

02 December 2022

Kumpulan Perangsang Selangor Buying Precision Metal Maker for RM85m

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KPS is acquiring a 100% stake in precision component maker MDS Advance Sdn Bhd (MDS) from two individuals for RM85m cash, translating into FY23F (Dec) and FY24F PERs of 10.6x and 9.4x based on a net profit guarantee of RM8m and RM9m over the respective two years. We are positive on the acquisition which provides synergy and is earnings-accretive. We raise our FY23F core net profit by 9%, lift our TP by 10% to RM0.85 (from RM0.77) and maintain our **OUTPERFORM** call.

KPS is acquiring a 100% equity stake in MDS from two individuals for RM85m cash. MDS is primarily engaged in the manufacturing of precision metal components. It offers high-precision computerised numerical control metal machining encompassing metal cutting and milling. The acquisition comes with a net profit guarantee of RM8m and RM9m for FY23 and FY24, respectively, and is expected to be completed by end-1QFY23.

The deal values the asset at 10.6x and 9.4x FY23F and FY24F PERs, which are fairly consistent with the forward PER of the manufacturing sector of 10x (which is also our target forward PER for KPS).

The acquisition will raise KPS's net debt and gearing of RM117m and 0.1x as at end-3QFY22 to RM203m and 0.2x, respectively, which are still highly manageable.

We are positive on the deal as it will strengthen the group's core manufacturing business and allow it to move towards higher margin product mix. As MDS and KPS share similar key clients, the integration would allow the group to expand its product offering to these clients and boost business dynamics. Hence, we believe the acquisition fits its long-term business strategy and expect enhancement in overall business efficiencies as well as cost optimisation within its manufacturing segment.

Forecasts. We raise our FY23F earnings by 9% to reflect the earnings enhancement from the acquisition.

We like KPS for: (i) the strong growth prospects of the consumer electronics industry which is the main client of its products and services, (ii) its long-term growth underpinned by expansion at its overseas operations, and (iii) the greater role it is playing in the supply chain of a renowned privately-owned innovator of high-tech consumer electronic appliances.

We raise our TP by 10% to RM0.85 (from RM0.77) based on 10x FY23F PER, which is in line with the average forward PER of manufacturing sector: There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain **OUTPERFORM**.

Risks to our call include: (i) the global economy slipping into a sharp slowdown or recession, (ii) escalating input costs, and (iii) termination or non-renewal of contracts by key clients, resulting in both financial and reputational loss.

OUTPERFORM ↔

Price: **RM0.785**
Target Price: **RM0.85** ↑

Expected Capital Gain: **RM0.065** **8.3%**
Expected Divd. Yield: **RM0.065** **+8.3%**
Expected Total Gain: **RM0.13** **+16.6%**

KLCI Index 1,491.51

Stock Information

Bloomberg Ticker	KUPS MK Equity
Bursa Code	5843
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	537.4
Market Cap (RM m)	421.8
Par value per share (RM)	N.A.
52-week range (H)	0.84
52-week range (L)	0.66
Free Float	27%
Beta	0.8
3-mth avg daily vol	105,462

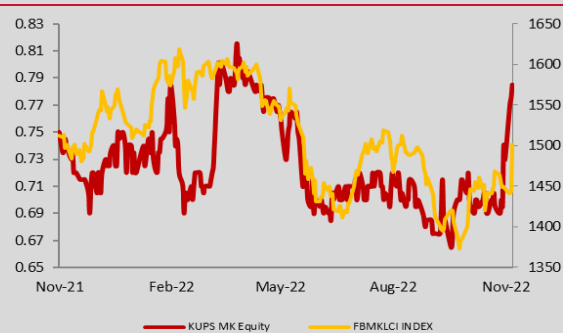
Major Shareholders

Darul Ehsan Investment Group Bhd	57.9%
Perbadanan Kemajuan Negeri Selangor	5.5%
Ng Chiew Eng	4.7%

Summary Earnings Table

FY Mar (RM m)	2021A	2022F	2023F
Turnover	1328	1336	1418
EBIT	105	90	100
PBT	88	66	81
Net Profit	57	36	46
Core Net Profit	42	36	46
Consensus (NP)		32	42
Earnings Revision (%)		-	+9.1
Core EPS (sen)	7.7	6.7	8.5
Core EPS growth (%)	3.4	-13.2	26.9
NDPS (sen)	4.5	6.5	3.4
BVPS (x)	1.9	2.0	2.1
PER (x)	9.3	11.7	9.2
PBV (x)	0.4	0.4	0.4
Net Gearing (x)	0.1	0.1	0.2
Net Div. Yield (%)	6.3	8.3	4.3

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	12.1%	12.1%	5.4%
Relative (%)	9.0%	12.2%	5.7%



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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	866.8	1,076.5	1,328.1	1,336.1	1,418.0	Growth (%)					
EBIT	76.2	51.0	104.8	89.5	99.7	Revenue	48.9	24.2	23.4	0.6	6.1
Finance Costs	-36.0	-30.4	-24.1	-22.3	-26.2	EBIT	48.0	-33.0	105.3	-14.6	11.4
PBT	55.0	57.3	87.9	65.9	80.6	PBT	130.6	4.1	53.6	-25.1	22.4
Taxation	-25.8	-17.2	-24.0	-19.8	-24.2	Net Profit	113.1	26.9	67.7	-36.9	26.9
Minority Interest	-2.3	-6.0	-6.7	-10.0	-10.6	Core Net Profit	275.6	109.7	3.4	-13.2	26.9
Net Profit	26.9	34.1	57.2	36.1	45.8						
Core Net Profit	19.2	40.2	41.6	36.1	45.8	Profitability (%)					
Balance Sheet						EBIT Margin	8.8	4.7	7.9	6.7	7.0
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F	PBT Margin	6.3	5.3	6.6	4.9	5.7
Fixed Assets	370.5	359.7	387.7	466.4	506.4	Core Net Margin	2.2	3.7	3.1	2.7	3.2
Investment	500.5	305.1	305.3	285.0	370.0	Effective Tax Rate	46.9	30.0	27.3	30.0	30.0
Intangible Assets	254.1	246.7	251.3	246.1	240.9	ROE	1.8	3.6	3.6	3.0	3.7
Other FA	286.5	289.9	189.5	237.2	237.2	ROA	0.8	1.8	1.8	1.6	2.0
Inventories	143.1	164.4	203.9	184.5	189.0						
Receivables	369.0	423.4	476.7	452.7	466.2	DuPont Analysis					
Other CA	8.1	6.6	7.4	7.2	7.2	Net Margin (%)	2.2	3.7	3.1	2.7	3.2
Cash	271.8	440.3	461.8	397.4	233.9	Assets Turnover (x)	0.4	0.5	0.6	0.6	0.6
Total Assets	2,295.8	2,276.5	2,283.8	2,276.6	2,250.9	Leverage Factor (x)	2.4	2.3	2.2	2.1	2.1
						ROE (%)	1.8	3.6	3.6	3.0	3.7
Payables	291.8	298.2	357.3	324.4	332.0						
ST Borrowings	106.4	140.7	179.6	199.6	284.6	Leverage					
Other ST Liability	27.0	32.3	32.8	33.0	35.1	Debt/Asset (x)	0.3	0.3	0.3	0.2	0.2
LT Borrowings	505.9	475.5	412.2	324.9	237.6	Debt/Equity (x)	0.6	0.6	0.6	0.5	0.4
Other LT Liability	218.5	224.4	140.8	193.5	202.0	Net (Cash)/Debt	340.5	175.9	129.9	127.1	203.3
Minority Interest	109.3	111.8	120.6	120.6	120.6	Net Debt/Equity (x)	0.4	0.2	0.1	0.1	0.2
Net Assets	957.8	993.6	1,040.4	1,080.6	1,124.0						
						Valuations					
Share Capital	537.9	537.9	537.9	537.9	537.9	Core EPS (sen)	3.6	7.5	7.7	6.7	8.5
Other Reserves	419.8	455.7	502.5	542.7	586.1	DPS (sen)	32.6	2.5	4.5	6.5	3.4
Equity	957.8	993.6	1,040.4	1,080.6	1,124.0	BVPS (RM)	1.78	1.85	1.94	2.0	2.1
						Core PER (x)	18.8	11.9	9.3	11.7	9.2
						Div. Yield (%)	48.7	2.8	6.3	8.3	4.3
Cashflow Statement						PBV (x)	0.4	0.5	0.4	0.4	0.4
FY Dec (RM m)	2019A	2020A	2021A	2022F	2023F						
Operating CF	41.1	282.2	104.4	116.9	112.0						
Investing CF	281.7	-167.5	-56.5	-40.0	-40.0						
Financing CF	-268.8	-82.4	-80.2	-102.2	-46.8						

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
Stocks Under Coverage																	
BOILERMECH HOLDINGS BHD	OP	0.750	0.830	10.67%	387.0	Y	03/2023	3.5	5.2	7.6%	45.9%	0.2	0.1	1.5	7.1%	1.8	2.4%
BP PLASTICS HOLDINGS BHD	OP	1.26	1.63	29.37%	354.7	Y	12/2022	11.3	15.3	-31.7%	36.3%	11.2	8.2	1.4	13.0%	6.0	4.8%
HIL INDUSTRIES BHD	OP	1.13	1.13	0.00%	375.1	Y	12/2022	8.8	11.8	-2.3%	34.6%	12.8	9.5	0.9	7.2%	2.0	1.8%
HPP HOLDINGS BHD	OP	0.445	0.460	3.37%	172.9	Y	05/2023	3.5	4.2	63.1%	18.2%	12.6	10.7	1.3	11.2%	2.0	4.5%
KUMPULAN PERANGSANG SELANGOR BHD	OP	0.785	0.850	8.30%	421.8	Y	12/2022	6.7	8.8	-13.2%	31.0%	11.7	8.9	0.4	3.4%	6.5	8.3%
SCIENTEX BHD	MP	3.38	3.33	-1.48%	5,242.4	Y	07/2023	35.2	36.9	31.9%	4.9%	9.6	9.2	1.6	17.8%	7.4	2.2%
SLP RESOURCES BHD	MP	1.02	0.92	-9.80%	323.3	Y	12/2022	6.2	7.2	11.4%	16.4%	16.6	14.2	1.7	10.4%	5.5	5.4%
THONG GUAN INDUSTRIES BHD	OP	2.46	3.99	62.20%	960.0	Y	12/2022	28.6	36.4	16.5%	27.1%	8.6	6.8	1.1	13.6%	5.5	2.2%
Simple Average								13.0	15.7	10.4%	26.8%	10.4	8.5	1.2	10.5%		3.9%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★	☆	
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	★	☆	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
	OVERALL	★	★	★		
SPECIFIC	Migrant Worker Welfare	★	★	☆		
	Waste Disposal/Pollution Control	★	★	★	★	
	Work Site Safety	★	★	★		
	Usage of Biodegradable Materials	★	★	★		
	Chemical Management	★	★	★		
	Energy Efficiency	★	★	★	☆	

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations**

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

**** The Expected Total Return might contain rounding discrepancy**

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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