25 January 2024

One-Stop Integrated Building Support Provider

KJTS GROUP BERHAD

Fair Value: RM0.33 (+22.22%)

Company Description

KJTS Group Berhad ("KJTS") is principally involved in providing building support services comprising cooling energy, cleaning and facilities management ("FM") services. Under Cooling Energy Segment, the Group provides cooling energy management services, and Engineering, Procurement, Construction, and Commissioning ("EPCC") including new, retrofitting and/or upgrading of cooling energy. The cleaning services focus on ensuring the cleanliness, tidiness and hygiene of buildings and facilities. Lastly, FM services cover the repair and maintenance of mechanical and electrical ("M&E") machinery and equipment, process utilities including plumbing, drainage and sewerage, and food and beverage ("F&B") and retail outlet equipment

Investment Highlight

- **Huge untapped potential to grab:** KTJS's market share in construction of cooling energy system is below 1%, and its cleaning and FM services at around 1% from the industry market share. This shows significant huge potential for future growth.
- **Growth catalysed by construction industry revival:** Construction industry is forecasted to grow by 6.8% in 2024 – following the recovery in economic activities and better performance across all subsectors. The revival of the construction industry will give positive-parallel impact to the development of building support services industry.
- **Door of opportunities from government green initiative:** Operators in the building support and cooling energy services industry gets benefit under the National Energy Transition Roadmap ("NETR") plan, with a total of RM6 billion ("bn") investment for energy-efficiency improvement. NETR targets energy efficiency for the industrial and commercial sectors of 22% and 23% by 2040 and 2050 respectively, and 15% and 20% for the residential sector by 2040 and 2050 respectively.
- **Ample opportunities from increasing ESG awareness:** The growing trend towards environment, social and governance ("ESG") – coupled with the ambition to reduce the carbon footprint and enhance cost savings – increase demand for cooling energy management services and energy-efficient cooling systems. Hence, more sustainable long-term opportunities for the building support services industry.

Valuation / Recommendation

We derive a fair value of RM0.33 based on 19x multiple to its FYE2024F EPS of 1.76sen. The IPO aims to raise approximately RM58.9 million ("mn") from the issuance of 218.03mn new shares. A total of 76.30% of proceeds will be utilised for repayment of capital expenditure, 13.79% is allocated for general working capital, while the remaining 9.91% the proceeds will be utilised for 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. Catalysed by the increasing awareness on environmental, social, and corporate governance ("ESG") in respect to energy efficiency, as well as the need building-cooling solution, we believe that KTJS will prosper in line with industry's growth.

IPO TIMELINE	
Opening Date	5 Jan 2024
Closing Date	11 Jan 2024
Listing Date	26 Jan 2024
IPO Price (RM)	0.27
Expected Return	22.22%
Market/ Sector	ACE/ Industrials
Bursa Code	0292

IPO Details	Shares(mn)
Public Issue	218.03
Enlarged share	688.00

Substantial Shareholders	Shares(mn)	(%)
Lee Kok Choon	218.12	31.70
Sheldon Wee Tah Poh	218.12	31.70
Yeow Boon Siang	33.74	4.90

Utilisation of IPO Proceeds	RM(mn)	(%)
Capital expenditure	44.92	76.30
General working capital	8.12	13.79
Estimated listing expenses	5.83	9.91
Total	**58.87**	**100.00**

Allocation	Shares(mn)	%
Public Issue		
Malaysian Public via balloting process:		
• Public investors	17.20	2.50
• Bumiputera public investors	17.20	2.50
Eligible Parties	15.00	2.18
Placement to selected investors	168.63	24.51
Total	218.03	31.69
Total enlarged share capital upon listing	688.00	

Source: Company Prospectus

Key Financial Summary

FYE Nov (RMmn)	2021	2022	2023F	2024F	2025F
Revenue	85.29	94.44	122.77	159.60	**191.52**
Gross Profit	19.98	22.73	29.55	38.42	**46.10**
Pre-tax Profit	7.52	8.72	11.34	14.74	**17.69**
Core Net Profit	5.98	7.16	9.30	12.09	**14.51**
Core EPS (Sen)	0.87	1.04	1.35	1.76	**2.11**
P/E (x)	31.05	25.96	19.97	15.36	**12.80**
DPS (Sen)	-	-	-	0.35	**0.42**
Dividend Yield (%)	-	-	-	1.30	**1.56**

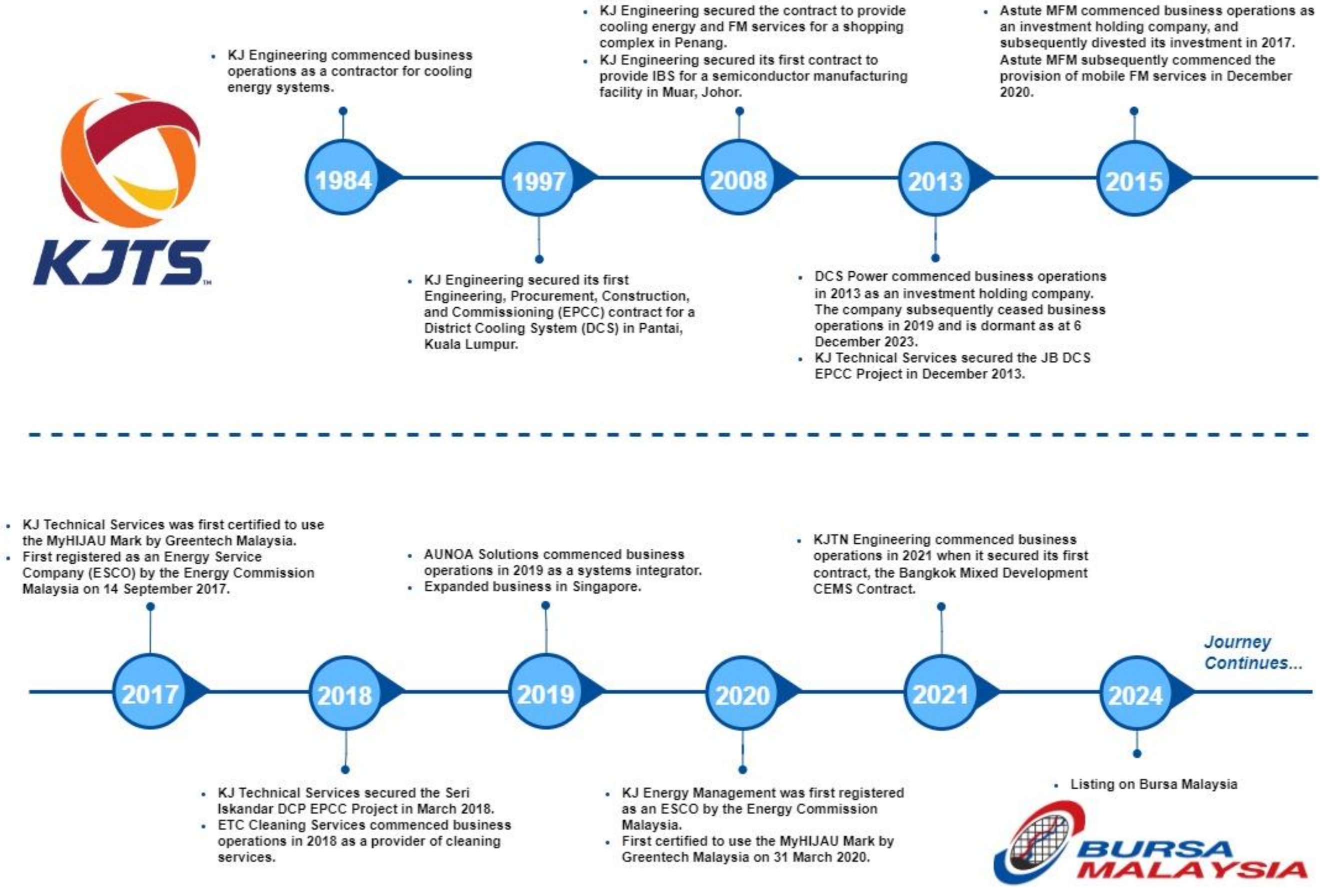
Source: Company Prospectus, Eco Asia Research Estimates

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

Company Background

KJTS principal operations and markets are in Malaysia, Singapore and Thailand. The Group started its operation in 1984, and has established its presence in Singapore in 2019. Through incorporation of KJTN Engineering ("KJTN"), another base in Thailand was established. The following illustration shows milestones of Group's history and development.

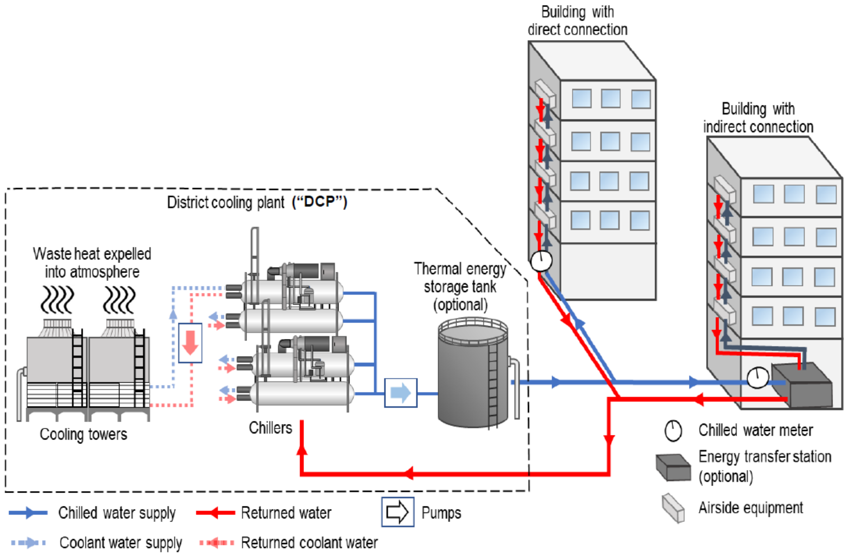
Key Milestones



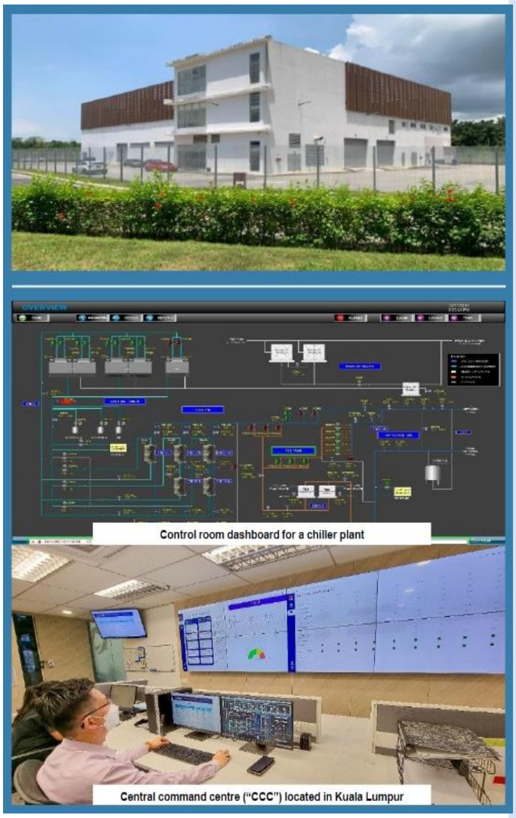
Source: Company Prospectus

Cooling Energy Segment

KJTS focuses on large-scale centralised cooling energy systems to provide space cooling to an entire building or several close buildings mainly based on district cooling system ("DCS"), followed by chiller plants for single building. The general layout of a DCS is as follows: -

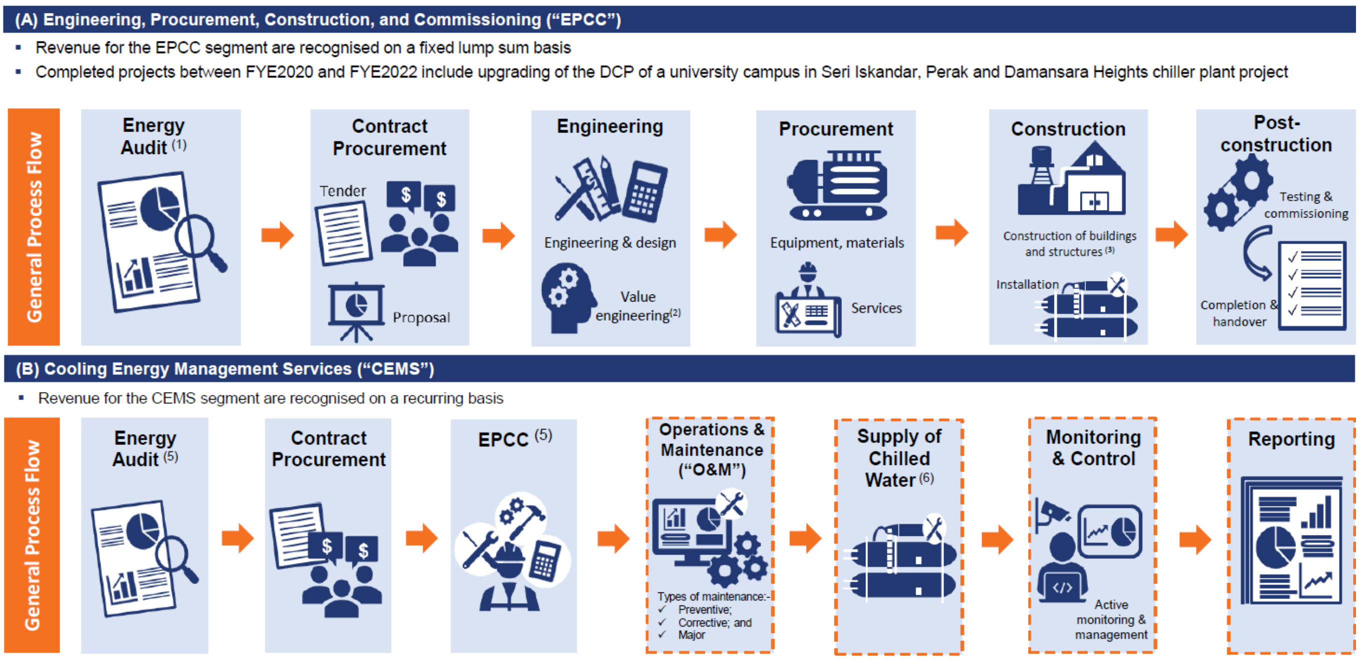


Source: Company Prospectus



Source: Company Prospectus

Cooling Energy Segment Revenue Streams

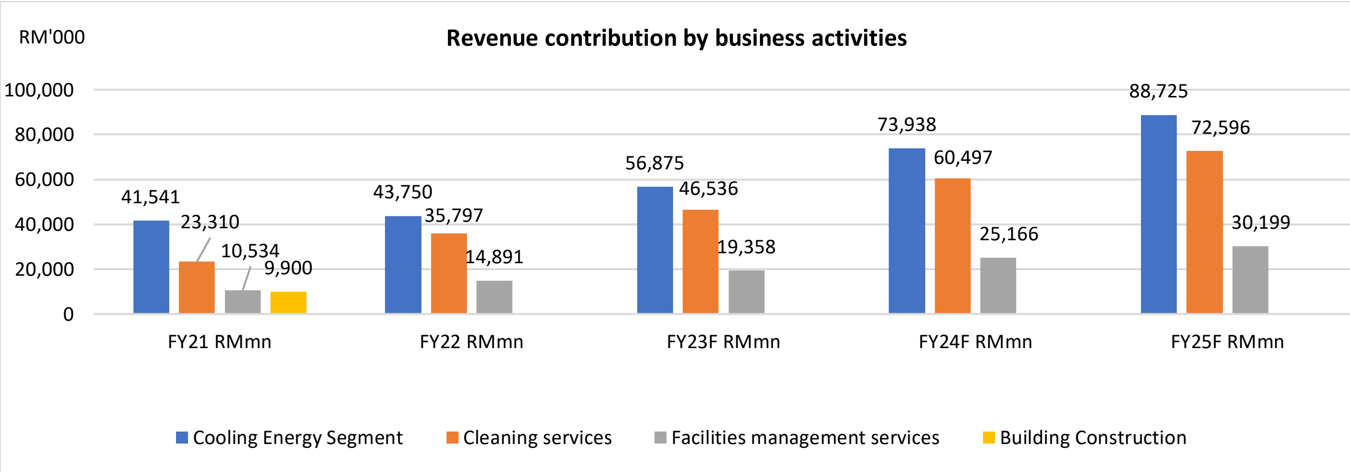


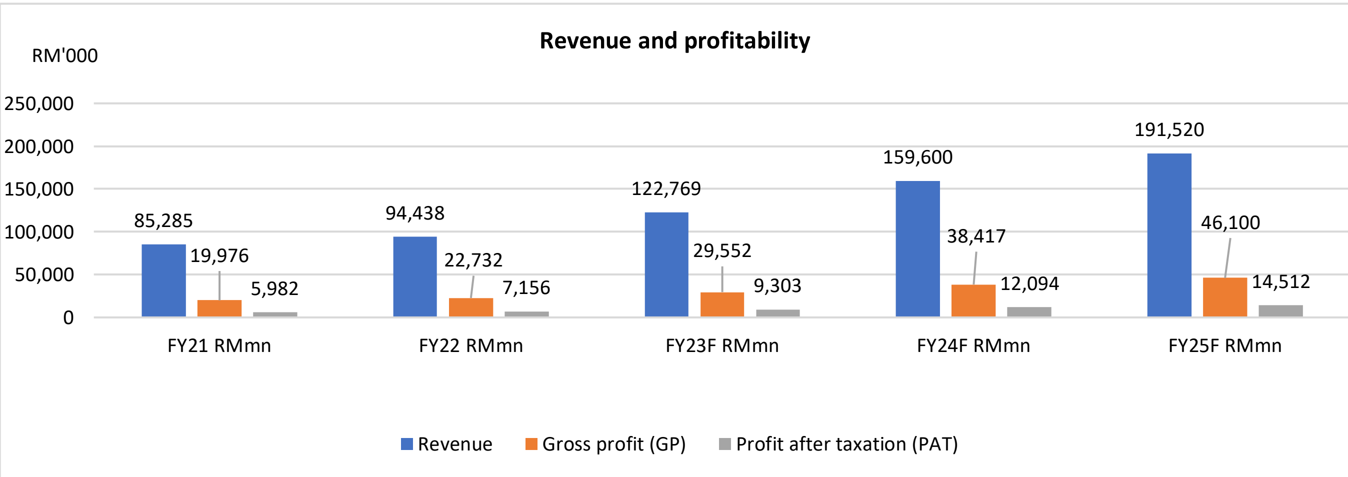
Notes:- (1) Only applicable for retrofit and/or upgrade projects (2) Only for some projects where KJTS is provided with designs from third parties (3) Mainly for EPCC of new cooling energy system (4) Only applicable for some projects (5) Only applicable for some contracts (6) The cooling energy system that we operate and maintain are focused on the supply of chilled water for space cooling. In some of our contracts, charges are also based on the amount of chilled water supplied for space cooling.

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 Cooling Energy that contributed 46.30% of total revenue – as of FYE2022. Revenue contributions by business activities as well as the revenue and profitability from FYE2021 to FYE2022, FYE2023F and FYE2025F are as below:





Source: Company Prospectus / Eco Asia Research Estimates

Future Plans

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

- **Expansion of Cooling Energy Segment:** Intend to allocate RM40.42mn or approximately 68.66% of the proceeds from the IPO to facilitate the expansion of the Cooling Energy Segment in Malaysia comprising both cooling energy management services ("CEMS") and EPCC.
- **Expansion of Offices in Malaysia, Singapore and Thailand:** Intend to allocate RM4.50mn, representing 7.64% of IPO proceeds – for expansion and renovation of offices in Malaysia, Thailand and Singapore.

Strategic Competitive Advantages and Strengths

Solid 40-year establishment in Cooling Energy Segment: The business in Cooling Energy Segment commenced since 1984 through KJ Engineering. Over the years, the Group has expanded its cleaning services segment into Singapore following the acquisition of the entire equity interest in KJ FEM Pte. Ltd. In 2019, as well as charted new territory in Thailand through KJTN Engineering in 2021 for Cooling Energy Segment. The established track record helps in sustaining business relationship with current customers and further develop its business landscape by securing new prospects in Malaysia.

In-house engineering capability to support cooling energy system lifecycle: End-to-end services incorporating construction and installation, and subsequently operations and maintenance of cooling energy systems that provides business and financial sustainability, which allows KJTS to pursue business and geographic expansion without relying on external engineering service providers.

ESG awareness fuels demand for cooling energy services: The value proposition in reducing the electricity consumption of cooling energy systems through cooling energy management services contributes to customers' ESG efforts by reducing CO2 emissions. The Group's ability to provide a tangible contribution to customers' ESG efforts provides strong marketing selling point for new business opportunities, as well as growing and sustaining the ongoing business.

Long-term contracts assure continuous revenue streams: The recurring revenue provides profit visibility and assurance of revenue for the duration of the respective contract. Subsequently, it provides significant fund to serve as the platform for business and financial sustainability for business and geographic expansion.

Strategic central command centre ("CC") for remote-monitor cooling energy systems: The Group operates CC at head office in Kuala Lumpur – to provide continuous real-time (24 hours per day, 7 days per week) monitoring. It collects data for analysis purpose for effectiveness improvement, efficiency and safety of the cooling energy system, as well as facilitate predictive maintenance to minimise potential costly system failure.

Key Risks

Exposed to unfavorable foreign currency exchange ("FX") rate fluctuations: The reporting currency for KJTS is in RM while the functional and reporting currencies of its Singapore and Thailand subsidiaries are in SGD and THB respectively. Purchases for input materials, such as chillers and pumps from foreign suppliers are denominated in USD. Hence, the Group is exposed to potential unfavorable FX rate.

Delay in project timeline adversely impact the revenue recognition: Any delays in achieving the specified project implementation timeline and milestones may result in delays in the recognition of revenue and project cost overruns. Such risk may negatively impact the Group's reputation in obtaining future project.

Increase costs in new construction and upgrading cooling energy systems affects profit margin: The EPCC of cooling energy systems projects are based on fixed lump sum contracts ("FLS") contracts where the contract value is agreed upon and specified in the contract, or fixed lump sum plus scheduled rates contracts ("F+SR") contracts that comprise a fixed lump sum part and a variable part based on agreed schedule of rates. Any unanticipated increase in the costs of implementing EPCC of cooling energy systems projects that unable to pass on to customers will be absorbed by the Group, thus, profit margin is negatively affected.

Industry Outlook

Steady growth in construction industry to boost building support services: The value of construction work completed in Malaysia for building construction grew by 4.5%, compared to the corresponding period in 2022. As the construction industry made its comeback from economic downturn due to Coronavirus disease 2019 ("COVID-19") pandemic, consequently it opens opportunities for operators involved in the building support services industry.

Increase in foreign direct investments (FDI) into Malaysia and Singapore: Malaysia FDI posted compound annual growth rate ("CAGR") of 13.3% between 2020 and 2022 amounting to RM879.1bn billion in 2022 – and Singapore recorded a CAGR of 11.2% between 2020 and 2022 amounting to SGD2,663.4bn in the same year. The establishment of new commercial and industrial facilities by multinational companies has boosted the demand for building support services such as cooling energy, cleaning and FM.

Paradigm shift towards ESG awareness as industry significant catalyst: The trend towards environmental sustainability and the drive to reduce the carbon footprint associated with commercial and industrial activities contributed to the increase demand for cooling energy management services and energy-efficient cooling systems within the building support services industry. As of 30 September 2023, green building index (GBI) recorded a total of 662 GBI-certified buildings and 1,168 registered GBI projects in Malaysia.

Government initiative towards green energy: Ministry of Economy introduced the NETR in 2023 towards energy efficiency saving of 22% and 23% for the industrial and commercial sectors by 2040 and 2050 respectively. Meanwhile, 15% and 20% for the residential sector by 2040 and 2050 respectively. This benefits operators in the building support services industry focusing on cooling energy services.

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.

DISCLAIMERS

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. It is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this report. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

This report may contain information obtained from third parties. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content. We accept no liability for any direct or indirect loss arising from the use of this document.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expression.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to the applicable laws or regulations. By accepting this report, the recipient hereof (i) represents and warrants that it is lawfully able to receive this document under the laws and regulations of the jurisdiction in which it is located or other applicable laws and (ii) acknowledges and agrees to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of applicable laws.

Whilst every effort is made to ensure that statement of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable and must not be construed as a representation that the matters referred to therein will occur. Different assumptions may yield substantially different results and recommendations contained on one type of research product may differ from recommendations contained in other types of research.

Published and printed by:

ECO ASIA CAPITAL ADVISORY SDN BHD
Lot 1904, 19th Floor
Tower 1, Faber Towers
Jalan Desa Bahagia, Taman Desa
58100 Kuala Lumpur

Research Office:

ECO ASIA CAPITAL ADVISORY SDN BHD
Lot 1904, 19th Floor
Tower 1, Faber Towers
Jalan Desa Bahagia, Taman Desa
58100 Kuala Lumpur

Rijel Sid
Head, Investment Advice

Phone: +60 3 7971 1822
Fax: +60 3 7972 1821
Email: research@ecoasia-my.com