



# Cnergenz Berhad

“Attractive prospects ahead”

Bloomberg: CNERGEN MK | Stock Code: 0246

**Ace Board**

**Technology**

**BUY**

**TP: RM1.09**

**Last Closing Price: RM0.90**

**Initiated Price: RM0.47**

## Valuation / Recommendation

Results were within expectations, achieving 25.3% and 28.0% of our full year revenue and profit forecasts for FY23 respectively. The higher revenue (+47.5% qoq) and higher profit (323.5% qoq) was due to stronger sales of provision of integrated solution for SMT manufacturing line and higher purchase orders from Thailand customers.

We maintain a BUY recommendation on Cnergenz with a TP of RM1.09 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 FY24. 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 an unbilled sales order of RM51.72m as of March 2023 (Dec 2022 – RM68.53m) where approximately 32% is for integration solution for SMT manufacturing lines and 55% 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)                  | 1Q23  | 4Q22  | qoq % | 1Q22  | yoy % |
|---------------------------------|-------|-------|-------|-------|-------|
| FY Dec                          |       |       |       |       |       |
| Revenue                         | 59.9  | 40.6  | 47.5  | 36.9  | 62.3  |
| COGS                            | -49.7 | -36.8 | 35.1  | -29.7 | 67.3  |
| Gross Profit                    | 10.2  | 3.8   | 168.4 | 7.2   | 41.7  |
| Other Income                    | 0.1   | 0.1   | -     | 0.1   | -     |
| Selling & Distribution Expenses | -0.6  | -0.7  | -14.3 | -0.4  | 50.0  |
| Admin Expenses                  | -1.6  | -2.1  | -23.8 | -1.9  | -15.8 |
| Other losses - net              | 0.6   | 0.7   | -14.3 | -0.1  | -     |
| Operating Profit                | 8.8   | 1.8   | 388.9 | 4.9   | 79.6  |
| Finance Income                  | 0.8   | 0.9   | -11.1 | -     | -     |
| Finance Costs                   | -     | -     | -     | -     | -     |
| Profit Before Tax               | 9.6   | 2.7   | 255.6 | 4.9   | 95.9  |
| Tax Expense                     | 2.4   | -1.0  | -     | 1.2   | 100.0 |
| Net profit                      | 7.2   | 1.7   | 323.5 | 3.6   | 100.0 |
| Core net profit                 | 7.2   | 1.7   | 323.5 | 3.6   | 100.0 |
| EPS (sen)                       | 1.5   | 0.4   | 275.0 | 0.9   | 66.7  |
| Core EPS (sen)                  | 1.5   | 0.4   | 275.0 | 0.7   | 114.3 |

## 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)                  | 1,402.48 |
| Expected Share Return (%)   | 20.4     |
| Expected Dividend Yield (%) | 0.6      |
| Expected Total Return (%)   | 21.0     |

## Price Performance

|                       | 1M   | 3M   | 12M  |
|-----------------------|------|------|------|
| Absolute (%)          | -2.2 | -0.6 | 43.7 |
| Relative to Index (%) | -1.1 | 3.1  | 52.7 |

## Share Information

|                          |       |
|--------------------------|-------|
| Market Cap (RM m)        | 450.7 |
| 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 (%)

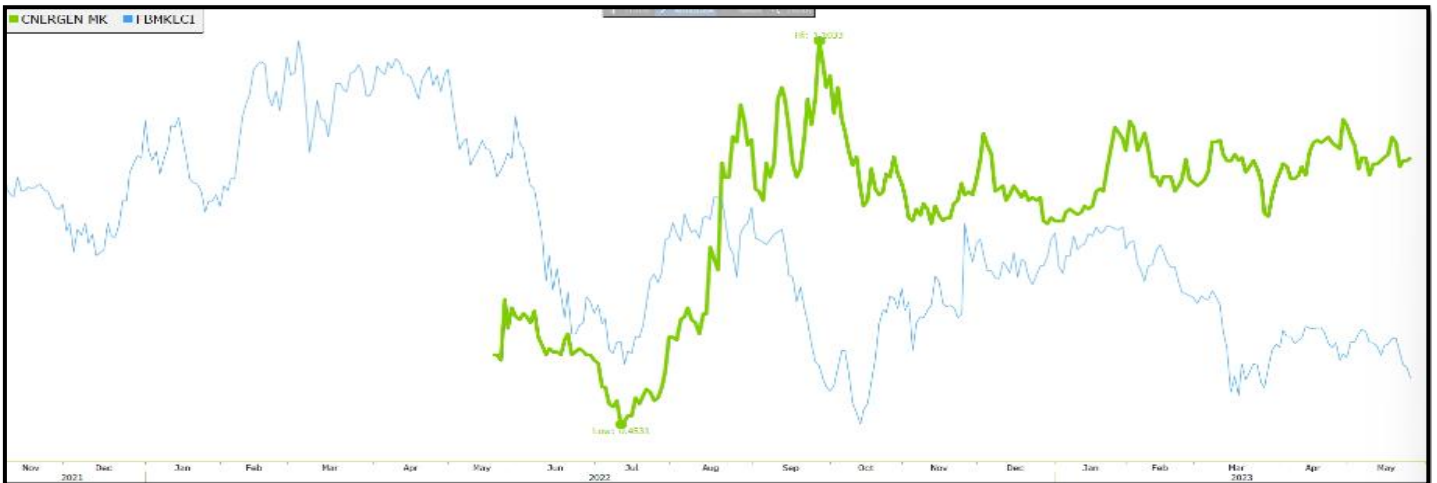
|                            |       |
|----------------------------|-------|
| Lye Yhin Choy              | 44.52 |
| Kong Chia Liang            | 23.36 |
| Prudential Unit Trusts BHD | 3.38  |

Sources: Mercury Securities, Company, Bloomberg

**Ronnie Tan**

ronnie-tan@mersec.com.my

| 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)                | 28.2  | 35.6  | 20.2  | 17.6  | 15.3  |
| Dividend Yield (%)    | -     | -     | 0.7   | 0.7   | 0.7   |
| Net Gearing (%)       | Net   | Net   | Net   | Net   | Net   |
|                       | Cash  | Cash  | Cash  | Cash  | Cash  |
| ROA (%)               | 14.9  | 9.8   | 11.0  | 12.1  | 12.5  |
| ROE (%)               | 24.1  | 18.3  | 15.0  | 15.9  | 16.7  |



### 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       | 3.84             | 4,810.9           | 24.0   | 19.7  | 16.0      | 19.5  | 66.7%      | 21.9% | 6.3      | 4.9   |
| Genetec  | GENE MK          | 2.40             | 1,800.4           | 24.0   | 18.5  | 10.0      | 13.0  | 20.8%      | 30.0% | 4.5      | 3.7   |
| Average  |                  |                  |                   | 24.0   | 19.1  |           |       |            |       |          |       |

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

# 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:

|             |   |
|-------------|---|
| <b>BUY</b>  | Stock's total return is expected to be +10% or better over the next 12 months (including dividend yield)      |
| <b>HOLD</b> | Stock's total return is expected to be within +10% or -10% over the next 12 months (including dividend yield) |
| <b>SELL</b> | 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](http://www.mercurysecurities.com.my)

Email: [mercurykl@mersec.com.my](mailto:mercurykl@mersec.com.my)