



Cape EMS Berhad

“IPO Note – Attractive expansion plans”

Main Market
Industrial Products
Subscribe
IPO Price: RM0.90
Fair Value: RM1.53

Valuation / Recommendation

We have a SUBSCRIBE recommendation on Cape EMS Berhad with a target price of RM1.53 based on FY24F EPS of 8.5 sen and a PE of 18x in line with its peer’s 5-year average. We like the stock for its attractive growth prospect on the back of its expansion plans for its EMS and aluminium die cast business. The target price represents a potential return of 70.0% over the IPO price.

Investment Insights

Diversified customer base. The company serves a diverse set of customers from the industrial and consumer sector, providing an overall larger market to grow and sustain its business, and to mitigate against unfavourable business conditions in 1 industry sector.

Additional floor space and capacity for EMS operations. The company plans to expand its factory floor space via the New PLO 227B Factory to accommodate business expansion for its existing and potential customers. The company’s factory floor space for EMS operations will increase from 332,771 sq ft (as at FPE 2022) to 463,471 sq ft by 1H24.

The company also plans to further expand its Electronic Manufacturing Services (EMS) business by investing in 4 new automated production lines for refill pods at its Senai 227 Factory to cater for the expected expansion of EMS for electronic cigarettes. The new production lines are expected to increase capacity by approximately 133% from 3.3m pieces per month to 7.7m pieces per month by end of 2024, allowing more room for revenue and profitability growth going forward. As at LPD, the company has 2 cleanrooms which houses 8 automated production lines, 2 automated blister packaging lines for refill pods and 1 production line for disposable cigarette sticks.

New capacity to spearhead growth. In February 2022, the company acquired a new production facility (Tebrau 6 Factory) with the intention to expand its aluminium die cast business. The company plans to purchase and install 10 new production lines comprising furnaces and die casting machines, and related machinery and equipment such as 9 units of robotic pick and spray equipment, 2 units of CNC lathe machines and 3 units of rotary screw air compressors which are expected to be installed progressively, commencing installation in 1Q23 and complete installation by 2Q23.

Experienced management team. With the leadership of its MD & Group CEO Ms Tee Kim Chin (Christina) who has approximately 30 years of experience in the EMS industry, the company was able to achieve a 3-year revenue CAGR of 182.5% from FY19 to FY21.

Risk factors. (1) Failure to secure orders from customers. (2) Raw material shortages arising from supply chain disruptions.

INVESTMENT STATISTICS	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RM m)	168.3	344.3	426.3	647.0	832.0
EBITDA (RM m)	32.6	41.3	58.8	92.9	117.0
PAT (RM m)	20.2	26.2	31.9	59.0	78.1
Profit Margin (%)	12.0	7.6	7.5	9.1	9.4
EPS (sen)	2.2	2.8	3.5	6.4	8.5
EPS Growth (%)	-	29.7	21.5	84.9	32.5
BV Per Share (sen)	8.8	18.4	19.7	40.5	46.5
PE (x)	41.1	31.7	26.0	14.1	10.6
Net gearing/ (net cash) (%)	Net Debt	Net Debt	Net Debt	Net Cash	Net Cash
ROA (%)	7.9	6.6	7.0	8.5	10.0
ROE (%)	24.9	15.5	17.6	15.8	18.2

Sources: Company, Mercury Securities

Business Overview

The company is involved in electronics manufacturing services. Through its subsidiaries, Cape is also involved in aluminium die casting and electronics manufacturing services, and supply of parts and components.

Listing Details

Listing Date	10 Mar 23
New Shares (m)	173.0
Offer For Sale (m)	86.7
Funds Raised (Rm m)	155.7

Post Listing

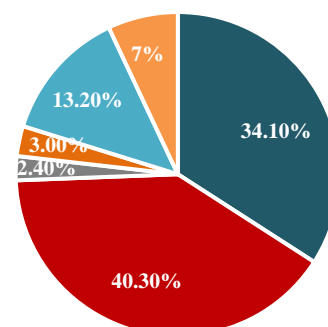
Ordinary shares (m)	923.0
Market Cap (RM m)	830.7
Free Float	28.1%
P/E (FY22F)	26.0x

Major Shareholders

Tee Kim Chin	40.60%
Tee Kim Yok	13.80%
Fortress	16.60%

Utilization of IPO Proceeds (RM m)

Construction of New Senai 226 warehouse and installation of automated storage facilities (Within 48 months)	53.1
Setting-up of new cleanroom facility and purchase of new automated production lines (Within 24 months)	62.8
New machinery for die cast manufacturing (Within 12 months)	4.6
Installation of energy saving cooling system (Within 24 months)	3.7
Working capital (Within 12 months)	20.5
Listing expenses (3 month)	11.0



- Construction of new warehouse
- Setting-up of new cleanroom
- Installation of energy saving cooling system
- Purchase of new machinery and equipment
- Working capital
- Listing expenses

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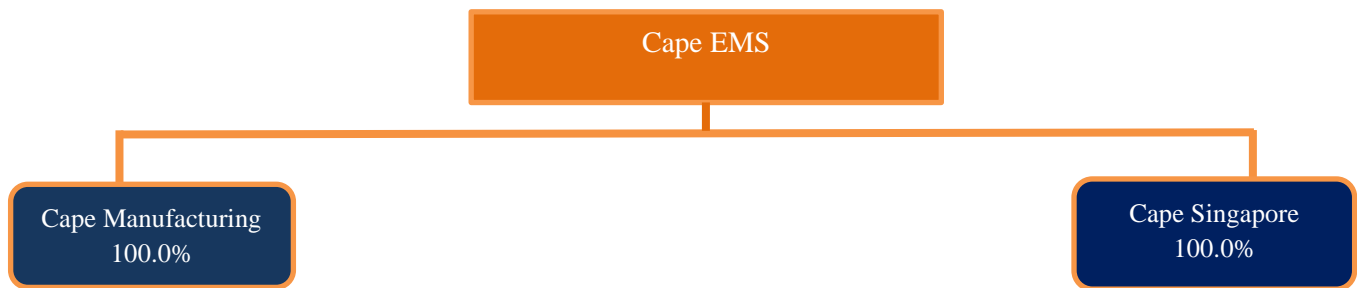


IPO details

	Offer for sale (m)	Public issue (m)	Total (m)	(%)
(i) Malaysian Public via Balloting	-	46.2	46.2	5.00%
(ii) Eligible Directors and employees as well as persons who have contributed to the success of the Group	-	8.0	8.0	0.80%
(iii) Private placement to Bumiputera investors approved by MITI	86.7	28.8	115.5	12.50%
(iv) Private placement to selected investors	-	90.0	90.0	9.80%
Total	86.7	173.0	259.7	28.10%

Source: Company

Group structure post listing



Source: Company

Peers' comparison

Company	Bloomberg Ticker	Share Price (RM)	Market Cap (RM'm)	5-year	EPS (sen)		EPS Growth		P/BV (x)	
				Historical Avg PE (x)	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
SKP Resources	SKP MK	1.61	2,515.4	18.5	11.5	13.3	3.6%	15.7%	2.8	2.5
PIE Industrial	PIE MK	3.13	1,202.1	17.3	16.0	18.0	1.8%	12.5%	2.1	2.0
V.S. Industry	VSI MK	0.92	3,847.1	20.2	5.7	6.7	30.4%	17.5%	1.5	1.4
Average				18.7						

Source: Bloomberg

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