Price (Return): MYR0.64 (41.9%)
Price (Market Cap): MYR0.45 (USD46.6m)
ESG score: 2.5 (out of 4)
Avg Daily Turnover (MYR/USD) 0.67m/0.14m

- **Upgrade to BUY from Neutral, new MYR0.64 TP from MYR0.50, 42% upside.** FY23 results disappointed on slower-than-expected demand recovery, but we believe the worst is over. Share price under-performance (2023: -43%) has likely factored in the low expectations, and we are expecting a strong turnaround in FY24 from a low base. We like Coraza Integrated Technology for its solid customer base and exposure to the front-end semiconductor supply chain to capture the overall recovery in semiconductor equipment demand.
- **Below expectations.** FY23 core losses of MYR3.8m (FY22: MYR17.9m profit) came in below our and Street's estimates. The negative deviation was due to slower-than-expected sales and margins recovery. Note: We stripped off the unrealised FX gain of MYR1.2m to arrive at the core loss. Geographically, FY23 sales in Malaysia, Singapore, and the US declined 46%, 36%, and 51% with slower orders from all customers.
- **Results review.** YoY, FY23 revenue dipped 43.7% to MYR80.7m due to the deferral of orders from key customers, which were dragged down by the semiconductor sector's downturn. FY23 LBT was at MYR3.4m vs 18.6m PBT in FY22 due to margins compression from the loss of economies of scale and higher depreciation expenses (+37.3% YoY). QoQ, 4Q23 revenue was flattish (+0.4%) due to the slow demand recovery. Despite LBT narrowing to MYR3.2m vs MYR3.6m LBT in 3Q23 - from the implementation of cost-control measures - core earnings widened QoQ to MYR3.2m due to the absence of tax capital allowances.
- **Outlook.** The Semiconductor Industry Association is expecting double-digit growth in global semiconductor sales in 2024, considering that inventory adjustments may have come to an end. We highlight that management guided for flattish QoQ revenue but is expecting a more meaningful recovery in 2H24. With consistent efforts to enhance capabilities and expand identified capacity, Coraza is well positioned to capitalise on the rebound in semiconductor demand. Additionally, any ramp-up in order volumes from existing or new customers is poised to drive significant margins expansion, in our view, primarily on operating leverage and economies of scale.
- **Forecast and ratings.** Post results, we cut our FY24F-25F earnings by 46% and 14%, and introduce FY26F numbers (+36%), reflecting a slower sales recovery assumption. However, we revise our TP to MYR0.60 after rolling over the valuation base year to FY25F, implying an unchanged 20x P/E (close to its mean). Our TP includes 10% ESG discount based on the 2.5 ESG score.
- **Key downside risks:** Dependence on major customers, labour shortages, and FX rate fluctuations. The opposite would constitute upside risks.

Analysts

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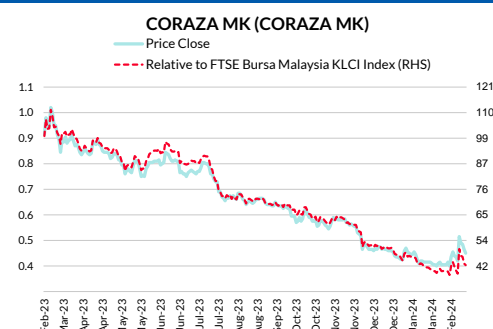


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.4	8.4	(14.3)	(30.2)	(50.8)
Relative	(2.9)	5.8	(21.0)	(37.2)	(57.1)
52-wk Price low/high (MYR)				0.40	1.02



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	143	81	106	149	164
Recurring net profit (MYRm)	18	(4)	7	15	21
Recurring net profit growth (%)	49.6	(121.3)	-	105.7	36.0
Recurring P/E (x)	10.78	na	26.08	12.68	9.32
P/B (x)	2.2	1.5	1.4	1.3	1.1
P/CF (x)	11.04	26.57	40.16	20.70	7.72
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	6.32	40.50	10.69	6.57	5.48
Return on average equity (%)	22.5	(2.5)	5.7	10.8	13.0
Net debt to equity (%)	net cash	net cash	net cash	5.0	1.5

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 majority of the best practices of the Malaysian Code on Corporate Governance.

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Malaysia	Recurring EPS	0.04	(0.01)	0.02	0.04	0.05
Industrials Products & Services	BVPS	0.21	0.29	0.31	0.35	0.39
Coraza Integrated Technology	Return on average equity (%)	22.5	(2.5)	5.7	10.8	13.0
CORAZA MK / 240						
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	10.78	na	26.08	12.68	9.32
	P/B (x)	2.2	1.5	1.4	1.3	1.1
	FCF Yield (%)	1.0	(12.6)	(13.0)	(5.5)	2.6
	EV/EBITDA (x)	6.32	40.50	10.69	6.57	5.48
	EV/EBIT (x)	8.11	na	21.14	10.50	7.52
Valuation basis						
20x P/E on FY24F EPS						
Key drivers						
i. Riding on the wave of semiconductors growth;						
ii. Expansion of production capacity and capabilities.						
Key risks						
i. Dependence on major customers;						
ii. Labour shortages;						
iii. FX rate fluctuations.						
Company Profile						
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.						
	Income statement (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	143	81	106	149	164
	Gross profit	37	12	24	39	44
	EBITDA	29	4	18	31	36
	Depreciation and amortisation	(6)	(9)	(9)	(11)	(10)
	Operating profit	22	(5)	9	19	26
	Net interest	(0)	0	0	(0)	(0)
	Pre-tax profit	19	(3)	9	19	26
	Taxation	(4)	1	(2)	(4)	(5)
	Reported net profit	15	(3)	7	15	21
	Recurring net profit	18	(4)	7	15	21
	Cash flow (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(6.9)	5.7	(11.1)	(17.4)	(5.5)
	Cash flow from operations	17.5	7.3	4.8	9.3	25.0
	Capex	(15.6)	(31.6)	(30.0)	(20.0)	(20.0)
	Cash flow from investing activities	(15.3)	(29.9)	(30.0)	(20.0)	(20.0)
	Cash flow from financing activities	21.8	48.6	(7.7)	(0.1)	(0.1)
	Cash at beginning of period	4.5	27.0	53.7	20.8	10.0
	Net change in cash	24.0	26.0	(32.9)	(10.7)	4.9
	Ending balance cash	28.5	53.0	20.8	10.0	14.9
	Balance sheet (MYRm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	27	54	21	10	15
	Tangible fixed assets	42	64	85	94	104
	Total assets	140	163	179	204	228
	Short-term debt	9	21	17	17	17
	Total long-term debt	5	4	0	0	0
	Total liabilities	52	37	46	55	59
	Total equity	89	126	133	149	169
	Total liabilities & equity	140	163	179	204	228
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	35.1	(43.7)	31.5	40.9	9.5
	Recurrent EPS growth (%)	49.6	(121.3)	0.0	105.7	36.0
	Gross margin (%)	26.1	14.8	22.7	25.9	26.8
	Operating EBITDA margin (%)	19.9	5.0	16.7	20.4	21.8
	Net profit margin (%)	10.3	(3.3)	7.0	10.2	12.7
	Capex/sales (%)	10.9	39.2	28.3	13.4	12.2
	Interest cover (x)	29.3	(6.1)	20.9	54.8	74.6

Source: Company data, RHB

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Results at a Glance

Figure 1: Results review

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	35.9	15.7	15.7	0.4	(56.2)	143.3	80.7	(43.7)	Weaker sales from the semiconductor industry.
Gross Profit	10.9	0.9	1.3	37.1	(88.2)	37.5	11.9	(68.2)	
GP margin (%)	30.5	6.0	8.2			26.2	14.8		
Adjusted EBITDA	8.8	(0.7)	(0.8)	22.4	(109.6)	28.5	4.1	(85.7)	
Adjusted EBITDA margin (%)	24.4	(4.4)	(5.3)			19.9	5.0		
Depreciation	(2.3)	(2.2)	(2.2)	1.9	(3.6)	(6.3)	(8.7)	37.3	
Adjusted EBIT	6.4	(2.9)	(3.1)	6.8	(147.5)	22.2	(4.6)	(120.7)	Margins compression from the loss of economies of scale and higher depreciation expenses.
EBIT margin (%)	17.9	(18.3)	(19.4)			15.5	(5.7)		
Interest Income	0.1	0.2	0.4	137.7	220.8	0.4	0.8	91.5	
Interest Expense	(0.2)	(0.1)	(0.2)	74.5	18.8	(0.8)	(0.8)	0.1	Unrealised FX gains/losses, gains on disposal of PPE, and listing expenses in 1Q22.
El/Others	(2.2)	(0.7)	(0.3)	(56.9)	(86.0)	(3.2)	1.2	(136.1)	
Reported PBT	4.1	(3.6)	(3.2)	(9.4)	(178.1)	18.6	(3.4)	(118.4)	
Tax	0.1	1.8	(0.3)	(118.4)	(391.1)	(3.9)	0.8	(119.6)	
Effective tax rate (%)	(2.7)	49.6	(10.1)			21.1	22.3		
Minority Interest	0.0	0.0	0.0	#DIV/0!	#DIV/0!	0.0	0.0	#DIV/0!	
Net Profit	4.3	(1.8)	(3.6)	97.8	(183.7)	14.7	(2.7)	(118.1)	Below expectations.
Core Profit	6.5	(1.1)	(3.2)	201.7	(150.2)	17.9	(3.8)	(121.3)	
Core net margin (%)	18.0	(6.9)	(20.6)			12.5	(4.7)		

Source: Company data, RHB

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Emissions And ESG

Trend analysis

n/a

Emissions (tCO2e)

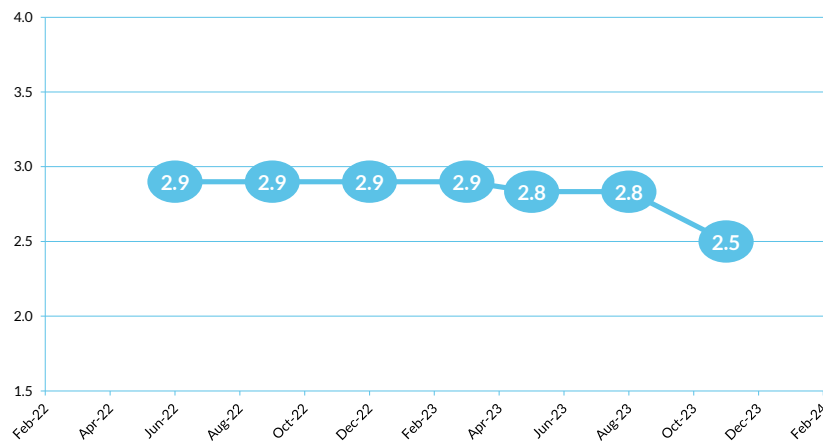
	Dec-21	Dec-22	Dec-23
Scope 1	-	-	-
Scope 2	-	-	-
Scope 3	-	-	-
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

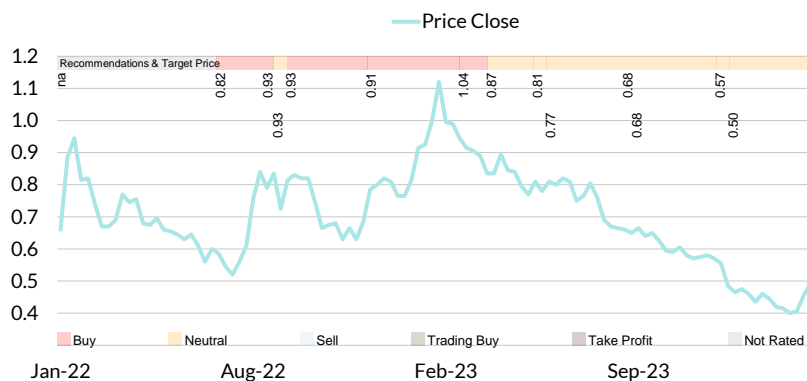
- The company underscores the importance of proper waste management for a healthy and sustainable environment.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-30	Neutral	0.50	0.47
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

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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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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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