



Seng Fong Holdings Bhd

“Rubber processing pioneer in Malaysia”

Main Market
Industrial Products
Subscribe
IPO Price: RM0.75
Fair Value: RM0.82

Valuation / Recommendation

We have a SUBSCRIBE recommendation on Seng Fong Holdings Bhd with a target price of RM0.82 based on FY23F EPS of 7.2 sen and a PE of 11.4x in line with the industrial sector’s 1-year forward.

We like the stock for its attractive growth prospects and a strong track record on the back of an expanding world vehicle sector which is expected to grow at a 5-year CAGR of 7.03% from 2021 to 2025. The target price represents a potential return of 9.3% over the IPO price.

Investment Insights

Strong track record in the rubber processing industry. Seng Fong is a reputable natural rubber processor with more than 36 years of experience in the rubber processing industry. The company have a healthy relationship with its customers and suppliers. The top 5 major customers length of relationship with Seng Fong spans up to 14 years, contributing RM646.8m to revenue in FY21.

Strong export-driven business with footprint in the China market. The company has a strong export market share of 11.79% in FY21 against the export volume of block rubber in Malaysia. The company also captured an export market share to China of 14.78% against Malaysia’s export volume of block rubber to China. The business is driven by export demands from their clients in China, Taiwan, India, and amongst others. For the past 3 years from FY19 to FY21, export sales represent approximately 99% of the company’s revenue throughout FY19 to FY21.

Expansion growth to improve annual productivity capacity. The company intends to improve their production capacity by increasing production hours to 17 hours per day, in addition to adding a second working shift with an additional 48 and 45 new workers in Factory 2 and Factory 3. This is expected to improve their total annual production capacity to 166,000 MTS p.a. by 3Q23, in line with its annual production capacity growth which is expected to grow at a CAGR of 11.5% from 1986 to 2023.

Experienced management team. The company has an experienced management team led by their Managing Director Er Hock Lai who has 40 years of experience in the rubber trading and processing industry.

Risk factors. (1) Fluctuation in raw material prices. (2) Fluctuation in foreign exchange currencies, (3) Labour shortages.

INVESTMENT STATISTICS	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RM m)	616.1	768.2	820.0	875.4	934.5
EBITDA	20.9	49.3	50.6	52.8	54.2
EBITDA Margin (%)	3.4	6.4	6.2	6.0	5.8
PAT	12.7	34.6	35.6	37.2	38.0
EPS (sen)	2.5	6.7	6.9	7.2	7.3
EPS Growth (%)	38.9	171.8	2.9	4.4	2.3
BV Per Share (sen)	14.6	16.9	33.5	37.1	40.7
PE (x)	30.6	11.2	10.9	10.5	10.2
Net gearing/ (net cash) (%)	Net Debt	Net Debt	Net Debt	Net Debt	Net Cash
ROA (%)	7.7	17.8	14.5	13.1	11.9
ROE (%)	16.8	39.4	20.5	19.3	18.0

Sources: Company, Mercury Securities

Business Overview

Seng Fong Holdings Berhad is involved in processing of cup lump into block rubber. The block rubbers are produced and sold directly to end-user customers.

Listing Details

Listing Date	7 July 22
New Shares (m)	42.2
Offer For Sale (m)	70.1
Funds Raised (Rm m)	68.1

Post Listing

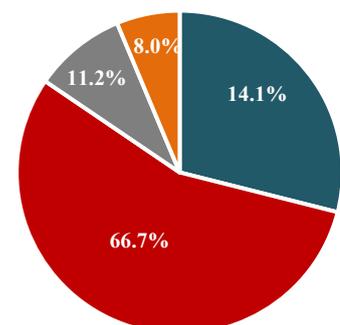
Ordinary shares (m)	518.96
Market Cap (RM m)	389.2
Free Float	31.0%
P/E (FY21)	11.2x

Major Shareholders

Sumber Panji	59.3%
E Tak Bin	6.9%
Er Tzer Nam	0.1%

Utilization of IPO Proceeds (RM m)

Working Capital (Within 12 months)	19.7
Repayment of Bank Borrowings (within 6 months)	37.8
Installation of Biomass System (within 12 months)	6.3
Listing expenses (2 month)	4.3



- Working Capital
- Repayment of Bank Borrowings
- Installation of Biomass System
- Listing expenses

Research Team Coverage



IPO Details

	Public issue (m)	Total (m)	(%)
(i) Malaysian Public via Balloting (Bumiputera & Non-Bumiputera)	25.9	25.9	5.0%
(ii) Eligible Directors and employees as well as persons who have contributed to the success of the Group	16.3	16.3	3.1%
(iii) Private placement to Bumiputera investors approved by MITI	64.9	64.9	12.5%
(iv) Private placement to other institutional and selected investors	53.8	53.8	10.4%
Total	160.9	160.9	31.0%

Source: Company

Group structure post listing



Source: Company

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Published and printed by:

MERCURY SECURITIES SDN BHD

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