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Investment Idea / IPO Note

Tuju Setia Bhd**High-rise specialist**

By Rakuten Trade Research Team

Making its debut on the Main Market today, Tuju Setia Bhd (Tuju Setia) is an established contractor with core expertise in high-rise building construction supported by selectively built reputable clientele. Earnings pipeline are underpinned by growing orderbook of RM1.14bn and set to be the first Main Market listing of the year. Recommend BUY with a target price of RM0.93 based on 11x PER FY21 as per the average valuation of industry peers.

Commenced in 2006, Tuju Setia has more than 15 years of track record as main contractor servicing commercial, residential and institutional buildings mainly in Klang Valley. Tuju Setia excels in building high-rise as core expertise, contributing 80.5% of revenue in FY20 with portfolio of 18 high-rise projects since commencement, totalling to a contract value worth of RM2.2bn. Completed projects include Setia Sky Residences, Setia Walk, TWY Mont Kiara, St. Joseph's Institution, just to name a few. Over the years, Tuju Setia has slowly been building up clientele portfolio comprising of well-established names such as SP Setia, Tropicana, Symphony Life, Guocoland, Perdana ParkCity and UEM Sunrise.

In 2018, Tuju Setia secured its maiden design and construction project for hospital – Kajang Women and Children Hospital with project value RM204.3m, including procurement and installation of medical equipment as this opens up more avenue for the group, enhancing profitability as hospital project garners significantly higher gross profit margin (18.4%) than non-residential & residential projects (6.2%-7.5%) in FY20. Non-residential contributed 40.5% of sales in FY20, followed by residential (40%) and design & construction and others (19.5%). Current orderbook of RM1.14bn (including latest contract win of RM189m) provides earnings visibility for next couple of years. Tenderbook is at RM4bn with historical winning rate of 20%.

Of the RM56m raised from the IPO, RM24.0m will be utilised to purchase construction machinery & equipment and Building Information Modelling (BIM) system software. Besides strengthening construction capacity via the acquisition of machinery, the BIM system is crucial for projects related to design in line with management's indication to increase tendering for hospital projects. Meanwhile, RM8.0m is allocated to purchase land for storage facilities.

Tuju Setia has a formal dividend policy of 25%, translating to yield of 3.0% in FY21. The group has been consistently sitting in a net cash position since 2017, providing ample liquidity for more projects. We forecast net profit growth of 160.4% in FY21 and 11.9% in FY22 on construction projects pick up after low base earnings in FY20.

BUY
IPO Price: RM0.70
Target price: RM0.93

KLCI	1,591.3
YTD FBM KLCI change	-2.2%
YTD FBM SC Index change	+6.6%

Stock Information

Market Cap Upon Listing (RM'm)	221.8
Enlarged Share Capital (m)	316.8

IPO Proceeds (RM'm)

Capital Expenditure	32.0
Working Capital	19.0
Estimated listing expenses	5.0
Total	56.0

Major Shareholders

Wee Eng Kong	44.4%
Dato' Wee Beng Aun	21.9%

Summary Earnings Table

FYE Dec (RM'm)	2019A	2020A	2021F	2022F
Turnover	421.6	255.8	436.9	458.8
EBIT	20.8	21.6	35.4	39.9
PBT	21.6	21.8	35.6	40.0
Net Profit	15.6	16.3	26.7	29.8
Core Net Profit	26.2	10.2	26.7	29.8
Consensus	-	-	-	-
EPS (sen)	8.3	3.2	8.4	9.4
EPS growth (%)	74.8	-60.9	160.4	11.9
DPS (sen)	-	-	2.1	2.4
PER (x)	8.5	21.7	8.3	7.4
BV/Share (RM)	0.14	0.17	0.35	0.47
ROE (%)	59.7	18.9	24.3	20.1
Div. Yield (%)	-	-	3.0	3.4

Sources: Company, Rakuten Trade Research



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COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

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