

28 June 2024

Industrial Products | Steel Manufacturing

BWYS Group (BWYS MK)**Dominating The Scaffolding And Roofing Markets**

- **MYR0.34 FV based on 13x FY25F P/E.** BWYS Group aims to raise MYR56.4m from its IPO to expand its production capacity and fund its working capital. The group is set to benefit from the growth in the domestic manufacturing and building construction industries. The requirement for Construction Industry Development Board (CIDB)-certified scaffoldings in new construction sites is expected to boost scaffolding sales. BWYS also plans to expand into foreign markets and introduce new products via cross-selling. With a 28.4% earnings CAGR (2023-2026), its FY25F P/E of 8x is attractive.
- **Steady cash flow from metal roofing products.** BWYS has consistently generated over MYR110m in sales from metal roofing sheets and trusses over the past three years, thanks to its strong market position and brand recognition for BW and Vtruss. The cash-based business provides the group with a solid foundation. Despite steel price fluctuations, sales volumes have steadily increased, underscoring BWYS' market presence. Operational facilities across Malaysia serve as warehouses, enabling resellers to minimise stock and rely on prompt deliveries, enhancing customer satisfaction. Strong brand awareness is expected to support BWYS's expansion in South-East Asia, the Middle East, and South America. Its strategic venture into insulation products like PU sandwich panels is expected to improve segment margins from FY25.
- **Higher demand for CIDB-compliant scaffoldings.** BWYS has seen pent-up demand for its CIDB-compliant scaffoldings following the requirement for CIDB-certified scaffoldings at new construction sites from Sep 2021. Its BW scaffoldings meet stringent safety and quality standards, making them highly sought after in the construction industry. Management expects its scaffoldings segment to see the strongest growth in the coming years, driven by the ongoing construction boom and increased regulatory compliance. An upward revision of rental rates is expected to lead to higher profit margins.
- **Maximising efficiency with custom racking solutions.** The global industrial racking system market is projected to grow from USD11bn in 2023 to USD15.41bn by 2031, at a CAGR of 4.3% (SkyQuest). In Malaysia, the market is expanding rapidly due to rising demand from the manufacturing, logistics, and retail sectors. The New Industrial Master Plan (NIMP) 2030 aims to boost Malaysia's manufacturing value-added products with a target CAGR of 6.5% (2022-2030). BWYS' 'Metech' industrial racking system is well-positioned to capitalise on this growth, offering a durable, customisable, and efficient storage solution. We are optimistic on this segment's growth as it actively secures new domestic projects and customers, and commands higher margins than original equipment manufacturer (OEM) products sent to the US.
- **Forecasts and valuation.** We project a 3-year earnings CAGR of 28.4%, and ascribe a 13x P/E to its FY25F earnings to derive our MYR0.34 FV. The valuation is in line with the peer average of 12.6x. Key risks: Steel price and FX fluctuations, supply chain disruptions, and a shortage of foreign workers.

Forecasts and Key Data	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	236	246	272	295	324
Recurring net profit (MYRm)	20.6	15.0	21.2	26.7	31.6
Recurring net profit growth (%)	-16.7	-27.4	41.5	26.3	18.3
Recurring EPS (sen)	2.29	1.72	2.06	2.61	3.09
Recurring P/E (x)	10.9	15.1	10.7	8.4	7.1
P/BV (x)	1.9	1.4	1.0	0.9	0.8
P/CF (x)	14.4	9.5	6.4	6.6	6.0
Dividend yield (%)	4.9	-1.3	1.4	1.8	2.1
EV/EBITDA (x)	2.4	2.5	0.7	0.6	0.4
ROE (%)	20.9	12.9	11.0	11.1	11.9
Net debt to equity (%)	0.96	0.67	0.15	0.12	0.09

Source: Company data, RHB

Fair Value (Return):	MYR0.34 (+54%)
IPO Price:	MYR0.22
Closing Application Date:	5 July 2024
Indicative Listing Date	22 July 2024

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**Company Description**

BWYS is a leading Malaysian manufacturer and supplier of metal roofing sheets, trusses, industrial racking systems, welded pipes, and scaffoldings. The group operates extensively within the construction and industrial sectors.

IPO Details

Public Issue of new shares (m)	256.3
Offer for sale of existing shares (m)	100.0
Shares outstanding (m)	1,025
Implied market cap	MYR225.5m

Major Shareholders (%)

Kang Beng Hai	65.2
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Utilisation of IPO proceeds

Capital expenditure	41.1	MYR'm
Working capital	5.5	
Repayment of bank borrowings	4.0	
Listing expenses	5.5	
Total	56.4	

Additional Data

Listing Market	ACE
Bursa Code	0313

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Overview and Valuation

Financial overview. Group revenue surged from MYR130.9m in FY20 to MYR246.1m in FY23, achieving a CAGR of 22.9% over the 3-year period. The significant growth was driven by an increase in both local and international sales, supported by strong demand for metal roofing sheets and trusses, industrial racking systems, and scaffoldings.

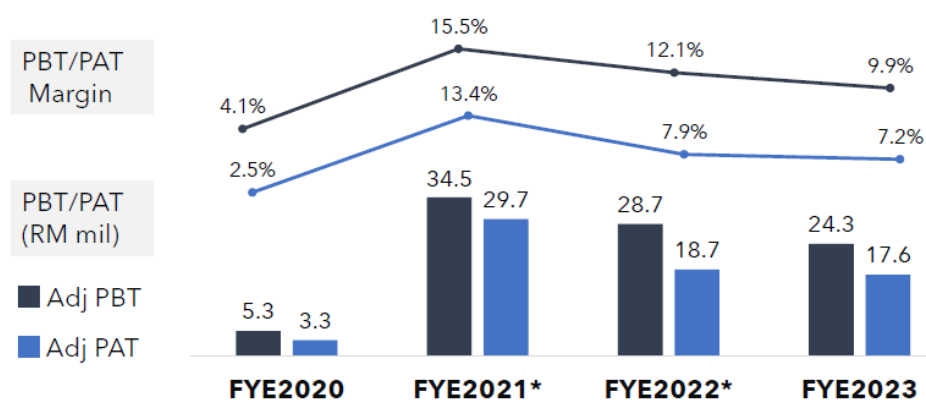
BWYS has maintained a healthy GPM of over 20% for the past three years. GPM stood at 20.6% in FY23, indicating efficient cost management and strong pricing power. Gross profit increased from MYR25.7m in FY20 to MYR50.7m in FY23, driven by higher sales volumes and optimised production costs. The group's PBT grew from MYR5.3m in FY20 to MYR24.3m in FY23. The significant increase was attributed to higher sales, effective cost control measures, and economies of scale. Net profit margins have been healthy despite the global fluctuations in steel prices impacting raw material costs. In FY23, its net profit margin was 7.2%, reflecting strong operational performance and strategic pricing adjustments.

Forecasts. Given the strong demand for scaffolding products and cross-selling of new roofing products, we forecast a 3-year earnings CAGR of 28.4%. The affordable metal roofing segments, which cater to the domestic mass consumer market for renovation purposes, are experiencing higher demand, driven by optimistic consumer spending. The scaffolding segment – particularly the rental model – requires higher cash flow or working capital. The lower-margin, cash-based metal roofing segment provides the necessary cash flow to support the group's strategy of capturing the scaffolding market, in light of stricter CIDB regulations. The higher-margin scaffolding business is expected to grow from 24.9% of total sales in FY23 to over 30% in FY25. Other than a better product mix going forward, the GPM of scaffolding rentals is projected to surge to 70% due to the upward revision of rental rates, while the GPM of the industrial racking system is anticipated to improve from 9% to 15% as the group aims to increase sales of its own brand by securing more warehousing contracts.

Valuation. We ascribed a 13x P/E based on its FY25F earnings to arrive at the MYR0.34 FV. The valuation is in line with the 12.6x trailing P/E of its local peers (Figure 4). It is also justifiable due to BWYS' diversified businesses, strong earnings track record, and high profit margins.

Dividends and balance sheet. While the group does not have a dividend policy, we are assuming a dividend payout of 15% of its PAT, which translates to yields of 1.4% and 1.8% in FY24F and FY25F. BWYS' net gearing ratio will improve from 0.67 in FY23 to 0.25 post IPO.

Figure 1: Revenue breakdown by business activities



Source: Company data

Figure 2: Revenue and GP margin

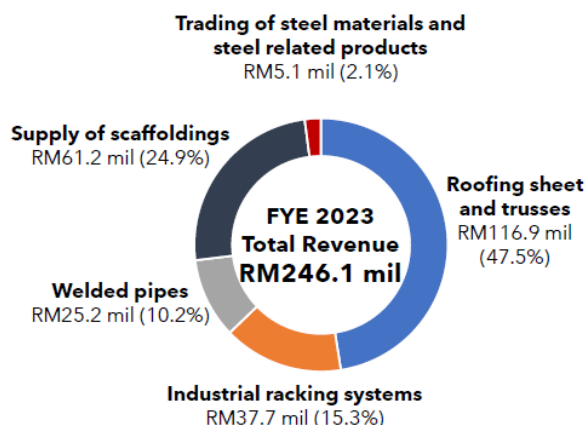
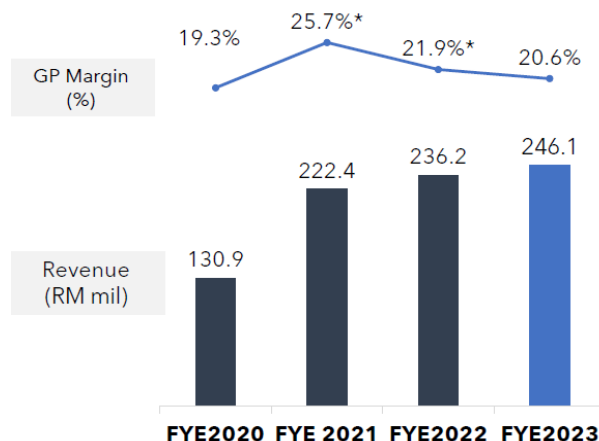


Figure 3: PBT and PAT margins



Source: Company

Source: Company

Figure 4: Peer comparison

Company	Revenue 3-year CAGR	Net profit 3-year CAGR	GPM	EBITDA margin	Net profit margin	Net gearing (latest)	Trailing P/E	Current market cap
BWYS Group	23.4%	49.2%	20.6%	17.2%	6.1%	0.15	15.0	48.0
Peers								
Astino Bhd	4.2%	-0.6%	13.7%	7.4%	4.6%	Net Cash	10.8	64.9
Ajiya Bhd	-7.3%	31.1%	16.7%	21.0%	18.2%	Net Cash	7.8	91.5
Asteel Group Bhd	4.6%	-63.7%	12.8%	3.3%	-2.5%	143.8		9.8
Eonmetall Group Bhd	14.4%	-229.6%	12.2%	11.8%	-3.9%	50.1		24.1
Plytec Holding Bhd			24.0%	15.6%	3.9%	25.9	27.4	37.6
Leform Bhd			3.6%	3.5%	-1.3%	0.9		51.9
Mkt. Cap Weighted Avg.	0.0%	-17.6%	14.0%	12.4%	6.9%		12.6	62.1
Simple Avg.	4.0%	-65.7%	13.8%	10.4%	3.2%		15.3	46.6

Source: Bloomberg, RHB

Company Overview

BWYS is a prominent manufacturer and supplier of a wide range of metal roofing sheets, trusses, industrial racking systems, welded pipes, and scaffoldings. The group also trades steel materials and steel-related products. BWYS operates across various sectors, including construction, warehousing, and storage, providing comprehensive solutions that include design, manufacturing, delivery, installation, and inspection services. BWYS operates eight facilities across Malaysia, including manufacturing plants and warehouses located in Penang, Kelantan, Selangor, Johor, Sarawak, and Sabah.

The group's business segments comprise of the following:

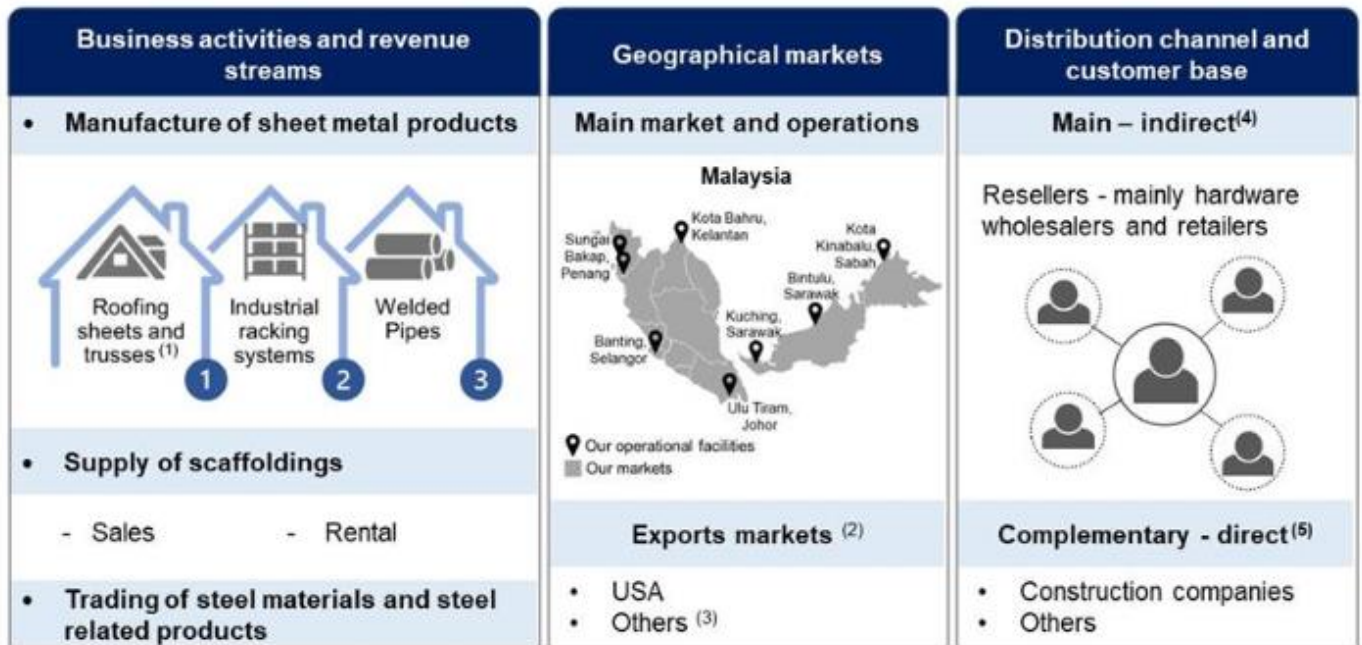
- i. **Manufacturing of sheet metal products (47.5% of FY23 revenue)** – BWYS produces various sheet metal products, including roofing sheets and trusses. Their product range includes Long-Run Roofing Sheets, Uroll Bond Roofing Sheets, Crimp Curved Roofing Sheets, and C-Purlin. These products cater to residential, commercial, and industrial construction needs and have contributed significantly to the group's revenue, commanding an 11% market share in 2023.
- ii. **Industrial racking systems (15.3% of FY23 revenue)** – The group offers robust industrial racking solutions designed for efficient storage in warehouses and manufacturing facilities. These systems are known for their durability and scalability, supporting BWYS' efforts to strengthen its market presence, particularly in the US.
- iii. **Welded pipes and steel materials (10.2% of FY23 revenue)** – BWYS manufactures and supplies welded pipes, including P-shaped hollow pipes, conduit pipes, circular hollow pipes, square hollow sections, and rectangular hollow sections. These products are used in various construction and industrial applications.
- iv. **Supply and rental of scaffoldings (24.9% of FY23 revenue)** – The group provides CIDB-certified scaffoldings, available for sale and rental. The demand for these scaffoldings has increased following the enforcement of CIDB's regulations to ensure compliance and safety at construction sites. The rental service offers a recurring revenue stream with a minimum rental period of three months.

BWYS is led by an experienced management team comprising:

- i. Kang Beng Hai, the Non-Independent Executive Director and Managing Director, who is responsible for executing the group's overall strategy;
- ii. Kang Yi Ki, the Non-Independent Executive Director, overseeing strategic planning and human resources management;
- iii. Kenny Sim Kay Wah, the Chief Financial Officer who handles financial management, reporting, planning, treasury operations, and internal audit activities;
- iv. Larry Lim Eng Sooi, the Head of Corporate Governance, Affairs, and Compliance, ensuring ethical and compliant operations;
- v. Ken Lau Ken Wah, the Chief Operating Officer, who leads daily operations, sales, and production management.

The team ensures that BWYS remains a leader in the industry, continuously innovating and maintaining high standards of quality and customer satisfaction.

Figure 5: Business model



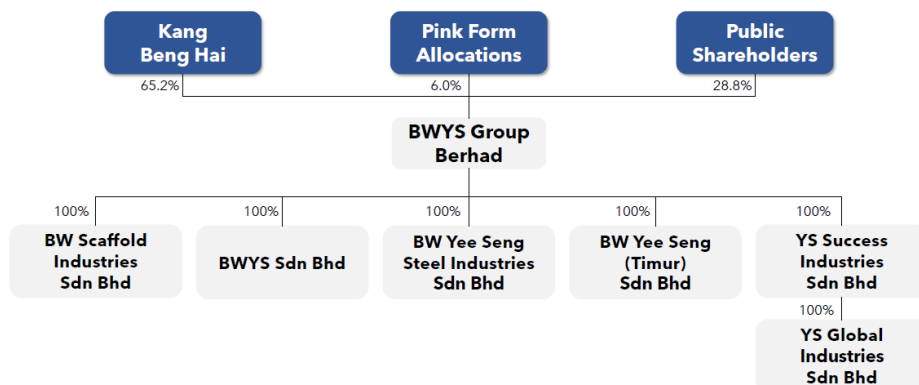
Source: Company data

Figure 6: Operational facilities across Malaysia



Source: Company data

Figure 7: Corporate and shareholding structure



Source: Company data

Figure 8: ESG initiatives



Source: Company data

Future Plans and Strategies

Expanding operating facilities and increasing production capacity. BWYS plans to expand its operating facilities and increase production capacity by setting up a new factory in Penang. The new factory will have a total built-up area of approximately 197,153 sq ft, comprising a double-storey factory and office, along with a single-storey warehouse and office. It will house a new continuous PU foam sandwich panel production line, new automated powder coating line for its industrial racking systems, and existing machinery and equipment for industrial racking system manufacturing from the Penang 1572 factory, as well as machinery for roofing sheets and truss manufacturing from the Penang 1571 factory. It will also purchase new machinery, including roll forming machines for its Banting factory and new equipment for the manufacturing of roof trusses and industrial racking systems.

Figure 9: The new Penang factory



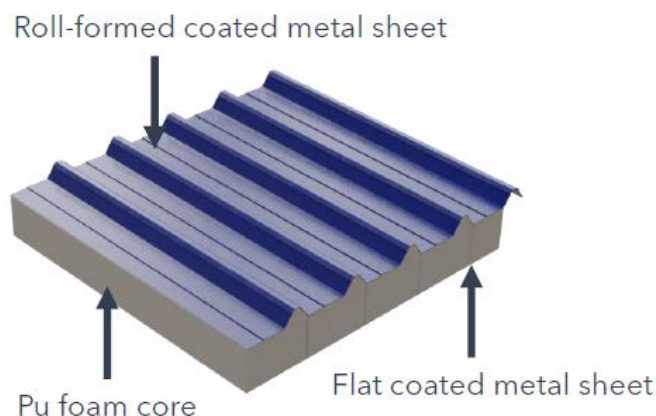
An illustration of New Penang Factory

Source: Company data

Investment in ICT systems. BWYS intends to invest in advanced ICT systems, including a new ERP system and production and inventory management systems. These systems will facilitate the tracking and tracing of incoming raw materials and finished products, significantly improving its production workflow. The integration of these systems will enhance efficiency, ensure better inventory control, and streamline its overall operational processes, leading to higher productivity and cost savings.

Expanding its range of roofing products. To expand its range of roofing products, BWYS plans to venture into the manufacturing of PU foam sandwich panels. The new product line will target existing and new customers, mainly resellers such as hardware wholesalers and retailers. By leveraging the network of these resellers, the group aims to expand its geographical reach and tap into new markets without the need for significant investments into resources and facilities in those areas. This strategy will allow it to address market opportunities effectively and enhance its product portfolio.

Figure 10: PU sandwich panels



Source: Company data

Expanding its reach in foreign countries. BWYS aims to grow its business internationally by expanding its reach into foreign markets, particularly in South-East Asia, the Middle East, and South America. Its strategy involves selling its products to resellers who can utilise their networks to gain access to these markets. This approach enables it to penetrate new regions and increase its market share without the need for substantial investments in foreign infrastructure, thereby optimising its resources and maximising its international growth potential.

IPO details

Figure 11: Indicative IPO timeline

Opening of application	18 Jun 2024
Closing of application	5 Jul 2024
Balloting of applications	11 Jul 2024
Allotment of the IPO shares to successful applicants	18 Jul 2024
Listing	22 Jul 2024

Source: Company

Figure 12: Utilisation of IPO proceeds

	Estimated timeframe	MYRm	% of proceeds
Capital expenditure	Within 36 months	41.4	73.3
Working capital	Within 12 months	5.5	9.8
Repayment of bank borrowings	Within 12 months	4.0	7.1
Listing expenses	Within 3 months	5.5	9.8
Total		56.4	100.0

Source: Company

Figure 13: Offering structure

	No. of IPO shares	% of enlarged share base
Public issue of new shares:		
Malaysia public	51,260,000	5.0
Pink form allocations	61,510,000	6.0
Private placement to <i>bumiputra</i> investors	128,150,000	12.5
Private placement to <i>selected</i> investors	15,380,000	1.5
	256,300,000	25.0
Offer for sale of existing shares:		
Private placement to <i>selected</i> investors	100,000,000	9.8
Total	356,300,000	34.8

Source: Company

Key risks

- i. Fluctuation in steel prices;
- ii. Supply chain disruptions;
- iii. FX fluctuations;
- iv. Shortage of foreign workers.

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
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Analyst	Company
-	-

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