INVESTMENT BANKING
Top Malaysia Small Cap Companies

20 Jewels 2022 Edition

RHB

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TOP MALAYSIA
SMALL CAP COMPANIES

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20 JEWELS

2022 EDITION

MALAYSIA

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

CONTENTS

List Of Companies By Alphabetical Order

List Of Companies By Industry Classification

Foreword

We cherish the launch of the 18th edition of Top Malaysia 20 Jewels 2022, encouraged by the country's transition into the endemic phase after two long years of fighting the pandemic. RHB Research continues to persevere and maintain our unwavering commitment towards producing yet another signature compendium of 20 top small-cap investment ideas despite the extremely challenging macroeconomic environment. We acknowledge that the investment process is a journey and not a sprint race – there are always opportunities in the market if one looks hard enough.

As we move forward – moving away from this recent difficult period – we see light at the end of tunnel, given a gradual normalisation of business conditions and what appears to be a receding pandemic in most countries. As such, our Top 20 Jewels 2022 is indeed timely, as we continue to see persistent investor interest in new small-cap ideas to generate alpha for their respective portfolios. While our selection has been complicated by capital market volatility – buffeted by rising interest rates, high inflation, the Russia-Ukraine conflict, and draconian lockdowns in China – we see a strong rebound in economic activities, with manufacturing and retail spending recovering swiftly. Valuation for small-cap stocks have also retraced, leading to a sizeable valuation gap to the big caps, making the investment thesis more compelling. The 20 companies featured in this year's book are not within RHB Research's existing coverage, given that we continue to explore new investment ideas. Companies from 10 different sectors with an average market cap of MYR509m have been curated into this 2022 edition. Consumer and industrial products & services sectors feature prominently, making up 45% of our picks. All but five – which are Ace Market listed – of the 20 names reside on the Main Market.

RHB's longstanding commitment towards small-cap research has produced many multi-bagger stock ideas that have benefitted the investment community. We continue to believe in the value of this signature product and strive to be at the forefront of small-cap research in Malaysia and the region. This Top Malaysia 20 Jewels is part of a regional compendium that includes Indonesia, Singapore, and Thailand editions. Combined, we are looking at 80 small-cap ideas.

We would like to thank the management teams of the featured firms for their generous time in helping us understand their business model and future prospects. Much credit is also due to RHB analysts who have spent countless hours producing this compendium.

RHB Research is grateful and humbled by the unwavering support from investors and clients. We reiterate our commitment to continue seeking out new high-quality investment ideas and certainly hope you will find our book useful in your investment journey ahead.

Lee Meng Horng
Head of RHB Malaysia Small Cap Research

Alexander Chia
Head of RHB Regional Research

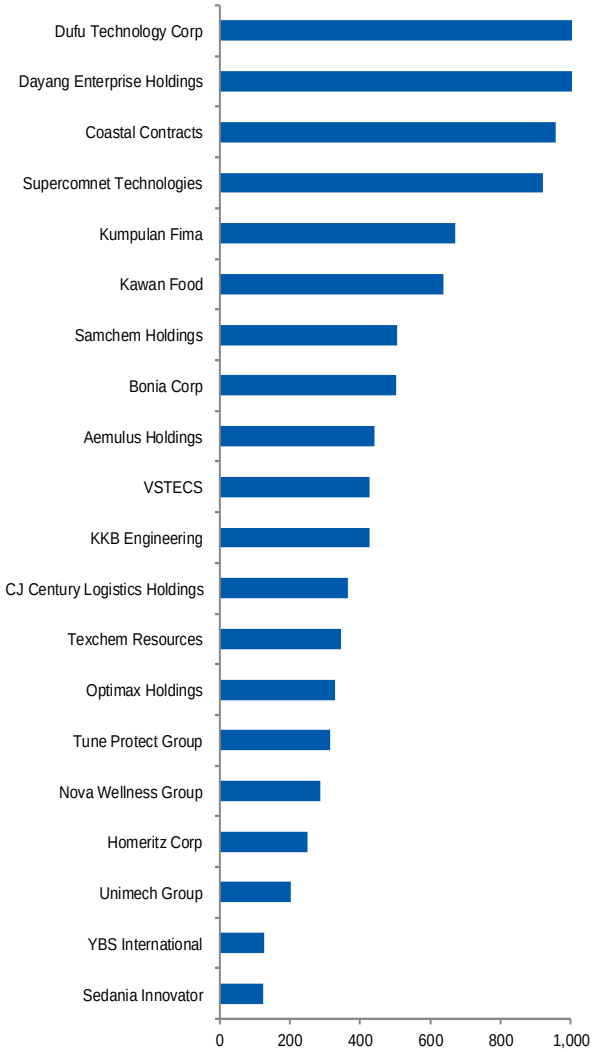
12 May 2022

20 Jewels – at a glance

Company name	FV	Mkt Cp	P/E (x)		P/BV (x)		Div Yield (%)		ROE (%)	
	(MYR)	(MYRm)	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21
Aemulus Holdings	1.09-1.28	440.5	nm	38.3	3.6	3.6	0.0	0.0	nm	9.8
Bonia Corporation	2.96-3.33	503.1	191.5	36.3	1.5	1.4	1.0	1.6	0.8	4.4
CJ Century Logistics Holdings	0.78-0.91	365.0	8.8	15.5	0.7	0.7	0.0	0.0	8.0	4.5
Coastal Contracts	2.39-2.60	957.1	17.3	20.8	0.9	0.9	0.0	0.0	5.0	4.3
Dayang Enterprise Holdings	1.18-1.27	1007.3	17.6	21.1	0.5	0.6	0.0	1.7	3.6	3.1
Dufu Technology Corp	3.06-3.76	1333.2	26.5	18.6	5.3	4.4	2.0	2.8	20.2	23.6
Homeritz Corporation	0.76-0.82	249.7	7.4	10.5	1.0	1.2	1.7	4.2	14.2	11.7
Kawan Food	2.11-2.56	638.4	23.2	18.7	1.9	1.7	1.4	1.7	8.4	9.1
Kumpulan Fima	3.00	671.0	23.4	13.5	0.9	0.9	3.7	4.9	3.6	6.2
KKB Engineering	1.90	427.3	21.6	12.8	1.0	0.9	2.7	3.38	5.2	7.0
Nova Wellness Group	1.10-1.20	286.0	22.1	19.8	3.3	3.1	1.6	3.3	15.9	16.1
Optimax Holdings	0.76-0.81	329.4	58.9	27.0	6.9	6.0	0.0	3.1	16.0	23.9
Samchem Holdings	1.55-1.70	505.9	12.4	6.7	2.7	2.1	2.3	4.3	23.6	34.6
Sedania Innovator	0.61-0.75	125.0	nm	14.7	6.1	3.0	0.0	0.0	(42.3)	31.1
Supercomnet Technologies	1.50-1.62	921.7	34.9	36.3	3.4	3.0	1.2	1.2	9.7	8.2
Texchem Resources	4.49-6.18	347.1	95.9	14.5	1.4	1.2	0.0	3.4	1.6	9.9
Tune Protect Group	0.61-0.65	315.7	17.17	nm	0.5	0.6	0.0	0.0	3.2	(2.7)
Unimech Group	2.05-2.22	203.7	12.4	8.5	0.8	0.7	2.5	3.3	6.2	8.6
VSTECS	1.51-1.85	428.1	12.1	8.1	1.3	1.2	2.8	4.6	11.5	15.5
YBS International	0.73-0.80	128.4	201.3	56.2	2.1	2.0	0.0	0.0	1.1	3.7

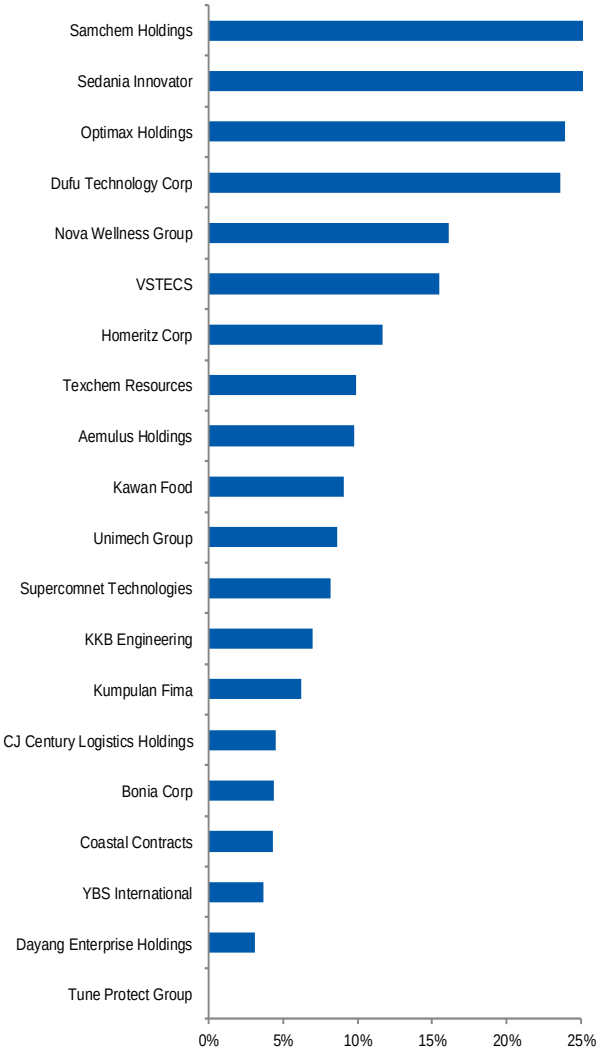
Note: All prices as at 29 April 2022
Note 2: na = not available
Source: Bloomberg, RHB

Market capitalisation of the Top 20 (MYRm)



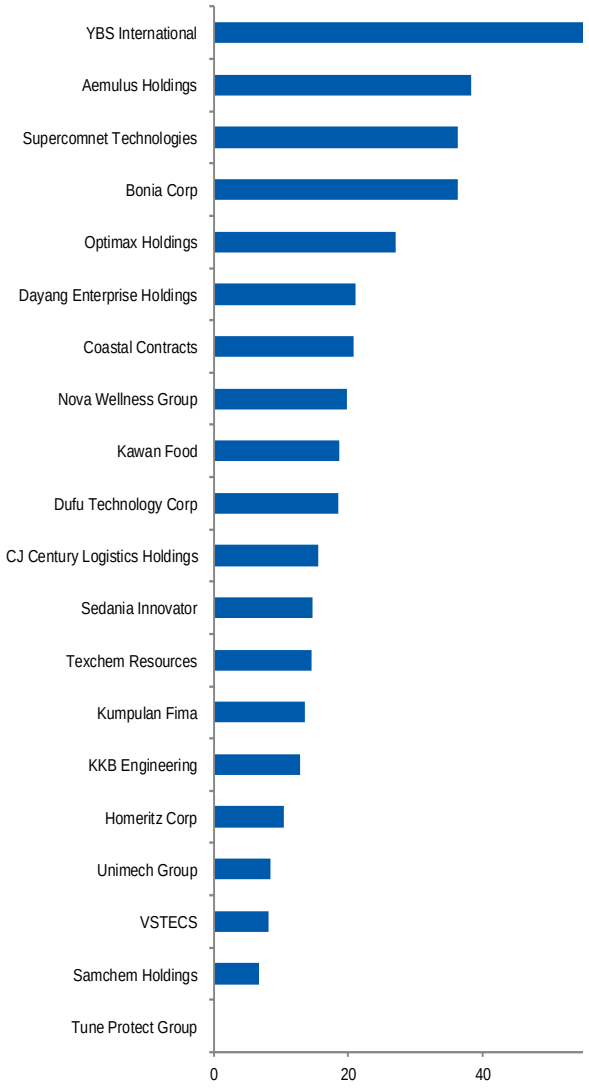
Source: Bloomberg, RHB

FY21 ROE of the Top 20



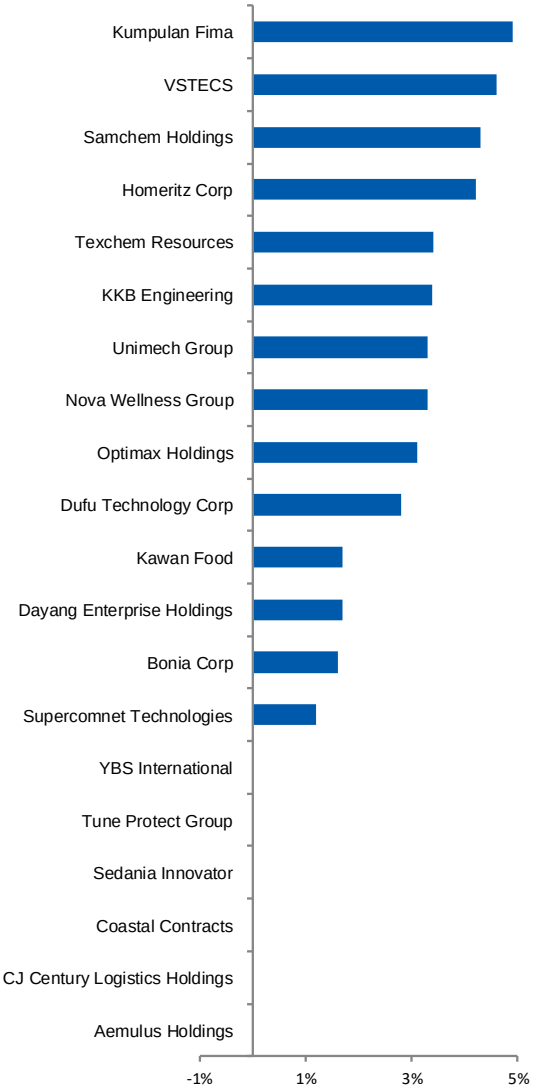
Source: Bloomberg, RHB

FY21 P/E of the Top 20 (x)



Source: Bloomberg, RHB

FY21 dividend yield for the Top 20

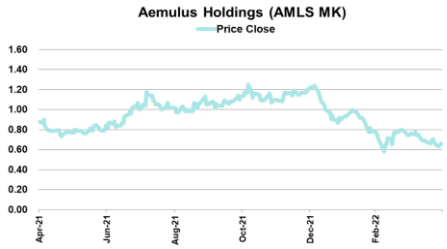


Source: Bloomberg, RHB

Aemulus Holdings

Achieving Greater Heights

Fair Value: MYR1.09-1.28
Price: MYR0.66



Source: Bloomberg

Stock Profile

Bloomberg Ticker	AMLS MK
Avg Turnover (MYR/USD)	11.64m/2.86m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	440.5
Beta (x)	0.9
BVPS (MYR)	0.17
52-wk Price low/high (MYR)	0.565 - 1.26
Free float (%)	57

Major Shareholders (%)

Cyrstal Clear L Foundation	10.1
Yeoh Chee Keong	8.2
Aemulus Venture Sdn. Bhd.	5.5

Share Performance (%)

	1m	3m	6m	12m
Absolute	(11.5)	(36.9)	(47.0)	(19.6)
Relative	(8.5)	(35.5)	(49.4)	(18.2)

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Investment Merits

- Massive growth prospects with the proliferation of 5G;
- Wider adoption of CMOS image sensor tester;
- Riding the China semiconductor boom.

Company Profile

Aemulus Holdings is principally involved in the design and development of automated test equipment (ATE), test & measurement instruments, and provision of design consultancy and test-related services. Since 2005, the ATE unit has targeted the semiconductor industry. It focuses on radio frequency (RF), image sensors, and mixed-signal semiconductor test markets. This is followed by the automotive and lighting industries.

Highlights

Fulfilling the potential of CMOS image sensor (CIS) Tester. Building from the recent big orders for AMB5600-CIS tester solutions from a major Chinese customer (worth MYR22m in Aug 2021), we can expect further growth to this segment. This is given the enormous addressable market for surveillance, and 3D sensing, as well as cameras in Internet of Things or IoT devices, smartphones, and automotive applications. Additionally, the tester can be further customised to cater for higher-end solutions (with higher ASPs and margins) at the front-end wafer level as well as display driver integrated circuits or DDIC testing. Given the increasing pin counts and integrated circuits or ICs needed for larger panels and screen sizes in electronics devices – coupled with technological evolution such as electric vehicles or EVs and the Metaverse – the test market is set to expand swiftly with increased functionality and longer test times.

5G technology a paradigm shift. The proliferation of 5G technology creates exponential demand growth for signal testing in 5G-related components, eg filters, power amplifiers, transceivers, switches, and chipsets. Aemulus has successfully penetrated into the supply chain of high growth RF component leading players in China over the past two years. By boosting testers in both RF (AMB7600-S) and RF surface acoustic wave or SAW (AMB7300) filters, the high growth in 5G content, higher adoption, and increased complexity should bode well for Aemulus, given its strategy to capture the enormous market size in China for many years to come.

Growing China presence. Aemulus recently injected CNY10m worth of cash capital into 40%-owned TMSS Technology (TMSS) – a JV with Tangren Microintelligence – to fund working capital requirements. This will allow TMSS to expand its production lines and headcount. It also indicates the group's confidence and focus towards growing its presence in the China market. Ever since the divergence of the semiconductor supply chain in 2019 – incited by ex-US President Donald Trump's protectionist trade policies – there has been an

abundance of opportunities. This is primarily because of China's bid to be self-sustaining in the semiconductor ecosystem by localising 70% of the USD300bn worth of semiconductor goods via the Made in China 2025 policy. TMSS recorded a profit of CNY1.13m (c.MYR750k) as of 31 Dec 2021 and is expected to improve further, given larger capacity and the gaining of more traction with its products.

Company Report Card

Latest results. Aemulus' 2QFY22 (Sep) revenue was a record high at MYR19.2m (+3.4% QoQ, +21% YoY) with strong demand from China for its CMOS image sensors, RF filters, and automotive products. Topline contributions from China increased 62% YoY to yet another record, thanks to Aemulus' strategy to grow its market there by linking up with a Chinese partner.

Balance sheet/cash flow. As of 2QFY21, Aemulus is in a net cash position, ie MYR0.07 per share. The negative cash flows from operations were largely on an increase in inventory given the longer lead time for major materials and rise in receivables with growing revenue.

ROE is expected to trend higher and reach the high teens in FY22, as the group returns to profitability – boosted by margins expansion and higher asset turnovers thanks to the robust orderbook.

Dividend. There is no dividend policy, but we can expect a modest payout in FY22 and FY23 with expectations of improved profitability.

Management. Aemulus is headed by the single-largest shareholder, ie Executive Director/CEO Ng Sang Beng. Ng is supported by Executive Director/COO Yeoh Chee Keong, Executive Director/CTO Wong Shee Kian, and Executive Director/CFO Ng Chin Wah. They share extensive professional experiences in the semiconductor sector and hold substantial stakes within the group.

Investment Case

Gaining prominence in CIS tester and capturing the enormous China market. Building on FY21's successful turnaround, we expect FY22 to scale to new highs and begin the start of a multi-year exponential growth with greater demand for Aemulus' testers. This will be spurred by the enormous addressable market for the 5G, surveillance, 3D sensing, cameras in IoT devices, larger panels/screen sizes, smartphones, and automotive segments in our view. Partnering with TMSS enables Aemulus to capture the tremendous growth opportunity in the Made in China 2025 policy. With a healthy orderbook and its products gaining more traction in China, this should it towards achieving a remarkable year. Further growth can be stemmed from new product launches given the ongoing extensive R&D activities.

Fair value. Pegged to a target 30-35x P/E on FY23F earnings, fair value could range between MYR1.09 and MYR1.28. The target P/E is within the range of the 5-year mean for the local equipment players (30-42x). We believe Aemulus will continue to re-rate with its steady earnings delivery, main market transfer, growing tester solutions, and R&D capability to innovate and capture growing technology trends.

Key risks include technology obsolescence, slower market expansion in China, weaker-than-expected sales, and unfavourable FX.

Profit & Loss	Sep-19	Sep-20	Sep-21
Total turnover (MYRm)	29	19	61
Reported net profit (MYRm)	(3)	(4)	10
Recurring net profit (MYRm)	(3)	(4)	10
Recurring net profit growth (%)	n.m.	n.m.	n.m.
Recurring EPS (MYR)	(0.01)	(0.01)	0.02
DPS (MYR)	0.00	0.00	0.00
Dividend Yield (%)	0.0	0.0	0.0
Recurring P/E (x)	n.m.	n.m.	38.3
Return on average equity (%)	n.m.	n.m.	9.8
P/B (x)	5.4	3.6	3.6
P/CF (x)	(21.3)	(233.8)	29.5

Source: Company data, RHB

Balance Sheet (MYRm)	Sep-19	Sep-20	Sep-21
Total current assets	47	72	90
Total assets	90	129	158
Total current liabilities	11	14	28
Total non-current liabilities	4	13	18
Total liabilities	16	27	46
Shareholder's equity	74	102	113
Minority interest	0	0	0
Other equity	0	0	0
Total liabilities & equity	90	129	158
Total debt	7	17	28
Net debt	(4)	Net Cash	Net Cash

Source: Company data, RHB

Cash Flow (MYRm)	Sep-19	Sep-20	Sep-21
Cash flow from operations	(5)	(1)	(2)
Cash flow from investing activities	(12)	(39)	(11)
Cash flow from financing activities	(12)	(39)	(11)
Cash at beginning of period	23	9	29
Net change in cash	(14)	2	(4)
Ending balance cash	9	11	25

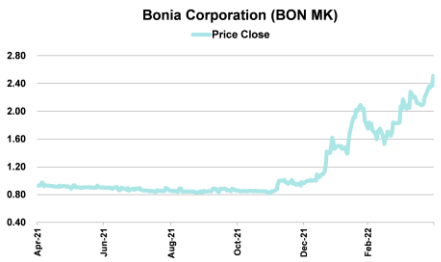
Source: Company data, RHB

BONIA

Bonia Corporation

A Local Luxury Renaissance

Fair value: MYR2.96-3.33
Price: MYR2.51



Source: Bloomberg

Stock Profile

Bloomberg Ticker	BON MK
Avg Turnover (MYR/USD)	0.28m/0.07m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	503.1
Beta (x)	0.8
BVPS (MYR)	1.81
52-wk Price low/high (MYR)	0.80 - 2.53
Free float (%)	25

Major Shareholders (%)

Bonia Holdings Sdn. Bhd.	27.33
Freeway Team Sdn. Bhd.	22.28

Share Performance (%)

	1m	3m	6m	12m
Absolute	1.3	67.2	173.3	148.5
Relative	4.2	66.6	171.0	150.2

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Investment Merits

- Fundamental changes in business strategy and revival of its branding in recent years to underpin sales growth moving forward;
- Affordable price point for luxury products will set it apart from its peers, capturing demand;
- Key beneficiary of a broader economic reopening, positive consumer sentiment, and higher spending power;
- Potential in further leverage of e-commerce, using omni-channel and multiple platforms for mass appeal.

Company Profile

Bonia Corp is a house of luxury lifestyle brands founded in 1974, defined by its quality craftsmanship. Bonia is involved in the design, manufacturing, marketing, distribution, and retailing of bags, accessories, footwear, watches, eyewear, and more through its own brands and licensed brands. Its own brands include Bonia and Braun Buffel, while licensed brands include Renoma, Valentino Rudy, and Santa Barbara Polo & Racquet Club.

Highlights

When brand revival meets business rationalisation. We gather that Bonia has been closing underperforming boutiques and consignment counters since FY19. Meanwhile, the recent ramp-up in its marketing efforts – especially within the digital space through KOLs, to appeal to the younger crowd – puts the group on a path to better sales performance in the coming quarters. We understand that its customer age group has come down, and we believe this will drive performance in the medium-to-long term. This is aided by the modernisation and extension of its offerings, courtesy of its newly appointed creative director, Jonathan Liang, who has been at the helm of the brand's more recent steer towards a fresher appeal. With more frequent launches that cater to modern trends, we believe the group is in a good position to adjust prices accordingly, in tandem with higher input costs.

Affordable local luxury - no contradiction. In line with the exponential growth in the local fashion scene in recent years, Bonia's affordable luxury label allows it to benefit from the spending power across a wider range of income groups – with an estimated basket size of MYR450.00-500.00. Bonia's unique positioning of offering high-quality luxury goods at a significantly lower price point than Western luxury labels, puts the brand in a unique category of its own, making it a particularly appealing recovery play – especially with expectations of more positive consumer sentiment moving forward. This bodes well with the potential post-pandemic market consolidation, and of South-East Asia being less of a focus point for Western competitors to ramp up their global presence.

Potential for even larger digital footprint. In comparison to close peers, Bonia's e-commerce sales contribution is deemed commendable at 7.9% of total sales (+70% YoY) in the most recent reporting season,

with considerable headroom for growth. While there are also efforts to expand its chain of boutiques (most notably with the unveiling of its Bonia flagship boutique in Suria KLCC earlier this year), with expansion plans in population-dense key areas such as Johor Bharu, Alor Setar, and Kuala Terengganu, we look forward to the value that is yet to be fully tapped into via its alternative sales channels like marketplaces (Shopee, Lazada, and Zalora) and the new "social commerce". Leveraging on the omni-channel strategy, we believe that this will provide room for a boost in its topline, whilst supporting operating margins moving forward.

Company Report Card

Results highlights. 1HFY22 (Jun) revenue saw flattish growth of -0.3% YoY, dragged by the underperformance of 1QFY22, which was impacted by the lockdown between Jul and Sep 2021. On the other hand, 2QFY22 revenue grew by 138.5% QoQ on the back of higher foot traffic from the relaxation of restrictions under Phase 3 of the National Recovery Programme, and year-end festivities. Consequently, 2QFY22 saw a turnaround to net profit of MYR20.5m, which supported the 1HFY22 core profit growth of 24% YoY. Moving forward, we expect the high vaccination rates nationwide and broader economic reopening to lead to a sustained footfall momentum for Bonia's brands.

Strong net cash position. The group has a sturdy balance sheet with net cash in excess of MYR30m as at 2QFY22. We think the need for fundraising is minimal at this juncture, and Bonia should be able to comfortably proceed with its conservative expansion plans.

Dividends. While it does not have a dividend policy in place, Bonia has a track record of paying dividends per share of between 2-5 sen over the past four years despite the pandemic. With the expected better sales performance in the coming quarters, dividend payout should be in order, with a DPS of 2 sen already declared in 1HFY22.

Management. Dato' Sri Daniel Chiang Fong Seng was appointed to the board in 2014, and holds the position of Group Executive Director. Having joined the group in 2008, his responsibilities include business development, strategic planning, and R&D. Chiang Sang Sem, the founder of Bonia, was appointed to the board in 1994, and is the Executive Chairman. His involvement in the leather industry spans over 45 years, and he has been responsible for Bonia's overall business development and strategic plans and policies.

Investment Case

We like Bonia for its unique branding of high-quality luxury offerings at affordable price points, and the potential for steady revenue growth underpinned by stronger consumer sentiment across multiple income brackets, as well as the potential ramp-up in e-commerce contributions. Based on an ascribed P/E of 16-18x on CY22F EPS, we derive a fair value range of MYR2.96-3.33. We believe that our target valuation is attractive, at discount to KLCSU's FY22F average of 21x and in line with the average ascribed to its peers under our coverage.

Key risks include a slower-than-expected pick-up in foot traffic, and weak consumer sentiment.

Profit & Loss	Jun-19	Jun-20	Jun-21
Total turnover (MYRm)	462	311	261
Reported net profit (MYRm)	23	3	16
Recurring net profit (MYRm)	23	3	14
Recurring net profit growth (%)	(8.9)	(84.6)	399.4
Recurring EPS (MYR)	0.08	0.01	0.07
DPS (MYR)	0.01	0.03	0.04
Dividend Yield (%)	0.2	1.0	1.6
Recurring P/E (x)	29.7	191.5	36.3
Return on average equity (%)	6.2	0.8	4.4
P/B (x)	1.5	1.5	1.4
P/CF (x)	7.7	12.9	7.1

Source: Company data, RHB

Balance Sheet (MYRm)	Jun-19	Jun-20	Jun-21
Total current assets	268	251	206
Total assets	533	565	582
Total current liabilities	88	90	71
Total non-current liabilities	49	89	116
Total liabilities	137	179	197
Shareholder's equity	376	366	365
Minority interest	20	20	20
Other equity	0	0	0
Total liabilities & equity	513	545	561
Total debt	56	39	82
Net debt	(33)	(38)	(3)

Source: Company data, RHB

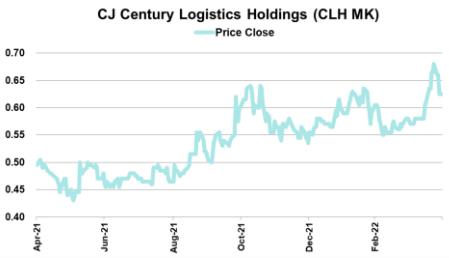
Cash Flow (MYRm)	Jun-19	Jun-20	Jun-21
Cash flow from operations	69	49	79
Cash flow from investing activities	(10)	(8)	(14)
Cash flow from financing activities	(69)	(51)	(45)
Cash at beginning of period	96	88	78
Net change in cash	8	10	(20)
Ending balance cash	88	78	98

Source: Company data, RHB

CJ Century Logistics

Fair Value: MYR0.78-0.91
Price: MYR0.63

Tapping Into Korean Conglomerates



Source: Bloomberg

Stock Profile

Bloomberg Ticker	CLH MK
Avg Turnover (MYR/USD)	0.68m/0.17m
Net Gearing (%)	38
Market Cap (MYRm)	365.0
Beta (x)	0.7
BVPS (MYR)	0.72
52-wk Price low/high (MYR)	0.42 - 0.695
Free float (%)	29

Major Shareholders (%)

CJ Korea Express Asia	54.9
Teow Choo Hing	8.2

Share Performance (%)

	1m	3m	6m	12m
Absolute	5.2	(2.4)	(3.9)	23.2
Relative	8.2	(2.9)	(6.2)	25.0

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Investment Merits

- Continued expansion of diverse customer base to underpin organic earnings growth;
- Total logistics solutions provider with an extensive nationwide network post acquisition of CJ Korea Express Malaysia (CJKX);
- Divestment of courier services segment to streamline business, support earnings growth and margins.

Company Profile

As a leading logistics solutions provider, CJ Century's expertise lies in designing, implementing, and managing its clients logistics requirements to help build a resilient supply chain. Constantly adapting to the changing times, CJ Century strives to enhance its customers' competitiveness through its technological advancements and latest infrastructure to modern systems, resulting in new levels of resilience and efficiency. The group has access to an extensive global network and aspires to help its clients get connected to the world through its innovative logistics solutions and best supply chain management capabilities.

Highlights

Opportunity within the freight forwarding segment. Post-acquisition of CJKX in 2020, CJ Century now has an extensive distribution network as well as key logistics hubs located nationwide, particularly in the North as well as East Coast of West Malaysia. With the newly acquired entity, the group is also able to leverage on CJKX to offer logistics solutions to the ever-expanding Korean conglomerates and regional MNCs operating in Malaysia. We gather that Korean customers command higher margins. Note that freight forwarding makes up the bulk of CJ Century's total logistics segment's contribution (>70% of total revenue). That said, we believe that its extensive network across Malaysia will enable CJ Century to continue benefitting from the elevated freight rates that are likely to persist for the rest of the year – underpinning its earnings growth for the next few quarters.

Divestment of courier business a step in the right direction. Upon the disposal of its loss-making courier arm (acquired in FY17) last year, due to the highly competitive courier landscape and unfavourable margins, we can expect the improvement in its FY21 performance to be sustained in the years ahead. We gather that the courier arm was loss-making, with losses of MYR70m in total during its operation under CJ Century. Post divestment, the reallocation of resources should allow for EBITDA margins to demonstrate sturdy growth moving forward.

New capacity to cater for future growth. CJ Century currently has a network of 30 warehouses/distribution centres nationwide, spanning across 4.5m sqf (owning 2m sqf of the space), making it one of the top three warehouse operators in Malaysia. The utilisation rate for its warehouses is above 95%, and we gather that CJ Century intends to

add 1m sqf worth of new warehouse space into its portfolio by FY25. This, along with a healthy rental rate and revenue-sharing model, should underpin growth within the integrated logistics segment in the long term, especially in the face of the e-commerce boom and new business wins – complemented by the integration of digital solutions in its operations.

Customer outreach to sustain organic volume growth. CJ Century presently serves over 600 customers across multiple industries, with the key customers being within the electrical & electronics or E&E (32.6%), commodities (21.1%) and fast-moving consumer goods or FMCG (17.2%) segments. We look positively on CJ Century's organic growth prospects, which are expected to be underpinned by new business wins, focusing on the ever-growing Korean conglomerates and FMCG segments, and the extension of contracts with leading corporate clients.

Company Report Card

Results highlights. FY21 revenue showed 42.1% YoY growth, on the back of increased activities in the Total Logistics segment, likely driven by higher volumes handled in the midst of supply chain issues throughout FY21, as well as elevated freight rates. Nevertheless, profit was dragged by the temporary increase in operating costs for new distribution centres, from the sudden surge in volumes.

Improved gearing levels. CJ Century's net gearing has improved from 0.48x in FY20 to 0.38x in FY21. Moving forward, the group intends to use an optimal debt-to-equity funding mix for its expansion plans.

Dividends. CJ Century does not have a dividend policy in place and has not paid dividends since FY19. However, prior to FY19, between 2015 and 2018, dividends per share ranged between 0.75 sen to 5.5 sen. In expectation of an encouraging year ahead, the Group envisages there will be a dividend payout for FY22.

Management. Teow Choo Hing is CJ Century's CEO. He was appointed to the Board in 1997, and has had an extensive career within the logistics industry since 1991. Edwin Yeap is the executive director, and was appointed to the Board in 2002. He is a fellow of the Institute of Chartered Accountants in England and Wales or ICAEW and a member of the Malaysian Institute of Accountants. He joined the group in 2000 after having worked in financial management and corporate finance since 1992.

Investment Case

Based on an ascribed P/E of 12-14x on FY22F EPS, we derive a fair value range of MYR0.78-MYR0.91. We believe 2022 will continue to see elevated freight rates to support the Total Logistics segment, and we look forward to further growth via new business wins across its diverse client base. Our target valuation is fair, as it is at a discount to KLTRAN's 2022 trading P/E of 19x, and in line with the trading P/E of other logistics players.

Key risks include a slower-than-expected volume recovery in the midst of persistent supply chain disruptions, and massive delays in its expansion plans.

Profit & Loss	Dec-19	Dec-20	Dec-21
Total turnover (MYRm)	462	590	843
Reported net profit (MYRm)	(8)	1	7
Recurring net profit (MYRm)	10	33	19
Recurring net profit growth (%)	2.2	232.5	(43.0)
Recurring EPS (MYR)	0.03	0.06	0.03
DPS (MYR)	0.00	0.00	0.00
Dividend Yield (%)	0.0	0.0	0.0
Recurring P/E (x)	24.4	11.1	19.3
Return on average equity (%)	3.2	7.9	4.5
P/B (x)	0.8	0.9	0.9
P/CF (x)	508.0	55.2	6.7

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-19	Dec-20	Dec-21
Total current assets	216	317	303
Total assets	613	824	779
Total current liabilities	126	242	215
Total non-current liabilities	171	165	141
Total liabilities	296	407	357
Shareholder's equity	317	417	422
Minority interest	1	1	1
Other equity	0	0	0
Total liabilities & equity	613	824	779
Total debt	202	257	213
Net debt	139	200	159

Source: Company data, RHB

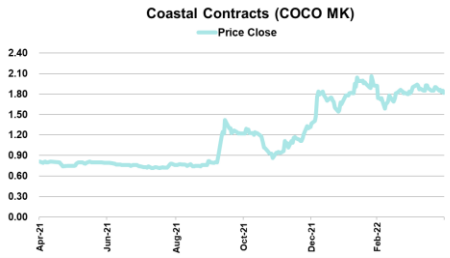
Cash Flow (MYRm)	Dec-19	Dec-20	Dec-21
Cash flow from operations	1	7	54
Cash flow from investing activities	(30)	29	(3)
Cash flow from financing activities	34	(17)	(47)
Cash at beginning of period	16	21	39
Net change in cash	(5)	(18)	(4)
Ending balance cash	21	39	43

Source: Company data, RHB

Coastal Contracts

Excellent Growth Trajectory

Fair Value: MYR2.39-2.60
Price: MYR1.82



Source: Bloomberg

Stock Profile

Bloomberg Ticker	COCO MK
Avg Turnover (MYR/USD)	0.24m/0.06m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	957.1
Beta (x)	1.3
BVPS (MYR)	2.11
52-wk Price low/high (MYR)	0.705 - 2.09
Free float (%)	30

Major Shareholders (%)

Ivory Asia Sdn. Bhd.	28.8
Pang Fong Thau	12.3
Samarang Asset Management S.A.	9.8

Share Performance (%)

	1m	3m	6m	12m
Absolute	(10.6)	(12.0)	40.0	110.0
Relative	(7.6)	(12.5)	37.7	111.8

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Investment Merits

- Steady recurring income from vessel chartering segment with potential extensions;
- EMC Papan Plant MYR4.5bn project win leads to near-term EPC earnings boost and long-term recurring income;
- Potential win of similar projects and gradual improvement in OSV chartering division.

Company Profile

Coastal Contracts, incorporated in 1976, is an integrated marine oil & gas solution provider. It is involved in fabrication of offshore support vessels (OSV) and marine transportation vessels, as well as general repair & maintenance services. In the past few years, the company has ventured into vessel chartering and gas processing businesses.

Highlights

Steady recurring income from vessel chartering segment with potential extensions. The jack up gas compression service unit (JUGCSU) is currently Coastal's main earnings contributor, with firm contracts, generating an annual topline of c.MYR130m till Nov 2023. The company has started contract extension discussions with Mexico's national oil company Petroleos Mexicanos (Pemex) and we see a good chance of the contract being extended, as the unit has been achieving steady production rates. Meanwhile, the liftboat charter contract is also delivering c.MYR41m topline pa till Sep 2022, with potential subsequent deployment for offshore wind farm support. FY22-24F earnings are supported by the 50% owned JV-Perdiz onshore gas conditioning plant which started in 1QFY22 for 32 months, and management is confident of securing a contract extension. Gross EBITDA from the plant is estimated at MYR55-95m.

MYR4.5bn EMC Papan plant project win to provide near-term EPC earnings boost and long-term recurring income. We expect Coastal's 50%-owned JV company to execute the EPC contract worth c.MYR1bn for permanent primary infrastructure till Aug 2022. Despite the company facing rising material costs, we gather that the key equipment pricing has been locked in. Assuming net margins of 8%, this could add c.MYR40m EPC profit (net to Coastal) in the upcoming three quarters. Upon completion, the asset is expected to generate stable recurring income for the next 10 years, with downside protection of a take or pay clause. Gross EBITDA pa is estimated at MYR120-200m matching the field production curve, which is likely to peak in 2027-2028. In order to facilitate the project, Coastal has proposed to provide financial assistance of USD220m to its JV company.

Potential wins of similar projects. Coastal is still targeting to build up its recurring income stream with more long-term contracts, especially in the floating & mobile offshore facilities division. While it will require an experienced partner to secure such jobs without any track record, we

see a high chance for Coastal's JV company to win similar gas-related projects from Pemex in the long run. Some of the prospects highlighted include Pemex's third gas conditioning plant for the Ixachi field, gas storage project, oil processing plant, and gas dehydration plant.

Company Report Card

Results review. Coastal's core earnings declined by 18% to MYR47m due to lower OSV utilisation following the expiration of several charter contracts, but was partially cushioned by the acquired liftboat which commenced operations in 4QFY21. For 1HFY22, core earnings doubled to MYR44m, underpinned by higher liftboat contribution as well as from the Perdiz gas sweetening plant, which started operations in 1QFY22.

Management. Coastal is helmed by its founder and executive chairman Ng Chin Heng and his two brothers who are also the co-founders/ executive directors, Ng Chin Keuan and Ng Chin Shin.

Investment Case

We like Coastal for its near-term earnings potential led by EPC earnings, as well as long-term recurring income business model underpinned by the gas processing division. We see the possibility of such wins in the medium term, as long as Coastal continues to demonstrate a strong track record. On the other hand, OSV utilisation could see improvement amidst a pick-up in activities within the upstream space.

Based on an ascribed P/E range of 11-12x on 2023F (Jun) earnings, we derive a fair value range of MYR2.39-2.60. Our ascribed valuations are at its 5-year mean of 11x and below +1SD valuations of 15x.

Key risks: i) Contract termination by Pemex; ii) significantly lower-than-expected oil prices that could limit client spending, and (iii) higher-than-expected operating costs.

Profit & Loss	Jun-19	Jun-20	Jun-21
Total turnover (MYRm)	156	211	162
Reported net profit (MYRm)	14	(105)	32
Recurring net profit (MYRm)	42	57	47
Recurring net profit growth (%)	107.2	33.9	17.6
Recurring EPS (MYR)	0.08	0.11	0.09
DPS (MYR)	0.00	0.00	0.00
Dividend Yield (%)	0.0	0.0	0.0
Recurring P/E (x)	23.1	17.3	20.8
Return on average equity (%)	1.2	5.0	4.3
P/B (x)	0.8	0.9	0.9
P/CF (x)	5.7	43.2	8.5

Source: Company data, RHB

Balance Sheet (MYRm)	Jun-19	Jun-20	Jun-21
Total current assets	939	840	598
Total assets	1646	1554	1396
Total current liabilities	237	433	241
Total non-current liabilities	232	35	50
Total liabilities	469	468	291
Shareholder's equity	1177	1086	1104
Minority interest	0	0	1
Other equity	0	0	0
Total liabilities & equity	1646	1554	1396
Total debt	294	277	92
Net debt	85	13	(71)

Source: Company data, RHB

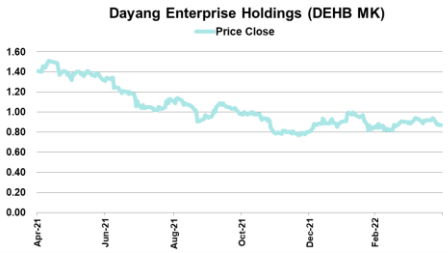
Cash Flow (MYRm)	Jun-19	Jun-20	Jun-21
Cash flow from operations	172	23	115
Cash flow from investing activities	(182)	49	(30)
Cash flow from financing activities	(63)	(28)	(179)
Cash at beginning of period	282	209	264
Net change in cash	(73)	55	(100)
Ending balance cash	209	264	164

Source: Company data, RHB

Dayang Enterprise Holdings

On A Recovery Path

Fair Value: MYR1.18-1.27
Price: MYR0.87



Source: Bloomberg

Stock Profile

Bloomberg Ticker	DEHB MK
Avg Turnover (MYR/USD)	17.18m/4.22m
Net Gearing (%)	8.2
Market Cap (MYRm)	1007.2
Beta (x)	1.0
BVPS (MYR)	1.13
52-wk Price low/high (MYR)	0.765 - 1.53
Free float (%)	41

Major Shareholders (%)

Naim Holdings Bhd.	24.2
Urusharta Jamaah Sdn. Bhd.	8.2
Ling Suk Kiong	7.1

Share Performance (%)

	1m	3m	6m	12m
Absolute	(3.2)	(9.1)	(8.6)	(37.5)
Relative	(0.2)	(9.6)	(10.9)	(35.7)

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Investment Merits

- Experienced oil & gas (O&G) services player within the upstream maintenance space;
- Earnings recovery backed by a pick-up in work orders and better marine vessel contributions;
- Project Safina could drive fleet rejuvenation.

Company Profile

Established in 1980, Dayang Enterprise is an O&G services contractor principally involved in the provision of maintenance services for topside structures, pipes and valves, electrical and instrumentation, fabrication operations, and hook-up and commissioning (HUC) services. The company has a 63.8% equity stake in Perdana Petroleum (Perdana), which owns 16 vessels to provide marine support and vessel chartering for the O&G industry.

Highlights

Expecting a pick-up in work orders. The level of activities under both maintenance, construction and modification (MCM) and HUC is guided to increase YoY this year, in the latest Petronas Activity Outlook 2022-2024 report. While the orderbook is at c. MYR1.9bn, we gather that the delayed i-HUC works have commenced at end 1Q22, and MCM work orders are expected to accelerate in 2Q-3Q22. The existing Petronas' MCM contract has been extended for a year till Sep 2023. Current tenderbook is at c.MYR500m, including the Pan Malaysia-Transportation & Installation jobs and other small jobs.

Margin improvement in 2022. Overall margin could improve in 2022-2023 on the back of a better operating environment and the relaxation of quarantine requirements and SOPs (eg. individual that tests positive undergoes quarantine, rather than the vessel's entire staff). Note that Dayang's gross margin (excluding impairments) was at 12% in 2021 and could possibly return to FY20's 32% this year. We believe it will take time for its margin to resume to pre-pandemic levels of 40-47% in 2018-2019 as Dayang is still facing labour shortages amidst securing working permits from the Sarawak authorities.

Perdana could break even this year. The utilisation of its 16 vessels is targeted at >60% in 2022 (FY21: 49%). Most vessels are on spot charters, and it was guided that daily charter rates are improving. Management expects overall OSV demand to pick up, driven by stronger demand for drilling, plug and abandonment or P&A, and underwater services. Note that more than half of Perdana's vessels will be chartered internally to Dayang to execute its in-house projects. Therefore, we believe Perdana is likely to return to the black from core losses of MYR79m in FY21.

Project Safina could drive fleet rejuvenation. With an average fleet age of 12, Perdana is looking to kick-start the fleet renewal program this

year. Dayang, via Perdana, has participated in Petronas' Safina project, involving 16 OSV newbuild charter contracts. We understand that the bid validity has been extended multiple times since the call for tender. To protect the OSV players and enhance the possibility of securing loans, Petronas is offering long-term contracts (via a 7+3+3+2-year structure) before any vessels are built. Dayang is bidding for four vessels in this project, including two landing craft tanks and two AHTS. Debt financing is targeted at 80% with interest rates at 5.5-7%. Dayang's net gearing was at 0.08x as of 4Q21, and we believe the company is capable of growing its fleet by at least 2-4 vessels.

Company Report Card

Results review. FY21 revenue dropped 9% YoY on a slowdown in HUC, and topside major maintenance activities, as well as weaker vessel utilisation at 44% from 53% in FY20. As such, core earnings declined by 17% to MYR44m after stripping off multiple impairments (goodwill, PPE and financial instruments).

Management. Dayang is founded by Datuk Ling Suk Kiong, currently the Executive Deputy Chairman. He has over 30 years of experience in the O&G business. The board of directors include Tengku Dato' Yusof Bin Tengku Ahmad Shahruddin, who is also managing director of Perdana and Datuk Hasmi Bin Hasnan, managing director of Naim Holdings.

Investment Case

We like this experienced O&G service provider, which operates within the upstream maintenance space. Overall earnings recovery is likely to be backed by a pick-up in HUC and MCM work orders. Maintenance-related players are likely to recover faster than fabricators, as Petronas is not aggressively expanding greenfield projects, but is instead focusing on low hanging fruits to boost production.

Based on an ascribed P/E range of 13-14x on 2023F earnings, we derive a fair value range of MYR1.18-1.27 for the stock. Our ascribed valuations are hovering around +1 SD to its 5-year mean. Our fair value also implies FY23 P/BV of 0.7-0.8x, which is at its 5-year mean valuation.

Key risks: i) Lower-than-expected work orders from clients, ii) significantly softer-than-expected oil prices, which could limit clients' spending, and (iii) higher-than-expected operating costs.

Profit & Loss	Dec-19	Dec-20	Dec-21
Total turnover (MYRm)	1,046	731	668
Reported net profit (MYRm)	231	56	(319)
Recurring net profit (MYRm)	232	53	44
Recurring net profit growth (%)	39.7	(77.3)	(16.7)
Recurring EPS (MYR)	0.24	0.05	0.04
DPS (MYR)	0.00	0.00	0.02
Dividend Yield (%)	0.0	0.0	1.7
Recurring P/E (x)	3.6	17.6	21.1
Return on average equity (%)	18.1	3.6	3.1
P/B (x)	0.5	0.5	0.6
P/CF (x)	2.7	2.7	5.8

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-19	Dec-20	Dec-21
Total current assets	892	766	784
Total assets	2947	2746	2333
Total current liabilities	412	357	360
Total non-current liabilities	770	610	480
Total liabilities	1182	967	840
Shareholder's equity	1435	1492	1310
Minority interest	331	287	184
Other equity	0	0	0
Total liabilities & equity	2947	2746	2333
Total debt	810	706	527
Net debt	493	282	108

Source: Company data, RHB

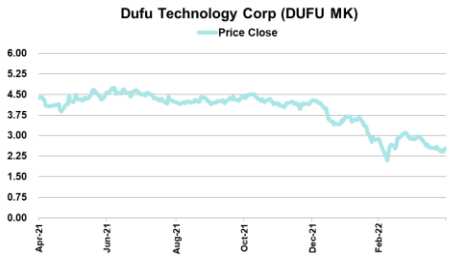
Cash Flow (MYRm)	Dec-19	Dec-20	Dec-21
Cash flow from operations	317	344	158
Cash flow from investing activities	(27)	(81)	(50)
Cash flow from financing activities	(219)	(244)	(58)
Cash at beginning of period	195	268	282
Net change in cash	74	14	58
Ending balance cash	268	282	340

Source: Company data, RHB

Dufu Technology Corp

Growth Fuels Expansion

Fair Value: MYR3.06-3.76
Price: MYR2.52



Source: Bloomberg

Stock Profile

Bloomberg Ticker	DUFU MK
Avg Turnover (MYR/USD)	8.6m/2.11m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	1333.2
Beta (x)	0.7
BVPS (MYR)	0.18
52-wk Price low/high (MYR)	2.02 - 4.82
Free float (%)	45

Major Shareholders (%)

Perfect Full Yen Sdn. Bhd.	10.7
Perfect Commerce Sdn. Bhd.	9.7
Lee Hui-Ta	9.4

Share Performance (%)

	1m	3m	6m	12m
Absolute	(17.8)	(33.9)	(47.4)	(42.2)
Relative	(14.7)	(34.4)	(49.7)	(40.3)

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Investment Merits

- Long-term beneficiary of increasing demand in enterprise solutions, data centre infrastructure and cloud storage;
- Growing metal sheet division tracking the growth in the electric & electronics (E&E) and semiconductor industries;
- Sensible valuation of 15x FY23F P/E, with a solid balance sheet and healthy dividend yield.

Company Profile

Dufu Technology (Dufu) is engaged in the design, development, and manufacturing of precision machining components, hard disk drive (HDD)-related components, steel moulds, stamping components and sheet metal fabrication. It also provides marketing and engineering and turnkey support services.

Highlights

HDD remains relevant in high-capacity storage solutions. HDD capacity shipments grew by 31% YoY to 1.34 zettabytes (ZB) in 2021 after surpassing one ZB in 2020, thanks to the structural demand growth for data centres, cloud storage, enterprise-hardened infrastructure, and Internet of Things devices. While the demand for consumer devices may normalise this year, we see a persistent trend of multi-year growth in the global datasphere, as the increase in demand for big data analytics, artificial intelligence, remote working and cyber security is inevitable. The exponential growth in data consumption is expected to spike up the demand for high-capacity and nearline storage, especially on the 20TB drives and beyond – given the lower cost per GB and improving areal density, enabled by the proliferation of new HDD technology such as heat-assisted magnetic recording and microwave-assisted magnetic recording.

Demand fuelled expansion. In view of the surging demand, we understand that Dufu has almost fully utilised its capacity, following the addition of a computer numerical control machine and expansion of a new factory in Bukit Minyak Industrial Park for sheet metal and structure fabrication back in 2019-2020. Hence, the construction of its 37k sqm (double the space of current facilities) new factory buildings is now underway, and operations should commence in 2H23. The expansion of this second manufacturing facility in China is to support its key customer's business continuity plan and cope with surging demand, as well as new product development from potential prospects.

Growing metal sheet business. The sheet metal and stamping division recorded robust growth in the past few years and is now contributing 20% of group revenue, thanks to the uptick in demand for enclosures and frames related to consumer electronics, semiconductors and life sciences.

The new plant, which commenced operations in 2H19, is yielding

positive results with commendable growth. It is well-positioned to tap into more business opportunities in the automotive, medical, and semiconductor segments. Also, two new key multi-national customers onboarding in FY21 and favourable industry demand should propel the segment to greater heights.

Company Report Card

Results highlights. Dufu reported a fifth consecutive quarter of revenue growth, at MYR352.7m in FY21 (+18.4% YoY) – fueled by: i) Robust demand for disk spacers from HDD makers; and ii) growth in the sheet metal and stamping division that is related to consumer electronics, semiconductors and life sciences. Net profit grew by 42% YoY to MYR73.7m – also a record high – aided by margin and capacity growth.

Balance sheet/cash flow. The company had a net cash position of MYR68m as at FY21, with a healthy FCF yield of 7-9%. ROE is expected to remain high at c.25%, with better profitability and an expansion of its asset base.

Dividend. Management declared a 7 sen DPS for FY21, reflecting a c.2.7% dividend yield at its current share price levels. It will maintain its payout ratio at 50% (at the minimum) which may point to a 3% yield this year.

Management. Executive Chairman Lee Hui-Ta is Dufu's major shareholder. He co-founded the group in the early 1990s, and has more than 26 years of relevant experience. Key senior management personnel include CEO Yeoh Beng Hooi, a post he has held since 2015. Yeoh was previously Dufu's COO between 2004 and 2015. Since he joined in 2017, David Khoo Chong Beng has been its Group CFO.

Investment Case

A niche component supplier. Dufu is set to benefit from the structural growth in big data, cloud storage and digitalisation. Earnings growth should pick up going into FY22-23 – albeit at moderated levels – attributed to the engineering know-how that makes it among the most efficient component suppliers to the major HDD makers. While challenges (higher material costs and shortage of workers) could weigh on its FY22 performance, the situation could improve in 2H22, with the reopening of borders and cushioned by the favourable USD/MYR rate. Dufu's sheet metal division continues to strengthen, and should do better ahead. This will come in tandem with the expansion of both the semiconductor market and EMS sector. This, in turn, could be fueled by growing demand in aerospace, telecommunication, industrial machinery and medical industries. Note that the P/E average of its peers could sit at a comfortable 20x, and individual P/Es may be as high as 30-35x.

Fair value. Based on a target P/E range of 20-22x on the Street's FY22-23F earnings, we derive a fair value range of MYR3.06-3.76. The target P/E range is below the target P/E of the technology sector and 5-year average P/E for Dufu's closest peers in the HDD industry, ie Notion VTec (NVB MK, NR) and JCY International (JCYH MK, NR). Key downside risks include escalation of input costs, slower orders, weaker-than-expected sales, unfavourable FX rates.

Profit & Loss	Dec-19	Dec-20	Dec-21
Total turnover (MYRm)	249	298	353
Reported net profit (MYRm)	45	52	74
Recurring net profit (MYRm)	45	52	74
Recurring net profit growth (%)	(12.2)	14.0	42.9
Recurring EPS (MYR)	0.08	0.10	0.14
DPS (MYR)	0.04	0.05	0.07
Dividend Yield (%)	1.6	2.0	2.8
Recurring P/E (x)	30.2	26.5	18.6
Return on average equity (%)	20.8	20.2	23.6
P/B (x)	3.1	5.3	4.4
P/CF (x)	0.5	0.2	0.2

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-19	Dec-20	Dec-21
Total current assets	187	227	276
Total assets	269	311	386
Total current liabilities	42	45	64
Total non-current liabilities	12	10	10
Total liabilities	54	55	74
Shareholder's equity	214	256	312
Minority interest	0	0	0
Other equity	0	0	0
Total liabilities & equity	269	311	386
Total debt	18	17	17
Net debt	Net Cash	Net Cash	Net Cash

Source: Company data, RHB

Cash Flow (MYRm)	Dec-19	Dec-20	Dec-21
Cash flow from operations	29	63	59
Cash flow from investing activities	(24)	(10)	(32)
Cash flow from financing activities	(1)	(17)	(25)
Cash at beginning of period	41	44	80
Net change in cash	2	36	5
Ending balance cash	43	80	85

Source: Company data, RHB

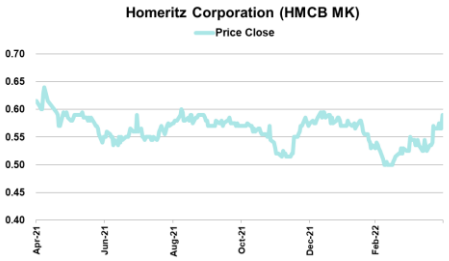
HOMERITZ

Homeritz Corporation

Quality Home Furniture

Fair Value: MYR0.76-0.82

Price: MYR0.59



Source: Bloomberg

Stock Profile

Bloomberg Ticker	HMCB MK
Avg Turnover (MYR/USD)	0.51m/0.12m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	249.7
Beta (x)	0.8
BVPS (MYR)	0.51
52-wk Price low/high (MYR)	0.50 - 0.645
Free float (%)	36

Major Shareholders (%)

Chua Fen Fatt	30.7
Tee Hwee Ing	22.1
Tee Hui Chein	3.0

Share Performance (%)

	1m	3m	6m	12m
Absolute	6.5	(0.9)	0.0	(10.9)
Relative	9.6	(1.3)	(2.3)	(9.1)

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Investment Merits

- Strong order outlook, with increasing demand for furniture due to the work-from-home (WFH) trend;
- Capacity expansion and improved efficiency to drive earnings;
- Beneficiary of a stronger USD/MYR.

Company Profile

Homeritz is an integrated original design manufacturer (ODM) and original equipment manufacturer (OEM) that produces a complete range of mid- to high-end upholstered home furniture products leaning towards Western styles and preferences. Homeritz's customers are mainly overseas wholesalers and retailers, and its products are exported to over 50 countries in all continents. In FY21 (Jun), its geographical revenue breakdown was 48% from the Americas and Europe, 45% from Asia, 6% from Malaysia, and 1% from Africa and the Middle East. The group's manufacturing plants are located in Muar, Johor.

Highlights

Strong order outlook and diverse clientele base. Currently, Homeritz is benefitting from the robust demand for furniture, due to the still-ongoing WFH trend, as well as the trade diversion from the US-China trade war leading to increased demand from the Americas and Europe. Homeritz is not dependent on any single region, thanks to its diverse clientele base which allows the group to be flexible in capturing demand in different regions. Historically, the group has been able to shift sales to other regions when demand changes, eg from Europe to the Asia-Pacific during the debt crisis in the early 2010s. We are positive on the group's order outlook, as Homeritz is operating with a production lead time of 75-90 days, compared to 90-120 days in previous years.

New capacity to drive growth. In Mar 2021, Homeritz completed the expansion of its new factory, with capacity improving from c.250 to c.300 containers per month, as well as greater production efficiency from new machinery. Assuming there are no further lockdowns, FY22 will be the first year that it is able to fully utilise its new capacity – since production in FY21 was severely impacted by the rolling lockdowns (halted throughout the fourth quarter). We estimate FY22 revenue at MYR201m. The utilisation rate of this new factory is already at 100%, and the group is looking for further expansion opportunities.

ODM manufacturer is able to mitigate the rising costs. With the global rise in raw material costs due to the pandemic and the subsequent Russia-Ukraine conflict causing further inflationary pressure, most manufacturers expect to see compressed margins ahead.

However, the risk is mitigated for Homeritz, thanks its position as an ODM manufacturer. The group aims to pass on the increased raw

material cost to customers when they produce new products every month, thereby allowing it to maintain a stable profit margin. This is also helped by the improved efficiency rate from its new plant. Despite exporting most of its products, Homeritz has been relatively unaffected by the surge in freight costs – as these are arranged and paid for by the buyers. The group should also see better margins from a strengthening USD rate, as approximately 94% and 60% of revenue and raw material purchases are denominated in USD. Conversely, while there is a natural hedge, profit margin would be lower, with the weakening of the USD against the MYR.

Company Report Card

Results highlights. Homeritz reported a 1QFY22 revenue increase of 11.4% YoY to MYR58.5m, mainly attributed to the strengthening USD and an increase in ASP. Consequently, PBT increased 19.2% YoY, with the impact of rising material costs cushioned by the increase in ASP.

Balance sheet. Homeritz has a healthy balance sheet, with MYR91.762m in cash and bank balances with zero borrowings. This offers plenty of headroom for the group to proceed with its expansion plans.

ROE. ROE declined to 11.7% in FY21 from 14.2% in FY20, from the adverse impact of COVID-19. Moving forward, we forecast FY22 ROE to improve to 13.2%, supported by higher revenue and improvements in margins.

Dividends. While Homeritz does not have an official dividend policy, the group has consistently paid dividends to shareholders. The payout ratio in FY21 was 45%, with a dividend yield of c.4.5%.

Management. The co-founder and group managing director is Chua Fen Fatt, who has over 34 years of experience in the furniture industry. Executive director Tee Hwee Ing is also another co-founder, with over 24 years of experience in the upholstered home furniture industry.

Investment Case

Fair value. We derive a fair value range of MYR0.76-0.82 by ascribing a P/E range of 11-12x P/E on FY22F EPS – which is at a slight discount to the peer average of 13x. We think our valuation is justifiable, premised on Homeritz's strong order outlook, capacity expansion, and the expectation that earnings could grow by strong double digits this year.

Key risks include fluctuations in raw hide prices, FX rates, and a slowdown in the demand for furniture.

Profit & Loss	Jun-19	Jun-20	Jun-21
Total turnover (MYRm)	148	155	165
Reported net profit (MYRm)	22	24	22
Recurring net profit (MYRm)	22	24	23
Recurring net profit growth (%)	3.4	9.4	(4.8)
Recurring EPS (MYR)	0.07	0.08	0.06
DPS (MYR)	0.04	0.01	0.03
Dividend Yield (%)	5.9	1.7	4.2
Recurring P/E (x)	8.1	7.4	10.5
Return on average equity (%)	14.2	14.2	11.7
P/B (x)	1.1	1.0	1.2
P/CF (x)	5.1	4.0	16.1

Source: Company data, RHB

Balance Sheet (MYRm)	Jun-19	Jun-20	Jun-21
Total current assets	119	130	154
Total assets	176	200	233
Total current liabilities	18	22	26
Total non-current liabilities	3	3	3
Total liabilities	21	24	29
Shareholder's equity	156	176	204
Minority interest	0	0	0
Other equity	1	2	3
Total liabilities & equity	176	200	233
Total debt	0	0	0
Net debt	(82)	(78)	(84)

Source: Company data, RHB

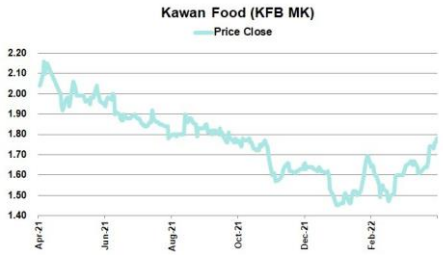
Cash Flow (MYRm)	Jun-19	Jun-20	Jun-21
Cash flow from operations	34	22	15
Cash flow from investing activities	(17)	(11)	11
Cash flow from financing activities	(7)	(9)	6
Cash at beginning of period	0	82	78
Net change in cash	10	2	32
Ending balance cash	82	78	84

Source: Company data, RHB

Kawan Food

Food Is Your Best Friend

Fair Value: MYR2.11-2.56
Price: MYR1.78



Source: Bloomberg

Stock Profile

Bloomberg Ticker	KFB MK
Avg Turnover (MYR/USD)	1.08m/0.26m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	638.0
Beta (x)	0.7
BVPS (MYR)	1.0
52-wk Price low/high (MYR)	1.45 - 2.16
Free float (%)	30

Major Shareholders (%)

Gan Thiam Chai	25.5
Vg Trustee Limited	20.6
Gan Thiam Hock	6.3

Share Performance (%)

	1m	3m	6m	12m
Absolute	1.8	16.4	(3.4)	(20.9)
Relative	4.8	16.0	(5.7)	(19.1)

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Investment Merits

- Export sales recovery complemented by penetration into mainstream sales channels;
- New labour intake made possible by borders reopening to ramp up production capacity;
- Product launches in new categories to capture new opportunities;
- Price increases implemented successfully to protect GPM amidst cost pressures.

Company Profile

Kawan Food (Kawan) is involved in the manufacturing, sale, trading, and distribution of frozen food products. It operates with two manufacturing plants, which are located in Pulau Indah, Selangor, and in Nantong, China. The company produces a range of food products, including paratha, spring roll, pastry, chapati, finger food, bakery products, and desserts that are sold under five brands – Kawan, KG Pastry, Passion Bake, Veat, and Aman. Its products are exported to over 37 territories, which utilise a range of distribution channels, such as distributorship, direct sales to key account customers, e-commerce, and sales to retailers and wholesalers.

Highlights

Accelerating the steady growth. Kawan's revenue and net profit have grown at a 3-year CAGR of 8% and 12% in FY21, notwithstanding the pandemic challenges. We project a 3-year revenue CAGR of 11% ahead – taking into account the export recovery, resolution of labour shortage issues, and execution of expansion strategies. Kawan has, in stages, implemented price increases in 4Q21 and 1Q22 to pass on the higher raw material costs. This led to GPM expansion of 2.8ppts QoQ in 4Q21, and we expect a more pronounced margin impact going forward. With opex expected to trend up in accordance to the expansion strategies, we project FY22F and FY23F net profits of MYR40m (+24%) and MYR46m (+15%) respectively.

Export sales poised to stage a recovery. With the business environment in most of the export countries normalizing, in tandem with the better containment of the pandemic, management has observed an encouraging rebound in export sales (c.56% of total sales in FY19-21). Furthermore, strategies to penetrate the more mainstream sales channels including modern trade and HORECA are ongoing, with further traction expected in 2H22, pursuant to the pre-qualification processes with several potential new customers. Such focus bodes well for the company in the longer run, as the track record of supplying to reputable customers should enhance Kawan's brand name and attract more export opportunities.

Labour supply a key growth enabler. The reopening of international borders will be vital for Kawan to bring in new foreign labour and ramp

up its production capacity to meet the robust demand. Realistically, management expects the new intake of foreign labour to arrive and effectively boost its workforce capacity in 2H22. This also provides the company with the ammunition to be more aggressive with its product launches. We gather that the new product pipeline will place plenty of emphasis on healthy food products and plant-based meals. This will allow Kawan tap into a new consumer base, with increasing health consciousness opening up more revenue streams.

Company Report Card

Results highlights. FY21 revenue was flattish at MYR252m (-1% YoY) despite a robust growth in local sales (+9%) as export sales (-10%) were significantly affected by the freight challenges. Meanwhile, FY21 GPM eroded by 3.5ppts YoY to 36.1% on higher raw material costs, in line with the surge in commodity prices. That said, FY21 net profit still grew by 15% to MYR34m, thanks to prudent cost controls and toned down marketing initiatives.

Encouraging signs from QoQ comparison: i) 4Q21 GPM expanded by 2.8ppts from the implementation of price increases, ii) export sales, particularly in North America and Asian regions, saw positive uptick.

Solid balance sheet and healthy cash flows. As of FY21, the group had net cash (including investments) of MYR78m or 22 sen/share. We believe the cash coffers will adequately support its expansion plans moving forward, whilst also allowing it to capitalise on any suitable M&A opportunity. Meanwhile, operating cash flows have been stable, in line with the profit trends. Capex requirements have been moderate post the heavy capex cycle in FY15-17 to establish the new Carey Island plant.

Dividends. Kawan does not have a formal dividend policy in place, but has been paying 2.5-3 sen in DPS over the past five years. Moving forward, we expect such dividend payouts to be sustained, considering the healthy cash flow generation and moderate capex requirement.

Management. Gan Thiam Chai and Gan Thiam Hock are the co-founders of the company with more than 30 years of experience in the food processing industry. Both of them hold executive roles on Kawan's board and are joined by Gan Ka Bien, the executive director specialising in marketing & branding, social responsibility, and ESG-related matters. They are assisted by Ng Hooi Kai, the Group CEO and Chay Way Yee, the Financial Controller.

Investment Case

We view Kawan as an underappreciated consumer staple name in Malaysia, where the other larger-cap peers are trading at lofty valuations. Essentially, Kawan offers sustainable and steady growth anchored by quality product offerings, established brand equities across regional markets, and rising demand for hygienic, healthy and convenient food. Ascribing a P/E range of 19x-23x (between -0.5SD and 5-year mean) to its FY22F EPS, we derive a fair value range of MYR2.11-2.56. This also represents a discount of 45-55% to the consumer staple average under our coverage, considering the relatively smaller market capitalisation and thinner trading liquidity.

Key risks include a sharp rise in raw material costs and unresolved labour shortage issues.

Profit & Loss	Jun-19	Jun-20	Jun-21
Total turnover (MYRm)	214	255	252
Reported net profit (MYRm)	12	28	32
Recurring net profit (MYRm)	10	28	34
Recurring net profit growth (%)	(54.6)	166.7	23.6
Recurring EPS (MYR)	0.03	0.08	0.09
DPS (MYR)	0.03	0.03	0.03
Dividend Yield (%)	1.4	1.4	1.7
Recurring P/E (x)	61.8	23.2	18.7
Return on average equity (%)	3.8	8.4	9.1
P/B (x)	2.0	1.9	1.7
P/CF (x)	15.4	4.0	19.8

Source: Company data, RHB

Balance Sheet (MYRm)	Jun-19	Jun-20	Jun-21
Total current assets	130	162	190
Total assets	383	417	436
Total current liabilities	41	56	55
Total non-current liabilities	17	15	12
Total liabilities	58	71	67
Shareholder's equity	324	345	369
Minority interest	1	1	1
Other equity	0	0	0
Total liabilities & equity	383	417	436
Total debt	16	15	12
Net debt	(33)	(64)	(78)

Source: Company data, RHB

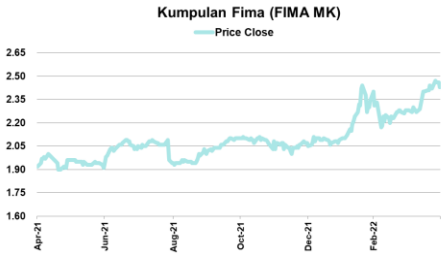
Cash Flow (MYRm)	Dec-19	Dec-20	Dec-21
Cash flow from operations	42	52	32
Cash flow from investing activities	(22)	(17)	(10)
Cash flow from financing activities	(9)	(10)	(14)
Cash at beginning of period	38	54	79
Net change in cash	11	25	8
Ending balance cash	49	79	89

Source: Company data, RHB

Kumpulan Fima

Fair Value:	MYR3.00
Price:	MYR2.43

Riding High On CPO Prices And Rising Bulking Rates



Source: Bloomberg

Stock Profile

Bloomberg Ticker	FIMA MK
Avg Turnover (MYR/USD)	0.14m/0.03m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	671.0
Beta (x)	0.6
BVPS (MYR)	0.48
52-wk Price low/high (MYR)	1.803 - 2.51
Free float (%)	32

Major Shareholders (%)

Roshayati binti Basir	18.1
Rozana Zeti binti Basir	17.8
BHR Enterprise Sdn. Bhd.	17.3

Share Performance (%)

	1m	3m	6m	12m
Absolute	5.7	9.6	14.3	23.7
Relative	8.7	9.1	12.0	25.5

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Investment Merits

- Plantation division will benefit from the prevailing high CPO price environment;
- Bulking division's expansion to leverage on strong demand and rising rates;
- Inexpensive valuation – it is trading at 6.4x 2022F P/E (-3SD from the 5-year mean) with an attractive dividend yield of 8.4-9.6%.

Company Profile

Kumpulan Fima (KFima) is a diversified group with businesses in manufacturing, plantation, bulking and food sectors operating in Malaysia, Indonesia and Papua New Guinea (PNG). The bulking division contributed the most (46%) to PBT in FY21 (Mar). It operates five liquid bulk terminals – three in North Port, Port Klang and two in Butterworth. These terminals have 282 tanks with a storage tank capacity of c.362,298cbm and handles liquid cargoes. Included in this division is a 60,000 tonne/year biodiesel plant located in North Port.
The plantations division is the second largest profit contributor, at 25% of PBT in FY21. This comes from 16 estates in Malaysia and Indonesia with a total plantable landbank of 18,877ha, of which 13,891ha is planted – 3,695ha in West Malaysia, 4,714ha in Sarawak, and 5,482 ha in Indonesia. The average age of its estates is around 15 years. KFima also owns a 45 tonnes/hour mill in Indonesia.

The manufacturing arm is a domestic security printer in Malaysia, offering products and services that include travel documents, licenses, and other security and confidential documents for the local and overseas markets. This division contributed 16% of PBT in FY21 (Mar).
The food division manufactures canned mackerel and tuna and frozen tuna loins for export and the domestic markets under its own brand, Besta. These are produced in PNG, for the PNG and Solomon Island market, as well as exported to the EU. Under its associate, it also manufactures canned sardine, tuna and mackerel products in Malaysia under the brand King Cup. This division contributed 13% of FY21 PBT.

Highlights

Riding on the high CPO price environment. KFima recorded a YTD-9MFY22 FFB growth of +1.5% and expects to end the year with flattish growth YoY. However, in FY23, it expects to achieve higher FFB growth of 10-15% YoY, on the back of new areas coming into maturity as well as being able to harvest from some of the new landbank purchased in 2021. KFima's subsidiary, PTNJL, is involved in a dispute with the Indonesian land authorities, and has submitted applications to obtain a fresh permit for the undisputed area of 3,019ha and for the release of 2,435ha of planted forestry land in Indonesia. Nevertheless, PTNJL has a plantation business licence for this 5,482ha of land, and continues to be able to operate on this area.

Blended unit cost at MYR1,800-1,900/tonne for FY22. For FY23, this

is expected to rise 15-20% due to higher fertiliser and labour costs. As KFima only sells spot, the higher costs will be more than offset by higher CPO prices realized, given the prevailing high CPO price trend.

Bulking division on expansion trail. The bulking division is running at full capacity in Port Klang, and at 90% in Butterworth. As bulking capacity is scarce, rates have been rising over the last few months (+30-35% YoY in 9MFY22), although costs like labour, fuel and electricity have also been increasing. Nevertheless, it is able to pass on higher costs to customers, as and when contracts expire. KFima is capitalising on this scarcity by expanding its capacity in Port Klang over four phases, which will increase the number of tanks to 330 and tank capacity to close to 500k cbm. This expansion will take place over the next three years, and will cost MYR108m in total. PBT margins for this division are chunky, ranging between 35% (FY20) to 53% (FY19). In 9MFY22, the PBT margin was at 40%.

The food and manufacturing divisions provide a stable albeit small base. Although topline growth for the food division is decent, margins have been crimped by rising raw material costs. The security printing business has been affected by COVID-19 and higher material costs.

No fixed dividend policy. KFima has no fixed dividend policy, but has been paying dividends, at 60-85% of profits in the last few years.

Company Report Card

KFima recorded a 43% rise in net profit in 9MFY22, as a more than 6-fold increase in PBT from the plantation division and a 40% rise from the bulking division offset a 66% decline from manufacturing and a 27% drop from food. The plantation division is now the largest profit contributor, followed by bulking, food and manufacturing.

Rising net cash position. KFima's net cash position has been on a rising trend. As at 9MFY22, net cash stood at MYR323.4m, which translates to net cash per share of MYR1.17.

ROE improving. The group's ROE has been improving since FY20, from 3.6% to 6.2% in FY21, and to an estimated 11-12% in FY22-23F. This would be driven by rising plantation and bulking division profits.

Dividend yields attractive. KFima paid out net DPS of 9 sen in FY18-20, and 12 sen in FY21. KFima normally only declares dividends in 4Q. Assuming it pays out 60% of earnings as dividends in FY22-23F, this would translate to a net DPS of 20-24 sen, or a net yield of 8.4-9.6%.

Professionally managed. KFima is owned by Rozana Zeti Basir and Datin Rozilawati Haji Basir, with a 67% stake. The sisters hold non-independent non-executive director roles. KFima is professionally managed, led by Group MD Dato' Roslan Hamir, who has been with KFima since 2002.

Investment Case

Riding on plantations and bulking division. With its two largest profit contributors seeing strong fundamentals – higher CPO prices, rising bulking fees and volumes, KFima is poised to post strong 2-year earnings CAGR of close to 50% towards FY23F.

We believe KFima is worth MYR3.00, on 8x 2022F P/E. Assuming a dividend payout ratio of 60%, dividend yields are also extremely attractive at c.8.4% in FY22F and c.9.6% in FY23F. Excluding its net cash of MYR1.17/share would bring valuations down further.

Profit & Loss	Mar-19	Mar-20	Mar-21
Total turnover (MYRm)	469	501	478
Reported net profit (MYRm)	60	29	50
Recurring net profit (MYRm)	60	21	54
Recurring net profit growth (%)	100.3	(65.6)	160.3
Recurring EPS (MYR)	21.25	10.40	17.96
DPS (MYR)	0.09	0.09	0.12
Dividend Yield (%)	3.7	3.7	4.9
Recurring P/E (x)	11.4	23.4	13.5
Return on average equity (%)	7.7	3.6	6.2
P/B (x)	0.9	0.9	0.9
P/CF (x)	55.6	13.5	5.9

Source: Company data, RHB

Balance Sheet (MYRm)	Mar-19	Mar-20	Mar-21
Total current assets	565	558	587
Total assets	1234	1254	1286
Total current liabilities	118	121	131
Total non-current liabilities	59	94	96
Total liabilities	177	215	227
Shareholder's equity	312	312	312
Minority interest	234	274	318
Other equity	491	490	512
Total liabilities & equity	1234	1254	1286
Total debt	35	33	38
Net debt	Net Cash	Net Cash	Net Cash

Source: Company data, RHB

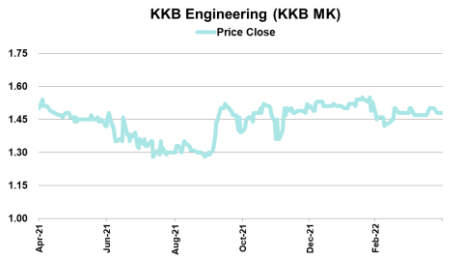
Cash Flow (MYRm)	Mar-19	Mar-20	Mar-21
Cash flow from operations	53	83	147
Cash flow from investing activities	(116)	(48)	(106)
Cash flow from financing activities	(41)	(50)	(46)
Cash at beginning of period	235	142	124
Net change in cash	(104)	(15)	(4)
Ending balance cash	142	124	116

Source: Company data, RHB

KKB Engineering

Fair Value:	MYR1.90
Price:	MYR1.48

Riding On Sarawak's Water Project Prospects



Source: Bloomberg

Stock Profile

Bloomberg Ticker	KKB MK
Avg Turnover (MYR/USD)	0.25m/0.06m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	427.3
Beta (x)	0.7
BVPS (MYR)	1.7
52-wk Price low/high (MYR)	1.28 - 1.58
Free float (%)	15

Major Shareholders (%)

Kho Kak Beng Holding	38.8
Cahya Mata Sarawak	17.9
Sarawak Economic Development Board	10.7

Share Performance (%)

	1m	3m	6m	12m
Absolute	2.0	(1.3)	4.2	(0.7)
Relative	5.1	(1.8)	1.9	1.1

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Investment Merits

- Specialised engineer in steel fabrication with bright prospects;
- Poised to benefit from Sarawak's water utilities expansion;
- Ample funding sources for expansion to capture growth in water utilities segment and oil and gas (O&G) industry.

Company Profile

KKB Engineering is based in Sarawak, with principle exposure in steel fabrication, civil construction, as well as oil and gas. About 58 years ago, it started with a small engineering workshop to undertake modest steel fabrication works. Over time, its service offerings expanded to include manufacturing of steel pipes, special pipes, and LPG cylinders. The group, through its subsidiary OceanMight, continues to find opportunities in the O&G sector, in order to build a robust and diversified income base.

It currently offers full project engineering services including engineering, procurement, construction, installation and commissioning to cater to industry demand. A higher allocation to domestic investments by Petronas will benefit local services players amidst a gradual recovery within the upstream space. Under OceanMight, its product range includes substructures, inter-platform bridges, topsides (wellhead platform, central processing platforms and compression platforms, modules, decks, living quarters), jackets, process skids, and modular compression skids. Its business profile is mainly concentrated in Sabah and Sarawak, having completed more than 120 major projects in the two states.

Highlights

Poised to benefit from Sarawak's economic growth. Under Phase 1 of the Sarawak State Water Grid Programme, KKB has secured eight water-related construction projects worth a total of MYR250m. It also secured MYR180m worth of contracts for the supply of water pipes to other contractors that were awarded contracts under the programme. Looking ahead, management believes Phase 2 of the programme will be rolled out in CY22 – it will bid for more jobs as the Sarawak government has increased its funding for the water grid programme to MYR4bn from MYR1.2bn.

Ample funding sources for expansion. In 2H21, KKB placed 30.9m new shares to Sarawak Economic Development Corp on 22 Dec 2021. The placed shares generated some MYR46.4m of gross proceeds for the group's on-going business expansion and working capital requirements. The group has earmarked MYR5m to finance the steel pipe manufacturing division's capacity expansion to 25,000 tonnes pa (from 18,000 tonnes pa) to solidify its position to bid for more water-related projects – planned over a course of 24 months. Meanwhile, another MYR5m may be allocated for the upgrading of its Bako fabrication facility.

OceanMight to leverage on increased O&G activity. With OceanMight holding the Petronas licence for offshore facilities construction, KKB may benefit from heightened exploration activity, as demand rises in line with economic recovery. Petronas' projects that the number of its rigs may increase from 16 in 2021 to 29 in 2024. Aside from that, demand for exploration activities in ASEAN may increase further, especially if the conflict between Russia and Ukraine prolongs. Overall, the group expects its tender books to increase to over RM1.3bil in 2022, whereby indicatively, c.MYR800m is related to O&G fabrication contracts and MYR500m of water-related infrastructure projects.

Company Report Card

Results highlight. 4QFY22 revenue increased 20.5% YoY, backed by higher progress billings for civil construction works related to the Pan Borneo Highway project, combined with a few ongoing water-related construction projects from the Sarawak Rural Water Supply Department and Kuching Water Board, under the Sarawak Water Supply Grid Programme. As such, the group recorded core net profit of MYR8m in 4Q21 compared to a loss of MYR4.7m in 4Q20.

Reasonable net cash position. The group is in a net cash position, with a combined MYR192m of cash and short-term funds as of 31 Dec 2021. KKB's current balance sheet capacity should allow it to gear up for more jobs ahead, particularly in Sarawak. ROE as of FY21 stood at 7.0% compared to 5.2% in the year before, with expectations that it could improve when operating conditions return to normal, as the nation transitions into an endemic phase.

Dividends. KKB has a dividend policy of paying out at least 20% of earnings. For FY21, the group declared a DPS of 5 sen, implying a dividend payout ratio of 55.5% for its shareholders.

Management. Group Managing Director Dato' Kho Kak Beng helms KKB and founded the company back in 1962, when it focused on welding works. The group has now ventured into other businesses such as engineering and construction. Helping him is his son, Group Executive Director Kho Pok Tong, who has extensive experience in the steel industry.

Investment Case

Fair value of MYR1.90 is based on 15x FY23F P/E. The multiple represents a c.30% discount from its 5-year mean, reflecting the pressures from high prices of raw materials. Although our valuation target is higher than the FBMSC's average P/E of 12x for FY23, we believe this is justified, given KKB's: i) Potential of winning water-related projects from the Sarawak state government, ii) niche expertise in steel fabrication for O&G platforms; and iii) its status as one of Sarawak's local players with a commendable track record.

Key risks include a reduction in budget for water projects in Sarawak and a prolonged period of high raw material prices.

Profit & Loss	Dec-19	Dec-20	Dec-21
Total turnover (MYRm)	559	408	392
Reported net profit (MYRm)	48	18	26
Recurring net profit (MYRm)	48	18	30
Recurring net profit growth (%)	172.0	(63.0)	69.0
Recurring EPS (MYR)	0.19	0.07	0.12
DPS (MYR)	0.06	0.04	0.05
Dividend Yield (%)	4.05	2.70	3.38
Recurring P/E (x)	7.9	21.6	12.8
Return on average equity (%)	15.0	5.2	7.0
P/B (x)	1.0	1.0	0.9
P/CF (x)	(26.1)	6.5	13.7

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-19	Dec-20	Dec-21
Total current assets	391	388	359
Total assets	548	555	517
Total current liabilities	168	168	71
Total non-current liabilities	10	10	6
Total liabilities	178	179	77
Shareholder's equity	337	339	401
Minority interest	33	37	39
Other equity	0	0	0
Total liabilities & equity	548	555	517
Total debt	11	1	0
Net debt	(100)	(127)	(192)

Source: Company data, RHB

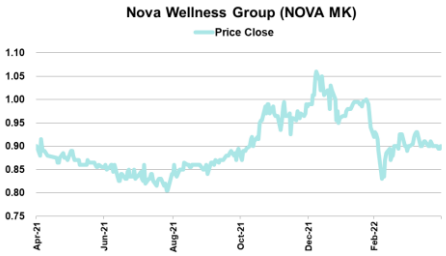
Cash Flow (MYRm)	Dec-19	Dec-20	Dec-21
Cash flow from operations	(15)	59	28
Cash flow from investing activities	16	(68)	(66)
Cash flow from financing activities	(2)	(26)	34
Cash at beginning of period	74	73	38
Net change in cash	(1)	(35)	(4)
Ending balance cash	73	38	34

Source: Company data, RHB

Nova Wellness

A Healthier Tomorrow

Fair Value: MYR1.10-1.20
Price: MYR0.90



Source: Bloomberg

Stock Profile

Bloomberg Ticker	NOVA MK
Avg Turnover (MYR/USD)	0.21m/0.05m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	286.0
Beta (x)	0.5
BVPS (MYR)	0.3
52-wk Price low/high (MYR)	0.788 - 1.054
Free float (%)	17

Major Shareholders (%)

Tan Sok Mooi	42.5
Phang Yeen Aun	8.0
Phang Yeen Nung	8.0

Share Performance (%)

	1m	3m	6m	12m
Absolute	(3.2)	(7.7)	(0.2)	2.6
Relative	(0.2)	(8.2)	(2.5)	4.4

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Investment Merits

- Promising outlook of the nutraceutical market;
- A strategic proxy to rising healthcare awareness and well-being;
- Integrated value chain offering cost efficiency and product innovation;
- Strong balance sheet with zero debt.

Company Profile

Nova Wellness (Nova) is primarily involved in the development, production, and sales of nutraceuticals, functional food, and skincare products under its house brand and on an original equipment maker (OEM) basis. The group has a fully integrated R&D and manufacturing facility located at Sungai Pelek, Sepang. Its listing status was transferred from the ACE Market to the Main Board of Bursa Malaysia in Feb 2021.

Highlights

Healthy outlook for the nutraceutical market. The prospects of the nutraceutical market appear bright, on the back of rising awareness of general health and well-being, with the COVID-19 pandemic bolstering demand for preventative healthcare. Based on a study by Grand View Research, the global dietary supplements market is projected to grow at a CAGR of 8.6% from 2021-2028, driven by a surge in demand for health supplements. The consumption of dietary supplements and functional foods is also part of a holistic approach taken to mitigate the risk factors for non-communicable diseases or NCDs, which continue to be a major healthcare concern in the country, alongside an ageing population. Malaysia lags behind in the consumption of dietary supplements, with less than 30% of the population consuming supplements compared to South Korea (60%), Taiwan (40-50%) and Australia (60%). This suggests scope for local pharmaceutical companies to beef up production and improve on the range of products to drive demand.

Integrated value chain. Nova's operations span across the entire pharmaceutical value chain, from product conceptualisation, R&D, and manufacturing to commercialisation and sales. Its key competitive advantage lies in having full control over product quality (efficacy and formulation), cost efficiency (in-house manufacturing facility), reduced time-to-market and an entrenched distribution network. Nova was able to meet the strong demand from hospitals for hand sanitisers during the onset of the pandemic, with a product commercialised in three months. The group currently has about 80 product stock-keeping units (SKUs) (14 new products added to the portfolio in FY21), with plans to introduce another 40 new SKUs over the next 12 months.

Targeting 1,500 distributors by 2025, including more hospitals. Nova's distributors are largely made up of independent pharmacies,

clinics, and hospitals. Despite the pandemic and population restrictions, the number of distributors jumped 42% in FY21 to 806, and grew further to over 920 as at end 1Q22. Management has set a target of 1,500 distributors by 2025, driven by a more favorable market sentiment and the post-pandemic economic recovery. Aside from the retail network expansion, Nova is looking to include more hospitals (<5% of revenue) for its nutritional products, with 32 public hospitals already under its belt.

Forging win-win partnerships (dealer exclusivity) to drive repeat orders and sales. Management believes in equipping distributors with the right product information via continuous training programmes. A more personalised approach to sales would drive recurring revenues and customer loyalty. Nova observes a non-returnable policy (non-consignment) which mitigates inventory risks and offers good sales visibility. The average customer transaction (top 200 customers) improved from 1.29m in FY19 to 1.68m in FY21, consistent with the growth in its distribution base and addition of new products. For FY22F, Nova is targeting higher average customer transaction of 2m (1HFY22: 1.1m) from repeat purchases and new customers.

Expanding its product suite. The group is undertaking the Phase 2 expansion of its manufacturing facility, which involves the manufacture of skincare and family protection products. The diversification of its product portfolio would expand its target addressable market and help drive revenue growth in the longer term

Company Report Card

Results highlights. Nova's core PAT and revenue grew by a FY19-FY21 CAGR of 15% and 17% respectively to record highs, despite the pandemic and movement restrictions, supported by higher sales of dietary supplements and functional food products. For 1HFY22, core PAT and revenue grew 43% and 40% YoY on the back of the expanded distribution network.

Balance sheet. Nova has zero borrowings as at 4Q21, with a cash balance of MYR26.8m.

Dividends. The company does not have an official dividend policy. The dividend payouts over the past three financial years range from 32% to 66% with a special DPS paid in FY21, bringing the total payout for the year to 3 sen – the highest in record.

Management. The group is led by founder/Group MD, Phang Nyie Lin who is also the Chief Research Officer responsible for overseeing all R&D activities and new product development. Together with his spouse and sons (two Executive Directors), the family collectively holds a 74% stake in the company.

Investment Case

Nova's earnings should continue to chart robust growth going forward, supported by the expansion of its manufacturing facility, new product launches, and a stronger distribution network. The stock is fairly valued at MYR1.10-1.20, based on a target P/E of 15-16x on CY22 earnings. The valuation reflects a 20% discount to the market cap weighted P/E of its peers to account for its smaller market capitalisation and stock liquidity.

Profit & Loss	Jun-19	Jun-20	Jun-21
Total turnover (MYRm)	30	34	40
Reported net profit (MYRm)	11	13	15
Recurring net profit (MYRm)	11	13	15
Recurring net profit growth (%)	31.8	18.9	11.9
Recurring EPS (MYR)	0.03	0.04	0.05
DPS (MYR)	0.01	0.01	0.03
Dividend Yield (%)	1.2	1.6	3.3
Recurring P/E (x)	26.3	22.1	19.8
Return on average equity (%)	28.5	15.9	16.1
P/B (x)	3.7	3.3	3.1
P/CF (x)	23.2	4.0	31.7

Source: Company data, RHB

Balance Sheet (MYRm)	Jun-19	Jun-20	Jun-21
Total current assets	58	56	57
Total assets	90	97	104
Total current liabilities	8	5	4
Total non-current liabilities	4	5	7
Total liabilities	13	10	11
Shareholder's equity	77	87	94
Minority interest	0	0	0
Other equity	1	2	3
Total liabilities & equity	90	97	104
Total debt	0	0	0
Net debt	(39)	(33)	(28)

Source: Company data, RHB

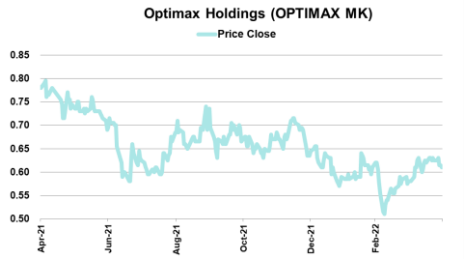
Cash Flow (MYRm)	Jun-19	Jun-20	Jun-21
Cash flow from operations	12	10	9
Cash flow from investing activities	(8)	(8)	(6)
Cash flow from financing activities	33	(8)	(9)
Cash at beginning of period	0	39	33
Net change in cash	37	(6)	(5)
Ending balance cash	39	33	28

Source: Company data, RHB

Optimax Holdings

Visible Earnings Growth

Fair Value: MYR1.52-1.62
Price: MYR1.23



Source: Bloomberg

Stock Profile

Bloomberg Ticker	OPTIMAX MK
Avg Turnover (MYR/USD)	4.03m/0.98m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	329.4
Beta (x)	N/A
BVPS (MYR)	0.20
52-wk Price low/high (MYR)	0.498 - 0.79
Free float (%)	28

Major Shareholders (%)

Sena Healthcare Services Sdn. Bhd.	29.2
Boon Hock Tan	26.7
Chung Soon Hee	5.7

Share Performance (%)

	1m	3m	6m	12m
Absolute	(4.0)	0.8	(5.5)	(20.9)
Relative	(0.9)	0.4	(7.7)	(19.1)

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Investment Merits

- Network expansion to drive growth in the number of surgeries;
- Long-term demographic trends to sustain demand for eye surgeries;
- Stronger revenue intensity to drive revenue growth;
- Stable business with visible multi-year earnings growth amidst global economic headwinds.

Company Profile

Listed on the ACE market on 18 Aug 2020, Optimax is the largest listed pure-play private eye specialist services provider in Malaysia. Its business is supported by a network of 13 specialist centres in Malaysia comprising one specialist hospital and 12 ambulatory care centres (ACC). Optimax offers a range of services, mainly the treatment of eye diseases and disorders, refractive surgery, consultation and dispensary services, oculoplastic surgery and eye examination.

Highlights

Network expansion to grow the number of surgeries. As part of Optimax's expansion plans, the firm will be opening one ACC in Bahau, Negeri Sembilan in 2Q22, and ten satellite clinics (one in Johor, three in Klang Valley, remainder six to be determined) throughout 2022. Starting 4Q24, Optimax will also commence operations from its two hospital partnerships. It will lease floor space from: i) Sena Healthcare's upcoming hospital in Kempas, Johor, and ii) Selgate Healthcare's designated hospitals to provide eye specialist services. Optimax's multi-year expansion should allow the firm to reach a wider population in untapped areas. With the establishment of satellite clinics, Optimax can now direct patient consultations and eye examinations to the satellite clinics (where they cannot perform surgeries), allowing Optimax to focus its ACC resources on surgeries, driving higher utilisation of its ACC's operating theatres. The upcoming satellite clinic in Sutera, Johor may also attract customers from Singapore, who may find services in Malaysia more affordable than those in Singapore, in our view.

Demographic trends to sustain demand for eye surgeries. One, the aging population in Malaysia could potentially drive the increase in demand for age-related eye specialist services, such as cataract surgeries. Note that the risk of getting cataract increases with age. Two, the growing affluence in Malaysia should drive an increase in the penetration of eye-surgeries in the coming years. Three, with some studies suggesting that longer screen time could potentially increase the risk of myopia, we think that Malaysians' continued digital lifestyles could also drive long-term demand for refractive eye surgeries.

Stronger revenue intensity to drive revenue growth. Optimax's revenue intensity, defined by revenue per surgery, has experienced a 5-year CAGR of 3.8%. In 2021 alone, revenue intensity jumped 7% YoY, which we suspect is partially driven by the introduction of its second

ReLEx SMILE ("SMILE") machine. SMILE surgeries are 270% and 43% more expensive than RPK and LASIK refractive treatments. In our view, the introduction of a third SMILE machine in 2022 should help lift revenue intensity and support profit margins in FY22.

Company Report Card

Latest results. FY21 revenue jumped 53%, driven by a 21% YoY jump in surgeries performed to a record high of 9,078, and vaccination services (c.16% of FY21 revenue, per our estimates). Notably, 4Q21 made up 35% (or 3,204) of said surgeries performed, fueled by pent-up demand caused by movement restrictions and from year-end marketing promotions. Higher-margin vaccination services, higher revenue intensity, lower net interest expense and lower effective tax rate (ETR) drove net margin expansion (4.1ppts) and net income surged 118%.

Balance sheet and ROE. As at 4Q21, Optimax stood at a net cash position. With no major capex planned, we forecast it to be in a net cash position in FY22F-23F. In 4Q21, ROE stood at a healthy 24%, and we expect it to marginally weaken in FY22F, weighed by a decline in vaccination services, which we believe fetches higher margin than surgeries, before recovering in FY23F-FY24F, driven by margin expansion on normalization of ETR.

Management. The management team is led by CEO Sandy Tan Sing Yee and CFO Michelle Tan Sing Chia. They are both daughters of Tan Sri Dato' Tan Boon Hock, who is the Executive Deputy Chairman, and currently provides guidance and strategic advice to the senior management. Prior to Sandy's appointment as CEO in 2017, Tan Sri Dato' Tan led the group since its inception 27 years ago. The management team also consists of three medical directors, who monitor and train doctors. All three medical directors are shareholders of Optimax.

Dividends. Optimax does not have a dividend policy. In FY21, Optimax paid out 83% of net profits. Given its healthy operating cash flow margin of 22-28%, and minimal capex requirements, we estimate future payout ratios of 70%.

Investment Case

Visible and stable earnings growth. We like Optimax for its visible earnings growth trajectory in the coming years, driven by network expansion, growth in revenue intensity, and improving margins.

Fair value. We derive a pre-split fair value range of MYR1.52-1.62 (post-split MYR0.76-0.81), which is pegged to 28x-30x P/E on FY23F fully-diluted EPS. We believe our target multiple – at 15-24% premium to its historical mean (since listing) of 24.3x – is reasonable, in view of visible earnings growth amidst a riskier investment environment, plagued by inflationary pressures and global economic headwinds. Our ascribed P/E range is at 8-1% discount to the KL healthcare sector (ex-gloves), given Optimax's relatively smaller size. Comparing against the trailing 12-month P/E of ISEC Healthcare (ISEC SP, NR) – its closest regional peer – our valuation is at a 43%-53% premium, which we think is justified given Optimax's relatively brighter growth prospects.

Key risks: reliance on key medical and management personnel, further rounds of COVID-19 lockdowns, stiffer-than-expected competition, and weak consumer spending power.

Profit & Loss	Dec-19	Dec-20	Dec-21
Total turnover (MYRm)	63	58	89
Reported net profit (MYRm)	8	6	12
Recurring net profit (MYRm)	8	6	12
Recurring net profit growth (%)	0.8	(0.3)	1.2
Recurring EPS (MYR)	0.03	0.02	0.05
DPS (MYR)	0.00	0.00	0.04
Dividend Yield (%)	0.0	0.0	3.1
Recurring P/E (x)	42.4	58.9	27.0
Return on average equity (%)	36.0	16.0	23.9
P/B (x)	14.7	6.9	6.0
P/CF (x)	18.8	25.6	16.9

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-19	Dec-20	Dec-21
Total current assets	15	31	34
Total assets	64	84	93
Total current liabilities	16	12	14
Total non-current liabilities	24	23	21
Total liabilities	40	34	35
Shareholder's equity	23	48	55
Minority interest	2	2	3
Other equity	0	0	0
Total liabilities & equity	64	84	93
Total debt	20	25	24
Net debt	15	(1)	(0)

Source: Company data, RHB

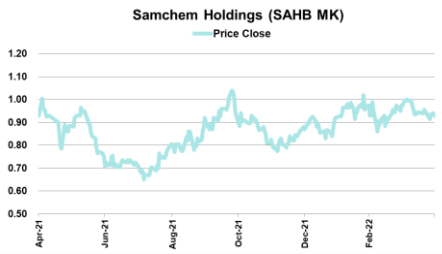
Cash Flow (MYRm)	Dec-19	Dec-20	Dec-21
Cash flow from operations	18	13	20
Cash flow from investing activities	(5)	(20)	(0)
Cash flow from financing activities	(12)	11	(11)
Cash at beginning of period	5	6	10
Net change in cash	1	4	9
Ending balance cash	6	10	19

Source: Company data, RHB

Samchem Holdings

An Underappreciated Gem

Fair value: MYR1.55-1.70
Price: MYR0.93



Source: Bloomberg

Stock Profile

Bloomberg Ticker	SAHB MK
Avg Turnover (MYR/USD)	2.91m/0.71m
Net Gearing (%)	58.7
Market Cap (MYRm)	505.9
Beta (x)	0.9
BVPS (MYR)	0.45
52-wk Price low/high (MYR)	0.65 - 1.07
Free float (%)	35

Major Shareholders (%)

Ng Thin Poh	45.8
Tan Teck Beng	5.0
Hong Leong Co Malaysia	3.8

Share Performance (%)

	1m	3m	6m	12m
Absolute	(13.1)	(10.4)	(3.4)	(6.5)
Relative	(10.0)	(10.8)	(5.6)	(4.7)

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Investment Merits

- Recovery in economic activities continue to drive demand;
- An integrated chemical player equipped with a comprehensive portfolio, and enjoying strong ties to principal suppliers and logistic expansion;
- Lingering global supply chain issue to support chemical prices;
- Trading at a compelling valuation of 6x FY23F P/E vs peers' 14x.

Company Profile

Samchem is an established regional chemical distributor that distributes industrial chemicals and specialty chemicals across the region, with Vietnam and Malaysia accounting for c.47% and c.39% of FY21 revenue, followed by Indonesia (13%) and Singapore (1%). The group supplies c.500 types of petrochemicals to over 7,000 clients across various industries, such automotive, manufacturing, paint and coating, foaming, agriculture, household, construction, oil and gas, personal care and grooming.

Highlights

Recovery in economic activities continue to drive demand. As a chemical raw material distributor, Samchem has wide range of products that can be used across various industries. As it is not dependent on any single industry and has exposure to multiple markets, we anticipate demand to continue to grow with the reopening of domestic economic sectors, as well as growing global activities. Besides rising demand from existing customers, the recent penetration into the new market through its new multi-national customer in Malaysia should bring in a potential revenue of up to MYR30m for now. Looking beyond Malaysia, it has become the first bulk importer for a product range in Vietnam.

Logistics and warehouse expansion to support another leg of growth. In view of the construction of the warehouse in Vietnam and a 50,000sqf (phase 1) warehouse in Pulau Indah, Klang that are expected to be completed by 4Q22, we believe this could further expand and consolidate its strength distribution activities. The Pulau Indah warehouse should double the capacity of its Klang Valley operation and bring in rental savings. Besides the recent addition of six trucks (cargo fleet) and four trucks (bulk tanker fleet), the group is looking to add another 10 trucks (bulk tanker fleet) by end-2022, which should support the pick-up in logistics activities and demand growth.

Lingering global supply chain issue to support chemical prices. The shortage of key raw materials in the market and closure of plants across China have contributed to the spike in raw material prices, which has cascaded down the price increase across the value chain. Samchem offers a 1-stop solution to its customers, from the point of having strong relationships with principal suppliers, to sourcing and procurement, bulk storage, bulk breaking and blending, technical

support as well as warehousing and logistics. This helps the group to secure allocations, and have better control over its cost and inventory – which has become increasingly important ever since the COVID-19 pandemic caused disruptions to the chemical distribution supply chain. As the strain on the supply chain is not likely to abate in the near term, we expect the existing port congestion, shipment availability and cost concerns to support chemical prices, which will continue to favour Samchem.

Company Report Card

Latest results. 1Q22 revenue increased 10% YoY, as it recorded a higher ASP. That said, PAT only increased by 3% YoY, after taking into account the higher cost of sales as a result of higher chemical prices. QoQ, revenue and PAT declined 15% and 18% on a decrease in sales volume given the seasonally weaker quarter.

Balance sheet/cash flow. As of 1Q22, Samchem's net debt stood at 0.58x, slightly lower than FY21's 0.59x but still higher than FY20's 0.54x – mainly consisting of short-term borrowings such as trade loans, banker acceptances and foreign currency trade loans.

ROAE. Samchem's ROAE improved to 34.6% in FY21, from FY20's 23.6%, on the back of higher revenue and GPMs.

Dividend. As of 1Q22, the group has declared a DPS of 1 sen for FY22F. Assuming the dividend payout ratio is around 28-30% of PAT, we are looking at FY22-24F DPS of 4-5 sen, implying 4-5% yields.

Management. Ng Thin Poh is the Executive Chairman and CEO of Samchem. He has been in the chemical distribution business since 1981. His daughter Ng Ai Rene, was appointed to the Board as Non-Independent Non-Executive Director in 2017 and subsequently redesignated as the Executive Director in 2019.

Investment Case

Fair value. Our estimated FV range of MYR1.55-1.70 is based on 10-11x FY23F P/E, which is around +1SD from the 5-year forward mean – in line with Bursa Malaysia Industrial Production Index's 10x. Our valuation is premised on the rising demand for chemicals, supported by the expansion of logistics and warehouse infrastructure, as well as strong relationships with principal suppliers that gives it an edge in securing allocation, better inventory management and price negotiation. We believe the demand for chemical products is evergreen, as these are necessities in various manufacturing activities. The elevated inflationary environment and rebound in economic activities should continue to support the earnings. While we expect a FY22-24F earnings CAGR of 7%, Samchem is only trading at an undemanding 6x FY23F P/E, which is below the peer average of 14x P/E.

Key risks. Absence of long-term distributorship agreements, fluctuating chemical prices, and heightened competition. On the ESG front, we are unaware of any significant ESG-related issues.

Profit & Loss	Dec-19	Dec-20	Dec-21
Total turnover (MYRm)	1,057	1,053	1,406
Reported net profit (MYRm)	24	41	75
Recurring net profit (MYRm)	24	41	75
Recurring net profit growth (%)	10.9	71.3	84.2
Recurring EPS (MYR)	0.04	0.07	0.14
DPS (MYR)	0.02	0.02	0.04
Dividend Yield (%)	2.2	2.3	4.3
Recurring P/E (x)	21.3	12.4	6.7
Return on average equity (%)	15.7	23.6	34.6
P/B (x)	3.2	2.7	2.1
P/CF (x)	2.5	9.8	na

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-19	Dec-20	Dec-21
Total current assets	387	430	588
Total assets	52	50	69
Total current liabilities	256	263	371
Total non-current liabilities	14	12	11
Total liabilities	270	275	382
Shareholder's equity	157	188	245
Minority interest	12	16	30
Other equity	0	0	0
Total liabilities & equity	439	479	657
Total debt	184	181	230
Net debt	132	101	144

Source: Company data, RHB

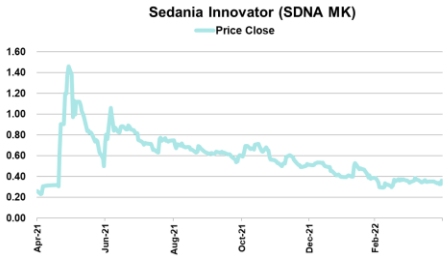
Cash Flow (MYRm)	Dec-19	Dec-20	Dec-21
Cash flow from operations	88	55	10
Cash flow from investing activities	1	0	(23)
Cash flow from financing activities	(80)	(26)	18
Cash at beginning of period	41	52	79
Net change in cash	9	28	4
Ending balance cash	52	79	86

Source: Company data, RHB

Sedania Innovator

Innovating Sustainability Solutions

Fair Value: MYR0.61-0.75
Price: MYR0.36



Source: Bloomberg

Stock Profile

Bloomberg Ticker	SDNA MK
Avg Turnover (MYR/USD)	5.41m/1.31m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	125.0
Beta (x)	0.0
BVPS (MYR)	0.12
52-wk Price low/high (MYR)	0.285 - 1.77
Free float (%)	42

Major Shareholders (%)

Sedania Corp. Sdn. Bhd.	31.1
Faroz Bin Mohamed Jakel	13.4
Nasri bin Nasrun	4.0

Share Performance (%)

	1m	3m	6m	12m
Absolute	35.6	(2.0)	(26.7)	59.7
Relative	38.6	(2.4)	(28.9)	61.5

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Investment Merits

- An emerging sustainability energy solution provider;
- Beneficiary of longer-term trend of sustainable development;
- Venture into the high growth health sustainability market.

Company Profile

Sedania Innovator Berhad is an innovation house with multiple portfolios, providing services in Malaysia and globally. Its main portfolio, Green Technology (GreenTech) provides energy efficiency and energy saving technology solutions for organisations to reduce carbon emissions. Recently, Sedania Innovator tapped into Health Technology (HealthTech), a provision of consumer products specialising in healthcare, personal care, household as well as baby and childcare products. Other services include Financial Technology (FinTech) and Telco Technology (TelcoTech).

Highlights

A win-win sustainable solutions to blue chip clienteles. The group's established track record is evidenced as they've managed to score contracts from big players such as Maybank, TM, Petronas and AmBank. The achievement is attributable to its sustainability solutions that is based on a zero capex, profit-sharing model called the Energy Performance Contract (EPC). With the unique preposition to customers, this business segment has gained a lot of tractions of the past years. Recently, Sedania secured a six-year contract from Pos Malaysia, an entry into the supply chain sector with Phase 1 of the project is slated to complete in June 2022.

Growing revenue on the back of ESG conscious world. With an ever growing concern over climate change, we believe Sedania will be able to capture revenue growth as the group's contract framework helps corporations pursue their environmental, social and governance (ESG) objectives and significantly reduce their energy consumption. The Group is also set to achieve growing recurring income as EPC contracts range between 5-10 years. Each project's profit margin is estimated at 40% with an ROI of 15-20%. Besides, the business can also potentially yield carbon credit capital, which can be monetized the future.

Going into sustainable healthcare products. Sedania Innovator's acquisition of a 51% stake in Offspring Inc Sdn Bhd was a move to diversify into consumer products. The acquisition, completed in Jan 2021, has become a major contributor to the group's revenue (55.1%), profitability (39.1% PBT) as well as cash flow. As one of the leading green baby products with that are made from organics and sustainable source, we see growing potential among the consumers with increasing awareness on eco-friendly and quality sustainable products. Offspring currently has presence in 21 countries in five regions, including Asia, America, Europe, Africa and the Middle East. Having achieved a three years revenue CAGR of 138%, we believe it will continue the strong

growth trajectory with strategic plan to increase its market share via online channel and capitalise on growth opportunities around the Gulf.

A FinTech breakout. Sedania will benefit from the progressing digital lifestyles considering the shift in digital behaviour towards banking habits, coupled with strategic alliances forged with several FinTech industry leaders through its subsidiary, Sedania As Salam Capital Sdn Bhd (SASC). Recently, two of its main clients in the Fintech segment were awarded with the digital banking license from Bank Negara Malaysia and there could be more potential collaboration or business opportunity in these regards.

The group has also ventured into the esports space in 2019 when it founded Esports Players League (ESPL) through its 36.21% investment stake in Esports Pte Ltd. ESPL has organised tournaments for the world's top game publishers.

Company Report Card

Results highlight. Sedania recorded an all-time high revenue of MYR49.1m since its listing with a 65.1% YoY increase, mainly due to the Group's HealthTech endeavor. Moreover, the GreenTech segment's revenue rose 725.8% from MYR1.9m in FY20 to MYR15.65m in FY21 as Sedania was able to resume onsite activities and secure more EPC projects. Consequently, the Group recuperated MYR8.5m in earnings from a loss of MYR10.2m the previous year.

Balance sheet, cash flow and dividends. The group has a healthy balance sheet with a net cash of MYR8.7m as at FY21, supportive of future expansion. However, due to Sedania's business model, operating cash flow has been negative with FY19-21 operating cashflow at (MYR2.2-0.2m). While it does not have a dividend policy, Sedania has been paying 1 sen per share in FY15-17.

Management. Datuk Azrin Mohd Noor is the founder of the company, and is currently the Managing Director. Datuk Syafiroz Mohd Noor, the Executive Director, first joined Sedania Corporation Sdn. Bhd. ("SCSB") in 2005, where he served as the General Manager. Mr. Daniel Bernd Ruppert was appointed Group CEO of the Company in 2018. Prior to joining the Company, Mr. Daniel has over 20 years of experience working across global financial institutions in the UK.

Investment Case

We like the stock for its unique exposure to the sustainability segment, a niche in the Malaysian market, which is poised to gain traction on the imminent concern over carbon emissions and ESG regulations. We are also upbeat on Sedania's venture into the health sustainability division. This undertaking will contribute to the group's FY22-23 top-line as well as bottom line growth. Our SOP-derived fair value range of MYR0.61-0.75 implies 14-17x FY23F P/E with its GreenTech and HealthTech divisions pegged to peers P/E range of 12x-15x and 17-20x respectively. We think our valuation is justifiable, premised on the commencement of major EPC projects as well as Sedania's recent ventures.

Key risks include its reliance on contributions from key customers and the group's dependency on the performance of its strategic partners.

Profit & Loss	Dec-19	Dec-20	Dec-21
Total turnover (MYRm)	15	30	49
Reported net profit (MYRm)	2	(10)	9
Recurring net profit (MYRm)	1	(3)	9
Recurring net profit growth (%)	164.8	(318.0)	422.6
Recurring EPS (MYR)	0.00	(0.01)	0.02
DPS (MYR)	0.00	0.00	0.00
Dividend Yield (%)	0.0	0.0	0.0
Recurring P/E (x)	73.8	nm	14.7
Return on average equity (%)	8.6	(42.4)	31.1
P/B (x)	2.8	6.1	3.0
P/CF (x)	(39.9)	(27.4)	(644.3)

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-19	Dec-20	Dec-21
Total current assets	24	29	32
Total assets	35	40	52
Total current liabilities	3	19	6
Total non-current liabilities	1	3	4
Total liabilities	4	22	10
Shareholder's equity	32	17	38
Minority interest	0	1	3
Other equity	0	0	0
Total liabilities & equity	35	40	52
Total debt	1	3	5
Net debt	(10)	(11)	(9)

Source: Company data, RHB

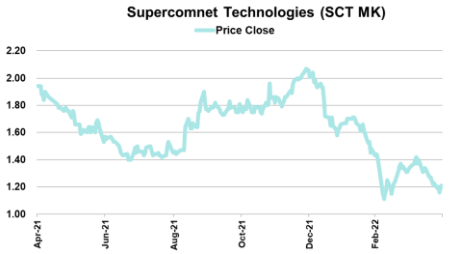
Cash Flow (MYRm)	Dec-19	Dec-20	Dec-21
Cash flow from operations	(2)	(4)	(0)
Cash flow from investing activities	(2)	(3)	(14)
Cash flow from financing activities	2	8	14
Cash at beginning of period	13	12	13
Net change in cash	(2)	1	(0)
Ending balance cash	11	13	13

Source: Company data, RHB

Supercomnet Technologies

Fair Value: MYR1.50-1.62
Price: MYR1.21

Well-Equipped With Various Growth Components



Source: Bloomberg

Stock Profile

Bloomberg Ticker	SCT MK
Avg Turnover (MYR/USD)	1.82m/0.44m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	921.7
Beta (x)	0.7
BVPS (MYR)	0.4
52-wk Price low/high (MYR)	1.09 - 2.08
Free float (%)	24

Major Shareholders (%)

Shiue Jong-Zone	20.8
Wu Huei-Chung	14.6
Shiue Jyh-Jeh	9.4

Share Performance (%)

	1m	3m	6m	12m
Absolute	(14.3)	(29.8)	(31.4)	(36.6)
Relative	(11.3)	(30.3)	(33.7)	(34.8)

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Investment Merits

- Strong orders for medical devices to drive earnings growth;
- Wire harness and fuel tank orders may expand to supply for up to five Peugeot models;
- Potential M&A opportunities to accelerate growth;
- Imminent transfer to the Main Board to boost investability of the stock.

Company Profile

Supercomnet has three major segments – medical, automotive cables, and industrial wiring and cables. The medical segment, the largest revenue contributor (accounting for c.67% last year), manufactures medical devices and special tubing for delivery systems. The automotive cables division contributed about 10% of FY21 revenue. This unit will start supplying fuel tanks and wire harnesses to Peugeot/TA from 2H22 onwards. The general wiring and cable segment makes up the remaining 23% of revenue, and manufactures wires and cables for automobiles, safety sensor products, electrical appliances and for other general means of usage.

Highlights

Strong orders for medical devices to drive earnings growth. The medical segment is expected to maintain its strong growth momentum. This unit, which contributed roughly 67% of FY21 revenue, generates solid net margins of about 20%. While its main clients Ambu and Edwards Lifesciences account for >60% of total revenue, new orders for declotting devices from MerMaid Medical will likely be another significant contributor from 2H22 onwards. Production of another device – the IHS Syringe Infusion System – will also start in 3Q22, as mass production tooling is almost completed. Apart from cardiovascular and endoscopy devices, management is also seeing more demand for tactical military items, civilian medical devices, and tubing delivery systems. Last year, the company successfully negotiated a price increase with its customers, to offset the rise in raw material costs.

Wire harness and fuel tank orders to expand to supply for up to five Peugeot models. Supercomnet has also secured orders from Stellantis to supply wire harnesses and fuel tanks for a Peugeot car model. In early April, it received a letter of agreement for a second Peugeot model. Besides Peugeot, the company may also explore opportunities from other European marques. Given the new orders, revenue from the automotive segment should catch up progressively, potentially contributing 20-30% of total revenue (from 10% in FY21). This segment typically yields a net margin of around 12-18%.

Potential M&A opportunities to accelerate growth opportunities. The company is currently looking for potential M&A opportunities in a small scale.

Management indicated that, while Supercomnet's strength lies in its production of current medical devices, there are many other types of devices – such as fabric-based ones – that require sewing machinery, which the company does not have at the moment. This lack should compel to hunt for more growth opportunities in the future.

Imminent transfer to Main Board. The company is in the midst of seeking a transfer of its listing to the Main Market from the ACE Market. This exercise is expected to be completed in 3Q22. We believe this will likely help to lift investor interest on the stock – which may lead to a re-rating – since investable medical technology stocks are scarce in Bursa Malaysia

Company Report Card

Results highlights. Although 4Q21 revenue grew by a healthy 12.2% YoY, earnings declined by 3.6% YoY due to lower deferred taxes paid compared to that of 4Q20. Full-year revenue grew 13.3% YoY, on higher sales orders as well as adjustments in selling prices to factor in rising raw material costs. Hence, FY21 net earnings rose 7.6% YoY, while the NPM contracted to 17.4% from 18.3% in FY20.

In a net cash position. Supercomnet currently has zero debt, with MYR45m in cash and term deposits, as well as MYR102m in financial assets. The company funded its expansion entirely via internal funds.

Dividends. While it does not have a dividend policy, Supercomnet has been consistently paying a DPS of 1.5 sen over the last three years (FY19-21), which indicates a payout ratio of 40-50%. Management guided that the company should maintain this ratio going forward.

Management. Lim Eng Chuan is the Executive Director of Supercomnet. Over his 22 years in the company, he has held various positions in R&D, sales and marketing, overall development, implementation and the review of quality management systems.

Investment Case

We like the stock for its niche exposure to the medical and automotive component supplier space. Supercomnet has established partnerships with its tier-1 healthcare partners from developed countries for over 20 years. Given the rising demand for healthcare products and services, as well as various technology breakthroughs in the global medical industry, we think demand for medical devices will continue to grow over the longer term. While FY22 should see earnings growth picking up in 2H, growth in FY23 is likely to be even more significant, as production should be ramped up on a full-year basis then.

This company has no comparable peers. Given its historical P/E range of 35-38x (average: 38x) during the pre-pandemic period, we derive a fair value range of MYR1.50-1.62, based on our estimated FY22 earnings. We think our P/E range is fair, given: i) the businesses that the company is in; ii) its superior growth trajectory over the next 2-3 years; and more importantly iii) its impending earnings delivery. Note that its 5-year historical P/E range is rather volatile, at 11-75x.

Key downside risks include a further increase in raw material prices, a possible delay in Food & Drug Administration approvals (and, as such, delays in the commencement of production), the unexpected termination of contracts, as well as an unexpected resurgence of COVID-19 infections (or new variants) that may cause economic shutdowns and disrupt production.

Profit & Loss	Dec-19	Dec-20	Dec-21
Total turnover (MYRm)	123	128	145
Reported net profit (MYRm)	19	24	25
Recurring net profit (MYRm)	19	24	25
Recurring net profit growth (%)	73.6	21.3	7.6
Recurring EPS (MYR)	0.03	0.03	0.03
DPS (MYR)	0.02	0.02	0.02
Dividend Yield (%)	1.2	1.2	1.2
Recurring P/E (x)	40.1	34.9	36.3
Return on average equity (%)	9.4	9.7	8.2
P/B (x)	3.8	3.4	3.0
P/CF (x)	30.3	48.4	34.9

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-19	Dec-20	Dec-21
Total current assets	95	139	208
Total assets	224	266	334
Total current liabilities	12	19	18
Total non-current liabilities	7	6	5
Total liabilities	18	25	24
Shareholder's equity	206	242	310
Minority interest	0	0	0
Other equity	0	0	0
Total liabilities & equity	224	266	334
Total debt	0	0	0
Net cash	46	81	136

Source: Company data, RHB

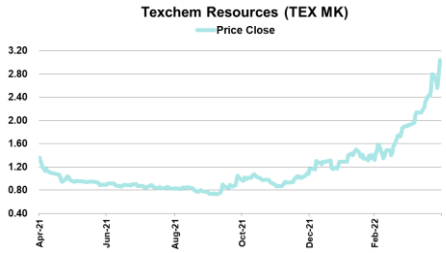
Cash Flow (MYRm)	Dec-19	Dec-20	Dec-21
Cash flow from operations	26	17	26
Cash flow from investing activities	(20)	(17)	(60)
Cash flow from financing activities	(10)	12	43
Cash at beginning of period	39	46	42
Net change in cash	(4)	11	10
Ending balance cash	35	57	52

Source: Company data, RHB

Texchem Resources

The Return Of The "King"

Fair Value: MYR4.49-6.18
Price: MYR2.97



Source: Bloomberg

Stock Profile

Bloomberg Ticker	TEX MK
Avg Turnover (MYR/USD)	1.57m/0.38m
Net Gearing (%)	21.4
Market Cap (MYRm)	347.1
Beta (x)	1.2
BVPS (MYR)	2.35
52-wk Price low/high (MYR)	0.715 - 3.17
Free float (%)	37

Major Shareholders (%)

Texchem Holdings	45.6
Blood Protection (Holding)	2.0
Atsuko Konishi	1.9

Share Performance (%)

	1m	3m	6m	12m
Absolute	34.7	102.1	173.3	154.0
Relative	37.8	101.6	171.1	155.8

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Investment Merits

- Successful turnaround of Sushi King;
- Underappreciated polymer engineering division with diverse exposure;
- Undemanding valuation trailing imminent recovery prospects.

Company Profile

Founded in 1973, Texchem Resources (Texchem) is a Malaysia-based multinational group that comprises five diverse businesses – Industrial, Polymer Engineering, Restaurant, Food and Venture Business – that encompass the trading of industrial chemicals, design and manufacturing of various polymer-related parts and components, packaging solutions, managing a restaurant chain, processing and marketing of marine products, aquaculture activities, and R&D.

Highlights

Turnaround of crown jewel. Since establishing itself as the first Japanese restaurant chain selling sushi on conveyor belts, Sushi King has withstood adversity and fierce competition over the past 27 years and remained the largest kaiten-concept chain restaurant, with 121 outlets in Malaysia. Focusing on the mass market (with 813k members) and with a halal certificate, Sushi King is set to recover strongly in FY22 (from a loss in FY21). Also, in a right-sizing exercise, it closed down about 20 non-performing outlets over the past two years, and exited the Vietnam and Indonesia markets. As such, we expect its restaurant business to outperform its performance prior to the pandemic performance. With a strong infrastructure and solid resources within the restaurant unit, Texchem should be able to swiftly execute its growth-focused strategy (eg expansion of kiosk unit) to capture the various market segments. Sushi King is now a 98.35%-owned subsidiary following Texchem's recent acquisition of a 28% stake from Asia Yoshinoya – which is timely for it to capture the recovery trend.

Integrated polymer engineering solutions provider. With production facilities (including cleanroom) across four ASEAN countries, and design & engineering capabilities, Texchem has the expertise and experience in offering complete customised plastic parts, components, precision packaging solutions from material customisation, design, mould fabrication and high volume manufacturing. With its exposure to high-growth sectors such as electric & electronics, semiconductors, hard disk drives, aerospace, automotive and the successful diversification to medical life sciences-related products (c.24% of divisional revenue), this segment now has a diversified portfolio to cushion against any diversity, and can grow further. Texchem also developed TEXa®, a certified bio-based plastic that consumes less fossil energy and emits lower greenhouse gases – which fits its sustainability theme.

Industrial division to track overall economic recovery. It offers

integrated sourcing and distribution solutions for a wide range of chemicals, which include but are limited to polymer, plastic resins, industrial chemicals, food additives, latex glove chemicals, dyestuff and textile chemicals. This unit is expected to fare better, given the resumption of manufacturing activities amid the Malaysian, Singaporean, Thai and Vietnamese economies reopening. As commodity prices remain elevated, this division should continue to book strong numbers, in tandem with sales volume growth.

Company Report Card

Results highlights. Texchem continued to recover in 1Q22, with profit growing 97% YoY to MYR13.1m. This follows the meaningful earnings breakout of MYR25m (+5.4x YoY) in FY21, following the turnaround of its restaurant business and growth in other segments following the easing of movement restrictions. Margins also improved on the back of higher revenue and operating efficiency.

Balance sheet/cash flow. As of 1QFY22, Texchem's net gearing level is under 0.3x. The company booked a strong FCF yield of 16% in FY21, thanks to synergies generated and its operating excellence.

ROE. ROE should improve and reach the mid-teens in FY22 as the group continues to grow, boosted by margin expansion and the turnaround of its restaurant business.

Dividend. The group aims to payout up to 50% of earnings, which will yield 6% at current price.

Management. The group is still under the helm of its founder/executive chairman Tan Sri Dato' Seri (Dr) Fumihiko Konishi and Group President and CEO, Yap Kee Keong, who has been with the group for 34 years. The founder and its family remain the largest shareholder of the group, with a 49.15% stake.

Investment Case

A turnaround story. Earnings should improve, due to the expected turnaround of Sushi King, a growing food division and stable performance from both the Industrial and Polymer Engineering divisions. Margin growth is imminent – given its leaner operating expenses after various rationalisation exercises during the pandemic-hit years, and change in strategy to focus on more value-added services and products for its industrial and food divisions. Its net profit should also improve further, on a lower effective tax rate – given the net deferred tax assets of MYR7.1m sitting on its balance sheet.

"Buy one, free three"? The acquisition price of MYR102.2m for a 28% stake in Sushi King puts its valuation at MYR365m, which is on par with Texchem's current market capitalisation. Should Sushi King's profit bounce back to levels recorded during its glory days, this valuation is well supported. At the current valuation, its remaining businesses in Industrial, Polymer Engineering and Food are unaccounted for.

SOP-derived fair value range of MYR4.49-MYR6.18, with its industrial, polymer engineering, F&B and Food divisions pegged to peers' P/E ranges of 8x-10x, 10x-13x, 16x-18x and 17-20x. The implied blended FY22-23F P/E range of 13.2x-16.4x is comparable to the FBM SC's forward P/E of 11x-13x. Key risks include escalation of input costs, slower orders, weaker-than-expected sales, and unfavourable FX rates.

Profit & Loss	Dec-19	Dec-20	Dec-21
Total turnover (MYRm)	1,134	1,018	1,087
Reported net profit (MYRm)	(7)	(2)	25
Recurring net profit (MYRm)	(11)	4	25
Recurring net profit growth (%)	119.6	(133.6)	561.3
Recurring EPS (MYR)	(0.09)	0.03	0.20
DPS (MYR)	0.00	0.00	0.10
Dividend Yield (%)	0.0	0.0	3.5
Recurring P/E (x)	(30.9)	92.0	13.9
Return on average equity (%)	(4.8)	1.6	9.9
P/B (x)	1.3	1.3	1.2
P/CF (x)	4.6	4.0	4.0

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-19	Dec-20	Dec-21
Total current assets	343	354	410
Total assets	662	697	727
Total current liabilities	323	314	340
Total non-current liabilities	69	111	87
Total liabilities	392	424	427
Shareholder's equity	235	244	271
Minority interest	35	29	29
Other equity	1	2	2
Total liabilities & equity	662	697	727
Total debt	181	157	166
Net debt	93	69	58

Source: Company data, RHB

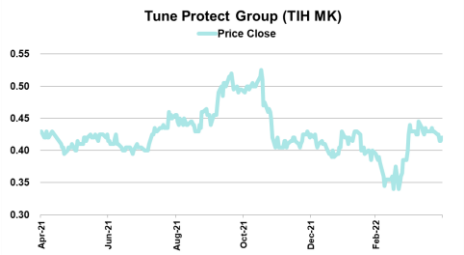
Cash Flow (MYRm)	Dec-19	Dec-20	Dec-21
Cash flow from operations	77	63	57
Cash flow from investing activities	(18)	1	(4)
Cash flow from financing activities	(50)	(57)	(36)
Cash at beginning of period	82	88	88
Net change in cash	10	6	16
Ending balance cash	88	88	108

Source: Company data, RHB

Tune Protect Group

Laying The Groundwork For Scalability

Fair Value: MYR0.61-0.65
Price: MYR0.42



Source: Bloomberg

Stock Profile

Bloomberg Ticker	TIH MK
Avg Turnover (MYR/USD)	1.35m/0.33m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	315.7
Beta (x)	0.9
BVPS (MYR)	0.76
52-wk Price low/high (MYR)	0.33 - 0.535
Free float (%)	56

Major Shareholders (%)

Tune Group Sdn. Bhd.	15.8
AirAsia Digital Sdn. Bhd.	13.7
CIMB SI II Sdn. Bhd.	9.4

Share Performance (%)

	1m	3m	6m	12m
Absolute	(9.0)	(5.8)	(19.0)	(3.6)
Relative	(6.0)	(6.3)	(21.3)	(1.8)

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Investment Merits

- At the forefront of recovery, riding on the reopening of international borders and gradual resumption of economic activities;
- Niche in insurtech propositions and partnership business model allow rapid scaling without the need for heavy capex;
- Undemanding valuation at P/BV of 0.6x against FY22F-24F average ROE of 7.2%.

Company Profile

Tune Protect (TPG) provides underwriting and reinsurance services for non-life insurance products through its three key pillars: i) Health, ii) Lifestyle, and iii) SME. The group serves over 150m customers via multiple affinity partners, customer touchpoints and channels. It is the sole insurer in the FTSE4Good Bursa Index Constituent, with a score of 3.3 out of 5.0.

Highlights

Catching the tailwind of border reopenings. The group is well positioned to capitalise on the recovery of passenger traffic. In an effort to diversify within the travel sector to minimise dependency on its sister company, Air Asia, TPG has extended its COVID-19 related products to other ASEAN countries (Vietnam & Cambodia) and the Middle East via exclusive airline partnerships (Airarabia, Salam Air etc) and travel agencies. Evidently, TPG saw strong recovery in travel premiums in FY21 (+55% YoY) mainly driven by the Middle East, with non-AirAsia contributing 93% of the travel premium mix from 20% in FY19 (pre-COVID-19). Moving forward, we believe near term catalyst should arise from the mandatory travel insurance for foreign inbound passengers into Malaysia and reopening of international borders bearing fruit from initiatives implemented in the past two years.

Leveraging on its niche insurtech proposition. Its niche exposure to insurtech via the technology arm – White Label – should enable quick scaling through partnership, without the need for heavy capex, which, in our view, anchors the group's long term growth. Its API provides a competitive edge vs peers, enabling a quick turnaround time in system implementation, which positions TPG at the forefront of the competition. TPG is set to evolve its tech arm into a profit centre, offering a dynamic pricing platform with distribution and administrative support to its partners for a technology fee, eliminating the need for underwriting.

Beyond travel. TPG anticipates better contribution from non-travel Lifestyle, Health and SME insurance products following the gradual resumption in economic activities as well as contributions from new partnership tie-ups with more products being launched in 2022. The group's vision to simplify insurance by offering bite-sized products with optional add-ons via direct digital access through its proprietary mobile app, appeals to the younger generation – its primary target segment. It is also eyeing to expand its ASEAN presence.

Company Report Card

Results highlights. FY21 NWP increased 19.5% YoY, driven by robust travel growth in the Middle East. Combined ratios improved 8.7ppts to 99.4% on favorable claims experience, but the former still trails behind the industry average. Alongside i) share of losses from TPT hampered by one-off events, and ii) unfavourable bond yield movements resulting in investment losses, TPG recorded FY21 core losses of MYR15m (FY20 PATAMI: MYR18.4m). Management remains committed to achieving 30% FY20-23F CAGR, sighting growth from all three key pillars while minimising commercial exposure. Management expenses are expected to remain elevated due to IT costs, but management expense ratio should decline following the scaling of business. That said, we expect a meaningful earnings recovery in FY23F.

ROE. FY21 ROE slipped to -2.7% despite strong topline growth. Moving forward, we expect ROE to gradually recover to 8% in FY23, driven by healthy topline growth, with key ratios tracking close to the industry average.

Dividends. There is no dividend policy and we do not expect any near term payout as the business is still undergoing a turnaround and strategy execution.

Management. Rohit Chandrasekharan Nambiar was appointed as Executive Director in 2021, and is the current CEO of Tune Protect Group. He brings with him 17 years of experience in the insurance industry.

Investment Case

Aside from being a beneficiary of the recovery of passenger traffic following the reopening of international borders in the near term, we think its niche exposure to the insurtech industry, which allows quick scaling through partnership leverage without the need for heavy capex, will anchor its long term growth.

Based on our GGM-derived P/BV of 0.79x, we derive a fair value range of MYR0.61-0.65 against FY22F-23F BVPS of 0.76 and 0.81 and a sustainable ROE of 7.2%. We derived our sustainable ROE using FY22F-24F to better capture the recovery trajectory supported by strong topline growth and improving profitability ratios.

Key risks include potential new COVID-19 variants leading to border closure, execution risk from adoption of partnership model, widening investment losses, and profitability ratios tracking behind industry

Profit & Loss	Dec-19	Dec-20	Dec-21
Total operating revenue (MYRm)	501	449	435
Reported net profit (MYRm)	51	18	(15)
Recurring net profit (MYRm)	51	18	(15)
Recurring net profit growth (%)	2.0	(64.0)	(182.0)
Recurring EPS (MYR)	0.07	0.02	(0.02)
DPS (MYR)	0.00	0.00	0.00
Dividend Yield (%)	0.0	0.0	0.0
Recurring P/E (x)	6.2	17.2	nm
Return on average equity (%)	9.3	3.2	(2.7)
P/B (x)	0.6	0.5	0.6

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-19	Dec-20	Dec-21
Tangible fixed assets	7	10	8
Intangible assets	29	30	44
Total investments	856	893	814
Premiums receivable	131	105	117
Other assets	574	708	729
Cash at bank	12	6	13
Total assets	1607	1752	1724
Long term insurance liabilities	781	902	911
Other liabilities	128	129	146
Total liabilities	909	1031	1057
Shareholders' equity	558	575	560
Total equity	697	721	666

Source: Company data, RHB

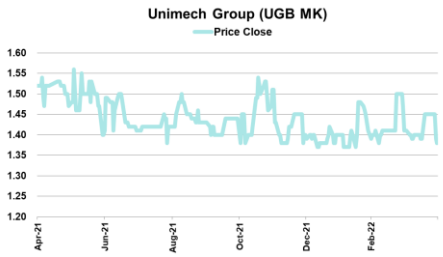
Profitability Ratios	Dec-19	Dec-20	Dec-21
Retention ratio (%)	54	45	48
Claims ratio (%)	32	32	19
Commission ratio (%)	16	12	17
Expense ratio (%)	47	64	64
Combined ratio (%)	95	109	100
Underwriting margin (%)	22	17	(3)
Investment yield (%)	5	5	(1)

Source: Company data, RHB

Unimech Group

Time To Shine

Fair Value: MYR2.05-2.22
Price: MYR1.38



Source: Bloomberg

Stock Profile

Bloomberg Ticker	UGB MK
Avg Turnover (MYR/USD)	0.11m/0.03m
Net Gearing (%)	15.2
Market Cap (MYRm)	203.7
Beta (x)	0.5
BVPS (MYR)	1.05
52-wk Price low/high (MYR)	1.35 - 1.56
Free float (%)	28

Major Shareholders (%)

Dato' Seri Lim Cheah Chooi	26.7
Kitz Corporation	25.4
Lim Kim Guan	6.1

Share Performance (%)

	1m	3m	6m	12m
Absolute	(0.7)	(0.7)	(0.7)	(8.6)
Relative	2.3	(1.2)	(3.0)	(6.7)

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Investment Merits

- Ready to capture increasing demand across end sectors;
- Long-term positive synergies with one of the world's top valve producers that allows penetration into the high-end market without incurring additional R&D cost;
- Paring down debt level progressively while remaining committed to dividend payout.

Company Profile

Unimech Group is a major valve manufacturer and distributor in Malaysia. It is a one-stop provider of heat generation equipment, heating, ventilating, and air conditioning (HVAC) systems, and related piping systems – which includes industrial valves, fittings, and instrument gauges that can be applied in various industries. As of FY21, 79% of revenue was contributed by the valves, instruments and fittings (VIF) segment, which has been the major revenue driver of the group.

Highlights

Increasing demand across end sectors. We expect demand for UGB's products to escalate in FY22, as customers would need to replenish their inventory after scaling down purchases over the last two years. As c.80% of revenue is recurring in nature, we expect the reopening of economic activities, new investments, and capacity expansion by various end industries to lead to higher orders. In view of the increasing palm oil production and the Indonesian Government's plan to raise national shipping ability, we believe the commencement of its new factory in Indonesia is timely to cater to the increasing demand. In anticipation of higher demand across the multiple industries that it serves, FY22F revenue should surpass MYR300m (c.+9% YoY).

Long-term positive synergies with one of the world's top valve producers. In 2019, UGB has formed a business alliance strategy with KITZ Corp, whereby the former has been granted a distributorship of valves under the KITZ brand, and is able to penetrate the high-end market without having to incur additional R&D cost and build its own brand name. As such, UGB has become one of the top distributors for KITZ in Indonesia, Malaysia, and Australia. Under this business alliance, both UGB and KITZ are looking to expand their respective market shares by building the ARITA and KITZ/TOYO brand portfolios across the Asian region. Given the products for UGB and KITZ are in different market segments, we anticipate positive synergies for both parties with minimal competition in products. Based on a rough estimation, this alliance is expected to contribute an additional 5-10% in revenue for UGB.

Improving financials while remaining committed to dividend payout. UGB has been paring down its debt progressively, from 0.21x in FY20 to 0.15x in FY21, despite having allocated capex for the new plant in Indonesia – indicating healthy cash inflow. Assuming it

maintains its dividend payout ratio at 30% of PAT, we are looking at FY22F-24F DPS of 5-6 sen, or 4% yield.

Company Report Card

Latest results. FY21 net profit of MYR23.9m was 44.8% higher YoY, mainly attributable to higher demand for valves, instruments and fittings (VIF) and lower interest expense. As such, FY21 PAT margin was higher at 8.3% (FY20: 6.4%), which we think is an encouraging set of results given the group has managed to achieve improvement in revenue and earnings while operating in a challenging environment.

Balance sheet/cash flow. UGB has been paring down its debt progressively from 0.21x in FY20 to 0.15x in FY21, despite having allocated capex for the new plant in Indonesia – indicating healthy cash inflow.

ROAE. UGB's ROAE improved to 8.6% in FY21, as the business improved from the pandemic disruption in FY20. We expect ROE to improve on better earnings expectation ahead.

Dividend. UGB has a dividend policy of distributing 30% of PAT to shareholders. Assuming the dividend payout ratio maintains at 30% of PAT, we are looking at FY22F-24F DPS of 5-6 sen, or 4% yield.

Management. Dato' Seri Lim Cheah Chooi is the founder and Chief Executive Officer of UGB. He has over 45 years of experience in manufacturing, trading and engineering in relation to valves, pipe fitting, burner application and steam engineering systems, and is responsible for the long-term strategic planning and development of the group's goals and objectives. His brother, Lim Kim Guan, the Deputy Chief Executive Officer, has been instrumental in contributing his vast experience and technical expertise in marketing strategies and product development. Overall, the Lim family holds a combined stake of over 41% in the group.

Investment Case

Fair value. Our estimated FV range of MYR2.05-2.22 is based on 12-13x FY22F P/E, at its 5-year forward +2.5SD and +3.5SD. Having said that, our valuation is still below global peer average forward P/E of 20x, given its smaller market cap. UGB is ready to capture rising demand across end sectors due to the depletion of inventory levels, reopening of economic activities, more new investments, as well as capacity expansion by various end industries. Looking at a potential FY22F-24F earnings CAGR of 8%, with revenue growth higher than the past few years, coupled with an improving financial position, we believe UGB is undervalued, making it an attractive investment opportunity.

Key risks. Slowdown in global demand, higher-than-expected increase in raw material prices, and intensified competition. On the ESG front, we are unaware of any significant ESG-related issues.

Profit & Loss	Dec-19	Dec-20	Dec-21
Total turnover (MYRm)	278	260	289
Reported net profit (MYRm)	23	17	24
Recurring net profit (MYRm)	23	17	24
Recurring net profit growth (%)	20.3	(29.7)	44.8
Recurring EPS (MYR)	0.16	0.11	0.16
DPS (MYR)	0.05	0.04	0.05
Dividend Yield (%)	3.3	2.5	3.3
Recurring P/E (x)	8.8	12.4	8.5
Return on average equity (%)	9.2	6.2	8.6
P/B (x)	0.8	0.8	0.7
P/CF (x)	10.4	5.9	10.9

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-19	Dec-20	Dec-21
Total current assets	327	324	335
Total assets	473	471	488
Total current liabilities	147	134	127
Total non-current liabilities	23	23	22
Total liabilities	169	158	150
Shareholder's equity	266	271	288
Minority interest	38	41	49
Other equity	0	0	0
Total liabilities & equity	473	471	488
Total debt	120	110	100
Net debt	85	67	49

Source: Company data, RHB

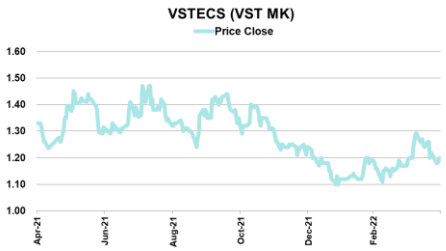
Cash Flow (MYRm)	Dec-19	Dec-20	Dec-21
Cash flow from operations	29	40	27
Cash flow from investing activities	(10)	(9)	(1)
Cash flow from financing activities	(17)	(21)	(17)
Cash at beginning of period	28	35	43
Net change in cash	3	10	9
Ending balance cash	35	43	51

Source: Company data, RHB

VSTECS

The Leading ICT Hub

Fair Value: MYR1.51-1.85
Price: MYR1.20



Source: Bloomberg

Stock Profile

Bloomberg Ticker	VST MK
Avg Turnover (MYR/USD)	3.05m/0.75m
Net Gearing (%)	Net Cash
Market Cap (MYRm)	428.1
Beta (x)	0.6
BVPS (MYR)	1.05
52-wk Price low/high (MYR)	1.066 - 1.494
Free float (%)	25

Major Shareholders (%)

Vstecs Holdings Ltd	43.2
Sengin Sdn. Bhd.	12.2
Dasar Technologies Sdn. Bhd.	8.6

Share Performance (%)

	1m	3m	6m	12m
Absolute	(10.5)	2.2	(17.5)	(8.4)
Relative	(7.5)	1.7	(19.8)	(6.5)

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Investment Merits

- Market leader position in the industry;
- Close relationship with major ICT principals and system integrators;
- Riding on government initiatives to drive digital transformation;
- Healthy balance sheet with strong track record of dividend payments.

Company Profile

VSTECS is a leading distribution hub for Information & Communications Technology (ICT) products in Malaysia. The group purchases ICT hardware and software from multiple international leading ICT principals such as HP, Cisco and Microsoft, and distributes them to resellers – typically comprising of system integrators, solutions providers, service providers, corporate dealers, and retailers. Some of the products commonly purchased by resellers include PCs, notebooks, smartphones, tablets, printers, software, network and communication infrastructure, servers, and enterprise software.

Highlights

Strong principal relationship. VSTECS has formed strategic partnerships and established track records with world leading ICT principals. It has been a distribution partner with brands such as HP Malaysia, IBM, Apple, and Cisco for more than 10 years. Its close working relationship with these ICT principals would provide the company with a direction of the latest trends in ICT technology, therefore enabling it to make more strategic decisions. VSTECS's strong principal relationship is also essential in securing new distributorships as well as extending current ones, as major ICT principals look at company track records as a key criterion in offering distributorship.

Riding the wave of digital transformation. VSTECS will ride on the Government's initiatives to drive ICT adoption in the country through the 12th Malaysia Plan, as part of its effort to shift Malaysians towards a more technologically literate, thinking workforce. Hence, VSTECS foresees higher demand for ICT products and services coming from enterprise businesses to upgrade their IT facilities, in order to push for digital transformation. This is essential for the companies to remain relevant, become more resilient and future-proof. Moving forward, VSTECS strives to be the preferred source supplier to resellers, especially system integrators, as it expects the enterprise segment to be the key growth driver in the future.

New digital platforms. VSTECS is looking to grow its e-commerce business through alternative channels, in collaboration with telecommunications companies and super-apps, to enhance distribution reach. This will be a catalyst for VSTECS to capture market share while serving a wider consumer base in the future.

Strategic acquisition. VSTECS acquired a 40% stake in an IT services and software development company, ISATEC in FY19 to serve the enterprise and public sector segments. Moving forward, VSTECS will be looking to work towards greater synergies with ISATEC and possibly even acquire additional software services companies to produce cohesive business development and synchronised marketing strategies.

Strong track record of dividend payment**s.** VSTECS has consistently paid dividends every year since its IPO. In the past three years, its dividend payout ratio ranged from 33-37%.

Company Report Card

Results highlights. 4QFY21 revenue increased 15.7% QoQ to MYR763m, due to higher project transactions from the public sector. Core profit increased 53.9% to MYR19.8m, mainly on higher sales and gross profit margins.

Strong net cash position. The group has a healthy balance sheet with net cash of MYR69m or MYR0.19 per share as at 4QFY21. We expect the company to stay in a net cash position for FY22-23F.

ROE. Over the past three years, its ROE ranged between 10% and 16%. With the expected increase in FY22-23 earnings, we expect the company's ROE to stay within this range.

Dividends. While it does not have a dividend policy, VSTECS has a track record of paying dividends. From FY19-21, dividends per share ranged from 3.0 sen to 5.7 sen, reflecting its strong balance sheet. It intends to distribute dividends of at least 30% of annual PATAMI.

Management. VSTECS is helmed by longstanding Group CEO/Executive Director Soong Jan Hsung, who has served on the board since 2001. Soong began his career as a Sales Executive with VSTECS Pericomp in 1987 and has more than 30 years of experience in the ICT distribution market. He has contributed significantly to the Group in becoming the leading ICT hub in Malaysi.

Investment Case

Fair value of MYR1.51-1.85. We like the stock for its market leading position in the industry. While we acknowledge that margins are on the lower end, it is the nature of the trading business and serves as a stumbling block for new entrants. Based on an ascribed P/E of 9-11x on 2023 earnings, we derive a fair value range of MYR1.51-1.85. We believe that our target valuation is fair, given that it is still at a discount to FBMSC's 2022-23 trading P/E of 11-13x. Our ascribed P/E of 9-11x is also significantly below KLTEC's 2022-23 trading P/E of 24-26x. A decent dividend yield of c.5% is another plus point.

Key risks include increase in backlog orders due to long shipment delays, business failure of ICT principals, slower-than-expected adoption of ICT.

Profit & Loss	Dec-19	Dec-20	Dec-21
Total turnover (MYRm)	1,802	2,017	2,626
Reported net profit (MYRm)	30	37	55
Recurring net profit (MYRm)	30	37	55
Recurring net profit growth (%)	20.3	24.3	49.5
Recurring EPS (MYR)	0.08	0.10	0.15
DPS (MYR)	0.03	0.04	0.06
Dividend Yield (%)	2.2	2.8	4.6
Recurring P/E (x)	15.2	12.1	8.1
Return on average equity (%)	9.9	11.5	15.5
P/B (x)	1.5	1.3	1.2
P/CF (x)	9.5	4.0	5.0

Source: Company data, RHB

Balance Sheet (MYRm)	Dec-19	Dec-20	Dec-21
Total current assets	495	513	642
Total assets	548	559	688
Total current liabilities	0	4	2
Total non-current liabilities	240	221	310
Total liabilities	240	225	312
Shareholder's equity	308	334	376
Minority interest	0	0	0
Other equity	1	2	3
Total liabilities & equity	548	559	688
Total debt	2	5	4
Net debt	(69)	(93)	(69)

Source: Company data, RHB

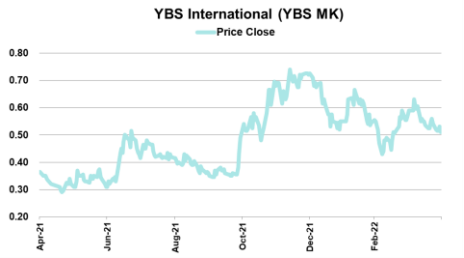
Cash Flow (MYRm)	Dec-19	Dec-20	Dec-21
Cash flow from operations	47	38	(21)
Cash flow from investing activities	(19)	0	9
Cash flow from financing activities	71	(11)	(14)
Cash at beginning of period	55	71	98
Net change in cash	99	27	(26)
Ending balance cash	71	98	73

Source: Company data, RHB

YBS International

Fair value: MYR0.73-0.80
Price: MYR0.51

New Capacity And Products To Drive Growth



Source: Bloomberg

Stock Profile

Bloomberg Ticker	YBS MK
Avg Turnover (MYR/USD)	5.62m/1.38m
Net Gearing (%)	0.4
Market Cap (MYRm)	128.4
Beta (x)	0.2
BVPS (MYR)	0.27
52-wk Price low/high (MYR)	0.265 - 0.78
Free float (%)	79

Major Shareholders (%)

Indowang Sdn. Bhd.	14.4
Musharaka Tech Venture Sdn. Bhd.	8.0
YBhg Dato' Dr Pahamin Ab Rajab	1.9

Share Performance (%)

	1m	3m	6m	12m
Absolute	(21.5)	(22.1)	(9.5)	41.8
Relative	(18.5)	(22.6)	(11.8)	43.6

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Investment Merits

- Beneficiary of strong demand for precision components in the telecommunications, aerospace, automotive, as well as electrical & electronics industries;
- Secured contracts to lift revenue and profit growth over next two years;
- New capacity to cater for future growth, while expansion into higher value-added products will boost margins.

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

Engineering strength secures strong customer base. YBS' precision machining and stamping unit, which accounts for 60-65% of group revenue and 50% of group profit, serves global MNCs in the telecommunications, electrical & electronics, aerospace, and automotive industries. The group's operations are supported by a large team of 63 engineers with more than 15 years of experience. Its ability to meet requirements in small and lightweight parts with precise tolerance is a key differentiator.

Secured orders for the next two years. YBS has benefitted from the US-China trade war, which saw the US and MNCs sourcing for precision machining parts and other manufacturing products from suppliers outside of China. This, coupled with YBS' expansion into higher value-added products and solutions – particularly for the telecommunications industry – has enabled the group to secure contracts that will last until Jan 2024 with revenue of RM160m-180m a year.

Margins to expand. The production of higher value-added products and solution led to a recovery in EBITDA margin to 13.7% in FY21 from 9.6% in FY20.

New capacity to cater for future growth. YBS has planned capex of MYR60m for FY21-22 with c.MYR40m already spent. Capacity from this new facility, which was commissioned in Jan 2022, will be dedicated to serve customers in the telecommunications industry. Products manufactured will mostly be used for cloud computing, which is currently in high demand.

Company Report Card

Results highlights. For 9MFY22, YBS' net profit rebounded 289% YoY on a 28% YoY increase in revenue. This was driven mainly by the 43.5% rise in revenue from the group's precision machining and stamping operations. EBITDA margin improved to 15.8% (9MFY21: 11.7%) on recovery in economies of scale and production of higher value-added products. We expect the earnings recovery to be sustained in the quarters ahead.

Gearing up but manageable. YBS' total borrowings jumped 234% YoY in FY21 and a further 23% YTD 9MFY22 to MYR37.5m. Still, its net gearing of 0.4x at end Dec 2021 remains manageable. Of the MYR28.4m increase in borrowings, MYR25.2m was for a new factory.

Dividends. YBS has not paid dividend since 2018 although it has a stated policy to distribute up to 50% of net profit. This was largely to conserve cash for the group's capital expenditure. Management expects to resume dividend payments from FY23.

Management. Yong Chan Cheah is the Managing Director, with over 18 years of experience in the marketing of 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

We like YBS for its strong growth prospects underpinned by healthy demand for precision components from the telecommunications industry, and increasing use of semiconductor chips. Based on an ascribed P/E of 22-24x on FY23 earnings, we derive a fair value range of MYR0.73-0.80. We believe that our target valuation is fair, given that it is still at a discount to KLTEC's 5-year mean P/E of 25x.

Key risks include geopolitical tensions that could derail recovery in global growth as countries transition to endemicity, and impact supply chains.

Profit & Loss	Mar-19	Mar-20	Mar-21
Total turnover (MYRm)	69.0	67.7	63.1
Reported net profit (MYRm)	2.7	0.6	2.2
Recurring net profit (MYRm)	2.7	0.6	2.2
Recurring net profit growth (%)	767.7	(77.5)	259.9
Recurring EPS (MYR)	0.011	0.003	0.009
DPS (MYR)	0.00	0.00	0.00
Dividend Yield (%)	n.m.	n.m.	n.m.
Recurring P/E (x)	45.4	201.3	56.2
Return on average equity (%)	4.8	1.1	3.7
P/B (x)	2.1	2.1	2.0
P/CF (x)	17.6	26.8	14.4

Source: Company data, RHB

Balance Sheet (MYRm)	Mar-19	Mar-20	Mar-21
Total current assets	511	487	551
Total assets	796	858	975
Total current liabilities	237	252	258
Total non-current liabilities	232	210	210
Total liabilities	469	462	468
Shareholder's equity	308	369	475
Minority interest	19	27	33
Other equity	0	0	0
Total liabilities & equity	796	858	975
Total debt	251	220	240
Net debt	140	110	131

Source: Company data, RHB

Cash Flow (MYRm)	Mar-19	Mar-20	Mar-21
Cash flow from operations	(111)	100	29
Cash flow from investing activitie	(48)	(54)	(30)
Cash flow from financing activitie	154	(51)	120
Cash at beginning of period	95	90	85
Net change in cash	(5)	(5)	118
Ending balance cash	90	85	204

Source: Company data, RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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