

# Tuju Setia Berhad

*A Specialist in High-Rise Buildings*

**TP: RM0.90 (+28.6%)**

*Main Market Listing*

**NOT RATED**

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## Background

Tuju Setia Berhad (Tuju Setia) is principally involved in the provision of construction services including the construction of non-residential and residential buildings in Malaysia.

## IPO Statistic

The IPO entails a public issue of 80.0mn new ordinary shares, and an offer for sale of 27.0mn shares at an IPO price of RM0.70/share.

## Public issue:

- 15,842,000 new shares for application by the Malaysian public;
- 6,336,000 new shares for application by eligible parties;
- 26,139,000 new shares by way of private placement to selected investors; and
- 31,683,000 new shares by way of private placement to selected Bumiputera Investors approved by MITI.

## Main Competitive Advantages

1. Established track record in high-rise construction;
2. Adopts Industrialised Building System (IBS) techniques and offers value engineering services; and
3. Provides design and construction of hospitals.

## Valuation

At an IPO price of RM0.70/share, Tuju Setia is priced at a trailing PER of 20.6x FY20 core EPS. We value the company at 12x CY22 EPS, arriving at a fair value of **RM0.90/share**.

## Earnings Summary

FYE Dec (RMmn)	2019	2020	2021F	2022F	2023F
Revenue	421.6	255.8	375.0	405.0	435.0
Gross profit	38.2	23.3	34.5	38.1	42.2
EBITDA	25.3	25.7	32.3	35.7	39.4
EBITDA margin (%)	6.0	10.1	8.6	8.8	9.1
EBIT	20.9	21.6	27.7	30.9	34.4
PBT	21.6	21.8	27.9	31.2	34.7
PAT	15.6	16.3	21.2	23.7	26.3
Core profit	26.6	10.9	21.2	23.7	26.3
Core EPS* (sen)	8.4	3.4	6.7	7.5	8.3
PER^ (x)	8.3	20.6	10.4	9.4	8.4
Gross dividend (sen)	n.a	n.a	1.5	2.0	2.0
Dividend yield^ (%)	n.a	n.a	2.1	2.9	2.9

Note: \*based on enlarged share base of 316.8mn, ^ based on IPO price of RM0.70/share

## Business Overview

Tuju Setia is principally involved in the provision of construction services as a main contractor with experience in residential, non-residential, and

## Share Information

	Main Market
Listing	
Enlarged Share Capital (mn)	316.8
Market Cap @ RM0.70 (RM mn)	221.8
Issue price (RM)	0.70
Oversubscription rate	N/A
Estimated free float (%)	33.8
Tentative listing date	19-May-21

## Tentative Listing Dates

Event	Tentative Date
Opening of the IPO	26-Apr-21
Closing of the IPO	5-May-21
Balloting of Applications	7-May-21
Allotment of Shares	18-May-21
Listing	19-May-21

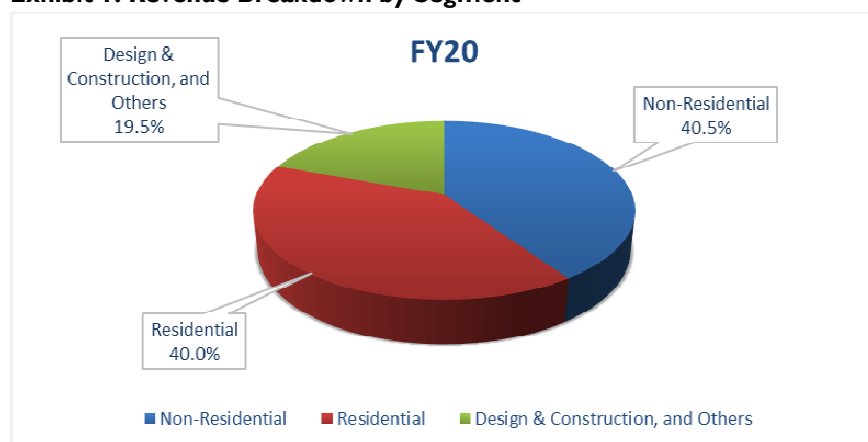
## Ratio & Analysis

NTA per share (post IPO) (sen)	31.0
Price to NTA (x)	2.3
Proforma Gearing (x)	Net Cash

Utilisation of Proceeds	RM(mn)	%
Capital expenditure	32.0	57.2
Working capital	19.0	33.9
Estimated listing expenses	5.0	8.9
<b>TOTAL</b>	<b>56.0</b>	<b>100.0</b>

institutional buildings mainly in Klang Valley. Since commencement in 2006, the group has completed various notable projects such as Setia Sky Residences, TWY Mont Kiara, SetiaWalk, and St. Joseph's Institution.

### Exhibit 1: Revenue Breakdown by Segment



Source: Company, TA Securities

### Exhibit 2: IPO Structure

Public Issue	No. of Shares	% of Enlarged Share Capital
Malaysian public	15,842,000	5.0
Eligible parties	6,336,000	2.0
Placement to selected investors	26,139,000	8.3
Placement to selected Bumiputra investors	31,683,000	10.0
<b>Offer for Sale</b>		
Private placement to selected investors	27,000,000	8.5

Source: Company, TA Securities

### Utilisation of Proceeds

The estimated gross proceeds of RM56.0mn raised are expected to be utilised for the following:

### Exhibit 3: Utilisation of Proceeds

Utilisation of proceeds	Estimated timeframe for utilisation	RM'000	%
<b>Capital Expenditure</b>			
• Purchase of construction machinery and equipment, and Building Information Modelling system software	24 months	24,000	42.9
• Purchase of land and construction of storage facilities	36 months	8,000	14.3
Working capital	12 months	19,000	33.9
Estimated listing expenses	3 months	5,000	8.9
<b>Total</b>		<b>56,000</b>	<b>100.00</b>

Source: Company, TA Securities

## Key Competitive Advantages

### 1) Established track record in high-rise construction

The group has successfully completed a total of 18 high-rise projects of up to 51 levels with an aggregated contract value of approximately RM2.2bn since the commencement of the business in 2006. Meanwhile, the group has built up reputable clientele, which include S P Setia Bhd, Perdana ParkCity Sdn Bhd, GuocoLand (Malaysia) Bhd, and UEM Sunrise Bhd.

### 2) Adopts IBS techniques and offers value engineering services

The group adopts many IBS techniques including the use of aluminium formwork system for cast in situ construction, and prefabricated concrete components manufactured on-site and off-site. Besides, the group offers value engineering services such as providing alternative designs. Meanwhile, the group has also implemented the use of Building Information Modelling system which helps in cost saving and optimization of materials usage.

### 3) Provides design and construction of hospitals

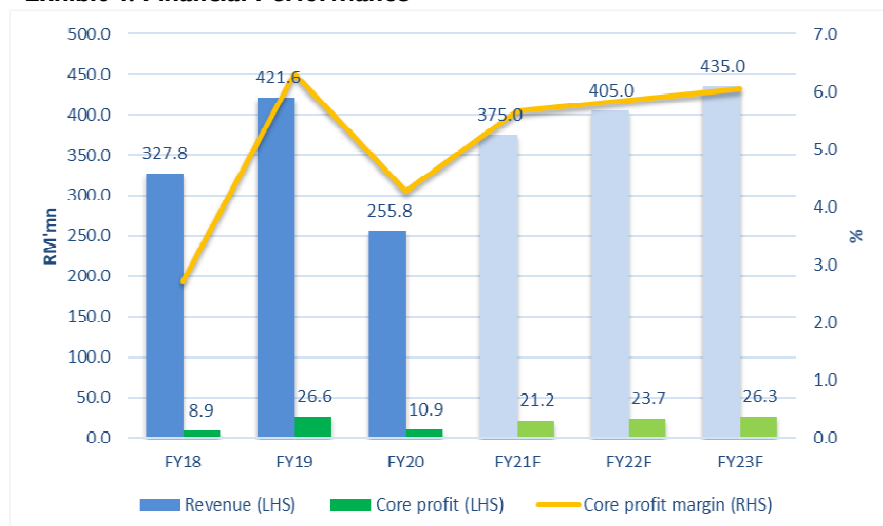
Tuju Setia is registered as a B29 contractor specialising in hospital building works. This enables the group to bid and undertake construction of hospital and other healthcare facilities projects.

## Key Risks Relating to Business and Industry

- 1) Continuity of order book is not assured;
- 2) Escalating raw materials cost;
- 3) Dependent on foreign workers; and
- 4) Prolonged Covid-19 pandemic.

## Financial Highlights

Exhibit 4: Financial Performance



Source: Company, TA Securities

The revenue for FY19 increased by 28.6% YoY to RM421.6mn from RM327.8mn a year ago mainly attributed to higher revenue contribution from non-residential segment. Meanwhile, the group's core profit surged 198.9% YoY to RM26.6mn from RM8.9mn a year ago thanks to margin improvement resulting from hospital project. In the subsequent year, FY20 revenue dropped 39.3% YoY to RM255.8mn due to the adverse impact arising from the Covid-19 pandemic. As a result, the group saw its core profit plunged 58.9% YoY to RM10.9mn from RM26.6mn a year ago. Moving forward, we forecast revenue

and net profit to recover following the relaxation of movement control measures.

### *Future Plans and Business Strategies*

The group's future plans and business strategies are as follows:

#### *1) Strengthening the core competency in building construction*

The group intends to continue focusing on strengthening its core competency in construction of high-rise buildings.

#### *2) Expand services to cover design and construction of hospitals*

The group is working on expanding its expertise in design and building construction contracts for hospitals and other healthcare facilities. Currently, the group is actively tendering for hospital projects.

#### *3) Purchase of construction machinery and equipment, and software*

The group intends to purchase more construction machinery and equipment in order to reduce the rental costs as well as dependency on external parties.

#### *4) Purchase of land to construct storage facilities*

The group also plans to purchase a larger piece of land in the Klang Valley, Malaysia with an approximate area of 5 acres for the storage of the existing and new construction machinery and equipment.

### *Outlook*

We are optimistic on the outlook for Tuju Setia as the group is backed by strong outstanding order book of RM953.1mn, translating into 3.7x FY20 revenue. This would provide earnings visibility to the group for the next 3 years.

#### **Exhibit 5: Breakdown of Outstanding Order Book as of end-March 2021**

Project	Completed* / Expected completion date	Outstanding amount (RM'mn)
Menara TCM*	September 2020	2.8
TWY Mont Kiara*	October 2020	0.1
PPAM Sofiya Residensi	April 2021	3.5
Emerald Hills (Phase 3)	October 2021	18.4
Mutiara Central	January 2022	59.3
Kajang Women and Children Hospital	March 2022	115.0
Riana Dutamas (Phase 2)	August 2023	172.8
TUAI Residence	June 2023	72.1
121 Residences	July 2023	143.5
Emerald Hills (Phase 4)	May 2024	186.5
The Pulse Residence	August 2024	179.1
	<b>TOTAL</b>	<b>953.1</b>

Source: Company, TA Securities

Meanwhile, the group currently has about RM4.0bn of tender book, which mainly comprises non-residential, residential, and hospital projects.

### *Balance Sheet*

On a pro forma basis, post-listing with utilisation of IPO proceeds, the balance sheet is expected to be in a net cash position of RM61.4mn or 19.4sen/share.

### Dividend Policy

The group intends to distribute a dividend of 25% of the group's net profit to shareholders.

### Earnings Forecast

Following the relaxation of movement control measures, we estimate the group to record earnings growths of 94.3%, 11.6% and 11.2% to RM21.2mn, RM23.7mn, and RM26.3mn for FY21, FY22 and FY23 respectively, supported by its strong outstanding order book of RM953.1mn as of March 2021. The local market is expected to remain as the main revenue generator for the group.

All in, our FY21-23 earnings projections are premised on the key assumptions below:

- Order book replenishment assumptions of RM300.0mn/RM330.0mn/RM350.0mn for FY21/FY22/FY23 respectively; and
- Gross margins of 9.2%, 9.4% and 9.7% for FY21, FY22 and FY23 respectively.

### Valuation

We assign a target PE multiple of 12x to Tuju Setia and arrive at a fair value of RM0.90/share. This is after considering the group has:

- a. Established track record in high-rise construction;
- b. IBS techniques and value engineering services;
- c. Expertise in design and construction of hospitals; and
- d. Experienced management team.

### Exhibit 6: Peer Comparison

Stock	Share price (RM)	Market Cap (RMmn)	EPS <sup>^</sup> (sen)	P/E ratio (x)	DPS <sup>^</sup> (sen)	Div Yield <sup>^</sup> (%)	Net gearing (x)	P/B ratio (x)
INTA	0.31	165.9	1.9	16.3	0.85	2.7	Net cash	1.2
GDB	0.875	546.9	4.1	21.3	2.0	2.3	Net cash	4.1
TCS	0.515	185.4	4.5	11.5	2.0	3.9	Net cash	2.5
<b>AVERAGE</b>				16.4		3.0		2.6
<i>Tuju Setia*</i>	<b>0.70</b>	<b>221.8</b>	<b>3.4</b>	<b>20.6</b>	<b>n.a</b>	<b>n.a</b>	Net cash	<b>2.3</b>

Note: \*based on pro-forma balance sheet

<sup>^</sup>based on previous financial year



Appendix

Exhibit 7: Non-Residential Buildings

SetiaWalk Project



Source: Company

Geo Bukit Rimau Project



Source: Company



**Menara TCM Project**



Source: Company

**Top Glove Tower Project**



**Exhibit 8: Residential Buildings**

**Mentari Court Project**



**PPAM Sofiya Residensi Project**



**Idaman Residence Project**



Source: Company

### Grand Medini Residence Project



Source: Company

### 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.

### Disclaimer

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As of Tuesday, May 04, 2021, the analyst, Chan Mun Chun, who prepared this report, has interest in the following securities covered in this report:  
 (a) nil

**Kaladher Govindan – Head of Research**

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