

Team Coverage

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Recommendation: **Subscribe**

IPO Price: **RM 0.80**

Previous Target Price: -

Target Price: **RM 1.13**

Upside/Downside: **41.3%**

Company Brief

Engaged in manufacturing automotive covers and automotive seats.

Stock Information

Board	Main Market
Sector	Automotive
Bursa / Bloomberg Code	FEYTECH / 5322
Syariah Compliant	Yes
Shares issued (m)	143.3
Market Cap (RM' m)	674.6
Free float (%)	27.0

Top 3 Shareholders (%)

Tan Sun Sun	35.0
Go Yoong Chang	26.7
Connie Go	8.3

IPO Timetable

	Date
Opening of IPO application	2/5/2024
Closing of IPO application	8/5/2024
Balloting of IPO application	10/5/2024
Allotment of IPO shares	17/5/2024
Listing of IPO on Bursa Malaysia	21/5/2024

Feytech Holdings Berhad

Innovating Comfort for the Automotive Industry

Summary

- **Feytech is an established manufacturer of automotive covers and automotive seats, with a proven track record of approximately 21 years.**
- **Core earnings are expected to be boosted by addition of two new clients in the automotive seats segment, increase utilisation rates leading to improvements in ASP and higher margins, and aggressive marketing efforts aimed at capturing the AHTV project.**
- **Feytech is valued by pegging its FY25F core EPS of 6.0sen to PE of 19.0x, leading to a FV of RM1.13 (41.3% potential upside from IPO price).**

Company Background

- Feytech Holdings Berhad's (Feytech) history dates back to 2002 with the incorporation of Gasford Malaysia, which was later rebranded as Feytech in April 2023. The company specialises in manufacturing and selling automotive covers for the OEM market segment.
- In 2003, Feytech secured orders for automotive covers from the REM market segment in international markets such as the United Kingdom and New Zealand, after registering sales from the Replacement Equipment Manufacturer (REM) market segment in Malaysia upon its incorporation in 2002.
- The Group secured their first Original Equipment Manufacturer (OEM) order in 2012, manufacturing covers for an APM-affiliated company, specifically for Mazda 3 models. The initial foray into OEM paved the way for subsequent orders. By 2015, Feytech expanded their OEM portfolio by supplying covers for a Local OEM's car models.
- In 2015, Feytech secured their first order from the Pre-delivery Inspection (PDI) market segment with a contract from Perodua Sales Sdn Bhd, while Trimex Malaysia Feytech's marketing arm, principally involved in marketing and selling automotive covers in Malaysia) also received an order from Ilusi Mantap Sdn Bhd. These orders entail replacing and customising automotive covers before vehicle registration with the Road Transport Department Malaysia. Clientele from this segment comprises automotive distributors and car accessory retailers.
- Feytech expanded into automotive seat manufacturing in 2021 through the formation of Feytech Sdn Bhd, securing its first contract from Kia Malaysia for the Kia Carnival models. Subsequently, the Group established Kulim Plant 1 to fulfill the manufacturing requirements for this project. In 2022, Feytech Sdn Bhd obtained another contract from Mazda Malaysia for the Mazda CX-30 model seats.
- Throughout the years, Feytech has received numerous awards, serving as evidence of their prominence in the Malaysian automotive seat market. The Group received a Certificate of Appreciation from Perodua Sales Sdn Bhd for achieving Delivery Due Date Achievement in 2018. Also, Feytech Singapore was honoured with the SME Excellence Business Award Achievers 2022/2023 by Vision Media Group.

IPO Utilisation

Details of utilisation	Estimated time frame for utilisation	RM'm (%)
Acquisition of land	Within 6 months	11.6 (10.1%)
Construction of new corporate office with new manufacturing plant and warehouse	Within 24 months	21.1 (18.4%)
Construction of new Kulim Plant 2	Within 24 months	18.8 (16.4%)
Purchase of new machineries	Within 12 months	3.0 (2.6%)
Working capital	Within 12 months	52.2 (45.5%)
Estimated Listing Expenses	Immediate	8.0 (7%)

Source: Feytech, prospectus

Business Overview

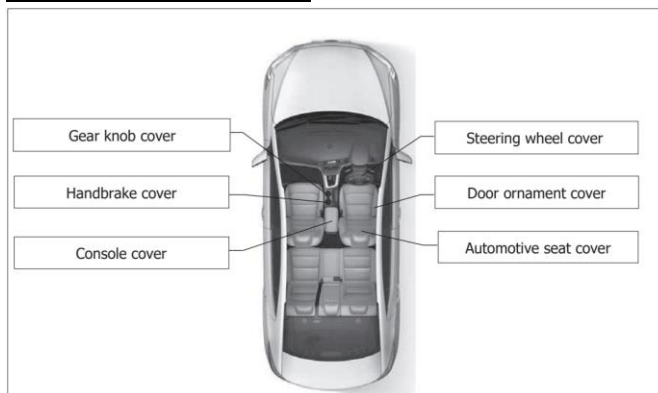
Principal activities ⁽¹⁾	Manufacturing of automotive covers			Manufacturing of automotive seats
Products	<ul style="list-style-type: none"> Automotive seat covers Interior part covers 			Fully-assembled automotive seats
Supplier types	<ul style="list-style-type: none"> Automotive cover material suppliers Interior part suppliers Suppliers of parts, accessories and other supplies (e.g. zippers, plastic strips and hooks) 			<ul style="list-style-type: none"> Automotive cover manufacturers Suppliers of automotive seat supplies (e.g. padding, seatbelts, buckles, electrical parts, frames, side airbags)
Market segments	OEM	PDI	REM	OEM
Customer segments	<ul style="list-style-type: none"> Automotive vehicle OEMs Tier 1 automotive seat and/or interior part manufacturers 	<ul style="list-style-type: none"> Automotive distributors Car accessory retailers 	<ul style="list-style-type: none"> Car owners Used car dealers Importers Automotive dealers Car accessory retailers Automotive cover installers 	Automotive vehicle OEMs
Geographical markets ⁽²⁾	Malaysia		<ul style="list-style-type: none"> Malaysia Singapore Australia New Zealand Others⁽³⁾ 	Malaysia

Source: Feytech, prospectus

- Feytech principally engages in the manufacturing of automotive covers produced mainly from leather or synthetic leather automotive cover materials and also a combination of different types of materials. Automotive covers are sold across various market segments such as OEM, PDI, and REM.
- In FY22, the OEM market segment made up to RM114.6m or 90.3% of total revenue, while the REM market segment was at RM8.9m or 7.0% of total revenue. Over the past 4 years, the OEM market segment accounts for the bulk, representing 84.6-90.3% of total revenue.
- Automotive vehicle OEMs establish the design, specifications, and quality standards for automotive covers, while occasionally proposing design variations for manufacturability and durability. Prototypes are developed for customer testing and adjustments until meeting OEM functional specifications. Feytech operates an in-house testing lab to ensure cover materials meet requirements. While Feytech

generally does not install covers on seats but may handle installations on interior parts like door ornaments, steering wheels, gear knobs, handbrake handles, and consoles.

Automotive Covers



Source: Feytech, prospectus

- Over at the PDI market segment, automotive covers are restyled, produced and replaced according to the designs and requirements of automotive distributors and car accessory retailers. This includes both manufacturing new covers and reinstalling them onto seats and interior parts as required.
- Automotive covers in the REM market segment are customised, produced, replaced, and repaired according to customers' preferences. This includes disassembling existing covers, installing manufactured or repaired covers onto seats and interior parts, and then reassembling these components back into the vehicle.
- In FY23, Feytech boast an annual manufacturing capacity of 1.2m meters of automotive cover material at their Tampoi Plant in Johor. Additionally, Feytech operates two sales and installation hubs, one in Selangor, Malaysia and another in Singapore, facilitating the repair and replacement of automotive seat covers.
- Feytech obtained IATF 16949 to ensure product quality and safety. This certification demonstrates Feytech's ability to adhere to both local and international manufacturing standards for automotive seat covers.
- Feytech ventured into manufacturing automotive seats in 2021. These seats are produced and supplied to automotive vehicle OEMs who provide the design and specifications. Subsequently, the OEMs install these seats into vehicles. Feytech manufactures seats for renowned global automotive brands such as Mazda and Kia.
- As of FY23, Feytech carries out their automotive seat manufacturing activities at Kulim Plant 1 in Padang Serai, Kulim, Kedah, with a capacity to produce 36,000 sets of seats annually. Looking ahead, Feytech will be relocating these operations to Kulim Plant 3 by June 2024, where both plants will have the same manufacturing capacity. The manufacturing process includes assembling front and rear seats, with two types of front seats: power seats and manual seats. Both plants will be equipped with an in-house testing lab to ensure compliance with automotive vehicle OEM's safety and functional standards.

Manual and Power automotive seats



Source: Feytech, prospectus

- Presently, Feytech is preparing documentation and undergoing necessary training for the IATF 16949 certification for manufacturing automotive seats. The audit is anticipated to be completed by 2Q2024, with certification expected in 3Q2024.

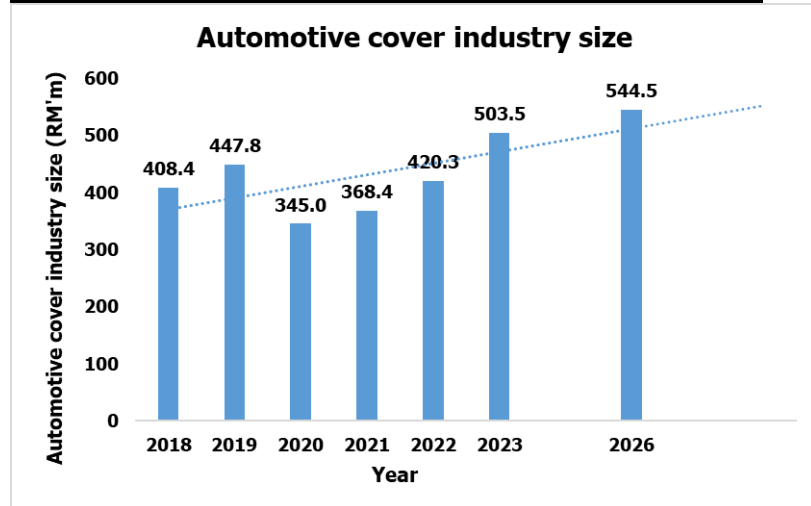
Industry Overview

- The automotive covers refer to the installation of automotive seats and interior parts, enhancing vehicle comfort and aesthetics without compromising functionality. In Malaysia, the automotive seat and cover industries serve three main market segments which are the Original Equipment Manufacturer (OEM) segment, the Pre-delivery inspection (PDI) market segment, and the Replacement Equipment manufacturer (REM) market segment.
- OEM segment involves manufacturing automotive seats and covers for new vehicles. Supplier in this segment include Tier 1, Tier 2, and Tier 3 suppliers, with Tier 1 suppliers providing directly to OEMs. Automotive cover manufacturers with the likes of Feytech Group obtain materials from suppliers to manufacture covers based on OEM specifications. Tier 1 automotive seat manufacturer such as Feytech, also procure covers and other supplies to manufacture complete seats for OEMs.
- Meanwhile, PDI market segment involves manufacturing and replacing automotive covers before vehicles are registered with the Road Transport Department Malaysia (JPJ). Automotive cover manufacturers source supplies from material suppliers to produce covers, which are then installed on automotive seats and/or interior parts for automotive distributors and car accessory retailers.
- Following the registration of new automotive vehicles with the Road Transport Department Malaysia (JPJ), there might arise a necessity for replacing, restyling, or repairing automotive covers. Automotive cover manufacturers can meet this demand by producing and replacing covers through restyling, replacement, or repair services catered to car owners, used car dealers, automotive dealers, car accessory retailers, and automotive cover installers.
- Historically between 2018 and 2019, Malaysia’s automotive cover industry experienced growth of 9.6% yoy, reaching RM447.8m, while the automotive seat industry grew by 4.3% yoy to RM2.4bn during the same period. However, the Covid-

19 pandemic in 2020 resulted in multiple national lockdowns and reduced automotive sale negatively impacted in both industries, with the automotive cover industry decreasing 23.0% yoy to RM345.0m and the automotive seat industry declining 37.5% yoy to RM1.5bn.

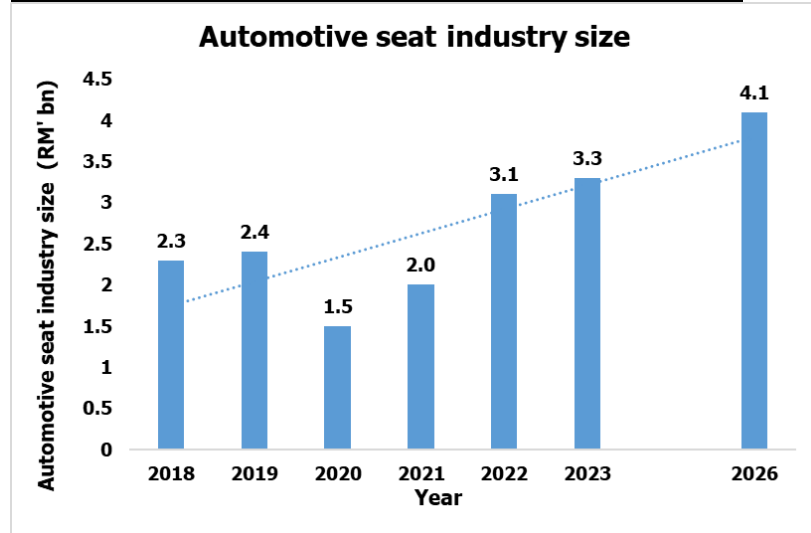
- Nevertheless, both industries recovered in 2021 and 2022, driven by increased production and deliveries, improved consumer spending, and government incentives. The automotive cover industry rebounded to RM503.5m in 2023, marking a significant recovery over the past three years, while the automotive seat industry grew steadily to RM3.3bn in 2023.
- Moving forward, the automotive cover industry in Malaysia is projected to achieve a two-year compound annual growth rate (CAGR) of 8.0% from 2024 reaching RM544.5m in 2026. Similarly, the automotive seat industry in Malaysia is expected to grow at a two-year CAGR of 6.7%, reaching RM4.1bn by 2026.

The automotive cover industry size in Malaysia



Source: Providence

The automotive seat industry size in Malaysia



Source: Providence

- Projected long-term growth of the automotive industry drives demand for automotive seats and covers, which is closely linked to the production and sales of new automotive vehicles. While the production and sales of automotive vehicles experienced fluctuations due to various factors, such as government restrictions stemmed from Covid-19 pandemic, there was a significant recovery in both 2022 and 2023. The improvement was driven by multiple factors such as (i) SST exemptions, (ii) increased production and deliveries to meet demand, improved consumer spending, (iii) new models including electric vehicles (EVs), (iv) government incentives, and (v) promotional campaigns by automotive brands. Despite challenges such as semiconductor chip shortages impacting vehicle production, the automotive industry demonstrated resilience and continued growth.
- Besides, Malaysia's status as an automotive hub, supported by initiatives with the likes of National Automotive Policy (NAP) and collaborations such as the Automotive High-Tech Valley (AHTV) between DRB-HICOM Berhad and Zhejiang Geely Holding Group Co Ltd, is set to attract automotive OEMs to set-up manufacturing activities in the country. AHTV, spanning 1,000-ac will attract RM32.0bn investment over the next decade, will serve as an integrated automotive hub, driving demand for automotive seats and covers to accommodate the growing vehicle production in Malaysia.
- Automotive cover industry in Malaysia is expected to deliver consistent growth from demand for replacements, particularly from the local second-hand car market. The said market is projected to expand at a CAGR of 10.0% between 2022 and 2025, driven by increasing disposable income and the affordability of second-hand cars. Over the years, Malaysia's gross national income per capita recorded sequential improvement, implying greater spending power for automotive cover restyling and protection. Additionally, the emergence of online car platforms resulted in convenience in transaction of second-hand cars more, further fuelling demand for automotive covers in the REM market segment.

Investment Highlights

- **One-stop manufacturer of established automotive seats and automotive seat covers.** Feytech manufactured automotive covers since 2002 and expanded downstream in the industry value chain into manufacturing the automotive seats segment since 2021. This will enable the Group to offer a diverse set of services to automotive vehicle OEMs, granting the automotive vehicle OEMs the convenience of appointing Feytech to produce both seats and covers. Feytech broadens its customer base by offering automotive covers to various market segments, including OEM, PDI, and REM. This expansion allows the group to target not only automotive vehicle OEMs and Tier 1 manufacturers, but also automotive dealers, distributors, used car dealers, car owners, accessory retailers, importers, and cover installers. Feytech's sales of automotive covers extend beyond new vehicle production (OEM segment) to include aftermarket sales (PDI and REM segment).
- **Healthy Balance Sheet.** Feytech maintained a net cash position since FY20, demonstrating the Group's stability and financial prudence. The healthy balance sheet also showcased increasing total equity over the years that was mainly driven by higher retained profits resulting from improved earnings from business operations. Additionally, Feytech operates in a positive net operating cash flow over the years.

- **Established brand through extensive marketing strategies and track records.** With 21 years of experience in automotive cover manufacturing since 2002, Feytech initially served the REM market segment and later expanded to include the OEM segment in 2012 and the PDI segment in 2015. Principally, the Group clientele encompass major automotive vehicle OEMs such as Mazda Malaysia, and Kia Malaysia. Feytech's consistent track record has solidified the Group's reputation, positioning it as the third-largest automotive cover manufacturer in Malaysia from 2021 to 2023, with market shares ranging from 23.1% to 25.9%. The track record and market reputation underscore Feytech's market presence and potential to attract new customers and secure additional orders in the future.
- **Higher production sales in automotive seats result from economies of scale, leading to a higher EPS in the long run.** Feytech's strong track record and market reputation affirm its position in the automotive seat industry, enhancing its potential to attract new customers and secure additional orders. With a full year of mass production driven by rising orders, Feytech stands to benefit from economies of scale, resulting in long-term increases in earnings per share (EPS) due to improved margins. As the segment expands and production or sales volumes rise, economies of scale will be realised, reducing average costs per unit and bolstering margins.
- **Automotive industry's long-term growth and Malaysia's emergence as an automotive hub boost demand for automotive covers and seats.** Production of passenger and commercial vehicles surged from 571,632 units in 2019 to 774,600 in 2023, surpassing pre-pandemic levels. Several factors contributed to this increase, including enhanced consumer spending, promotional sales efforts by automotive brands, and the introduction of new vehicle models, including electric vehicles (EVs). Additionally, the Malaysian government implemented the National Automotive Policy (NAP) in 2020 to support high-value automotive components, aiming to strengthen Malaysia's automotive industry amidst digital industrial transformation. The policy prioritizes Next-Generation Vehicles (NxGV), Industrial Revolution 4.0 (IR4.0), and Mobility-as-a-Service (MaaS), positioning the country as a regional leader in manufacturing, engineering, and technology. DRB-Hicom Bhd and Zhejiang Geely Holding Group Co Ltd (Geely Holding) collaboration marks a new milestone through the setup of Automotive Hi-Tech Valley (AHTV) located in Tanjong Malim, Perak, which is projected to attract RM32.0bn worth of investment over the next decade. Consequently, Feytech is currently in negotiations for the terms and conditions of a sale and purchase agreement, expected to be finalized by June 2024. Feytech plans to establish an additional plant on this land to better serve local Original Equipment Manufacturers (OEMs) and other OEMs situated in the AHTV region.

Financial Highlights

- Feytech's core net profit demonstrated an impressive track record in FY21-23, registering RM44.0m in FY23 (2Y CAGR +52.1%). The said improvement was largely driven by the sales of the new segment which is automotive seats. Meanwhile, net margins fell from 22.3% in FY21 to 20.8% in FY23. The contraction can be attributed to several factors, including the substantial upfront investment required for launching the automotive segment. This investment encompasses areas such as research and development, marketing initiatives, recruitment of new staff, and procurement of machinery. Additionally, the absence of economies of scale has attributed to margin pressures. Initially, the new segment may not operate at full capacity, resulting in underutilisation of resources and higher unit costs.

- Moving forward, we are projecting the core net profit to demonstrate further improvement, rising 9.6% yoy to RM48.2m in FY24F, on the back of the addition of two new client orders in the automotive seats segment. We have factored in a slightly lower average selling price per seat of RM9m. This figure is marginally below the RM9.6m of revenue/annual production output (sets) recorded in FY23, primarily due to a higher resource utilisation rate leading to lower unit costs
- Going into FY25F, we expect Feytech's top and bottom line to record RM223.6m (+4.4% yoy) and RM50.3m (+4.4% yoy) respectively, supported by the (i) the addition of two new clients in the automotive seats, (ii) increased utilisation rate leading to improvements in average selling priced and higher margins, and (iii) aggressive marketing efforts aimed at capturing AHTV project.

Financial Highlights

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	85.2	126.9	211.2	214.2	223.6
EBITDA	28.3	40.4	65.0	66.4	69.3
Pre-tax Profit	25.7	37.0	60.1	64.3	67.1
Profit After Tax	19.0	27.6	43.9	48.2	50.3
Net Profit	19.0	27.6	43.9	48.2	50.3
Core Net Profit	19.0	27.7	44.0	48.2	50.3
Core EPS (sen)	2.3	3.3	5.2	5.7	6.0
Core P/E (x)	35.5	24.4	15.3	14.0	13.4
Dividend Yield (%)	1.8	1.5	2.2	2.9	3.0
P/B (x)	9.3	7.9	5.3	4.1	3.3
ROE (%)	26.1	32.4	34.4	29.4	24.9
Gearing (%)	24.3	16.4	22.2	17.3	14.1

Source: Feytech, Apex Securities

Valuation & Recommendation

- At an IPO offer price of RM0.80, Feytech's forward PE valuation for FY24F and FY25F is projected at 14.0x and 13.4x, based on our estimated FY24F and FY25F EPS of 5.7 sen and 6.0 sen respectively. We arrived at our fair value of RM1.13 (41.3% potential upside from its IPO price) by assigning a target PE of 19.0x to its FY25F EPS.
- The assigned target PE is in line with selected peers listed on Bursa Malaysia, which engages in the styling, manufacturing, distribution, and installation of upholstery for seat covers in the automotive and aviation industries.
- We like Feytech for its established position in both automotive covers and automotive seats. From 2021 to 2023, the Group held the position of the third-largest automotive cover manufacturer in Malaysia, boasting a track record of over 20 years. Given the promising outlook for increased demand in both passenger and commercial vehicles produced in Malaysia, we reckon Feytech will be among the key beneficiaries, capitalising on the growing demand and driving sales in both segments of automotive seat covers and automotive seats.
- Also, the Group adopts a dividend policy of minimum 40% payout from net profit as dividends to shareholders.

Peers Comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x)		Gross DY (%)	Revenue RM 'm	Net Income RM 'm
					FY23	FY24F			
Feytech Holdings Berhad	MAIN	Dec	0.800	674.6	15.3	19.0	-	211.2	44.0
Pecca Group Berhad	MAIN	Jun	1.370	1030.2	28.5	-	0.7	221.3	37.1
APM Automotive Berhad	MAIN	Dec	2.780	543.5	9.0	-	4.0	1926.4	86.4
Avg ex-Feytech Holdings Berhad					18.7	-	2.3	1073.8	61.8

Source: Feytech, Bloomberg, Apex Securities

Investment Risk

- **Dependency on contracts and agreements secured with automotive vehicle OEMs.** Local OEM, Mazda Malaysia and Kia Malaysia. Any the termination or loss from Mazda Malaysia and Kia Malaysia contracts will have material adversely impact on operations and prospects.
- **Manpower.** Any changes in labour and immigration policies and regulations imposed by the Government of Malaysia, and visa restrictions on foreign workers may lead to interruptions to business operations.
- **Price fluctuation of leather and synthetic leather automotive cover materials.** Fluctuations in leather and synthetic leather automotive cover materials as a result from the shift in supply and demand dynamics and foreign exchange fluctuations may impact margins.
- **Dependency on several major suppliers for certain supplies.** Certain supplies are sourced from PKT companies, Daewon and Toyo. Any disruption in supply source may not warrant to find a suitable replacement in timely manner.

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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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