

20 June 2022

Sedania Innovator Berhad

An ESG Solution Provider

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INVESTMENT MERIT

We are highlighting SEDANIA as a potential ESG play, which may appeal to the more ESG-conscious investors seeking exposure within this space. Through its Sustainable Energy segment, SEDANIA primarily offers energy sustainability services which aim to help organisations reduce carbon emissions, while under its Sustainable Healthcare segment, the group offers eco-friendly baby products under the brand name “Offspring”. The group is expected to post decent strong earnings growth in FY22-23 upon the fruition of its expansion plans.

Creating environmental-friendly solutions. By providing fully-funded energy-efficiency solutions and renewable energy systems, SEDANIA’s GreenTech Solutions segment (60% of FY21 operating profit) helps other companies reduce their carbon footprint by retrofitting buildings with holistic energy efficiency and sustainable energy systems that operate on 20-30% lower energy consumption and 30-40% lower energy cost. SEDANIA acts as the financier, project manager, system designer, and appoints suitable technology providers, essentially providing a single contact and performance accountability to the client.

Environmental and financial sense. Financially, the Sustainable Energy segment could be the main earnings driver for the Group going forward given its reputable client base consisting of GLCs and blue-chip companies such as AmBank, Maybank, TM, Pos Malaysia and more. A typical project would provide the Group with earnings for 7-10 years (with the bulk of earnings in Year 1) on attractive project profit margins of 40% and ROI of 15-20%. Environmentally, this segment had since transformed 366 buildings, saving a total of 66 gigawatt hours of energy and 45,000 tonnes of CO2 - equivalent to 772,000 trees planted.

Consumer-centric products. The group’s baby product brand, Offspring, is marketed as eco-friendly and preventive, reducing CO2 emissions by being plant-based and biodegradable. Its list of certifications is one of the most extensive in the market even when compared to the main brands, and include being certified organic, allergy safe, EWG verified (free from eco-toxicity and harmful ingredients, meets EWG’s strict health standards and has undergone safe manufacturing process), certified FSC (products come from responsibly-managed forest that provide environment, social and economic benefits, certified cruelty free and vegan (not tested on animals), and certified non-toxic. Offspring enjoyed rapid growth in the past few years and has now expanded to over 20 countries. Its online-first multi-channel sales strategy encompasses Offspring’s own web store as well as e-marketplaces such as Amazon, Shopee, Lazada, etc.

Earnings growth prospects. We are looking at possible strong earnings growth for FY22-23. Via its Sustainable Energy segment, the group is expected to benefit from further expansion plans of some of its key clients (e.g. Pos Malaysia, Telekom), as well as through the expansion of services offered in the sustainability spectrum. Meanwhile, its Sustainable Healthcare segment expanded into 13 new countries in 2021 as well as Togo and Nigeria in 2022, all of which are expected to start contributing to the Group’s revenue in 2022 while further market expansions is expected in FY22-23.

| | Rating | Fair Value |
|-------------------|-----------|------------|
| Last Price | - | RM0.410 |
| Kenanga Consensus | NOT RATED | NOT RATED |

Stock Information

| | |
|------------------------|-------------------------|
| Shariah Compliant | Yes |
| Stock Name | SEDANIA INNOVATOR |
| CAT Code | 0178 |
| Industry | Telecommunications |
| Industry Sub-sector | Telecommunication Equip |
| YTD stock price chg | -20.39% |
| Market Cap (RM m) | 142.35 |
| Shares Outstanding (m) | 347.19 |
| 52-week range (Hi) | 1.2 |
| 52-week range (Low) | 0.285 |
| 3-mth avg daily vol | 9,412,418 |
| Free Float | 41.6% |
| Beta | 0.27 |
| Altman’s Z-score | 7.24 |

Major Shareholders

| | |
|-------------------|-------|
| SCSB | 31.3% |
| Faroz Bin Mohamed | 13.4% |
| Nasri Bin Nasrun | 4.0% |

Financials

| FY Dec (RM m) | 2021A | 2022E | 2023E |
|--------------------|------------|-------------|-------------|
| Revenue | 49.1 | 67.0 | 76.3 |
| PBT | 12.2 | 18.5 | 21.6 |
| PATAMI | 8.5 | 15.7 | 18.3 |
| EPS (sen) | 2.5 | 4.5 | 5.3 |
| BV/Share (RM) | 0.1 | 0.2 | 0.2 |
| PER (x) | 14.5 | 7.9 | 6.7 |
| PBV (x) | 3.2 | 2.3 | 1.7 |
| Net-gearing (x) | N.Cash | N.Cash | N.Cash |
| DPS (sen) | 0.0 | 0.0 | 0.0 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 |

Quarterly Financial Data (RM m)

| | 3Q21 | 4Q21 | 1Q22 |
|----------------------|------|------|------|
| Revenue | 10.3 | 10.9 | 9.0 |
| Operating Profit | 3.5 | 2.3 | 0.9 |
| PBT | 2.3 | 1.4 | 0.8 |
| PATAMI | 1.2 | 0.6 | 0.3 |
| EPS (sen) | 0.4 | 0.2 | 0.1 |
| Revenue Growth (QoQ) | -5% | 7% | -17% |
| EPS growth (QoQ) | -50% | -52% | -53% |
| PATAMI Margin | 12% | 5% | 3% |

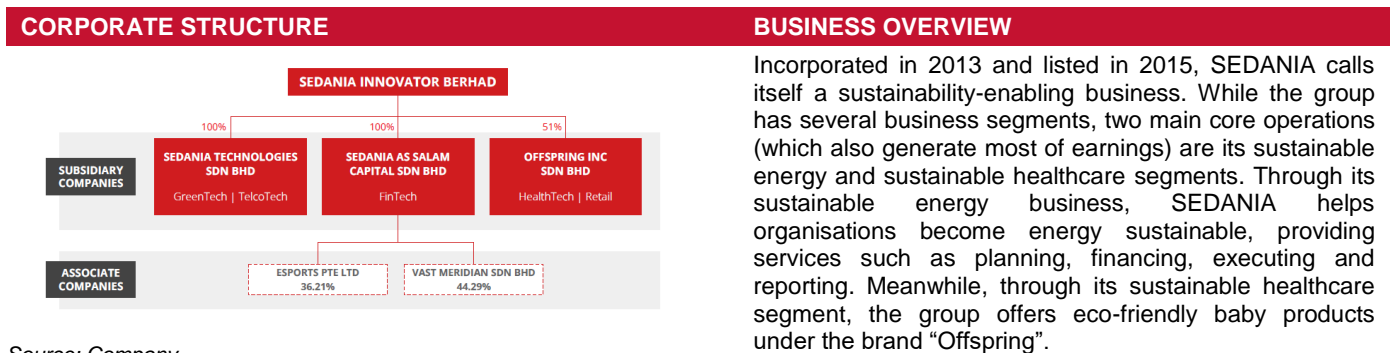
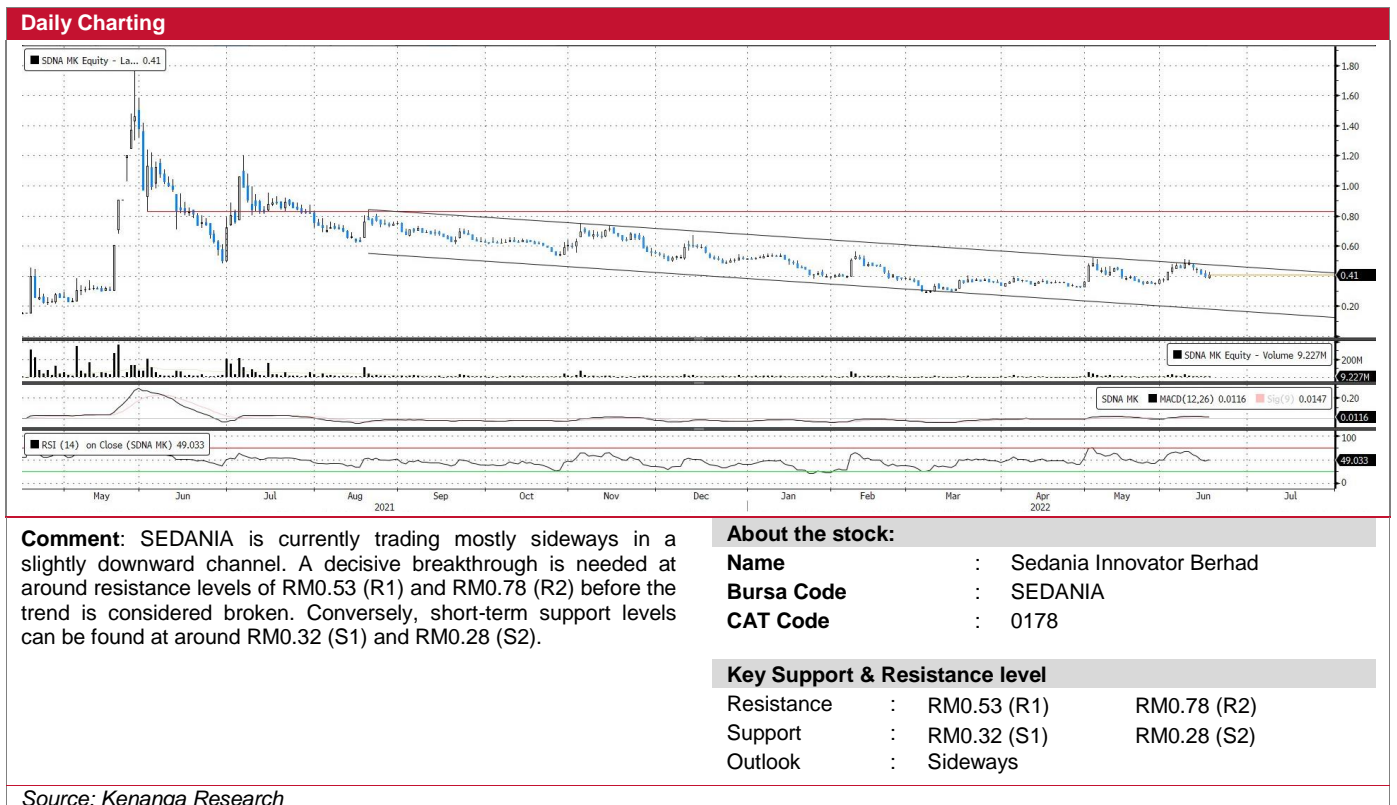
| Peers Comparisons | PER (x) | Div. Yld. (%) | Mkt. Cap (RM m) |
|-------------------|---------|---------------|-----------------|
| HSSEB | 15.0 | 1.5 | 230.6 |
| NTPM | 14.3 | - | 482.9 |

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ESG analysis. We have scored SEDANIA 73% based on our proprietary ESG scoring method. What we like most about SEDANIA is its value creation through providing ESG solutions through its Sustainable Energy segment while its Sustainable Healthcare segment check most of the “Social” boxes in terms of product quality and safety. Environmental data tracking could be better from an ESG disclosure level, but we are also cognisant of the fact that disclosures alone are more often than not, lip service while SEDANIA’s role as an ESG solution provider should be rewarded in terms of valuations.

Just as a point of reference, companies at the top-end of the data tracking spectrum would have clearly defined ESG targets and YoY data comparison to internal targets. Channel checks with management indicate that the Group is committed to including more clearly defined ESG targets and YoY data comparison in the upcoming Annual Report.

NOT RATED. Comparable peers are (i) HSSEB (engineering consultancy) for its sustainable energy consultancy segment, which is trading at a 1-2 year forward valuation of 15-11x PER, and (ii) NTPM (consumer products) for its sustainable healthcare product segment, which is trading at a 1-2 year forward valuation of 14-11x PER, although we believe a discount against peers should be warranted given the stock’s smaller market cap. Nonetheless, we are keeping this stock on our radar for now, and may look towards further updates in the future once we have clearer visibility of its rating catalysts.



Source: Company

BUSINESS OVERVIEW

Incorporated in 2013 and listed in 2015, SEDANIA calls itself a sustainability-enabling business. While the group has several business segments, two main core operations (which also generate most of earnings) are its sustainable energy and sustainable healthcare segments. Through its sustainable energy business, SEDANIA helps organisations become energy sustainable, providing services such as planning, financing, executing and reporting. Meanwhile, through its sustainable healthcare segment, the group offers eco-friendly baby products under the brand “Offspring”.

BUSINESS SEGMENTS

Sustainable Healthcare, Sustainable Energy, FinTech, TelcoTech.

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