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<b>Recommendation:</b>	<b>Subscribe</b>
<b>IPO Price:</b>	<b>RM 0.28</b>
<b>Previous Target Price:</b>	-
<b>Target Price:</b>	<b>RM 0.36</b>
<b>Upside/Downside:</b>	<b>28.6%</b>

**Company Brief**

Principally involved in provision of electrical engineering services

**Stock Information**

Board	ACE
Sector	Industrial Products & Services
Bursa / Bloomberg Code	0296 / HEGROUP MK
Syariah Compliant	No
Shares issued (m)	440.0
Market Cap (RM' m)	123.2
Free float (%)	19.8

**Top 3 Shareholders (%)**

Hexatech Energy Consolidated Sdn Bhd	24.6
Haw Chee Seng	20.4
Eng Choon Leong	14.8

**IPO Timetable**

	<b>Date</b>
Opeining of IPO application	12/1/2024
Closing of IPO application	18/1/2024
Balloting of IPO application	22/1/2024
Allotment of IPO shares	29/1/2024
Listing of IPO on Bursa Malaysia	30/1/2024

## HE Group Berhad

### Electrifying power towards progression

#### Summary

- **HE Group is an electrical engineering service provider focusing on power distribution systems to end-users across various industries, commanding 2.9% market share in the electrical installation industry in 2022.**
- **We project growth in core earnings to be supported by (i) recognition of balanced outstanding orderbook of RM211.9m, (ii) orderbook replenishment in subsequent years at approximately RM200-300m per annum, and (iii) expansions to northern and southern regions following the setting up of Kedah and Johor physical offices.**
- **HE Group is valued by pegging FY25F core EPS of 3.3 sen to PE of 11.0x, leading to a FV of RM0.36 (28.6% potential upside from IPO price).**

#### Company Background

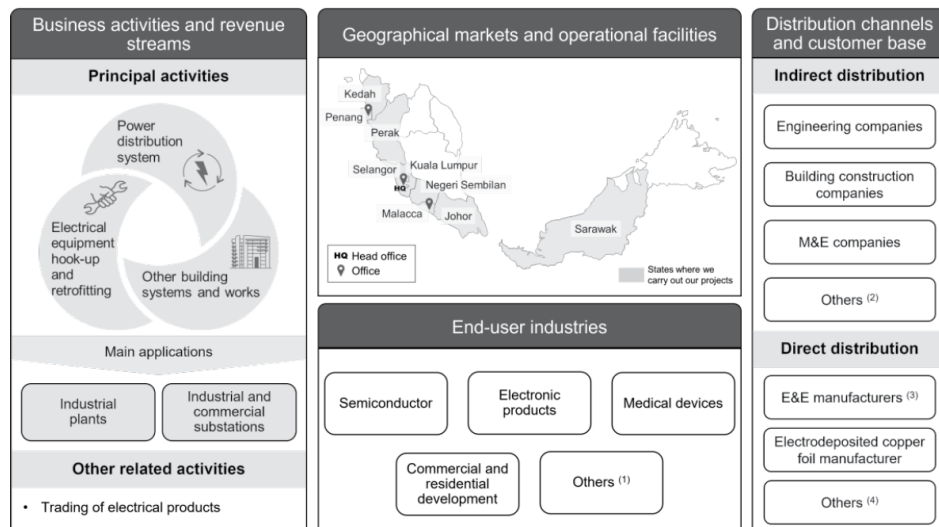
- HE Group Berhad's history can be traced back to 1995 following the incorporation of Hexatech Engineering that engages in supply and installation of electrical and electronic control components, mainly low voltage (LV) switchboard. Over the course of 10 years since incorporation, Hexatech Engineering was mainly involved in supply and installation of power distribution systems including LV switchboards for commercial developments.
- In 2007, the group was registered as a Class A electrical contractor with Energy Commission for electrical works with no tender limitation on the size or value of the project. A year later, the group obtained the CIDB Grade 7 (G7) contractor for M&E engineering works. Over the years, HE Group has consistently scaled up by securing multiple projects including the single largest contract worth RM240.0m which involved the design, supply, installation, testing and commissioning of a power distribution system for a semiconductor manufacturing plant in Kulim, Kedah.
- To-date, HE Group is regarded as an electrical engineering service provider involved in the design, supply, installation, testing and commissioning of HV, MV, LV and ELV power distribution systems, hook-up and retrofitting of electrical equipment focusing on power distribution systems for end user across various industries.

#### IPO Utilisation

<b>Details of utilisation</b>	<b>Estimated time frame for utilisation</b>	<b>RM 'm (%)</b>
Business expansion <ul style="list-style-type: none"> <li>• Hiring of additional engineers and other personnel</li> <li>• Purchase and upgrade of equipment and software</li> <li>• Setting up of new offices</li> <li>• Marketing, advertising and business development expenses</li> </ul>	Within 30 months	RM3.7m (15.0%)
Capital expenditure <ul style="list-style-type: none"> <li>• Purchase of trucks</li> <li>• Purchase of construction equipment</li> </ul>	Within 24 months	RM1.8m (7.2%)
Working capital <ul style="list-style-type: none"> <li>• Performance bonds and warranty bonds for projects</li> <li>• Payment to suppliers and/or subcontractors</li> <li>• General working capital</li> </ul>	Within 36 months	RM15.1m (62.2%)
Estimated listing expenses	Within 1 month	RM3.8m (15.6%)

Source: HE Group, prospectus

## Business Overview

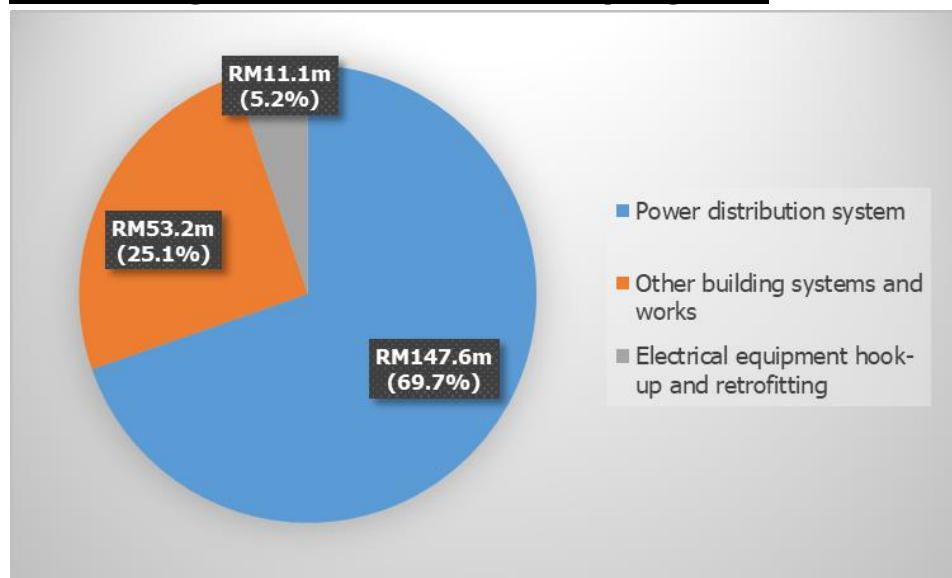


Source: HE Group, prospectus

- HE Group involved in four major businesses namely (i) power distribution systems, (ii) other building system works, (iii) electrical equipment hook-up and retrofitting and (iv) trading of electrical products.
- The group core business in the power distribution systems constituted between 58-71% of total revenue over the past 3 years. The group specialises in provision of power distribution systems for end-user premises which include a network of electrical components and equipment designed to distribute and control the flow of electricity from the main power source, typically a substation, to various electrical loads within buildings or facilities. The process involves transforming high-voltage power from utility companies into lower-voltage power suitable for use by electrical machinery, equipment, and devices.
- Power distribution systems encompass key elements such as interconnections to the power grid, substations, transformers, switchgear, switchboards, distribution boards, motor control centre panels, process control panels, capacitor banks, AC/DC systems, electrical wiring, busway systems, switches, and outlets. These components are essential for the proper functioning of electrical machinery and devices. Also, power distribution systems incorporate protection and current moderating devices to ensure safety and reliability of the electrical infrastructure.
- HE Group diversified into other building systems and works following their maiden project secured which involved the construction of a 3-storey 132kV main intake substation for an electronic products manufacturing plant in Batu Kawan, Penang in 2021. Over the past two years, the aforementioned segment accounted to 15-29% of total revenue.
- Other building systems and works segment typically complements the group core business whereby services offered include mechanical systems, control and instrumentation systems, as well as civil, structural, and architectural works. Architectural works involve the design aspects of the project, considering factors like building or facility function, layout, space utilization, floor plan, and aesthetics. These additional building systems and works are typically included in the overall contract scope, with the company managing project aspects such as design, supply, installation, testing, and commissioning.

- Meanwhile, electrical equipment hook-up and retrofitting segment makes up to 10-19% of total revenue over the years. The aforementioned segment which also complements the group core business relates to the process of connecting plant and machinery, and various electrical equipment and components to a power source to form a functional operation system, and providing upgrades and modifications of electrical equipment.
- Lastly, the trading of electrical products segment makes up to less than 4% of total revenue over the past two years. Example of products distributed include power cables, metering panels, copper busbars, power conditioning systems such as capacitor banks, reactors and UPS, as well as other electrical products.
- As of last practicable date (LPD), HE Group’s outstanding orderbook across three major segments stood at RM211.9m (majority from the power distribution system business segment). This is expected to sustain earnings visibility till end 2024.

**Outstanding orderbook breakdown by segment**



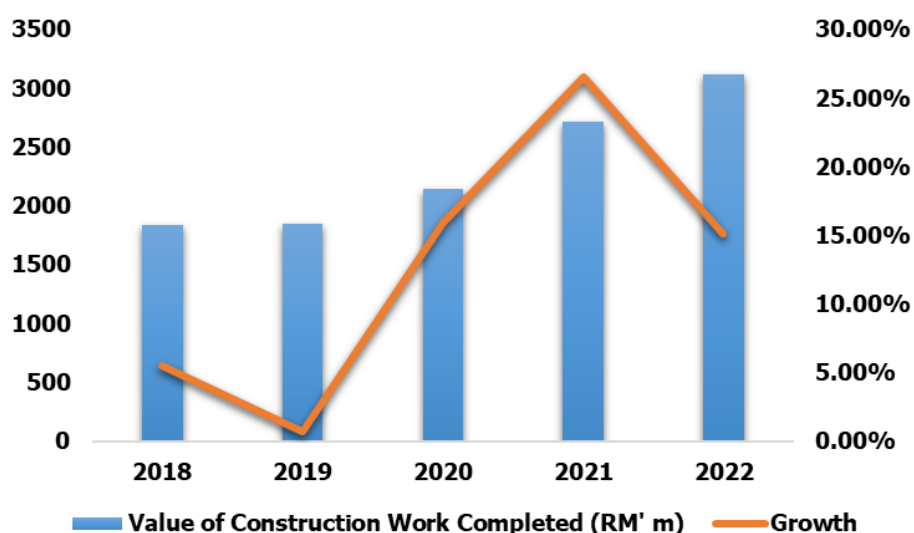
Source: HE Group, Apex Securities

- Looking ahead, HE Group aims to expand their services and transform into an integrated mechanical, electrical and process utility (MEP) engineering service provider. Mechanical and process utility systems are often combined with electrical systems to form integrated systems in various applications such as industrial manufacturing processes and building services.
- HE Group also aims to expand their market reach into other states in Malaysia through setting up physical offices in Kulim, Kedah and Johor Bahru, Johor. The move is expected to improve customer and technical support services promptly from closer proximity and improve effectiveness of sales and marketing.
- Apart from focusing onto industrial plants that mainly covers the semiconductor, medical device and electronic product industries, HE Group aims to expand end-user industry coverage to include data centres. Data centres requires reliable and stable power for the efficient operation.

## Industry Overview

- Power is generated at various locations, transmitted and distributed via a national or state-wide power grid in the Malaysia power generation system. Power industry comprises power generation and the power grid comprising transmission and distribution systems across the country, states and territories. Across Peninsular Malaysia, the power grid is under the purview of Tenaga Nasional Berhad (TNB), while Sarawak and Sabah are under Sarawak Energy Berhad (SEB) and Sabah Electricity Sdn Bhd (SESB) respectively. SESB is majority-owned by TNB together with the State Government of Sabah. The Suruhanjaya Tenaga (Energy Commission) of Malaysia (ST) is the regulator for the energy sector, including the power industry in Peninsular Malaysia and Sabah.
- Power distribution systems for end-user premises are enabled by electrical installations, which is a part of the larger specialised construction industry that focuses on the construction of parts of buildings and civil engineering works without the responsibility of the entire project.
- HE Group is involved in power distribution systems focusing on industrial plants. The construction of industrial buildings, among others, is categorised under non-residential buildings. As such, growth in the construction of industrial buildings will provide opportunities for operators involved in the development of power distribution systems for industrial facilities. Value of construction work completed for the non-residential building segment experienced a two-year CAGR of 9.4% between 2020 and 2022, and grew by 4.8% for the first 9 months of 2023 compared to the corresponding period in 2022.

## Construction Work Value Completed (Electrical Installation)



Source: Prospectus, DOSM

- According to an independent market research report by Vital Factor Consulting, the value of construction work completed for electrical installation grew at a four-year CAGR of 14.2% between 2018 and 2022, partially attributed to the implementation of small-scale projects. For 9M23, the value of construction work completed for electrical installation grew by 18.4% yoy against the corresponding period in 2022.

- The New Investment Policy (NIP) introduced by Malaysia's Ministry of Investment, Trade, and Industry (MITI) in October 2022 aims to maintain Malaysia's competitiveness for high-value investments and foster sustainable economic growth. Consequently, the New Industrial Master Plan (NIMP) 2030, launched in 2023, focuses on industrial development, specifically in the electronics and medical device sectors. The plan targets investments of up to RM95.0bn and anticipates CAGR of 6.5% in Malaysia's manufacturing value-added between 2022 and 2030. This initiative is expected to stimulate investment growth, creating opportunities in areas such as the development of power distribution systems for end-user premises.
- Based on HE Group's total revenue of RM107.6m in 2022 whereby RM90.0m derived from works in relation to electrical installation works comprising power distribution systems and electrical equipment hook-ups, the group commands 2.9% market share in the electrical installation industry.

### Investment Highlights

- **More than a decade established track record as an electrical engineering service provider.** Ever since obtaining a Class A electrical contractor with ST in 2007 and as a Grade 7 (G7) M&E contractor with CIDB in 2008, HE Group has established strong track record focusing on the development of power distribution systems across various end-user premises such as industrial plants, industrial and commercial substations, as well as commercial and residential buildings. As a testament to their strong expertise, the group clinched the largest contract to date directly from the industrial plant owner valued at approximately RM240.0m.
- **Provision of power distribution systems for end-user premises to address wide market coverage.** The group track record and portfolio of services covering HV, MV, LV and ELV power distribution systems at end-user premises enables the group to service a wide market coverage in bid to sustain as well as expend their business. The group service coverage includes end-user premises' substations as well as buildings, facilities and other built-environment.
- **Focusing onto high growth end-user industries.** Over the past 3 financial years, the group mainly served semiconductor, medical device and electronic product industries which cumulatively accounted for 21.9% (RM6.9m), 80.9% (RM81.3m), 93.5% (RM100.5m) and 83.9% (RM116.2m) of total revenue for FY20, FY21, FY22 and 8MFY23 respectively. These industries require a high-quality power supply to run high-value, sensitive, critical and often high-speed machinery and equipment, which well positioned the group to further secure power distribution projects from these types of industrial operations.
- **Indirect and direct distribution channels to maximise sales and marketing coverage.** HE Group's indirect customers mainly include engineering, building construction and M&E companies. Through indirect distribution channel, this allows the group to enlarge sales and marketing coverage to potential customers via intermediary business network, as well as participate in projects where the group is underrepresented. Meanwhile, the direct distribution channel allows the group to work closely with the ultimate decision maker to meet their technical specifications and requirements, as well as business objectives.

## Financial Highlights

- HE Group's demonstrated sturdy improved track record with core net profit of RM6.2m in FY22 (2Y CAGR +90.61%). The said improvement was primarily attributed to the commencement of new projects secured, coupled with higher contribution from the provision of power distribution systems services.
- Moving forward, we anticipate further improvement in core net profit, projected to record 79.64% yoy increase at RM11.1m in FY23F. Growth will be attributed to the part recognition of the balanced outstanding orderbook of RM211.9m. Already, 8MFY23 net profit accounted to 65.5% of our forecasted figure.
- Going into FY24F and FY25F, we expect HE Group's bottomline to demonstrate sequential improvement to RM13.3m and RM14.3m respectively. Growth is expected to be supported by (i) recognition of balanced outstanding orderbook, (ii) orderbook replenishment in subsequent years at approximately RM200-300m per annum, and (iii) expansions to northern and southern regions following the setting up of Kedah and Johor physical offices.

<b>FYE Dec (RM m)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23F</b>	<b>FY24F</b>	<b>FY25F</b>
<b>Revenue</b>	<b>100.5</b>	<b>107.6</b>	<b>202.4</b>	<b>260.3</b>	<b>280.0</b>
<b>EBITDA</b>	<b>6.2</b>	<b>9.0</b>	<b>16.2</b>	<b>20.8</b>	<b>22.4</b>
<b>Pre-tax Profit</b>	<b>5.5</b>	<b>8.0</b>	<b>15.2</b>	<b>18.2</b>	<b>19.6</b>
<b>Profit After Tax</b>	<b>4.1</b>	<b>6.2</b>	<b>11.1</b>	<b>13.3</b>	<b>14.3</b>
<b>Net Profit</b>	<b>4.1</b>	<b>6.2</b>	<b>11.1</b>	<b>13.3</b>	<b>14.3</b>
<b>Core Net Profit</b>	<b>4.1</b>	<b>6.2</b>	<b>11.1</b>	<b>13.3</b>	<b>14.3</b>
<b>Core EPS (sen)</b>	<b>0.9</b>	<b>1.4</b>	<b>2.5</b>	<b>3.0</b>	<b>3.3</b>
<b>Core P/E (x)</b>	<b>29.8</b>	<b>20.0</b>	<b>11.1</b>	<b>9.3</b>	<b>8.6</b>
<b>Dividend Yield (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>P/B (x)</b>	<b>9.7</b>	<b>7.8</b>	<b>4.6</b>	<b>2.2</b>	<b>1.9</b>
<b>ROE (%)</b>	<b>32.5</b>	<b>38.8</b>	<b>41.1</b>	<b>23.3</b>	<b>22.3</b>
<b>Gearing (%)</b>	<b>53.1</b>	<b>64.0</b>	<b>11.4</b>	<b>5.4</b>	<b>5.3</b>

Source: HE Group, Apex Securities

## Valuation & Recommendation

- At an IPO offer price of RM0.28, HE Group's forward PE valuation for FY24F and FY25F are projected at 9.3x and 8.6x, based on our estimated EPS of 3.0 sen and 3.3 sen respectively. We arrived at our fair value of RM0.36 (28.6% potential upside from its IPO price) by pegging a target PE of 19.0x to FY25F EPS. Our valuation is justified by applying a discount to selected peers' forward P/E of 22.0x, owing to the smaller market capitalisation.
- We like HE Group for its established position in the electrical engineering service market, commanding 2.9% market share in the electrical installation industry. Growth is expected to emanate from the replication of success in existing markets into other states in Malaysia, tapping into existing market expansions as well as penetration into other industry, namely data centers.
- While HE Group does not adopt a formal dividend policy, we expect the group to maintain a lean balance sheet with single digit gearing level post-IPO exercise.

## 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	FY23			
HE Group Berhad	ACE	Dec	0.500	220.0	35.7	19.9	-	202.4	11.1
Knergy Advancement Berhad	MAIN	Dec	0.420	816.9	288.6	30.5	-	183.1	26.8
Cabnet Holdings Berhad	ACE	Dec	0.280	50.1	41.2	15.1	-	118.5	3.3
MN Holdings Berhad	ACE	Jun	0.615	251.6	26.7	20.3	-	191.1	12.4
<b>Avg ex-HE Group Bhd</b>					<b>118.8</b>	<b>22.0</b>	<b>-</b>	<b>164.2</b>	<b>14.2</b>

*Peers FY23 P/E based on trailing-12-months data*

*Source: HE Group, Bloomberg, Apex Securities*

## Investment Risk

- **Ability to secure new projects.** The group's business continuity relies heavily onto the ability to replenish orderbook to ensure business sustainability.
- **Fluctuation in costs.** High degree in costs fluctuation such as material, subcontractor and labour costs may impact margins as projects are typically based on fixed lump sum contracts.
- **Delay in project completion.** Any delay in project completion may result in the risk of claims relating to liquidated and ascertained damages (LAD)

**APEX SECURITIES BERHAD – CONTACT LIST**

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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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