



# Cnergenz Berhad

“Attractive prospects ahead”

Bloomberg: CNERGEN MK | Stock Code: 0246

**Ace Board**

**Technology**

**BUY**

**TP: RM1.09**

**Last Closing Price: RM0.85**

**Initiated Price: RM0.47**

## Valuation / Recommendation

Results were within expectations, achieving 96.1% and 86.0% of our full year revenue and profit forecasts for FY22 respectively, however results were weaker qoq. The lower revenue (-35.4% qoq) and lower profit (-76.1% qoq) was due to lower sales of provision of integrated solution for SMT manufacturing line and sales of standalone SMT machines, contributing 13.0% (3Q22: 51.62%) and 82.8% (3Q22: 44.30%) to revenue for the quarter.

We revise downward our revenue and profit targets for FY23 by 4.8% and 6.6% on the back of slower sales and maintain a BUY recommendation on Cnergenz with a revised TP of RM1.09 (from RM1.15) based on FY23F EPS 5.2 sen and a PE of 21x. 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

**Capacity expansion.** Cnergenz is currently operating from its 22.8k sq ft existing facility in Bukit Tengah, Penang. With reference to the announcement dated 17<sup>th</sup> August 2022, the company proposed to acquire 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 RM68.53m as of 31<sup>st</sup> Dec 2022 (approximately 23% is for integration solution for SMT manufacturing lines and 46% is for standalone SMT machines), which is expected to be fully recognised by year 2023.

**Dividends.** Dividend of 0.6 sen per ordinary share was declared, ex 7<sup>th</sup> Dec 2022. The company also recently proposed a second interim (single tier) dividend of 0.8 sen per ordinary share for FY22.

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

RESULTS (RM m)	4Q22	3Q22	qoq %	4Q21	yoy %
FY Dec					
Revenue	40.6	62.8	-35.4	-	-
COGS	36.8	52.0	-29.2	-	-
Gross Profit	3.8	10.8	-64.8	-	-
Other Income	0.1	0.1	-	-	-
Selling & Distribution Expenses	-0.7	-0.4	75.0	-	-
Admin Expenses	-2.1	-1.4	50.0	-	-
Other losses - net	0.7	-0.2	-	-	-
Operating Profit	1.8	8.9	-79.8	-	-
Finance Income	0.9	0.5	80.0	-	-
Finance Costs	-	-	-	-	-
Profit Before Tax	2.7	9.4	-71.3	-	-
Tax Expense	-1.0	-2.3	-56.5	-	-
Net profit	1.7	7.1	-76.1	-	-
Core net profit	1.7	7.1	-76.1	-	-
EPS (sen)	0.4	1.6	-75.0	-	-
Core EPS (sen)	0.4	1.6	-75.0	-	-

## 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)	1,474.01
Expected Share Return (%)	28.2
Expected Dividend Yield (%)	0.6
Expected Total Return (%)	28.8

## Price Performance

	1M	3M	12M
Absolute (%)	-3.4	2.4	-
Relative to Index (%)	-1.7	0.1	-

## Share Information

Market Cap (RM m)	425.8
Issued Shares (m)	498.0
52W High (RM)	1.15
52W Low (RM)	0.45
Estimated Free Float (%)	29.8
Beta vs FBM KLCI	-
3-month Average Vol. (m)	93.9

## Top 3 Shareholders (%)

Lye Yhin Choy	44.52
Kong Chia Liang	23.36
Hong Leong Co Malaysia Bhd	2.17

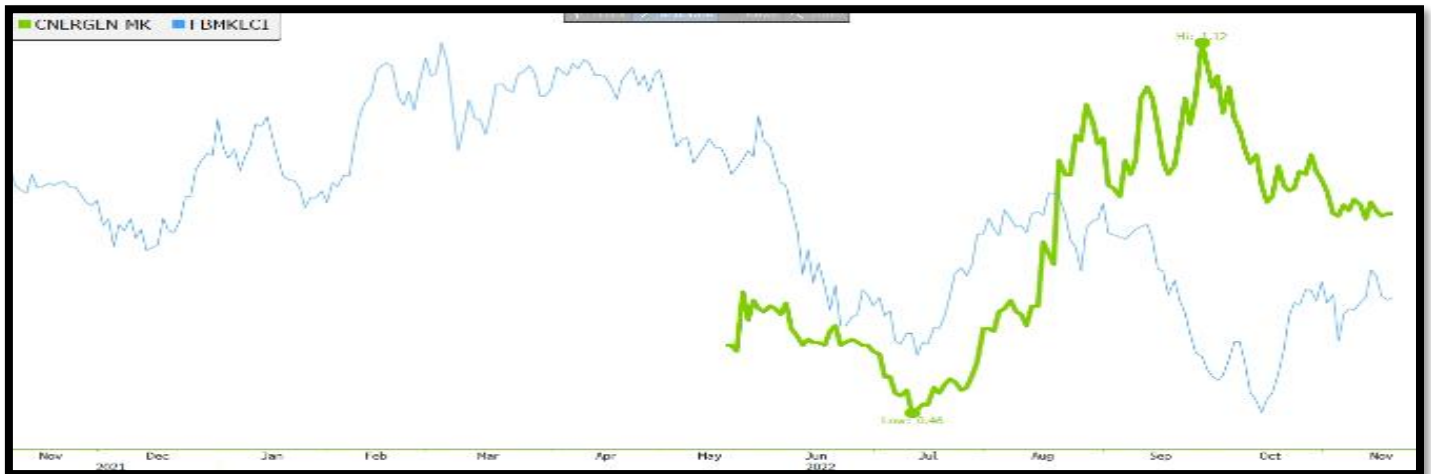
Sources: Mercury Securities, Company, Bloomberg

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INVESTMENT STATISTICS	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM m)	132.8	153.0	216.9	237.0	268.3
EBITDA (RM m)	21.4	18.0	29.2	33.8	38.8
PATMI (RM m)	16.0	12.7	22.3	25.7	29.5
Profit Margin (%)	12.0	8.3	10.3	10.8	11.0
EPS (sen)	3.2	2.5	4.5	5.2	5.9
EPS Growth (%)	-14.5	-20.6	75.8	15.1	15.0
BV Per Share (sen)	13.3	13.9	29.8	32.4	35.6
PE (x)	22.6	28.5	19.1	16.6	14.4
Dividend Yield (%)	-	-	0.7	0.7	0.7
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
ROA (%)	14.9	9.8	11.0	12.1	12.5
ROE (%)	24.1	18.3	15.0	15.9	16.7

Sources: Mercury Securities, Company



### Peers Comparison

Company	Bloomberg Ticker	Share Price (RM)	Market Cap (RM'm)	PE (x)		EPS (sen)		EPS Growth		P/BV (x)	
				FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Greatech	GREATEC MK	4.93	6,176.5	30.8	25.3	16.0	19.5	66.7%	21.9%	8.2	6.3
Genetec	GENE MK	2.68	2,010.4	26.8	20.6	10.0	13.0	20.8%	30.0%	6.2	4.9
Average				28.8	22.9						

Sources: Mercury Securities, Bloomberg



<b>PROFIT &amp; LOSS (RM m) FY Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>
Net Revenue	132.8	153.0	216.9	248.4	268.3
Gross Profit	24.2	25.0	37.1	47.3	51.8
Other Operating Income	0.8	0.7	0.4	1.2	1.3
EBIT	21.4	17.8	29.2	36.0	39.1
Administrative Expenses	3.4	6.6	7.6	9.9	11.4
Selling & Distribution Expenses	1.0	1.1	2.0	1.8	1.9
Other Operating Expenses	0.0	0.4	0.0	0.0	0.0
Profit from operations	20.6	17.5	27.8	36.8	39.8
Interest Income	0.7	0.4	1.6	0.4	0.4
Interest Expense	0.0	0.0	0.1	0.0	0.0
<b>Profit Before Tax</b>	<b>21.3</b>	<b>17.9</b>	<b>29.3</b>	<b>36.0</b>	<b>39.1</b>
Exceptional Items	-	-	-	-	-
Taxation	5.4	5.2	7.0	8.7	9.4
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Profit After Tax (PATMI)</b>	<b>16.0</b>	<b>12.7</b>	<b>22.3</b>	<b>27.4</b>	<b>29.7</b>
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	16.0	12.7	22.3	27.4	29.7
<b>BALANCE SHEET (RM m) FY Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>
Cash & Equivalents	45.8	59.0	105.6	100.4	115.2
Trade & Other Receivables	40.0	33.7	55.0	48.5	55.8
Inventories	16.9	19.2	20.4	30.0	20.0
Other Current Assets	1.3	0.6	0.5	0.6	0.6
<b>Current Assets</b>	<b>104.0</b>	<b>112.5</b>	<b>181.4</b>	<b>179.5</b>	<b>191.7</b>
Property, Plant & Equipment	2.4	15.6	20.6	38.7	37.8
Other Non-Current Assets	0.5	0.6	0.6	0.5	0.5
<b>Non-Current Assets</b>	<b>2.8</b>	<b>16.2</b>	<b>21.2</b>	<b>39.2</b>	<b>38.3</b>
Trade & Other Payables	38.8	36.1	47.4	48.7	44.3
Other Current Liabilities	1.3	10.3	5.0	6.5	6.4
<b>Current Liabilities</b>	<b>40.0</b>	<b>56.4</b>	<b>52.4</b>	<b>55.2</b>	<b>50.8</b>
Other Non-Current Liabilities	0.4	1.2	1.2	1.5	1.5
<b>Non-current Liabilities</b>	<b>0.4</b>	<b>1.2</b>	<b>1.2</b>	<b>1.5</b>	<b>1.5</b>
Share Capital	0.0	0.0	122.5	122.5	122.5
Retained Profits	66.1	69.1	87.9	101.6	116.4
Other Equity	0.1	0.2	-65.8	-65.8	-65.8
<b>Total Equity</b>	<b>66.2</b>	<b>69.3</b>	<b>148.5</b>	<b>162.2</b>	<b>178.0</b>
<b>CASH FLOW (RM m) FY Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>
Net profit for the financial year	16.0	12.7	22.3	27.4	29.7
Other operating cash flow	5.2	6.5	8.6	11.3	12.3
Changes in working capital	-2.1	10.1	-11.1	-1.9	-1.8
Tax paid	-5.4	-5.2	-7.6	-8.7	-9.4
<b>Cash flow from operations</b>	<b>13.6</b>	<b>23.6</b>	<b>13.3</b>	<b>28.1</b>	<b>30.8</b>
Other investing cash flow	0.4	-0.9	-15.8	-18.5	0.4
<b>Cash flow from investing</b>	<b>0.4</b>	<b>-0.9</b>	<b>-15.8</b>	<b>-18.5</b>	<b>0.4</b>
Dividends paid	-20.0	-7.0	-13.0	-13.7	-14.8
Other financing cash flow	-0.4	-0.3	57.8	-0.3	-0.3
<b>Cash flow from financing</b>	<b>-20.4</b>	<b>-7.3</b>	<b>44.8</b>	<b>-14.0</b>	<b>-15.2</b>

Sources: Mercury Securities, Company

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Published and printed by:

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