



HE Group Berhad

IPO Note – “Electrifying growth throughout Malaysia”

ACE Market
Industrial Sector
SUBSCRIBE
IPO Price: RM0.28
Fair Value: RM0.37

Valuation / Recommendation

We have a SUBSCRIBE recommendation on HE Group with a fair value price of RM0.37 based on FY23F EPS of 1.9 sen and a PE of 19.3x which is line with the peer’s average in the industrial engineering subsector.

We like the stock for its strong track record and attractive growth prospect. We believe the demand for electrical installation will rise alongside a growing construction industry which is forecasted by Vital Factor Consulting to grow at a CAGR of 6.8% by 2024. The target price represents a potential return of 32.1% over the IPO price.

Investment Highlights

Proven track record. With a 16-year established track record as an electrical engineering service provider, HE Group specializes in developing diverse power distribution systems for end-user premises, such as industrial plants, industrial and commercial substations. According to Vital Factor Consulting, in 2022, HE Group holds a 3% market share in electrical installation work in Malaysia. We believe the company has the potential to expand its market presence, given its CIDB G7 registration status and its expertise in developing diverse voltage power distribution systems.

Expansion strategy. As of LPD, revenue contributions from FPE 2023 for projects in Kedah and Johor amounted to 42.43% and 2.14%, respectively. HE Group plans to expand its coverage to other states by setting up physical offices in new locations, such as Kulim, Kedah, and Johor Bahru.

As part of its growth plan, the group plans to hire nine additional personnel, upgrade equipment and software (including desktops, laptops, and BIM software), establish a new office in Kedah, and enhance marketing, advertising, and business development efforts. These strategic initiatives will utilize RM3.7m from the proceeds.

Additionally, RM1.75m has been earmarked for the acquisition of five new trucks and construction equipment, comprising eight scissor lifts, two boom lifts, and two forklifts, to enhance the installation of electrical equipment.

Solid order book. The group's current order book stands at RM211.9m (LPD) with 10.9% (RM22.9m) and 89.2% (RM188.92m) to be recognized in FY23 and FY24, respectively, providing the group with earning visibility for the next two years. From FY2022 till LPD, HE Group has managed to complete 17 projects, as at LPD, with a cumulative contract value of RM185.2m, and there are an additional 6 ongoing projects to be completed by 2024.

Risk factors include: (1) Inability to secure new projects. (2) Increased material, labor, and subcontractor costs for projects. (3) Concentration risk of relying on a major customer. (4) Risk of project delays.

Investment Statistics	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM m)	31.4	100.5	107.6	139.8	160.8
EBITDA (RM m)	2.4	6.2	9.0	11.4	12.8
PAT (RM m)	1.7	4.1	6.2	8.3	9.4
PAT Margin (%)	5.4	4.1	5.7	5.9	5.8
EPS (sen)	0.4	0.9	1.4	1.9	2.1
EPS Growth (%)	-	143.5	49.2	34.2	13.1
BV Per Share (sen)	0.02	0.03	0.04	0.10	0.15
PE (x)	72.6	29.8	20.0	14.9	13.2
Net Gearing (%)	42.1	13.9	7.6	Net Cash	Net Cash
ROA	8.3	6.7	7.3	6.9	6.8
ROE	18.7	32.5	38.8	13.8	14.1

Business Overview

HE Group Berhad, is an investment holding company, specializing in electrical engineering services with a focus on power distribution systems for industrial plants and commercial substations. The group’s services cover the design, supply, installation, testing, and commissioning of various power systems. The company also oversees hook-up and retrofitting of electrical equipment, including machinery installation, upgrades, and modifications. HE Group is also engaged in trading electrical products, and primarily operates in Malaysia.

Listing Details

Listing date	30 Jan 2024
New shares (m)	86.9
Offer for sale (m)	44.0
Funds raised	24.3

Post Listing

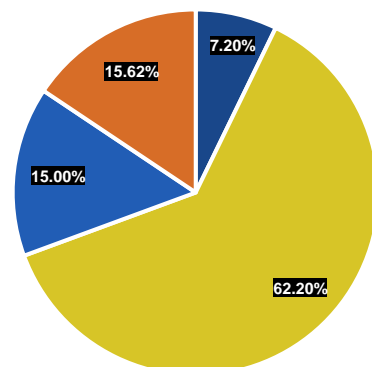
Ordinary shares (m)	440.0
Market cap (RM M)	123.2
Free float	29.8%
P/E (FY23F)	14.9x

Top 3 Shareholders

HEC	24.6%
Haw Chee Seng	20.4%
Eng Choon Leong	14.8%

Utilisation of Proceeds

	RM'mil
Capital expenditure (within 24 months)	1.8
Working capital (within 36 months)	15.1
Business expansion (within 30 months)	3.7
Estimated listing expenses (within 1 month)	3.8



Source: Mercury Securities, Bloomberg

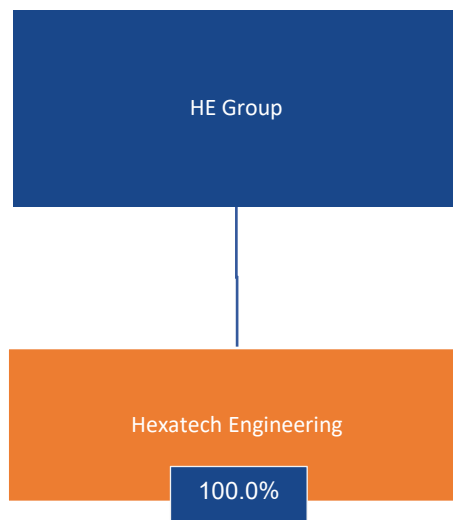


IPO Details

	Offer for sale (m)	Public Issue (m)	Total (m)	(%)
Malaysian Public	-	22.0	22.0	5.0
Eligible Persons	-	11.0	11.0	2.5
Private placement to selected investors	44.0	53.9	97.9	22.3
Total	44.0	86.9	130.9	29.8

Source: Company

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)
KKB ENGINEERING	KKB MK	1.73	499.5	16.8	4.05	-59.7	1.24
KINERGY	KASB MK	0.41	787.7	27.4	0.20	-40.7	0.09
SEREMBAN ENGINEERING	SERES MK	0.71	56.6	13.9	5.80	-10.3	-
			PE AVG	19.3			

Source: Mercury Securities, Bloomberg



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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