



Cnergenz Berhad

“An expert solution provider for the SMT manufacturing industry”

Bloomberg: CNERGEN MK | Stock Code: 0246

Ace Board

Technology

BUY

TP: RM0.66

Price: RM0.47

Valuation / Recommendation

We initiate coverage on Cnergenz Berhad with a BUY recommendation with a TP of RM0.66 based on FY23F EPS of 3.8 sen and a peers average PE of 17.3x. We like the stock for its attractive expansion plans and cheap valuations, well-positioned to leverage on the growing SMT manufacturing solutions industry in Southeast Asia which is forecasted by Providence to grow at a 2-year CAGR of 8% from 2022 to 2024. The target price represents a potential return of 40.0% from the current price.

Investment Highlights

Proxy to fast growing E&S industry. Cnergenz is one of the leading SMT solution providers in Malaysia, Thailand, and Vietnam, with the expertise to design, develop, assemble, configure, integrate, test and commission integrated production line systems. The company also maintains a healthy relationship of more than 12 years with its top 5 customers which contributes approximately 61% to revenue in FY21. The company commands a market share of 17.4% in 2021 for the 3 key markets and serves more than 113 customers worldwide.

Capacity expansion. Cnergenz is currently operating from its 22.8k sq ft existing facility in Bukit Tengah, Penang. The company plans to scale up its operations via the construction of a new 3-storey plant with a built-up area of 130k sq ft, which is approximately 6x larger than its existing production floor space, expected to complete within 4Q23. Approximately RM37.8m worth of capex will be allocated for this plant, funded via IPO proceeds.

Approximately 66k sq ft of floor space will be allocated for workshop and assembly area which will enable Cnergenz to perform modifications, customisations and refurbishment works on machinery and equipment in-house. With the completion of the new plant, we think that Cnergenz is well-positioned to benefit from the growing SMT manufacturing solutions industry in Southeast Asia which is forecasted by Providence to grow at a 2-year CAGR of 8% from 2022 to 2024, and uptake potential demand for the smart factory solutions in the E&S industry.

Strong order book and track record. The company has an order book of RM147m as of 31st May 2022, expected to be fully recognised within 2H22. Under the leadership of Group CEO Lye Yhin Choy who is responsible for the overall management and business operations of Cnergenz, the company was able to achieve a 3-year revenue CAGR of 9.0% from FY18 to FY21 (*excluded customer K & H for FY18 and FY19*), despite the COVID-19 pandemic in FY20.

Risk factor. (1.) Slower than expected contract flows (2.) Shortages of skilled engineers and technicians.

INVESTMENT STATISTICS	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RM m)	132.8	153.0	173.3	199.3	229.2
EBITDA (RM m)	21.4	18.0	21.7	24.9	28.6
EBITDA Margin (%)	16.1	11.8	12.5	12.5	12.5
Pre-tax Profit (RM m)	21.3	17.9	21.7	24.9	28.6
Net Profit (RM m)	16.0	12.7	16.5	18.9	21.8
EPS (sen)	3.2	2.5	3.3	3.8	4.4
EPS Growth (%)	-14.5	-20.6	30.4	14.4	15.0
Dividend Yield (%)	9.3	3.4	2.0	2.0	2.0
BV Per Share (sen)	13.3	13.9	26.9	28.8	31.0
PE (x)	18.1	22.8	17.5	15.3	13.3
Net Gearing (%)	Net	Net	Net	Net	Net
	Cash	Cash	Cash	Cash	Cash
ROA (%)	14.9	9.8	8.1	8.4	9.0
ROE (%)	24.1	18.3	12.3	13.2	14.1

Sources: Mercury Securities, Company

Business Overview

Cnergenz Bhd, through its subsidiaries, provides electronics manufacturing solutions, specialises in surface mount technology (SMT) manufacturing solutions for the electronics and semiconductor industries (E&S Industries).

Stock Return Information

KLCI (pts)	1,418.44
Expected Share Return (%)	40.0
Expected Dividend Yield (%)	2.0
Expected Total Return (%)	42.0

Share Information

Market Cap (RM m)	236.6
Issued Shares (m)	498.0
52W High (RM)	0.71
52W Low (RM)	0.45
Estimated Free Float (%)	18.2
Beta vs FBM KLCI	-
3-month Average Vol. (m)	207.3

Top 3 Shareholders (%)

Lye Yhin Choy	44.52
Kong Chia Liang	23.36
Lye Thim Loong	2.03

Price Performance

	1M	3M	12M
Absolute (%)	-16.7	-	-
Relative to Index (%)	-11.9	-	-



Source: Bloomberg

Ronnie Tan

ronnie-tan@mersec.com.my



MERCURY SECURITIES SDN BHD
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RESULTS (RM m) FYE Dec	1Q22	4Q21	qoq %	1Q21	yoy %	Comments
Revenue	36.9	-	-	-	-	
Cost of sales	29.7	-	-	-	-	
Gross profit	7.2	-	-	-	-	
Other income	0.1	-	-	-	-	
Selling and distribution expense	0.4	-	-	-	-	
Administrative expense	2.0	-	-	-	-	
Other losses - net	0.1	-	-	-	-	
Profit from operations	4.9	-	-	-	-	
Finance income	-	-	-	-	-	
Finance costs	-	-	-	-	-	
Profit before tax	4.9	-	-	-	-	
Taxation	1.2	-	-	-	-	
PATMI	3.7	-	-	-	-	
Extraordinary losses (gains)	-	-	-	-	-	
Core net profit	3.7	-	-	-	-	
EPS (sen)	0.9	-	-	-	-	
Core EPS (sen)	0.9	-	-	-	-	

Sources: Mercury Securities, Company

Peers Comparison

Company	Bloomberg Ticker	Share Price (MYR)	Market Cap (MYR'm)	PE (x)		EPS (sen)		EPS Growth		P/BV (x)	
				FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Greatech	GREATEC MK	3.55	4,445.1	23.7	18.7	15.0	19.0	36.4%	26.7%	7.0	5.5
Genetec	GENE MK	1.92	1,308.0	24.0	16.0	8.0	12.0	36.6%	50.0%	11.3	5.9
Average				23.8	17.3						

Sources: Mercury Securities, Bloomberg



PROFIT & LOSS (RM m) FY Dec	FY20A	FY21A	FY22F	FY23F	FY24F
Net Revenue	132.8	153.0	173.3	199.3	229.2
Gross Profit	24.2	25.0	28.6	33.3	38.8
Other Operating Income	0.8	0.7	0.9	1.0	1.1
EBIT	21.4	17.9	20.9	24.1	27.8
Administrative Expenses	3.4	6.6	6.5	8.0	9.7
Selling & Distribution Expenses	1.0	1.1	1.2	1.4	1.6
Other Operating Expenses	0.0	0.4	0.0	0.0	0.0
Profit from operations	20.6	17.5	21.7	24.9	28.6
Interest Income	0.7	0.4	0.4	0.4	0.4
Interest Expense	0.0	0.0	0.0	0.0	0.0
Profit Before Tax	21.3	17.9	20.9	24.1	27.8
Exceptional Items	-	-	-	-	-
Taxation	5.4	5.2	5.0	5.8	6.7
Minority Interests	0.0	0.0	0.0	0.0	0.0
Profit After Tax (PATMI)	16.0	12.7	15.9	18.3	21.1
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	16.0	12.7	15.9	18.3	21.1
BALANCE SHEET (RM m) FY Dec	FY20A	FY21A	FY22F	FY23F	FY24F
Cash & Equivalents	45.8	59.0	106.1	96.3	106.9
Trade & Other Receivables	40.0	33.7	41.0	48.5	50.7
Inventories	16.9	19.2	22.4	26.3	30.6
Other Current Assets	1.3	0.6	0.6	0.6	0.6
Current Assets	104.0	112.5	170.1	171.7	188.7
Property, Plant & Equipment	2.4	15.6	33.8	52.0	51.0
Other Non-Current Assets	0.5	0.6	0.5	0.5	0.5
Non-Current Assets	2.8	16.2	34.4	52.5	51.5
Trade & Other Payables	38.8	55.1	65.6	77.0	83.0
Other Current Liabilities	1.3	0.9	2.0	2.0	2.0
Current Liabilities	40.0	56.0	67.6	79.0	85.0
Other Non-Current Liabilities	0.4	1.1	1.5	1.5	1.5
Non-current Liabilities	0.4	1.2	1.5	1.5	1.5
Share Capital	0.0	0.0	122.3	122.3	122.3
Retained Profits	66.1	69.1	77.1	86.3	96.8
Other Equity	0.1	0.2	-65.8	-65.8	-65.8
Total Equity	66.2	69.3	133.6	142.8	153.4
CASH FLOW (RM m) FY Dec	FY20A	FY21A	FY22F	FY23F	FY24F
Net profit for the financial year	16.1	13.1	20.9	24.1	27.8
Depreciation & Amortization	0.5	0.6	0.7	0.8	1.0
Interest income	-0.7	-0.4	-0.4	-0.4	-0.4
Finance costs	0.0	0.0	0.1	0.2	0.3
Other operating cash flow	0.0	1.3	0.9	0.9	0.9
Tax expense	5.4	5.2	5.0	5.8	6.7
Operating profit/(loss) before working capital	21.3	19.7	27.2	31.4	36.3
Changes before working capital	-2.1	10.1	1.2	1.3	0.7
Cash generated from/(used in) operations	19.2	29.8	28.5	32.6	36.9
Tax paid	-5.6	-5.6	-5.0	-5.8	-6.7
Cash flow from operations	13.7	24.2	23.5	26.9	30.2
Purchases of PPE	-0.1	-1.3	-0.1	-0.1	-0.1
Other investing cash flow	-0.2	-0.1	0.6	0.6	0.6
Interest received	0.7	0.4	0.4	0.4	0.4
Cash flow from investing	0.4	-0.9	0.9	0.9	0.9
Dividends paid	-20.0	-7.0	-8.0	-9.2	-10.6
Other financing cash flow	-0.4	-0.3	-0.4	-0.4	-0.4
Cash flow from financing	-20.4	-7.3	-8.3	-9.5	-10.9

Sources: Mercury Securities, Company

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MERCURY SECURITIES SDN BHD

Registration No. 198401000672 (**113193-W**)

L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur

Telephone: (603) - 6203 7227 Website: www.mercurysecurities.com.my

Email: mercurykl@mersec.com.my