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Recommendation:	**Subscribe**
IPO Price:	**RM 0.27**
Previous Target Price:	**-**
Target Price:	**RM 0.33**
Upside/Downside:	**22.2%**

Company Brief

Principally involved in cooling energy, cleaning, and facilities management

Stock Information

Board	MAIN
Sector	Industrial Product
Bursa / Bloomberg Code	KJTS
Syariah Compliant	Yes
Shares issued (m)	688.0
Market Cap (RM' m)	185.8
Free float (%)	35.0

Top 3 Shareholders	**(%)**
Lee Kok Choon	31.4
Sheldon Wee Tah Poh	31.5
Yeow Boon Siang	4.8

IPO Timetable	**Date**
Opeining of IPO application	5/1/2024
Closing of IPO application	11/1/2024
Balloting of IPO application	16/1/2024
Allotment of IPO shares	23/1/2024
Listing of IPO on Bursa Malaysia	26/1/2024

KJTS Group Berhad

Specialised building facilities provider

Summary

- **KJTS primarily engaged in cooling energy, cleaning, and facilities management (FM) with established presence in regional markets across Malaysia, Singapore, and Thailand.**
- **Core earnings are expected to improve from execution of existing unbilled EPCC projects from cooling energy systems segment of RM32.5m and ongoing recurring revenue from cleaning services contracts.**
- **KJTS is valued by pegging its FY25F core EPS of 1.7 sen to PE of 19.0x, leading to a FV of RM0.33 (22.2% potential upside from IPO price).**

Company Background

- Founded in 1984, KJTS Group Berhad (KJTS) initially focused on air-cooled split units (ACSU) installation and servicing. In 1997, KJTS landed their first EPCC contract for a district cooling system in Pantai, Kuala Lumpur. The project involved designing, building, and commissioning a central plant to serve office towers, commercial properties, and a hotel.

- In 2003, KJTS secured a five-year contract for a mixed-development project in Kuala Lumpur's Mid Valley City, including a shopping complex, office space, residential units, and a hotel. The group made significant strides in 2008, securing their first contract with a semiconductor manufacturer for integrated building systems (IBS) at Muar, Johor. Simultaneously, the group secured a contract for cooling energy management and facilities management (FM) services at the Queensbay Mall, a shopping complex in Penang.

- KJTS took another leap forward in 2012 to diversify into provision of cooling energy management services after securing JB DCS EPCC Project in December 2013. The group's geographic expansion started in 2019 with the acquisition of KJ FEM in Singapore. In 2021, KJTS Group Berhad incorporated KJTN Engineering in Thailand, commencing their business and secured their first contract within the same year.

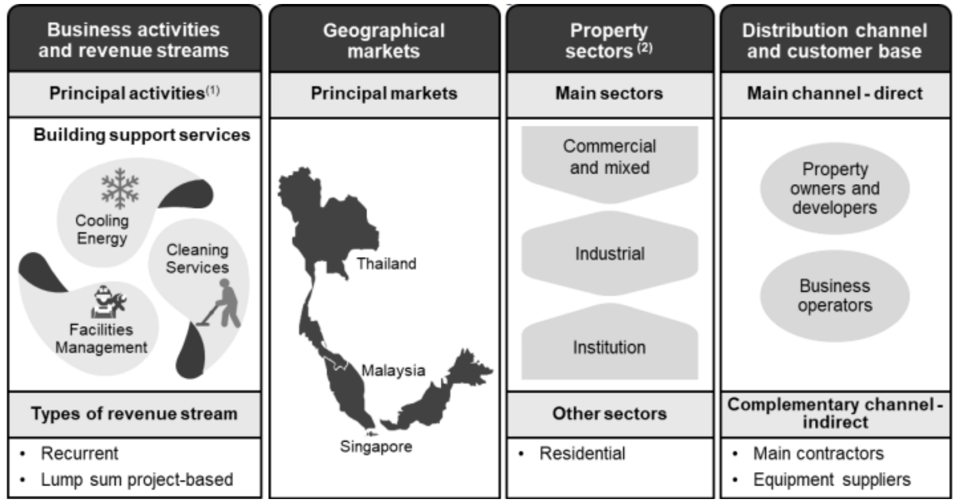
- Today, the group has evolved into a diversified building support services specialist, encompassing cooling energy, cleaning, and facility management.

IPO Utilisation

Details of utilisation	**Estimated time frame for utilisation**	**RM'm (%)**
Business Expansion		
Expansion of Cooling Energy Segment	Within 36 months	40.4 (68.7%)
Expansion of offices in Malaysia, Thailand and Singapore	Within 12 months	4.5 (7.6%)
Working capital	Within 12 months	8.1 (13.8%)
Defraying the listing expenses	Within 1 month	5.8 (9.9%)

Source: KJTS Berhad, prospectus

Business Overview

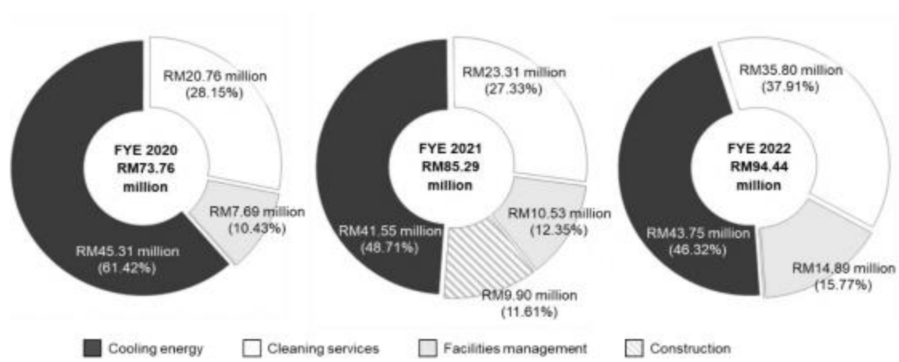


Source: KJTS Group Berhad, prospectus

- KJTS engages in the provision of building support services with a focus on cooling energy, cleaning, and facilities management services. Within the cooling energy segment, services covered include energy management as well as engineering, procurement, construction, and commissioning (EPCC) activities for new installations and system upgrades. Meanwhile, cleaning services prioritise the building cleanliness, while FM services focus on M&E repair, maintenance, and utilities. In FY21, the group also undertook a one-off building construction project.

- In FY22, cooling energy segment remained the highest contributor, constituting RM43.8m or 46.32% of the total revenue. Meanwhile, cleaning services contribution increased from RM23.3m or 27.33% in FY21 to RM35.8m, representing 37.91% of the total revenue. Over the past three years, the cooling energy segment consistently accounted for the bulk of the total revenue, ranging between 46.32% to 61.42% of total revenue. In recent years, we noticed contributions from the other two segments gathering pace.

KJTS's revenue segmentation by business activities



Source: KJTS Group Berhad, prospectus

- KJTS operates two revenue streams: recurrent revenue through provision of regular income throughout contract periods, and lump-sum project-based. Recurrent revenue which is primarily from maintenance and management services, is recognised through monthly fixed fees over contract terms ranging from 1 to 20 years. In contrast, lump-sum project-based revenue is acknowledged based on completed work proportions during the contract period. These projects encompass EPCC of cooling energy systems, building construction, and ad hoc services for cooling energy management and FM.

KJTS's revenue segmentation by recurrent and lump-sum project-based

Source: KJTS Group Berhad, prospectus

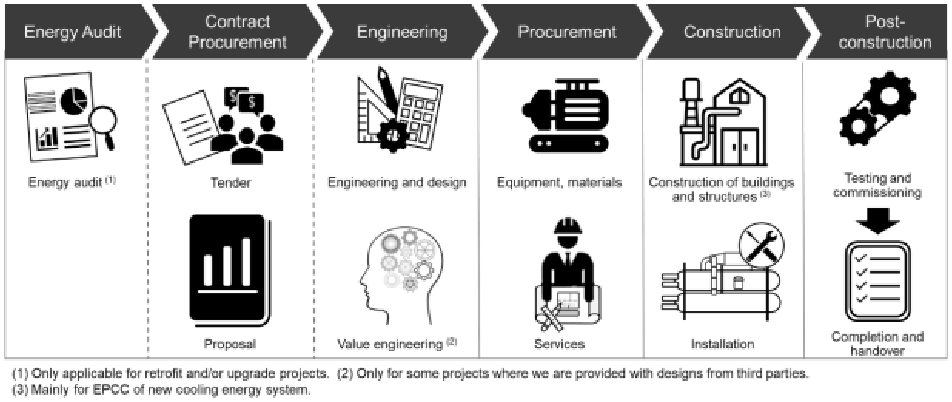
Cooling Energy Segment

- KJTS's cooling energy segment primarily focuses on provision of space cooling in large commercial and industrial buildings through centralised systems from District Cooling Systems (DCS) or chiller plants. Centralised approach offers economies of scale, resulting in lower electricity usage and operational costs. Cooling energy segment involves two key activities: cooling energy management and EPCC of cooling energy systems.

- Cooling energy management involves supplying chilled water for space cooling and providing operation and maintenance (O&M) services. Responsibilities cover managing DCS or chiller plants, including tasks such as designing, constructing, retrofitting, or upgrading. The group ensures a steady supply of chilled water through energy audits, O&M, monitoring, and reporting. Revenue contributions from cooling energy management to the total cooling energy segment are RM24.3m, RM25.1m, and RM30.0m, accounting to 32.9%, 29.44%, and 31.78% for FY20, FY21, and FY22, respectively.

- The group specialises in EPCC of cooling energy systems, including DCS and chiller plants. Services encompass constructing new systems or upgrading existing ones, acting as a sub-contractor for new projects, and working directly with property owners for retrofits or upgrades. KJTS oversees the entire EPCC project, from design and procurement to construction, testing, and commissioning, with installation works carried out by third-party subcontractors. In-house engineers or third-party consultants collaborate on design and specification. Revenue from EPCC of new cooling energy systems contributed 14.94%, 16.81%, and 13.51% to total revenue for FY20, FY21, and FY22, respectively.

General process flow for the EPCC of DCS and chiller plants

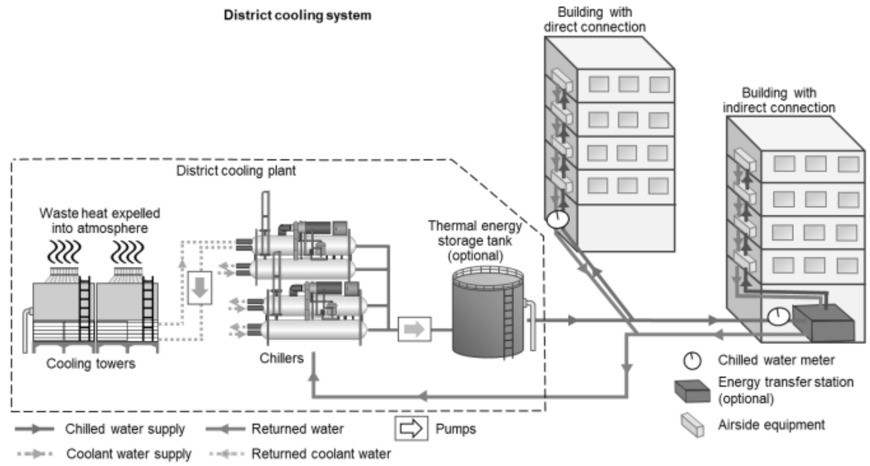


Source: KJTS Group Berhad, prospectus

District Cooling system (DCS)

Source: KJTS Group Berhad, prospectus

General layout of a DCS



Source: KJTS Group Berhad, prospectus

Cleaning services

- KJTS's cleaning services are dedicated in ensuring cleanliness and hygiene within various commercial properties and surroundings. Specialised cleaning extends to diverse areas like cleanrooms, theme park furniture, event halls, and landscaping.

- Cleanroom cleaning services specifically target manufacturing premises, maintaining controlled spaces with low airborne particulate levels. These services involve surface cleaning of machines, equipment, furniture, and fixtures within cleanrooms. Personnel undergo specialised training in good manufacturing practices, strictly adhere to guidelines, and utilize appropriate equipment. This comprehensive service caters specifically to manufacturers of medical devices, pharmaceutical products, and biological research tools.

Personnel in cleanroom attire

Source: KJTS Group Berhad, prospectus

- Meanwhile, high-level cleaning of theme park rides and attractions includes both indoor and outdoor occurs daily after operating hours. Tasks include addressing stains, algae, and watermarks, sanitizing high-contact surfaces like seats, ride barriers, and handrails, as well as cleaning floors and exteriors. Additionally, extensive cleaning takes place during scheduled shutdowns and maintenance of theme park rides and attractions.

- As of the last practicable date (LPD), KJTS possesses one robotic vacuum cleaner utilized for floor cleaning in Singapore. The robotic vacuum is stationed at a designated customer premise and is programmed to autonomously clean a specific floor area.

Robotic vacuum cleaner

Source: KJTS Group Berhad, prospectus

- Revenue from cleaning services was RM20.7m (28.15%), RM23.3m (27.33%), and RM35.8m (37.91%) for FY20, FY21, and FY22, respectively.

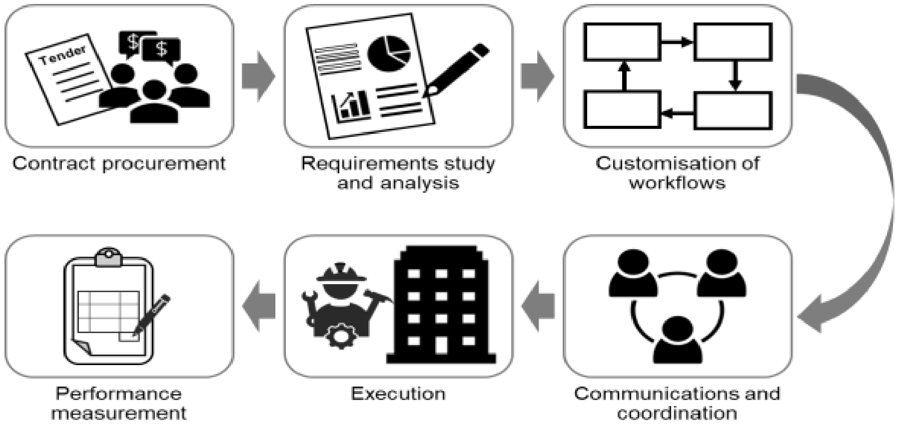
Facilities Management services

- The group's FM services are catered towards repairing and maintaining machinery and equipment, covering various areas such as M&E, process utility, F&B outlet equipment, and retail outlet equipment. Work scopes encompass a spectrum of systems, like lighting, elevators, plumbing, refrigeration, and others. Services are required with aim to uphold the operational effectiveness and dependability of equipment across diverse settings, including food and beverage outlets and retail establishments.

- The group provides regular preventive, emergency corrective, and major maintenance services for mechanical, electrical, and process utility (MEP) machines and systems. FM services are categorized into Static FM, which focuses on scheduled maintenance. Static FM service involves having personnel stationed at customers' premises for the contract's duration, providing repair and maintenance services. Mobile FM, addressing ad hoc maintenance needs.

- FM services segment contributed RM 7.7m, RM 10.5m, and RM 14.9m, accounting for 10.43%, 12.35%, and 15.77% of the total revenue for FY20, FY21, and FY22, respectively. This consistent growth demonstrates the positive overall trajectory of this segment.

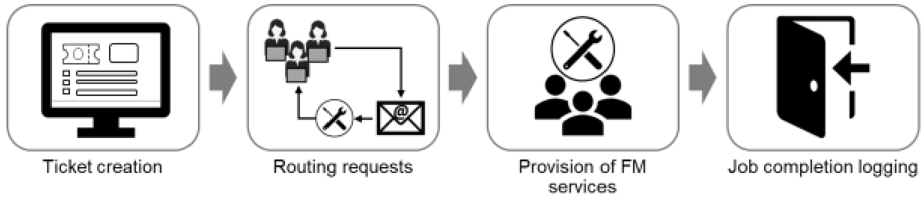
General process flow for FM services



Source: KJTS Group Berhad, prospectus

- Mobile FM service within the group, refers to services where personnel are not permanently stationed at customers' premises. Instead, they visit as scheduled or whenever necessary to conduct repair and maintenance services.

Process flow for mobile FM services



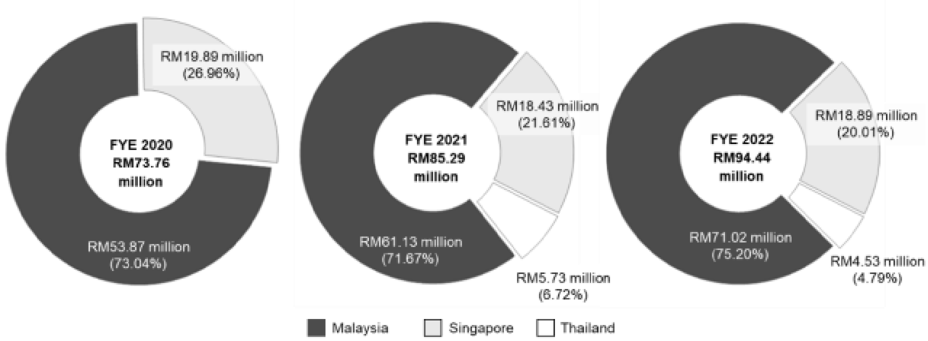
Source: KJTS Group Berhad, prospectus

Building construction

- In FY21, the group engaged as a sub-contractor in the construction of specific sections of an international school. Acting in this capacity, the group's responsibilities included procurement and construction based on designs provided by the main contractor. It is essential to note that this was a singular project, and the group does not intend to pursue standalone building construction, moving forward. The strategic approach behind this endeavour was to cross-sell cooling energy management, cleaning services, and/or FM services to the operator of the international school.

Geographical markets

- KJTS's primary markets are Malaysia, Singapore, and Thailand, which accounted for all of the group's revenue historically:



Source: KJTS Group Berhad, prospectus

- Over the past years, Malaysia represented the largest overall market for the group, while Singapore stood out as the largest foreign market. Business operations in Thailand were initiated, and revenue from this country began to be recognized in FY21.

Industry Overview

- Building support services industry encompasses a broad spectrum of operational, managerial, and maintenance activities aimed at ensuring functionality, comfort, safety, and aesthetic appeal of the built environment, with a particular emphasis on various types of buildings. These services span diverse areas including cleaning, mechanical and electrical systems, plumbing, landscaping, and facility security. Building support services cater to the residential, commercial, and industrial sectors, with sustained growth present opportunities for industry operators.

- In 2022, KJTS Group Berhad captured less than 1.0% market share of the Malaysian construction of cooling energy systems industry, based on their revenue of RM13.7m against the total industry revenue of RM2.66bn in 2022. Meanwhile, for the Malaysian cleaning and FM services industry, the group captured a 1.0% market share based on their total revenue of RM31.8m against the total industry revenue of RM3.22bn in 2022.

- According to Vital Factor Consulting, Malaysia's building and landscaping services grown steadily at a 1.5% CAGR between 2017 and 2021. However, the industry remains challenged by factors such as property overhang, low take-up rates for new properties, tight loan provision, high-interest rates, and economic slowdown.

- The increasing inflow of foreign direct investments (FDI) into Malaysia and Singapore is expected to fuel demand for building support services industry, as multinational companies set up new commercial and industrial facilities. Between 2020 and 2021, both Malaysia and Singapore experienced significant foreign direct investment (FDI) inflows. In 2022, Malaysia's FDI reached a record high of RM879.1bn, growing at a CAGR of 13.3%. Similarly, Singapore's FDI climbed to SGD2.66trn, representing a CAGR of 13.7%.

- The National Energy Transition Roadmap (NETR) will be a key catalyst for the growth of the services industry focusing on cooling energy services. The government initiative that introduced the Low Carbon Nation Aspiration 2040 outlining targets such as energy efficiency savings of 22% for the industrial and commercial sectors, and 15% for the residential sector by 2040. This will benefit operators in the building support services industry focusing on cooling energy services.

Investment Highlights

- **Complete cooling energy system lifecycle supported by in-house engineering capability.** KJTS's in-house engineering capability is essential for the entire life cycle of cooling energy systems, covering energy audits, conceptualisation, engineering, design, construction, installation, and ongoing operations and maintenance. The self-sufficiency is a strategic foundation for ensuring business and financial sustainability and supports the group's expansion efforts.

- **Established track records across Malaysia, Singapore, and Thailand**. With a business history spanning 39 years, the group initiated the cooling energy segment in 1984 through KJ Engineering. Expansion efforts included the acquisition of KJ FEM in 2019, leading to the expansion of cleaning services into Singapore. Furthermore in 2021, the cooling energy segment expanded its presence in Thailand through KJTN Engineering.

- **Fixed fees on operations and maintenance throughout the contract period.** KJTS offers fixed fees for operations and maintenance spanning a contract period of 15 to 20 years, setting it apart from independent building maintenance. Unlike scenarios where costs fluctuate due to staff payments and spare parts in independent maintenance, the group's comprehensive approach eliminates uncertainties. Taking full responsibility, KJTS ensures a fixed fee covers operations and maintenance, providing clients with budget certainty over a contract period of 15 to 20 years. Moreover, the group's commitment to incorporating technological advancements further enhances the long-term efficiency and performance of the client's building systems.

- **Experienced team of building support services in the industry supported by executive directors and key senior management**. KJTS is guided by an experienced management team led by Managing Director Lee Kok Choon and Executive Director Sheldon Wee Tah Poh, both of whom have extensive backgrounds in the building support services industry. Both are the key senior management, including the Chief Operating Officer, Chief Financial Officer, Head of the Project Department, and Head of the Engineering Department, each contributing approximately 12 to 23 years of experience in their respective industries.

- **Experienced engineers with meticulous engineering analysis, successfully redesigned the system to minimise capex and generate substantial annual operational cost savings for the client** The group's engineers played a crucial role in proposing and implementing optimal changes in reduction of capex and achieving an approximate one million in annual operational cost savings. The success of this endeavour rested on the team's proficiency in calculating and demonstrating the benefits, leading to the client's adoption of the new system. Moreover, the group's command center ensures thorough monitoring and data collection, facilitating continuous improvement. This underscores the group's reliance on engineering expertise, experience, and efficient data utilisation for ongoing enhancements in efficiency.

Financial Highlights

- KJTS delivered consistent strong core net profit in FY21 and FY22, growing 9.6% yoy to RM5.9m and 16.2% yoy to RM6.9m, respectively. Building support services, led by the cooling energy segment, fuelled the said growth. Net margins, however, dipped to 6.9% in FY21 due to lower other income and higher administrative expenses, but recovered to 7.3% in FY22, boosted by improved gross profit from the cooling energy segment.

- Moving forward, we project the core net profit to climb 19.2% yoy to RM8.2m in FY23F, driven by execution of unbilled EPCC projects in cooling energy systems, and ongoing recurring revenue from cleaning services contracts. Already, revenue from cleaning services contracts hit RM28.1m in 7MFY23, representing 1.5x the revenue recorded from the same period in prior year. The strong performance underscores further improvement is in store for FY23.

- Looking ahead to FY24F and FY25F, we anticipate KJTS core net profit hitting RM9.9m (+21.5% yoy) and RM11.4m (+15.0% yoy), respectively. Growth is expected to be propelled by three key factors: (i) expansion of the cooling energy segment, (ii) ongoing efforts to secure new contracts across all business segments to capture market demand, and (iii) introduction of The National Energy Transition Roadmap (NETR), which is expected to fuel market demand for cooling energy services.

Financial Highlights

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
Revenue	**85.3**	**94.4**	**115.7**	**126.7**	**147.0**
EBITDA	**8.8**	**10.2**	**10.4**	**12.7**	**14.7**
Pre-tax Profit	**7.5**	**8.7**	**9.3**	**11.4**	**13.2**
Profit After Tax	**6.0**	**7.2**	**7.6**	**9.4**	**10.8**
Net Profit	**5.9**	**6.9**	**8.2**	**9.9**	**11.4**
Core Net Profit	**5.9**	**6.9**	**8.2**	**9.9**	**11.4**
Core EPS (sen)	**0.9**	**1.0**	**1.2**	**1.4**	**1.7**
Core P/E (x)	**31.4**	**27.1**	**22.7**	**18.7**	**16.2**
Dividend Yield (%)	**0.0**	**0.0**	**0.0**	**1.1**	**1.2**
P/B (x)	**6.5**	**5.2**	**1.7**	**1.6**	**1.5**
ROE (%)	**20.6**	**19.0**	**7.5**	**8.5**	**9.1**
Gearing (%)	**15.0**	**13.1**	**4.6**	**4.3**	**4.0**

Source: KJTS Group Berhad, Apex Securities

Valuation & Recommendation

- At an IPO offer price of RM0.27, KJTS's forward PE valuation for FY24F and FY25F is projected at 18.7x and 16.2x, based on our estimated FY24F and FY25F EPS of 1.4 sen and 1.7 sen respectively. We arrived at our fair value of RM0.33 (22.2% potential upside from its IPO price) by assigning a target PE of 20.0x to the group's FY25F EPS.

- The assigned target PE represents a slight discount to selected peers that offer building management services such as AWC, KAB, WIDAD and GFM that are trading at an average forward PE of 22.7x.

- We like KJTS for their comprehensive building solutions (EPCC, cooling, cleaning, facilities management) that allows the group to cross-sell services across a diverse property portfolio, ensuring their revenue stability and business continuity even amidst sector downturns. Ongoing and continuous efforts in securing new contracts, coupled with improving the recurring income business model will remain a key revenue growth driver. Furthermore, expansion of offices in Malaysia, Singapore, and Thailand will be step up to unleash new market opportunities and fostering business growth.

- We forecast that dividend yield will increase from 1.1% in FY24F to 1.3% in FY25F, supported by the group's dividend policy of a minimum 20% payout ratio.

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			
KJTS Group Berhad Bhd	**ACE**	**Dec**	**0.270**	**185.8**	**19.9**	**14.2**	**-**	**123.0**	**9.3**
AWC Bhd	MAIN	Jun	0.655	218.0	9.1	29.9	0.8	381.3	7.3
Kinergy Advancement Bhd	MAIN	Dec	0.400	778.0	268.3	29.1	-	179.5	26.7
Widad Group Bhd	ACE	Dec	0.490	1517.0	-	-	-	182.3	-25.0
GFM Services Bhd	ACE	Dec	0.295	203.7	11.1	9.1	1.4	142.1	22.5
Avg ex-KJTS Group Berhad Bhd					**96.2**	**22.7**	**1.1**	**221.3**	**7.9**

Source: KJTS Group Berhad, 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.

DISCLAIMER