

# Coraza Integrated Technology Berhad TP: RM0.985 (+30.5%)

*Growth Prospects Intact*

Last Traded: RM0.755

**BUY (ESG: ★★★)**

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Post Coraza's 2QFY22 investors' briefing, we remain upbeat on the group's prospects. Key takeaways include i) order book remains largely intact at ~1.0x FY21 revenue, underpinned by its key customers with exposure to the high-growth semiconductor, instrumentation, and life science and medical devices industries, ii) large-scale expansion plans in Nibong Tebal, Pulau Pinang is ongoing, albeit with delays expected, iii) the group is fulfilling growing orders via rented sites. In all, we maintain our projection for sales and core net profit to grow at a 3-year CAGR of 16.5% and 18.8% to RM167.8mn and RM21.5mn in FY24F. We retain our TP for Coraza at RM0.985, based on a PE multiple of 23.0x against CY23F EPS. Reiterate Buy.

## Review of 1HFY22

To recap, Coraza reported robust growth in 1HFY22 as its revenue and core net profit increased 59.4% YoY and 46.5% YoY to RM68.9mn and RM7.2mn. Revenue was driven by the sheet metal fabrication and precision machining segments, which accounted for 83.4% (FY21: 84.7%) and 16.6% (FY21: 15.3%) of total revenue. The growing % of contributions from the small precision machining segment reflects the group's greater involvement in its customers' supply chain. By industry, contributions as a % of total revenue were led by semiconductors at 59.8%, followed by instrumentation at 20.3%, life science and medical devices at 13.3%, while the balance was from aerospace, telecommunications, and electrical and electronics at 6.6%.

Management highlighted that challenges faced during the year include higher raw material prices and minimum wages, which led the core net profit margin to narrow by 0.9pp YoY to 10.4%. That said, we expect Coraza's FY22F core net profit margin to remain resilient at 11.4% (FY21: 12.1%), with the increased costs expected to be passed through in the coming quarters.

## Order Book Largely Intact

Amid macroeconomic headwinds, management is comforted that Coraza has not seen the cancellation of orders and its order book remains largely intact at ~1.0x FY21 revenue. Its key customers' resilience is underpinned by exposure to the high-growth semiconductor, instrumentation, and life science and medical devices industries. Going forward, management said that while the group will continue working closely with key customers to cater to their growing demand, it will also focus on other industries, including aerospace, where demand has been picking up amid the sector's recovery. At the same time, this will also help to reduce the group's concentration risk to the semiconductor industry.

### Share Information

Bloomberg Code	CORAZA MK
Stock Code	0240
Listing	Ace Market
Share Cap (mn)	428.3
Market Cap (RMmn)	323.4
52-wk Hi/Low (RM)	-
12-mth Avg Daily Vol ('000 shrs)	-
Estimated Free Float (%)	20.7
Beta (x)	-

### Major Shareholders (%)

Paul Heng Weng Seng	- 48.3%
Liew Sow Ying	- 19.3%

### Forecast Revision

	FY22	FY23
Forecast Revision (%)	-	-
Net Profit (RMm)	15.1	18.4
Consensus	15.6	19.7
TA's / Consensus (%)	96.9	93.2
Previous Rating	Buy (Maintained)	
Consensus TP (RM)	0.940	

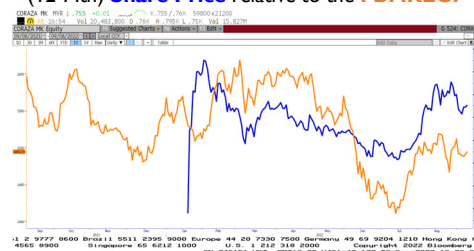
### Financial Indicators

	FY22	FY23
Net Gearing (%)	Net cash	Net cash
CFPS/share (sen)	4.0	4.1
P/CFPS (x)	18.9	18.6
ROE (%)	17.8	18.7
NTA/Share (RM)	19.7	23.0
Price/NTA (x)	3.8	3.3

### Share Performance (%)

Price Change	CORAZA	FBM KLCI
1 mth	2.7	(0.1)
3 mth	20.8	(1.9)
6 mth	29.1	(3.4)
12 mth	-	(6.4)

### (12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

### *Expansion Plans Ongoing, Albeit with Delays Expected*

Coraza is undertaking large-scale expansion plans, which involve the construction of a new factory adjacent to its existing factory in Nibong Tebal, Pulau Pinang. The new factory will have a total built-up area of 91,110 sq ft and enlarge the group's overall manufacturing floor space by ~100%. Based on the original timeline, construction will be carried out in 3 phases over 2 years, from January 2022 to December 2023. However, delays are expected, with the consultant still performing soil tests to determine the appropriate piling system to deploy. In the meantime, the group will be fulfilling its growing orders via rented sites, including a 20,000 sq ft site and an upcoming 57,000 sq ft site.

Above all, we remain upbeat on Coraza's sizeable expansion plans as it will allow the group to strategically capture opportunities from the slew of investments by semiconductor multinational corporations in northern Malaysia, partly catalysed by trade diversion amid US-China trade tension. As such, we maintain our projection for sales and core net profit to grow at a 3-year CAGR of 16.5% and 18.8% to RM167.8mn and RM21.5mn in FY24F.

**Table 1: Coraza's New Factory Expansion Timeline**

Phase	Built Up Area (sq ft)	Construction Timeline	Activities
Phase 1	40,101	Jan. 2022 to Mar. 2023	Precision machining
Phase 2	25,858	Jul. 2022 to Aug. 2023	Sheet metal fabrication
Phase 3	25,151	Jan. 2023 to Dec. 2023	Finishing services
<b>Total</b>	<b>91,110</b>	-	-

Source: Company, TA Securities

### *Impact*

No change to our FY22-24 earnings projections.

### *Valuation*

We maintain our TP for Coraza at RM0.985, based on a PE multiple of 23.0x against CY23F EPS. Maintain **Buy**. We continue to like Coraza for its i) established track record in providing integrated engineering supporting services, ii) longstanding relationships with multinational corporations, iii) experienced management team, iv) healthy margins, and v) earnings growth prospects backed by its expansion plans and exposure to high growth industries including semiconductor.

Key downside risks include: i) dependence on major customers, ii) raw material price fluctuations, and iii) a prolonged COVID-19 pandemic and geopolitical tensions both weighing on economic growth and disrupting supply chains.

## Earnings Summary

### P&L

FYE Dec 31 (RMmn)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	83.7	106.1	132.7	152.6	167.8
EBITDA	11.9	20.2	24.5	29.8	34.4
Dep. & amortisation	(2.9)	(3.4)	(4.3)	(5.3)	(6.0)
Net finance cost	(0.4)	(0.8)	(0.4)	(0.3)	(0.2)
EI	1.9	0.1	(3.2)	0.0	0.0
PBT	10.5	16.1	16.7	24.2	28.2
Taxation	(2.5)	(3.2)	(4.0)	(5.8)	(6.8)
PAT	8.0	12.8	12.7	18.4	21.5
Core PAT	6.6	12.8	15.1	18.4	21.5
Core EPS (sen)	1.5	3.0	3.5	4.3	5.0
DPS (sen)	1.6	0.0	0.7	1.1	1.3

### Ratios

FYE Dec 31	FY20	FY21	FY22F	FY23F	FY24F
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#### Valuations

PER	49.2	25.3	21.4	17.6	15.1
Dividend yield	2.1	0.0	1.0	1.4	1.7
PBV	11.1	7.7	3.8	3.3	2.8

#### Profitability ratios

ROAE	22.5	30.4	17.8	18.7	18.8
ROAA	11.1	13.1	11.5	12.6	13.2
EBITDA margin	14.3	19.0	18.5	19.5	20.5
PBT margin	12.5	15.1	12.6	15.8	16.8

#### Liquidity ratios

Current ratio	1.9	1.6	2.6	2.7	3.0
Quick ratio	1.3	1.0	2.0	2.0	2.2

#### Leverage ratios

Total liabilities/equity	0.5	0.6	0.2	0.2	0.1
Net debt/equity	0.3	0.5	(0.2)	(0.2)	(0.2)
Int. coverage ratio	23.2	25.5	37.8	49.5	61.9

#### Growth ratios

Sales	42.8	26.8	25.0	15.0	10.0
Pretax	140.8	53.0	3.8	45.0	16.9
Core PAT	92.5	94.6	17.9	21.7	16.9
Total assets	8.5	64.2	34.8	10.8	11.1

### Balance Sheet

FYE Dec 31 (RMmn)	FY20	FY21	FY22F	FY23F	FY24F
Property, plant and equipment	22.9	29.0	38.4	44.2	49.3
Others	0.4	0.0	0.0	0.0	0.0
Non-current assets	23.3	29.0	38.4	44.2	49.3
Inventories	10.8	25.0	22.5	25.9	28.4
Trade receivables	18.4	35.0	33.2	38.1	42.0
Others	1.3	4.2	4.2	4.2	4.2
Cash and cash equivalents	5.6	4.5	33.3	33.4	38.2
Current assets	36.1	68.7	93.2	101.6	112.8
<b>Total assets</b>	<b>59.5</b>	<b>97.6</b>	<b>131.6</b>	<b>145.8</b>	<b>162.0</b>
Trade payables	5.6	19.7	15.8	18.2	20.0
Others	6.4	8.7	8.7	8.7	8.7
ST Borrowings	6.7	14.5	11.6	10.5	9.4
Current liabilities	18.8	42.9	36.1	37.3	38.1
Others	3.0	3.5	3.5	3.5	3.5
LT Borrowings	8.4	9.2	7.4	6.7	6.0
Non-current liabilities	11.4	12.6	10.9	10.2	9.5
Share capital	0.0	29.3	62.2	62.2	62.2
Reserves	29.3	12.8	22.3	36.1	52.2
Total equity	29.3	42.1	84.6	98.4	114.5
<b>Total liabilities and equity</b>	<b>59.5</b>	<b>97.6</b>	<b>131.6</b>	<b>145.8</b>	<b>162.0</b>

### Cash Flow

FYE Dec 31 (RMmn)	FY20	FY21	FY22F	FY23F	FY24F
PBT	10.5	16.1	16.7	24.2	28.2
Dep. & amortisation	2.9	3.4	4.3	5.3	6.0
Net finance cost	0.4	0.8	0.4	0.3	0.2
Other non-cash	(0.8)	(0.6)	0.0	0.0	0.0
Changes in WC	(0.5)	(16.0)	0.4	(6.0)	(4.6)
Tax paid & others	(3.1)	(3.5)	(4.6)	(6.4)	(7.3)
<b>Operational cash flow</b>	<b>9.3</b>	<b>0.1</b>	<b>17.1</b>	<b>17.4</b>	<b>22.5</b>
Capex	(5.9)	(9.5)	(13.8)	(11.1)	(11.1)
Interest received	0.1	0.0	0.3	0.3	0.4
Others	2.8	(0.0)	(0.0)	(0.0)	(0.0)
<b>Investing cash flow</b>	<b>(3.0)</b>	<b>(9.5)</b>	<b>(13.5)</b>	<b>(10.8)</b>	<b>(10.7)</b>
Dividend paid	(6.8)	0.0	(3.2)	(4.6)	(5.4)
Net change in debts	2.0	3.5	(4.6)	(1.9)	(1.7)
Others	(1.2)	0.5	33.0	0.0	0.0
<b>Financial cash flow</b>	<b>(5.9)</b>	<b>4.0</b>	<b>25.2</b>	<b>(6.5)</b>	<b>(7.1)</b>
<b>Net cash flow</b>	<b>0.4</b>	<b>(5.5)</b>	<b>28.8</b>	<b>0.1</b>	<b>4.7</b>
Opening cash flow	4.2	4.5	4.5	33.3	33.4
<b>Closing cash flow</b>	<b>4.5</b>	<b>(0.9)</b>	<b>33.3</b>	<b>33.4</b>	<b>38.2</b>

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### Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.  
**HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.  
**SELL** : Total return is lower than the required rate of return.  
**Not Rated:** The company is not under coverage. The report is for information only.

**Total Return** is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

**Required Rate of Return** of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

### ESG Scoring & Guideline

	Environmental	Social	Governance	Average
<b>Scoring</b>	★★★	★★★	★★★	★★★
<b>Remark</b>	Coraza seeks to minimise environmental pollution via compliance with the Environment Quality (Scheduled Wastes Regulations 2005) for waste disposal and employing additional measures via monthly tests on wastewater effluents.	Coraza emphasises on employee safety and health. It is also committed through various CSR initiatives.	Coraza has reasonable oversight in place, supported by established Code of Conduct and Ethics Policy, Anti-Bribery and Anti-Corruption Policy, and Whistleblower Policy.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.  
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.  
★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.  
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.  
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

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As of Friday, September 09, 2022, the analyst, Wilson Loo, who prepared this report, has interest in the following securities covered in this report:  
(a) nil

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**Kaladher Govindan – Head of Research**

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