

Integral Player In Power Supply Value Chain

JATI TINGGI GROUP BERHAD
Fair Value: RM0.41 (+51.85%)

Company Description

Through its subsidiary, Jati Tinggi Group Berhad (“JTG”) is principally involved in underground and overhead utilities engineering services and solutions, substation engineering, procurement, construction and commissioning (“EPCC”) and trading of equipment for substations.

Investment Highlight

- **Integral player in power supply:** JTG plays significant role in delivering reliable power supply in Peninsular Malaysia that maintains the ongoing progress of daily lives and development of economic activities. The Group undertakes electricity related underground and overhead utilities engineering projects, which lay power grid transmission and distribution infrastructure ensuring the accessibility and connectivity of electricity to residential, commercial and industrial users.
- **Riding benefits from data centre boom:** Malaysia’s current data centre capacity is between 120MW to 150MW and expected to grow at a compound annual growth rate (“CAGR”) of 9.41% from 2022 to 2028. This positive prospect benefits the future growth of JTG as one of the few reliable power supply contractor in the country.
- **Part of Malaysia’s Renewable Energy Roadmap (“MyRER”):** Malaysia targets to achieve 31% Renewable Energy (“RE”) with 12.9 GW of RE installed capacity by 2025. Estimation of RE deployment target of 40% by 2035, in which penetration of solar during peak demand reaches 30%. Technically, this shows a huge growth opportunity for the Group as one of the players in power supply segment.
- **Doubling of investments by Tenaga Nasional Berhad (“TNB”):** TNB has announced an additional RM35 billion (“bn”) in expenditure from 2025 to 2030 to enhance Malaysia’s power grid – for a total investment of RM90bn in the upcoming five years. This doubling versus previous allocation of RM46bn (2018 to 2024) puts JTG in a strong position to capitalise on this opportunity.
- **Ability to undertake larger project as main contractor:** The Group is capable of undertaking larger and technically complex works such as underground cabling works up to 500 kV and cable tunnel construction works. Backed by solid proven track record and equipped with licenses and permits from CIDB, TNB, and MOF, JTG qualifies to take on the role of a main contractor for large project.

Valuation / Recommendation

We derive a fair value of RM0.41 based on 15x multiple to its FYE2024F EPS of 2.75sen. The IPO aims to raise approximately RM18.04 million (“mn”) from the issuance of 66.80mn new shares. A total of 38.81% of proceeds will be utilised for repayment of bank borrowing, 40.67% is allocated for general working capital, while the rest of the proceeds will be utilised for capital expenditure and listing expenses.

The Group’s current ratio is above 1x, illustrating its strong ability to repay its current liabilities. Meanwhile, 2022’s relatively low gearing ratio of below 1x suggests healthy ability to funds its future growth via borrowings. Driven by the rising demand and huge potential in underground and overhead utilities engineering services and solutions, we foresee profitability increasing at a sustainable rate in the coming years.

IPO TIMELINE

Opening Date	30 Nov 2023
Closing Date	6 Dec 2023
Listing Date	20 Dec 2023

IPO Price (RM)	0.27
Expected Return	+51.85%

Market/Sector	ACE / Construction
Bursa Code	0292

IPO Details	Shares(mn)
Offer for Sale	35.00
Public Issue	66.80
Enlarged share	391.80

Utilisation of IPO Proceeds	RM(mn)	(%)
Repayment of bank borrowings	7.00	38.81
General working capital	7.34	40.67
Capital expenditure	0.20	1.11
Estimated listing expenses	3.50	19.41
Total	18.04	100.00

Substantial Shareholders	Shares(mn)	(%)
Dato' Seri Lim Yeong Seong	54.00	13.78
Chin Jiunn Shyong	18.00	4.59
Lim Ming Hong	18.00	4.59
Broad River Capital Sdn.Bhd.	200.00	51.05

Key Financial Summary

FYE Nov (RMmn)	2021	2022	2023F	2024F	2025F
Revenue	96.41	234.61	105.58	158.36	190.04
Gross Profit	14.16	17.40	9.50	17.42	19.00
Pre-tax Profit	9.78	11.21	6.72	13.24	13.99
Core Net Profit	7.24	9.13	5.47	10.79	11.40
Core EPS (Sen)	1.85	2.33	1.40	2.75	2.91
P/E (x)	14.61	11.58	19.34	9.81	9.28
DPS (Sen)	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-

Source: Company Prospectus, Eco Asia Research Estimates

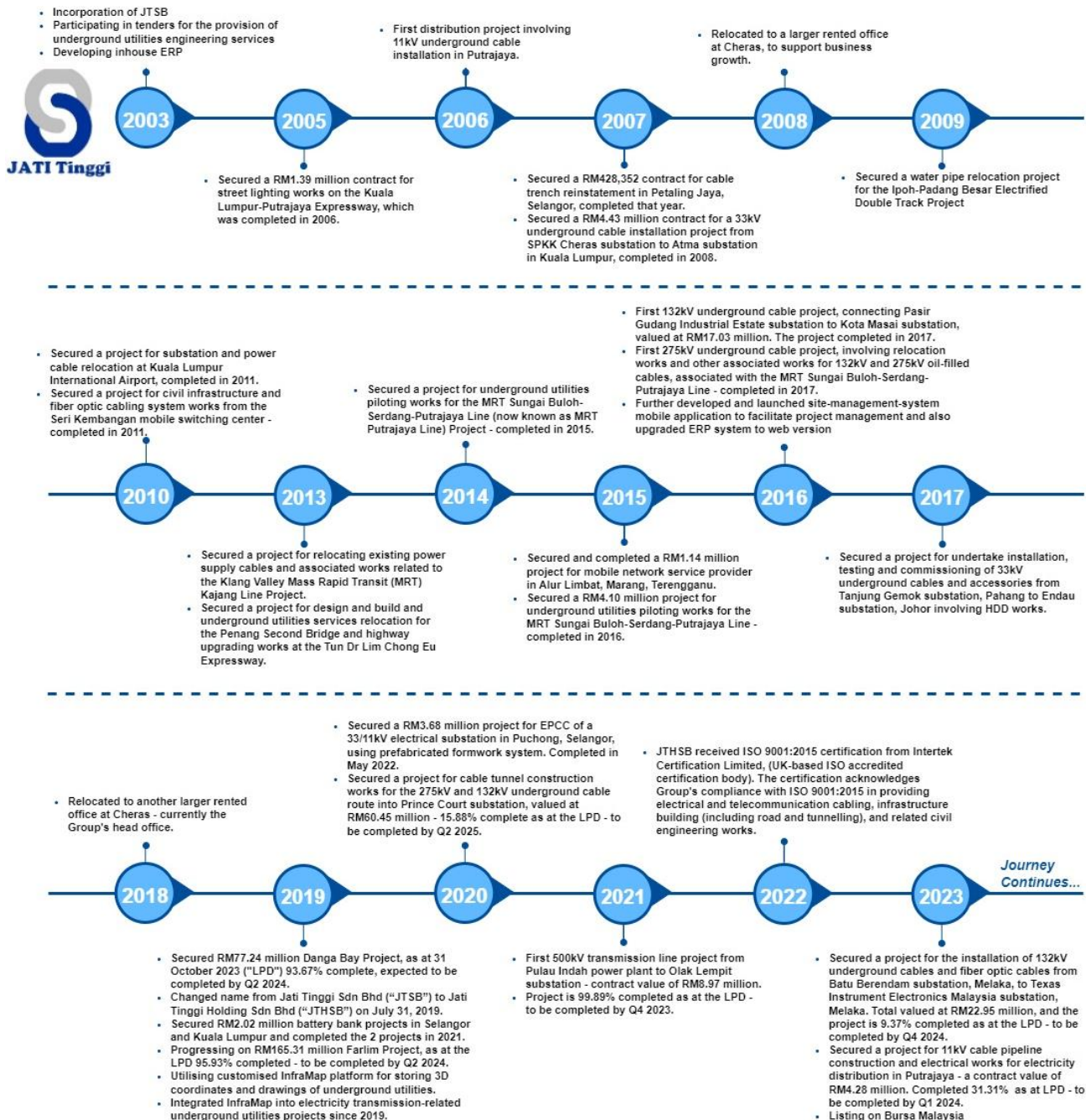
EPS and P/E from 2021A to 2022A (pre-IPO) are on pro-forma basis for comparative purposes only.

Company Background

JTG has its principal place of business and head office located at No. 23 & 25, Jalan Temenggung 13/9, Bandar Mahkota Cheras, Seksyen 9, 43200 Cheras, Selangor Darul Ehsan, Malaysia.

The Group has evolved from specialising in electricity distribution-related underground and overhead utilities engineering projects (i.e., 11kV and 33kV projects) to handling transmission-related underground utilities engineering projects (i.e., 132kV, 275kV and 500kV projects). The following illustration shows milestones of its history and development.

Key Milestones



Project Details

Project 1: Underground cable installation work - Transmission related

Farlim Project – 132kV double circuit underground cable installation work from Farlim substation to Sungai Ara substation, Pulau Pinang.

The letter of award for Farlim Project was awarded to the Group by Worktime Engineering in January 2020. As Worktime Engineering has entered into an unincorporated joint venture with YM Teras, YM Teras took over as the project lead for the Farlim Project and the Group began liaising with YM Teras commencing June 2022.

Customer	Worktime Engineering/ YM Teras
Contract value	RM165.31mn
Commencement date	January 2020
Expected completion date	May 2024
Stage of completion as at the LPD	96%

Source: Company Prospectus

Project 1 Illustrations



Source: Company

Project 2: Cable tunnel construction works

Cable tunnel construction works for 275kV and 132kV underground cable route to Prince Court substation, Kuala Lumpur.

Customer	CD Electrical
Contract value	RM60.45mn
Commencement date	August 2022
Expected completion date	May 2025
Stage of completion as at the LPD	16%

Source: Company Prospectus

Project 2 Illustrations



Source: Company

Underground Utilities Excavation Works

JTG undertakes Open Trench Excavation and Trenchless methods for its underground utilities works. The selection of excavation methods are mainly based on customers' requirements, guideline from local authorities, location and surrounding conditions, type of utility service, capacity of pipeline, soil profile, project duration, length of cable to be laid and the cost of project.

1. Open trench excavation

Open trench excavation involves digging and creating a pit of a specific depth in the surface of the ground along the specific route for the installation of pipeline. Cables and pipelines are installed underground at a depth close to the surface, typically up to 1.5 metres beneath ground level, or to the specification of local authorities or customers. If the route is located on paved areas, there will be a pavement-restoration work to complete the job. The process is as illustrated as below:



Source: Company Prospectus

2. Trenchless

The trenchless method is an alternative to open trench excavation in order to minimise surface level disruption and restoration works using two methods as below:

2.1. Horizontal directional drilling ("HDD") method: HDD machines to install underground cables or pipelines. The main steps in the HDD process are as follows:



Source: Company Prospectus

2.2. Pipe jacking - Microtunneling (slurry) technique: This technique is used for installing pipelines beneath the surface in a wide range of soil conditions as shown below:

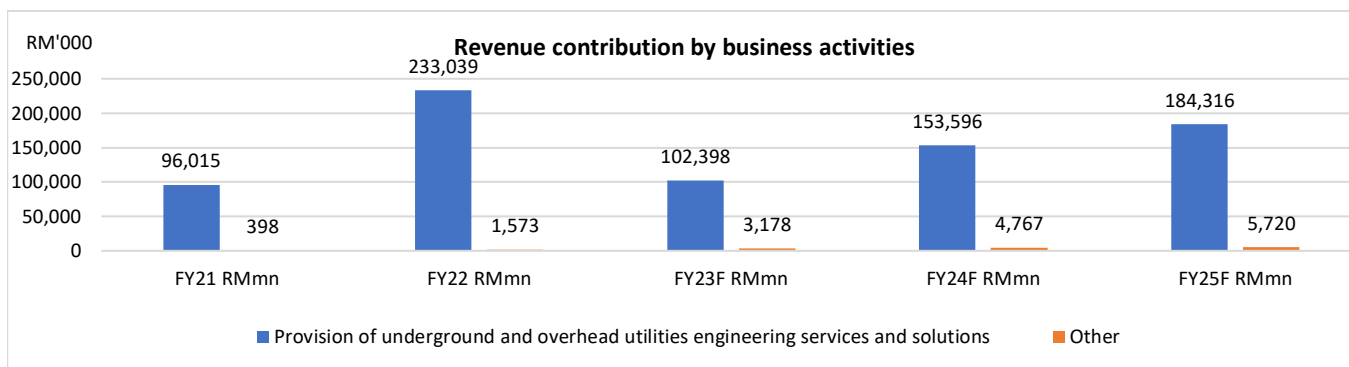


Source: Company Prospectus

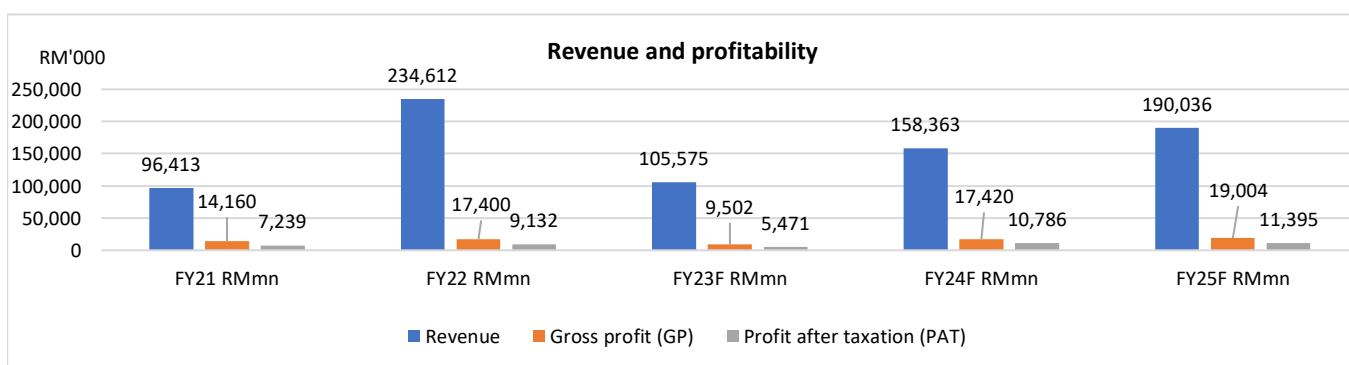
Revenue and Profitability

The Group's revenue from FYE 2021 to FYE 2022 was mainly derived from its principal solution, i.e. the Provision of underground and overhead utilities engineering services and solutions. As of FYE2022, these works contributed 96.99% of total revenue.

Revenue contributions by business activities as well as the revenue and profitability from FYE2021 to FYE2022, FYE2023F and FYE2025F are as below:



Note: Others comprise provision of substation EPCC services, trading of equipment for substations, and street lighting services



Source: Company Prospectus / Eco Asia Research Estimates

Future Plans

In order to achieve sustainable growth, JTG will implement the following business strategies over the 36-month from the date of its listing:

- Participating in large-scaled projects as main contractor:** JTG as main contractor plans to participate in large-scale projects, which include tendering project directly with TNB. Given the good proven track record and complete licenses and permits obtained, the Group is confident to meet the requirements to undertake project directly as main contractor.
- Expanding to new territory in East Malaysia:** JTG aspires to expand its territory to East Malaysia – as part of its initiative to tap into Sabah and Sarawak potentials for infrastructure utilities engineering business opportunities. The Group intends to collaborate with local partners, focusing on infrastructure utilities industry for EPCC works, which includes power cabling as well as other related engineering works, civil or electrical works for the power, telecommunication, distributed gas, water and sewerage markets in that region.

Strategic Competitive Advantages and Strengths

Solid track record in transmission and distribution project: Starting with 11kV and 33kV distribution projects in relation to the provision of underground and overhead utilities engineering service in 2003. JTG has strengthened its technical skills and capabilities in the areas of project planning, project management, project delivery, quality of works performed and site safety matters. This has solidified its standing and capabilities in undertaking larger and more complex transmission projects, as the Group is now capable of undertaking larger and technically complex works such as underground cabling works up to 500 kV and cable tunnel construction works.

Experienced management team: JTG possesses over 10-year experienced and in-depth knowledge of senior management team in infrastructure utilities engineering solutions. Under the leadership of Dato' Seri Lim as the Managing Director, the management team is confident to sustain and further develop the Group business operation and expansion.

Engineering academic qualification staff with strong on-the-job experience: Under the Project Department led by Chin Jiunn Shyong (Group's Executive Director/ COO), the Group's workforce comprises staff with engineering academic qualifications, which have accumulated on-the-job experience garnered through active involvement in project implementation and technical training as well as staff who are involved in project administration, quality control, site safety and procurement functions. This strength adds advantage to the JTG's project quality delivery.

Adoption of high technology tools to enhance project operations and quality: JTG applies technology support in its operation to improve project management and service delivery for better operations and quality of works. The Group uses a customised geospatial smart utility mapping solution and developed its own enterprise resource planning ("ERP") system and site management system mobile application. These assist in project management as well as to remote access for project site management.

Key Risks

Project-based revenue restriction: JTG's business nature in providing infrastructure utilities engineering solutions is conducted on a project-to-project basis. Current customers have no obligation to continue awarding projects in future. Thus, the historical financial performance may not be indicative of its future financial performance.

Material price risk due to dependency on major supplier: The Group is dependent on Power Cable Malaysia, as a major cable supplier. Cables are a major cost component, making up to 80% of total project cost. Any fluctuation in material price could materially and adversely affect JTG's financial performance.

Risks of inadequate materials supply: Any shortage of material supply from the major supplier that offers competitive price may lead to an unanticipated increase in costs associated with projects. Any short supply of essential cables and pipes which are made from copper and resins for the projects will be sourced from alternative suppliers at different prices. This could affect the Group's business and financial performance.

Risks of non-performance subcontractors: JTG is dependent on subcontractors' works to scale up project capabilities and to carry out selected parts of their project activities as the Group may require specific expertise from third party for certain projects. Hence, any non-performance subcontractors pose a risk for the completion of project.

Industry Outlook

Growing demand for power infrastructure utilities: The capital expenditure reported in Malaysia shows strong increase from RM5.7bn in 2016 to RM10.3bn in 2021 at a CAGR of 12.4%. Moving forward, it is estimated that RM20.0bn will be allocated on capital expenditure for recurring electricity generation, transmission and distribution in Peninsular Malaysia and Sabah between 2022 and 2024.

Continuous investments in new and replacement utility infrastructure: The power infrastructure utilities market remains to be positive in line with the government's long-term economic growth plans and support on investment initiatives in utility infrastructure. TNB recently announced plans to deploy RM35bn between 2025 and 2030 to upgrade Malaysia's power grid to ensure that the infrastructure does not become a hindrance to the nation's energy transition endeavours. Driven by the growing population and urbanisation, the increasing demand for power will drive new investments locally and globally, underpinning the industry-positive outlook.

IPO Shares Allocation

Allocation	No. of Shares	%
<u>Public Issue</u>		
Malaysian Public via balloting process:		
• Public investors	9,800,000	2.50
• Bumiputera public investors	9,800,000	2.50
Eligible Parties	10,000,000	2.55
Placement to Bumiputera investors approved by MITI	14,000,000	3.57
Placement to selected investors	23,200,000	5.92
Subtotal	66,800,000	17.05
<u>Offer for sale:</u>		
Placement to Bumiputera investors approved by MITI	35,000,000	8.93
Subtotal	35,000,000	8.93
Total	101,800,000	25.98
Total enlarged share capital upon listing	391,800,800	

Source: Company Prospectus

DEFINITION OF RATINGS

Eco Asia Investment Advice uses the following rating system:

STOCK RECOMMENDATION

BUY Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.

TRADING BUY Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.

HOLD Share price may fall within the range of +/- 10% over the next 12 months

TAKE PROFIT Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.

TRADING SELL Share price may fall by more than 15% in the next 3 months.

SELL Share price may fall by more than 10% over the next 12 months.

NOT RATED Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months

NEUTRAL The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months

UNDERWEIGHT The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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