



CPE Technology Bhd

IPO Note - "New player in Engineering Support Industry"

Main Market
Industrial Products & Services
Sector
SUBSCRIBE
IPO Price: RM1.07
Fair Value: RM1.58

Valuation / Recommendation

We have a SUBSCRIBE recommendation on CPE Technology Bhd with a fair value price of RM1.58 based on FY24F EPS of 4.0 sen and a PE of 26.7x in line with its peer average.

We like the stock for its attractive expansion plans and strong relationship with its global customer base. The company stand to benefit from the growth of Malaysia's Engineering Supporting Industry (ESI) which is projected to expand from RM9.98bn in 2023 to RM13.88bn in 2027 at a CAGR of 8.2% (Protege). The target price represents a potential return of 47.0% over the IPO price.

Investment Highlights

Broad customer base with long-standing relationship. The group caters to a broad range of clients with its major customers mainly from Singapore, USA, Japan and Malaysia. The group has longstanding business relationships spanning over 10 years with 4 major customers as at LPD. The company's FY2023 revenue are derived from different sectors such as semiconductor (59.3%), life science and medical devices (19.8%), and sports equipment (10.7%). This diversity positions the company for growth and resilience in the face of industry-specific challenges.

New plant construction. The company has earmarked RM69.6m for the construction of a new facility to facilitate business growth for both current and prospective clients. The company's new plant marks a significant 245.32% growth to their existing operational space from 96,586 sq ft (as at FYE 2023) to 333,534 sq ft that is to be completed by 3H25.

Purchase of new machinery and relocation of existing machinery. The company plans to enhance its production capabilities by investing RM32.9m in new machinery and equipment in anticipation of increased demand from its customers based on its order book. This strategic move would allow the company to grow their customer base and serve more local and international customers.

The company is earmarking RM7.0m to be used to secure essential raw materials (stainless steel & aluminum) mainly supplied from overseas sources, to support the company's operational stability.

Experienced management team. With the leadership of the COO, Akira Nakashima who has approximately 24 years of experience in the international trading business and 18 years in the semiconductor industry, the company's was able to achieve a 3-year CAGR of 30.9% from FY19 to FY23.

Risk factors. (1) Risk of not securing orders from major customers. (2) Price fluctuation from raw materials. (3) Dependent on skilled workers and production workers and the availability of labour.

Investment Statistics	FY21	FY22	FY23	FY24F	FY25F
Revenue	93.4	138.8	145.3	157.4	171.5
EBITDA (RM m)	25.6	45.4	41.7	40.9	43.6
PAT (RM m)	18.7	33.9	30.3	30.7	32.8
Profit Margin (%)	20.0	24.4	20.9	19.5	19.1
EPS (sen)	2.7	4.9	3.9	4.0	4.3
EPS Growth (%)	-	80.1	-20.1	1.7	7.5
BV Per Share (sen)	0.1	0.2	0.2	0.2	0.2
PE (x)	39.0	21.7	27.1	26.7	24.8
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
ROA	13.6	20.5	13.5	13.9	18.0
ROE	32.3	32.0	19.2	20.5	23.1

Business Overview

CPE Technology is principally involved in manufacturing precision-machined parts and components, and provision of computer numerical control (CNC) machining services. The company serves clients in semiconductor, life sciences, medical devices, sports equipment, sensor technology, and security industries. The company cater to a global consumer base mainly from USA, Singapore, Malaysia, Germany, Japan, and Thailand.

Listing Details

Listing date	7 Dec 2023
New shares (m)	167.8
Offer for sale (m)	67.1
Funds raised	251.4

Post Listing

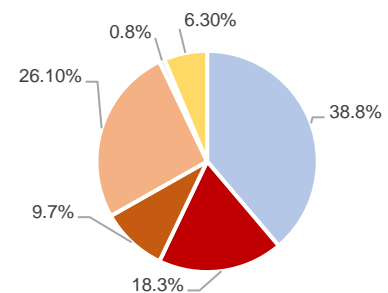
Ordinary shares (m)	671.2
Market cap (RM M)	718.2
Free float	25%
P/E (FY24F)	26.7

Top 3 Shareholders

Lee Chen Yeong	32.5%
Foo Ming	19.5%
Mu Woon Chai	13.0%

Utilisation of Proceeds

	RM'mil
Land acquisition & new plants construction	69.6
Relocation & purchase of new machinery	32.9
Repayment of bank borrowings	17.5
Part-financing working capex requirements	46.9
Part financing other capex requirements	1.4
Estimated listing expenses	11.3



- Land acquisition & new plants construction
- Relocation & purchase of new machinery
- Repayment of bank borrowings
- Part-financing working capex requirement
- Part financing other capex requirement
- Estimated listing expenses

Source: Mercury Securities, Bloomberg

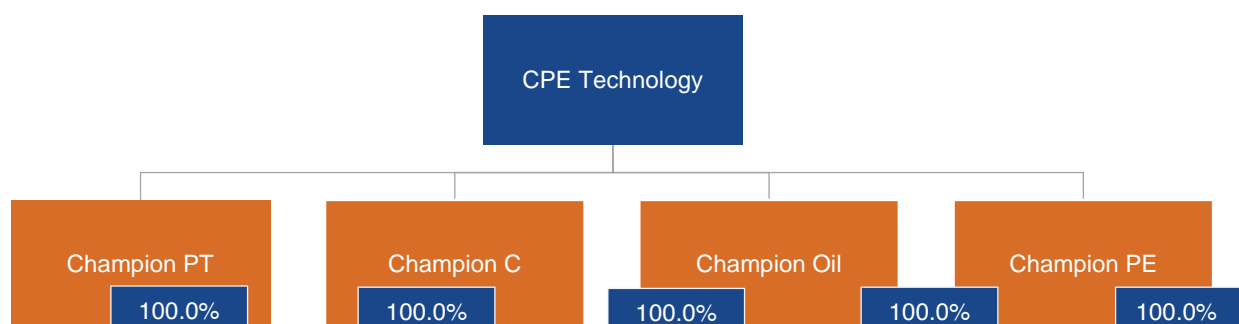


IPO Details

	Public issue (m)	Offer for sale (m)	Total (m)	(%)
Malaysian public (Bumiputera)	16.8	-	16.8	2.5
Malaysian public (Non-bumiputera)	16.8	-	16.8	2.5
Sub-Total Retail Offering	33.6	-	33.6	5.0
Private placement to Bumiputera investors approved by MITI	83.9	-	83.9	12.5
Private placement to institutional and selected investors	50.3	67.1	117.5	17.5
Sub-Total Institutional Offering	134.2	67.1	201.4	30.0
<u>Total</u>	<u>167.8</u>	<u>67.1</u>	<u>234.9</u>	<u>35.00</u>

Source: Company, IPO Prospectus

Group Structure Post Listing



Source: Company

Peer Comparison

Company	Bloomberg Ticker	Share Price (RM)	Market Cap (RM m)	P/E (x)	EPS (sen)	EPS Growth	P/BV (x)
Coraza	CORAZA MK	0.48	234.5	39.3	0.03	-17.0	1.6
Kobay	KOBAY MK	1.53	495.9	25.7	0.08	-46.7	1.5
SFP	SFPTECH MK	0.88	2112.0	53.8	0.02	-	11.2
			<u>AVG PE</u>	<u>39.6</u>			

Source: Mercury Securities, Yahoo Finance



Disclaimer & Disclosure of Conflict of Interest

The information contained in this report is based on data obtained from data and sources believed to be reliable at the time of issue of this report. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the information or opinions in this report.

This report may contain forward-looking statements which are often but not always identified by the use of words such as “believe”, “estimate”, “intend” and “expect” and statements that an event or result “may”, “will” or “might” occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to Mercury Securities Sdn Bhd. (“Mercury Securities”) and are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement to be materially different from any future results, performance or achievement, expressed or implied by such forward-looking statements. Caution should be taken with respect to such statements and recipients of this report should not place undue reliance on any such forward-looking statements. Mercury Securities expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

Accordingly, neither Mercury Securities nor any of its holding company, related companies, directors, employees, agents and/or associates nor person connected to it accept any liability whatsoever for any direct, indirect, or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the information or opinions in this publication. Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Mercury Securities has no obligation to update its opinion or the information in this report.

This report does not have regard to the specific investment objectives, financial situation and particular needs of any specific person. Accordingly, investors are advised to make their own independent evaluation of the information contained in this report and seek advice from, amongst others, tax, accounting, financial planner, legal or other business professionals regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you. This report is not intended, and should not under no circumstances be considered as an offer to sell or a solicitation of any offer or a solicitation or expression of views to influence any one to buy or sell the securities referred to herein or any related financial instruments.

Mercury Securities and its holding company, related companies, directors, employees, agents, associates and/or person connected with it may, from time to time, hold any positions in the securities and/or capital market products (including but not limited to shares, warrants and/or derivatives), trade or otherwise effect transactions for its own account or the account of its customers or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment, share margin facility or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests and should exercise their own judgement before making any investment decisions.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Mercury Securities. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted, or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Mercury Securities takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Mercury Securities own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Mercury Securities' website shall be at your own risk.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.



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 & 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