



Cnergenz Berhad

“2Q22 Above expectations”

Bloomberg: CNERGEN MK | Stock Code: 0246

Ace Board

Technology

BUY

TP: RM1.00

Last Closing Price: RM0.72

Initiated Price: RM0.47

Valuation / Recommendation

Results were above expectations, achieving 65.4% and 81.8% of our full year revenue and profit forecasts for FY22 respectively due to higher sales of provision of integrated solution for SMT manufacturing line and sales of standalone SMT machines.

We revise our revenue and profit forecasts upward by 5.6 – 10.4% and 7.8 – 24.2% on the back of stronger growth on its SMT equipment and provision of integrated solutions for SMT manufacturing line segments. We maintain a BUY recommendation on Cnergenz with a revised TP of RM1.00 based on FY23F EPS 4.6 sen and peers average PE of 21.7x. We like the stock for its attractive expansion plans, well positioned to leverage on the growing SMT manufacturing solution industry in Southeast Asia which is forecasted by Providence to grow at a 2-year CAGR of 8% from 2022 to 2024.

Investment Highlights

The higher revenue (up 107.3% qoq) and higher profit (up 151.4% qoq) was due to stronger contributions from its Thailand and Malaysian customers which consisted of 45% and 50% of revenue for the quarter, in line with the reopening of the economy.

Capacity expansion. Cnergenz is currently operating from its 22.8k sq ft existing facility in Bukit Tengah, Penang. An announcement on the 17th of August 2022 was made on a proposed acquisition of a piece of industrial land at Penang Science Park North for a total purchase price of approximately RM3.02m. 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 4QFY23. 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 purchase order. The company has a purchase order of RM72.6m as of 30th June 2022, where RM61.2m is expected to be fully recognised within 2H22, and RM11.4m in 2023.

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

INVESTMENT STATISTICS	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RM m)	132.8	153.0	191.4	210.5	229.3
EBITDA	21.4	18.0	28.1	29.8	31.8
PATMI	16.0	12.7	21.3	22.7	24.1
EPS (sen)	3.2	2.5	4.3	4.6	4.8
EPS Growth (%)	-14.5	-20.6	68.4	6.2	6.5
BV Per Share (sen)	13.3	13.9	27.4	29.7	32.1
PE (x)	22.6	28.5	16.9	15.9	15.0
Dividend Yield (%)	7.5	2.7	3.0	3.2	3.4
Net Gearing (%)	Net	Net	Net	Net	Net
ROA (%)	Cash	Cash	Cash	Cash	Cash
ROE (%)	14.9	9.8	9.9	10.3	9.5
	24.1	18.3	15.7	15.3	15.1

Sources: Mercury Securities, Company

RESULTS (RM m)	2Q22	1Q22	qoq %	2Q21	yoy %
FY Dec					
Revenue	76.5	36.9	107.3	-	-
COGS	61.3	29.7	106.4	-	-
Gross Profit	15.2	7.2	111.1	-	-
Other Income	-	-	-	-	-
Selling & Distribution Expenses	-0.6	-0.4	50.0	-	-
Admin Expenses	-2.2	-2.0	10.0	-	-
Other losses - net	-0.3	-	-	-	-
Operating Profit	12.2	4.9	149.0	-	-
Finance Income	0.1	-	-	-	-
Finance Costs	-	-	-	-	-
Profit Before Tax	12.3	4.9	151.0	-	-
Tax Expense	-3.0	-1.2	150.0	-	-
Net profit	9.3	3.7	151.4	-	-
Core net profit	9.3	3.7	151.4	-	-
EPS (sen)	2.2	0.9	144.4	-	-
Core EPS (sen)	2.2	0.9	144.4	-	-

Business Overview

Cnergenz Berhad, 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)	1,518.16
Expected Share Return (%)	38.9
Expected Dividend Yield (%)	3.1
Expected Total Return (%)	42.0

Price Performance

	1M	3M	12M
Absolute (%)	42.6	-	-
Relative to Index (%)	5.7	-	-

Share Information

Market Cap (RM m)	386.0
Issued Shares (m)	498.0
52W High (RM)	0.805
52W Low (RM)	0.450
Estimated Free Float (%)	29.8
Beta vs FBM KLCI	-
3-month Average Vol. (m)	215.1

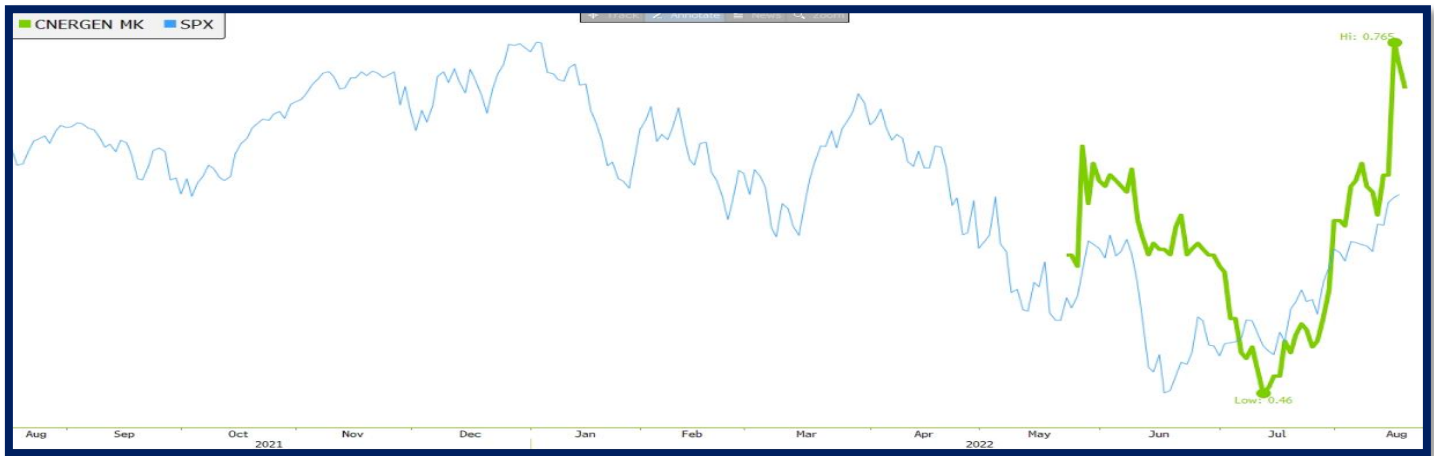
Top 3 Shareholders (%)

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

Sources: Mercury Securities, Company, Bloomberg

Ronnie Tan

ronnie-tan@mersec.com.my



Peers Comparison

Company	Bloomberg Ticker	Share Price (RM)	Market Cap (RM'm)	PE (x)		EPS (sen)		EPS Growth		P/BV (x)	
				FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Greotech	GREATEC MK	3.94	4,945.9	31.0	22.3	12.7	17.7	15.5%	39.4%	8.4	6.4
Genetec	GENE MK	2.54	1,750.9	30.6	21.2	8.3	12.0	-	44.6%	11.3	8.0
Average				30.8	21.7						

Sources: Mercury Securities, Bloomberg



PROFIT & LOSS (RM m) FY Dec	FY20A	FY21A	FY22F	FY23F	FY24F
Net Revenue	132.8	153.0	191.4	210.5	229.3
Gross Profit	24.2	25.0	36.5	39.5	42.8
Other Operating Income	0.8	0.7	1.0	1.1	1.1
EBIT	21.4	18.0	28.1	29.8	31.8
Administrative Expenses	3.4	6.6	7.2	8.4	9.7
Selling & Distribution Expenses	1.0	1.1	1.4	1.5	1.6
Other Operating Expenses	0.0	0.4	0.0	0.0	0.0
Profit from operations	20.6	17.5	28.9	30.6	32.6
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	28.1	29.8	31.8
Exceptional Items	-	-	-	-	-
Taxation	5.4	5.2	6.7	7.2	7.6
Minority Interests	0.0	0.0	0.0	0.0	0.0
Profit After Tax (PATMI)	16.0	12.7	21.3	22.7	24.1
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	16.0	12.7	21.3	22.7	24.1
BALANCE SHEET (RM m) FY Dec	FY20A	FY21A	FY22F	FY23F	FY24F
Cash & Equivalents	45.8	59.0	108.8	101.2	113.3
Trade & Other Receivables	40.0	33.7	46.4	40.1	58.1
Inventories	16.9	19.2	25.3	24.8	30.9
Other Current Assets	1.3	0.6	0.6	0.6	0.6
Current Assets	104.0	112.5	181.1	166.8	202.8
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	74.9	68.1	90.4
Other Current Liabilities	1.3	0.9	2.0	2.0	2.0
Current Liabilities	40.0	56.0	77.0	70.1	92.4
Other Non-Current Liabilities	0.4	1.2	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	79.8	91.1	103.2
Other Equity	0.1	0.2	-65.8	-65.8	-65.8
Total Equity	66.2	69.3	136.3	147.7	159.8
CASH FLOW (RM m) FY Dec	FY20A	FY21A	FY22F	FY23F	FY24F
Net profit for the financial year	16.1	13.1	28.1	29.8	31.8
Depreciation & Amortization	0.5	0.6	0.7	0.8	1.0
Other operating cash flow	0.0	1.3	1.0	1.1	1.2
Tax expense	5.4	5.2	6.7	7.2	7.6
Operating profit/(loss) before working capital	21.3	19.7	36.9	39.2	41.9
Changes before working capital	-2.1	10.1	1.0	-0.1	-1.6
Cash generated from/(used in) operations	19.2	29.8	37.9	39.2	40.3
Tax paid	-5.6	-5.6	-6.7	-7.2	-7.6
Cash flow from operations	13.7	24.2	31.1	32.0	32.7
Purchases of PPE	-0.1	-1.3	-18.9	-18.9	0.0
Other investing cash flow	-0.2	-0.1	0.4	0.4	0.4
Interest received	0.7	0.4	0.0	0.0	0.0
Cash flow from investing	0.4	-0.9	-18.5	-18.5	0.4
Dividends paid	-20.0	-7.0	-10.5	-11.3	-12.1
Proceeds from issuance of ordinary shares by the subsidiary	0.0	0.1	0.0	0.0	0.0
Repayment of principal portion of hire purchase liabilities	-0.4	-0.3	-0.3	-0.3	-0.3
Cash flow from financing	-20.4	-7.3	-11.0	-11.7	-12.4

Sources: Mercury Securities, Company

DISCLAIMERS AND DISCLOSURES

Disclaimers

This report is prepared primarily for the use of Mercury Securities' clients in Malaysia and not for publication purposes, should not be reproduced, altered in any way, transmitted to, copied, or distributed to any other party in whole or in part in any form or manner without the prior express written consent of Mercury Securities. Mercury Securities, companies and individuals related to it accept no liability whatsoever for the actions of third parties in this respect.

This research report is prepared for general circulation and for information purposes only and under no circumstances should it be considered or intended as an offer to sell or a solicitation of an offer to buy the stocks or securities referred to in the report. Investors should note that the price, values, or fundamentals of any securities may fluctuate over time. Past performance of any securities may not be an accurate guide to its future performance.

This report is not intended to provide personal investment advice and does not take into account the investment objectives, financial situation and risk appetite of persons who may receive or read this report. Investors are advised to trade at their own absolute discretion, and to seek financial, legal, and other pertinent professional advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

Any information, views, opinions, recommendations, and advice in this report are given in good faith but without any legal responsibility or liability to Mercury Securities and connected parties. Information contained in this report has been obtained from public sources believed to be reliable, but such sources are not independently verified by Mercury Securities and consequently no representation is made as to the accuracy or completeness of this information, and it should not be relied upon as such. The views, recommendations and opinions in this research report are our own as of the date hereof and are subject to change without prior notice.

Mercury Securities expressly disclaims any obligation to update or revise any views, recommendations, forward looking statements, and forecasts in a timely manner to reflect new information, events, or circumstances after the date of this report publication or to reflect the occurrence of unanticipated events. Our views and recommendations are based on our own analysis of publicly available information. A subject company's fundamentals and prospects are subject to various risks and uncertainties that could cause its actual performance to differ from our opinion.

As such, Mercury Securities and its directors, officers, associates, connected parties and employees shall not be liable for any direct, indirect, or consequential losses or damages that may arise from the use of or reliance on this research report.

Disclosures

Mercury Securities Sdn Bhd Registration No. 198401000672 (113193-W) is a Participating Organisation of Bursa Malaysia Securities Berhad and a principal holding a Capital Markets Services Licence ("CMSL") issued by the Securities Commission ("SC") of Malaysia. Its research analysts hold a Capital Markets Services Representative's Licence ("CMSRL"). Principals holding a CMSL and representatives holding a CMSRL are regulated by SC in accordance with the Capital Markets and Services Act 2007 ("CMSA").

Mercury Securities, companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks or securities in the markets mentioned. Some of the subject companies covered by Mercury Securities for research purposes may be a client of Mercury Securities in the past, current or may be a potential client in the future. Possible business dealings may include, but is not limited to share trading, market making, underwriting, corporate finance and corporate advisory services.

RECOMMENDATION RATING

Mercury Securities maintains a list of stock coverage. Stock can be added or dropped subject to needs with or without notice. Hence, the recommendation rating only applicable to stocks under the list. Stocks out of the coverage list will not carry recommendation rating as the analyst may not follow the stocks adequately.

Mercury Securities has the following recommendation rating:

BUY	Stock's total return is expected to be +10% or better over the next 12 months (including dividend yield)
HOLD	Stock's total return is expected to be within +10% or -10% over the next 12 months (including dividend yield)
SELL	Stock's total return is expected to be -10% or worse over the next 12 months (including dividend yield)

Published and printed by:

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