



# Kumpulan Kitacon Berhad

“IPO Note – The expert in township development”

**Main Market**

**Construction**

**Subscribe**

**IPO Price: RM0.68**

**Fair Value: RM0.82**

## Valuation / Recommendation

We have a SUBSCRIBE recommendation on Kumpulan Kitacon Berhad with a target price of RM0.82 based on FY23F EPS of 9.1 sen and a PE of 9.1x in line with its peer’s average. We like the stock for its solid order book and strong and reputable client base. The target price represents a potential return of 20.5% over the IPO price.

## Investment Insights

**Established track record in the building construction industry.** The company has over 32 years of track record in the building construction industry, certified as a G7 contractor. The company specializes in township development and is able to successfully bid in various phases of the project which improve its earning visibility going forward.

**Strong & reputable client base.** The company has good relationships with its client base made up of well-established property developers in Malaysia. The company have served a total of 20 customers in which its top clients such as Sime Darby Property Group and SP Setia Group are amongst the largest in the property development industry.

**Solid order book.** Kitacon has an outstanding order book of RM853.6m as of January 2023. (RM683.4mil unbilled order book for its residential projects), which should provide earnings visibility until 2024. The company has a tender book of RM2.5bn to RM 3.0bn, with a strong 30% tender success rate that, if successful, will strengthen its order book. We project a RM0.8bn to RM1.0bn target annual order book replenishment which would provide sustainability to the business going forward.

**Investment in construction equipment and construction storage facilities.** The company plans to utilize its IPO proceeds to purchase equipments for its aluminium formwork system which is earmarked to cost approximately RM18m. The lightweight modular formwork system as opposed to conventional timber formwork allows work to be more efficient and cost-effective by reducing turnaround time, wastage, and site labour usage. The company also plans to construct a 65,000 sq ft storage and refurbishment facility for the aluminium formwork system. The facility will be utilized as a centralized storage and refurbishment facility to house all unused aluminium formwork systems cabins and scaffoldings and improve its efficiencies.

**Risk factors.** (1) Unexpected project disruption, cancellation or delays. (2) Foreign labour shortages. (3) Fluctuations in building material costs

INVESTMENT STATISTICS	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RM m)	489.7	455.5	469.5	516.5	542.3
EBITDA (RM m)	63.6	61.3	61.4	66.5	69.0
EBITDA Margin (%)	13.0	13.5	13.1	12.9	12.7
PAT (RM m)	42.8	43.8	41.5	45.3	47.1
PAT Margin (%)	8.7	9.6	8.8	8.8	8.7
EPS (sen)	8.6	8.8	8.3	9.1	9.4
EPS Growth (%)	22.2	2.2	-5.1	9.1	4.0
BV Per Share (sen)	52.4	36.9	40.8	60.0	69.5
PE (x)	7.9	7.8	8.2	7.5	7.2
Net gearing/ (net cash) (%)	Net cash				
ROA (%)	8.6	9.7	8.7	8.4	7.8
ROE (%)	16.3	23.7	20.3	15.1	13.6

Sources: Company, Mercury Securities

## Business Overview

Kumpulan Kitacon Berhad are mainly involved in the business of construction projects of residential and non-residential buildings. The company is responsible over the project planning and management which includes permit acquisition, appointment of subcontractors, procurement of labour and materials, and monitoring of building construction process till project completion.

## Listing Details

Listing Date	17 Jan 23
New Shares (m)	76.1
Offer For Sale (m)	62.5
Funds Raised (RM m)	51.7

## Post Listing

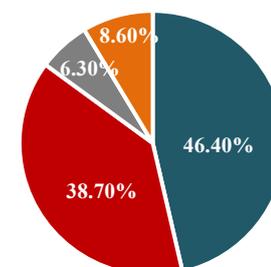
Ordinary shares (m)	500.0
Market Cap (RM m)	340.0
Free Float	27.7%
P/E (FY21)	7.8x

## Major Shareholder

Suan Neo Capital	35.0%
Teow Choo Hing	28.9%
Tan Ah Kee	8.4%

## Utilization of IPO Proceeds (RM m)

Purchase of construction equipment (Within 36 months)	24.0
Purchase of land and construction of a storage (Within 36 months)	20.0
Working capital (Within 24 months)	3.3
Listing expenses (1 month)	4.5



- Purchase of construction equipment
- Purchase of land and storage construction
- Working capital
- Listing expenses

## IPO details

	Offer for sale (m)	Public issue (m)	Total (m)	(%)
(i) Malaysian Public via Balloting	-	10.0	10.0	2.00%
(ii) Eligible Directors and employees as well as persons who have contributed to the success of the Group	-	8.6	8.6	1.70%
(iii) Private placement to Bumiputera investors approved by MITI	62.5	-	62.5	12.50%
(iv) Private placement to selected investors	-	57.5	57.5	11.50%
<b>Total</b>	<b>62.5</b>	<b>76.1</b>	<b>138.6</b>	<b>27.70%</b>

Source: Company

## Group structure post listing



Source: Company

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
Kerjaya Prospek	KPG MK	1.18	1,488.0	12.1	9.6	9.7	12.3	24.4%	26.3%	1.2	1.1
MGB Bhd	MLG MK	0.55	325.4	18.9	9.2	2.9	6.0	-44.2%	106.9%	0.5	0.5
Inta Bina Group Bhd	INTA MK	0.23	123.1	10.5	7.7	2.2	3.0	-	36.4%	-	-
Haily Group Bhd	HAILY MK	0.37	66.0	9.7	9.6	3.9	3.9	-	-	-	-
Average				12.8	9.1						

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