

KESM Industries

Another Quarterly Profit in 1QFY24

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KESM's 1QFY24 results met expectations, marking its second consecutive quarterly profit, driven by a higher loading volume from its burn-in and test services. These could be early signs that its RM143m investment is gradually paying off. We maintain our forecasts, TP of RM7.06 and MARKET PERFORM call.

Within expectations. KESM's 1QFY24 core net profit of RM0.9m (vs. net loss of RM1.5m in 1QFY23) made up 34% of both our full-year forecast and the full-year consensus estimate. We consider the results within expectations given the volatility in its quarterly earnings.

Results' highlights. YoY, KESM's 1QFY24 revenue increased 20.4% on improved loading volume for its burn-in and test services. We believe there had been a gradual production ramp-up from its new equipment with a price tag of RM143m over the past quarters.

On a QoQ basis, its 1QFY24 revenue inched up 3% while its core net profit almost doubled (albeit from a low base) as its plant utilisation improved. This was KESM's second consecutive quarterly profit, indicating that quarterly earnings momentum had extended from 4QFY23.

More to be desired. While the sustained earnings are encouraging, signalling positive traction for the new investment, our caution persists. The reported earnings remained tepid in absolute terms, and the group had historically exhibited higher earnings volatility compared to its peers. We believe it would be prudent to keep a close eye on the next few quarterly earnings, more so during its transition to new chips for electric vehicles (EVs).

Forecasts. Maintained

We keep our TP of **RM7.06** based on an unchanged FY24F PBV of 0.85x, representing a c.20% discount to the average PBV of 1.1x of companies in the technology-related space that are loss-making or barely breaking even, i.e. JCY, AEMULUS, ATAIMS and JHM (MP; TP: RM0.70) to reflect KESM's low share liquidity. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

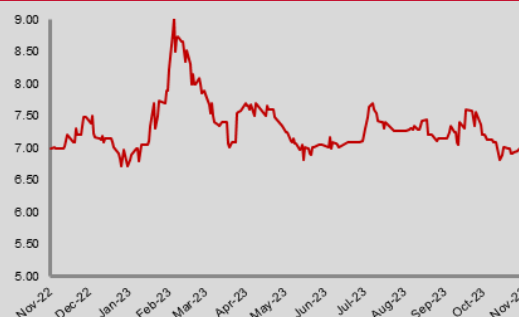
We like KESM for: (i) its exposure to the promising automotive semiconductors space, (ii) being one of the largest independent burn-in and test service providers in Malaysia potentially benefiting from MNCs expansions in the country, and (iii) its physical presence in China to ride on the government's ambitious plans for their semiconductor industry. However, we remain cautious for the immediate term as the group still faces potential risk of sub-optimal loading volume during the transitional period. Maintain **MARKET PERFORM**.

Risks to our call include: (i) slower-than-expected ramp-up in volume for burn-in and test services, (ii) slower-than-expected adoption of new semiconductor modules in automobiles, and (iii) sudden decline in customer forecast.

MARKET PERFORM ↔

Price : **RM7.00**
Target Price : **RM7.06** ↔

Share Price Performance



KLCI 1,464.7
YTD KLCI chg -2.3%
YTD stock price chg -0.3%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker KESM MK Equity
Market Cap (RM m) 301.1
Shares Outstanding 43.0
52-week range (H) 9.52
52-week range (L) 6.60
3-mth avg daily vol: 3,600.2
Free Float 27.9%
Beta 0.9

Major Shareholders

Sunright Ltd 48.4%
Tan Kong Hong Alex 4.8%
Abrdn Plc 3.8%

Summary Earnings Table

FY July (RM m)	2023A	2024F	2025F
Revenue	228.3	267.8	286.5
EBIT	(4.3)	1.7	3.4
PBT	(2.2)	2.8	4.7
Net profit	(4.9)	2.7	4.4
Core Net Profit	(4.9)	2.7	4.4
Consensus (NP)	-	2.7	4.4
Earnings Revision	-	-	-
Core EPS (sen)	-11.5	6.2	10.3
Core EPS growth (%)	-2345.0	153.8	67.3
DPS (sen)	0.0	0.0	0.0
BV/Share (RM)	8.2	8.3	8.4
Core PER (x)	-60.9	113.2	67.7
PBV (x)	0.8	0.8	0.8
Net. Gearing (x)	-0.4	-0.4	-0.4
Div. Yield (%)	0.0	0.0	0.0

17 November 2023

Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE July (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	63.5	61.7	3.0%	52.8	20.4%	63.5	52.8	20.4%
EBITDA	14.7	12.6	17.1%	8.3	78.7%	14.7	8.3	78.7%
EBIT	2.8	2.3	22.2%	-1.4	305.3%	2.8	-1.4	305.3%
PBT	1.8	1.5	16.1%	-1.7	203.4%	1.8	-1.7	203.4%
Taxation	-0.8	-1.2	30.0%	0.2	-645.1%	-0.8	0.2	-645.1%
Net Profit	0.9	0.3	189.9%	-1.5	159.5%	0.9	-1.5	159.5%
Core Net Profit	0.9	0.3	189.9%	-1.5	162.5%	0.9	-1.5	162.5%
EPS (sen)	2.1	0.7	189.9%	-3.4	162.5%	2.1	-3.4	162.5%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBITDA margin	23.2%	20.4%		15.6%		23.2%	15.6%	
EBIT margin	4.5%	3.8%		-2.6%		4.5%	-2.6%	
PBT margin	2.8%	2.4%		-3.2%		2.8%	-3.2%	
PATAMI margin	1.4%	0.5%		-2.8%		1.4%	-2.8%	
Effective tax rate	-47.7%	-79.0%		-9.0%		-47.7%	-9.0%	

17 November 2023

Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Mkt 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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
								D&O GREEN TECHNOLOGIES BHD	UP	3.51	2.30	-34.5%	4,346.4	Y	12/2023	5.2	9.2
GHL SYSTEMS BHD	OP	0.770	0.980	27.3%	879.0	Y	12/2023	2.7	3.0	8.9%	13.4%	28.6	25.2	1.6	5.8%	0.0	0.0%
INARI AMERTRON BHD	OP	2.99	4.17	39.5%	11,196.9	Y	06/2024	10.4	12.4	20.5%	18.8%	28.6	24.1	4.3	14.9%	9.9	3.3%
JHM CONSOLIDATION BHD	MP	0.760	0.700	-7.9%	460.6	Y	12/2023	3.1	4.6	-17.8%	48.7%	24.3	16.4	1.4	5.9%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.50	2.15	43.3%	967.2	Y	12/2023	9.7	10.2	12.6%	4.8%	15.5	14.7	3.4	23.5%	2.7	1.8%
KESM INDUSTRIES BHD	MP	7.00	7.06	0.9%	301.1	Y	07/2024	6.3	10.2	-44.9%	63.0%	113.2	67.7	0.8	0.8%	0.0	0.0%
LGMS BHD	OP	1.00	1.32	32.0%	456.0	Y	12/2023	3.1	5.3	12.7%	70.4%	32.2	18.9	4.7	15.7%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES BHD	MP	27.00	27.20	0.7%	5,370.2	Y	06/2024	80.9	118.2	162.5%	46.1%	33.4	22.8	2.5	7.8%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.26	1.70	34.9%	2,613.2	Y	12/2023	3.4	6.8	-16.6%	97.5%	36.6	18.5	8.8	27.2%	0.3	0.2%
OPPSTAR BHD	MP	1.55	1.82	17.4%	986.1	N	03/2024	4.5	6.1	34.0%	36.3%	34.8	25.5	6.3	19.3%	1.1	0.7%
PIE INDUSTRIAL BHD	OP	3.03	3.61	19.1%	1,163.6	Y	12/2022	17.7	20.0	-4.2%	13.4%	17.1	15.2	1.9	11.7%	7.0	2.3%
SKP RESOURCES BHD	MP	0.830	0.950	14.5%	1,296.8	Y	03/2024	6.3	7.1	-31.6%	12.5%	13.2	11.7	1.5	11.4%	3.2	3.9%
UNISEM (M) BHD	UP	3.29	2.00	-39.2%	5,307.0	Y	12/2023	4.7	10.0	-68.6%	111.6%	69.5	32.8	2.2	3.2%	6.0	1.8%
Simple Average										-6.4%	37.9%	32.5	23.6	3.4	11.9%		1.3%

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	★	★	☆		
SPECIFIC	Foreign Worker Welfare	★	★	★		
	Supply Chain Auditing	★	★	★		
	Waste disposal / pollution control	★	★	☆		
	Energy Efficiency	★	★	★		
	Work Site Safety	★	★	★		
	Digital Transformation	★	★	☆		
OVERALL		★	★	★		

☆ 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%

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

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