

Team Coverage

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Recommendation: **Subscribe**

IPO Price: **RM 0.28**

Previous Target Price: -

Target Price: **RM 0.42**

Upside/Downside: **50.0%**

Company Brief

Engaged in the provision of automation solutions, digital equipment design, and engineering services for integrated circuit development, assembly, and testing.

Stock Information

Board	ACE Market
Sector	Technology
Bursa / Bloomberg Code	0328 / 3REN MK
Syariah Compliant	Yes
Shares issued (m)	650.0
Market Cap (RM' m)	182.0
Free float (%)	19.2

Top 3 Shareholders (%)

Lee Chee Hoo	19.9
MTDC	5.0
Low Chee Onn	4.8

IPO Timetable

	Date
Opeining of IPO application	9/10/2024
Closing of IPO application	23/10/2024
Balloting of IPO application	25/10/2024
Allotment of IPO shares	4/11/2024
Listing of IPO on Bursa Malaysia	6/11/2024

3REN Berhad

Comprehensive Automation Solutions Service Provider Summary

- **3REN's long-term relationship with multinational companies like Intel and KellyOCG, collectively contributing more 60% to total revenue over the past three years is a testament to the Group's ability to undertake and retain large MNC customers.**
- **Future growth will be supported by strong client base with 62.9% recurring multinational customers, alongside with geographical expansion in bid to capture additional market share that is riding onto the growing demand and technology evolution.**
- **3REN is valued by pegging its FY25F core EPS of 2.1 sen to PE multiple of 20.0x, leading to a FV of RM0.42 (50.0% potential upside from IPO price).**

Company Background

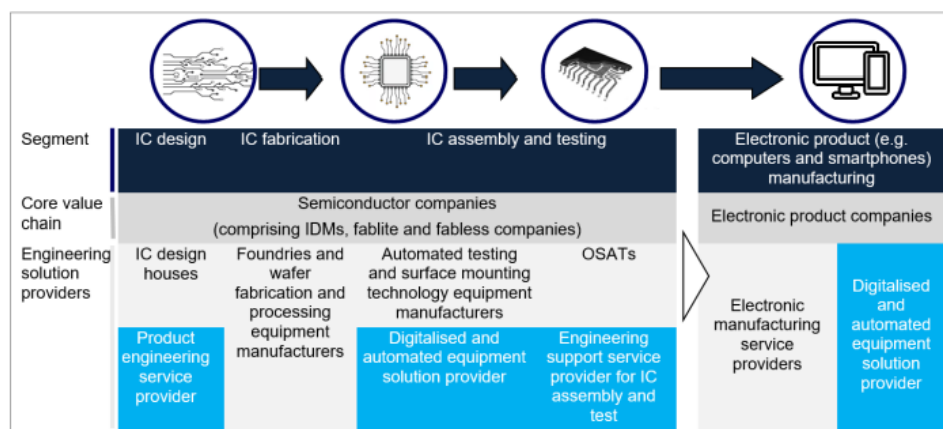
- 3REN Berhad (3REN), incorporated in Malaysia on April 5, 2021, transitioned into a public limited company on February 19, 2024. The Group is an investment holding entity with wholly-owned subsidiaries engaged in automation solutions and engineering services.
- The Group's journey began with the incorporation of Sophic Automation in 2007. Its first project in 2008 involved designing a digital solution for real-time machine performance monitoring for a printing service provider. Over the years, 3REN has grown significantly from a small operation with 7 employees in 2008 to 1,526 employees, including 1,192 contract workers to-date.
- Nervii platform, launched in Q4 2022, is a scalable solution aimed at integrating key systems and software used by customers in their manufacturing processes. This includes ERP, production planning, warehouse, CRM, logistics, and inventory management systems.
- At present, the Group is developing the Universal Test Automation Platform (Uni-TAP), a standardised platform for automated test and handler equipment. Uni-TAP serves as a reusable building block to create customisable, proprietary test software and universal tester solutions for different customers. This approach will lower development costs, reduce time to market, and improve operational efficiency.
- 3REN's key milestones include its strategic expansion across Malaysia with principal offices in Penang and Selangor, enabling the Group to serve a wide range of clients in the IC design and manufacturing industries such as Intel, and KellyOCG.
- The Group commands a market share of 0.3% in the automated manufacturing and digitalisation solution based on total revenue combined from automated equipment and digitalised solution of RM36.5m recorded in FY23.

IPO Utilisation

Details of utilisation	Estimated time frame for utilisation	RM 'm (%)
Setting up new Delivery Centres	Within 36 months	RM7.2m (23.4%)
R&D expenditure	Within 24 months	RM5.1m (16.6%)
Establishment of new Singapore office	Within 36 months	RM3.0m (9.7%)
Repayment of bank borrowings	Within 6 months	RM7.6m (24.7%)
Working capital requirements	Within 24 months	RM3.9m (12.7%)
Estimated listing expenses	Immediate	RM4.0m (13%)

Source: 3REN, prospectus

Business Overview



Source: 3REN, prospectus

- 3REN provides advanced **automated manufacturing equipment** that enhances productivity and efficiency in industries such as semiconductors and electronics.
- The Group designs and supplies custom **high-speed input/output (HSIO) equipment, signal integrity solutions, and predictive maintenance systems**. These tools help clients reduce downtime, optimise production processes, and ensure high-quality output.
- 3REN's integrated service offering spans across full product manufacturing lifecycle, from product development and new product introduction to high-volume manufacturing and market-ready solutions. This positions the Group as a key player in supporting the transformation towards Industry 4.0 and Industry 5.0, with a focus on driving operational efficiency through automation, digitalisation, and IoT integration.
- With a robust client base, including multinational corporations like Intel, 3REN has demonstrated strong capabilities in retaining clients and expanding its customer portfolio. This long-term relationship, coupled with the Group's ability to secure new contracts, underscores its proven track record and service excellence in the semiconductor and electronics industries. 3REN's role as a solution provider across multiple segments allows the Group to capitalise on the growing demand for automation and digital solutions within the manufacturing space.

Solutions



Source: 3REN, prospectus

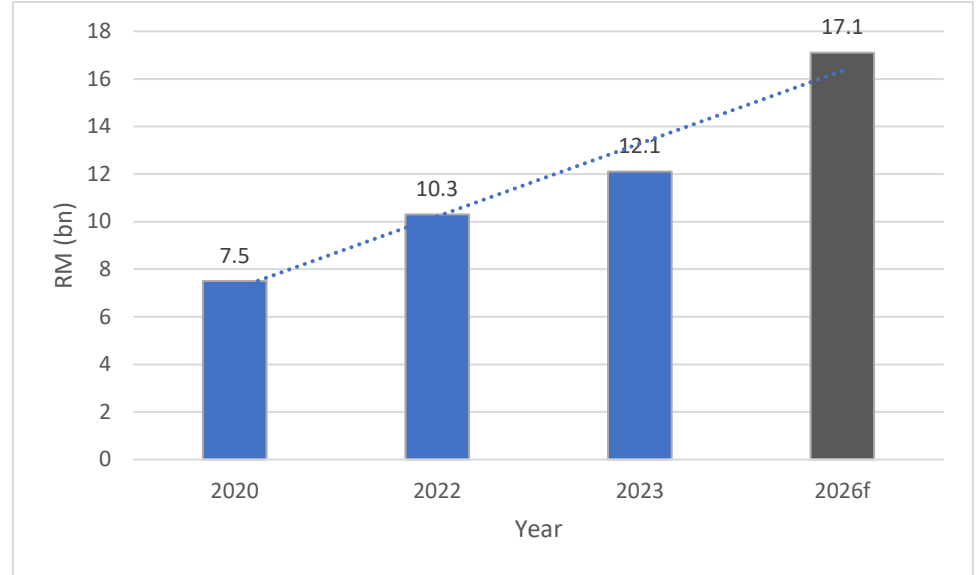
- **Product Engineering Services** cater to the semiconductor industry, focusing on tasks such as post-silicon validation and software development. These services help semiconductor companies manage complex product engineering activities like the development, testing, and validation of products like integrated circuits (ICs) and chips. The services include validating prototypes, ensuring they meet design specifications, and aiding in the introduction of new products for high-volume manufacturing. In FY23, the product engineering services makes up RM16.5m, representing 24.6% of total revenue.
- **Engineering Support Services for IC assembly and testing.** The integration allows for big data analytics, machine learning, and AI to optimise operations. These digitalised solutions are primarily targeted towards the **semiconductor, electronics, automotive, healthcare, and industrial sectors**. It involves setting up, installing, maintaining, and troubleshooting equipment, along with handling tool conversions. Progress is monitored to ensure key performance indicators and standards are met. In FY23, revenue from engineering support services for IC assembly and testing amounted to RM21.0m, contributing 31.2% to the Group's total revenue.
- **The design, development, and sale of digitalised solutions** are vital in the semiconductor and manufacturing sectors, providing customised software that automates operations. This involves collaborating with clients to create tailored solutions using the "Connected Production Suite," integrating necessary hardware, and conducting thorough testing to ensure performance. Post-delivery, ongoing technical support maintains effectiveness and enhances customer satisfaction. Ultimately, these solutions improve operational efficiency, reduce manual intervention, and enable real-time management, boosting productivity in manufacturing processes. In FY23, the design, development, and sale of digitalised solutions generated RM21.6m, representing 32.1% of the Group's total revenue.
- **The design, development, and sale of automated equipment** involve creating customised machinery that performs repetitive tasks, improving operational efficiency and allowing workers to focus on higher-value activities. The process begins with a conceptual study and client collaboration to finalise the design, followed by development, assembly, and integration of mechanical

components and software. In FY23, the design, development, and sale of automated equipment generated RM8.2m, representing 12.1% of the Group's total revenue.

Industry Overview

- Automated manufacturing and digitalised solutions refer to specialised systems designed to enhance efficiency in factories. These solutions not only streamline manufacturing processes but also extend their capabilities to non-manufacturing functions such as procurement, inventory management, and warehousing. By integrating advanced technologies, companies can optimise workflows, improve data accuracy, and facilitate real-time decision-making, ultimately leading to reduced operational costs and increased productivity. This holistic approach to automation is crucial in today's competitive landscape, where efficiency and adaptability are key drivers of success.
- Historically, Malaysia's automated manufacturing and digitalised solutions market expanded over the years from RM7.5bn of revenue in 2019 and is estimated at RM12.1bn in 2023. Moving forward, it is projected to hit RM17.4bn in 2026f, with three-year CAGR of 12.7% driven by concurrent move towards Industry 5.0.
- Product engineering services market in Malaysia grew from RM480.7m in 2020 to RM844.0m in 2023, with a CAGR of 20.6%. Globally, it expanded from USD778.3m in 2021 to USD1.2bn in 2023. Malaysia's IC assembly and test services rose from RM15.0bn in 2022 to RM19.2bn in 2023. 3REN captured a 3.8% market share of Malaysia's PES industry, with RM26.6m revenue in FYE 2022, based on the RM691.8m industry size for 2022.
- Automated manufacturing and digital solutions are purpose-built systems used in factories for both manufacturing and non-manufacturing processes, like procurement, inventory management, and warehousing. These technologies enable the creation of smart factories, where machinery and equipment are interconnected via IoT for real-time monitoring and management, allowing remote oversight of all processes, not just manufacturing.

Historical market size and growth forecast for the automated manufacturing and digitalised solution industry in Malaysia, 2020-2026f



Source: Providence

- The automated manufacturing and digital solutions industry in Malaysia grew at a CAGR of 15.8% from RM7.5bn in 2020 to RM12.1bn in 2023. Independent market researcher, Providence projects the industry to continue expanding at a (how many years) CAGR of 13.1%, reaching RM17.4bn by 2026f.
- In 2022, the Group captured a 0.4% market share of Malaysia's RM10.3bn automated manufacturing and digital solutions industry, with a combined revenue of RM37.7m for FYE 2022.
- The shift to Industry 4.0 and 5.0 is driving the adoption of smart factories, enabling manufacturers to automate processes, reduce costs, and enhance sustainability. Smart factories integrate production, allowing remote monitoring and data-driven decision-making. This trend, along with growing ESG and sustainability focus, is expected to boost demand for automated manufacturing and digital solutions.
- On the supply side, hardware, software, and semiconductor chips are critical for automated solutions. The global chip shortage during COVID-19 shifted to oversupply in segments like memory by 2022. Skilled talent is also key, with Malaysia's electrical and electronics workforce growing from 575,000 in 2020 to 632,000 in 2022.
- Government initiatives are vital for the growth of 3REN and the automated manufacturing and digital solutions industry. The 2018 National Policy on Industry 4.0 (Industry4WRD), launched by the Ministry of International Trade and Industry, promotes digital transformation in manufacturing. It focuses on boosting labour productivity, increasing economic contributions, fostering innovation, and creating high-skilled jobs. The Industry4WRD Readiness Assessment program supports SMEs in adopting Industry 4.0 technologies, helping them improve operations—fostering demand for 3REN's solutions as the industry evolves.

Investment Highlights

- **Growing demand for automation solutions.** With Industry 4.0 and 5.0 gaining momentum globally, demand for automation solutions in the semiconductor sector is rising. 3REN's expertise in this domain positions the Group well to capture market share.
- **Comprehensive service offering.** The Group provides a wide range of engineering services, including IC assembly and testing, product engineering, digitalised solutions, and automated equipment. This diverse portfolio positions 3REN as a one-stop solution provider, fostering customer loyalty and facilitating cross-selling opportunities among its various service lines.
- **Secured projects from wide range of customers mostly comprising multinational companies.** The Group secure projects primarily from multinational clients, including Intel cumulatively for 13+ years, KellyOCG 7+ years and new clients like Customer D and E, acquired in 2023. The Group ability to retain 62.9% recurring customers among 89 total clients in 2023 highlights their service quality and industry track record. This strong portfolio of multinational and established local customers positions the Group to further expand.
- **Geopolitical expansion and market penetration strategy.** The Group is set to open a marketing and sales office in Singapore by 1H25, aiming to bolster its market presence and strengthen its sales and marketing initiatives. Having already secured orders from Singapore-based clients, the new office will provide direct sales support to existing customers and facilitate closer engagement with potential clients. This strategic base will also serve as a springboard for the Group's expansion into other international markets, increasing exposure to a broader pool of multinational companies and enhancing its corporate profile. The Group plans to allocate RM3.0m from the public issue proceeds to fully fund the establishment and working capital requirements for the Singapore office.
- **Establishment of delivery centres.** The Group intends to establish dedicated Delivery Centres to manage specific product engineering services, typically performed at various customer locations, while ensuring compliance with clients' security requirements. Each centre will include secure design spaces with controlled access and independent network infrastructure, allowing for the safe use of proprietary tools and software. The first Delivery Centre will cater to the Intel group, and is expected to begin operations in the 2Q24. The second centre, aimed at prospective clients, is scheduled to launch by the 4Q25. RM7.2m financed through public issue proceeds over 36 months to cover staffing, rental, renovation, equipment, and operating expenses.

Financial Highlights

- 3REN Berhad revenue demonstrated an impressive track record in FY19-22, registering RM103.6m in FY22 (three-year CAGR +28.2%). The improvement was largely driven by the increased sales from the engineering support services for IC assembly and testing as well as the product engineering services segments. Meanwhile, their net margins have been improving from 11.7% in FY22 to 12.2% in FY23. Although there was a decline in overall revenue, the product engineering services segment remained strong, contributing significantly to earnings. These services help semiconductor and electronics companies with design, validation, and testing, which attracted more high-margin projects
- Moving forward, we are projecting the core net profit to demonstrate further improvement, rising 10.0% yoy to RM12.8m in FY24F, drive by stronger contribution from the product engineering services as well as engineering support services for IC assembly & testing segments. Already, 1HFY24 core net profit rose 25.0% yoy to RM4.8m.
- Going into FY25F and FY26F, we expect that 3REN's core net profit to record RM13.6m/RM14.8m +6.2%/+8.9% respectively, supported by (i) addition of manpower to support business expansions with the Group aiming to add 40 new permanent employees under product engineering services segment, 9 additional employees for research & development department, several personnels to helm the Singapore office as well as additional contract workers (ii) new delivery centres to boost efficiency and provide more sophisticated engineering services, (iii) continuous R&D efforts to keep abreast with technology evolutions and (iv) enhances visibility and presence through the setup of Singapore office.

Financial Highlights

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Revenue	103.6	94.9	98.9	112.3	121.7
EBITDA	15.2	17.2	15.4	19.6	21.3
Pre-tax Profit	14.0	14.7	12.8	16.9	18.4
Profit After Tax	12.1	11.6	10.2	13.6	14.8
Net Profit	12.0	11.6	10.2	13.6	14.8
Core Net Profit	12.0	11.6	12.8	13.6	14.8
Core EPS (sen)	1.9	1.8	2.0	2.1	2.3
Core P/E (x)	15.1	15.7	14.3	13.4	12.3
Dividend Yield (%)	2.5%	5.5%	0.0%	0.0%	0.0%
P/B (x)	3.2	3.1	2.6	2.2	1.9
ROE (%)	21.0	19.7	18.4	16.4	15.1
Gearing (%)	23.1	20.7	6.3	4.7	3.5

Source: 3REN Berhad, Apex Securities

Valuation & Recommendation

- At an IPO offer price of RM0.28, 3REN's forward PE valuation for FY24F/FY25F/FY26F is touted to be undemanding at 14.3x/13.9x/12.8x, which is far below Bursa Malaysia's Technology sector that is trading at 38.0x. We arrived at our fair value of RM0.42 (50.0% potential upside from its IPO price) by assigning a target PE of 20.0x to its FY25F EPS of 2.1 sen.
- The assigned target PE represents approximately 25.0% discount to selected peers that involves in provision of engineering support services for IC assembly and testing such as OPPSTAR as well as peers involve in provision of design and development of digitised solutions and automated equipment such as TVHB, GENETEC and PENTA that are trading at an average forward PE of 27.4x for 2025F. The discount is to reflect 3REN's smaller market cap.
- We like 3REN for its established position that commands a market share of 0.3% in the automated manufacturing and digitalisation solution based on total revenue combined from automated equipment and digitalised solution of RM36.5m recorded in FY23 alongside with stable growth prospects riding onto technology advancements and evolutions and aiming to boost their presence in the regional markets.
- While 3REN does not adopt a formal dividend policy, we note that the Group was at net operating cash flow over the years. We reckon that the rolling out of expansion plans would be their key focus over the next 18 months.

Peers Comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x)		Revenue RM 'm	Core Net Profit RM 'm
					FY24F	FY25F		
3REN Berhad	ACE	Dec	0.28	182.0	14.3	13.4	98.9	12.8
Opstar Berhad	ACE	Mar	0.855	547.7	35.3	44.5	54.7	12.3
TT Vision Holdings Berhad	ACE	Dec	0.815	390.9	36.4	35.8	61.4	10.9
Genetec Technology Berhad	MAIN	Mar	0.760	596.5	8.0	10.5	290.7	57.0
Pentamaster Corporation Berhad	MAIN	Dec	3.47	2471.7	17.6	18.8	691.9	131.5
Avg ex-3REN Berhad					24.3	27.4	274.7	52.9

Source: 3REN Berhad, Bloomberg, Apex Securities

Investment Risk

- Heavy dependency onto two major customers collectively contributed more than 60% of total revenue over the past three years.
- Delay/termination of purchase orders
- Slower-than-expected implementation of expansion plans

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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

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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