

08 September 2021

Ipmuda Berhad

Transformative Play into Renewables

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INVESTMENT MERIT

Historically known as a building materials company, IPMUDA is currently undergoing a transformation by reinventing itself as a renewable energy and healthcare player. After a complete change in management and directors, the company is seeking to restructure via an asset injection of a hydropower plant, solar plant, and a specialist hospital, coupled with a series of corporate exercises. Keen investors seeking exposure towards an asset ownership business model within the renewable energy space - keep a close watch on this name. NOT RATED, SoP-FV of RM1.32 (cum-all basis).

Undergoing a transformation. Historically known as a building materials company since its listing on the Main Board in 1993, IPMUDA is currently undergoing a massive transformation. Last year, the group saw a complete change in its senior management and board of directors, and is currently looking to reinvent itself as a renewable energy and healthcare group. At the helm is Beroz Nikmal Mirdin, its new executive chairman, as well as Jeffri M. Yusup as CEO, both of whom have ample experience in the renewable energy and healthcare sectors, respectively.

Asset injections. As part of its transformation, the new management is seeking to inject a list of assets into the group to kick start its re-invention. These include: (i) Telekosang hydro power plants, located in the Telekosang River in Tenom, Sabah, with a combined power output of 40MW, (ii) Jentayu solar asset, a fully operational 5.99MW solar power plant located in Pokok Sena, Kedah, with a 21-year power purchase agreement (PPA) until 2040, and (iii) Ohana Specialist Hospital, a 30-bed boutique women and children hospital specialising in paediatric and obstetrics and gynaecology care, located in Sri Rampai, Kuala Lumpur. These proposed acquisitions are to be funded via the issuance of new shares (i.e., share swap), and expected to be completed in the coming months. Combined, the new assets are expected to contribute an additional revenue of ~RM80m per year (refer to overleaf for a more in-depth discussion on these proposed acquisitions).

Corporate exercises. Prior to the proposed acquisitions, IPMUDA is also expected to execute a series of corporate exercises in part of its restructuring (subject to shareholders' approval via EGM). This would include: (i) a proposed disposal for a leasehold property in Petaling Jaya, Selangor of which gains from disposal will be distributed as special dividends amounting to RM0.30 per share, (ii) proposed 1 for 1 bonus issue, together with 3 for 2 free detachable warrants with an exercise period of 10 years, and (iii) a proposed 1 for 1 renounceable rights issue at ~RM0.30 per share. Overall, with the special dividend and rights issue priced at the same amount, investors entering now would not need to worry about forking out additional capital in order to exercise the rights issue (refer to overleaf for a more in-depth discussion on the proposed corporate exercises).

NOT RATED; SoP-Fair Value of RM1.32. Our SoP-valuations is on a cum-all basis, which has already taken into consideration the additional shares to be issued for the asset acquisitions, but have yet to adjust for the share dilution from its bonus issue, rights issue, and warrants conversion (refer to overleaf for a more in-depth discussion on valuations).

Overall, we feel that this name could provide an investment opportunity for keen investors looking for exposure in the asset ownership business model within the renewable energy space.

| | Rating | Fair Value |
|------------|------------------|---------------|
| Last Price | - | RM1.29 |
| Kenanga | NOT RATED | RM1.32 |

Stock Information

| | |
|----------------------|------------------------|
| Shariah Status | Yes |
| Stock Name | IPMUDA BERHAD |
| CAT Code | 5673 |
| Industry | Distribution/Wholesale |
| Industry Sub-sector | Distribution/Wholesale |
| YTD stock price chg | 61.25% |
| Market Cap (RM m) | 130.88 |
| Issued shares (m) | 101.46 |
| 52-week range (Hi) | 2.2 |
| 52-week range (Low) | 0.33 |
| 3-mth avg daily vol: | 1,255,053 |
| Free Float | 43.8% |
| Beta | 1.73 |
| Altman's Z-score | 0.76 |

Major Shareholders

| | |
|--------------------------|-------|
| Nurhaida Binti Abu Sahid | 20.9% |
| Dutariang Sdn Bhd | 9.9% |
| Beroz Nikmal Bin Mirdin | 6.4% |

Financials

| FY June (RM'mil) | FY21A | FY22E | FY23E |
|------------------------|---------------|------------|------------|
| Revenue | 30.2 | 116.5 | 116.5 |
| EBIT | (7.1) | 29.3 | 34.3 |
| PBT | (8.6) | 3.5 | 8.5 |
| Net profit | (8.6) | 3.5 | 8.5 |
| Core net profit | (14.8) | 3.5 | 8.5 |
| EPS (sen) | (6.6) | 1.6 | 3.8 |
| BV/Share (RM) | 0.2 | 1.4 | 1.4 |
| PER (x) | (19.6) | 81.9 | 34.0 |
| PBV (x) | 6.3 | 0.9 | 0.9 |
| DPS (sen)* | 0.0 | 0.0 | 0.0 |
| Div. Yield (%) | 0.0 | 0.0 | 0.0 |
| Net-gearing (x) | 1.0 | 1.7 | 1.6 |

* Does not include special dividends

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Valuations

NOT RATED, SoP-Fair value of RM1.32 on a post-acquisition cum-all basis i.e., share base has been adjusted for the proposed acquisitions, but yet to factor in share base dilution arising from the bonus and rights issues, as well as warrant conversion.

| Post-acquisition, cum-all SoP | | | |
|---|-------|---------------|---|
| | mil | RM'mil | Valuation Basis |
| Telekosang (70% stake) | | 212.2 | FCFE NPV, based on a discounting rate of 5% |
| Jentayu | | 12.4 | FCFE NPV, based on a discounting rate of 5% |
| Ohana Hospital | | 27.9 | Based on 20x forward PER |
| Existing business | | 45.9 | Priced at book value |
| | | 298.4 | |
| Current share base | 101.5 | | |
| Shares to be issued for proposed acquisitions | 123.8 | | At an issue price of RM1.50 per share |
| Total share base | | 225.26 | |
| SoP/share (RM) | | 1.32 | |

Source: Kenanga Research

Assuming a post-acquisition ex-rights ex-bonus share base, we arrive to a SoP-Fair value of RM0.49:

| Post-acquisition, ex-bonus, ex-rights SoP | | | |
|---|-------|--------------|---|
| | mil | RM'mil | Valuation Basis |
| Telekosang (70% stake) | | 212.2 | FCFE NPV, based on a discounting rate of 5% |
| Jentayu | | 12.4 | FCFE NPV, based on a discounting rate of 5% |
| Ohana Hospital | | 27.9 | Based on 20x forward PER |
| Existing business | | 45.9 | Priced at book value |
| | | 298.4 | |
| Current share base | 101.5 | | |
| Bonus issue | 101.5 | | 1 for 1 bonus issue |
| Rights issue | 101.5 | | 1 for 1 rights issue |
| Shares to be issued for proposed acquisitions | 309.5 | | At an issue price of RM0.60 per share |
| Total share base | | 613.9 | |
| SoP/share (RM) | | 0.49 | |

Source: Kenanga Research

Note that we have yet to factor in any share base dilution from warrants conversion, as the warrants have an exercise period of 10 years, and would most likely be out-of-the-money upon issue.

Asset injections

Management will be seeking to inject a total of three assets into the group, as part of its transformation exercise. These include: (i) 70% equity stake in Telekosang hydro power plants, (ii) Jentayu solar asset, and (iii) Ohana Specialist Hospital. Note that the acquisition of Telekosang and Jentayu would be a related party transaction (RPT) between the group and executive chairman Beroz Nikmal Mirdin. The acquisitions would be satisfied via share issuance at a cum-price of RM1.50 per share (or ~RM0.60 per share ex-bonus, ex-rights). Therefore, post-acquisition, management could emerge as the controlling shareholder and may look to proceed with a mandatory general offer (MGO). Nonetheless, management has the full intention of maintaining the listing status of the company.

Further details of the proposed acquisitions are as follows:

- **Telekosang Hydro**, located on the Telekosang River in Tenom, Sabah. The asset consists of a pair of cascading small hydro power plants with a combined power output of 40MW. The asset will be the largest small hydro power plant in Malaysia upon its expected completion by December 2021. The asset comes with a 21-year renewable energy PPA at a tariff of RM0.24/kWh – which is expected to generate an annual revenue of ~RM65m. IPMUDA is looking to acquire 70% equity stake in the asset, at an estimated price of RM163m. Based on our calculations, the proposed acquisition price would imply an **equity IRR of ~10-12%**.
- **Jentayu Solar** – a fully operational 5.99MW solar power plant located in Pokok Sena, Kedah. Commencement of operations began in October 2019, with a signed solar PPA of 21 years due to run through to 2040 at a fixed tariff of RM0.389/kWh. This translates to ~RM4.7m revenue per year. The group is seeking to acquire 100% stake of the asset at a price of approximately RM11m – which implies an **equity IRR of ~5-6%**, based on our calculations.
- **Ohana Specialist Hospital** – a boutique women and children hospital specialising in paediatric and obstetrics and gynaecology care, located in Jalan Seri Rejang, Rampai Business Park, Kuala Lumpur, operating in rented 3 blocks of 4-storey shop lots, and has commenced business since 2016. In 2020, the hospital expanded from 19 to 30 beds. And although it is only currently licensed to operate 18 out of the 30 beds, the increase in licensed capacity is expected to be acquired when patient load increases. The group expects to purchase a 100% stake in the hospital for a price of ~RM18m – which implies an **acquisition valuation of ~13x PER**, based on our estimation. The hospital is expected to generate revenue of RM10-20m per year going forward. Note that the acquisition of this asset would not trigger an RTO.

Post-acquisition, the group's net-gearing is expected to increase to 1.7x, from 1.0x currently, with the group's book value to expand >6-fold.

Corporate Exercises

Property disposal and special dividend of RM0.30 per share. First order of the series of corporate exercises is the proposed disposal of a leasehold property to Kerjaya Prospek for a total consideration of RM82m. The proposed disposal is a piece of leasehold property located in Seksyen 13, Bandar Petaling Jaya, Selangor. Following this, part of the gains from the property disposal will be issued as proposed dividends of RM0.30 per share.

Bonus issue with free warrants. Proposed 1 for 1 bonus issue, plus free 3 for 2 detachable warrants, with an exercise period of 10 years. Apart from the expansion of share base, we do not see any immediate fundamental impact from the bonus issue.

Rights issue at RM0.30 per share. Proposed rights issue at an exercise price of RM0.30 per share. This coincides with the special dividend amount. Hence, investors entering the stock prior to the dividend ex-date would not need to fork out additional cash to exercise the upcoming rights issue.

Daily Charting – Ipmuda Berhad



Comment: Since the start of the year, the stock's underlying trend has remained positive. Nonetheless, recent pull back has led to a "death cross" between the shorter-term SMAs, although other technical indicators (e.g. MACD, RSI) still show bullish signs. From here, we expect possible consolidation, with RM1.00 acting as a firm support level.

About the stock:

Name : Ipmuda Berhad
Bursa Code : IPMUDA
CAT Code : 5673

Key Support & Resistance level

Resistance : RM1.75 (R1) RM2.20 (R2)
 Support : RM1.00 (S1) RM0.72 (S2)
 Outlook : Neutral

Source: Kenanga Research

BUSINESS OVERVIEW

Historically known as a building materials company, IPMUDA has recently undergone a transformation, expanding its into renewable energy and healthcare through its solar and hydro plants as well as private healthcare facility.

BUSINESS SEGMENTS

- (i) Renewable Energy
- (ii) Healthcare
- (iii) Trading

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