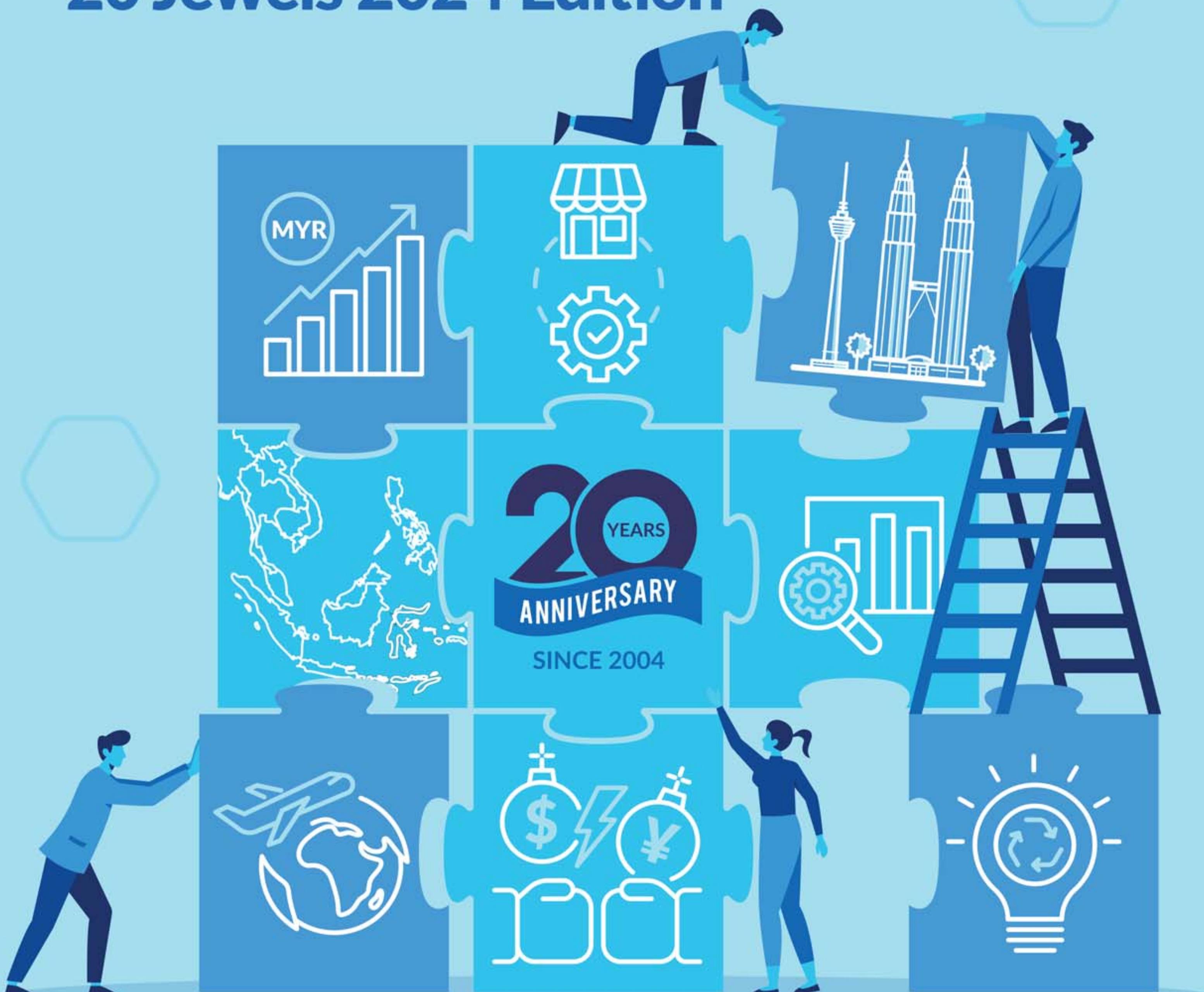
**INVESTMENT BANKING**

**Top Malaysia Small Cap Companies**

# 20 Jewels 2024 Edition

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Market Dateline / PP19489/05/2019 (035080)

# TOP MALAYSIA SMALL CAP COMPANIES

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## 20 JEWELS

## 2024 EDITION

## MALAYSIA

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<See important disclaimer and disclosures at the end of this report>

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## Foreword

Welcome to the 20th anniversary edition of Top 20 Malaysia Small Cap Jewels!

Over the past two decades, this compendium has stood as a beacon of small-cap investment excellence, guiding investors through market fluctuations and uncovering hidden opportunities. As we celebrate this milestone, we reflect on the journey that has led us here and reaffirm our commitment to delivering invaluable insights to the investment community. Since its inception, our unwavering dedication to small-cap research has yielded remarkable results, producing countless multi-bagger stock ideas that have reshaped portfolios and captured the imagination of investors. This product has become synonymous with RHB, earning a reputation for excellence and garnering a loyal following among investors seeking superior returns.

We are thrilled to announce that, just like the previous year's edition, the Top 20 Malaysia Small Cap Jewels 2023 outperformed the broad market, delivering a holding period return of 46.4% and outperforming the FBM KLCI's and FBM SC's returns of 13.0% and 21.4%. The past year has been marked by unprecedented challenges yet, amidst the economic uncertainties and geopolitical tensions, the resilience of the capital market has shone through. Against the backdrop of a better economic outlook in 2024, a stable political environment, accompanied by stronger fund flows into the emerging markets amidst the peak of the US Federal Funds rate, domestic-listed stocks have undergone a remarkable rally – leading Malaysia to emerge as one of the best-performing markets in ASEAN.

Undoubtedly, the narrowing gap between the valuations of the small-cap stocks vs that of big-cap ones – consequent to the robust performance of small-cap stocks YTD – presented a challenge in curating the 20th anniversary edition of Top 20 Malaysia Small Cap Jewels. However, opportunities persist for those who are willing to navigate the market with diligence and insight. Drawing on our decades of experience, rigorous analysis, and unwavering dedication, we present a curated selection of small-cap gems poised to deliver exceptional returns in the years ahead.

Spanning nine diverse sectors, our picks boast an average market capitalisation of MYR545m and ROE of 11.2%. Names from the industrial products & services, technology, construction, consumer products & services sectors make up 70% of our picks. Of the 20 names featured, all but four – which are listed on the ACE Market – are Main Market counters. To maintain the novelty and introduce less-followed prospects, none of the 20 companies featured this year are in RHB Research's existing coverage universe.

We extend our gratitude to the management teams of the featured firms for their invaluable contributions and unwavering support. We also acknowledge the dedication of our colleagues who have invested countless hours in the pursuit of excellence, ensuring that this compendium continues to uphold the highest standards of quality and integrity.

To our readers and investors, we thank you for your continued trust and support. As we embark on the next chapter of our journey, we remain steadfast in our commitment to deliver actionable insights, uncover new opportunities, and empower investors to achieve their financial goals.

Here's to the next 20 years of small-cap excellence!

**Lee Meng Horng**
Head of RHB Malaysia Small Cap Research

**Alexander Chia**
Regional Head of RHB Research

14 May 2024

## 20 Jewels – at a glance

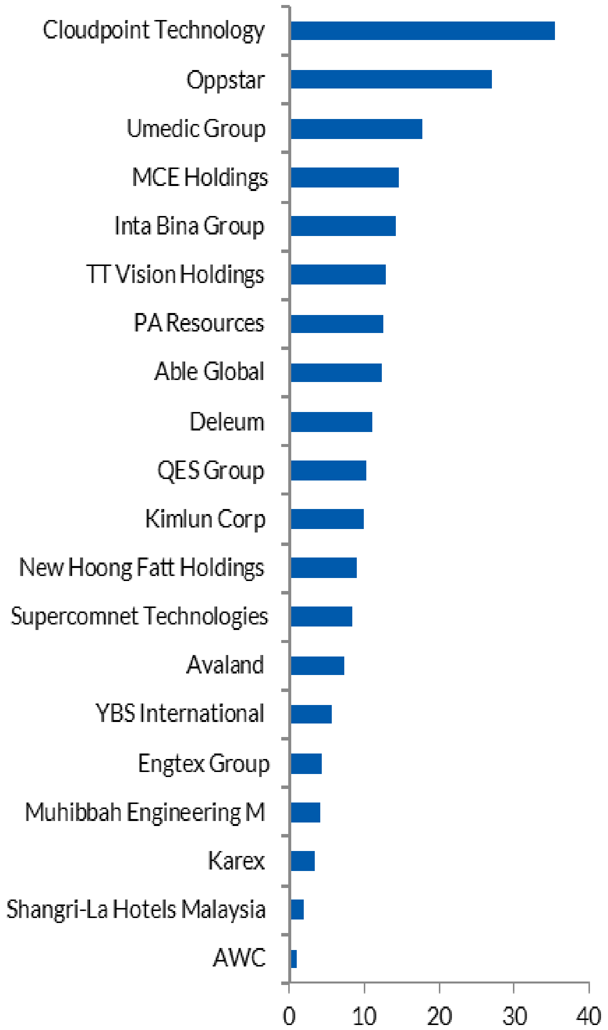
| Company Name | FV | Mkt Cap | P/E (x) | | P/BV (x) | | Div Yield (%) | | ROE (%) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | (MYR) | (MYRm) | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 |
| Able Global | 2.20-2.32 | 575.1 | 17.2 | 11.1 | 1.4 | 1.3 | 2.1 | 3.5 | 8.6 | 12.3 |
| Avaland | 0.53-0.58 | 509.9 | n.m. | 7.7 | 0.6 | 0.5 | 0.0 | 0.0 | 0.1 | 7.3 |
| AWC | 1.49-1.86 | 326.9 | 14.1 | 42.4 | 1.1 | 1.1 | 2.0 | 0.5 | 10.0 | 1.0 |
| Cloudpoint Technology | 0.92-1.08 | 366.8 | 27.9 | 20.9 | 17.6 | 5.2 | 2.2 | 2.9 | 72.2 | 35.4 |
| Deleum | 1.73-2.06 | 578.2 | 15.4 | 12.7 | 1.4 | 1.3 | 3.6 | 4.0 | 9.7 | 11.0 |
| Engtex Group | 1.50 | 441.4 | 14.3 | 50.0 | 0.5 | 0.5 | 1.2 | 0.9 | 4.2 | 4.3 |
| Inta Bina Group | 0.53-0.60 | 230.4 | 22.1 | 10.0 | 1.5 | 1.3 | 1.8 | 3.5 | 6.9 | 14.3 |
| Karex | 1.02-1.09 | 858.6 | n.m. | 50.2 | 1.8 | 1.7 | 0.0 | 0.6 | n.m. | 3.4 |
| Kimlun Corp | 1.59-1.71 | 462.9 | 13.8 | 65.6 | 0.6 | 0.6 | 0.8 | 0.8 | 4.7 | 10.0 |
| MCE Holdings | 2.35-3.19 | 239.7 | 29.8 | 15.6 | 1.0 | 0.9 | 0.0 | 1.4 | 9.3 | 14.5 |
| Muhibbah Engineering (M) | 1.14-1.52 | 699.1 | 84.7 | 13.2 | 0.4 | 0.4 | 0.0 | 0.0 | 0.7 | 4.1 |
| New Hoong Fatt Holdings | 6.50-7.80 | 324.9 | 12.2 | 6.8 | 0.6 | 0.6 | 3.3 | 3.8 | 5.3 | 9.0 |
| Oppstar | 1.95 | 890.0 | 53.2 | 43.4 | 61.2 | 6.5 | 0.0 | 0.6 | 194.5 | 27.1 |
| PA Resources | 0.50-0.54 | 508.4 | 9.9 | 15.5 | 1.9 | 1.7 | 0.0 | 2.9 | 21.7 | 12.5 |
| QES Group | 0.83 | 538.0 | 20.4 | 29.1 | 3.3 | 3.0 | 0.0 | 0.0 | 16.2 | 10.4 |
| Shangri-La Hotels Malaysia | 3.56-3.99 | 1064.8 | n.m. | 41.3 | 1.2 | 1.2 | 0.0 | 2.9 | n.m. | 2.0 |
| Supercomnet Technologies | 1.69-1.79 | 1263.4 | 35.4 | 40.9 | 3.5 | 3.3 | 1.3 | 1.3 | 10.3 | 8.4 |
| TT Vision Holdings | 1.40-1.64 | 556.9 | 52.3 | 48.9 | 9.2 | 5.7 | 0.0 | 0.0 | 17.6 | 13.0 |
| Umedic Group | 0.96-1.05 | 259.9 | 40.5 | 25.2 | 4.9 | 4.1 | 0.0 | 0.0 | 18.7 | 17.7 |
| YBS International | 0.98-1.40 | 212.3 | 32.8 | 51.3 | 4.9 | 4.1 | 0.0 | 0.0 | 9.4 | 5.6 |

*Note: All price as at 10 May 2024.   nm=not meaningful*
*Source: Bloomberg, RHB*

**Market capitalisation of the Top 20 Jewels (MYRm)**

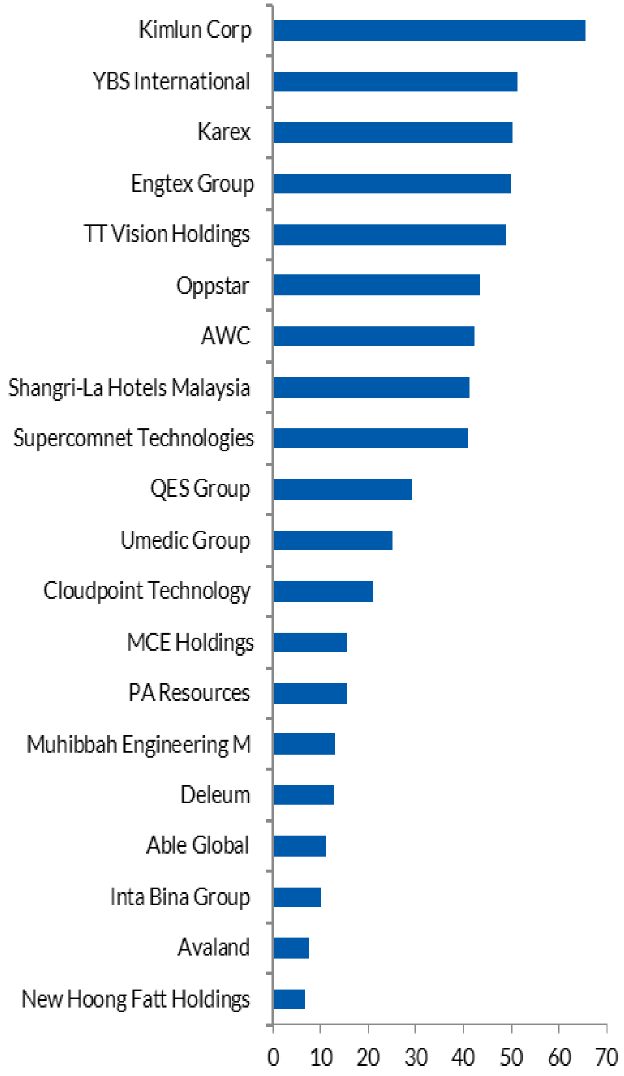

*Source: Bloomberg, RHB*

**FY23 ROE of the Top 20 Jewels**



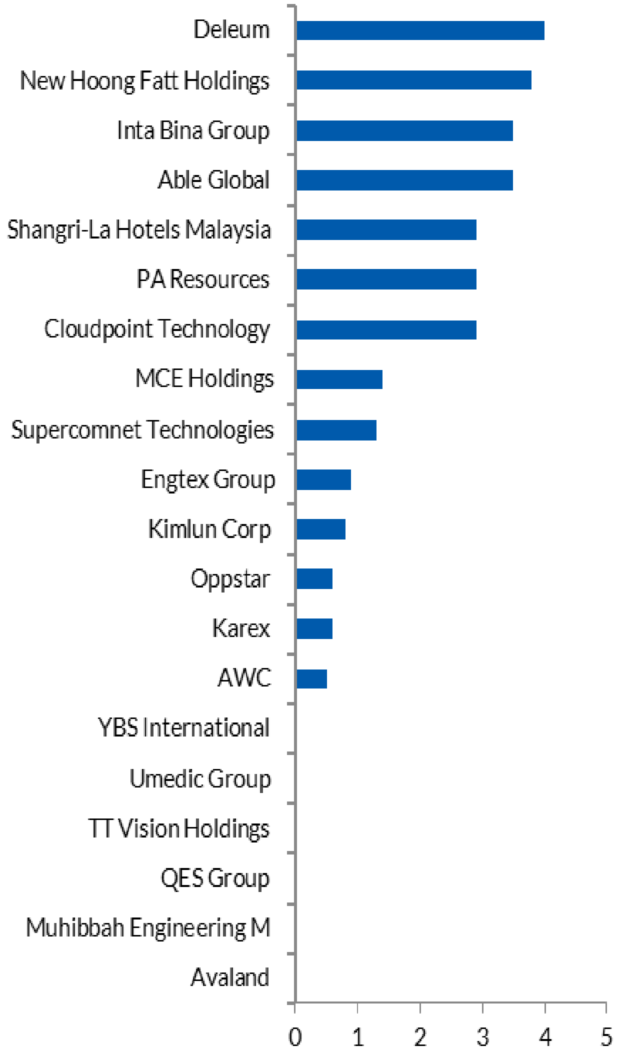

*Source: Bloomberg, RHB*

**FY23 P/Es of the Top 20 Jewels (x)**




*Source: Bloomberg, RHB*

**FY23 dividend yields of the Top 20 Jewels**




*Source: Bloomberg, RHB*

# Able Global

## On An Earnings Upcycle

**Fair Value:** MYR2.20-2.32
**Price:** MYR1.87


*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | ABLE MK |
| Avg Turnover (MYR/USD) | 1.43m/0.3m |
| Net Gearing (%) | 30.4 |
| Market Cap (MYRm) | 575.1 |
| Beta (x) | 0.7 |
| BVPS (MYR) | 1.44 |
| 52-wk Price low/high (MYR) | 1.24 - 1.9 |
| Free float (%) | 55 |

**Major Shareholders (%)**

| | |
|---|---|
| Goh Mia Kwong | 11.6 |
| Ng Keng Hoe | 11.3 |
| Edward Goh Swee Wang | 7.6 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 3.9 | 28.1 | 45.0 | 39.6 |
| Relative | 0.7 | 23.6 | 34.2 | 27.1 |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## Investment Merits

- Margin recovery for both business divisions from easing input costs
- Progressively increasing contributions from Mexico operations
- Capacity expansion to capture robust demand and lift efficiency levels
- Trading at attractive valuations, offering decent dividend yields

## Company Profile

Listed on Bursa Malaysia in 2003, Able Global (ABLE) started off as a tin can manufacturer. Subsequently, the group ventured into the F&B business via the acquisition of a dairy product manufacturing company. In a major strategic move, it acquired c.298 acres of freehold land in Kuala Langat, Selangor in Jun 2021 to expand its manufacturing operations, as well as undertake industrial property development activities.

For the tin can segment, most of ABLE's customers are based in Malaysia, but it also has a small market share in Singapore. Customers are from various industries – mainly biscuit makers, as well as paint and chemical, edible oil, and food processing firms. In the F&B segment, its dairy products are mainly exported – mostly to West Africa, within South-East Asia, as well as to North and South America. The dairy products comprise sweetened condensed milk, evaporated milk, as well as milk powder packed in both bulk and consumer formats. As of FY23, F&B accounted for three quarters of the group's PBT, while the rest was from its tin can manufacturing business.

## Highlights

**Cost tailwinds to propel margin recovery.** Input costs for the F&B division should ease following the retreat in key commodity prices including that of milk powder and sugar, which account for 25-35% and 30% of the F&B segment's operating costs. Similarly, lower steel prices are expected to boost its tin can manufacturing business, after demand was affected in FY23 due to high ASPs. Considering the robust demand for dairy products and volume recovery in the tin can business, we expect benign margin expansion for both business divisions going forward.

**Gestation period over in Mexico, volumes to be ramped up further.** After commencing commercial production in its Mexico operations (43%-owned associate) in FY22, the unit achieved an earnings turnaround in FY23. Utilisation rates at its Mexico facilities improved to 25-30% towards end-FY23, and management is aiming to improve this further, supported by recurring orders from existing customers and deeper market penetration by securing new customers. We believe the longer-term potential of ABLE's Mexico venture is tremendous, considering the huge market size and demand in the region.

**Laying the groundwork for future growth.** ABLE purchased c.298 acres of land in Kuala Langat, Selangor for MYR169.8m in 2021. The land will be developed as Able Bizpark @ Carey Island with an estimated GDV of MYR1bn. We understand that one-third of the space will be taken up by ABLE for capacity expansion, to consolidate its F&B operations and double its existing capacity. This also allows ABLE to expand its product range. The new lines should improve operational efficiency, as well. Meanwhile, the remaining land will be sold to capture the demand for industrial properties.

## Company Report Card

**Results highlights.** FY23 net profit surged 58% to MYR52m on the back of a robust topline growth of 18% to MYR648m. This was primarily spurred by a sharp margin expansion in its F&B business, thanks to an increase in volumes on robust demand, as well as the turnaround of its Mexico operations. This more than offset the softness in the tin manufacturing division which was dragged by soft customer demand.

**Net gearing at a manageable level.** As of FY23, ABLE's net gearing stood at 0.3x, which gives it room to gear up if necessary, and in view of its strong cash flow generation (operating cash flow was MYR88m in FY23).

**Dividends.** While it does not have a dividend policy, ABLE has been consistently paying dividends on a quarterly basis. The payout ratios ranged between 37% and 48% in recent years, and we believe this will continue going forward, considering the cash flow generation and balance sheet strength.

**Management.** CEO Edward Goh Swee Wang has more than 20 years of experience in the tin can industry. He oversees the planning, development, marketing, and overall management of the company. Group Chairman and Executive Director Ng Keng Hoe is another key management team member who co-manages the F&B business.

## Investment Case

**Attractive valuation.** ABLE is trading at 10x FY23 P/E. We believe its valuation is undemanding, but unwarranted – in view of the solid company fundamentals and sticky demand for its F&B products. We highlight that ABLE managed to maintain its profitability and dividend payouts throughout the COVID-19 pandemic. By estimating 10-15% earnings growth in FY24 and ascribing a P/E of 12x (20% discount to another small-cap FMCG company under our coverage, given ABLE's exposure to the non-F&B business), the fair value range for ABLE is estimated at MYR2.20-2.32. Assuming a dividend payout ratio of 40%, this translates to a prospective yield of 4.3-4.5%.

**Key risks** include a sharp rise in input costs and failure to secure new customers for its Mexico plants.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 500 | 550 | 648 |
| Reported net profit (MYRm) | 37 | 33 | 52 |
| Recurring net profit (MYRm) | 37 | 33 | 52 |
| Recurring net profit growth (%) | (6.5) | (9.6) | 55.3 |
| Recurring EPS (MYR) | 0.12 | 0.11 | 0.17 |
| DPS (MYR) | 0.05 | 0.04 | 0.07 |
| Dividend Yield (%) | 2.7 | 2.1 | 3.5 |
| Recurring P/E (x) | 15.6 | 17.2 | 11.1 |
| Return on average equity (%) | 19.4 | 8.6 | 12.3 |
| P/B (x) | 1.5 | 1.4 | 1.3 |
| P/CF (x) | 4.0 | (4.7) | 4.0 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 366 | 503 | 583 |
| Total assets | 531 | 721 | 803 |
| Total current liabilities | 143 | 148 | 193 |
| Total non-current liabilities | 8 | 169 | 168 |
| Total liabilities | 151 | 318 | 360 |
| Shareholder's equity | 380 | 401 | 441 |
| Minority interest | 1 | 1 | 2 |
| Other equity | 2 | 3 | 3 |
| Total liabilities & equity | 531 | 721 | 803 |
| Total debt | 88 | 254 | 270 |
| Net debt | (14) | 194 | 134 |

*Source: Company data, RHB*

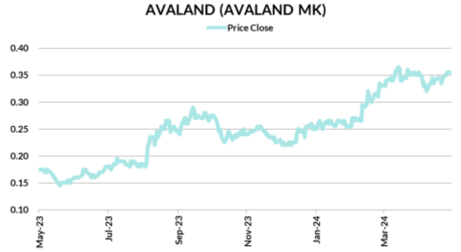
| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | (21) | (121) | 100 |
| Cash flow from investing activities | (18) | (56) | (8) |
| Cash flow from financing activities | 23 | 150 | (15) |
| Cash at beginning of period | 0 | 101 | 60 |
| Net change in cash | (16) | (27) | 77 |
| Ending balance cash | 101 | 60 | 136 |

*Source: Company data, RHB*

Fair Value: MYR0.53-0.58
Price: MYR0.35

# Avaland

## Timely Turnaround To Ride On The Property Upcycle




*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | AVALAND MK |
| Avg Turnover (MYR/USD) | 2.44m/0.52m |
| Net Gearing (%) | 39.1 |
| Market Cap (MYRm) | 509.9 |
| Beta (x) | 0.8 |
| BVPS (MYR) | 0.70 |
| 52-wk Price low/high (MYR) | 0.145 - 0.365 |
| Free float (%) | 22 |

**Major Shareholders (%)**

| | |
|---|---|
| Regent Wise Investment | 66.3 |
| Tong Seech Wi | 2.5 |
| Goh Ming Choon | 2.4 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 0.0 | 37.3 | 45.8 | 89.2 |
| Relative | (3.2) | 32.7 | 35.1 | 76.7 |

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## Investment Merits

- A successful turnaround after a major internal revamp
- Preview and launches YTD saw encouraging bookings and take-up rates
- Sales guidance of MYR700-800m represents almost 30% YoY growth
- New land additions should provide upside to RNAV estimate

## Company Profile

Avaland (previously known as MCT Consortium (MCT)) was listed in 2015 via a reverse takeover of GW Plastics Holdings. The issue price for new placement shares back then was at MYR1.28 per unit. Philippines-based property giant Ayala Land first emerged in MCT in Apr 2015 with a 9.16% stake shortly after the listing – its shareholdings later rose to 32.95% six months later. In 2018, Ayala Land launched a mandatory takeover offer after signing a share purchase agreement with Tan Sri Goh Ming Choon, a major shareholder then, to buy 230.12m shares or a 17.24% stake for MYR202.5m (ie MYR0.88 per share). Today, Ayala Land's stake is at 66.3%, while co-founders Tan Sri Goh and Dato' Sri Tong Seech Wi have holdings of about 5% and 2.5% in the company. MCT changed its name to Avaland in Jul 2023.

## Highlights

**A successful turnaround after a major internal revamp.** Avaland has been under the radar for many investors – largely due to its poor earnings record over the last few years, coupled with the slowdown in the property market. However, given the change in the management team, the company has started seeing a convincing earnings turnaround since last year. Previous CEO Teh Heng Chong (Apollo Bello Tanco replaced Teh effective 1 Jan) was instrumental in driving the restructuring. Since then, management has decided to focus on building brand equity by offering quality products, to sustain Avaland's long-term property sales. One of the major changes included a complete outsourcing of design, architectural, and construction works for all projects. In the past, the number of defects, as well as costs incurred for rectification works and overheads, were high – due to the in-house construction arm undertaking all building works.

**Premium segment regaining traction.** Aetas Damansara (GDV: MYR581m) was Avaland's maiden premium project. Launched two years ago, the project is now 98%-sold and slated for completion in end-2024, slightly ahead of schedule. Recently, Avaland hosted a private preview of its second luxury project, Aetas Seputeh (GDV: MYR365m). Starting with a unit size of 3,500sqf (with an ASP of almost MYR1,000psf), the project is already 50% booked. Buyers should start signing sales & purchase agreements (SPAs) soon, pending the approval of the advertising permit and developer's license or APDL at end April.

**Targeting FY24 sales of MYR700-800m.** Management guided that it may be able to achieve MYR700-800m in property sales this year vs FY23's MYR586m. Apart from the premium products segment, Avaland also offers mid-range and affordable products. While waiting for Aetas Seputeh's official launch, Amika Residences in Subang Jaya (GDV: MYR452m; unit prices: MYR600-800k) was launched in March. Within two weeks of being launched, it was already 50% booked, and buyers have started signing their SPAs. Anja Bangi (GDV: MYR563m; unit prices: less than MYR600k) should be rolled out in 2Q24. We think it will be similarly well-received, as it overlooks a scenic golf course in Bangi.

**Landbanking to drive longer-term growth.** Avaland has a remaining landbank of about 183 acres (149 acres in Cybersouth). Management is on the lookout for new land to sustain its sales and launches in the coming years. Although there is interest to explore industrial development opportunities, the priority is still on developing residential projects within the Klang Valley. New land additions should provide a potential upside to our RNAV estimate.

## Company Report Card

**Results highlights.** FY23 revenue grew 170% YoY, while earnings surged to MYR66m from MYR0.5m in FY22. Apart from the successful restructuring, progress billings and healthy sales from ongoing projects eg Aetas Damansara, Alira Subang Jaya and projects in Cyberjaya, should underpin revenue.

**Strengthening balance sheet.** Avaland's net gearing stood at 0.39x, including loans from the ultimate holding company. 2025 will see the completion of at least three projects worth about MYR1.5bn in GDV – this should ease cash flow and provide a war chest for new land acquisitions.

**Dividends.** As the company has just successfully turned around and is now pursuing growth opportunities, there is no plan for dividend payouts – possibly until FY25.

**Management.** With the change in major shareholders, Avaland also saw changes in its management team over the last 7-8 years. Teh, who had been appointed as CEO in 2019 (under his leadership, the company saw positive changes in its operations, projects, sales & marketing, and landbanking strategy) resigned from his post last year. While Tanco is now the CEO, Teh remains on the board of directors as a non-executive member.

## Investment Case

**Undemanding valuation.** In line with the sector re-rating, we now value Avaland based on a 45-50% discount to RNAV. We think this is reasonable, given the company's successful turnaround, prudent landbanking strategy, encouraging sales and earnings, and strengthening financial position. Based on the current share price, the stock is trading at less than 7x FY24F P/E.

**Key risks** include: i) Unexpected slowdown in economic growth, ii) worsening geopolitical risks in the Middle East, and iii) political turbulence.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 327 | 225 | 608 |
| Reported net profit (MYRm) | (16) | 0 | 66 |
| Recurring net profit (MYRm) | (16) | 0 | 66 |
| Recurring net profit growth (%) | (263.2) | (103.0) | n.m. |
| Recurring EPS (MYR) | (0.01) | 0.00 | 0.05 |
| DPS (MYR) | 0.00 | 0.00 | 0.00 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 |
| Recurring P/E (x) | n.m. | n.m. | 7.7 |
| Return on average equity (%) | (1.9) | 0.1 | 7.3 |
| P/B (x) | 0.6 | 0.6 | 0.5 |
| P/CF (x) | (7.8) | (4.0) | 10.4 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 904 | 622 | 1026 |
| Total assets | 1707 | 1391 | 1794 |
| Total current liabilities | 842 | 258 | 714 |
| Total non-current liabilities | 1 | 262 | 144 |
| Total liabilities | 843 | 520 | 859 |
| Shareholder's equity | 864 | 871 | 935 |
| Minority interest | 0 | 0 | 0 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 1707 | 1391 | 1794 |
| Total debt | 523 | 321 | 533 |
| Net debt | 63 | 203 | 366 |

*Source: Company data, RHB*

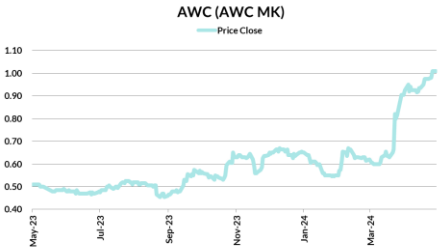
| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | (65) | (126) | 49 |
| Cash flow from investing activities | (8) | 0 | (181) |
| Cash flow from financing activities | (70) | (258) | 151 |
| Cash at beginning of period | 599 | 459 | 118 |
| Net change in cash | (140) | (342) | 49 |
| Ending balance cash | 459 | 118 | 167 |

*Source: Company data, RHB*

# AWC

## Automated Waste Collection System Giant

**Fair Value:** MYR1.49-1.86
**Price:** MYR1.00




*Source: Bloomberg*

### Stock Profile

| | |
|---|---|
| Bloomberg Ticker | AWCF MK |
| Avg Turnover (MYR/USD) | 2.49m/0.52m |
| Net Gearing (%) | Net cash |
| Market Cap (MYRm) | 326.9 |
| Beta (x) | 0.7 |
| BVPS (MYR) | 0.90 |
| 52-wk Price low/high (MYR) | 0.45 - 1.02 |
| Free float (%) | 43 |

### Major Shareholders (%)

| | |
|---|---|
| K-Capital | 25.7 |
| Ahmad Kabeer Bin Mohamed Nagoor | 7.9 |

### Share Performance (%)

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 9.9 | 80.9 | 57.9 | 93.2 |
| Relative | 6.7 | 76.4 | 47.2 | 80.7 |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## Investment Merits

- Low-hanging fruit from the acquisition of Stream Group (Stream)
- Leading the charge in providing automated waste collection
- Looking towards Indonesia and Saudi Arabia for bigger opportunities
- Healthy balance sheet and below-peer valuations

## Company Profile

AWC is a prominent Malaysian integrated facilities management and engineering services conglomerate that has established itself as a leader in sustainability and infrastructure solutions. It has a diversified portfolio of businesses that cater to a broad spectrum of industries, both domestically and regionally. It operates four divisions – facilities (48.7% of FY23 (Jun) revenue), engineering services (19.4%), environment (26.4%), and rail (5.5%).

## Highlights

**Transforming Stream into a profit powerhouse.** Stream, a global leader in automated waste collection systems (AWCS), is committed to providing the most advanced and green solutions. With two consecutive years of profits surpassing AWC's, the full acquisition of Stream (from a 51% stake previously) ensures complete profit consolidation, elevating the green division as AWC's leading profit generator (65.5% of FY25F core profit). Stream is set to capitalise on global trends related to smart cities and cleaner living environments, and benefits from favourable government policies and the increased global adoption of AWCS (2024-2030F CAGR: 10.3%).

**From Al Raha to Nusantara and Neom.** Stream has a globally recognised track record, having completed 181 metres of AWCS infrastructure for the Al Raha project in Abu Dhabi (excluding subplots) in 2017. This project spanned 1,380 acres, making it one of the largest AWCS deployments worldwide. Looking ahead, AWC aims to secure contracts for AWCS installations in Nusantara, Indonesia, and Neom, Saudi Arabia. Both mega projects make AWCS infrastructure compulsory, with Nusantara covering an area of over 600,000 acres and Neom spanning over 6.5m acres – more than 400 and 4,700 times larger than Al Raha.

**High adoption of AWCS by property developers and Singapore Housing & Development Board (HDB).** Developers see AWCS as a better solution than conventional garbage trucks, as it saves transportation time by building a central waste handling facility (CWHF) and avoids leachate spillage caused by the loading and unloading of garbage. Meanwhile, Singapore has mandated AWCS as the waste solution for HDB and private housing projects exceeding 500 units. With strong market shares in Malaysia (90%) and Singapore (20%), AWC has solidified its position as a dominant force in the waste industry.

**Robust orderbook and tenderbook.** Stream, as well as AWC's engineering division – which specialises in plumbing services in Malaysia and mechanical & engineering (M&E) services in Singapore – should benefit from developments in the construction and property sectors. The rail division, bolstered by its strong track record, stands to gain from the revival of major infrastructure projects in Malaysia. With an outstanding orderbook of MYR800m and a substantial tenderbook exceeding MYR1.2bn as of 18 Apr, AWC enjoys strong earnings visibility and growth prospects.

## Company Report Card

**Results highlights.** AWC recorded a commendable QoQ performance, with revenue increasing by MYR27.9m or 31.5% to MYR116.8m in 2QFY24, from MYR88.8m in 1QFY24. This was mainly due to a substantial increase in revenue recognition from its facilities and rail divisions. Overall, it recorded a higher PBT of MYR10.4m in 2QFY24 compared to MYR3.8m in 1QFY24, representing an increase of MYR6.6m or >100% QoQ. This was after taking into account non-recurring costs associated with the acquisition of the remaining 49% holdings in Stream (MYR1.4m), and includes professional fees as well as stamp duties.

**Strong net cash position.** AWC has a healthy balance sheet, with net cash of MYR77.7m as at 31 Dec 2023. The company should remain in a net cash position over FY24-25F.

**Dividends.** Although there is no dividend policy, the group has been consistently paying dividends for the past eight fiscal years, with a 25% historical average payout ratio. As AWC intends to pare down its borrowings – used to acquire Stream – we assume a dividend payout of 22%.

**Management.** AWC is led by Dato' Ahmad Kabeer Bin Mohamed Nagoor, its CEO since 2013. He has more than 20 years of experience in the facility management industry, and has contributed significantly to the company's success. He is also a major shareholder.

## Investment Case

**Undemanding valuation.** AWC is at the forefront of green technology via Stream, showcasing Malaysia's ability to provide innovative AWCS – capitalising on global sustainability and smart urbanisation trends. With an orderbook that is double its FY23 revenue, AWC ensures steady earnings ahead, amidst a backdrop of global mega-development and dynamic construction projects, and due as well to its services to local healthcare facilities. Its commitment to sustainability via Stream makes it a compelling investment, with an attractive FY24F PEG of 0.2x. Based on an ascribed 16-20x P/E on FY25F earnings, we derive a FV range of MYR1.49-1.86. We believe this is fair, as it is still at a discount to the valuations of other facilities management and waste management players.

**Key risks** include project delays, rising input costs, a slow pick-up in green technology, and receivables impairment risk.

| Profit & Loss | Jun-21 | Jun-22 | Jun-23 |
|---|---|---|---|
| Total turnover (MYRm) | 344 | 355 | 381 |
| Reported net profit (MYRm) | 26 | 22 | 2 |
| Recurring net profit (MYRm) | 31 | 22 | 7 |
| Recurring net profit growth (%) | 1,310.6 | (27.5) | (66.6) |
| Recurring EPS (MYR) | 0.10 | 0.07 | 0.02 |
| DPS (MYR) | 0.02 | 0.02 | 0.01 |
| Dividend Yield (%) | 1.5 | 2.0 | 0.5 |
| Recurring P/E (x) | 10.2 | 14.1 | 42.4 |
| Return on average equity (%) | 13.6 | 10.0 | 1.0 |
| P/B (x) | 1.2 | 1.1 | 1.1 |
| P/CF (x) | 11.2 | 4.0 | 85.7 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Jun-21 | Jun-22 | Jun-23 |
|---|---|---|---|
| Total current assets | 337 | 348 | 378 |
| Total assets | 404 | 412 | 444 |
| Total current liabilities | 132 | 118 | 144 |
| Total non-current liabilities | 9 | 5 | 3 |
| Total liabilities | 141 | 123 | 147 |
| Shareholder's equity | 206 | 225 | 224 |
| Minority interest | 57 | 65 | 73 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 404 | 412 | 444 |
| Total debt | 33 | 18 | 25 |
| Net debt | (56) | (113) | (102) |

*Source: Company data, RHB*

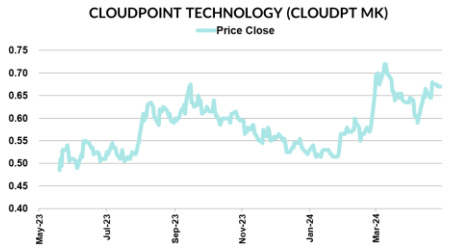
| Cash Flow (MYRm) | Jun-21 | Jun-22 | Jun-23 |
|---|---|---|---|
| Cash flow from operations | 28 | 52 | 4 |
| Cash flow from investing activities | (8) | 4 | 1 |
| Cash flow from financing activities | (8) | (34) | (6) |
| Cash at beginning of period | 68 | 89 | 129 |
| Net change in cash | 12 | 21 | (2) |
| Ending balance cash | 89 | 131 | 127 |

*Source: Company data, RHB*

# Cloudpoint Technology

## Strengthening Data Centre Solutions

Fair Value: MYR0.92-1.08
Price: MYR0.69




*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | CLOUDPT MK |
| Avg Turnover (MYR/USD) | 5.68m/1.2m |
| Net Gearing (%) | Net cash |
| Market Cap (MYRm) | 366.8 |
| Beta (x) | 0.1 |
| BVPS (MYR) | 0.13 |
| 52-wk Price low/high (MYR) | 0.45 - 0.75 |
| Free float (%) | 26 |

**Major Shareholders (%)**

| | |
|---|---|
| Era Jasakita | 41.5 |
| Choong Hoong Wai | 8.1 |
| Keripin Anak Nangkai | 8.1 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 8.7 | 22.1 | 16.0 | n.m. |
| Relative | 5.5 | 17.6 | 5.2 | n.m. |

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## Investment Merits

- Top local data centre (DC) networking provider for financial institutions
- Close relationships with major ICT principals
- Riding on the digital transformation of banks
- Moving up the value chain to participate in hyperscale DC projects

## Company Profile

Cloudpoint Technology (CLOUDPT) is an IT solutions provider headquartered in Malaysia, specialising in designing and customising solutions tailored to clients' IT environments and business requirements. It also provides project management, installation, and system integration services, along with professional IT maintenance and network monitoring services. Its offerings primarily encompass enterprise and DC networking solutions, cybersecurity solutions, professional IT services, as well as cloud services and software applications.

## Highlights

**Strategic acquisition to move upstream in DC solutions.** In Feb 2024, CLOUDPT acquired a 75% stake in Unique Central, valued at MYR26.8m (8.4x of 2024F P/E). This acquisition enabled CLOUDPT to expand its offerings, incorporating Unique Central's expertise in structured cabling and DC facilities. With a proven track record spanning three decades, Unique Central is involved in >100MW of DC jobs and is one of Malaysia's top five providers in this sector, focusing on mitigating operational risks and improving energy efficiency. The acquisition is anticipated to boost CLOUDPT's profitability, with additional profits of MYR1.6m, MYR3.6m, and MYR3.9m in FY24F, FY25F, and FY26F. By integrating Unique Central's expertise, CLOUDPT aims to reinforce its position as a leading provider of comprehensive technology solutions, particularly in hyperscale DCs.

**Record-high orderbook.** As of 31 Jan, CLOUDPT achieved a record orderbook level of MYR70m – the highest since its listing. Of the total, MYR60m is anticipated to be recognised in FY24. The orderbook consists of two substantial technology refresh contracts from major financial institutions, each valued at MYR15-20m. These contracts considerably exceed the typical scale of networking and cybersecurity projects, being three times larger. CLOUDPT also recently secured one of the top three local banks as a new client, expanding its market share within the financial services industry. Management expects a recurrence of last year's revenue seasonality pattern, where 60% of earnings will be concentrated in 1H. CLOUDPT also has a robust tenderbook of MYR100m, and anticipates a high success rate. This optimistic outlook highlights its position as a leading local provider of networking and cybersecurity solutions for financial institutions, signalling further growth potential in the year ahead.

**Forging strategic partnerships.** CLOUDPT has embarked on a strategic expansion by partnering with US-based Arista Networks to strengthen its networking solutions business with high-performance DC-grade and artificial intelligence (AI) networking solutions. To enhance its cybersecurity offerings, CLOUDPT has also initiated new partnerships and go-to-market engagements with industry giants Cloudflare, Crowdstrike, Menlo, and Darktrace. These partnerships are geared towards meeting evolving customer demand for AI-based cybersecurity solutions. In line with its commitment to deliver comprehensive IT services, the company plans to unveil a Security Operations Centre (SOC) by 2H24. This will empower it to provide incident response and remediation, threat intelligence, and compliance services, thereby bolstering its capabilities in protecting clients' digital assets. For CLOUDPT's digital applications and cloud services business, growing demand for ServiceNow offerings has led to at least three ServiceNow projects secured. This segment is expected to contribute 8% of sales in FY24, vs 2% in FY23.

## Company Report Card

**Results highlights.** FY23 revenue rose 22% YoY to MYR110.1m, backed by solid growth across all business segments, with project-based revenue rising 12% YoY and recurring revenue surging 48% YoY. Excluding listing expenses of MYR1.3m, core net profit rose 33% to MYR17.5m on a better product mix.

**Strong net cash position.** CLOUDPT has a healthy balance sheet, with a net cash position of MYR51m as of 31 Dec 2023. Over the past three years, its ROE was in the range of 55-72%. For FY24-25, we expect ROE to stay at high double digits.

**Dividends.** CLOUDPT recently established a policy to distribute at least 30% of its PATAMI as dividends.

**Management.** CLOUDPT is led by Choong Wai Hoong and Yew Choong Cheong, who are both Executive Directors with over 20 years of experience in the IT industry.

## Investment Case

**Orderbook to fuel robust growth.** We like CLOUDPT for its strong financial institution client profiles, wide range of solutions and technology vendors, and asset-light business model. The company is well-positioned to benefit from principal innovations, the increased level of sophistication of threats and regulatory compliance, and robust IT expenses of financial institutions with their digitalisation efforts. We believe the current market valuation of 12.7x FY25F P/E is compelling, backed by its record-high orderbook, new customer acquisitions, product range expansion, broader data centre solutions and cross-selling opportunities. Based on an ascribed 17-20x P/E on FY25F earnings, we derive a FV range of MYR0.92-1.08. We believe this is fair, as it would still be at a discount to KLTEC's FY25F P/E of 21x.

**Key risks** include dependence on major customers, unexpected delays in implementation, and order replenishment risks.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 60 | 91 | 110 |
| Reported net profit (MYRm) | 10 | 13 | 16 |
| Recurring net profit (MYRm) | 10 | 13 | 18 |
| Recurring net profit growth (%) | 22.7 | 28.4 | 33.3 |
| Recurring EPS (MYR) | 0.02 | 0.02 | 0.03 |
| DPS (MYR) | 0.03 | 0.02 | 0.02 |
| Dividend Yield (%) | 4.4 | 2.2 | 2.9 |
| Recurring P/E (x) | 35.8 | 27.9 | 20.9 |
| Return on average equity (%) | 55.3 | 72.2 | 35.4 |
| P/B (x) | 23.4 | 17.6 | 5.2 |
| P/CF (x) | 111.8 | 41.7 | 4.0 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 46 | 62 | 104 |
| Total assets | 46 | 67 | 112 |
| Total current liabilities | 31 | 46 | 41 |
| Total non-current liabilities | 0 | 0 | 0 |
| Total liabilities | 31 | 46 | 41 |
| Shareholder's equity | 16 | 21 | 71 |
| Minority interest | 0 | 0 | 0 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 46 | 67 | 112 |
| Total debt | 0 | 0 | 0 |
| Net debt | (14) | (12) | (51) |

*Source: Company data, RHB*

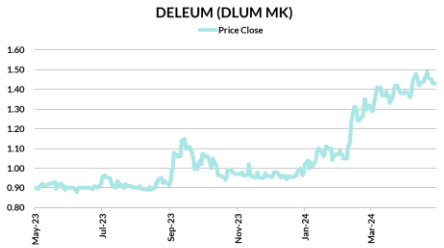
| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | 3 | 9 | 3 |
| Cash flow from investing activities | (0) | (3) | (3) |
| Cash flow from financing activities | (8) | (8) | 39 |
| Cash at beginning of period | 19 | 14 | 11 |
| Net change in cash | (5) | (3) | 39 |
| Ending balance cash | 14 | 12 | 51 |

*Source: Company data, RHB*

# Deleum

## More M&As To Boost Growth?

Fair Value: MYR1.73-2.06
Price: MYR1.44




*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | DLUM MK |
| Avg Turnover (MYR/USD) | 0.85m/0.18m |
| Net Gearing (%) | Net cash |
| Market Cap (MYRm) | 578.2 |
| Beta (x) | 1.4 |
| BVPS (MYR) | 1.11 |
| 52-wk Price low/high (MYR) | 0.88 - 1.49 |
| Free float (%) | 34 |

**Major Shareholders (%)**

| | |
|---|---|
| Lantas Mutiara | 20.4 |
| Hartapac | 12.0 |
| Nathan Vivekananthan | 10.8 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 4.3 | 34.6 | 48.5 | 59.1 |
| Relative | 1.1 | 30.1 | 37.7 | 46.6 |

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## Investment Merits

- Niche player in the upstream oil & gas (O&G) services segment with dominant positions in respective markets
- Sustained power and machinery (P&M) earnings, and potential turnaround in the oilfield services (OS) and integrated corrosion solution (ICS) segments
- Strong balance sheet with a significant war chest allows for further expansion via inorganic growth

## Company Profile

Deleum, established in 1982, is an integrated solutions provider in the O&G upstream segment. It has three core businesses: P&M, OS and ICS (see above for the full terms).

## Highlights

**More growth from the existing O&G business.** The P&M segment, which is the major revenue contributor (accounting for 84% of FY23 topline), delivered a stellar performance last year, with revenue growth of 32%. This was mainly on the back of higher sales and volume of exchange engines delivered, increased revenue from control & safety valves and flow regulators services, sales of turbine parts and repairs, and contributions from mechanical and processes projects. We believe the revenue base is likely to be sustainable, backed by a strong order backlog.

**Potential turnaround of OS and ICS segments.** Meanwhile, the other two segments – OS and ICS – are likely to see a turnaround this year with higher work orders. Currently, Deleum's orderbook stands at MYR553m (as of 4Q23), largely contributed by the P&M (58%) and OS segments. Deleum is tendering for more than MYR1.4bn worth of jobs – largely dominated by the OS and ICS wings. For the latter, management is aiming for Pan-Malaysia maintenance, construction and modification or MCM jobs, and other long-term contracts. We also expect the cost base for the OS segment to be lower in FY24, having already incurred the bulk of the maintenance expenses and refurbishment costs for the equipment (including slickline) last year. Starting from 2024, the business unit is likely to benefit from higher service rates and work orders (ie solid control services) from clients.

**Tap on regional expansion via M&As.** In early March, Deleum proposed to acquire a 70% stake in valves company OSA Industries Indonesia (OSAII) for USD7m. OSAII repairs machinery for special purposes, and is engaged in the wholesale trade of machinery, equipment, and other equipment. Deleum sees further growth opportunities ahead, riding on the growing downstream sector, as evidenced by state-owned Pertamina's Refinery Development Master Plan. The company is undertaking the process of due diligence and targets to complete the acquisition by 3Q24.

**Widening product offerings.** According to The Edge, Deleum still needs another 6-8 product lines to become a complete service provider. Its net cash of MYR213m (as of 4Q23) allows it to explore inorganic growth via M&As. One of the ways is to invest in minority stakes at the early stage of tech-linked upstream O&G companies, to widen Deleum's product offerings within the oilfield services segment. In early March, the company acquired minority stakes in two firms: MYR4.7m for a 7.7% stake in LatConnect60 and Paradigm Technology Service. The former is an Australia-based start-up tech firm that provides earth observation and data analytics services to the Australian government and commercial clients, while the latter offers innovative products such as fully coated slickline and bi-directional communication systems named "Slick-E-Line" and "ParaComm" to revolutionise traditional slickline operations. Media reports state that LatConnect60 has proof of concept with a regional oil company, and recently explored a collaboration with a Halliburton-linked carbon accounting and emissions management digital solutions provider. Such investments may not contribute material earnings in the medium term, but we see long-term growth potential once the scaleable products are commercialised.

## Company Report Card

**Results review.** FY23 core earnings increased by 21% YoY to MR45m on the back of a doubling P&M segment, which masked weaker OS and ICS segments that were posting operational losses. Meanwhile, Deleum also maintains a decent dividend payout ratio of 50%.

**Management**. Founder and Non-Independent & Non-Executive Deputy Chairman Datuk Vivekananthan MV Nathan, as well as Group CEO Ramanrao Abdullah (who has more than 26 years of experience in the O&G industry), helm Deleum.

## Investment Case

We like Deleum for being a niche player in the upstream O&G services segment, with dominant positions in respective markets. While we see growth from its existing businesses, we like its strong balance sheet and significant war chest, which enables it to further expand via inorganic growth.

Based on an ascribed P/E range of 10-12x on 2025F earnings, we derive a FV range of MYR1.73-2.06. Our ascribed valuations are in line with and at a slight premium to the Bursa Malaysia Energy Index, which is currently trading at 11x P/E.

**Key risks:** i) Weaker-than-expected work orders from clients, ii) significantly lower-than-expected oil prices that could limit client spending, and iii) higher-than-expected operating costs.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 558 | 698 | 792 |
| Reported net profit (MYRm) | 17 | 42 | 46 |
| Recurring net profit (MYRm) | 35 | 38 | 45 |
| Recurring net profit growth (%) | (12.6) | 5.9 | 20.8 |
| Recurring EPS (MYR) | 0.09 | 0.09 | 0.11 |
| DPS (MYR) | 0.02 | 0.05 | 0.06 |
| Dividend Yield (%) | 1.5 | 3.6 | 4.0 |
| Recurring P/E (x) | 16.3 | 15.4 | 12.7 |
| Return on average equity (%) | 9.9 | 9.7 | 11.0 |
| P/B (x) | 1.5 | 1.4 | 1.3 |
| P/CF (x) | 10.1 | 26.3 | 7.3 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 413 | 536 | 461 |
| Total assets | 609 | 714 | 621 |
| Total current liabilities | 211 | 283 | 161 |
| Total non-current liabilities | 20 | 16 | 14 |
| Total liabilities | 230 | 299 | 174 |
| Shareholder's equity | 358 | 389 | 413 |
| Minority interest | 21 | 26 | 33 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 609 | 714 | 621 |
| Total debt | 30 | 9 | 2 |
| Net debt | Net cash | Net cash | Net cash |

*Source: Company data, RHB*

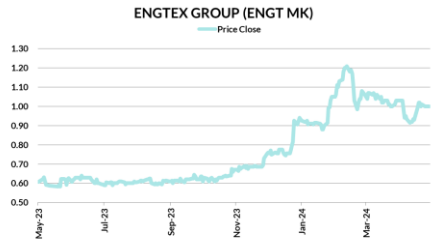
| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | 58 | 22 | 79 |
| Cash flow from investing activities | 10 | 2 | (1) |
| Cash flow from financing activities | (64) | (39) | (48) |
| Cash at beginning of period | 179 | 183 | 169 |
| Net change in cash | 4 | (14) | 30 |
| Ending balance cash | 183 | 169 | 198 |

*Source: Company data, RHB*

Fair Value: MYR1.50
Price: MYR 1.00

# Engtex Group

## To Benefit From Pipe Replacement Projects In FY24




*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | ENGT MK |
| Avg Turnover (MYR/USD) | 1.96m/0.41m |
| Net Gearing (%) | 67.0 |
| Market Cap (MYRm) | 441.4 |
| Beta (x) | 1.1 |
| BVPS (MYR) | 2.00 |
| 52-wk Price low/high (MYR) | 0.574 - 1.23 |
| Free float (%) | 38 |

**Major Shareholders (%)**

| | |
|---|---|
| NH Holdings | 24.8 |
| NKG Resources | 5.8 |
| Ng Chooi Guan | 4.4 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | (2.9) | (4.8) | 49.3 | 59.4 |
| Relative | (6.1) | (9.3) | 38.5 | 46.9 |

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## Investment Merits

- Capitalising on the next wave of the pipe infrastructure capex cycle
- Pipe replacement tenderbook still largely untapped

## Company Profile

Founded in 1983, Engtex Group (Engtex) is a leading one-stop pipeline systems provider in Malaysia with well-established manufacturing and distribution divisions. The group mainly caters to the water and sewerage, infrastructure and construction sectors. Engtex is the exclusive pipe distributor for the National Water Asset Management Company (PAAB) in eight states in Malaysia. It is also one of a few domestic players with the ability to manufacture large-diameter pipes. The group ventured into ductile iron (DI) pipe manufacturing in 2002, and is now the larger pipe manufacturer in the duopoly market in Malaysia. Engtex is also one of the largest players for wholesale and distribution in non-oil and gas pipes, valves and fittings (PVF), and construction materials.

## Highlights

**Leading integrated pipeline systems manufacturer.** In terms of market share, Engtex is the bigger player in the duopoly DI pipe segment, along with YLI Holdings (YLI MK). It is able to produce DI pipes of up to 1200nm in diameter for Class 20 to 100 specifications. Engtex is also one of the largest mild steel (MS) pipe manufacturers in Malaysia, with the capability to produce MS pipes of up to 3000nm in diameter. Both pipes are used in the water and sewerage sectors. As such, we are optimistic that the group is well-positioned to tap into new opportunities within the water infrastructure space by improving production output and raising capacity utilisation rates. We also note that it intends to expand in East Malaysia.

**Comeback of the pipe theme.** The resolution of the water tariff mechanism will likely have positive implications for water infrastructure funding (pipes), as higher water tariffs would improve the cash flow of water operators and resume the delayed pipe replacement plans. Malaysia's National Water Services Commission (SPAN) announced a 10-15% bump in water tariff rates for residential users. As such, the water tariff hike that came into effect on 1 Feb 2024 should help with the funding needed by PAAB and state water operators to support pipe replacement and upgrading projects. Engtex should see a pick-up in orders as early as 2H24 or 1H25, being a major supplier of large-diameter water pipes (MS and DI) as well as a supplier of construction materials (wire mesh, steel bars).

**Potential pipe replacement programme largely untapped.** We expect to see a turnaround in pipe order replenishment rates by 2H24, driven by a potential revival of pipe tenders and a nationwide pipe replacement programme as a result of the water tariff hike. As of March, Engtex has a MYR100m orderbook for its pipe segment. We understand that there are c.45,284km of pipes valued at MYR10bn (27% of total pipes laid nationwide) that are in need of replacement.

## Company Report Card

**Results highlights.** FY23 revenue rose 1.9% YoY to MYR1.5bn, mainly driven by a recovery in market demand for metal-related trading products. However, FY23 EBITDA and core net profit came in at MYR66.0m (-16.4% YoY) and MYR32.4m (-68.9% YoY). The weaker-than-expected results were primarily due to higher procurement costs (for raw material inventories) and production costs for manufactured steel products, coupled with lower ASPs from increased market competition. Its wholesale and distribution segment (c.47% of group revenue) booked a 3.9% increase in revenue but recorded lower segmental profit (-26.7% YoY) due to the slowdown in the domestic market. The manufacturing segment (c.51.3% of group revenue) saw a decline in both revenue and segmental profit, also due to lower ASPs and higher production costs.

**Management.** Founder and Managing Director Tan Sri Ng Hook has 40 years of hands-on experience in the hardware and PVF industry. Engtex is led by a dynamic management team with extensive industry experience. Ng Chooi Guan, its Executive Director, has 30 years of experience in the hardware industry. He leads business development, the procurement of new distributorships, and development of in-house brand products.

## Investment Case

We expect Engtex to register earnings growth of 150-200% YoY in FY24, owing to the resumption of the pipe replacement programme and its own robust tenderbook. We ascribed a P/E of 15x to FY24F core EPS to derive an FV of MYR1.50. The ascribed P/E is in line with its 5-year historical mean, but at a slight discount to its large-cap manufacturing peer average of 19x. Key downside risks: Delays in pipe replacement projects, inability to secure market orderbooks, and lower-than-expected ASPs.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 1,178 | 1,444 | 1,472 |
| Reported net profit (MYRm) | 78 | 37 | 55 |
| Recurring net profit (MYRm) | 78 | 37 | 55 |
| Recurring net profit growth (%) | 1,169.0 | (61.0) | (64.0) |
| Recurring EPS (MYR) | 0.18 | 0.07 | 0.02 |
| DPS (MYR) | 0.01 | 0.01 | 0.01 |
| Dividend Yield (%) | 0.8 | 1.2 | 0.9 |
| Recurring P/E (x) | 5.6 | 14.3 | 50.0 |
| Return on average equity (%) | 11.5 | 4.3 | 4.3 |
| P/B (x) | 0.5 | 0.5 | 0.5 |
| P/CF (x) | 7.0 | 14.0 | 13.0 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 993 | 1050 | 1134 |
| Total assets | 1431 | 1533 | 1622 |
| Total current liabilities | 589 | 673 | 754 |
| Total non-current liabilities | 40 | 32 | 32 |
| Total liabilities | 640 | 716 | 798 |
| Shareholder's equity | 769 | 796 | 804 |
| Minority interest | 22 | 21 | 21 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 1431 | 1533 | 1623 |
| Total debt | 499 | 588 | 647 |
| Net debt | 376 | 458 | 539 |

*Source: Company data, RHB*

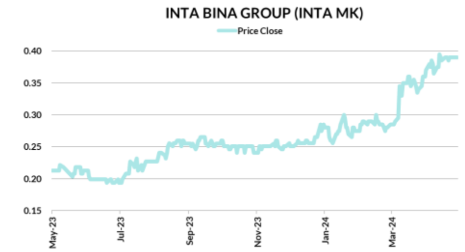
| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | 93 | 2 | (24) |
| Cash flow from investing activities | (33) | (53) | (30) |
| Cash flow from financing activities | (38) | 53 | 28 |
| Cash at beginning of period | 16 | 38 | 40 |
| Net change in cash | 22 | 2 | (26) |
| Ending balance cash | 38 | 40 | 14 |

*Source: Company data, RHB*

Fair Value: MYR0.53-0.60
Price: MYR0.43

# Inta Bina Group

## Building Trust, Building Quality




*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | INTA MK |
| Avg Turnover (MYR/USD) | 1.81m/0.38m |
| Net Gearing (%) | Net cash |
| Market Cap (MYRm) | 230.4 |
| Beta (x) | 0.7 |
| BVPS (MYR) | 0.33 |
| 52-wk Price low/high (MYR) | 0.2 - 0.45 |
| Free float (%) | 33 |

**Major Shareholders (%)**

| | |
|---|---|
| Apexjaya Industries | 34.7 |
| Ahmad Bin Awi | 12.5 |
| Lim Ooi Joo | 9.1 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 18.1 | 51.8 | 70.0 | 88.9 |
| Relative | 14.9 | 47.3 | 59.2 | 76.4 |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## Investment Merits

- G7 building contractor with more than 30 years of experience
- High quality of workmanship and close relationships with major property developers
- Riding on GDP growth in the Klang Valley
- Robust outstanding orderbook and below-peer valuations

## Company Profile

Inta Bina Group (INTA) is a G7 building construction contractor with over 30 years of operating history. The group has completed more than 136 building construction projects with a total contract value of >RM3.06bn, mainly in the Klang Valley and Johor. Its main focus lies in constructing various types of buildings – these include high-rise residential and commercial properties, and industrial as well as leisure units. INTA typically acts as the main contractor for construction projects. In 2023, it launched its first property project via wholly owned subsidiary Angkasa Senuri and ventured into the supply, installation and maintenance of lifts and escalators under the Canny Lift brand.

## Highlights

**Robust outstanding orderbook**. INTA has secured new jobs worth MYR743m up to end-Apr FY24F, including jobs from Tropicana Corporation (TRCB MK) and Avaland (AVALAND MK). Its outstanding orderbook is estimated at MYR1.8bn (cover ratio of 2.7x). We pencil in a target orderbook replenishment of MYR900m for FY24F, bolstered by its tenderbook of MYR6.1bn. This figure is reasonable, since some projects have been pushed back to this year, according to management. Additionally, we learned that INTA has tendered for several design-and-build contracts, which may yield better margins.

**High quality of workmanship.** INTA achieved an exceptional 90% QLASSIC score for its Sunway Lenang Heights project, marking a historic milestone as one of the highest scores recorded in Malaysia – indicating excellence in workmanship and construction. It has also forged enduring partnerships with its clientele, which include major property developers such as Gamuda (GAM MK) and Mah Sing (MSGB MK), with which it has enjoyed business relationships exceeding 10 years.

**Key focus: Klang Valley.** Over 90% of INTA's revenue is derived from projects in the Klang Valley, allowing the group to capitalise on Selangor's GDP growth as the Selangor State Government has projected a GDP growth rate of 6.5-7% pa over 2021-2025 under Rancangan Selangor 1 (RS-1). The increasing value of residential property transactions in Selangor and Kuala Lumpur may serve as a growth factor for its orderbook, especially with interest rates peaking.

**Foray into new areas.** INTA's property division, Angkasa Senuri, launched its first project, Senuri Residence, on 7 Oct 2023 (GDV: MYR204m). The project has proven to be successful, with an impressive 80% take-up rate since its soft launch. The venture presents synergistic benefits as the group is involved in every stage of the development process, ensuring better margins. Additionally, INTA has entered the lift and escalator market under the brand Canny Lift. This move not only capitalises on increased construction demand but also provides recurring income through maintenance services, complementing its project-based construction earnings.

## Company Report Card

**Results highlights.** INTA's 4Q23 core earnings of MYR6.9m (+10.9% QoQ, +>100% YoY) brought full-year core net profit to MYR23m (>100% YoY). This is supported by the record-high revenue of MYR650.1m (39.4% YoY) achieved in FY23, with a steady recognition of construction progress from ongoing projects on hand. GPM rebounded to 8.1% in FY23 from 6.8% in FY22, as INTA benefited from stabilising material and labour costs, as well as the reduction in work delays caused by unforeseen interruptions such as mandated movement restrictions.

**Strong net cash position.** INTA has been in a net cash position since FY17 except for FY22, due to increase in overall group borrowings for the funding of Angkasa Senuri, and the higher funding requirement on a few projects with clients that are under an arrangement where payments are made in stages. Nonetheless, its cash and cash equivalent position improved to MYR101.3m in FY23, from MYR49.5m in FY20.

**Dividends.** While it does not have an official dividend policy, it has been distributing 19-56% of PAT, ranging from 0.75 sen to 0.15 sen per share. That said, we pencil in a conservative 25% payout ratio for FY24-26F – which translates to MYR7-9m in dividend payments.

**Management.** Managing Director Lim Ooi Joo and Deputy Managing Director Teo Hock Choon are responsible for the overall day-to-day management and formulation of the group's business plans and strategies as well as overseeing overall operations. Lim started his journey as a resident engineer with the Public Works Department under the Ministry of Health, while Teo began his career in 1982 at Dindings Consolidated as a project coordinator. With over three decades of experience in construction, both have contributed significantly to the group.

## Investment Case

**Undemanding valuation.** INTA's FV range of MYR0.53-0.60, based on a target P/E of 8-9x on FY25F earnings. This factors in a 31% discount to the Bursa Malaysia Construction Index's 5-year mean P/E of 13x and is at a 22% discount to the local peer average of 11.5x, to account for its smaller market cap. The target P/E is within the 8-10x range ascribed to most small-cap contractors under our coverage. We believe the target P/E is justified – premised on its sturdy balance sheet, robust outstanding orderbook and successful expansion into the property and lift businesses.

**Key risks** include weaker-than-expected orderbook replenishment, escalation in material costs, and project delays.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 336 | 466 | 650 |
| Reported net profit (MYRm) | 12 | 10 | 23 |
| Recurring net profit (MYRm) | 12 | 10 | 23 |
| Recurring net profit growth (%) | 0.2 | (0.1) | 1.2 |
| Recurring EPS (MYR) | 0.02 | 0.02 | 0.04 |
| DPS (MYR) | 0.01 | 0.01 | 0.02 |
| Dividend Yield (%) | 2.4 | 1.8 | 3.5 |
| Recurring P/E (x) | 19.6 | 22.1 | 10.0 |
| Return on average equity (%) | 8.1 | 6.9 | 14.3 |
| P/B (x) | 1.5 | 1.5 | 1.3 |
| P/CF (x) | 7.6 | (41.4) | 3.2 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 315 | 351 | 445 |
| Total assets | 385 | 426 | 510 |
| Total current liabilities | 226 | 264 | 326 |
| Total non-current liabilities | 12 | 10 | 14 |
| Total liabilities | 238 | 273 | 340 |
| Shareholder's equity | 147 | 152 | 170 |
| Minority interest | 0 | 0 | 0 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 385 | 426 | 510 |
| Total debt | 49 | 87 | 66 |
| Net debt | (15) | 13 | (36) |

*Source: Company data, RHB*

| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | 30 | (5) | 71 |
| Cash flow from investing activities | (7) | (11) | (11) |
| Cash flow from financing activities | (13) | 23 | (36) |
| Cash at beginning of period | 14 | 24 | 31 |
| Net change in cash | 10 | 7 | 24 |
| Ending balance cash | 24 | 31 | 54 |

*Source: Company data, RHB*

# Karex

## Rising To The Occasion

**Fair Value:** MYR1.02-1.09
**Price:** MYR0.82


*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | KAREX MK |
| Avg Turnover (MYR/USD) | 1.33m/0.28m |
| Net Gearing (%) | 21.8 |
| Market Cap (MYRm) | 858.6 |
| Beta (x) | 1.0 |
| BVPS (MYR) | 0.48 |
| 52-wk Price low/high (MYR) | 0.51 - 0.905 |
| Free float (%) | 25 |

**Major Shareholders (%)**

| | |
|---|---|
| Karex One | 17.5 |
| BNP Paribas | 16.9 |
| Maryen Holdings | 11.5 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | (6.3) | (0.6) | 35.8 | 31.5 |
| Relative | (9.5) | (5.1) | 25.1 | 19.0 |

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## Investment Merits

- New product launch in the pipeline
- Encouraging industry growth outlook
- Rising efforts to curb the spread of sexually transmitted diseases (STIs)

## Company Profile

Karex, the world's largest condom manufacturer, has an estimated global market share of 20%. Its product offerings feature a broad range of condoms (in a variety of shapes, flavours, thicknesses and colours), as well as catheters and personal lubricants. Karex's manufacturing facilities are in Malaysia (Port Klang, Pontian and Senai) and Thailand (Hat Yai). These facilities have a total combined annual capacity of 5.5bn pieces.

## Highlights

**New product launch ahead.** Karex is on track to launch its synthetic condoms by 1H24 in Europe, after receiving the CE marking for the products. The group currently has one dipping line (for synthetic products) with the capacity to ramp up by another 500m within the next 1-2 months, after the launch of this synthetic product. We gather that the current synthetic condoms available in the market are made using two key materials – polyurethane (PU; adopted by Sagami Rubber Industries, Okamoto Industries and Durex) and polyisoprene (PI; utilised by Durex, Ansell, and LifeStyles' SKYN). As both PI and PU are patented by other competitors, the synthetic product developed by Karex will comprise new materials yet to be adopted by other condom makers. Due to a non-disclosure agreement entered into with clients, management was tight-lipped on indicating the name of the raw material, although we understand its cost is a lot cheaper than that of PU and PI, and tends to fetch higher margins when compared to non-synthetic products. The launching and marketing of this new product will be under Karex's original brand manufacturing segment.

**Sustained industry growth outlook.** The global condom market size – estimated at c.USD8.2bn in 2020 – is set to grow to USD9.6bn by 2026 (CAGR: 7%), according to Facts & Factors. Key drivers are underpinned by rising awareness on condom use to reduce the spread of the human immunodeficiency virus (HIV) and other STIs, as well as the rising usage of condoms by young couples, sex workers, and the LGBTQ community, and ever-changing consumer demand towards the use of condoms. The free distribution of condoms via government and non-governmental organisations may help sustain condom makers' sales – primarily in developing nations, where awareness about protected sex remains low.

**Increasing efforts to contain the spread of STIs.** According to the World Health Organisation (WHO), over 1m STIs are contracted daily worldwide – the majority of which are asymptomatic.

In 2020 alone, there were an estimated 374m new infections globally, with sub-Saharan Africa ranked first in terms of STI numbers vs other world regions, with an estimated 64.5m cases. This is equivalent to five in 100 persons having STIs vs one in 100 persons in the US. As WHO continues to step up efforts to eradicate STIs (referring to its latest policy fact sheet dated Jul 2023), we expect such spillover effects to benefit Karex's tender sales segment (24% of FY23 revenue). This is because condom usage remains essential in the global effort to curb and prevent HIV infections, as well as pare down and/or prevent other STIs and unintended pregnancies.

**Industry landscape turning favourable.** The COVID-19 pandemic resulted in many smaller players (primarily from China) exiting the global market due to prolonged lockdown measures, which led to a decline in social activities. More so, efforts to re-enter the US market or the threat of new entrants are impeded by stringent US Food & Drug Administration approval processes (which could probably take >1-2 years, as condoms are being classified as medical devices) and the lack of operating leverage vs larger players. These factors, combined with the resumption of social activities post COVID-19, rising awareness on STIs, and growing consumer demand for premium products offer an exciting opportunity for Karex to unlock its growth potential in 2024.

## Company Report Card

**Results highlights.** In 2Q24, Karex reported a core profit of MYR6.9m (+86% YoY). This was underpinned by sales picking up from the lubricants segment – albeit partially offset by slower sales in the tender segment from the Africa market. Core margins improved 2.5ppts YoY, driven by a better product mix, favourable FX rates, and normalised raw material costs.

**Dividends.** Karex aims to pay out at least 25% of PATAMI under its dividend policy. The group chalked a 49% dividend payout ratio in FY23.

**Management.** CEO Goh Miah Kiat oversees marketing, logistics, international business dealings and brand development. He has more than 24 years of experience with the group, and is assisted by other experienced board members such as Goh Leng Kian (who has over 30 years of experience in the rubber and latex industry) and Dato' Dr Ong Eng Long (ex-president the Malaysian Rubber Product Manufacturers' Association). Goh is also the nephew of Goh Yen Yen, Goh Leng Kian, and Lam Jiuan Jiuan, who are Karex board members.

## Investment Case

**Our FV range of MYR1.02-1.09 is based on 28x and 30x FY25F P/E**, which is above the industry peer average of 22x. At the current valuation, we think the market has yet to price in Karex's strong earnings growth for FY24 and FY25, as the new product launch is likely to contribute meaningfully to its bottomline. Note: The stock traded within a range of 38-40x P/E during Karex's heyday in FY15-16.

**Key risks:** Failed product launches due to subdued customer acceptance, cost pass-through challenges, and higher-than-expected operating costs.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 420 | 422 | 532 |
| Reported net profit (MYRm) | (1) | (6) | 10 |
| Recurring net profit (MYRm) | 2 | (3) | 16 |
| Recurring net profit growth (%) | (45.4) | (277.1) | (568.3) |
| Recurring EPS (MYR) | 0.00 | (0.00) | 0.02 |
| DPS (MYR) | 0.00 | 0.00 | 0.01 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.6 |
| Recurring P/E (x) | 416.8 | (235.3) | 50.2 |
| Return on average equity (%) | 0.4 | (0.8) | 3.4 |
| P/B (x) | 1.8 | 1.8 | 1.7 |
| P/CF (x) | 50.4 | 1474.6 | 117.2 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 292 | 296 | 320 |
| Total assets | 675 | 691 | 722 |
| Total current liabilities | 158 | 161 | 172 |
| Total non-current liabilities | 51 | 72 | 73 |
| Total liabilities | 209 | 233 | 245 |
| Shareholder's equity | 466 | 458 | 477 |
| Minority interest | 0 | 0 | 0 |
| Total liabilities & equity | 675 | 691 | 722 |
| Total debt | 93 | 104 | 136 |
| Net debt/(cash) | 39 | 82 | 104 |

*Source: Company data, RHB*

| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | 16 | 1 | 7 |
| Cash flow from investing activities | (55) | (35) | (18) |
| Cash flow from financing activities | 47 | 2 | 18 |
| Cash at beginning of period | 45 | 53 | 20 |
| Net change in cash | 8 | (32) | 7 |
| Ending balance cash | 53 | 20 | 28 |

*Source: Company data, RHB*

# Kimlun Corp

## A Pocket Full Of Opportunities Ahead

**Fair Value: MYR1.59-1.71**
**Price: MYR1.31**


*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | KICB MK |
| Avg Turnover (MYR/USD) | 0.53m/0.11m |
| Net Gearing (%) | 50.3 |
| Market Cap (MYRm) | 462.9 |
| Beta (x) | 1.0 |
| BVPS (MYR) | 2.18 |
| 52-wk Price low/high (MYR) | 0.7 - 1.37 |
| Free float (%) | 28 |

**Major Shareholders (%)**

| | |
|---|---|
| Phin | 37.3 |
| Pang Khang Hau | 6.0 |
| Pang Yon Tin | 5.4 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 28.4 | 61.7 | 67.9 | 72.4 |
| Relative | 25.2 | 57.2 | 57.2 | 59.9 |


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## Investment Merits

- Commendable construction track record with property developers in Johor and the Klang Valley
- Experienced in completing heavy engineering projects such as highways and hospitals
- Johor, Klang Valley and Sarawak to be key drivers for orderbook expansion
- Mass Rapid Transit (MRT) 3 and Penang Light Rail Transit (LRT) rollout may boost domestic contributions from the precast segment, which is currently heavily focused on Singapore

## Company Profile

Kimlun Corp (KICB) is a well-established building contractor in Johor with a growing presence in Sarawak. Its strong client base comprises key property developers in Malaysia, while jobs in Sarawak mostly focus on public sector infrastructure projects such as highways. It also manufactures precast concrete products, consisting largely of segments used in MRT projects (both in Malaysia and Singapore) and industrialised building systems (IBS) used in the mass housing market and commercial buildings. It is also involved in property development in Malaysia, with c.270 acres of land bank in matured areas across the Klang Valley and Johor.

## Highlights

**A solid track record in Johor.** KICB secured c.MYR0.8bn worth of jobs in Johor Bahru in FY23. Catalysts in the form of the Johor–Singapore Special Economic Zone (JSSEZ), Johor Bahru-Singapore Rapid Transit System Link (RTS), and likely the Johor Bahru LRT (estimated at MYR20bn) may not just lead to the construction of more property development projects in Johor, but also necessitate other forms of infrastructure such as highways. The group also clinched c.MYR0.5bn worth of new jobs in the Klang Valley in FY23.

**Orderbook trend**. For FY24, KICB has, so far, secured c.MYR650m worth of new contracts related to property projects in Johor Bahru. Taking into account these job wins, we estimate that its unbilled construction orderbook stands at MYR2-2.2bn as of Apr 2024 – likely the highest level since its listing. This translates to a construction orderbook-to-revenue cover ratio of between 3.1x and 3.4x. Management aims for the job replenishment rate for construction to be in the range of MYR800m and MYR1bn – we think KICB will surpass this level, due to the heightened construction activities in Johor and Sarawak. The tenderbook of its construction arm stands at c.MYR1.4bn.

**Sarawak's higher development expenditure** of MYR5.8bn under Budget 2024 could expedite the rollout of projects like Phase 2 of Pan Borneo

Highway Sarawak, and Sabah-Sarawak Link Road Phase 2. As such, KICB is in a sweet spot to leverage on more Sarawak projects, given its track record in Pan Borneo Highway Sarawak and its current involvement in Phase 1 of the Sarawak-Sabah Link Road (SSLR; >30% complete). Another angle of opportunity would be its participation in the Kuching Autonomous Rapid Transit project via the supply of columns and beams.

**We do not discount the possibility of KICB** participating in bids for other projects, especially in Johor, as the Government has allocated MYR1.6bn for flood mitigation projects in the state, involving the Muar River Basin in Segamat and Johor River Basin covering Kota Tinggi and Batu Pahat.

## Company Report Card

**Results highlights.** The group reported a core profit of MYR7.1m (-79% YoY). Despite better revenue growth (+13% YoY) in FY23 – backed by the construction segment (which saw improved progress of ongoing projects) – the weak bottomline stemmed from a compression in overall GPM to 7.2% from 11.4% in FY22, owing to the manufacturing & trading division which incurred higher fixed overheads relative to its revenue.

**Gearing position.** KICB's net gearing reached 0.48x in FY23 vs 0.33x in FY22. While we expect net gearing levels to rise in FY24 as the group gears up for more jobs, KICB recorded its highest net gearing level of 0.60x back in FY13 – a year before it registered its second highest revenue since its listing of MYR1.2bn. Hence, we view the anticipated rise in net gearing as in line with the group's growth.

**ROE.** ROE fell to 1% in FY23 from 5% (based on core profit) in FY22. We expect this to improve in the years ahead, given its bright orderbook replenishment prospects.

**Dividends.** KICB has been paying out dividends every year since its 2010 listing, with payout ratios of 19-50%. It even paid out dividends worth MYR3.5m in relation to FY21, despite recording a core net loss. We believe such payout trends will be sustained by its healthy net operating cash flow generation, backed by its job replenishment trends.

**Management.** KICB is led by Executive Chairman Pang Tin @ Pang Yon Tin and CEO/Executive Director, Sim Tian Liang – they were appointed to the board in 2009. Pang and Sim have over 30 years of experience in the construction industry. They are assisted by other board members who collectively have extensive experience in engineering, quantity surveying, financial management and reporting, and legal practice.

## Investment Case

**Valuation**. KICB's FV of MYR1.59-1.71 is based on 13-14x FY25F P/E, which is higher than the benchmark valuation ascribed to the small- to mid-cap contractors under our coverage of 10-12x. This is to reflect KICB's premium due to its presence in Johor and Sarawak (the two states that are set to see increased construction activity), combined with its precast exposure in Singapore. We think growth prospects are strong as the JSSEZ, coupled with Sarawak's infrastructure expansion wave, should provide job replenishment opportunities for KICB.

**Key risks** include unexpected volatility in building material costs and a slowdown in job rollouts.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 691 | 756 | 853 |
| Reported net profit (MYRm) | (1) | (7) | 7 |
| Recurring net profit (MYRm) | (1) | 34 | 7 |
| Recurring net profit growth (%) | (103.9) | nm | (79.0) |
| Recurring EPS (MYR) | (0.00) | 0.10 | 0.02 |
| DPS (MYR) | 0.01 | 0.01 | 0.01 |
| Dividend Yield (%) | 0.8 | 0.8 | 0.8 |
| Recurring P/E (x) | nm | 13.8 | 65.6 |
| Return on average equity (%) | (0.1) | 4.7 | 1.0 |
| P/B (x) | 0.6 | 0.6 | 0.6 |
| P/CF (x) | 3.9 | 8.6 | 5.2 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 949 | 984 | 1,025 |
| Total assets | 1,326 | 1,301 | 1,526 |
| Total current liabilities | 444 | 416 | 587 |
| Total non-current liabilities | 151 | 159 | 199 |
| Total liabilities | 595 | 575 | 786 |
| Shareholder's equity | 721 | 710 | 714 |
| Minority interest | 10 | 15 | 27 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 1,317 | 1,301 | 1,526 |
| Total debt | 312 | 314 | 422 |
| Net debt | 243 | 241 | 359 |

*Source: Company data, RHB*

| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | 118 | 54 | 89 |
| Cash flow from investing activities | (3) | (23) | (173) |
| Cash flow from financing activities | (103) | (17) | 78 |
| Cash at beginning of period | 33 | 46 | 60 |
| Net change in cash | 12 | 14 | (5) |
| Ending balance cash | 46 | 60 | 59 |

*Source: Company data, RHB*

# MCE Holdings

## Revving Up Multiple Growth Engines

**Fair Value:** MYR2.35-3.19
**Price:** MYR1.94


*Source: Bloomberg*

### Stock Profile

| | |
|---|---|
| Bloomberg Ticker | MCE MK |
| Avg Turnover (MYR/USD) | 0.86m/0.18m |
| Net Gearing (%) | Net cash |
| Market Cap (MYRm) | 239.7 |
| Beta (x) | 0.6 |
| BVPS (MYR) | 2.16 |
| 52-wk Price low/high (MYR) | 0.83 - 2.15 |
| Free float (%) | 43 |

### Major Shareholders (%)

| | |
|---|---|
| Dulcet One Holdings | 19.1 |
| Woo Chiew Loong | 8.9 |
| Creador Conscienta | 5.0 |

### Share Performance (%)

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 21.3 | 10.9 | 107.5 | 114.4 |
| Relative | 18.1 | 6.3 | 96.7 | 101.9 |

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## Investment Merits

- Structural growth trend for automotive electronic components
- New project win for its export segment
- Growth opportunities in the local EV market

## Company Profile

MCE Holdings (MCE) is a leading original equipment manufacturer (OEM) and electronics manufacturing services (EMS) provider specialising in the full spectrum of design, manufacture, and supply of automotive electronics and mechatronic parts for the Malaysian and regional markets. It currently has two operational facilities in Johor and Port Klang, Selangor, employing over 500 full-time workers.

## Highlights

**EMS and tier-1 automotive supplier.** The demand for electronic parts and automobile components like switches, sensors, monitoring and safety systems, infotainment, onboard computers and such are also set to grow exponentially in the next decade, driven by technological advancements and improved safety features. There are also opportunities in the localisation programmed by both the local and foreign car manufacturers in Malaysia and within the ASEAN region. MCE, which has experience in supplying mechatronic and electronic parts to local automotive players over the years, stands to benefit greatly from these opportunities as well as initiatives under the National Automotive Policy 2020 (NAP 2020). MCE aims to double the existing floor space at its new plant in Serendah (built-up area of 117k sq ft) to accommodate new projects and support its automotive customers in the proximity.

**Next growth engine: EV.** The expected launch of local CKD EV by both national carmakers in 2025 could be another catalyst, and an opportunity for MCE to grow its product range and tap into the new car segment. Its capabilities, strong track record and ties with both national marques could grant it an edge when both marques select suppliers. Recall that one of the NAP 2020's objectives is to develop a next-generation vehicle (NxGV) technology ecosystem to make Malaysia a regional hub for NxGV production. MCE has ventured into the EV space with its Manufacture License and World Manufacturer Identifier (WMI) code to assemble e-motorcycles in Malaysia. It is now producing low-frequency (LF) antennas for e-motorcycles' smart key systems in Indonesia.

**Growing beyond ASEAN.** We understand that MCE is vying for projects in North America via another tier-1 supplier – which could be the major growth driver into 2HFY25 (Jul) and beyond. Besides, MCE is growing its export market, especially in ASEAN, via one of its growing Japanese customers. As TIV continues to rise – given the advent of the middle-income segment in ASEAN – an increase in MCE's sales volumes and project win should be a boon for the company.

# Company Report Card

**Results highlights.** Following its turnaround in FY22, MCE's numbers grew steadily into 1HFY24, with net profit up by 21% to MYR9.4m on the back of higher revenue and improved margins – which, in turn, stemmed from better economies of scale.

**Balance sheet/cash flow.** As of 1HFY24, net gearing was healthy at 0.1x, but we expect this to inch up following the beginning of construction of a new plant in Serendah. ROE is hovering at the mid-teens in FY24 as the group continues to grow and its margins improve.

**Dividends.** The group declared a 2.75 sen DPS in FY23, with a yield of 1.4%. There is room for more dividend payouts in FY24, in view of the improved profitability and proceeds of MYR44m from its recent land sale. MCE has declared an interim DPS of 1.5sen for the current financial year.

**Management.** Dr Goh Kar Chun has been the Managing Director since 2016. Prior to that, he was an executive director since 2008, overseeing the group's business development, marketing and sales, production, engineering and quality assurance functions. He is supported by: i) Executive Director/CFO Anne Goh, who is in charge of the finance, human resources, administrative and IT departments, and ii) COO Lim Chern Tin.

# Investment Case

**Growing its client base and product.** The existing and new contracts to supply electronic and mechatronic components and parts for various car models for Perodua and Proton should form the base for MCE to grow from strength to strength. The expansion of its capabilities to become a modular supplier and new project wins should propel earnings to new highs. Potential contracts related to local EV models and the new plant expansion are among its growth drivers into FY25 and beyond.

**Fair value.** Pegged to target 13-15x P/Es on FY25-26F earnings, MCE's FV ranges between MYR2.35 and MYR3.19. The target P/E is still below that of peers in the automotive lighting business and EMS players. We believe the company's steady earnings delivery, structural growth in automotive electronic components, and exposure to the EV space as well as a growing export model will continue to garner investor interest. Besides, earnings in the automotive industry are generally more defensive thanks to the relatively lower volatility in demand and longevity of the vehicle parts (5-10 years).

**Key risks** include escalation of input costs, deceleration of orders, weaker-than-expected total production volumes and the loss of key customers.

| Profit & Loss | Jul-21 | Jul-22 | Jul-23 |
|---|---|---|---|
| Total turnover (MYRm) | 85 | 106 | 155 |
| Reported net profit (MYRm) | (1) | 8 | 15 |
| Recurring net profit (MYRm) | (1) | 8 | 15 |
| Recurring net profit growth (%) | (85.6) | (1,063.3) | 91.4 |
| Recurring EPS (MYR) | (0.01) | 0.07 | 0.12 |
| DPS (MYR) | 0.00 | 0.00 | 0.03 |
| Dividend Yield (%) | 0.0 | 0.0 | 1.4 |
| Recurring P/E (x) | (287.1) | 29.8 | 15.6 |
| Return on average equity (%) | (1.1) | 9.3 | 14.5 |
| P/B (x) | 1.1 | 1.0 | 0.9 |
| P/CF (x) | 5.0 | 6.0 | 6.0 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Jul-21 | Jul-22 | Jul-23 |
|---|---|---|---|
| Total current assets | 31 | 59 | 73 |
| Total assets | 119 | 144 | 161 |
| Total current liabilities | 26 | 35 | 30 |
| Total non-current liabilities | 14 | 14 | 14 |
| Total liabilities | 40 | 49 | 44 |
| Shareholder's equity | 78 | 95 | 118 |
| Minority interest | 0 | 0 | 0 |
| Other equity | 3 | 4 | 4 |
| Total liabilities & equity | 119 | 144 | 161 |
| Total debt | 21 | 15 | 13 |
| Net debt | 15 | 9 | (8) |

*Source: Company data, RHB*

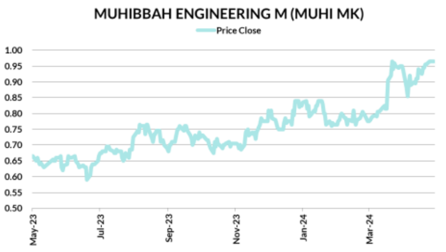
| Cash Flow (MYRm) | Jul-21 | Jul-22 | Jul-23 |
|---|---|---|---|
| Cash flow from operations | 4 | (4) | 21 |
| Cash flow from investing activities | (4) | (3) | (15) |
| Cash flow from financing activities | (0) | 7 | (1) |
| Cash at beginning of period | 4 | 6 | 6 |
| Net change in cash | 0 | (1) | 5 |
| Ending balance cash | 6 | 6 | 21 |

*Source: Company data, RHB*

# Muhibbah Engineering (M)

## Unveiling Multi-Engine Growth Story Beyond Cranes

**Fair Value:** MYR1.14-1.52
**Price:** MYR0.96




*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | MUHI MK |
| Avg Turnover (MYR/USD) | 2.42m/0.51m |
| Net Gearing (%) | 4.5 |
| Market Cap (MYRm) | 699.1 |
| Beta (x) | 1.0 |
| BVPS (MYR) | 2.40 |
| 52-wk Price low/high (MYR) | 0.58 - 1.01 |
| Free float (%) | 63 |

**Major Shareholders (%)**

| | |
|---|---|
| Mac Boon Ngan | 17.0 |
| Ooi Keng Thye | 4.7 |
| Universal Capital Resources | 3.6 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 1.1 | 25,5 | 36.2 | 43.3 |
| Relative | (2.1) | 21.0 | 25.4 | 30.8 |

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## Investment Merits

- Proxy to the recovery in tourism in Cambodia, and the potentially positive outcome of the Phnom Penh airport concession
- Solid earnings from Favelle Favco (Favco), led by robust crane demand and the bright outlook for its intelligent automation arm
- A potential revival of OSV newbuild orders, riding on OSV replacement cycle

## Company Profile

Muhibbah Engineering (M) (Muhibbah), established in 1972, is a niche global specialist contractor with multiple business segments – infrastructure construction, crane & manufacturing, and concessions. The infrastructure construction division executes projects across various industries including marine, building, infrastructure, O&G, and manufacturing. Muhibbah also owns a 64.5% stake in Favco, which specialises in crane manufacturing and design, as well as offers engineering and maintenance services for automation solutions. Muhibbah also owns a 21% effective stake in two Cambodian airports and a road maintenance concession in Malaysia.

## Highlights

**Proxy to Cambodia's tourism recovery.** Its 21% stake in the Cambodian airports should enable Muhibbah to continue benefitting from the country's tourism recovery. It was reported that Cambodia attracted 5.4m foreign tourists in 2023 (+139% YoY), and is expected to see a further recovery in visitor arrivals in the next few years. Cambodia's Ministry of Tourism has estimated that the number of international visitors will reach 7m by 2025 (2019: 6.6m visitors). The gradual return of China visitors remains a major catalyst, despite the country's poor reputation related to online scams and human trafficking. The three Cambodian airports (Muhibbah previously had stakes in three airports before giving up one airport last year) recorded total passengers of 4.8m in FY23 (+102%) – of these, China visitor arrivals increased by sevenfold YoY to 0.8m following the reopening of China's borders in early 2023. Note that a total of 11.6m passengers used these airports back in 2019 (pre-COVID-19), with China visitors accounting for about 39% (4.5m passengers).

**Potential positive outcome from Phnom Penh airport concession?** We note that Muhibbah's associate Cambodia Airports (SCA) was paid a compensation of USD64m by the Cambodian government for the closure of operations at the old Siem Reap International Airport in 2023. There have been concerns on the sustainability of the existing Phnom Penh International Airport (PPH), after Overseas Cambodia Investment Corp started building the country's largest new airport in Phnom Penh –

Techno International Airport (KTI). Phase 1 of the airport will be able to handle 13m passengers, and is expected to commence operations in 2025. It was reported that KTI will replace PPH, which is currently under a concessional agreement until 2040. Negotiations are ongoing, and a favourable result based on the Cambodian government's win-win policy is expected in the near future. We do not discount the possibility of PPH receiving a compensation, and being involved in KTI's operations.

**Earnings anchored by Favco.** Favco's orderbook stood at MYR843m as of Feb 2024 (+47% YoY), largely contributed by offshore cranes (41%) and tower cranes & others (43%). Favco is optimistic on its prospects, backed by improved spending in the O&G segment due to stable oil prices. The demand for cranes remains high, with shipyards seeing increased orderbooks and undergoing upgrades in yard facilities. Its intelligent automation division's outlook is also bright, after seeing record-high revenue and earnings in FY23.

**Better infrastructure construction job prospects.** The outstanding segmental orderbook of MYR1.4bn will continue to provide earnings visibility over the next two years. While Muhibbah is still actively tendering for various projects, management guided that there are increased queries for OSV newbuilds due to robust upstream activities and ageing vessels. As such, Muhibbah stands a chance to benefit from a potential revival in shipbuilding within the OSV space.

## Company Report Card

**Results review.** Stripping off multiple provisions and impairments, FY23 core earnings increased by 5.4x YoY to MR53m on the back of stronger associate contributions – predominantly from its airports business in Cambodia, and from Favco.

**Management.** Muhibbah is helmed by co-founder and group managing director Mac Ngan Boon and Executive Director/Deputy CEO Mac Chung Jin.

## Investment Case

Premised on Cambodia's tourism recovery, we see an earnings recovery from Muhibbah's associate contributions. We also continue to see solid earnings growth from its crane and intelligent automation arm. A potential revival of OSV newbuild orders could provide earnings upside in the medium term, as the industry faces a replacement cycle amidst a trend of ageing vessels.

**Our FV range of MYR1.14-1.42 implies 12-14x FY25 P/E.** Such valuations are at +1 to +1.5 SD from its 5-year mean of 9.7x. In terms of P/BV, the stock is currently trading at its 5-year mean of 0.4x, and our FV implies P/BV of 0.6-0.7x, which is at around +1SD.

**Key risks**: Weaker-than-expected work orders from clients, cancellation of airport concessions without compensation, and higher-than-expected operating costs.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 1,004 | 897 | 1,292 |
| Reported net profit (MYRm) | (3) | (18) | (8) |
| Recurring net profit (MYRm) | (21) | 8 | 53 |
| Recurring net profit growth (%) | nm | nm | 542.0 |
| Recurring EPS (MYR) | (0.03) | 0.01 | 0.07 |
| DPS (MYR) | 0.00 | 0.00 | 0.00 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 |
| Recurring P/E (x) | nm | 84.7 | 13.2 |
| Return on average equity (%) | (1.9) | 0.7 | 4.1 |
| P/B (x) | 0.4 | 0.4 | 0.4 |
| P/CF (x) | 5.8 | 6.2 | 3.0 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 1532 | 1333 | 1430 |
| Total assets | 3374 | 3331 | 3517 |
| Total current liabilities | 1487 | 1343 | 1439 |
| Total non-current liabilities | 224 | 228 | 271 |
| Total liabilities | 1711 | 1571 | 1710 |
| Shareholder's equity | 1102 | 1259 | 1291 |
| Minority interest | 561 | 500 | 516 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 3374 | 3331 | 3517 |
| Total debt | 525 | 391 | 457 |
| Net debt | 74 | 83 | 58 |

*Source: Company data, RHB*

| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | 120 | 112 | 233 |
| Cash flow from investing activities | (55) | (39) | (52) |
| Cash flow from financing activities | (249) | (222) | (68) |
| Cash at beginning of period | 621 | 442 | 295 |
| Net change in cash | (183) | (148) | 114 |
| Ending balance cash | 442 | 295 | 400 |

*Source: Company data, RHB*

# New Hoong Fatt Holdings

## Revving Up To Greater Heights

**Fair Value:** MYR6.50-7.80
**Price:** MYR3.93


*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | NHF MK |
| Avg Turnover (MYR/USD) | 0.14m/0.03m |
| Net Gearing (%) | Net Cash |
| Market Cap (MYRm) | 324.9 |
| Beta (x) | 0.8 |
| BVPS (MYR) | 6.55 |
| 52-wk Price low/high (MYR) | 2.7 - 4.15 |
| Free float (%) | 34 |

**Major Shareholders (%)**

| | |
|---|---|
| Kam Foong Keng | 34.1 |
| Wong Yoke Len | 13.4 |
| Yeoman Capital Management | 7.8 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | (4.6) | 10.7 | 12.9 | 44.0 |
| Relative | (7.8) | 6.2 | 2.2 | 31.5 |

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## Investment Merits

- Margin expansion from greater efficiency
- Potential growth and expansion in the export market
- Planned share split exercise to improve liquidity
- Under-owned stock with undemanding valuations

## Company Profile

New Hoong Fatt Holdings (NHF) is a leading automotive parts company in Malaysia specialising in the replacement equipment manufacturing (REM) market. The group manufactures and exports more than 3,000 types of automotive replacement body parts and accessories. These include (but are not limited to) doors, hoods, fenders, roof panels, head and tail lamps and bumpers. It has a manufacturing facility in Meru, Klang with an annual capacity of 6m pieces of parts. NHF sells and markets its products both locally and overseas.

## Highlights

**Margin expansion over the years.** NHF has managed to consistently achieve higher margins over the last few years. Its core PATAMI margin widened to 17% in FY23, from 5.5% in FY18. This was achieved through effective cost management, favourable FX rates and sales of higher-quality, higher-margin products. The impact of raw material price fluctuations is also minimised through adjusting its selling prices as well as keeping production systems well-managed.

**Potential growth in the export market.** According to Statista, car ownership ratios in ASEAN countries like Vietnam and the Philippines are at 42.8 and 109 per 1,000 persons, vs Malaysia's 993.7 per 1,000 persons. As car ownership levels are still low in the ASEAN market vs that of Malaysia, we believe this presents opportunities for growth. Given that NHF products are replacement parts mainly for the mass market brands, management believes that this will bode well for its expansion strategy overseas. In FY23, ASEAN countries accounted for only 19% of its total revenue, with a 3-year CAGR of 10%.

**Upcoming proposed share split.** The group has proposed to undertake a share split in a 1:2 ratio. This exercise would enable shareholders to have a larger number of NHF shares, while maintaining their holdings in the group. We believe this share split will be beneficial for investors as it should boost the counter's trading liquidity. We understand from the management that this exercise will be completed by the end of 1H24.

**Under-owned by investors.** At the time of writing, we note from Bloomberg that this stock is not actively covered by any of the research houses. This indicates that NHF may not be within the radar of the larger investment community. Additionally, as per Bloomberg, the institutional ownership of this stock is at a mere 13%.

Therefore, we believe the growth potential of the group has yet to be priced in by the market – and its share price has room for growth.

## Company Report Card

**Results highlights.** FY23 revenue dropped by 3.1% YoY to MYR281.2m, as a result of tighter competition – given the influx of China competitors into the local market. This resulted in a 9% drop in local revenue, offset by 5% rise in export sales. However, core earnings rose 78.7% YoY to MYR47.7m on the back of sales of higher-quality products with better margins, supported by greater operational efficiency.

**Strong net cash position.** NHF is in a net cash position and possesses a healthy balance sheet (net cash of MYR98.0m). Over the past three years, its ROEs ranged between 10% and 16%. With the expected increase in earnings in FY24-26, we anticipated the group's ROE to stay within this range.

**Dividends.** While it does not have a dividend policy, NHF has a steady track record in paying dividends – between 26-56% of annual PATAMI. Over FY21-23, DPS have grown in tandem with the increase in profitability, ranging between 8 sen to 15 sen.

**Management.** NHF is led by its longstanding Managing Director Chin Jit Sin, along with Director of Manufacturing Ho Kok Leong, the Director of Corporate Strategy Mark Ng Boon Fatt, and Director of Business Aaron Chin Jun Min.

## Investment Case

**Trading at a deep discount.** We believe NHF's prevailing valuation is very undemanding, at just 6.8x historical P/E (close to -1SD from the 5-year mean of 5.9x), and well below its historical mean of 10x and the peer average of 12x. Based on an ascribed 10-12x P/E on FY24F earnings, we derive a FV range of MYR6.50-7.80 (pre-share split exercise). We believe our FV is justifiable, considering the growth potential that it has in the ASEAN market as well as improving margins over the last few years. Not only that, this stock is still under the radar, and remains under-owned by institutional investors.

**Key risks** include stronger-than-expected competition, unfavourable raw material price fluctuations, and lower-than expected demand in the REM market.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 244 | 290 | 281 |
| Reported net profit (MYRm) | 20 | 27 | 48 |
| Recurring net profit (MYRm) | 20 | 27 | 48 |
| Recurring net profit growth (%) | 69.5 | 36.3 | 78.7 |
| Recurring EPS (MYR) | 0.24 | 0.32 | 0.58 |
| DPS (MYR) | 0.09 | 0.13 | 0.15 |
| Dividend Yield (%) | 2.3 | 3.3 | 3.8 |
| Recurring P/E (x) | 16.6 | 12.2 | 6.8 |
| Return on average equity (%) | 4.1 | 5.3 | 9.0 |
| P/B (x) | 0.7 | 0.6 | 0.6 |
| P/CF (x) | 10.1 | 4.7 | 4.2 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 192 | 175 | 210 |
| Total assets | 607 | 596 | 626 |
| Total current liabilities | 68 | 27 | 22 |
| Total non-current liabilities | 50 | 59 | 58 |
| Total liabilities | 118 | 86 | 80 |
| Shareholder's equity | 489 | 509 | 547 |
| Minority interest | 0 | 0 | 0 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 607 | 596 | 626 |
| Total debt | 37 | 3 | 0 |
| Net debt | Net cash | Net cash | Net cash |

*Source: Company data, RHB*

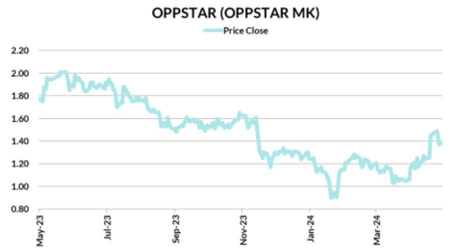
| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | 32 | 69 | 78 |
| Cash flow from investing activities | (15) | (19) | (29) |
| Cash flow from financing activities | 6 | (43) | (14) |
| Cash at beginning of period | 31 | 55 | 62 |
| Net change in cash | 23 | 7 | 35 |
| Ending balance cash | 55 | 62 | 98 |

*Source: Company data, RHB*

Fair Value: MYR1.95
Price: MYR1.39

# Oppstar

## Trailblazing IC Design House




*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | OPPSTAR MK |
| Avg Turnover (MYR/USD) | 4.64m/0.98m |
| Net Gearing (%) | Net Cash |
| Market Cap (MYRm) | 890.0 |
| Beta (x) | 0.6 |
| BVPS (MYR) | 0.21 |
| 52-wk Price low/high (MYR) | 0.87 - 2.05 |
| Free float (%) | 28 |

**Major Shareholders (%)**

| | |
|---|---|
| Cheah Hun Wah | 20.5 |
| Ng Meng Thai | 19.5 |
| Tan Chun Chiat | 12.8 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 31.1 | 20.9 | (14.7) | (17.3) |
| Relative | 27.9 | 16.3 | (25.5) | (29.8) |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## Investment Merits

- Solid track record to support business expansion efforts
- Beneficiary of the US-China chip war
- Boosting income stream with intellectual property developments

## Company Profile

Oppstar offers integrated circuit (IC) design services to a range of clients, including integrated device manufacturers, fabless companies, fab-lite firms, and electronic systems providers, among others. The group covers both front-end and back-end designs, as well as complete turnkey solutions, focusing on application-specific integrated circuits (ASICs), system on chips (SoCs), central processing units (CPUs), and field programmable gate arrays (FPGAs). Oppstar's IC design services are generally on process node technologies ranging between 20nm and 3nm.

## Highlights

**A solid track record supports business expansion efforts.** The group has established strong partnerships with various foundries, as it excels in adapting to diverse parameters and requirements unique to each foundry. By specialising in fin field-effect transistor (FinFET) designs, and successfully completing numerous turnkey projects across various process nodes, Oppstar has strengthened its market penetration capabilities. Recently, the acquisition of a Japanese design firm has advanced its regional growth strategy, which also aligns with the revitalisation efforts of Japan's semiconductor industry. Taiwan Semiconductor Manufacturing's (TSMC) establishment of new wafer fab in the East Asian nation underlines the country's significance in semiconductor manufacturing. Apart from Japan, Oppstar intends to expand its geographical footprint to India, Singapore, and Taiwan due to its close proximity to some global foundries such as TSMC, Intel and Qualcomm. The group's India office also allows it to tap into talent there to upgrade its design capability and capacity. Additionally, Oppstar secured a new partnership with Samsung Group (Samsung) to manufacture industrial ICs, utilising Samsung's 14nm FinFET technology, marking a significant achievement for the group, as it will have access to the foundry's process development kit or PDK. This positions Oppstar as an enabler – converting concepts into tangible products for fabless companies like Advanced Micro Devices or AMD, Broadcom, Nvidia, and Qualcomm.

**Beneficiary of the US-China chip war.** Notably, the US government's ban on exporting advanced artificial intelligence (AI) chips by IC design giants to China presents Oppstar with a strategic advantage. Since securing its initial ASIC projects from China clients in 2020, the group continues to attract inquiries for tailored designs and turnkey services.

In FY22-23 (Mar), China's contributions to group revenue ranged between c.73% and 78%, ie an increase from FY20's c.53%.

**Developing new intellectual property (IP) to boost income stream.** As Oppstar expands, it plans to develop its own IP in RISC-V-based SoCs, 3D-FPGA, and AI & machine learning. Such IPs should streamline the design process, shorten product development cycles, and optimise resource utilisation across multiple projects, in our view. Licensing such IPs could also boost earnings, while providing higher margins and recurring income. Furthermore, having silicon-proven IPs will give the group a competitive edge when bidding for future projects.

## Company Report Card

**Results highlights.** 9MFY24 revenue increased by 3.3% to MYR44.9m – attributable to higher contributions from specific design services and the post-silicon validation divisions. However, core net profit saw a 5.4% dip to MYR14m on rising labour costs associated with the design engineering team's expansion to accommodate business growth.

**Strong net cash position.** As of 3QFY24, Oppstar is in a net cash position of MYR102m, providing ample funds for business expansion via investments and acquisitions. Over the past three years, the group has consistently generated positive cash flow.

**Dividends.** Oppstar maintains a policy of distributing at least 25% of its earnings as dividends. For FY23, the group declared a DPS of 0.8 sen, implying a payout ratio of 25%. Assuming a consistent payout ratio, projected DPS for FY23-25 is in the 1-1.8 sen range, implying c.0.7-1.2% yields at the current price.

**Management.** Oppstar has an experienced management team. Executive Director and CEO Ng Meng Thai is responsible for the overall strategy and corporate direction of the group while Group CFO Chin Fung Wei has approximately 25 years of experience in finance and accounting-related fields. Chin also oversees Oppstar's accounting and finance functions. The rest of the senior management team provide support to Ng and Chin, given that its members have extensive experience in their respective fields.

## Investment Case

We like Oppstar for its unique position as the sole listed company in the IC design sector. Its growing footprint and broad client base in the front-end semiconductor domain underscores its capabilities. Moreover, the group's continuous business expansion plans – including its pursuit of developing its own IPs – will further support Oppstar's long-term growth trajectory, We ascribe a FV of MYR1.95 based on 35x FY25F P/E, which is at the lower end of its international IC design peer range of 30-70x – given its smaller market cap. The valuation is 0.5SD above its 12-month mean, which is warranted – given the group's 3-year projected earnings CAGR of 30%.

**Key risks** include dependence on major customers, an industry-wide slowdown, and being dependent on its ability to retain and attract skilled engineers.

| Profit & Loss | Mar-21 | Mar-22 | Mar-23 |
|---|---|---|---|
| Total turnover (MYRm) | 29 | 51 | 58 |
| Reported net profit (MYRm) | 8 | 17 | 20 |
| Recurring net profit (MYRm) | 8 | 17 | 20 |
| Recurring net profit growth (%) | 1,752.5 | 113.2 | 22.4 |
| Recurring EPS (MYR) | 0.01 | 0.03 | 0.03 |
| DPS (MYR) | 0.00 | 0.00 | 0.01 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.6 |
| Recurring P/E (x) | 113.4 | 53.2 | 43.4 |
| Return on average equity (%) | 509.6 | 194.5 | 27.1 |
| P/B (x) | 288.9 | 61.2 | 6.5 |
| P/CF (x) | 88.4 | 51.0 | 4.0 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Mar-21 | Mar-22 | Mar-23 |
|---|---|---|---|
| Total current assets | 13 | 18 | 138 |
| Total assets | 15 | 21 | 141 |
| Total current liabilities | 10 | 6 | 4 |
| Total non-current liabilities | 2 | 1 | 0 |
| Total liabilities | 12 | 6 | 5 |
| Shareholder's equity | 3 | 14 | 136 |
| Minority interest | 0 | 0 | 0 |
| Other equity | 0 | 1 | 2 |
| Total liabilities & equity | 15 | 21 | 141 |
| Total debt | 2 | 0 | 0 |
| Net debt | (7) | (11) | (115) |

*Source: Company data, RHB*

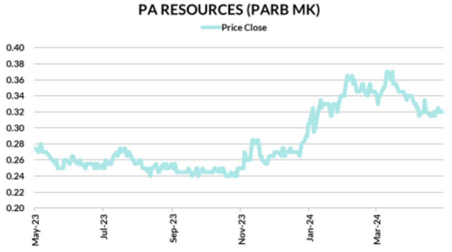
| Cash Flow (MYRm) | Mar-21 | Mar-22 | Mar-23 |
|---|---|---|---|
| Cash flow from operations | 10 | 17 | 6 |
| Cash flow from investing activities | (3) | (1) | (3) |
| Cash flow from financing activities | (0) | (14) | 101 |
| Cash at beginning of period | 2 | 9 | 11 |
| Net change in cash | 7 | 2 | 104 |
| Ending balance cash | 9 | 11 | 115 |

*Source: Company data, RHB*

# PA Resources

## Riding The Solar Demand Wave

**Fair Value:** MYR0.50-0.54
**Price:** MYR0.34




*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | PARB MK |
| Avg Turnover (MYR/USD) | 2.75m/0.58m |
| Net Gearing (%) | Net cash |
| Market Cap (MYRm) | 508.4 |
| Beta (x) | 0.7 |
| BVPS (MYR) | 0.20 |
| 52-wk Price low/high (MYR) | 0.23 - 0.375 |
| Free float (%) | 60 |

**Major Shareholders (%)**

| | |
|---|---|
| Interlink Matrix (M) | 7.6 |
| Lau Kuan Kam | 4.3 |
| Lee Vui Han | 3.7 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 0.0 | 0.0 | 36.0 | 21.4 |
| Relative | (3.2) | (4.5) | 25.2 | 8.9 |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## Investment Merits

- Tapping into First Solar's rising demand
- Record-high contract extension
- Doubling capacity to capture robust demand
- Undemanding valuation, given the strong clientele profile

## Company Profile

PA Resources (PARB) has 26 years of experience in the aluminium industry, specialising in aluminium extrusion and fabrication. It handles every stage of production, from casting billets using ingots and scrap materials (upstream) to extruding aluminium profiles (midstream) and processing them in the anodising and fabrication department (downstream). PARB focuses on the solar industry, with its largest client First Solar contributing c.85% of revenue since coming on board in 2019, following a change in management that has supported the company's sustained turnaround.

## Highlights

**Tapping into First Solar's rising demand.** According to Wood Mackenzie, global solar PV-installed capacity is expected to more than triple in the next decade, driven by decarbonisation commitments from governments and corporations. PARB is set to benefit from the robust demand as its largest client, First Solar, has projected USD4.6bn in revenue for FY24 (+39% YoY) – driven by the growing global demand for solar energy and improved ASPs. First Solar's increasing sales volumes and plan to double its manufacturing capacity to 25GW in 2026 from 16.6GW in 2023, is expected to drive strong order inflows for PARB.

**Record-high contract extension.** PARB secured its fourth contract extension with First Solar in Jan 2024, worth MYR1.1bn for 1.5 years (or MYR180m/quarter) for the supply of aluminium frame parts – the previous contract was worth MYR550m for one year (or MYR137.5m/quarter). To accommodate the new contract, PARB recently expanded its production capacity from 2.8k tonnes per month to 3.2k tonnes per month in 2QFY24. Operating at full capacity, the recent contract extension should keep the company busy throughout FY24-25F.

**Demand-fuelled expansion.** PARB received a range of business inquiries from existing and new industries but is currently unable to accept orders due to capacity constraints. To address this, PARB has acquired an 18-acre parcel of land for the construction of a new plant that will double its capacity. The expansion will take place in three phases – with the aim to increase capacity from 3.2k tonnes per month to 7k tonnes in FY26.

This new plant will serve existing clients, while also enabling PARB to develop new products for new customers across different industries, thereby diversifying its revenue base. Additionally, margins could improve due to a better product mix and economies of scale.

## Company Report Card

**Results highlights.** 1H24 revenue rose 2.9% YoY to MYR280.1m, attributed to an increase in customer orders. However, 1H24 GPM dipped slightly by 0.8ppts to 13.4% on lower aluminium prices, resulting in lower ASPs. Together with a higher effective tax rate of 27.4% vs the prior year's utilisation of tax loss carried forward, 1H24 core earnings fell by 28% YoY to MYR20m.

**Balance sheet/cash flow.** PARB has net cash of MYR40m or 2.7 sen per share as at 2QFY24. We expect the company to stay in a net cash position over FY24-26. Meanwhile, we expect ROE to increase to 15-20% in FY24-26, with an expected hike in earnings on the back of the capacity expansion.

**Dividends.** While PARB does not have a dividend policy, it paid a DPS of 1 sen in FY23, representing a payout ratio of 46%. However, given its ongoing expansion plans and the need for significant capex, we do not anticipate dividend payments in FY24-26.

**Management.** Group Managing Director Tan Sri Lau Kuan Kam is a substantial shareholder in the company. Michael Hoe, appointed as Executive Director in 2019, has led PARB to a sustained turnaround. Both are supported by the senior management team comprising individuals with outstanding professional qualifications and over 10 years of experience in their respective fields.

## Investment Case

**FV.** Based on an ascribed P/E of 12-13x on CY25F earnings, we derive a FV range of MYR0.50–0.54. Our ascribed valuation is in line with the Bursa Malaysia Industrial Production Index reading. We like the company for its commendable track record and strong clientele profile. Our projected 3-year earnings CAGR of 29% (FY23-26F) is supported by the company's ambition to double its manufacturing capacity and ride on its clients' exposure to high-growth industries.

**Key risks** include delays in expansion plans, softer-than-expected sales, and the loss of key customers.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 280 | 411 | 462 |
| Reported net profit (MYRm) | 31 | 44 | 31 |
| Recurring net profit (MYRm) | 31 | 44 | 31 |
| Recurring net profit growth (%) | 238.2 | 38.7 | (27.9) |
| Recurring EPS (MYR) | 0.03 | 0.03 | 0.02 |
| DPS (MYR) | 0.01 | 0.00 | 0.01 |
| Dividend Yield (%) | 1.5 | 0.0 | 2.9 |
| Recurring P/E (x) | 12.6 | 9.9 | 15.5 |
| Return on average equity (%) | 20.2 | 21.7 | 12.5 |
| P/B (x) | 2.3 | 1.9 | 1.7 |
| P/CF (x) | 4.0 | (16.0) | 4.0 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 98 | 166 | 208 |
| Total assets | 192 | 267 | 299 |
| Total current liabilities | 19 | 42 | 16 |
| Total non-current liabilities | 1 | 3 | 3 |
| Total liabilities | 19 | 45 | 19 |
| Shareholder's equity | 178 | 222 | 280 |
| Minority interest | (6) | 0 | 0 |
| Other equity | 2 | 3 | 3 |
| Total liabilities & equity | 192 | 267 | 299 |
| Total debt | 6 | 20 | 4 |
| Net debt | (13) | 15 | (27) |

*Source: Company data, RHB*

| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | 22 | (26) | 35 |
| Cash flow from investing activities | (4) | (9) | (8) |
| Cash flow from financing activities | 3 | 20 | (8) |
| Cash at beginning of period | 3 | 19 | 5 |
| Net change in cash | 22 | (15) | 19 |
| Ending balance cash | 19 | 5 | 31 |

*Source: Company data, RHB*

# QES Group

## Moving Up The Value Chain

Fair Value: MYR0.83
Price: MYR0.65


*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | QES MK |
| Avg Turnover (MYR/USD) | 2.16m/0.46m |
| Net Gearing (%) | Net cash |
| Market Cap (MYRm) | 538.0 |
| Beta (x) | 1.3 |
| BVPS (MYR) | 0.22 |
| 52-wk Price low/high (MYR) | 0.46 - 0.65 |
| Free float (%) | 44 |

**Major Shareholders (%)**

| | |
|---|---|
| WA Capital | 26.1 |
| Liew Soo Keang | 22.9 |
| Chew Ne Weng | 4.0 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 7.5 | 37.2 | 21.7 | 21.7 |
| Relative | 4.3 | 32.7 | 10.9 | 9.2 |

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## Investment Merits

- Robust orderbook, due to demand from various industries
- Benefitting from the recovery in the semiconductor sector
- Increasing visibility of its manufacturing portfolio, especially in front-end equipment and among customers
- Sensible valuation of 18x FY24F P/E, with a solid balance sheet and healthy dividend yield

## Company Profile

QES Group (QES) established itself as a one-stop specialist in manufacturing, distribution, and services of test, inspection, and measuring equipment, and engineering solutions. QES also manufactures optical inspection equipment and automated equipment primarily for the semiconductor segment. It has direct distribution networks in Malaysia, Indonesia, Vietnam, Hong Kong, Singapore, Thailand, and the Philippines via subsidiaries.

## Highlights

**Robust orderbook.** This is supported by its robust sales channel and strength in its distribution business, which serves various industries like mining, and pharmaceuticals. There are opportunities from various sub-segments, ie power, petrochemicals and E&E. QES stands to grow from its stable earnings base which, in turn, is due to repeat orders for its various analytical instruments, inspection, test, and measurement equipment, as well as ever-growing spare parts and service revenue from a higher installed base. Current orders in hand, valued at MYR116m (1.9x cover on FY23 revenue), should drive its growth in FY24 – this would be more towards 2H24, as a slow 1H24 is expected. This in line with the anticipated recovery of the semiconductor industry and ramp-up in the sales volume of devices, wafer handling, and inspection machines – with demand from local OSATs as well as from China.

**Manufacturing portfolio** is a major growth engine, given its higher margin and low base. The order intake from QES customers continues to remain robust, with current outstanding orders valued at MYR28m. These include orders for vision inspection equipment, wafer measuring systems, automated handling systems, and new products like wafer stockers. With a product range that covers the front-end segment, QES has received a few large orders from wafer fabrication customers, with deliveries estimated to last until 2H24 and 1Q25. Tracking the recovery of the semiconductor industry and with the resumption of capex activities, we expect QES' orders to trend higher. We note that most of the orderbook delivery should take place in 2H24, given the expected ramp-up of volume loadings as well as the stronger recovery in the semiconductor sector.

**Other growth opportunities.** QES is looking to continue growing its presence in East Asian countries, especially China, Taiwan, South Korea, and Japan. Meanwhile, its JV with Applied Engineering should allow QES' manufacturing arm to expand into high-technology semiconductor equipment-making in Penang, while its new manufacturing plant in Batu Kawan should drive growth further in FY25. The group is also exploring options to support an automation project in the medical technology industry, as well as the aerospace market through a collaboration with Malaysia Aerospace Industry Association (MAIA).

## Company Report Card

**Results highlights.** QES reported a 32% YoY earnings contraction to MYR17.3m in FY23, due to a weaker revenue of MYR240.7m (-9% YoY). These were affected by the slowdown in the semiconductor and E&E sectors as a whole, which dragged and deferred the demand for instruments and equipment in FY23.

**Balance sheet/cash flow.** The group remained in a net cash position of MYR67.6m as at FY23. ROE dropped to 10.4% in FY23 (from 16.2% in FY22) as a result of the contraction in profitability. That said, a recovery is imminent in FY24, backed by a robust orderbook and sector recovery.

**Dividends.** Management declared a 1 sen DPS for FY23 (FY22: nil), reflecting a c.1.7% dividend yield at its current price. However, assuming a similar payout ratio of 45% and improved profitability, dividends may trend higher in FY24-25F.

**Management.** QES is helmed by Managing Director Chew Ne Weng, who oversees the group's overall strategic direction and management. Chew has accumulated over 30 years of experience within the engineering industry. He is aided by Liew Soo Keang, the Executive Director, who is responsible for the distribution division.

## Investment Case

**Demand-led recovery; trading at an undemanding valuation.** With a current forward valuation of 18-22x, QES is trading below the peer average – an undemanding level, for a growing automated test equipment player that has exposure to the front-end equipment segment. We believe its distribution business serves as a counter-cyclical factor against the semiconductor cycle, and is a strong cash flow generator that complements its growing manufacturing business.

Ascribing a target P/E of 25x (discount to the peer average) on FY25F earnings, we believe QES could trade up to MYR0.83. Our earnings growth expectation is premised on the company's strong orderbook, buoyed by the healthy structural growth trend, its sustainable recurring income, the recovery of the semiconductor sector as well as its diversified market segments, and regional presence in ASEAN countries.

**Key downside risks** include order fluctuations, labour shortages, and escalation of input costs.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 223 | 264 | 241 |
| Reported net profit (MYRm) | 19 | 26 | 18 |
| Recurring net profit (MYRm) | 18 | 25 | 17 |
| Recurring net profit growth (%) | 136.2 | 45.0 | (32.2) |
| Recurring EPS (MYR) | 0.02 | 0.03 | 0.02 |
| DPS (MYR) | 0.00 | 0.00 | 0.00 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 |
| Recurring P/E (x) | 28.3 | 20.4 | 29.1 |
| Return on average equity (%) | 13.8 | 16.2 | 10.4 |
| P/B (x) | 3.9 | 3.3 | 3.0 |
| P/CF (x) | 22.8 | 36.6 | 61.2 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 185 | 192 | 209 |
| Total assets | 230 | 251 | 276 |
| Total current liabilities | 73 | 69 | 75 |
| Total non-current liabilities | 19 | 19 | 22 |
| Total liabilities | 92 | 88 | 97 |
| Shareholder's equity | 136 | 159 | 174 |
| Minority interest | 2 | 4 | 4 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 230 | 251 | 276 |
| Total debt | 27 | 23 | 34 |
| Net debt | Net Cash | Net Cash | Net Cash |

*Source: Company data, RHB*

| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | 24 | 15 | 9 |
| Cash flow from investing activities | (27) | (16) | (5) |
| Cash flow from financing activities | (2) | (8) | 6 |
| Cash at beginning of period | 85 | 79 | 71 |
| Net change in cash | (5) | (9) | 9 |
| Ending balance cash | 80 | 71 | 80 |

*Source: Company data, RHB*

# Shangri-La Hotels (Malaysia)

## Tourism Revival Fuels Hotel Occupancy Recovery

**Fair Value:** MYR3.56-3.99
**Price:** MYR2.42


*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | SHMB MK |
| Avg Turnover (MYR/USD) | 2.33m/0.49m |
| Net Gearing (%) | 2.6 |
| Market Cap (MYRm) | 1064.8 |
| Beta (x) | 0.8 |
| BVPS (MYR) | 2.02 |
| 52-wk Price low/high (MYR) | 1.91 - 2.82 |
| Free float (%) | 18 |

**Major Shareholders (%)**

| | |
|---|---|
| Hoopersville | 52.8 |
| Kuok Brothers | 23.0 |
| Aberdeen Asset Management Asia | 4.9 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 5.7 | 19.2 | 13.1 | (13.3) |
| Relative | 2.5 | 14.7 | 2.3 | (25.8) |


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## Investment Merits

- Hotels' performance has a positive correlation to that of Malaysia's tourism industry
- Tourism Malaysia aims to achieve a 36% YoY growth in tourist arrivals
- Banqueting and events to drive F&B revenue
- Resumption of dividend payouts

## Company Profile

Incorporated in 1971, Shangri-La Hotels (Malaysia) (SHMB) owns and operates luxury hotels and resorts in Malaysia. It operates in the luxury hospitality segment, catering to both leisure and business travellers. The company offers premium services, elegant accommodations, and a range of amenities such as fine dining, spa facilities, and event spaces. The group's hotel properties are Shangri-La Hotel Kuala Lumpur, Shangri-La Rasa Ria Resort & Spa (Kota Kinabalu, Sabah), Shangri-La Rasa Sayang Resort & Spa (Batu Ferringhi, Penang), Golden Sands Resort (Batu Ferringhi, Penang) and JEN Penang Georgetown, along with an 18-hole championship golf course and a clubhouse in Pantai Dalit, Tuaran, Sabah.

## Highlights

**Influx of tourists ignites recovery in hotels' occupancy rates.** Malaysia was the only South-East Asian country with tourism numbers that exceeded pre-COVID-19 levels in 2023. It became the most popular destination in South-East Asia last year, thereby dethroning Thailand. SHMB's hotels and resorts rely heavily on international tourists for both leisure and business travel. As such, its hotel occupancy rate rose to 63% in FY23, from 17.4% in FY21 – an increase that was largely due to the resurgence in tourism. Tourism Malaysia has set a target to achieve a 36% YoY growth in foreign tourist arrivals in 2024, supported by increased flights and intensified tourism promotion activities. Foreign visitor arrivals have been further boosted by the commencement of visa-free entry for China nationals, as Malaysia targets to welcome 200k China tourists per month in 2024, from 158.3k in Sep 2023. This particularly benefits SHMB's under-occupied Rasa Ria Resort & Spa, which was historically popular with China tourists. Hence, we expect SHMB's overall hotel occupancy rate to recover to the pre-pandemic level of 70% in FY24.

**Strong demand drives up hotel rates.** A weaker MYR not only makes Malaysia an attractive destination for travellers, it also boosts their spending power – which should be a boon for renowned hospitality brands like Shangri-La Hotels. Traditionally, SHMB has a seasonal peak in 3Q – which coincides with the summer holidays in Europe. We anticipate its 1Q24 to be strong, due to the Lunar New Year (CNY) celebrations and long school holidays (9 Feb-9 Mar). Inbound travel surged by 53.9% YoY over CNY 2024, according to Trip.com. Also, the surge in tourist expenses per capita and hotel demand should drive up hotel room rates – and offset the group's rising labour and electricity costs.

**Banqueting and events to lift F&B revenue.** Post-pandemic in 2022, increased banqueting and events from meetings and conferences as well as wedding packages have significantly stimulated its hotels' F&B business (over 40% of total revenue). The pent-up demand for wedding packages in Shangri-La Hotels is expected to continue, especially during the auspicious Year of the Dragon in 2024, as the zodiac animal symbolises strength and prosperity in Chinese culture.

## Company Report Card

**Results highlights.** SHMB has seen a robust recovery in its business operations from 2022 onwards, especially with the gradual reopening of country borders and relaxation of travel restrictions. In 2023, its revenue rose by 39% to MYR503.7m from MYR36.4m in 2022. This substantial growth propelled the group out of the red, transitioning to a net profit of MYR34.1m in 2023 from a net loss of MYR19.7m in 2022. In 2022-2023, its overall hotel occupancy rate saw a notable increase, rising from 48.6% to 63%.

**Improving balance sheet.** As at 31 Dec 2023, SHMB has a healthy balance sheet with a net gearing ratio of 0.03x – which points to a substantial improvement from 0.12x in end-FY21.

**Dividends.** Although there is no dividend policy, SHMB has been consistently paying dividends of >90% of earnings from FY17 to FY19, until it incurred losses. With the resurgence in profitability by FY23, dividend payments resumed – and a DPS of MYR0.07 was declared in 2023.

**Management.** SHMB is helmed by Managing Director Christopher Phong Siew San, who is responsible for overseeing the overall operational functions of the group. He is supported by the senior management team, which comprises individuals with outstanding professional qualifications and over 20 years of experience in their respective fields.

## Investment Case

**Benefit from tourism revival.** Government initiatives such as Visit Malaysia Year 2026, a MYR350m allocation from Budget 2024 to revive tourism, and visa-free entry for China and India tourists, coupled with a weakened MYR should drive tourist arrivals and spending. This, hence, would benefit luxury hotel chains like SHMB. Robust demand for banqueting and events would further boost revenue. We expect its topline to recover to pre-COVID-19 levels this year.

In line with the 10-year P/E mean (includes the pre-COVID-19 period) of 26.9x and 2-year forward P/E of international peers, we ascribe 25-28x P/E on FY25F earnings to derive a FV range of MYR3.56-3.99. The resumption of its dividend payouts is another plus point.

**Key risks** include competition risk, a downturn in Malaysia's tourism sector, and travel restrictions being re-imposed.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 129 | 363 | 504 |
| Reported net profit (MYRm) | (92) | (41) | 16 |
| Recurring net profit (MYRm) | (72) | (16) | 26 |
| Recurring net profit growth (%) | (19.6) | (77.3) | (258.3) |
| Recurring EPS (MYR) | (0.16) | (0.04) | 0.06 |
| DPS (MYR) | 0.00 | 0.00 | 0.07 |
| Dividend Yield (%) | 0.0 | 0.0 | 2.9 |
| Recurring P/E (x) | (14.9) | (65.4) | 41.3 |
| Return on average equity (%) | (10.6) | (5.1) | 2.0 |
| P/B (x) | 1.1 | 1.2 | 1.2 |
| P/CF (x) | 3.0 | 4.0 | 5.0 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 102 | 143 | 232 |
| Total assets | 1229 | 1240 | 1287 |
| Total current liabilities | 260 | 306 | 336 |
| Total non-current liabilities | 34 | 43 | 40 |
| Total liabilities | 294 | 349 | 375 |
| Shareholder's equity | 818 | 779 | 795 |
| Minority interest | 117 | 113 | 117 |
| Other equity | 1 | 2 | 3 |
| Total liabilities & equity | 1229 | 1240 | 1287 |
| Total debt | 175 | 186 | 217 |
| Net debt | 97 | 76 | 21 |

*Source: Company data, RHB*

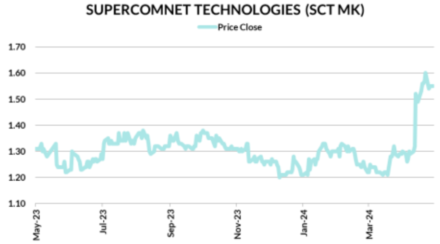
| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | (52) | 51 | 111 |
| Cash flow from investing activities | (4) | (14) | (33) |
| Cash flow from financing activities | 4 | (6) | 8 |
| Cash at beginning of period | 130 | 78 | 110 |
| Net change in cash | (52) | 32 | 86 |
| Ending balance cash | 78 | 110 | 196 |

*Source: Company data, RHB*

# Supercomnet Technologies

## Twin Drivers To Propel Earnings To New Highs

**Fair Value:** MYR1.69-1.79
**Price:** MYR1.53




*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | SCT MK |
| Avg Turnover (MYR/USD) | 2.55m/0.54m |
| Net Gearing (%) | 7.7 |
| Market Cap (MYRm) | 1263.4 |
| Beta (x) | 1.0 |
| BVPS (MYR) | 0.46 |
| 52-wk Price low/high (MYR) | 1.19 - 1.62 |
| Free float (%) | 26 |

**Major Shareholders (%)**

| | |
|---|---|
| Shiue Jong-Zone | 14.26 |
| Hsueh Chih-Yu | 13.34 |
| Shiue Jyh-Jeh | 11.21 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 18.6 | 17.7 | 16.8 | 18.6 |
| Relative | 15.4 | 13.2 | 6.0 | 6.1 |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## Investment Merits

- Niche exposure in the medical component supplier space
- Strong relationships with healthcare and automotive partners
- Pipeline of new products set for commercialisation in coming quarters
- Robust balance sheet

## Company Profile

Supercomnet Technologies (SCT) was incorporated in Malaysia in May 1990 as Supercomal Wires and Cables. In Apr 1999, it was the first company to be listed on the ACE Market. It was then transferred to the Main Market of Bursa Malaysia in Aug 2023. SCT has three major segments – medical, automotive cables, and industrial wiring and cables. The medical segment is the largest revenue contributor, accounting for c.71% of turnover last year. The company manufactures medical devices and special tubing for delivery systems. The automotive cables division contributed c.9% of FY23 revenue and is involved in the manufacture and assembly of fuel tanks, wires, and cables. The industrial wiring and cables segment accounts for the remaining 20% of revenue, with products used in electrical appliances and for other general means. SCT's manufacturing operations are based in Sungai Petani, Kedah.

## Highlights

**Strong relationships backed by R&D capabilities.** Within the medical segment, SCT has well-established relationships with tier-1 healthcare partners. For many medical devices, SCT is the sole supplier for its customers, thanks to its technological innovations and reliability. Furthermore, the company has developed a strong name in R&D capabilities to produce sophisticated medical devices that are mainly exported to North America and Europe. A typical medical product usually needs an R&D period of 4-5 years and approval from the US Food & Drug Administration (FDA). As for the automotive cables segment, SCT is currently the only supplier of wire harnesses and fuel tanks for a European car company in the Asia-Pacific.

**Medical devices – ongoing stable demand and new products will drive topline.** The medical segment will continue to be an important driver of both its topline and bottomline, in our view. Key drivers for this segment include stable ongoing demand for existing products, coupled with a pipeline of new products set for commercialisation in the coming quarters. Margins for this segment tend to be higher relative to other divisions, and the shift in sales mix towards medical devices should be positive for overall margins as well.

**Automotive.** For the automotive cables segment, SCT supplies wire harnesses and fuel tanks for four models to the abovementioned European car company. The automaker is currently evaluating its manufacturing plant in Gurun, Kedah for its potential to become a regional manufacturing hub for battery EVs (BEVs). If this materialises, we believe SCT stands a good chance to be part of the supply chain for BEVs – a mid- to longer-term positive.

**Healthy balance sheet can comfortably fund capacity expansion or M&As.** SCT does not need to rely on borrowings since it has a healthy cash pile as well as financial assets that can be converted into cash, if needed. We believe SCT can easily fund its capex requirements for growth, and, if necessary, opt for M&As to broaden/diversify its product range as well as enlarge its capacity.

## Company Report Card

**Results highlights.** FY23 revenue fell 13% YoY on a temporary drop in automotive cables revenue and lower industrial wiring and cables turnover, as SCT prioritised higher-margin opportunities. Consequently, net profit declined by 12% YoY to MYR29m from lower revenue, coupled with share-based compensation expenses and one-off costs related to the transfer to Main Market, cushioned by a lower effective tax rate.

**Strong net cash position.** SCT has a clean balance sheet with no borrowings and debt securities. Net cash was at MYR28m at end-2023, and in addition to other financial assets related to investments in money market funds worth MYR166m. Over the past three years, its ROEs ranged between 8% and 12%. Going forward, ROEs are expected to stay within the range.

**Dividends.** While it does not have a dividend policy, SCT declared DPS of 2 sen for FY22 and FY23 and, prior to that, had been declaring DPS of 1.5 sen. This translates to dividend payout ratios of 33-53% for FY21-23.

**Management.** Group Managing Director James Shiue Jong-Zone joined Supercomal Wires and Cables back in 1993 as its general manager. His previous stints include Matsushita and Sanyo Electrical. Prior to joining SCT, he had started his own company, King Royal Electrical, which was involved in wire harnessing, cable moulding assembly, and other electrical/electronic products.

## Investment Case

**Niche exposure underpinned by solid partnerships.** We like SCT for its niche exposure to the medical and automotive component supplier space. The company has well-established partnerships with its tier-1 healthcare and automotive partners from developed countries. Given the rising demand for healthcare products and services, as well as various technology breakthroughs in the global medical industry, we think the demand for medical devices will continue to grow over the longer term.

**Valuation.** SCT's 10-year historical P/E range is quite wide, ranging from 8x to 74x, with an average of 34x. Meanwhile, its historical P/E range was 35-38x during the pre-pandemic period. Ascribing a P/E of 34-36x to FY25F fully diluted EPS, we derive a fair value range of MYR1.69-1.79. Our ascribed 34-36x P/E is broadly in line with the KLHEAL's P/E of 34x.

**Risks** include regulatory risks affecting medical device sales, weaker-than-expected demand from key customers, and fluctuations in raw material prices and FX rates.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 144 | 158 | 138 |
| Reported net profit (MYRm) | 33 | 33 | 29 |
| Recurring net profit (MYRm) | 33 | 33 | 29 |
| Recurring net profit growth (%) | 39.6 | 0.3 | (11.7) |
| Recurring EPS (MYR) | 0.05 | 0.04 | 0.04 |
| DPS (MYR) | 0.02 | 0.02 | 0.02 |
| Dividend Yield (%) | 1.0 | 1.3 | 1.3 |
| Recurring P/E (x) | 33.6 | 35.4 | 40.9 |
| Return on average equity (%) | 11.9 | 10.3 | 8.4 |
| P/B (x) | 3.8 | 3.5 | 3.3 |
| P/CF (x) | 44.7 | 38.2 | 51.0 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 212 | 233 | 266 |
| Total assets | 337 | 358 | 389 |
| Total current liabilities | 22 | 23 | 22 |
| Total non-current liabilities | 5 | 5 | 5 |
| Total liabilities | 24 | 29 | 27 |
| Shareholder's equity | 310 | 329 | 362 |
| Minority interest | 0 | 0 | 0 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 334 | 358 | 389 |
| Total debt | 0 | 0 | 0 |
| Net cash | 45 | 36 | 28 |

*Source: Company data, RHB*

| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | 26 | 31 | 24 |
| Cash flow from investing activities | (60) | (30) | (33) |
| Cash flow from financing activities | 43 | (14) | 4 |
| Cash at beginning of period | 33 | 42 | 29 |
| Net change in cash | 9 | (13) | (5) |
| Ending balance cash | 42 | 29 | 24 |

*Source: Company data, RHB*

**Fair Value: MYR1.40-1.64**
**Price: MYR1.19**

# TT Vision Holdings

## A Visionary Automated Test Equipment Player


*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | TTVHB MK |
| Avg Turnover (MYR/USD) | 1.78m/0.37m |
| Net Gearing (%) | Net cash |
| Market Cap (MYRm) | 556.9 |
| Beta (x) | 0.8 |
| BVPS (MYR) | 0.21 |
| 52-wk Price low/high (MYR) | 0.66 - 1.31 |
| Free float (%) | 19 |

**Major Shareholders (%)**

| | |
|---|---|
| Khazanah Nasional | 23.5 |
| Wong Yih Hsow | 21.5 |
| Goon Koon Yin | 21.5 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 5.3 | 55.6 | 24.6 | 14.4 |
| Relative | 2.1 | 51.0 | 13.8 | 1.9 |

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## Investment Merits

- Rebound of the semiconductor industry to support growth in orders
- Well-positioned to capitalise on emerging market trends, ie EVs and solar energy
- Strategic partnerships for business expansion and diversification

## Company Profile

TT Vision Holdings (TTV) is involved in the development and manufacturing of machine vision equipment, and the provision of related products and services. Its equipment, furnished with vision inspection modules, is primarily used for the inspection of optoelectronics, solar cells, discrete components, and integrated circuits (ICs). It is also used in vision-guided robotic equipment. TTV's business activities typically entail equipment design, software development, and the manufacture, assembly, and installation of equipment and/or modules.

## Highlights

**Recovery of the semiconductor industry.** With the imminent ending of the inventory correction phase as well as increased demand for smartphones and artificial intelligence (AI) applications, World Semiconductor Trade Statistics adjusted its 2024F semiconductor market valuation upwards to USD588.4bn, representing a 13.1% increase from 2023's USD520bn. The growth is expected to be driven by the memory sector, with other key segments ie discrete, sensors, analogue, logic, and micro anticipated to see modest upticks. In parallel, the group is seeing a gradual increase in orders and demand across all customer segments. To accommodate this growth, TTV is doubling its production capacity and floor space to 105,000 sq ft from the current 53,000 sq ft.

**Rise of EVs to bolster orders.** Its optoelectronic inspection equipment unit, primarily geared towards examining LED components for the automotive sector, stands to benefit from advancements in the EV industry. As per Fortune Business Insights, the size of the global EV market grew to USD384.7bn in 2022. Forecasts suggest further growth, with the market size projected to increase to USD1,579.1bn by 2030 from USD500.5bn in 2023, representing a CAGR of 17.8% for 2023-2030F. The Asia-Pacific region is anticipated to lead this growth.

**Riding the surging solar tide**. In 2023, global renewable energy (RE) capacity surged by 50% to nearly 510GW. Solar photovoltaic (PV) accounted for c.75% of the total global additions, as reported by the International Energy Agency's (IEA) Renewables 2023 report. Projections by the IEA point to promising growth – 3,700GW of new RE capacity addition by 2028F.

The increase will predominantly revolve around solar PV and wind – jointly commanding a 95% share of the global RE landscape. This augurs well for TTV as a key player in manufacturing solar cell inspection equipment. As of Dec 2023, the group's orderbook stood at MYR68m, with close to 90% coming from the solar segment.

**Strategic partnerships for business expansion.** To diversify and further capture the growing solar market, TTV partnered Autowell Singapore (ASPL) – with a 15% stake in the JV – to establish a manufacturing hub in Malaysia that focuses on producing automation equipment and related hardware and software products, mainly on solar energy applications. The two entities will engage in R&D, as well as the manufacturing and distribution of products targeted at the ASEAN, European, and US markets. To finance the JV, the group is undergoing a private placement offering up to 23.4m shares or 5% of its enlarged share base to raise c.MYR25m.

## Company Report Card

**Results highlights.** FY23's recorded revenue of MYR58.2m increased 9.8% YoY, driven by an improvement in sales of discrete components and IC inspection equipment, solar cell inspection and sorting equipment, and vision-guided robotic equipment. Correspondingly, its core net profit increased 7% to MYR12m after stripping out one-off IPO listing expenses.

**Balance sheet.** As of FY23, TTV has a net cash balance of MYR30m. The group's current balance sheet capacity should allow for future business expansion.

**Dividends.** There is no dividend policy and we do not anticipate one in the near future, given its continued focus on expansion and growth initiatives.

**Management.** TTV is led by co-founders Goon Koon Yin (CEO), Wong Yih Hsow (COO), and Jennie Tan Yen-Li (Chief Human Resources & Administration Officer). Goon and Wong have more than 20 years of technical and operational experience in the machine vision equipment business, and are supported by Tan, who has around 26 years of experience in human resources and administration.

## Investment Case

**FV.** Based on a target 30-35x P/E on FY24F diluted earnings, we derive a FV range of MYR1.40-1.64. On a *pro forma* basis, EPS dilution would be at 5%, assuming the maximum scenario before taking into account the utilisation of proceeds. The target P/E is within the range of the 5-year mean for local equipment players (20-40x). We forecast TTV to sustain its earnings growth in FY24-26, implying a continuous 7-year streak of growth. Growth stems from higher order volumes, driven by a positive semiconductor industry outlook, coupled with increasing demand for EVs and RE solutions. Strategic partnerships and diversification of offerings could provide potential upside for TTV's earnings.

**Key risks** include technology obsolescence, weaker-than-expected sales, and unfavourable FX rates.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 47 | 53 | 58 |
| Reported net profit (MYRm) | 8 | 10 | 11 |
| Recurring net profit (MYRm) | 8 | 11 | 12 |
| Recurring net profit growth (%) | 1,752.5 | 34.0 | 7.0 |
| Recurring EPS (MYR) | 0.02 | 0.02 | 0.02 |
| DPS (MYR) | 0.00 | 0.00 | 0.00 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 |
| Recurring P/E (x) | 70.1 | 52.3 | 48.9 |
| Return on average equity (%) | 31.5 | 17.6 | 13.0 |
| P/B (x) | 11.0 | 9.2 | 5.7 |
| P/CF (x) | 206.8 | (80.2) | 4.0 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 45 | 61 | 102 |
| Total assets | 81 | 95 | 138 |
| Total current liabilities | 15 | 18 | 27 |
| Total non-current liabilities | 13 | 15 | 9 |
| Total liabilities | 28 | 32 | 36 |
| Shareholder's equity | 53 | 63 | 102 |
| Minority interest | 0 | 0 | 0 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 81 | 95 | 138 |
| Total debt | 9 | 10 | 0 |
| Net debt | 3 | 2 | (30) |

*Source: Company data, RHB*

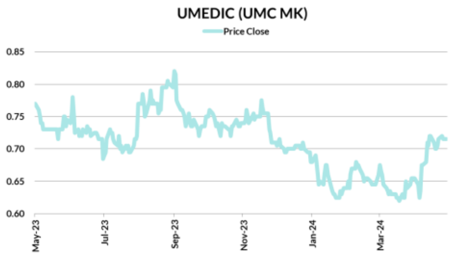
| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | 3 | (7) | 8 |
| Cash flow from investing activities | (1) | 8 | (3) |
| Cash flow from financing activities | 1 | 1 | 17 |
| Cash at beginning of period | 3 | 5 | 8 |
| Net change in cash | 3 | 2 | 22 |
| Ending balance cash | 5 | 8 | 30 |

*Source: Company data, RHB*

# UMediC

## Capacity Expansions To Fuel Earnings Growth

**Fair Value:** MYR0.96-1.05
**Price:** MYR0.70




*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | UMC MK |
| Avg Turnover (MYR/USD) | 0.47m/0.1m |
| Net Gearing (%) | Net cash |
| Market Cap (MYRm) | 259.9 |
| Beta (x) | 0.8 |
| BVPS (MYR) | 0.17 |
| 52-wk Price low/high (MYR) | 0.615 - 0.83 |
| Free float (%) | 26 |

**Major Shareholders (%)**

| | |
|---|---|
| UMediC Capital | 51.4 |
| Ng Chai Eng | 5.5 |
| Lim Taw Seong | 5.1 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 6.1 | 8.6 | (6.1) | (9.2) |
| Relative | 2.9 | 4.1 | (16.8) | (21.6) |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## Investment Merits

- Established >20-year track record in distributing medical devices
- High margins from in-house R&D activities
- Completed expansion to double its manufacturing capacity
- Strengthening its presence with new marketing and distribution offices

## Company Profile

UMediC (UMC) is involved in marketing and distributing various medical devices – eg life support, ultrasound, and patient monitoring – and has an established track record of more than 20 years. It is the authorised distributor of established international medical device companies, and distributes such products to hundreds of public and private hospital customers. The company is also involved in the development and manufacturing of medical consumables, particularly pre-filled humidifiers and inhaler spaces.

## Highlights

**Established relationships.** UMC's main revenue contributor (67% of 1HFY24 (Jul) revenue) is its marketing and distribution segment. Over the past two decades, the company has built strong relationships with various medical device companies – eg Philips, Mindray, General Electric, and Merit Medical – to be their authorised distributor. UMC also provides after-sales services and recently ventured into the laboratory segment following the strategic acquisition of Patho Solutions (M). As the company focuses on distributing high-value, critical medical devices, management guided that GPMs will be high, ie between 35% and 40%. As part of the utilisation of its IPO proceeds, UMC will set up new marketing and distribution offices in Kuala Lumpur and Johor. It believes the new offices will provide a better opportunity to market its products, as customers will be able to visit and better test the devices in person.

**Factory expansion.** UMC's manufacturing segment is set to drive earnings growth in the next few years following the completed expansion of its new factory. This will double its manufacturing capacity from 300k bottles per month to 600k and, while operations have commenced in 3QFY24, it will gradually be ramped up to full capacity by the end of the calendar year. With an in-house R&D department, UMC will utilise the new space to launch new products and ramp up production on its HYDROX pre-filled humidifiers. Other in-house manufactured products include its AIRDROX inhaler spacer (awarded Malaysia Technology Expo's best innovation award) and newly launched HYDROX pre-filled nebuliser. The company is able to grow its manufacturing revenue from overseas, particularly from Europe, as pricing of its products is cheaper than the equivalent in those markets without compromising on quality.

**Beneficiary of an expanded healthcare budget.** In Budget 2024, the Ministry of Health received the second-highest allocation amounting to MYR41.2bn, or a 13% increase over the MYR36.3bn allocated under Budget 2023. We think UMC will be a direct beneficiary of this trend (ie of more allocations), as it will increase the demand for medical equipment and consumables. Some notable items in the budget that will benefit the company include the replacement of beyond-economic-repair equipment (MYR766m), upgrading of dilapidated clinics (MYR300m), and allocations for medicine supplies and consumables (MYR5.5bn).

## Company Report Card

**Results highlights.** 1HFY24 revenue grew by 18%, as both the distribution and manufacturing segments saw increased demand. Core profit increased 9% YoY (after subtracting listing expenses related to the Main Market transfer), as operating costs increased from personnel hires in preparation for the capacity expenses, as well as higher tax rates due to the recognition of non-tax-deductible expenses and overestimation of capital allowances.

**Strong net cash position.** UMC is in a net cash position following its listing in FY22 (net cash of MYR17.3m in FY23). Its ROE has ranged between 12% and 17% over the past two years. We expect ROE to remain in this range, given that earnings are set to trend upwards.

**Dividends.** UMC does not have a dividend policy.

**Management.** Group CEO and Executive Director Lim Taw Seong has been with UMC for over two decades, and started his career as a sales executive. Lim was appointed to his current position in 2021. He has contributed significantly to the company – securing distributorships from multiple established medical device companies, setting up the R&D division, and expanding UMC's customer network overseas.

## Investment Case

**FV of MYR0.96-1.05.** We believe UMC's current market valuation is undemanding at just 17x forward 12-month P/E. We derive a FV of MYR0.96-1.05 based on 23-25x P/E on FY25F earnings, which is in line with the 5-year KL Healthcare Index mean. We believe our target valuation is fair, despite UMC's smaller market capitalisation, due to its stronger forecasted 3-year earnings CAGR of 19%. The stock's valuation is also well below the current index P/E of 34x. UMC completed its transfer to the Main Market of Bursa Malaysia from the ACE Market on 29 Apr.

**Key risks** include higher-than-expected operating expenses, slower-than-expected public healthcare expenditure, and weaker-than-expected demand.

| Profit & Loss | Jul-21 | Jul-22 | Jul-23 |
|---|---|---|---|
| Total turnover (MYRm) | 34 | 51 | 45 |
| Reported net profit (MYRm) | 5 | 6 | 10 |
| Recurring net profit (MYRm) | 5 | 6 | 10 |
| Recurring net profit growth (%) | 110.3 | 26.0 | 60.7 |
| Recurring EPS (MYR) | 0.01 | 0.02 | 0.03 |
| DPS (MYR) | 0.00 | 0.00 | 0.00 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 |
| Recurring P/E (x) | 51.1 | 40.5 | 25.2 |
| Return on average equity (%) | 64.6 | 18.7 | 17.7 |
| P/B (x) | 16.5 | 4.9 | 4.1 |
| P/CF (x) | 4.0 | 30.7 | 5.0 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Jul-21 | Jul-22 | Jul-23 |
|---|---|---|---|
| Total current assets | 23 | 43 | 44 |
| Total assets | 50 | 69 | 73 |
| Total current liabilities | 19 | 7 | 4 |
| Total non-current liabilities | 15 | 9 | 6 |
| Total liabilities | 34 | 16 | 10 |
| Shareholder's equity | 16 | 53 | 63 |
| Minority interest | 0 | 0 | 0 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 50 | 69 | 73 |
| Total debt | 25 | 8 | 4 |
| Net debt/(cash) | 22 | (17) | (14) |

*Source: Company data, RHB*

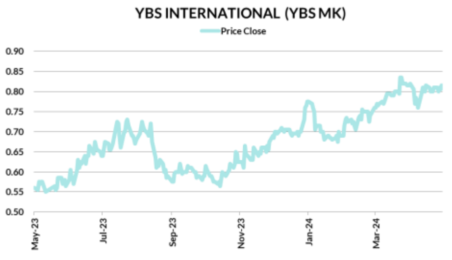
| Cash Flow (MYRm) | Jul-21 | Jul-22 | Jul-23 |
|---|---|---|---|
| Cash flow from operations | 4 | 8 | 2 |
| Cash flow from investing activitie | (9) | (22) | 5 |
| Cash flow from financing activitie | 5 | 15 | (4) |
| Cash at beginning of period | 0 | 3 | 25 |
| Net change in cash | (1) | 1 | 2 |
| Ending balance cash | 3 | 25 | 18 |

*Source: Company data, RHB*

# YBS International

## Proxy To Enovix's Growth And More

**Fair Value:** MYR0.98-1.40
**Price:** MYR0.82




*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | YBS MK |
| Avg Turnover (MYR/USD) | 5.09m/1.07m |
| Net Gearing (%) | 63.5 |
| Market Cap (MYRm) | 212.3 |
| Beta (x) | 0.8 |
| BVPS (MYR) | 0.20 |
| 52-wk Price low/high (MYR) | 0.51 - 0.84 |
| Free float (%) | 66 |

**Major Shareholders (%)**

| | |
|---|---|
| Cheah Jik Capital | 13.9 |
| Indowang | 13.9 |
| Hong Leong Asset Management | 6.0 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 0.0 | 18.1 | 30.4 | 43.0 |
| Relative | (3.2) | 13.6 | 19.6 | 30.5 |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## Investment Merits

- Massive potential riding on Enovix's commercialisation of active silicon lithium-ion batteries
- Beneficiary of the recovery in demand for precision components in the telecommunications and E&E space
- Sensible valuation – at 15x FY23F (Mar) P/E – allows investors to capitalise on the exponential growth potential of the company

## Company Profile

YBS International (YBS) is principally engaged in precision machining and stamping of components, precision engineering and plastic injection moulding, manufacture & assembly of electronic components, and manufacture of paper honeycomb products. The group has seven manufacturing operations – three in Johor, two in Penang, one in Ho Chi Minh City, Vietnam, and one in Kerala, India.

## Highlights

**Massive growth potential.** YBS entered into a master service agreement with Enovix Corp (Enovix) to manufacture state-of the-art silicon-anode, lithium-ion batteries in its plant in Penang. This technology breakthrough by Enovix is patented and enables higher energy density and capacity without compromising on safety. The pressing needs of an increasing battery size to cater for applications and artificial intelligence (AI) opens up massive opportunities for this new technology, especially when the device size is maxed out. Based on company disclosure, there is a total addressable market of USD12bn (1.2bn units) in the smartphone segment alone, and another USD12bn in IoT and computing segments. It can be widely used in wearables and IoT, smartphones, laptops and tablets, and in the industrial, medical, and EV industries. In addition, the cell architecture has thermal advantages to enable fast charging, improving the lifecycle that is suitable for EVs in the product roadmap rollout.

**A proxy to the proliferation of silicon lithium-ion cells.** YBS co-invested in the first production line, as well as provided the building and labour as specified in the manufacturing agreement, with volume undertaking from Enovix. Based on the outlook guidance by Enovix, high-volume production of EX-1M Cells is expected to begin in 2Q24 for certain smartphone and IoT product launches in 2024 and 2025, followed by EX-2M Cells in 4Q24/1H25. The accelerated installation of a second line and beyond by Enovix points to a highly promising outlook for YBS, and its confidence in securing customers' orders. We understand that YBS can achieve positive operational profit, even during the ramp-up period. This profit should grow exponentially once the production volume scales upwards. The biggest growth catalyst should come from the proliferation of Enovix products, in our view.

**Existing core business to recover.** YBS' precision machining and stamping, as well as injection moulding serves global multi-national corporations in the telecommunications, E&E, aerospace, and automotive industries. Its niche capabilities in small and lightweight parts with precise tolerance at competitive prices are among its key differentiators. The recovery of the semiconductor and E&E sectors are expected to boost orders and improve the utilisation rate of its existing bread-and-butter business. Another segment of growth could come from its electronics manufacturing services (EMS) business – which is currently in the red. This segment is set for a boost, with more consignment projects secured. Meanwhile, the paper products segment is set to sustain its growth momentum and add to the bottomline.

## Company Report Card

**Results highlights.** YBS chalked a 9MFY24 loss MYR2.5m from a profit of MYR3.0m in 9MFY23, even though revenue grew 3% YoY. The lacklustre performance was mainly due to the lower demand in the precision engineering and plastic injection mouldings segment, impacted by weak market conditions as the overall E&E industry was undergoing an inventory correction. These came on top of an increase in operating costs and pre-operating expenses in preparation for the Enovix project. The revenue growth was boosted by a higher contribution from the paper products segment.

**Balance sheet/cash flow.** YBS' 9MFY24 gearing was at 0.76 – the majority of the borrowings are for the construction and machinery for its new factory in Penang that is currently occupied by Enovix. The gearing level may continue to inch upwards, before tapering off when production kicks off and it can begin to recover the cash.

**Dividends.** We expect ROE to increase to a high single digit or low double digits, as profitability should improve, given the contributions from new projects and the recovery in its existing businesses.

**Management.** Yong Chan Cheah is the Managing Director, with over 18 years of experience in marketing metal and plastics components. He co-founded Oriental Fastech Manufacturing, a key operating unit of YBS, with his brother Yong Swee Chuan in 2006. Yong Swee Chuan, an Executive Director, has over 18 years of experience specialising in metal works and welding, as well as tool and automation fabrication and modification in Malaysia and Singapore.

## Investment Case

**Huge upside potential, sensible valuation.** We believe the successful commercialisation of Enovix's product will contribute to a huge spike in production volume – which should fuel YBS' exponential earnings growth in the years to come. Best of all, the risk is very minimal for YBS (being the contract manufacturer) – given the volume undertaking by Enovix regardless of whether the commercialisation of the product is successful or not. Based on a target P/E range of 20-22x on FY25-26F earnings, we derive a FV range of MYR0.98-1.40. We believe our valuation is fair, as it is still at a discount to KLTEC's 5-year mean P/E of 25x.

**Key downside risks** include the escalation of input costs, slower orders, unfavourable FX rates and high gearing levels.

| Profit & Loss | Mar-21 | Mar-22 | Mar-23 |
|---|---|---|---|
| Total turnover (MYRm) | 63 | 80 | 89 |
| Reported net profit (MYRm) | 2 | 6 | 4 |
| Recurring net profit (MYRm) | 2 | 6 | 4 |
| Recurring net profit growth (%) | 259.9 | 180.7 | (35.0) |
| Recurring EPS (MYR) | 0.01 | 0.02 | 0.02 |
| DPS (MYR) | 0.00 | 0.00 | 0.00 |
| Dividend Yield (%) | n.m. | n.m. | n.m. |
| Recurring P/E (x) | 89.8 | 32.8 | 51.3 |
| Return on average equity (%) | 3.7 | 9.4 | 5.6 |
| P/B (x) | 3.2 | 2.9 | 2.8 |
| P/CF (x) | 23.0 | 44.6 | 18.2 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 36 | 45 | 53 |
| Total assets | 107 | 133 | 160 |
| Total current liabilities | 17 | 20 | 32 |
| Total non-current liabilities | 27 | 41 | 52 |
| Total liabilities | 44 | 61 | 84 |
| Shareholder's equity | 62 | 69 | 74 |
| Minority interest | 1 | 2 | 2 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 107 | 133 | 160 |
| Total debt | 31 | 48 | 61 |
| Net debt | 22 | 38 | 47 |

*Source: Company data, RHB*

| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | 9 | 5 | 11 |
| Cash flow from investing activities | (6) | (22) | (21) |
| Cash flow from financing activities | (0) | 18 | 12 |
| Cash at beginning of period | 7 | 10 | 11 |
| Net change in cash | 4 | 1 | 3 |
| Ending balance cash | 10 | 11 | 14 |

*Source: Company data, RHB*

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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 |
| **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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