

Team Coverage

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Recommendation:	Subscribe
IPO Price:	RM 0.30
Previous Target Price:	-
Target Price:	RM 0.46
Upside/Downside:	55.0%

Company Brief

Engaged in engineering solutions for industrial equipment, process plants, RE and co-generation, and power supply.

Stock Information

Board	ACE Market
Sector	INDUSTRIAL
Bursa / Bloomberg Code	0307 / KENERGY MK
Syariah Compliant	YES
Shares issued (m)	550
Market Cap (RM' m)	165
Free float (%)	26.3

Top 3 Shareholders	(%)
Lim Thou Lai	70.5
Chong Hon Choong	1.2
Heng Siew Aun	2.0

IPO Timetable	Date
Opening of IPO application	29/4/2024
Closing of IPO application	14/5/2024
Balloting of IPO application	17/5/2024
Allotment of IPO shares	27/5/2024
Listing of IPO on Bursa Malaysia	29/5/2024

Kawan Renergy Berhad

Powering Engineering Solutions for Tomorrow

Summary

- **Kawan Renergy Berhad (KRB) is an established engineering solutions provider with approximately 27 years proven track record.**
- **Core earnings are expected to improve from (i) unbilled orderbook of RM72.9m, (ii) c.50% win rate from tender and direct negotiation amounting close to RM200.0m, (iii) pioneering engineering solutions for the use of bamboo in the biomass sector and (iv) ongoing efforts to secure contracts for equipment in the oleochemicals and chemicals industries.**
- **Kawan Energy's valuation is based on pegging its FY24F core EPS of 4.2 sen to a PE ratio of 11.0x, leading to a fair value (FV) of RM0.46 (representing a 55.0% potential upside from its IPO price).**

Company Background

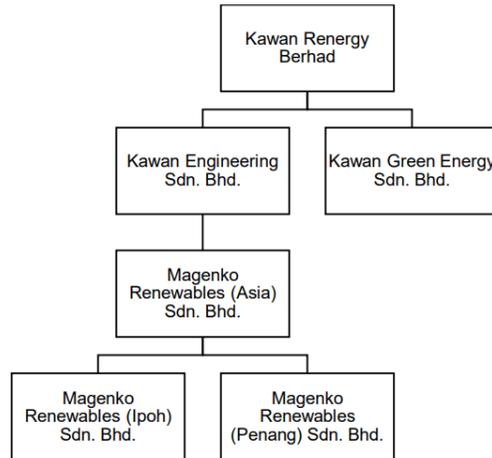
- Kawan Renergy Berhad (KRB)'s journey began in 1996 with the establishment of Kawan Dynamic Engineering Sdn Bhd. Over the years, the Group experienced rapid growth, initially starting out in a rented factory in Pengkalan 2 and eventually expands to own three factories with a total built-up area of 166,392 sqf.
- Originally focusing onto fabrication of vessels and tanks, KRB has broadened its range of products to specialise in pressure vessels, heat exchangers, boilers, and heaters. The Group possesses unique expertise in designing for high pressures ranging from 15-10,000 PSIG. KRB stands among only 99 registered competent firms in Malaysia authorized for quality assurance by DOSH. Additionally, it holds widely recognized international certifications including the NB mark, ASME U, S, H, and U2, as well as ISO9001:2005 assurance for quality in services.
- At present, KRB is regarded as a prominent provider of engineering solutions, catering to diverse industries on both local and global scales. Specializing in the design, fabrication, installation, and commissioning of industrial process equipment, process plants, and renewable energy (RE) projects, the company has established a robust presence in the market. Additionally, KRB has transformed into an independent power producer, with ownership of a 1.2MW biogas plant and plans to further expand its RE portfolio to generate long-term recurring income. As of FY23, the Group holds a market share of 0.4% in the industrial process equipment industry, within an industry valued at RM23.5bn.

IPO Utilisation

Details of utilisation	Estimated time frame for utilisation	RM 'm (%)
Business expansion		
Investment into a new 2MW power plant	Within 36 months	5.0 (15.2%)
Improvement of Bercham Plant output	Within 15 months	2.5 (7.6%)
Purchase of additional machinery	Within 12 months	0.5 (1.5%)
Working capital	Within 24 months	15 (45.5%)
Repayment of bank borrowings	Within 3 months	6.0 (18.2%)
Defraying the listing expenses	Within 1 months	4.0 (12.1%)

Source: Kawan Renergy, prospectus

Corporate Structure



Source: Kawan Renergy, prospectus

Company	Principal activities
Kawan Engineering	Design, fabrication, installation and/or commissioning of industrial process equipment and process plants
Kawan Green	Design, fabrication, installation and/or commissioning of renewable energy and co-generation plants
Magenko Asia	IPP involved in power generation and sale of electricity
Magenko Ipoh	IPP involved in power generation and sale of electricity
Magenko Penang	Intended as IPP involved in power generation and sale of electricity

Source: Kawan Renergy, prospectus

Business Overview

- KRB operates primarily in two business segments; (i) design, fabrication, installation, and/or commissioning solutions, and the sale of electricity. Presently, the core business is centered towards design, fabrication, installation, and/or commissioning solutions. Within their core business, the Group mainly performs services for industrial process equipment, process plants, and RE and co-generation plants.

Business model

	Our principal activities	Other business activity
	Design, fabrication, installation and/or commissioning solutions	Power generation and sale of electricity
Our engineering solutions	Industrial process equipment: <ul style="list-style-type: none"> • Heat exchangers • Pressure vessels • Boilers and heaters Process plants: <ul style="list-style-type: none"> • Food processing • Oleochemical and chemical processing • Waste recovery Renewable energy and co-generation plants: <ul style="list-style-type: none"> • Co-generation and tri-generation • Biomass • Combined cycle • Biogas / landfill • Waste incineration • Organic rankine cycle 	<ul style="list-style-type: none"> • Sale of electricity to the distribution licensee
Our product application	Examples of applicable industries: <ul style="list-style-type: none"> • Food processing • Oleochemical and chemical processing • Oil and gas • Waste recovery • Power plant 	<ul style="list-style-type: none"> • Not applicable

Source: Kawan Renergy, prospectus

- Industrial process equipment:** KRB specialises in design and production of essential industrial equipment such as heat exchangers, pressure vessels, boilers, and heaters. These components are vital across a range of industries, including food processing, chemicals, oil and gas, waste recovery, utilities, and power generation. Each piece of equipment is tailored to meet the customer's specific needs, ensuring effective heat transfer. This process typically takes 3 to 6 months for completion.

Products and services

(i) Heat exchangers



(ii) Pressure vessels



(iii) Boilers and heaters



Source: Kawan Renergy, prospectus

- (i) **Heat exchangers** transfer heat between different substances, like gases or liquids, to provide heating or cooling for industrial processes.
 - (ii) **Pressure vessels** are closed containers designed to hold gases or liquids at high or low pressures.
 - (iii) **Boilers** produce hot water for heating and hot water supply, or steam for power generation and industrial heating. **Heaters** provide heat to liquids for industrial processes.
- Process plants:** KRB also designs, fabricates, installs, and commissions process plants to support industrial production and processing, particularly in food processing, oleochemical and chemical processing, as well as waste recovery. The Group utilise in-house manufactured main components while outsourcing auxiliary equipment, such as motors, chillers, dryers, vacuum pumps, and related items, from third parties to complete the entire project. This process typically takes 12 to 18 months.

Products and services

(i) Food processing



(ii) Oleochemical and chemical processing



(iii) Waste recovery



Source: Kawan Renergy, prospectus

- (i) **Food processing** involves converting agricultural products into edible foods through physical, chemical, or biological processes. This includes food emulsifier production, edible oil and palm phytonutrient plant, continuous / batch reaction, deglycerination, deodorisation, bleaching, neutralisation and short-path distillation.
- (ii) **Waste recovery** involves converting industrial and agricultural wastes into energy or usable products often used in plant with exhaust, chimney, dryer, multiple effect evaporator, biogas reactor and scrubber, spent oil and solvent recovery.
- (iii) **Oleochemical and chemical processing** involves converting oils and fats into oleochemicals. The Group offers include biolubricant, distilled biodiesel, specialty chemicals, animal feeds, calcium soap, palm kernel cake and bioethanol.

- Renewable energy and co-generation plants:** In 2020, KRB broadened its range of services to encompass RE and co-generation plants, addressing a diverse array of customer needs. RE plants concentrate on harnessing resources from thermal energy sources like heat, biogas, and biomass, while co-generation plants utilize fuels such as natural gas to produce both electricity and thermal energy. Project cycles typically span 12 to 18 months. As a certified G7 contractor, KRB is able to tender for contracts exceeding RM10.0m in value, enabling the Group to participate in larger scale project requirements.

Products and services

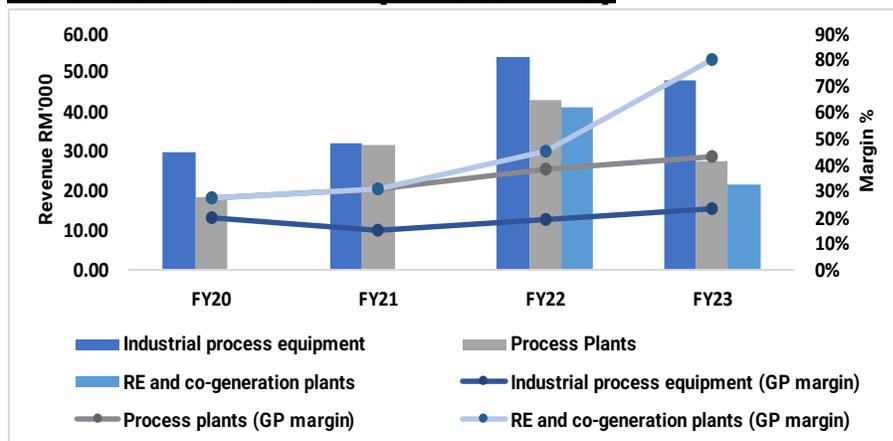
- (i) Co-generation and tri-generation (ii) Biomass (iii) Combined cycle



Source: Kawan Renergy, prospectus

- (i) **Co-generation power** plant generates electricity and thermal energy from a single fuel source like natural gas or biomass, while a **tri-generation** plant produces electricity, thermal energy, and cool air simultaneously.
 - (ii) **Biomass** generates electricity by burning organic waste like wood to produce heat, which in turn creates high-pressure steam.
 - (iii) **Combined cycle** plant produces electricity by burning natural gas and utilizing steam.
- Capitalising onto lucrative margins.** Between FY20 to FY23, each segment experienced steady growth, with total revenue doubling to RM98.4m, from RM48.8m in FY20. The improvement was propelled by the inclusion of additional RE and co-generation plants into portfolio, which contributed RM22.1m in FY23. Despite slight decrease in contribution from each segment due to fewer high-value job orders, all segments maintained strong GP margins in FY23. Industrial process equipment and process plants achieved stable margins of approximately 23.9% and 19.5% respectively. GP margin for RE and co-generation plants improved from 6.8% in FY22 to 15.5% in FY23, primarily attributed to a heightened contribution from installation and commissioning activities that yields higher margins.

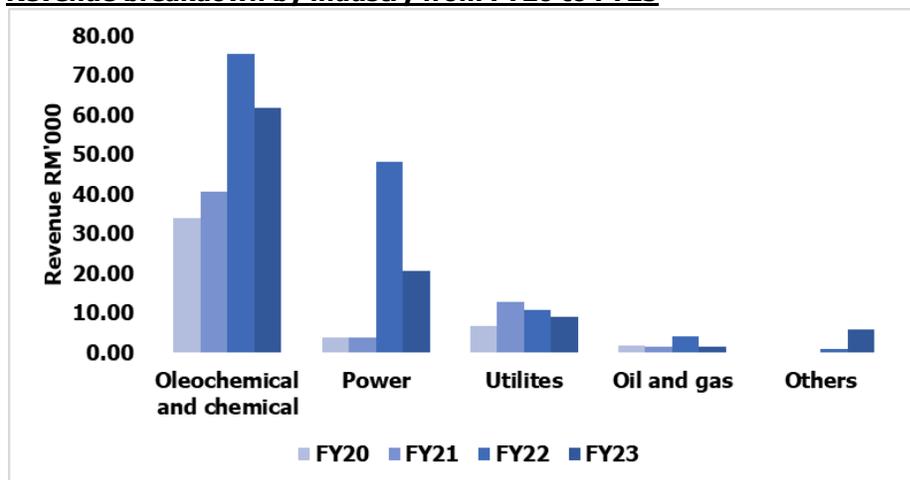
Revenue and GP trend (FY20 to FY23)



Source: Kawan Renergy, prospectus, Apex Securities

- Specialising in oleochemicals and chemicals and expanding into energy.** Between FY20 to FY23, more than half of KRB’s revenue were derived from oleochemical and chemical industry, specialising in production of biolubricants, fatty acids, and industrial esters for downstream users, which generate higher returns compared to other sectors. From FY22, contributions from the power industry saw a significant bump, rising from RM3.8m to RM20.4m in FY23, driven by the Group’s expansion into RE and co-generation services.

Revenue breakdown by industry from FY20 to FY23



Source: Kawan Renergy, prospectus, Apex Securities

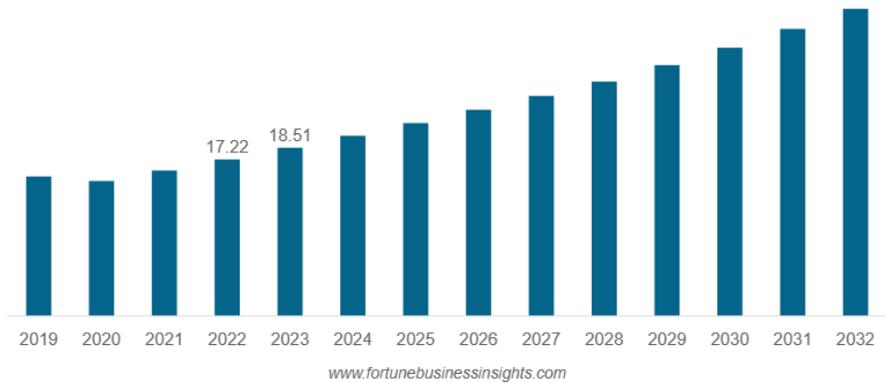
- Stepping up power generation.** On 22 August 2023, the Group acquired the Bercham Plant, a 1.2MW biogas power facility intending to enter the power generation and sale of electricity business. The plant has a net export capacity of 1MW and operates under the Feed-in Tariff (FiT) until 2032 at RM0.388/kWh, potentially generating up to RM3.4m annually. However, due to blockages in the gas piping caused by polymers in the landfill, the plant can currently only produce 1.5 MWh/day, which is just 6.3% of its maximum allowable electricity sales of 24 MWh per day. To resolve this issue, KRB plans to install an anaerobic digestion system costing RM2.5m (7.6% of IPO proceeds), funded through IPO proceeds within 15 months of listing.
- Expanding RE portfolio.** KRB plans to diversify revenue by constructing a 2MW biomass power plant at Factory 3 for RM15.0m, utilising 40,000 sqf of unused space. The facility will use EFB, wood chips, or bamboo chips as fuel to generate 48 MWh of electricity/day, with expected revenue of RM4.9m based on a tariff of RM0.281/kWh. Currently, the Group is awaiting the results of the bidding process, with an announcement expected in the 2Q2024 with commissioning within 18 months. This project will be partially funded by RM5.0m (15.2% of IPO proceeds) from IPO proceeds, with the remaining amount financed through borrowings.

Industry Overview

- Demand for industrial process equipment is primarily driven by growth in various process industries, including oleochemicals, power generation, oil and gas, food and beverage manufacturing, petrochemicals, pulp and paper, pharmaceuticals, and mining. In this context, our focus is mainly on oleochemicals, power generation and biomass sectors, which stand out as particularly significant industries supported by the KRB.

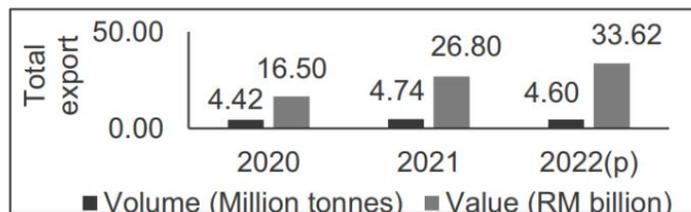
- Oleochemicals are in demand.** Global oleochemicals market is experiencing significant growth, driven by the rising preference for eco-friendly and biodegradable products over petrochemical-based alternatives. The global oleochemicals market size was valued at USD22.66bn in 2022, and is forecasted to grow at a CAGR of 7.4% from 2023 to 2032. Malaysia plays a key role in the market, ranking second since 2019 and contributing c.20.0% to global capacity. From 2020 to 2022, the Malaysian oleochemicals industry saw solid growth, more than doubling from RM16.5bn to RM33.62bn at an CAGR of 42.7%. Despite a slight decline in export volume from 4.7m tonnes to 4.6m tonnes, higher prices of palm-based oleochemicals continues to drive industry value growth. The Climate Prediction Center (CPC) forecasted El Niño phenomenon may come to an end as sea surface temperature anomalies weaken. This trend could lead to improved CPO output and a potential price correction, which may prompt increased capex in oleochemicals. This scenario would likely benefit KRB, leveraging its 27 years of proven expertise in providing engineering solutions to support the growing oleochemical industry.

Asia Pacific oleochemicals market size from 2019 to 2032 (USD' bn)



Source: Fortune Business Insights

Malaysia oleochemicals export value from 2020 to 2022

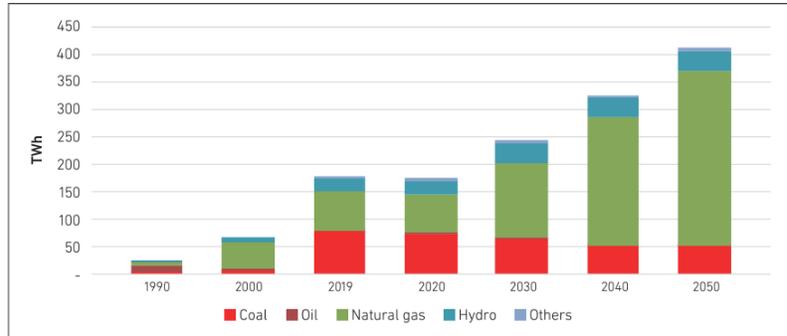


Source: Kawan Renergy, prospectus

- Tapping into bamboo biomass.** In Malaysia, the national biomass action plan underscores the importance of adopting biomass pellets to achieve substantial savings of up to RM7.00bn and create over 32,000 new jobs by 2030. While bamboo is not explicitly mentioned in this plan, recent research highlights bamboo as a promising renewable biomass due to its rapid growth and impressive yield. Certain types of bamboo can yield significant biomass per hectare: monopodial bamboo ranging from 9 to 30 tonnes annually, and sympodial bamboo from 10 to 37 tonnes, which compares favorably to oil palm FFB yielding 20 to 25 tonnes per hectare/year. As KRB pioneers the use of bamboo in innovative ventures, this strategic approach positions KRB well to cater to potential expansion and meet the increasing demand for eco-friendly solutions.

- **Shift towards natural gas.** Aligning towards Malaysia's 2050 carbon neutrality goal, the country's electricity generation from gas is projected to grow at a higher rate of 4.9% from 2019 to 2050. This growth is driven by the government's decision to refrain from building new coal-fired power plants, aiming for natural gas plants to contribute up to 77.7% of electricity generation by 2050.

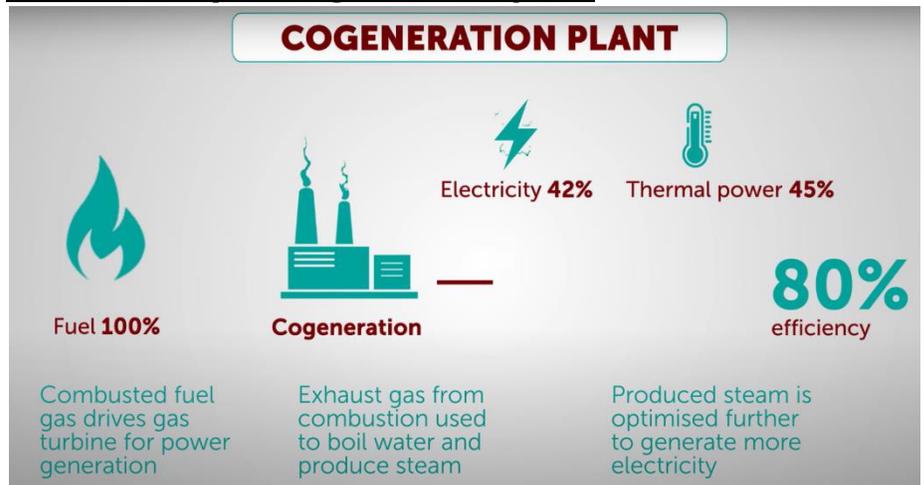
Electricity Generation by Fuel from 1990 to 2050



Source: ERIA, 2023

- **Greener and more efficient.** Aside from natural gas-fired power plants, co-generation utilising natural gas is commonly employed due to its efficiency and relatively low emissions. These plants operate similarly to gas turbine plants but incorporate efficient converters for fuel, enabling an additional cycle of energy generation. PETRONAS reports that co-generation power plants can achieve up to 80% efficiency, far surpassing traditional power plants operating at 30% efficiency. Drawing from KRB's track record, co-generation has consistently delivered significant benefits to customers, including monthly savings of RM2-3m and effective cost optimization solutions. Given Malaysia's ambitious goal of achieving zero carbon emissions, we believe KRB is well-positioned to capitalize on this trend, potentially bolstering its order book and facilitating company expansion.

The efficiency of co-generation plant



Source: Petronas

Investment Highlights

- Proven track record.** KRB amassed 27 years of experience in industrial process equipment and 17 years in process plant operations, specialising in design, fabrication, installation, and commissioning solutions. As an engineering solutions provider, KRB offers comprehensive services in industrial equipment, process plants, RE, and co-generation plants. Their clientele encompasses a wide range of industries like food processing, oleochemical and chemical processing, oil and gas, waste recovery, power plants, and utilities. The Group is also qualified to design pressure vessels with higher design pressures ranging from 3,001-10,000 PSIG, requiring in-depth technical expertise.
- Experienced management team.** KRB is led by highly experienced management team, averaging over 10 years of industry expertise. Lim Thou Lai, the current managing director, brings 31 years of engineering experience and has been instrumental in the company's evolution. Under his leadership, KRB broadened its scope from fabricating non-pressure vessels and tanks to offering comprehensive engineering solutions, including ventures into independent power production. Additionally, three key members of the management team namely Lim Thou Lai, Chong Hon Choong, and Heng Siew Aun are members of the Institution of Engineers, Malaysia, further assuring the company's engineering prowess.

Key members of the management team

<u>Name</u>	<u>Designation</u>	<u>Estimated years of relevant working experience</u>
Chong Hon Choong	Executive Director and Head of Department (Project)	22
Heng Siew Aun	Executive Director and Head of Department (Business)	14
Doris Tan Chuen Chuen	Chief Financial Officer	25
Sharizan Bin Abd. Bahrin	Head of Department (Engineering)	20
Syahirul Hafiz Bin Safuan Wong	Head of Department (Quality Control)	6
Chuah Theam Choon	Head of Department (Production)	28

Source: Kawan Renergy, prospectus

- Quality assurance.** KRB is among 99 firms compliant with Department of Occupational Safety and Health (DOSH) requirements and adheres to globally recognized standards, including ASME certifications and ISO 9001:2015, ensuring exceptional quality and safety. This commitment not only reflects KRB's adherence to international standards but also builds customer confidence, positively impacting its long-term business prospects.

Certifications held by the Group

<u>Year</u>	<u>License and Quality Assurance</u>
2008	ASME U stamp for pressure vessels and heat exchangers (15-3,000 PSIG). ISO 9001:2005 for quality management
2010	National Board mark (NB mark) as per ASME U stamp.
2011	ASME S and H stamps for power and heating boilers.
2017	NB mark for boilers per ASME S and H stamps.
2020	R stamp for boiler repair and alteration.
2022	MyHIAU Mark and recognized as LMA under SEDA.
2023	ASME U2 stamp for high-pressure vessels (3,001-10,000 PSIG).

Source: Kawan Renergy, prospectus

Financial Highlights

- In both FY22 and FY23, KRB achieved remarkable growth in core net profits, rising 92.6% yoy to RM14.3m in FY22 and 5.2% yoy to RM15.0m in FY23. Despite 29.3% yoy decrease of revenue in FY23 to RM98.4m, core margin demonstrated improvement, rising from 10.2% to 15.2%. The improvement was spurred by favorable steel prices and advancements in the installation and commissioning phase of co-generation projects.
- KRB maintains a robust balance sheet, boasting a net cash position of RM34.0m in FY23. Benefiting from a cost of debt below 4.0%, we gathered that there is ample room to leverage and finance higher contract values projects, particularly for co-generating plants. In terms of capital return, KRB achieves impressive ROA and ROE at 13.1% and 26.9% respectively in FY23, surpassing industry benchmark (ROA: 1.9% & ROE: 3.6%).
- Moving ahead, we project core net profit at RM23.2m in FY24F (+55.0% yoy) and RM29.8m (+28.1% yoy) in FY25F respectively, driven by (i) unbilled orderbook of RM72.9m, (ii) c.50% win rate from tender and direct negotiation amounting close to RM200.0m, (iii) pioneering engineering solutions for the use of bamboo in the biomass sector and (iv) ongoing efforts to secure contracts for equipment in the oleochemicals and chemicals industries.

FYE Oct (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	64.0	139.2	98.4	159.1	192.5
EBITDA	9.9	20.0	21.5	34.1	44.1
Pre-tax Profit	8.9	18.6	18.9	31.9	40.8
Profit After Tax	6.9	14.2	13.3	23.2	29.8
Net Profit	6.9	14.2	13.3	23.2	29.8
Core Net Profit	7.4	14.3	15.0	23.2	29.8
Core EPS (sen)	1.3	2.6	2.4	4.2	5.4
Core P/E (x)	24.0	11.6	12.4	7.1	5.5
Dividend Yield (%)	0.9	1.8	7.9	3.5	4.5
P/B (x)	4.2	3.7	3.1	2.3	1.8
ROE (%)	18.6	33.9	27.0	37.4	36.3
Gearing (%)	Net Cash				

Source: Kawan Renergy, Apex Securities

Peer 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			
Kawan Renergy Bhd	ACE	Oct	0.30	165.0	12.40	5.17	1.82	98.4	13.3
BM Greentech Berhad	MAIN	Mar	1.12	577.9	20.4	20.3	0.02	438.4	33.1
Avg ex-Kawan Renergy Berhad					20.4	20.3	0.0	73.8	5.0

Source: Kenergy, Bloomberg, Apex Securities

Valuation & Recommendation

- At an IPO offer price of RM0.30, KRB's forward PE valuation for FY24F and FY25F is projected at 5.2x and 4.1x, based on our estimated FY24F and FY25F EPS of 4.2 sen and 5.4 sen respectively. We arrived at our fair value of RM0.46 (55.0% potential upside from its IPO price) by assigning a target PE of 11.0x to its FY24F EPS.
- The assigned target PE multiple is based on a discount to Bursa Malaysia's Industrial Production sector of 18.3x in 2024F. The discount is premised to KRB's smaller market capitalisation.
- We like KRB for its established position in industrial process equipment and process plants, well-known techniques across various industries, and a 27-year track record. With the favorable outlook for rising demand for oleochemicals and Malaysia transitioning to clean energy use, we reckon KRB will be one of the prime beneficiaries leveraging the growing demand for increased investment in oleochemicals and cleaner energy solutions, which will drive demand for engineering solutions.

Key Risks

- **Steel price fluctuations.** Steel plates and steel tubes constitute crucial raw materials, accounting for approximately 20.0% of KRB's COGS. Due to steel's vulnerability to price fluctuations influenced by global supply and demand dynamics, any adverse movements in steel prices could potentially impact KRB's profit margins.
- **Rely on skilled workers.** KRB depends on skilled workers, including foremen, machinists, welders, and fitters, to carry out fabrication activities. Currently, skilled workers comprise 50.9% of the total workforce of 116, supporting its business operations. Any untimely loss of skilled workers could potentially disrupt business operations.
- **Stiff competition.** Industry competition presents a significant risk to KRB in the industrial process equipment sector, with numerous players vying fiercely in terms of pricing, quality, timeliness, and fabrication capability. Failure to differentiate itself from competitors could impede the company's ability to attract and retain clients, potentially leading to reduced contract opportunities and revenue growth.
- **Rules and regulations.** To ensure business compliance, KRB is required to meet the quality standards recognized by international bodies such as ASME, DOSH, and the National Board of Boiler & Pressure Vessel Inspectors. Additionally, the manufacturing license for its factories in Ipoh is contingent upon fulfilling the condition of employing at least 80% local citizens. Failure to comply with these conditions could result in the revocation of licenses or permits, thereby affecting business operations.

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
<p>Head 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> <p>Petaling Jaya Office: 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7620 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>Head Office: Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069)</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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