

Research Team

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Recommendation:	Subscribe
IPO Price:	RM 0.35
Previous Target Price:	-
Target Price:	RM 0.39
Upside/Downside:	11.4%

Company Brief

Engaged in providing construction engineering solutions and services through industrialisation and digitalisation practices.

Stock Information

Board	ACE Market
Sector	Industrial
Bursa / Bloomberg Code	0289 / PLYTEC MK
Syariah Compliant	No
Shares issued (m)	606.1
Market Cap (RM' m)	212.1
Free float (%)	26.0

Top Shareholders (%)

Resilient Capital Holdings Sdn Bhd	41.4
Prestij Usaha Sdn Bhd	32.6
Yang Kian Lock	-

IPO Timetable Date

Opening of IPO application	24/10/2023
Closing of IPO application	31/10/2023
Balloting of IPO application	2/11/2023
Allotment of IPO shares	10/11/2023
Listing of IPO on Bursa Malaysia	15/11/2023

Plytec Holding Berhad

Summary

- **Plytec's IPO at RM0.35 is expected to yield a forward PE valuation of 13.3x for FY23F and 11.4x for FY24F, with a fair value of RM0.39 (11.4% potential upside) based on assigned target PE of 12.5x to FY24F EPS.**
- **Core net profit shown resilience, with a slight decline in FY21 followed by substantial recovery over the subsequent two years, driven by increased contributions from the CME segment, and it is expected to grow by 16.2% YoY in FY23F and 17.2% YoY in FY24F.**
- **Plytec's plans involve investing in expanding temporary work assets, developing the Olak Lempit Land facility, and enhancing digital systems for the CME Solutions and DDE Solutions segments, with a particular focus on the significant growth of the latter in FY21.**

Company Background

- Plytec Holdings Berhad (PLYTEC) history can be traced back to 1999 through the establishment of Sudut Swasta Holding Sdn Bhd that operates in a rented shop lot located at Pusat Bandar Puchong, Selangor. The primary focus was on trading and distributing building materials. Subsequently in 2019, it changed its name to Plytec Holding Sdn Bhd.
- Plytec's Chief Executive Officer, Yang Kian Lock, overseen the incorporation and acquisition of multiple subsidiaries throughout the years. These include Ply Tec Fencing System Industries Sdn Bhd (PFCSI), Plytec Formwork System Industries (PFWSI), Plytec IBS System MFG (PISM), BIM Engineering Solution & Tech (BEST), PC Forging Malaysia (PCFM), and Sudut Swasta Property (SSP). Acquisition of these subsidiaries transformed the group into a complete solution for construction engineering.
- Plytec acquired an empty plot of land referred to Puchong Land 1 to develop its headquarters, encompassing both office and warehouse facilities. Upon the completion of this construction, the company relocated its operations from Pusat Bandar Puchong and Bandar Bukit Puchong Industrial Park to its new headquarters in April 2006. In the following year, the group acquired an additional vacant piece of land known as Puchong Land 2 to accommodate their inventory expansion of building material products. In support of business expansion, Plytec established branch offices in Johor Bahru, Johor, and Krubong, Melaka.
- In 2011, the Group Managing Director embarked on an effort to broaden the company's presence in the construction engineering solutions sector. The initiative involved international travel and an in-depth study of the construction methods and technologies implemented by overseas construction firms.
- Plytec expanded into the Southeast Asian market by marketing formwork systems in Thailand and Myanmar through appointed exclusive distributors. The group also held a council membership with the China Formwork & Scaffolding Association for a period of two years but discontinued its membership in 2019. Furthermore, Plytec acquired a piece of vacant land known as Olak Lempit Land to facilitate the expansion of their temporary works business.

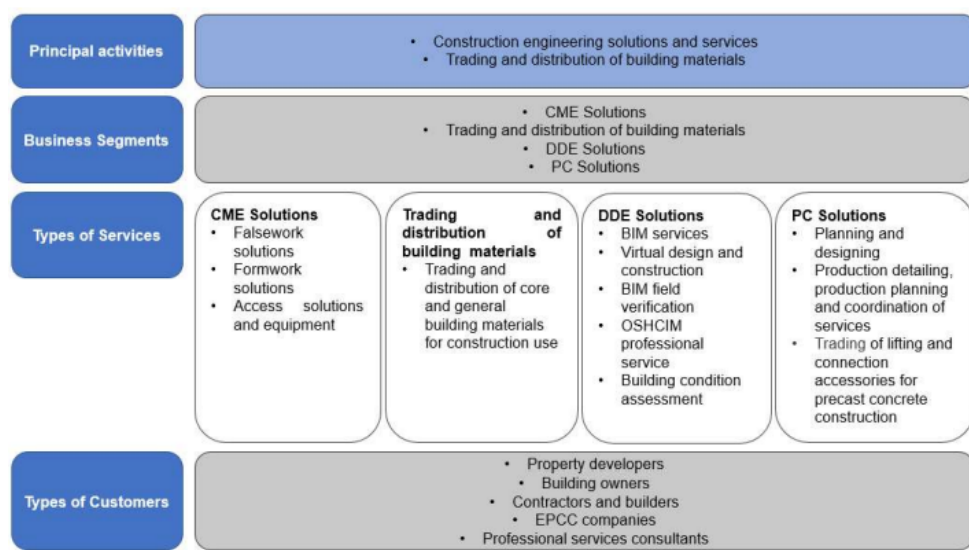
- Recent award wins such as the Star Award and Industry Choice Award by ARCHIDEX organised by PAM on their BEST and PFWSI services is a testament to the group’s capabilities.

IPO Utilisation

Details of utilisation	Estimated time frame for utilisation	RM'm (%)
Capital expenditure	Within 24 months	8.0 (21.55%)
Repayment of borrowings	Within 12 months	9.0 (24.24%)
Construction of factories and centralised labour quarters on the Olak Lempit Land	Within 24 months	7.8 (21.01%)
Purchase of software systems and hardware	Within 24 months	2.0 (5.39%)
Working capital	Within 12 months	6.321 (17.03%)
Estimated listing expenses	Immediate	4.0 (10.78%)

Source: Plytec, prospectus

Business Overview



Source: Plytec, prospectus

- Plytec primarily specialises in delivering comprehensive engineering solutions and services for the construction industry. Their services encompass construction method engineering solutions (CME), digital design and engineering solutions (DDE), and prefabricated construction solutions. The highly specialised engineering services involves planning and constructing of various structures, including buildings and infrastructure, along with associated components. Plytec also actively engaged in the trading and distribution of a wide range of building materials.
- CME Solutions primarily focuses on supplying new and refurbished temporary work equipment for sale and rental, offering solutions for secure construction of concrete structures. The group provide equipment, engineering design, technical support, on-site monitoring, and training on safe usage and procedural control practices.

CME Solutions



Source: Plytec, prospectus

- Although contribution to total revenue in FY22 is less significant, DDE solutions is a vital business segment. Plytec involves in provision of digital design and engineering solutions, particularly through Building Information Modelling (BIM). BIM facilitates the creation of digital representations of structures, buildings, and services in a 3D model, promoting collaboration and coordination among project professionals. Services offered include virtual design and construction, BIM field verification, Occupational Safety and Health in Construction Industry (Management) (OSHCIM) professional services, and building condition assessments. Services are based on the principles of construction industrialisation and adoption of digital technologies to boost productivity, efficiency, and safety levels.

DDE Solutions

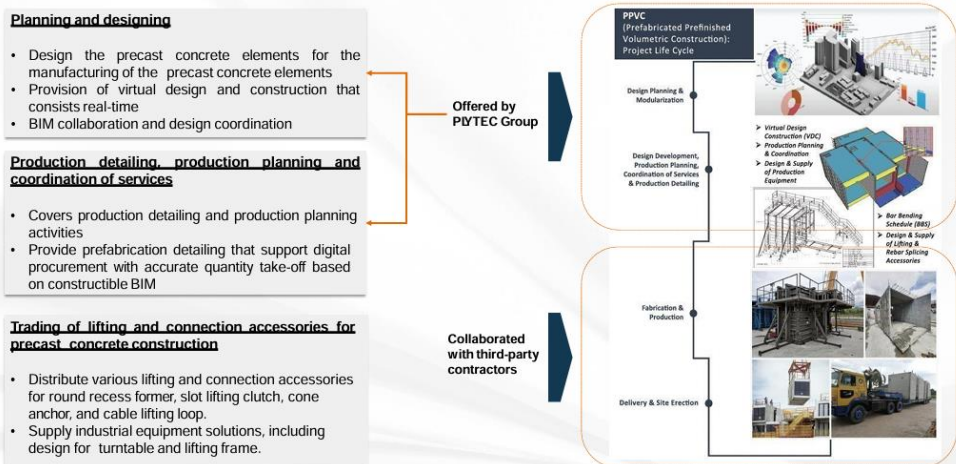


Source: Plytec, prospectus

- PC Solutions offers variety of services and accessories to facilitate the use of prefabricated components in construction. This includes planning, design,

production coordination, and accessories for transporting, lifting, and connecting prefabricated components from the manufacturing plant to the construction site.

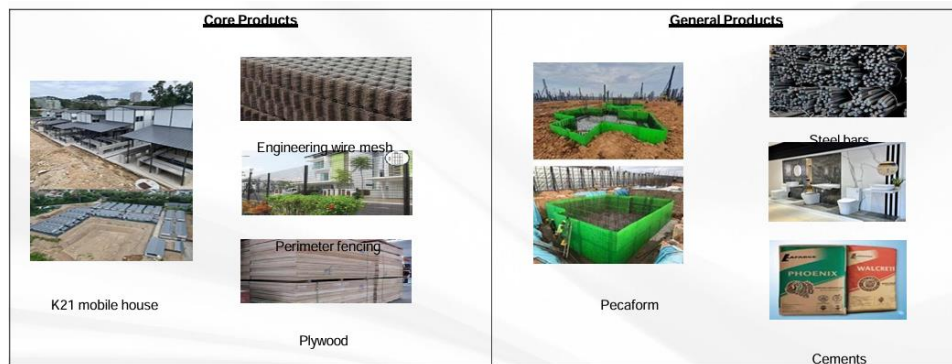
PC Solutions



Source: Plytec, prospectus

- On their trading and distribution of building materials segment, there are two sub-categories namely core and general product. Core products encompasses engineering wire mesh, perimeter fencing, plywood, and K21 Mobile House. On the other hand, general products include items like floor tiles, sanitary ware, cement, steel bars, and Pecaform.

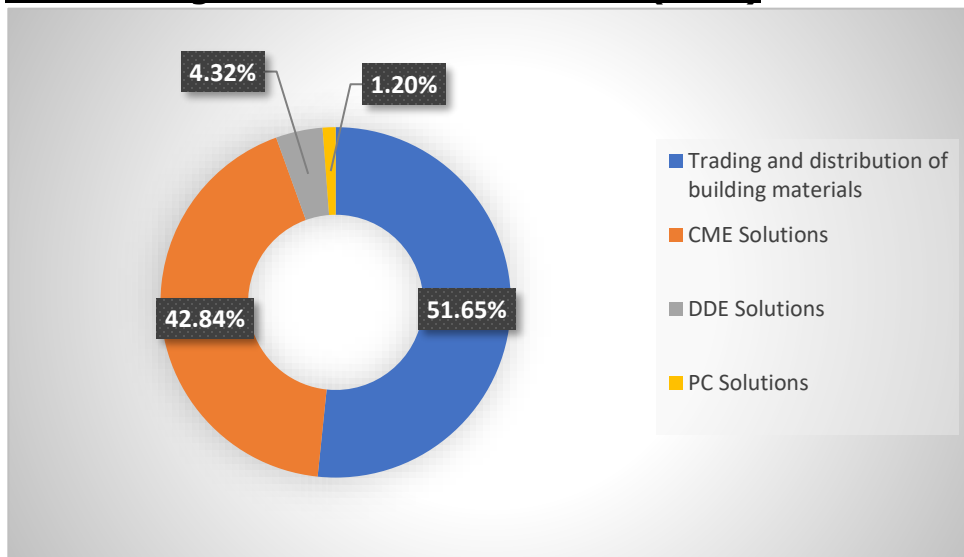
Trading and distribution of building materials



Source: Plytec, prospectus

- In FY22, the CME Solutions segment accounted for RM62.7m, representing 42.84% of the total revenue. The DDE Solutions segment contributed RM6.8m, or 4.32%, while the PC Solutions segment was at RM1.9m, equivalent to 1.20% of the total revenue. Nonetheless, the trading and distribution of building materials remained the largest contributor, amounting to RM81.7m, or 51.65% of total revenue. It's worth noting that the latter segment has the lowest gross profit margin among all their business segments. Meanwhile, Plytec's significant investment over recent years in bid to expand the CME Solutions segment which boasts higher gross profit margin is evident as the group aims to bolster their bottomline.

Business segments revenue breakdown (2022)



Source: Plytec, prospectus

- Moving forward, Plytec intends to invest in expanding temporary work assets, including equipment for CME Solutions and manufacturing falsework equipment. The group plans to develop the Olak Lempit Land facility and invest in operational software for digital transformation.
- Additionally, the group aim to strengthen the DDE Solutions segment by enhancing human capital and digital systems, following its substantial growth demonstrated since FY21.

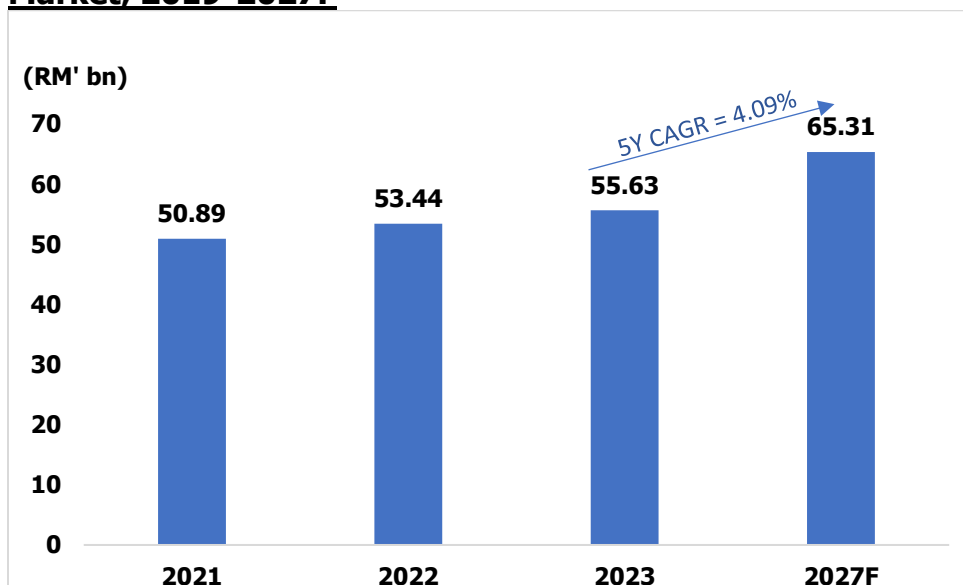
Industry Overview

- Construction is the transformation of basic materials into diverse types of buildings and infrastructures through the application of labour. The sector can be categorised into two main segments; (i) real estate construction, which focuses on both residential and non-residential structures and (ii) civil engineering, which centres on infrastructure like roads, utility structures, public facilities, and transportation. Additionally, there are specialised construction tasks known as special trade works (or mechanical and electrical works) that involves specific aspects of a project except for overall project responsibility.
- Plytec's revenue of RM158.1m in FY22 represents a 0.54% of the overall size (revenue) of Malaysia's civil engineering and specialized trade works market, which amounted to RM29.20bn in 2022.
- In 2022, Malaysia's construction sector contributed 3.4% to the nation's GDP, marking its highest contribution since 2016 when it recorded 4.9%. This underscores the importance of the construction sector towards the development of the country. While the local construction sector experienced contractions in 2020 and 2021 due to the impact of the Covid-19 pandemic and the enforcement of various lockdown measures, the aforementioned industry registered a remarkable

recovery in 2022, driven by robust activities in non-residential building construction and specialised construction projects.

- In 2022, the construction industry expanded by 5.02% YoY to reach RM53.44bn. Growth was attributed to improved private investment and was further supported by the acceleration of vital infrastructure projects such as the Rapid Transit System (RTS) Link and the East Coast Rail Link (ECRL). Moving forward, the local construction industry is forecasted to expand at a compound annual growth rate (CAGR) of 4.09% from RM55.63bn in 2023F to RM65.31bn in 2027F.
- As delineated in the amended Budget for 2023, known as "Belanjawan MADANI," the allocation for development expenditure has been set at a record-breaking RM99.00bn. This substantial allocation is anticipated to be a catalyst for growth in the domestic construction sector.

Market size and growth forecast of Malaysia Construction Market, 2019-2027F



Source: Plytec, Prospectus

- Downside risk remain prevalent as the nation's on-going property oversupply is expected to impede the growth of the country's real estate market, which is a key driver of demand for construction projects. Nevertheless, this is expected to be cushioned by the ongoing initiatives from the Malaysian government to ensure housing for all, including various affordable housing programs. It is foreseen that changing consumer preferences will compel developers to reassess the types of projects for future undertaking.
- Meanwhile, ongoing property oversupply in Malaysia is expected to hinder industry growth, with a total of 35,346 unsold residential, commercial, and industrial units in 2022, down from 44,605 in 2021. The oversupply will likely affect the launch of new property projects, reducing demand for construction services. Additionally, the Bank Negara Malaysia (BNM) has raised interest rates on several instances, with the Overnight Policy Rate (OPR) hitting 3.00% by May 2023. The move increases local borrowing costs and dampened the property market. Meanwhile, the rise of

technology and remote work led to decrease in demand for office spaces over time as companies gradually downsize their physical offices.

Investment Highlights

- **Complete solution for construction engineering.** Plytec provides services based on the principles of construction industrialisation and the adoption of digital technologies. These services include temporary work equipment and solutions (such as falsework and formwork solutions), trading and distribution of general building materials, DDE solutions with a focus on BIM services and PC Solutions that provide the design and planning of modular prefabricated components and the accessories required for on-site installation. The combination of four business segments established a comprehensive approach to construction project management.
- **Broad spectrum of equipment/products and solutions are provided by large and diverse inventory combination.** Plytec excels in diverse temporary work equipment, optimising design solutions through skilled staff and a well-equipped facility. The group maintain an ideal inventory mix in adjusting to historical turnover and sales forecasts. On trading and distribution of building materials, Plytec applies the same strategy and central procurement management for efficiency.
- **Human capital development and advanced technologies.** The group leverages onto digital smart technologies to provide a range of services and solutions related to Building Information Modeling (BIM), which encompasses virtualisation and value engineering. The PLYTEC BIM Centre offers training and advisory services pertaining to BIM and construction methods engineering. Furthermore, the group have established partnerships with government agencies and ministries, such as CIDB and the Ministry of Works, to raise awareness about BIM and the latest technologies.
- **Key managerial staff with extensive expertise.** Plytec takes pride in its team of exceptionally skilled professionals who hold extensive qualifications. Notably, the group managing director, chief operating officer and head of engineering each possess over 25 years of experiences in the construction and engineering domains. Their profound industry knowledge and decades of practical experience is key towards effectively projects execution with the latest construction methodologies and project specifications.
- **Strict compliance with industry quality standards.** The group places a strong emphasis on adhering to internationally recognized industry standards to maintain a consistent delivery of high-quality solutions to their clients. The group holds the BS EN ISO 19650-1 & 2:2018 accreditation – being the first company in Malaysia to achieve such recognition, as acknowledged in the Malaysian Book of Records. In addition, CME is accredited for its quality, environmental, and occupational health and safety management systems, conforming to ISO 9001:2015, ISO 14001:2015, and ISO 45001:2018 standards by BSI Assurance UK Limited across various scopes.

Financial Highlights

- We gather that Plytec experienced a sharp decline in its revenue during FY20 (-40.1% YoY) and FY21 (-0.9% YoY) due to government's mandatory suspension of construction activities during the pandemic coupled with scaling down of operations

in Johor and Melaka. Nevertheless, the group successfully recovered with an impressive topline growth of +40.3% YoY in FY22, thanks to the resurgence of the construction sector following the upliftment of MCO restrictions.

- Meanwhile, Plytec's core net profit demonstrated remarkable resilience in the midst of challenging times. After a moderate decline of -9.4% YoY in FY20, it was followed by strong recoveries of +50.7% YoY and +26.6% YoY to RM10.8m and RM13.7m in the subsequent two years. The primary driver behind the recovery was the increased contribution from the CME segment, which offers significantly higher gross margins in comparison to its trading of building materials segment.
- Looking ahead, we expect net profit for FY23F to improve +16.2% YoY, hitting RM15.9m, followed by +17.2% YoY in FY24F at RM18.7m. The projected growth will be driven by Plytec's strategic shift towards expanding its high-value business segments, including CME, DDE, and PC solutions. Moreover, we reckon there are additional opportunities for further profitability enhancement within the CME segment. This is primarily attributed to the rising demand for rental of formwork and falsework equipment, which typically yield higher profit margins when compared to the direct sale of equipment.
- As at 5MFY23, Plytec's revenue stood at RM62.6m with an outstanding order book of RM46.0m. This accounts for approximately 62.0% of our full-year revenue projection for FY23F.

Financial Highlights

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Revenue	113.8	112.7	158.1	176.0	183.4
EBITDA	22.1	25.9	29.6	32.9	38.9
Pre-tax Profit	10.3	14.8	18.7	21.8	25.5
Profit After Tax	7.2	10.8	13.7	15.9	18.7
Net Profit	7.2	10.8	13.7	15.9	18.6
Core Net Profit	7.2	10.8	13.7	15.9	18.6
Core EPS (sen)	1.2	1.8	2.3	2.6	3.1
Core P/E (x)	29.6	19.6	15.5	13.3	11.4
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
P/B (x)	3.4	2.9	2.5	2.1	1.8
ROE (%)	11.7	14.9	16.4	15.9	15.8
Gearing (%)	114.6	92.7	74.6	82.5	61.9

Source: Plytec Holding, Apex Securities

Valuation & Recommendation

- At an IPO offer price of RM0.35, Plytec's forward PE valuation for FY23F and FY24F are projected at 13.3x and 11.3x, based on our estimated EPS of 2.6 sen and 3.1 sen respectively. We arrived at our fair value of RM0.39 (11.4% potential upside from its IPO price) by assigning a target PE of 12.5x to its FY24F EPS. Our valuation is justified with the median of the Bursa Construction Index's 2024F forward PE of 12.5x.
- We like Plytec for its emphasis on ascending the value chain through the provision of engineering solutions, rather than functioning solely as a conventional building material trader. The construction of the new factory in Olak Lempit will be one of

the key growth opportunities for Plytec, as it allows them to meet the increasing demand while simultaneously reduces their reliance on third-party suppliers for CME equipment.

- While Plytec does not have a formal dividend policy, we noticed the group has been paring down their debt level over the years. Moving forward, we do not anticipate Plytec issuing dividends in the near-term, as the majority of their operating cash flow is expected to be directed toward expansion efforts.

Peers Comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x)		Gross DY (%)	Revenue RM 'm	Net Income RM 'm
					FY22	FY23f			
Plytec Holding Bhd	ACE	Dec	0.350	212.1	15.5	13.3	-	158.1	176.0
HSS Engineer Bhd	MAIN	Dec	0.900	446.3	47.5	30.0	-	185.9	15.1
Lion Posim Bhd	MAIN	Dec	0.430	98.0	6.7	N/A	-	838.8	0.7
Chuan Huat Resources Bhd	MAIN	Jun	0.420	70.8	1.7	N/A	-	609.0	6.8
Avg Plytec Holding Bhd					18.6	30.0	-	544.6	7.5

Source: Plytec Holding, Bloomberg, Apex Securities

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
 *Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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