



Seremban Eng. Berhad

Main Market/ Syariah Compliant

Recommendation : -

Buy. Target Price = RM0.92 per share

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Offer Price:	RM0.85
IPO Closing Date:	29 th April 2010
Listing Date:	10 th May 2010
Par Value	RM 0.50
Enlarged and paid up capital	RM 40,000,000.00
Authorised Share Capital	RM 50,000,000.00
Market Capitalization (80 million shares x RM0.85)	RM 68,000,000.00

Proceeds Utilization	Amount (million)	Time Frame (month)
1. Purchase of plant, machinery and extension / upgrading of properties	RM9.0	12
2. Repayment of borrowings	RM3.0	3
3. Working capital	RM2.93	6
4. Estimated listing expenses	RM2.0	1
Total	RM16.93	

Seremban Eng. Berhad has seen growth in revenue and profit after tax since 2006 with revenue of RM69.03 million and after-tax profit of RM9.25 million recorded for FYE 2009. This translated into an EPS of RM0.11 (after public issue).

As at 24th March 2010, Seremban Eng. Berhad has secured local and overseas projects amounting to RM13.9 million to fabricate process equipment for oil & gas, waste treatment plants and pharmaceutical industries.

Also, the group would be looking to capture potential opportunities in the provision of environmental cleaning services for oil & gas industry thru a 50% stake entity in ACE standard International Limited.

1. HISTORY & BACKGROUND

Seremban Eng. was incorporated in 1979 and converted into a public company on 19 August 2009.

Its' subsidiaries include Seremban Engineering Industries Sdn Bhd (100% owned), Sepen Engineering Sdn Bhd (60% owned) and ACE Standard International Limited (50% owned).

Seremban Eng Berhad is currently 65% owned by Success Transformer Berhad, a Mainboard listed entity in Bursa Malaysia.

2. PRINCIPAL ACTIVITIES

Seremban Eng. Berhad involved in fabrication of process equipment, metal structure and also a provider of maintenance services to palm oil, food processing, chemical, biodiesel, wood and latex based industries, etc.

A major portion of business activities were focused on fabrication of pressure vessels, heat exchangers, ovens, storage tanks, silos, extractors, etc.

3. KEY PERSONNEL

Wong Choon Cheon, aged 65, non-independent Executive Director cum Vice Chairman. He has 48 years of extensive experience in metal fabrication industry.

He is responsible for formulation and development of overall vision for Seremban Eng. Berhad.

4. SUBSTANTIAL SHAREHOLDERS

Name	Direct shareholding after IPO
Success Transformer Bhd	65.0%
Omega Attraction S/B	5.07%

On 1st March 2007, Success Transformer Berhad completed 60% equity interest of 600,000 common shares of RM1.00 each in Seremban Eng for RM14.6 million with profits guarantee shown in table below.

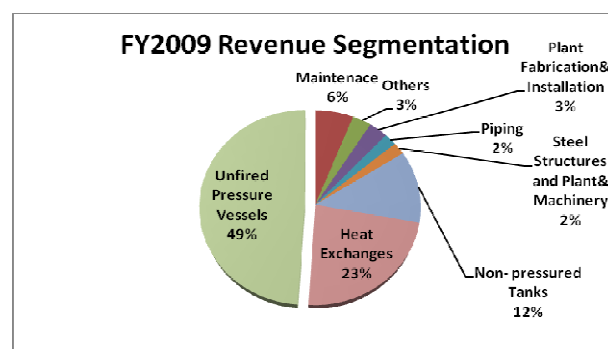
On 30th April 2008, Success Transformer Berhad acquired remaining 40% stake of 400,000 common shares of RM1.00 each in Seremban Eng for RM21.7 million after taking into consideration of profits guarantee by vendors.

FYE	Profit Guarantee	Audited Profit After Tax
2006	RM4,600,000	RM5,139,000
2007	RM5,400,000	RM6,297,000
2008	RM7,500,000	RM7,818,000
2009	RM9,000,000	RM9,252,000

5. REVENUE SEGMENTATION BY COUNTRIES & PRODUCTS

	FY2009 (%)	FY2008 (%)
Overseas	57.2	66.6
Local	42.8	33.4

Countries	FY2009 (%)	FY2008 (%)
Singapore	56.0	61.0
Germany	0.4	2.8
France	-	1.3
India	-	0.9
USA	-	0.3
Sri Lanka	-	0.2
Netherlands	-	0.1
Japan	0.8	-



Products	2009 (%)	2008 (%)
Fabrication of process equipment	84.5	61.0
Fabrication of metal structure	9.9	33.0
Provider of maintenance service	5.6	6.0

By destination segmentation, the high % of revenue generated from overseas market showed that Seremban Eng. Berhad has the capabilities to comply with International Safety and Quality Standard for projects to be undertaken in foreign countries.

As by product segmentation, fabrication of process equipment is likely to be the leading revenue earner with maintenance service provision contribution expected to stay below 10% in 2010.

6. MARKET TARGET

Seremban Eng. Berhad has an average of 12 and 15 years business relationship with Lipico and Desmet Ballestra (M) Sdn Bhd respectively.

Both Lipico and Desmet provide engineering services for the oils & fats industries with international network of sales offices in many countries.

For a business relationship to last more than 10 years, Seremban Eng. Berhad must have proven its expertise and skills in fabrication of process equipment and metal structure to Lipico and Desmet.

The group should leverage the global networking effect established by Lipico and Desmet while continue to widen its customer base.

7. INDUSTRY MARKET SIZE

According to the statistic of a market survey conducted in the prospectus, there were approximately 60 manufacturers of process equipment in Malaysia as at August 2009.

Based on total revenue generated for 2009, Seremban Eng Berhad was ranked 12th among these process equipment manufacturers.

8. BUSINESS MODEL

Seremban Eng. Berhad derived its revenues from fabrication of process equipment and metal structure. The main user industries served by the group included palm oil, food processing, chemical, etc.

The projects undertaken were basically on one-time basis, and there was a minimal recurring income to Seremban Eng. Berhad in term of provision maintenance and shutdown services.

The group would have to continue looking for business contracts in oil & gas sector (price of crude oil above US\$80 per barrel at the point of writing), waste treatment sector (talk of green

environment globally), pharmaceutical sector (health expenditure has been on the rise), etc.

9. UTILIZATION OF PROCEEDS

The public issue is expected to raise gross proceeds of RM16.93 million.

As part of future business expansion plan, Seremban Eng. Berhad will utilise RM9 million of the IPO proceeds for purchase of plant, machinery and expanding/upgrading of properties within 12 months.

The group will also be using RM3 million of IPO proceeds to repay bank loans within 3 months.

In addition to the above, RM2.93 million is to be employed as working capital within 6 months. And, the balance RM2.0 million will be used for listing expenses.

10. FUTURE PLAN

Seremban Eng. Berhad to expand its fabrication capacity with the acquired 1.68 acres industrial land in Rawang.

On completion of this yard, the group's production capacity is expected to increase by 10%.

11. SELECTED FINANCIAL STATE. ANALYSIS

Selected Bal Sheet (RM 000)	2009	2008	2007	2006
Current Assets	40,682	n/a	n/a	n/a
Cash in hand	9,102	n/a	n/a	n/a
Inventory	5,325	n/a	n/a	n/a
Trade receiv.	23,085	n/a	n/a	n/a
LT Assets	35,332	n/a	n/a	n/a
Total Assets	76,014	n/a	n/a	n/a
Current Liab.	20,501	n/a	n/a	n/a
ST debt	7,366	n/a	n/a	n/a
Trade payable	12,201	n/a	n/a	n/a
LT Liab.	2,391	n/a	n/a	n/a
LT debt	33	n/a	n/a	n/a
Total Liab.	22,892	n/a	n/a	n/a
S/holders Equity	53,122	n/a	n/a	n/a
Selected Income State(RM 000)	2009	2008	2007	2006
Revenue	69,036	62,127	55,028	54,333
PBT	12,164	9,948	9,907	7,488
EBITDA	13,852	11,377	11,140	8,664
PAT	9,252	7,818	7,912	5,321
# o/s shares	80,000	n/a	n/a	n/a
BV per share	0.66	n/a	n/a	n/a
EPS	0.11	n/a	n/a	n/a
Ratio Analysis	2009	2008	2007	2006
Table 1.1 Profitability Ratio				
1. ROA	11.5%	n/a	n/a	n/a
2. ROE	17.4%	n/a	n/a	n/a
Table 1.2 Liquidity Ratio				
1. Current Ratio	1.98 x	n/a	n/a	n/a
2. Quick Ratio	1.72 x	n/a	n/a	n/a
Table 1.3 Management Efficiency Ratio				
1. ITO	9.7 x	n/a	n/a	n/a
Table 1.4 Leverage Ratio				
1. T.Debt/Equity	0.14 x	n/a	n/a	n/a

ITO = Inventory turnover (CSG/Inventory)

ROA = Return on asset; ROE = Return on equity

PBT=Profit before tax; PAT=Profit after tax.

Profitability Ratio (Table 1.1)

Seremban Eng. Berhad registered a ROA and ROE of 11.5% and 17.4% respectively for FYE 2009. And, the group has seen its' after-tax profit growing quite steadily over the past 4 years with a CAGR of 19.4%.

Liquidity Ratio (Table 1.2)

The current ratio of 1.98 x (times) indicated that Seremban Eng. Berhad has the ability to pay its current liability with current asset. In other words, it has RM1.98 in current asset for every RM1.00 of current liability; but, this ratio was viewed not strong enough to withstand greater short term financial pressure should something unexpected arise.

The quick ratio of 1.72 x (times) showed that for every RM1.00 of current liability, the group has RM1.72 to cover those immediate obligations.

Management Efficiency Ratio (Table 1.3)

Seremban Eng. Berhad held a comfortable level of inventory turnover at 9.7 x (times) given the nature of the industry, this showed that funds were not heavily tied up in inventory.

Leverage Ratio (Table 1.4)

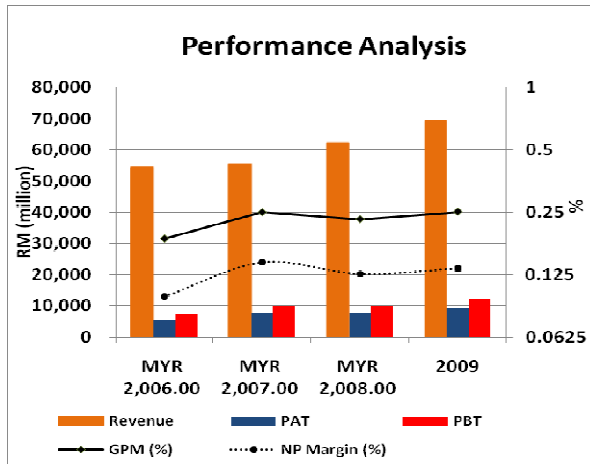
Seremban Eng. Berhad kept a low gearing ratio of 0.14 x (times) for FYE 2009, this was arrived after taking into account of RM3 million long term bank loans repayment with the use of partial IPO proceeds.

12. MARGIN ANALYSIS

	2009	2008	2007	2006
GPM (%)	25.1%	23.1%	24.9%	18.6%
NPM (%)	13.4%	12.6%	14.3%	9.8%
Revenue	69.0 mil	62.1 mil	55.2 mil	54.3 mil
PAT	9.25 mil	7.81 mil	7.91 mil	5.32 mil
PBT	12.1 mil	9.94 mil	9.90 mil	7.48 mil

GPM = Gross profit margin NPM = Net profit margin
 PAT = Profit after Tax PBT = Profit before Tax

the expected price of Seremban Eng. Berhad is RM0.92.



Seremban Eng. Berhad kept its gross profit margin consistently above 20% from 2007 to 2009, this was believed to be owing to stable cost of sales and a slightly higher mark-up contract price over cost.

In face of a moderate to high level of competition in the metal fabrication industry focusing on process equipment and metal structures, Seremban Eng. Berhad must avoid cost overrun in spite of its' competitive advantage in the industry.

13. VALUATION

Price / EPS	7.35 x
Price / Sales per share	0.98 x
Price / Book Value	1.28 x
Net Asset Backing	RM0.69

EPS, sales per share, book value and net asset are based on FYE 2009.

Seremban Eng. Berhad is deemed a value stock, because sales per share is at RM0.86 for a stock with RM0.50 par value along with P/E and P/BV ratios. Based on earnings performance pattern,