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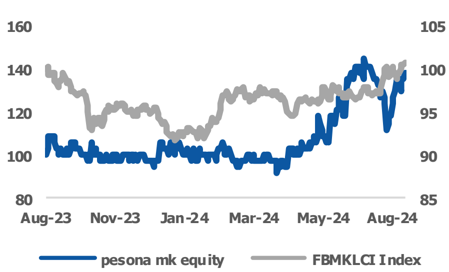
Recommendation:	**Not Rated**
Current Price:	**RM 0.25**
Previous Target Price:	**-**
Target Price:	**RM 0.46**
Upside/Downside:	**84.0%**

Stock information	
Board	MAIN
Sector	Construction
Bursa / Bloomberg Code	8311 / PESONA MK
Syariah Compliant	Yes
FTSE4Good Index	No
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	695.0
Market Cap (RM' m)	173.7
52-Week Price Range (RM)	0.16-0.25
Beta (x)	0.7
Free float (%)	26.3
3M Average Volume (m)	2.3
3M Average Value (RM' m)	0.5

Top 3 Shareholders	**(%)**
Kombinasi Emas Sdn Bhd	41.7
Sincere Goldyear Sdn Bhd	16.9
Chin Guek Hong	3.4

Share Price Performance



	1M	**3M**	**12M**
Absolute (%)	8.7	38.9	42.9
Relative (%)	7.2	37.5	26.1

Pesona Metro Holdings Berhad

Building the Future

Summary

- **Pesona Metro Holdings Bhd specialises in government infrastructure projects, commercial developments, residential buildings, and industrial facilities. The company also holds concessionaire assets and is expanding into the property development business.**
- **Moving forward, Pesona is expected to achieve strong financial growth, supported by (i) improved construction project margins from execution of outstanding order book of RM2.2bn, (ii) stable recurring income from concession segment and (iii) maiden venture into property segment through M&A activity).**
- **Pesona is valued at RM0.46 based on a Sum of Parts valuation, which also corresponds to a 13.0x 1-year forward PER of the Group's FY25F EPS of 3.5 sen. This valuation is a discount to Bursa Construction Index's 1-year forward PER of 16.0x, premised to Pesona Metro's smaller market cap.**

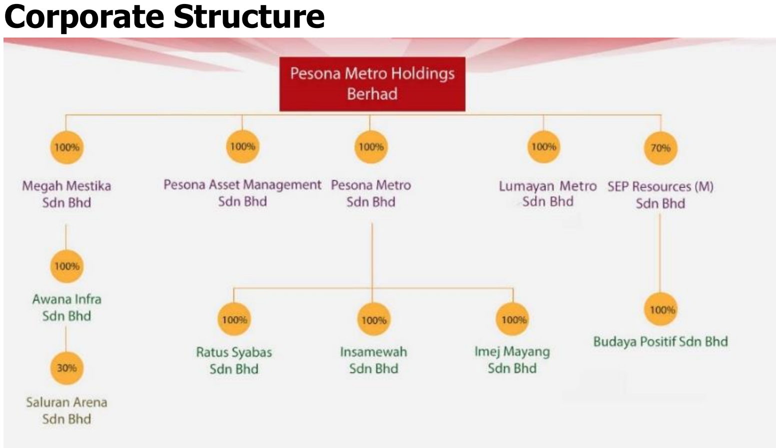
Company Background

- Pesona Metro Holdings Bhd (Pesona Metro) is a Malaysian construction and engineering company, established in 1996 and headquartered in Kuala Lumpur. The Group specialises in delivering high-quality infrastructure and building projects.

- Pesona Metro engages in provision of a wide range of services including civil engineering, building construction, infrastructure work construction, project management, and specialized contracting.

- Throughout the years, Pesona Metro has built a strong market presence in Malaysia, with a successful track record of completing numerous of projects across the country. The Group's extensive portfolio spans government infrastructure projects, commercial developments, residential buildings, and industrial facilities. Pesona's commitment to delivering quality projects has solidified its reputation as a trusted partner in the construction industry.

Corporate Structure



Source: Company

Business Overview

- Pesona Metro is renowned for its expertise in civil engineering and infrastructure projects, including highways, bridges, water treatment plants, and urban infrastructure. The Groups consistent ability to deliver large-scale projects on time and within budget has solidified its strong reputation in the industry.

- Pesona Metro's building construction division specialises in infrastructure, residential, commercial, and industrial projects, including high-rise buildings, shopping malls, office complexes, and residential developments. The company's commitment to quality, safety, and sustainability ensures that each project meets the highest industry standards.

Construction orderbook

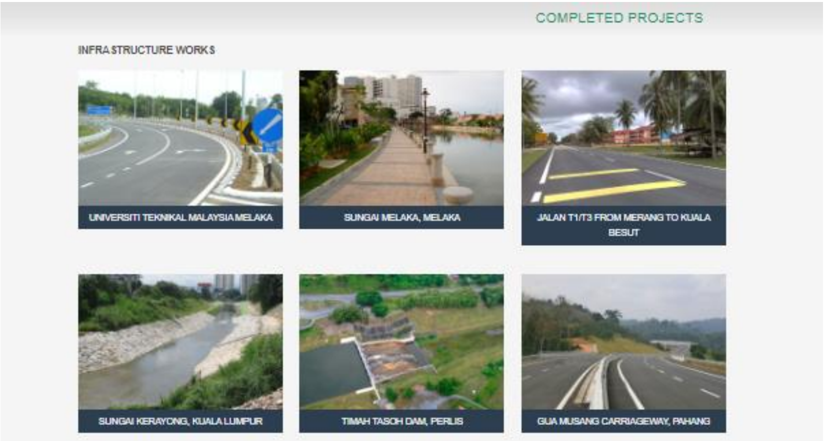
	Project	Contract value (RM'million)	Complete as at April 2024 (%)
Projects secured prior to Year 2022	Commercial office building 1	200.1	80%
	Residential building 1	278.2	80%
	Residential building 2	153.0	50%
Projects secured on and after Year 2022	Residential building 3	345.4	11%
	Commercial office building 2	242.2	9%
	Commercial office building 2	180.8	16%
	Residential building 4	410.5	0%
	Residential building 5	948.1	0%

Source: Apex Securities

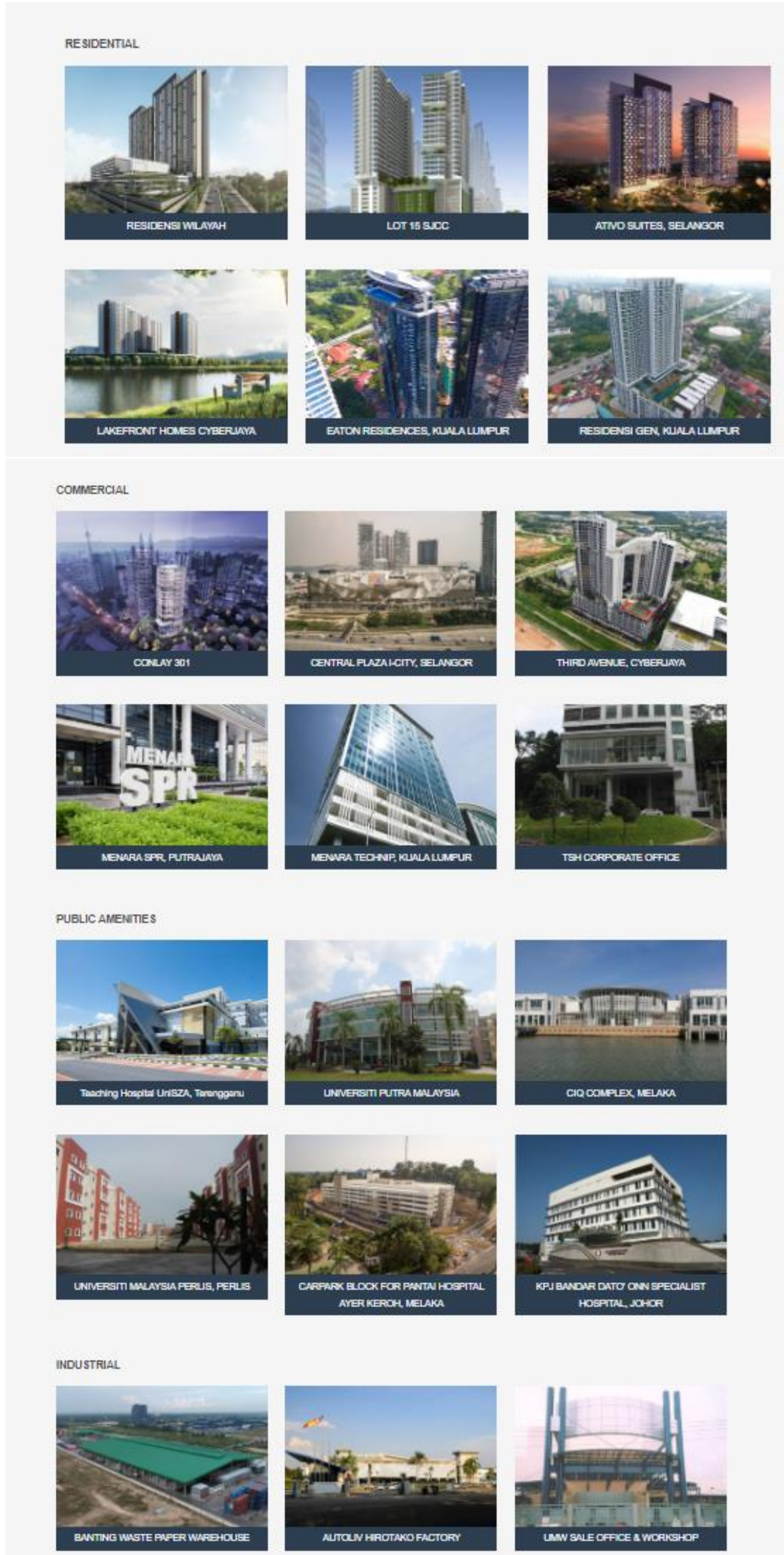
- Pesona's construction segment has a maximum capacity of handling approximately 10 projects in its order book at any given time, with each project typically carrying an average contract value of around RM200-300m. The construction segment contributed more than 95% of total revenue over the years.

- Some of the prominent construction projects undertaken by the Group over the years include Conlay 301 (a 41-storey commercial building), Central Plaza i-City (a 6-storey shopping mall), Faculty of Medical and Science Building at UPM, Ativo Suites, and Eotan Residensi, among others.

Completed projects



Source: Company website



Source: Company website

Concessionaire

- Pesona Metro operates its concessionaire business through SEP Resources Sdn Bhd, a subsidiary in which it holds a 70.0% controlling stake. Pesona acquired the stake in October 2017, marking their maiden venture into the concession business and facilities management sector.

- The Group holds a concession for the development and maintenance of student hostels at Universiti Malaysia Perlis (UniMAP) in Padang Siding, Perlis. The concession agreement involves SEP's wholly-owned subsidiary, Budaya Positif, in partnership with Universiti Malaysia Perlis (UniMAP) and the Ministry of Higher Education (MOHE).

- The project is currently managed by Pesona under a 22.5-year concession agreement, set to expire in 2036. Pesona handles maintenance services at a fixed rate, with a 5% increment every five years. The concessionaire segment consistently contributes approximately RM16-17m in revenue annually, accounting for about 3.3% of the total revenue in FY23.

Source: Company

Property development (proposed acquisitions and diversification)

- Pesona Metro announced plans to diversify into property development by acquiring a 51.0% equity interest in Gaya Kuasa for a total cash consideration of RM40.8m, with the acquisition expected to be completed by 4Q24.

- Gaya Kuasa was incorporated in 2011, focuses on real property development and is a related company of Pesona's major shareholders. Gaya Kuasa is the registered owner and developer of the ongoing apartment project known as Residensi Renaisans Bukit Jalil (Ren Residence). This development comprises 2 blocks of 52-storey apartments, with 1,260 units.

- Launched in April 2023, Ren Residence is expected to be completed by October 2027. The development spans a gross floor area of approximately 1.7m sqf together with 2,797 car park bays.

- Located along Jalan Jalil Impian in Bukit Jalil, Kuala Lumpur, Ren Residence is situated near established and ongoing developments such as Bandar Kinrara, Taman LTAT, Bukit Jalil National Stadium, and Tzu Chi International School.

- This acquisition is expected to enable Pesona to tap into the property development segment through Gaya Kuasa's ongoing Ren Residence project, thereby enhancing future profitability and cash flow for the Group.

- The project has an estimated Gross Development Value (GDV) of RM788.2m and is expected to generate a pre-tax profit of RM140.0m for Gaya Kuasa (assuming all units are sold).

Source: Ren Residences website

Source: Google maps

Source: Ren Residences website

Industry Overview

- 2024 is anticipated to be a stellar year for Malaysia's construction sector, buoyed by economic recovery and easing challenges, alongside a surge in development activities. Already, Malaysia's construction sector recorded a 17.2% yoy increase in value of work completed, totaling RM75.7bn in 1HFY24, with the private sector as the primary driver, contributing c.60.0% of the total value.

- With construction activities performing strongly, Bursa Malaysia's Construction Index surged c.40.0% in 1H24. This improvement is partly attributed to better-than-expected financial results and positive prospects, fueled by the acceleration of public mega infrastructure projects and a pickup in private sector projects.

- The private sector, driven by increased foreign direct investment (FDI), accounted for a significant portion of contractors' order books in 1H24. Recent order book replenishments have been primarily filled by a mushrooming of data center facilities, industrial buildings/warehouses, storage/logistics facilities, and expansions of semiconductor factories.

- The trend of data centers, warehouses, logistics facilities, and semiconductor plants expansions are expected to move along into 2H24. This is supported by relatively inexpensive land, government-led efforts to attract FDI, trade diversions, and well-planned infrastructure. Additionally, building-related players are likely to remain busy with new property launches, improvements in the property market sentiment, and ongoing projects in hospitals, schools, and related sectors.

Investment Highlights

- **Construction segment emerging out of woods, improved margin to be see going forward.** The Group's construction businesses faced challenges in recent years due to margin squeeze from rising costs for materials, labor, and transportation. Bulk of the low-margin projects are at tail end of the construction cycle and recent contracts with better margins to aligned with the inflationary pressure are expect to kick off over the foreseeable future. Combined with a stable input cost environment and a robust order book valued at RM2.2bn, the Group is expected to achieve significant financial growth in upcoming years.

- **Marking footprint into property development offers a new revenue stream and potentially pave way for asset injection.** The Group has proposed acquiring a 51.0% stake in Gaya Kuasa Sdn Bhd, which is deemed a related private entity, with the deal expected to close by the end of 2024. This acquisition will bring Gaya Kuasa's ongoing project, REN Residence, located in Bukit Jalil, KL, into the Group. REN Residence has an estimated GDV of RM 788 million and is projected to generate RM140m in pre-tax profit, assuming all units are sold. Its strategic location near established developments, such as an LRT station and an international school, bolsters sales potential. The venture into property development segment is expected to create new revenue streams and drive earnings growth. We also do not discount for a potential M&A activity with another privately owned entity by the major shareholder, Juta Asia.

- **Concessionaire segment provides steady and high-quality earnings.** Pesona Metro holds a 22.5-year concession, extending to 2036, for the development and maintenance of student hostels at Universiti Malaysia Perlis (UniMAP) in Padang Siding. This segment consistently delivers an average annual net profit of RM9.0m to the Group. The concession provides stable and predictable cash flows and earnings, supported by a reliable counterparty, the Ministry of Higher Education, which ensures timely payments. This stable income helps mitigate earnings uncertainty risks posed by other segments. The segment's stability is also reinforced by the Stable rating (AA) granted by the finance rating agency on their recent Sukuk issuance. Furthermore, with the current hostels nearing full occupancy, we expect increased revenue from this segment, potentially through securing additional concessions to expand student accommodation at UniMAP.

- **Strengthening in financial position.** Moving forward, we anticipate strong financial growth for Pesona Metro, driven by a robust order book of RM2.2bn and improved project margins. Bottom line is expected to benefit from reduced depreciation costs, as most assets purchased before the pandemic has already been fully depreciated while remaining operational. Additionally, the Group will benefit from the carry-forward of unutilized tax losses from previous years, which should keep the effective tax rate at a lower level.

- **Undemanding valuation.** We believe Pesona Metro is trading below its intrinsic value, with a 1-year forward PER of 7.2x in FY25F. This is significantly lower against the construction sector average of 16.0x 1-year forward PER. The discount is likely due to the Group being under the radar in the market.

Financial Highlights

- Over the four-year period from FY20 to FY23, Pesona Metro experienced notable earnings fluctuations, reflecting the volatility of the construction industry and broader economic challenges. The Group was impacted by the Covid-19 pandemic, cost overruns, and insufficient project replenishment, leading to declines in revenue and profitability pressures from FY20, leading to a net loss of -RM17.0m.

- The challenging cost environment, marked by rising and volatile material costs, continued to impact profitability through FY22. Despite these difficulties, Pesona demonstrated resilience and adaptability, reducing losses to -RM5.4m in FY21 and achieving a robust recovery in FY23 (net profit at RM9.5m). The turnaround was fueled by strategic project completions, new project acquisitions, and effective cost management.

- Looking forward, we anticipate a sturdy financial growth driven recognition of a robust order book standing at RM2.2bn. However, revenue for FY24F is expected to decline by -11.3% yoy to RM457.3m due to a delay in project replenishment, with new jobs/orders were only secured in mid-2024. However, we forecast a significant improvement in bottom-line performance, projecting a +76.7% yoy increase to RM16.8m in core net profit for FY24F. The projected growth will be supported by better project margins from newly secured higher-margin jobs, aligned with inflationary input cost pressures, lower depreciation cost, and the utilisation of carried-forward losses in prior years to reduce effective tax rate.

- For FY25F, we project a 20.0% yoy increase in revenue to RM548.8m, supported by forecasted replenishment of RM400.0m in new construction jobs. Additionally, we anticipate higher revenue from the concessionaire segment, particularly with the addition of new student hostel concessions at UniMAP, as existing hostels approach full occupancy. The acquisition of a 51.0% stake in Gaya Kuasa is set to be completed by the end of 2024, will contribute to Pesona's financial performance in FY25F. We forecast a 43.2% yoy growth in core net profit to RM24.1m for FY25F, driven by increased concessionaire earnings and contributions from the new property development business.

	FY21	FY22	FY23	FY24F	FY25F
Revenue	622.5	368.3	515.4	457.3	548.8
Gross Profit	33.6	29.9	50.7	57.7	79.2
Pre-tax Profit	-1.9	-3.6	14.4	22.0	35.9
Profit After Tax	-2.1	-3.0	12.4	19.8	27.3
Net Profit	-5.4	-6.4	9.5	16.8	24.1
Core Net Profit	-5.4	-6.4	9.5	16.8	24.1
Core EPS (sen)	-0.8	-0.9	1.4	2.4	3.5
Core P/E (x)	N/A	N/A	18.3	10.3	7.2
Dividend Yield (%)	0.0%	0.0%	2.0%	4.0%	4.0%
P/B (x)	0.3	0.3	0.3	0.4	0.3
ROE (%)	-3.1%	-3.8%	5.2%	8.8%	11.6%
Gearing (%)	96.3%	84.7%	80.5%	98.9%	101.8%

Source: Company, Apex Securities

Peers Comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x) FY23	P/E (x) FY24F	Gross DY (%)	Revenue RM 'm	Net Income RM 'm
Pesona Metro Holdings Bhd	**MAIN**	**Dec**	**0.250**	**173.7**	**18.3**	**10.3**	**2.3%**	**498.6**	**9.5**
GDB Holdings Bhd	MAIN	Dec	0.310	290.6	31.0	N/A	0.7	319.6	8.0
TRC Synergy Bhd	MAIN	Dec	0.440	207.4	9.0	11.3	0.7	679.5	25.3
Nestcon Sdn Bhd	ACE	Dec	0.420	297.4	64.6	N/A	0.7	775.1	3.5
Haily Group Bhd	ACE	Dec	0.735	144.2	18.7	N/A	4.6	295.6	7.4
Inta Bina Group Bhd	MAIN	Dec	0.440	242.2	9.1	7.3	2.7	650.1	22.9
Avg ex-Pesona Metro					**26.5**	**9.3**	**1.9**	**544.0**	**13.4**

Source: Bloomberg, Apex Securities

Valuation & Recommendation

- We derived a fair value of RM0.46 to Pesona Metro, based on a Sum-of-Parts (SOP) valuation. We assigned 8.0x P/E multiple applied to the construction segment's FY25F earnings, which is lower than the construction sector's average of 16.0x 1-year forward PER, reflecting Pesona's smaller scale of business. Additionally, the concessionaire business is valued using a DCF method with a 7.4% WACC rate, while the property development segment is assessed using an RNAV approach.

- Our target price of RM0.46 corresponds to a 13.0x 1-year forward PER based on the Group's FY25F EPS of 3.5sen, which is still below the Bursa Construction Index's 1-year forward PER of 16x. At current share price of RM0.25, we deemed valuations are fairly attractive, premised to the potential strong earnings growth prospects.

Sum of Parts (SOP) Valuation

	Equity Value (RM m)	Valuation method	Remark
Construction	167.5	8x PER of FY25F EPS	100% stake
Property development	18.1	RNAV	51% stake
Concessionaire	135.7	WACC = 7.4%	70% stake
SOP Value	**321.3**		
Enlarged share base (m share)	695.0		
Target Price (RM/share)	**0.46**		

Source: Apex Securities

Key Risks

- **Volatility of input prices.** While overall building material prices have normalized, certain input costs, such as cement prices and diesel (due to diesel rationalization), are elevated. These fluctuations pose a headwind for construction margins and could negatively impact the sector.

- **Failure to replenish new projects and execution risks.** Our earnings forecast assumes a RM400.0m replenishment of the order book to be recognized over a 4-5 years period. Failure to secure meet targeted orderbook replenishment or any delays in project completion could result may dampen projected financial growth.

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

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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