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Recommendation:	Subscribe
IPO Price:	RM 0.39
Previous Target Price:	-
Target Price:	RM 0.50
Upside/Downside:	28.2%

Company Brief

Manufacturing and distribution of wires and cables solutions

Stock Information

Board	ACE Market
Sector	INDUSTRIAL
Bursa / Bloomberg Code	0295 / MTEC MK
Syariah Compliant	No
Shares issued (m)	1,020.0
Market Cap (RM' m)	397.8
Free float (%)	28.0

Top 3 Shareholders (%)

MTPC Sdn Bhd	55.0
Dato' Lau Kim San	17.0

IPO Timetable

	Date
Opeining of IPO application	28/12/2023
Closing of IPO application	18/1/2024
Balloting of IPO application	22/1/2024
Allotment of IPO shares	26/1/2024
Listing of IPO on Bursa Malaysia	29/1/2024

Master Tec Group Berhad

Riding on higher demand for electricity

Summary

- **Mastec Tec Group Berhad (MTG) is an established manufacturer of wires and cables for about 17 years with reputable brand name and proven track record.**
- **Earnings are expected to improve on growing demand wires and cables due to urbanisation which results in development of property and mega infrastructure projects as well as its cost plus pricing strategy that protects its profit margin regardless of fluctuations in prices of its main raw material, copper and aluminium.**
- **Master Tec Group is valued by pegging its FY24F core EPS of 2.9 sen to PE of 17.0x, leading to a FV of RM0.50 (28.2% potential upside from its IPO price).**

Group Overview

- Master Tec Group Berhad (MTG) is a Malaysian-based group that specializes in the manufacturing and distribution of wires and cables solutions. The group's products are used in various industries, including power utilities, solar PV, industrial parks, commercial buildings, and public transportation.
- MTG operates three manufacturing plants in Alor Gajah, Melaka, which are equipped with modern machineries and equipment to produce high-quality products. The group has a strong focus on research and development to improve products and services.
- MTG also has a well-established distribution network in Malaysia and export their products to several countries, including Brunei, Singapore, and Thailand. The group aims to further grow their position as a leading wires and cables solutions provider in the markets it operates in by venturing into the manufacturing of MV power cables and expanding its market coverage through export sales.

Group Background

- MTG was incorporated in Malaysia on 28 June 2019 as a private limited group under the name Master Tec Wire and Cable Sdn Bhd. It was subsequently converted into a public limited group on 28 December 2021 and changed its name to Master Tec Group Berhad.
- The group's core business is in the manufacturing and trading of wires and cables, including low voltage power cables, control cables, instrumentation cables, and fire-resistant cables.

Business Overview

- MTG is principally involved in the manufacturing and distribution of a wide range of low voltage (LV) power cables, control and instrumentation cables, and other related products for our local and overseas customers. The group operates two business divisions, which are Manufacturing and Trading.
- The group has an established track record of supplying its products to various industries, including construction, infrastructure, oil and gas, and transportation. MTG has also established a network of distributors and agents in Malaysia and overseas markets, including Brunei, Singapore, and Thailand.

Business Model

i. Manufacturing and distribution of wires and cables such as LV power cables, and control and instrumentation cables.



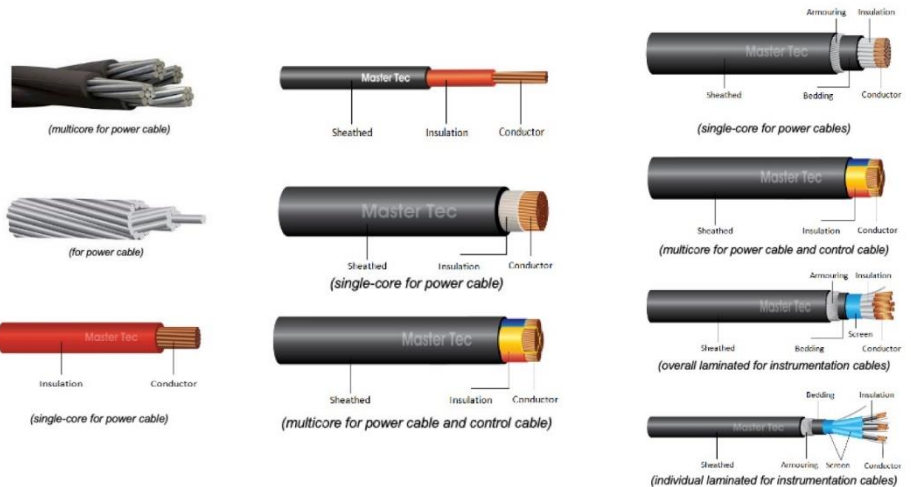
ii. Trading of other cables.

Eg. Medium voltage (MV) power cables, fibre optic cables, solar direct current (DC) power cables, others.



Source: MTG, prospectus

Products



Source: MTG, prospectus

- MTG manufactures two main products, namely Copper-cored and Aluminium cored wires and cables, which are sold to customers in various industries such as power utilities, solar, property, construction, oil & gas, machinery & equipment, public transportation, data centre and telecommunications.

Production Highlights

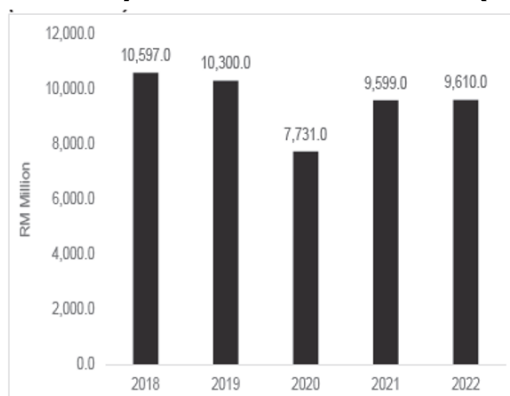
Products	Production capacity tonnes	Actual output				% of utilisation			
		FYE 2020	FYE 2021	FYE 2022	FPE 2023 (6M)	FYE 2020	FYE 2021	FYE 2022	FPE 2023 (6M)
		tonnes	tonnes	tonnes	Tonnes	Tonnes			
Copper-cored wires and cables	4,000	2,461	2,750	2,382	1,546	61.53	68.75	59.55	38.65
Aluminium-cored wires and cables	5,500	1,158	2,472	4,394	3,318	21.05	44.95	79.89	60.33
Total	9,500	3,619	5,222	6,776	4,864	38.09	54.97	71.33	51.20

Source: MTG, prospectus

Industry Overview

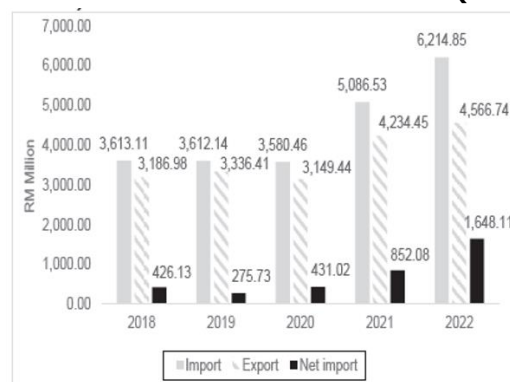
- The industry is highly competitive, with 18 market players involved in the manufacturing of LV power cables in Malaysia. According to the Department of Statistics, ex- factory sales of wires and cables amounted to RM9.61bn in Malaysia in 2022 and MTG's market share of revenue stands at 3.57%.

Ex-factory Sales of Wires and Cables (RM' m)



Source: Department of Statistics

National Trade in Wires and Cables (RM' m)



Source: Department of Statistics

- Currently, MTG is producing LV cables but is looking to expand into MV cables from their IPO proceeds. Channel checks indicates that selling price of MV cables is roughly double the price of LV cables and MTG's expansion plans could lift future earnings.

Products Classifications

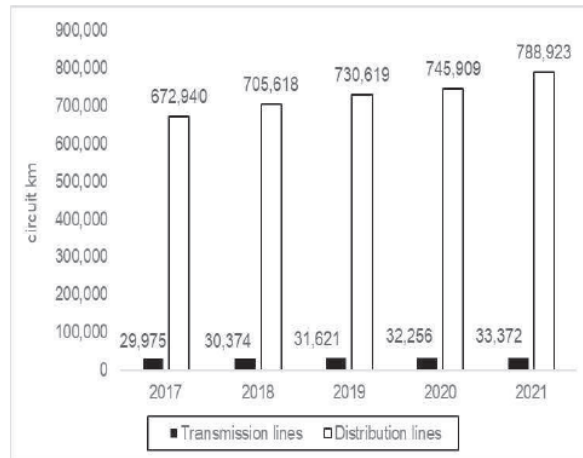
Classification	Examples of products	Examples of end users in power grids
LV	Distribution cables between substations and consumers 1 kV and below.	From distribution substations to residential areas and commercial buildings.
MV	Distribution cables between substations 6.6 kV – 33 kV (6.6 kV, 11 kV, 22 kV and 33 kV).	From transmission substations to distribution substations.
HV	Underground and overhead cables in transmission lines 66 kV and above (132 kV, 275 kV and 500 kV).	From generation plants to transmission substations.

Source: Energy Commission and TNB

Investment Highlights

- Rising demand for electricity.** Ex-factory sales of wires and cables are expected to rise to RM11.21bn in 2025 due to rising demand for power cables due to urbanisation which would spur industrialisation and property. Last year, Tenaga Nasional Bhd (TNB) announced their plans to invest RM90bn over the next 6 years for its grid infrastructure and MTG is in a good position to benefit from the rising demand for electricity.

Distance of National Grid (circuit km) in Malaysia

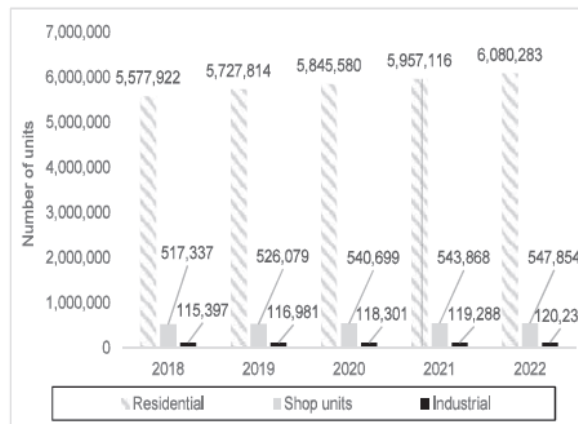


Notes:

The national grid encompasses Peninsular Malaysia, Sabah and Sarawak. Figures for 2022 are not available.

Source: Energy Commission, TNB, SESB and SEB

Supply of Selected Properties in Malaysia (no. of units)



Source: Valuation and Property Services Department

- **Mega infrastructure projects.** The government is accelerating a slew of infrastructure projects under the Mid-Term Review (MTR) of the 12th Malaysia Plan (12MP) and Budget 2024, and MTG is expected to capture some sales by supplying to these projects.

Major Infrastructure Projects Undertaken, or in the Pipeline, in Malaysia

Projects	Location	Expected completion year	Estimated costs (RM Billion)
Rail			
East Coast Rail Link	Tumpat-Kuantan-Mentakab-Jelebu-Port Klang	2026	74.9
Electrified Double Track Project	Gemas-Johor Bahru	2023	9.6
Rapid Transit System	Bukit Chagar-Woodlands, Singapore	2026	10.0
Light Rail Transit Line 3	Bandar Utama-Klang	2024	16.6
Mass Rapid Transit 3	Kuala Lumpur	2030	45.0
Bayan Lepas Light Rail Transit	Penang	Between 2030 and 2032	9.5
Others			
West Port Expansion	West Port, Port Klang	2040	10.0
Kuching Urban Transport System	Samarahan Line and Serian Line	2025/2026	6.0

Source: MTG, Prospectus

- **Proven track record.** MTG is an established manufacturer of wires and cables for about 17 years with reputable brand name and proven track record. It is trusted by utility companies such as TNB (7 years customer) and Sarawak Energy Bhd (3 years customer). In 2022, MTG signed a long-term original equipment manufacturing agreement with TNB worth RM12.0m for one year. MTG has previously served TNB for various projects such as Jimah Power Plant Port Dickson, Manjung 5 coal-fired power plant project, Tunku Jaafar Power Station, TNB substation Bukit Ketri and multiple Main Intake Substation (Pencawang Masuk Utama or PMU) across Peninsular Malaysia.
- **Riding on the government’s push for renewable energy.** Given its experience in supplying necessary cables for renewable energy (RE) facilities, MTG is also well-positioned to capture more opportunities in the RE segment as the Malaysian Government accelerates its efforts to achieve carbon-neutrality by 2050 through the National Energy Transition Roadmap (NETR). In the RE segment, MTG had supplied various power, control and instrument cables for TNB Bidor Solar, Perak and TNB PMU-Solar Chembong, Negri Sembilan. It is also noteworthy that MTG was also a supplier for the Large-Scale Solar 1 & 2 projects in Sik, Kedah as well as Latar Highway Toll.

Investment Risk

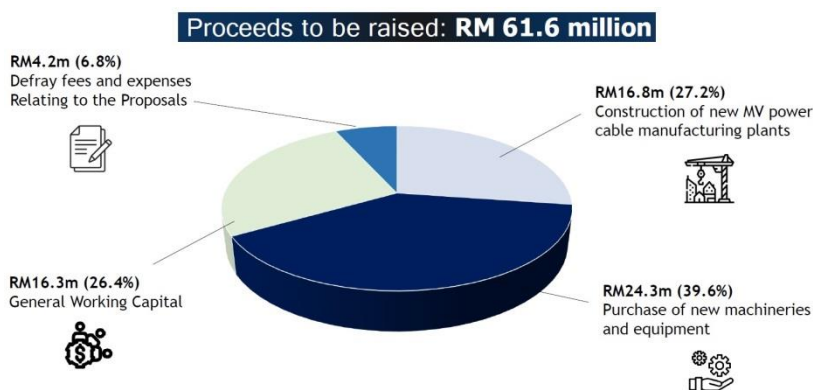
- High concentration risk with TNB as the biggest customer contributing 36% of 1H23 revenue.
- Price competition from other industry players may force MTG to lower its selling price.

- Maiden venture into MV power cables may not be successful and could affect the group’s financial condition and results.
- Low free float of 28% post-listing. After the IPO, MTG founder Dato’ Lau will hold 72% of the group.

SHAREHOLDER	
Dato' Lau Kim San	72.00%
Malaysian Public	
-Bumiputera	2.50%
-Non-Bumiputera	2.50%
Eligible Persons	0.21%
Private Placement	
-Selected Investors	10.29%
-MITI-approved Bumi investors	12.50%
TOTAL	100.00%

Source: MTG, prospectus

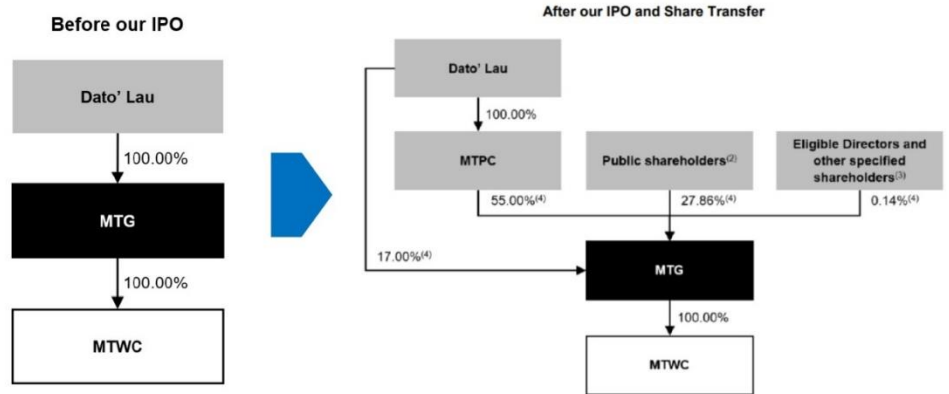
IPO Details



Source: MTG, prospectus

- From the IPO proceeds, MTG plans to increase its product offering by venturing into the manufacturing of medium voltage (MV) power cables. The group intends to manufacture MV power cables, including XLPE insulated overhead and underground power cables for power distribution purposes, catering to various end user markets such as power utility, solar PV, industrial parks, commercial buildings, and public transportation. The venture into MV power cables will be carried out in two stages:
 - Stage 1: Construction of two new manufacturing plants, with an estimated total construction cost of RM16.78 m.
 - Stage 2: Purchase of new machineries and equipment, with an estimated total purchase price of RM24.39 m.
- Upon the completion of the construction of the two new plants, the new machineries and equipment will be installed to carry out the production of MV power cables. With these new machineries and equipment, MTG expects to achieve an annual production capacity of approximately 3,600 tonnes of MV power cables.

IPO Structure

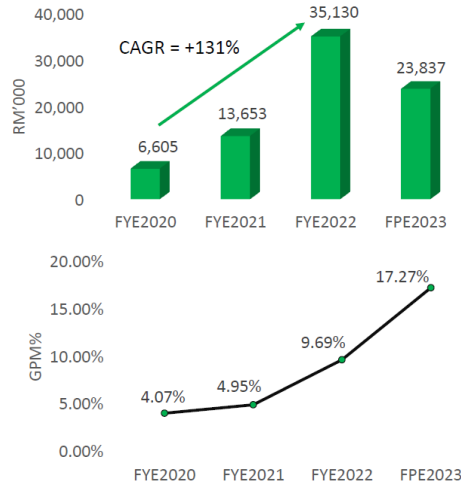


MTG = Master Tec Group Bhd; MTWC = Master Tec Wire & Cable Sdn Bhd

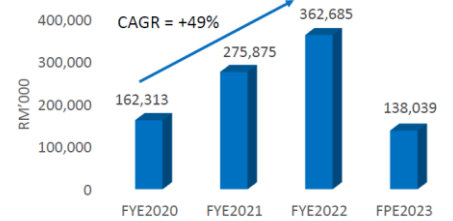
Source: MTG, prospectus

Financial Highlights

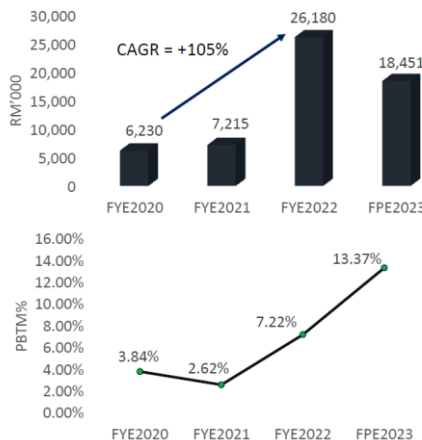
Gross Profit ("GP") and GP Margin



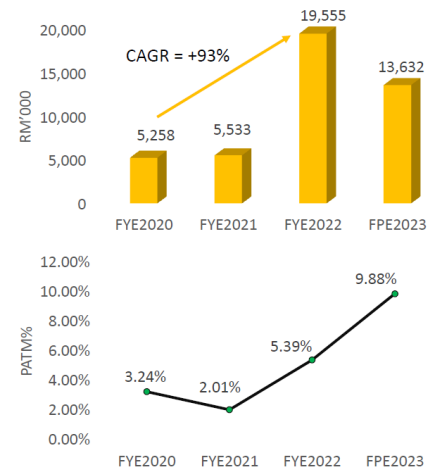
Total Revenue



Profit Before Tax ("PBT") and PBT Margin

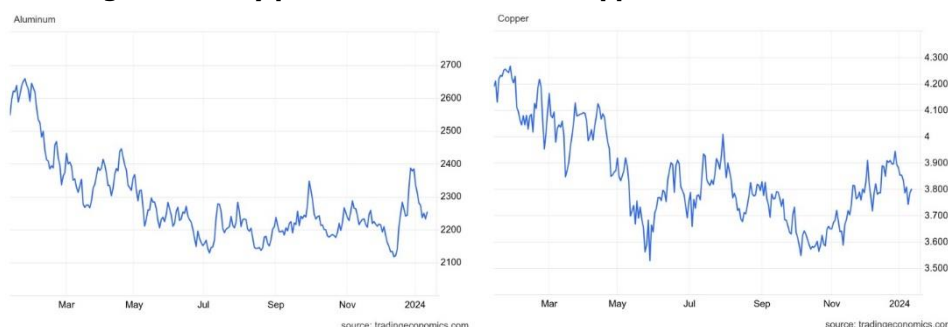


Profit After Tax ("PAT") and PAT Margin



- MTG’s net profit demonstrated an impressive track record in FY20-22, registering RM19.6m in FY22 (3Y CAGR +93%). The said improvement was largely driven tilting its product mixed from copper-cored to aluminium-cored wires and cables, which yield higher profit margin. Meanwhile, net margins have surged significantly from 3.2% in FY20 to 9.9% in 1H23, on higher production of aluminium-cored wires and cables. It is worth noting that net profit outgrown revenue growth CAGR of 49% from FY20-22) following the increase in aluminium-cored wires and cables.
- Moving forward, we are projecting the core net profit to demonstrate further improvement, rising 39.4% yoy to RM27.3m in FY23F, on the back of higher demand for aluminium-cored wires and cables. However, FY23F revenue is expected to decline 23.9% yoy due lower selling prices in line with the slump in prices of its main raw materials, copper and aluminium.
- Going into FY24F, we expect MTG’s revenue to drop 8.2% yoy to RM253.5m on lower selling prices as we anticipate aluminium and copper prices to remain weak. However, net profit is expected to rise 10.1% yoy on higher production volume and sustained profit margins due to MTG’s cost plus pricing strategy.

Declining commodity prices: Aluminium and Copper



Financial Highlights

FYE Dec (RM m)	FY20	FY21	FY22	FY23F	FY24F
Copper-cored wires and cables	124.59	197.71	188.11	124.68	134.40
Aluminium-cored wires and cables	28.29	61.04	147.17	119.07	82.50
LOW VOLTAGE CABLES	152.88	258.75	335.28	243.75	216.90
Control and instrumentation cables	5.88	5.07	8.12	10.31	12.37
MANUFACTURING SEGMENT	158.76	263.83	343.40	254.06	229.27
TRADING SEGMENT	3.55	12.05	19.28	22.02	24.22
TOTAL REVENUE	162.3	275.9	362.7	276.1	253.5
Gross Profit	6.6	13.7	35.1	47.7	50.7
Operating Profit	6.5	10.3	31.4	41.4	44.4
Pre-tax Profit	6.2	7.2	26.2	36.9	40.6
Net Profit	5.3	5.5	19.6	27.3	30.0
EPS (sen)	0.5	0.5	1.9	2.7	2.9
P/E (x)	75.7	71.9	20.3	14.6	13.3
Dividend Yield (%)	0.0	0.0	0.0	2.1	2.3
ROE (%)	7.2	7.2	22.7	27.3	30.1
Gearing (%)	40.0	65.0	44.0	28.0	28.0

Source: MTG, Apex Securities

Valuation & Recommendation

- At an IPO offer price of RM0.39, MTG's forward PE valuation for FY23F and FY24F is projected at 14.6x and 13.3x, based on our estimated FY23F and FY24F EPS of 2.7 sen and 2.9 sen respectively. We arrived at our fair value of RM0.50 (28.2% potential upside from its IPO price) by assigning a target PE of 17.0x to its FY24F EPS.
- The assigned target PE of 17x is derived from Southern Cable Group Bhd's average PE as it is the only comparable on the local stock exchange. The premium to MTG'S FY23F PER is justifiable, premised on MTG's superior profit margins.
- We like MTG for its established position in the wires and cables industry with its reputable brand name and 17-year track record. With the ex- factory sales of wires and cables expected to rise to RM11.21bn in 2025, we reckon that MTG will be one of the prime beneficiaries to leverage onto the growing demand for electricity as evidenced in the current urbanisation which leads to more property launches, mega infrastructure projects, push for renewable energy and industrialisation.
- We also favour MTG for its cost plus pricing strategy which protects its profit margin amid fluctuations in the commodity market.

Peers Comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x)		Gross DY (%)	Revenue RM 'm	Net Income RM 'm	Net Margin (%)
					FY22	FY23F				
Master Tec Group Bhd	ACE	Dec	0.390	397.8	20.3	14.6	2.1	362.7	19.6	5.4
Southern Cable Group Bhd	ACE	Dec	0.420	336.0	15.6	-	0.7	875.9	14.8	1.7
Sarawak Cable Bhd*	Main	Dec	0.285	115.7	-	-	-	547.9	-102.4	-
Avg ex-MTG					15.6	-	0.7	711.9	-43.8	1.7

*Sarawak Cable Bhd is under PN17 classification

Source: MTG, Bloomberg, Apex Securities

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
<p>Head Office: 6th Floor, Menara Apex, Off Jalan Semenyih, Bukit Mewah 43000 Kajang, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 8736 1118</p>	<p>Head Office: Kong Ming Ming (ext 2002) Shirley Chang (ext 2026) Norisam Bojo (ext 2027) Ahmad Mujib (ext 2028)</p> <p>Institutional Dealing Team: Siti Nur Nadhirah (ext 2032)</p> <p>PJ Office: General Line: (603) 7620 1118 Azfar Bin Abdul Aziz (Ext 822)</p>	<p>Mutiara Damansara Office: Kenneth Leong (ext 2093) Lee Cherng Wee (ext 2067) Steven Chong (ext 2068) Jayden Tan (ext 2069)</p>
<p>Mutiara Damansara Office: 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p>		

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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