

**DESCRIPTION**

Tuju Setia Bhd is primarily involved in the construction of non-residential and residential buildings in Malaysia.

Fair Value	RM1.11
IPO Price	RM0.70
Expected Return	58.6%
Closing Application Date	5 May 2021
Indicative Listing Date	19 May 2021

Market	MAIN
Bursa Code	5297
Bloomberg Ticker	TJSETIA MK
Shariah-compliant	Yes

**IPO DETAILS**

	Shares(m)
Offer for Sale	27.0
Public Issue	80.0

**UTILISATION OF PROCEEDS**

	RM (m)
Capital expenditure	32.0
Working capital	19.0
Estimated listing expenses	5.0
<b>Total</b>	<b>56.0</b>

**KEY STOCK DATA**

Market Capitalisation (RM m)	221.8
No. of Shares (m)	316.8

**MAJOR SHAREHOLDERS**

	%
Wee Eng Kong	44.4
Dato' Wee Beng Aun	21.9

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## High-rise Construction Specialist

Tuju Setia Bhd (TJSETIA) is principally involved in the construction of: i) non-residential buildings including mixed-use commercial buildings, offices, serviced apartments and institutional buildings such as schools and hospitals; and ii) residential buildings that include high-rise condominiums and affordable apartments. As a main contractor, the group is responsible for the overall project including project planning and management as well as implementation of all stages of the project for timely completion. TJSETIA engages subcontractors to carry out the construction related works under its supervision, control and management while project planning and management are carried out internally by the group's staff. In Sept 2018, TJSETIA secured its first contract for the design and construction of a new women and children's complex as part of the Kajang Hospital in Selangor.

Moving forward, TJSETIA intends to expand its core competency in building construction focusing on high-rise buildings, widen its services to cover design and construction for hospital projects as well as scale up its operational facilities. We derive a fair value of **RM1.11** based on an 11x PE multiple to its FY2022F EPS of 10.1sen. The IPO is expected to raise approximately RM56.0m from the issuance of 80.0m new shares. Besides utilising 57.1% of the proceeds for capital expenditure, 33.9% of the proceeds are allocated for working capital.

§ **Growth drivers.** TJSETIA's growth will be dependent on: i) expansion of its core competency in high-rise buildings construction, ii) expansion of its services to cover design and construction for hospital projects, and iii) expansion of its operational facilities.

§ **Competitive strengths.** TJSETIA's competitive strengths include: i) having an established track record in diverse range of high-rise construction, ii) providing timely completion of projects and quality of construction works, iii) adoption of various industrialised building system (IBS) construction techniques and offer of value engineering in providing alternative designs, iv) ability to provide design and construction of hospitals, and v) having qualified and experienced management team.

§ **Catalysts.** Key drivers may include: i) favourable interest rate as well as lending policies, ii) availability of loans for construction, and iii) government initiatives in implementing various affordable housing schemes and continuation of large-scale infrastructure projects.

§ **Key risks.** Key downside risks, among others, include i) competition from other construction companies, ii) exposure to the inherent risks in the construction industry, iii) dependency on its subcontractors, iv) unanticipated increases in the cost of construction, and v) potential exposure to liquidity risk as a result of delay in collection or non-recoverability of trade receivables.

**KEY FINANCIAL SUMMARY**

FYE Dec (RM m)	2018A	2019A	2020A	2021F	2022F	CAGR
Revenue	327.8	421.6	255.8	421.0	564.2	11.5%
Operating Profit	11.8	20.9	21.6	30.1	41.5	28.5%
Pre-tax Profit	12.4	21.5	21.8	30.6	42.0	27.6%
Core Net Profit	8.9	26.2	10.2	23.2	31.9	29.1%
EPS (Sen)	2.8	8.3	3.2	7.3	10.1	
P/E (x)	24.9	8.5	21.7	9.5	6.9	
DPS (Sen)	0.8	1.9	2.5	1.8	2.6	
Dividend Yield (%)	1.1	2.7	3.6	2.6	3.7	

Source: Company, PublicInvest Research estimates

*Is primarily involved in the construction of non-residential and residential buildings in Malaysia*

## Company Background

Tuju Setia Bhd (TJSETIA), through its wholly-owned subsidiary namely Pembinaan Tuju Setia S/B, is primarily involved in the construction of non-residential and residential buildings in Malaysia. Non-residential buildings include mixed-use commercial buildings, offices, serviced apartments and institutional buildings such as school and hospital, while residential buildings include condominiums and affordable apartments.

**Table 1: Key events and milestones**

Year	Event
2006	<ul style="list-style-type: none"> <li>- Commenced operations as a main contractor of building construction works</li> <li>- Secured its first residential building construction contract, namely the Mentari Court Project in Selangor</li> <li>- Was registered as a Grade G7 contractor with Construction Industry Development Board Malaysia (CIDB)</li> </ul>
2008	<ul style="list-style-type: none"> <li>- Secured the Mydin Hypermarket Project in Melaka, its first non-residential building construction contract</li> <li>- Secured its first mixed-use commercial building construction contract, the SetiaWalk Project in Selangor, and subsequently a contract for the construction of an entertainment centre and elevated car park for the SetiaWalk Project in 2010</li> </ul>
2009	<ul style="list-style-type: none"> <li>- Secured a construction contract of a helicopter hangar in Melaka</li> <li>- Was accredited ISO 9001:2008 quality management system for the provision of project management for construction of buildings and engineering works (the certification was renewed to ISO 9001:2015 from 7 Jan 2018 to 13 Feb 2021)</li> </ul>
2011	<ul style="list-style-type: none"> <li>- Secured a contract for the construction of an integrated complex which comprised a shopping mall and transportation hub for the KLIA2 Integrated Complex Project in Selangor</li> <li>- Secured the Setia Sky Residences (Celeste Tower) Project in KL, its first serviced apartment construction contract, and subsequently the Setia Sky Residences (Divina Tower) Project in 2013</li> </ul>
2012	<ul style="list-style-type: none"> <li>- Secured its first project in Johor for the construction of a high-rise residential building, namely the Idaman Residence Project</li> </ul>
2013	<ul style="list-style-type: none"> <li>- Secured its first office building construction contract, the Top Glove Tower Project in Selangor</li> </ul>
2014	<ul style="list-style-type: none"> <li>- Secured its first contract for the construction of an international school, the Tropicana International School Project in Selangor</li> </ul>
2015	<ul style="list-style-type: none"> <li>- Secured the Grand Medini Residence Project, a high-rise residential building construction and its second project in Johor</li> </ul>
2016	<ul style="list-style-type: none"> <li>- Secured the Federal Territories Affordable Housing (RUMAWIP) SkyAwani Residence Project in KL, its first construction contract for affordable housing under the RUMAWIP Programme</li> </ul>
2017	<ul style="list-style-type: none"> <li>- Secured the Menara TCM Project in KL, its second office building construction project</li> <li>- Secured Malaysia Housing for Civil Servants (PPAM) Sofiya Residensi Project in KL, the construction of a 51-storey affordable apartment under the PPAM programme</li> </ul>
2018	<ul style="list-style-type: none"> <li>- Secured its first design and construction contract for a hospital, the Kajang Women and Children Hospital Project in Selangor</li> </ul>
2019	<ul style="list-style-type: none"> <li>- Obtained a Certificate of Government Procurement Works (SPKK) from the CIDB</li> </ul>
2020	<ul style="list-style-type: none"> <li>- Secured the Riana Dutamas (Phase 2) Project in KL, high-rise serviced apartments building construction</li> <li>- Secured the TUAL Residence Project in Selangor, a high-rise condominium building construction</li> </ul>
2021	<ul style="list-style-type: none"> <li>- Secured The Pulse Residence Project in Selangor for the construction of a mixed-use commercial building with serviced apartments and retail podium</li> <li>- Secured the 121 Residences Project in Selangor, high-rise serviced apartments and small-office-home-office (SoHo) building construction</li> </ul>

Source: Company Prospectus, PublicInvest Research

*Provides construction services based on a given design plan*

*Is responsible for the overall project*

*Engages subcontractors to perform the construction works under its supervision*

*Secured its first contract for the design and construction of a new women and children complex as part of Kajang Hospital in Selangor in 2018*

*Its projects are primarily located in Kuala Lumpur and Selangor*

*Mainly serves the private sector for the construction of residential and non-residential buildings*

## Business Overview

TJSETIA is principally involved in the construction of: i) non-residential buildings including mixed-use commercial buildings, offices, serviced apartments and institutional buildings such as schools and hospitals; and ii) residential buildings that include high-rise condominiums and affordable apartments. As a building contractor, TJSETIA provides construction services based on a given design plan which incorporates among others, engineering and architectural design. As a main contractor, the group is responsible for the overall project including project planning and management as well as implementation of all stages of the project, which includes daily management of all the works required for the timely completion of the projects. TJSETIA engages subcontractors to carry out the construction related works such as earthworks, site preparation and other related works under its supervision, control and management while project planning and management are carried out internally by the group's staff.

As TJSETIA is primarily involved in the construction of the physical building, the group only commences its superstructure construction after the handover of the completed substructures. The construction of superstructure incorporates the following: i) constructing and erecting columns, beams, walls, floors and roofs, utilising two main types of industrialised building system (IBS) techniques, namely aluminium formwork system and precast concrete components; ii) installation of mechanical and electrical (M&E), communications and plumbing systems; iii) other building construction works include external wall cladding and façade, architectural works including installation of windows and doors, and internal and external finishing for floors, walls, ceilings, columns and stairs; and iv) internal infrastructure construction and landscaping work within the development area. TJSETIA engages subcontractors to perform the construction works under its supervision, control and management.

In Sept 2018, TJSETIA secured its first contract for the design and construction of a new women and children's complex as part of the Kajang Hospital in Selangor. The complex comprises a 9-storey building block with 272 beds and a multi-storey car park, as well as an M&E building. The construction is expected to be completed by March 2022. For the building design and construction contract, as main contractor TJSETIA is responsible for the overall project including project planning and management together with the implementation of all stages of the project that include design works and procurement of medical equipment. TJSETIA engages subcontractors specialised in medical equipment to carry out the installation of medical equipment and construction related works under its supervision, control and management. In reference to the Kajang Women and Children Hospital Project, the appointment of external professionals for the design stage and obtaining the approvals and permits for the construction project are undertaken by TJSETIA's customer who is the turnkey contractor for the project.

**Table 2: Revenue segmentation by business activity**

Business activity	FY2017	FY2018	FY2019	FY2020
Building construction				
- Non-residential	71.62%	77.79%	66.14%	40.54%
- Residential	28.33%	21.74%	28.44%	39.95%
Design and construction	-	0.46%	5.42%	19.51%
Others*	0.05%	0.01%	-	negligible

Source: Company Prospectus, PublicInvest Research

\*Includes rental of machinery and equipment to third party construction contractors

TJSETIA's revenue was derived from projects primarily located in Kuala Lumpur and Selangor, which represented 72.61%, 84.56%, 98.58% and 99.73% of its total revenue for FY2017, FY2018, FY2019 and FY2020 respectively. The remainder 27.39%, 15.44%, 1.42% and 0.27% of its total revenue for FY2017, FY2018, FY2019 and FY2020 respectively, were contributed by one project located in Johor which was completed in FY2018. TJSETIA mainly serves the private sector for the construction of residential and non-residential buildings, which represented 100.00%, 99.54%, 94.58% and 80.49% of its total revenue for FY2017, FY2018, FY2019 and FY2020 respectively. In FY2018, the group has also secured a design and construction contract for a government hospital, which accounted for the remaining revenue of 0.46%, 5.42% and 19.51% of its revenue for the FY2018, FY2019 and FY2020 respectively.

**Table 3: Selection of completed projects**

Project name	TCV* (RM m)	Year of completion
SetiaWalk	264.85	2011
Setia Sky Residences (Celeste Tower)	111.89	2015
Top Glove Tower	87.03	2015
Setia Sky Residences (Divina Tower)	105.24	2016
Tropicana International School	87.72	2016
RUMAWIP SkyAwani Residence	194.28	2018
Grand Medini Residence	210.89	2018
Geo Bukit Rimau	210.00	2019
Nadayu 63	105.65	2019
Menara TCM	185.00	2020
TWY Mont Kiara	163.80	2020

Source: Company Prospectus, PublicInvest Research

\*Total contract value that includes variation orders

**Table 4: On-going projects**

Project name	TCV* (RM m)	Expected completion year
PPAM Sofiya Residensi	148.99	2021
Emerald Hills (Phase 3)	142.36	2021
Mutiara Central	102.21	2022
Kajang Women and Children Hospital	204.28	2022
Riana Dutamas (Phase 2)	179.00	2023
121 Residences	143.50	2023
TUAI Residence	74.58	2023
The Pulse Residence	180.00	2024
Emerald Hills (Phase 4)	195.00	2024

Source: Company Prospectus, PublicInvest Research

\*Total contract value that includes variation orders

*Acts as the main contractor in order to secure contracts directly from property developers or building owners*

*Also secures projects using indirect distribution channels via the main or turnkey contractor*

*Is neither dependent on any of its customers nor suppliers*

TJSETIA mainly uses a direct distribution channel for its sales and marketing activities. Direct distribution channel is where the group acts as the main contractor in order to secure contracts directly from property developers or building owners. Revenue derived from the direct distribution channel represented 99.27%, 97.89%, 94.56% and 80.16% of TJSETIA's total revenue for FY2017, FY2018, FY2019 and FY2020 respectively. TJSETIA's direct distribution channel strategy allows the group to work directly with decision makers in the projects, enabling the group to build its reputation and track record to position itself to secure contracts in the future. As TJSETIA participates in tenders mainly through direct invitations from property developers or building owners, its direct distribution channel strategy will help reinforce top-of-mind recall for future projects as well as referrals to other property developers and building owners. Within FY2017 and FY2020, TJSETIA's 14 major completed and on-going projects were from invitation for tenders directly from property developers and building owners.

Also, TJSETIA secures projects using indirect distribution channels via the main or turnkey contractor. Revenue derived from indirect distribution channel represented 0.73%, 2.11%, 5.44% and 19.84% of the group's total revenue for FY2017, FY2018, FY2019 and FY2020 respectively. Its work scope for projects secured using indirect distribution channels is similar save for the appointment of external professionals for the design stage and obtaining the approvals and permits for the construction project which is undertaken by the main or turnkey contractor.

TJSETIA is not dependent on any of its customers as the nature of its business is project-based where its construction projects typically have a contract period ranging from two to four years. Furthermore, revenue contributions from customers are based on the proportion of construction works completed for respective on-going projects. In addition, while the purchases of subcontractor services accounted for 65.27%, 71.35%, 77.79% and 77.76% of the group's total purchases for the FY2017, FY2018, FY2019 and FY2020 respectively, TJSETIA is not dependent on any suppliers, as subcontracted services and materials are widely available and the group source them from various local suppliers. The appointment of the subcontractors/suppliers is based on their capabilities and reliability to ensure the quality of services delivered to the customers.

*Strengthening of its current competency in building construction*

*Expands its building construction services to include provision of design services (for healthcare facilities)*

*Expands its asset base of construction machinery and equipment*

*Intends to purchase a land of approximately 5 acres in the Klang Valley for the storage of its existing and new construction machinery and equipment*

*Having an established track record in high-rise construction*

*Providing timely completion of projects and quality of construction works*

## Future Plans

**Strengthening of its current competency in building construction.** TJSETIA will continue to leverage on its core competency in the construction of high-rise buildings to sustain and grow its business. Since the commencement of its business operations in 2006 and up to 31 March 2021, TJSETIA has completed 18 projects for the construction of high-rise buildings with an aggregated contract value of approximately RM2.23bn. Its track record in the construction of high-rise buildings will serve as a reference for the group to secure additional high-rise building construction projects.

Moreover, TJSETIA plans to expand its building construction services to include provision of design services. The group will continue to increase its efforts in tendering for design and building construction contracts for hospital and other healthcare facilities including government and private healthcare facilities. In this respect, its on-going Kajang Women and Children Hospital Project is expected to serve as a reference for TJSETIA's future design and building construction projects.

**Expansion of its operational facilities.** Aiming to reduce its dependency on external parties as well as rental costs of some of the time-critical machinery and equipment, TJSETIA intends to expand its asset base of construction machinery and equipment by purchasing 15,000 sq. m. of aluminium formwork systems, 4 units of tower cranes, 1 set of self-climbing platform, 10,000 units of scaffoldings, 4 sets of on-site concrete batching plants and 1 licence for building information modelling (BIM) system software. The estimated cost of purchasing these formwork, machinery, equipment and software is RM24.00m and will be funded via the IPO proceeds within a period of 12 to 24 months from the date of listing.

As at 31 March 2021, TJSETIA has a storage yard situated on 2 acres of land in Kuala Langat. Planning to relocate its existing storage facilities to new premises, TJSETIA intends to purchase a larger piece of land in the Klang Valley with an approximate area of 5 acres for the storage of its existing and new construction machinery and equipment such as tower cranes, passenger hoists and scaffoldings. The group expects to complete the acquisition of the land and construction of the storage facilities within 36 months from the date of listing. The total cost of the purchase of land and construction of the storage facilities is estimated to be RM8.00m and will be funded using its IPO proceeds.

## Competitive Strengths

**Having an established track record in high-rise construction.** TJSETIA's core area of expertise and business focus is in the construction of high-rise buildings which accounted for 97.19%, 99.28%, 94.16% and 80.49% of the group's total revenue for FY2017, FY2018, FY2019 and FY2020 respectively. Since the commencement of its business in 2006 and up to 31 March 2021, TJSETIA has completed a total of 18 high-rise building construction projects. Leveraging on its capabilities, the group has constructed up to 51 levels of high-rise structures. Its track record in the construction of high-rise buildings will serve as a reference for securing new high-rise building construction projects.

**Providing timely completion of projects and quality of construction works.** Within the FY2017 and FY2020 period, TJSETIA completed major projects with a total contract value of RM1.07bn, without any delays. One of the projects, namely the Geo Bukit Rimau Project, was completed two months ahead of schedule. Since commencement of business in 2006, all of its projects were completed without any delays and TJSETIA incurred no liquidated ascertained damages (LAD), save for one project (RM0.51m). Apart from that, TJSETIA is accredited with ISO 9001:2015 by SIRIM QAS for the provision of building construction and civil engineering and is committed to quality in its construction works. The group has also obtained certifications such as SHASSIC, QCLASSIC and CONQUAS which serve as testimonials for the quality of its work, besides receiving awards from its customers as a further testament to its commitment to quality. TJSETIA's ability to provide timely and quality works has allowed the group to establish positive business relationships with its customers.

*Adoption of various IBS construction techniques and offer of value engineering in providing alternative designs*

*Ability to provide design and construction of hospitals including procurement and installation of Group I medical equipment*

*Having the expertise and capabilities to construct a diverse range of nonresidential and residential buildings*

*Having qualified and experienced management team*

*Competition from other construction companies*

*Exposure to the inherent risks in the construction industry*

*Dependency on its subcontractors*

**Adoption of various IBS construction techniques and offer of value engineering in providing alternative designs.** As a high-rise building contractor, TJSETIA adopts various IBS techniques comprising the use of aluminium formwork system for cast in-situ construction, and prefabricated concrete components manufactured on-site and off-site, together with pre-stressed concrete slab fabricated on-site. The usage of IBS techniques increases productivity by speeding up the construction process to shorten project completion time. Furthermore, TJSETIA is equipped with in-house civil and structural engineering expertise who offer value engineering such as providing alternative designs on certain parts of the building construction mainly on structural changes for reinforced as well as pre-stressed concrete works.

**Ability to provide design and construction of hospitals including procurement and installation of Group I medical equipment.** As part of it being a Grade G7 registered contractor with CIDB, TJSETIA is also registered as a B29 contractor specialising in hospital building works. This allows the group to bid and undertake construction of hospital and other healthcare facilities projects. TJSETIA's design works are synergistic to its construction works which will streamline the entire process and provide a single point of contact to its customers. The total solution approach provides TJSETIA with an added advantage when bidding for new contracts for hospital project as the group is able to incorporate design in its building construction works.

**Having the expertise and capabilities to construct a diverse range of non-residential and residential buildings.** Since the commencement of its operations in 2006, TJSETIA has completed various types of building construction projects, including: i) residential buildings such as high-rise condominiums and apartments; ii) commercial buildings such as shop offices, retail space and supermarket, commercial complex, offices, SoHo, serviced apartments; and iii) institutional buildings such as hospital, international school, religious building and a helicopter hangar. Its expertise and track record in carrying out construction of various types of non-residential and residential buildings enable TJSETIA to bid for diverse building construction contracts.

**Having qualified and experienced management team.** TJSETIA has a team of qualified and experienced management personnel with vast experience in the construction industry and relevant fields to develop its business and expand its market presence.

## Key Risks

**Competition from other construction companies.** TJSETIA's competitors i.e. other Grade G7 building construction companies may have longer operating track record and more resources in terms of capital, machinery and manpower as compared with the group. The existence of competition would also result in competitive pressure on various aspects including pricing and timing of completion.

**Exposure to the inherent risks in the construction industry.** TJSETIA's business is subject to the inherent risks in the construction industry which includes, among others: i) general economic conditions, ii) performance of the property market, iii) shortage of labour and increases in labour cost, iv) increase in cost of construction materials, v) changes in lending policies and practices by financial institutions, and vi) government initiatives and budget allocation for infrastructure developments.

**Dependency on its subcontractors.** TJSETIA engages subcontractors for a number of services including building and construction works, M&E, earthworks, infrastructure works, and as tower crane operators. From that perspective, the group is dependent on its subcontractors to perform their works and deliver their services to the best of their ability and in a timely manner while adhering to health and safety regulations. There is a risk that TJSETIA will be liable for any compensation to the customer resulting from the subcontractors' non-performance, late performance or poor performance as well as responsible for any misconduct and safety issues due to non-compliance by the sub-contractors.

*Unanticipated increases in the cost of construction*

*Potential exposure to liquidity risk as a result of delay in collection or non-recoverability of trade receivables*

**Unanticipated increases in the cost of construction.** The increases in costs could arise from among others, cost of subcontractor services, labour cost, construction materials, overheads, all of which could adversely affect TJSETIA's profit margin. In particular, steel materials and concrete together with cement materials constitute two of the most significant construction materials for TJSETIA's construction operations and these materials are commodities that are subject to global market prices, therefore any unfavourable fluctuations in the cost of these materials may negatively impact the group's profit margin.

**Potential exposure to liquidity risk as a result of delay in collection or non-recoverability of trade receivables.** At present, the credit terms granted to its customers range from 30 to 60 days. TJSETIA's net average trade receivables turnover period (excluding retention sums) from FY2017 until FY2020 were 57 days, 72 days, 57 days and 66 days, respectively. An extended delay in payment from its customers, or failure to collect its retention fees, may have a material and adverse effect on TJSETIA's cash flow and working capital.

Additionally if its customers delay or default on payment, TJSETIA will have to make allowance for impairment on uncollectible trade receivables or may be required to write-off uncollectible trade receivables as bad debts, which may adversely affect the group's financial performance. In FY2019, TJSETIA recorded a net loss on impairment of financial assets and contract assets of RM10.45m representing partial provision of outstanding receivables of RM20.60m from a single customer, which was under litigation. In FY2020, the settlement terms in relation to the litigation was entered into with the customer and a net gain on impairment of financial assets and contract assets of RM6.03m was recorded in FY2020.

## Industry Outlook

In accordance with Bank Negara Malaysia's assessment, Malaysia's economy is expected to gradually improve beginning second quarter of 2021 underpinned by key growth drivers that includes continued improvement in global growth, trade and technology cycle, reopening of the domestic economy, improvement in income prospects and sentiments to support consumption spending, and stimulus measures including fiscal, monetary and financial. This will be supported by growth factors including large public projects such as mass rapid transit (MRT), and high multiplier smaller projects, as well as recovery on commodity production. Some of the construction related activities that is expected to contribute to the improvement in Malaysia's economy includes the continuation of large-scale infrastructure projects namely MRT2, light rail transit 3 (LRT3), Pan Borneo Highway, East Coast Rail Link project and Johor Bahru-Singapore rapid transit system.

Despite the overhang conditions in both high-rise residential and non-residential properties in Malaysia, there continues to be opportunities in property development projects in 2020. This is demonstrated by the future supply of high-rise residential properties in Malaysia which stands at 375,167 units as of 2020, inclusive of 111,795 units from Kuala Lumpur and 82,982 units from Selangor. As of 2020, the future supply of high-rise commercial properties in Malaysia stands at 347,113 units, inclusive of 131,586 units from Kuala Lumpur and 87,071 units from Selangor. The future supply of properties can be used as an indicator of the demand for building construction work. It consists of planned properties with building plan approvals and incoming supply comprising buildings where construction has started but not yet completed. In this respect, the continuing supply of high-rise residential and non-residential properties in the future is expected to provide opportunities to high-rise building construction operators.

In addition, in the Budget 2021 plan, the Malaysian government has allocated RM31.9bn for healthcare services, of which RM366m is to be allocated for the construction of new hospitals.

(Source: Vital Factor Consulting S/B, from Company Prospectus)

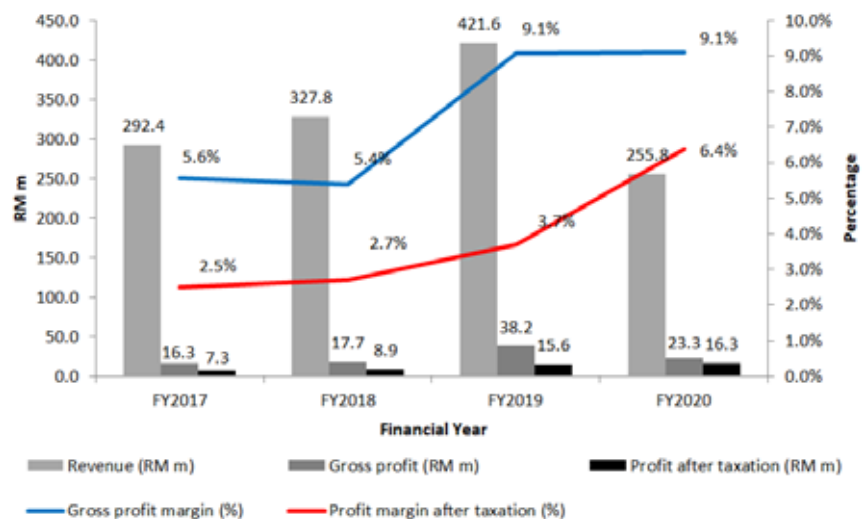
## Financials

**To record stellar double-digit growth.** The global COVID-19 pandemic and the enforcement of movement control order (MCO) by the Government have resulted in a decline in construction activities in both the residential and non-residential segments. TJSETIA's operations for its on-going projects were temporarily suspended during the very situation and hence it reported lower revenue in FY2020, dropping 39.3% YoY to RM255.8m. In line with the lower revenue, TJSETIA reported a decline of 60.9% YoY in terms of core net profit in FY2020. That said, we expect the revenue to improve significantly starting FY2021, backed by its outstanding orderbook in hand of RM953.1m, as at 31 March 2021. As at 31 March 2021, TJSETIA's tender book stands at RM3.96bn. YTD, it has secured RM398.1m worth of new projects, demonstrating its ability to replenish its orderbook amidst the on-going pandemic. We are expecting TJSETIA to secure another c. RM400.0m orderbook by the end of this year and to record revenue and net profit growth of 64.6% and 127.1% for FY2021 respectively. The growth momentum could potentially carry over into FY2022.

Notably, while gross profit margin may fluctuate YoY as each construction project differs in terms of duration, profit margin and costs and stages of the construction in general, TJSETIA saw relatively higher gross profit margin in FY2019 and FY2020 due to several factors, among others: i) increased scope of work, ii) actual purchase price of construction materials were lower than budgeted costs, iii) cost improvement measures with implementation of the IBS technique in its construction works, iv) completion of projects which were ahead of work schedule resulting in savings for preliminaries such as site management costs, utilities and other related overhead expenses, and v) lower actual subcontractors' price as compared with initial budgeted price.

**Strong cash pile.** TJSETIA has maintained a net cash position since 2017. With that, the group is going to adopt a dividend payout ratio policy of 25%. It has declared and paid dividends amounting to RM2.51m, RM6.00m and RM8.00m in FY2018, FY2019 and FY2020 respectively. This translates to a payout of approximately 28.2%, 38.6% and 49.2%.

**Figure 1: Revenue and profitability**



Source: Company Prospectus, PublicInvest Research

## Valuation

**P/E valuation approach.** We derive a fair value of RM1.11, pegging TJSETIA's FY2022F EPS of 10.1sen to average industry's forward PE multiple of 11x. As an established main contractor for quality high-rise developments possessing expertise in design and construction, TJSETIA's earnings are expected to be supported by strong pick-up in contract awards starting FY2021.



**Table 5: Peer comparison**

Company	Market Cap (RMm)	PE (x)	P/BV (x)	ROA (%)	ROE (%)	Dividend Yield (%)
GDB	550.0	10.2	4.1	10.34	20.2	2.3
Kerjaya Prospek	1,682.8	12.6	1.5	6.2	8.3	2.2
TCS	187.2	10.0	2.5	9.8	27.8	1.9

Source: Bloomberg

## IPO Details

TJSETIA is seeking a listing with an enlarged issued and paid-up share capital of 316,828,700 shares on Bursa Malaysia's MAIN Market. Pursuant to the IPO listing, the company's market capitalisation is RM221.8m based on its IPO price of RM0.70.

The IPO allocation, post-IPO share capital of TJSETIA and utilisation of IPO proceeds are shown in the following tables.

**Table 6: IPO allocation**

Categories	No. of shares	% of enlarged share capital
<b>Public Issue:</b>		
Malaysian public (via balloting) <sup>^</sup>	15,842,000	5.0
Eligible persons	6,336,000	2.0
Placement to selected investors	26,139,000	8.3
Placement to selected investors by MITI*	31,683,000	10.0
Subtotal	80,000,000	25.3
<b>Offer for sale:</b>		
Placement to selected investors by MITI*	27,000,000	8.5
Sub-total	27,000,000	8.5
<b>Total</b>	<b>107,000,000</b>	<b>33.8</b>

Source: Company Prospectus

<sup>^</sup> 50.0% shall be set aside for Bumiputera investors

\* Ministry of International Trade and Industry

**Table 7: Post-IPO share capital**

	No. of shares
Issued share capital at 26 April 2021	236,828,700
To be issued pursuant to the IPO	80,000,000
<b>Enlarged share capital upon listing</b>	<b>316,828,700</b>

Source: Company Prospectus

**Table 8: Utilisation of IPO proceeds\***

Details of utilisation	RM m	%
Purchase of construction machinery and equipment, and BIM system software	24.0	42.9
Purchase of land and construction of storage facilities	8.0	14.3
Working capital	19.0	33.9
Estimated listing expenses	5.0	8.9
<b>Total</b>	<b>56.0</b>	<b>100.0</b>

Source: Company Prospectus

\*based on RM0.70 for 80,000,000 new shares issued

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

FYE Dec (RM m)	2018A	2019A	2020A	2021F	2022F
Revenue	327.8	421.6	255.8	421.0	564.2
<b>Gross Profit</b>	<b>17.7</b>	<b>38.2</b>	<b>23.3</b>	<b>39.0</b>	<b>53.4</b>
Other expenses	-5.7	-6.3	-7.1	-8.6	-11.5
Operating Profit	11.8	20.9	21.6	30.1	41.5
Finance Costs	0.6	0.7	0.2	0.5	0.5
<b>Pre-tax Profit</b>	<b>12.4</b>	<b>21.5</b>	<b>21.8</b>	<b>30.6</b>	<b>42.0</b>
Income Tax	-3.5	-6.0	-5.5	-7.3	-10.1
Effective Tax Rate (%)	28.4	27.8	25.4	24.0	24.0
<b>Core Net Profit</b>	<b>8.9</b>	<b>26.2</b>	<b>10.2</b>	<b>23.2</b>	<b>31.9</b>

### Growth (%)

Revenue	12.1%	28.6%	-39.3%	64.6%	34.0%
Gross Profit	8.6%	116.0%	-39.1%	67.6%	36.9%
Net Profit	21.9%	194.6%	-60.9%	127.1%	37.3%

Source: Company Prospectus, PublicInvest Research estimates

### BALANCE SHEET DATA

FYE Dec (RMm)	2018A	2019A	2020A	2021F	2022F
Property, Plant and Equipment	14.2	9.6	9.1	9.6	10.1
Cash and Cash Equivalents	35.0	41.1	33.7	106.3	118.9
Receivables	132.8	119.7	79.0	143.7	195.6
Other Assets	60.0	60.8	67.4	70.0	93.0
<b>Total Assets</b>	<b>241.9</b>	<b>231.2</b>	<b>189.3</b>	<b>329.5</b>	<b>417.6</b>
Payables	167.9	148.4	104.6	175.5	241.5
Borrowings	7.4	17.8	16.5	15.7	14.9
Current tax liabilities	24.6	4.0	2.6	2.6	2.6
Other Liabilities	13.7	17.1	11.4	10.5	9.7
<b>Total Liabilities</b>	<b>213.6</b>	<b>187.3</b>	<b>135.1</b>	<b>204.3</b>	<b>268.7</b>
Shareholders' Equity & Minority	28.3	43.9	54.2	125.2	148.9
<b>Total Equity and Liabilities</b>	<b>241.9</b>	<b>231.2</b>	<b>189.3</b>	<b>329.5</b>	<b>417.6</b>

Source: Company Prospectus, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE Dec	2018A	2019A	2020A	2021F	2022F
Book Value Per Share	0.1	0.1	0.2	0.4	0.5
NTA Per Share	0.8	0.7	0.6	1.0	1.3
EPS (Sen)	2.8	8.3	3.2	7.3	10.1
DPS (Sen)	0.8	1.9	2.5	1.8	2.6
Payout Ratio (%)	28.2	22.9	78.1	25.0	26.0
ROA (%)	3.7	11.3	5.4	7.1	7.6
ROE (%)	31.4	59.7	18.9	18.6	21.5

Source: Company Prospectus, PublicInvest Research estimates

## RATING CLASSIFICATION

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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