



DS Sigma Holdings Berhad

“IPO Note – An expert in the packaging industry”

Ace Market
Industrial Products
Subscribe
IPO Price: RM0.55
Fair Value: RM0.66

Valuation / Recommendation

We have a SUBSCRIBE recommendation on DS Sigma Holdings Berhad with a target price of RM0.66 based on FY23F EPS of 5.1 sen and a PE of 13x in line with the industrial products sector’s FY23F PE. We like the stock for its attractive growth prospect and customer diversification within the E&E industry focusing on the solar photovoltaic (PV) and medical devices industry. The Group has a 2.6% market share by business value. The target price represents a potential return of 21% over the IPO price.

Investment Insights

One-stop packaging centre. The company provides packaging products supported by the in-house manufacturing of corrugated board products, supply of packaging materials and provision of value-added services and solutions which is potentially able to reduce packaging cost for its customers. As of LPD, the company has a production capacity of 26.09 million pieces of carton blanks for flexographic printing machines and 8.70 million pieces of die-cutting sheets for automatic die-cut machines. With a total built up area of 100,000 sq. ft and a total work force of 115 workers, the company is well-positioned to increase its market share of 2.6% and expand its presence in the E&E space.

The company plans to set up a packaging design and innovation centre within its Klang factories to expand its testing and prototyping facilities by investing in testing equipment which will be used to facilitate its front-end value-added services.

Geographical and capacity expansion. The company plans to rent a 25,000 sq. ft warehouse cum office in Batu Kawan, Penang by 1H23 with the intention to expand its business operations within the region and expand its target markets to serve customers within the E&E industry focusing on the solar photovoltaic (PV) and medical devices industry.

The company also plans to acquire a 2-storey office detached factory with an estimated built-up area of 100,000 sq. ft by 1H24. The new factory will house new machineries and equipment and increase the company’s production capacity and operational efficiency to cater for more customers moving forward.

Investment into automation and new machines. The company plans to invest into automatic robotic and packaging machines as part of its future plan to fully automate the production of corrugated cartons, and to streamline its manufacturing process and reduce the reliance on manpower going forward.

Risk factors. (1) Customer concentration risk as SSCSM, Samsung Electronics, SOME, PAACM and PAVC collectively accounted for 73.32% of total revenue in FY22. (2) Labour shortages.

INVESTMENT STATISTICS	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM m)	85.9	127.9	121.2	133.3	142.0
EBITDA (RM m)	15.1	29.1	31.5	34.7	37.5
EBITDA Margin (%)	17.6	22.8	26.0	26.0	26.4
PAT (RM m)	9.7	20.3	21.0	24.3	26.4
PAT Margin (%)	11.3	15.9	17.3	18.2	18.6
EPS (sen)	2.0	4.2	4.4	5.1	5.5
EPS Growth (%)	9.5	109.5	3.4	15.6	8.8
BV Per Share (sen)	4.8	6.0	10.5	25.4	30.9
PE (x)	27.2	13.0	12.6	10.9	10.0
Net gearing/ (net cash) (%)	Net Debt	Net Debt	Net Cash	Net Cash	Net Cash
ROA (%)	20.4	38.2	26.4	16.6	15.4
ROE (%)	42.5	70.2	41.8	19.9	17.8

Sources: Company, Mercury Securities

Business Overview

DS Sigma Holdings Berhad is a packaging products provider with in-house manufacturing of corrugated paper packaging products including cartons, protective packaging, and paper pallets. The company also supply non-paper based protective packaging products such as plastic, foam and rubber products.

Listing Details

Listing Date	6 Jan 23
New Shares (m)	91.2
Offer For Sale (m)	38.4
Funds Raised (Rm m)	50.1

Post Listing

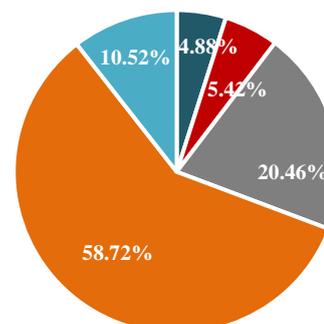
Ordinary shares (m)	480.0
Market Cap (RM m)	264.0
Free Float	20.0%
P/E (FY22)	12.6x

Major Shareholders

DS Kaizen	61.00%
Lucille Teoh Soo Lien	5.18%
Beh Seng Lee	0.30%

Utilization of IPO Proceeds

	(RM m)
Expansion of operational facilities (Within 24 months)	1.7
Purchase of new machinery & equipment (Within 24 months)	1.9
Establish packaging design & innovation centre (Within 24 months)	
Borrowings repayment (Within 12 months)	7.0
Working capital (Within 12 months)	20.1
Listing expenses (3 month)	3.6



- Business expansion
- Capital expenditure
- Borrowings repayment
- Working capital
- Listing expenses

Ronnie Tan
ronnie-tan@mersec.com.my



IPO details

	Offer for sale (m)	Public issue (m)	Total (m)	(%)
(i) Malaysian Public via Balloting	-	24.0	24.0	5.00%
(ii) Eligible Directors and employees as well as persons who have contributed to the success of the Group	-	9.8	9.8	2.04%
(iii) Private placement to Bumiputera investors approved by MITI	-	35.8	35.8	7.46%
(iv) Private placement to selected investors	38.4	21.6	60.0	12.50%
Total	38.4	91.2	129.6	27.00%

Source: Company

Group structure post listing



Source: 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