

5 May 2021

Construction & Engineering | Construction

Tuju Setia (TJSETIA MK)**Extending Expertise Into Healthcare**

- **Fair value of MYR0.85 based on 12x FY22F P/E.** Tuju Setia aims to raise MYR56m via its IPO. About 43% (MYR24m) of that will be used to purchase construction machinery and equipment, as well as building information modelling (BIM) system software. The remaining proceeds will be used to buy land and build storage facilities. Its orderbook looks supportive of FY21F earnings growth, on top of sizeable tenders worth MYR4bn submitted in Malaysia. Also, its robust track record positions it as an established player in constructing residential and non-residential buildings.
- **Value-emerging strategy from various technology adoptions.** Tuju Setia is putting its best foot forward to scale up the adoption of various industrialised building system (IBS) techniques. Besides ensuring that its jobs performed meet the highest standards, prior investment has allowed the company to improve its overall cost efficiency. This should be enhanced further, through the use of BIM system software. The adoption of BIM software also marks the company's continuous efforts in tendering for more construction projects – especially on the ones related to design and construction works for hospital and healthcare facilities.
- **Historical dividend payouts have been higher than its policy of paying 25% of earnings to reward investors.** Over the past four years, Tuju Setia has been in a net cash position. We believe this brings about an upbeat perspective on its ability to manage cash flow. The introduction of a dividend payment coming up to 25% of net profit should be well-received by investors, as it signals the company's confidence in its ability to generate strong cash flow and profit. That said, we do not discount the potential of it paying more than 25%, as evidenced by past payout ratios of 28-49%.
- **Orderbook visibility until 2024.** Tuju Setia's outstanding orderbook is valued at MYR953.1m, and comprises jobs for residential and non-residential buildings. This is expected to bring revenue into FY24. At the same time, the company has also submitted applications to bid for tenders worth almost MYR4bn. Given its focus to expand its presence in the healthcare segments, the value of jobs involving hospital construction represents about 18% of total tender submissions. According to management, its historical win rate is around 20%. Note that our replenishment rate expectation for FY21-22F is only at MYR300m (vs MYR800m, assuming a 20% win rate).
- **Our fair value of MYR0.85 is based on 12x FY22F P/E.** This is in line with the multiple we pegged to its listed peers. On that account, the possibility of a further share price rerating cannot be ruled out. This is because Tuju Setia has good potential to achieve higher NPM and increase its replenishment rate for new contracts in the years to come.
- **Downside risks to our outlook** include a failure to secure new contracts, more intense competition among piling contractors, and a prolonged downturn in the retail and property markets.

Forecasts and Key Data	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	421.6	255.8	400.0	452.7	414.7
Recurring net profit (MYRm)	26.21	10.24	17.5	22.4	24.1
Recurring net profit growth	194.7	-60.9	70.6%	28.3%	7.8%
Recurring EPS (MYR)	0.08	0.03	0.06	0.07	0.08
Recurring P/E (x)	8.5	21.7	12.7	9.9	9.2
P/BV (x)	5.1	4.1	1.3	1.1	1.0
P/CF (x)	8.5	12.1	8.4	6.7	5.5
Dividend yield (%)	2.7%	3.6%	2.0%	2.5%	2.6%
EV/EBITDA (x)	15.40	12.59	5.52	10.41	5.18
ROE (%)	16%	6%	11%	13%	12%
Net debt to equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, RHB

Fair Value (Return):	MYR0.85 (+21%)
IPO Price:	MYR0.70
Closing Application Date:	5 May 2021
Indicative Listing Date	19 May 2021

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**Company Description**

Tuju Setia's principal business is in the construction of non-residential and residential buildings. It is responsible for the overall project, including project planning and management as well as the implementation of all stages of the project. These include daily management of all the works required to ensure timely completion of the projects. The company also uses the services of subcontractors to carry out construction-related works such as earthworks, site preparation, and other related works under its supervision.

IPO Details

Public Issue (%)	33
Shares outstanding (m)	316.8m
Implied market cap	MYR222m

Major Shareholders (%)

Wee Eng Kong	44.4
Dato' Wee Beng Aun	21.9

Utilisation of IPO Proceeds

Capital expenditure	32.0	MYRm
Working capital	19.0	
Estimated listing expenses	5.0	
TOTAL	MYR56.0	

Additional Data

Listing Market	MAIN
Bursa Code	5297

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Overview And Valuation

FY20 results review. Tuju Setia was not spared by the downturn in construction activities caused by the COVID-19 pandemic. As a result, the company was negatively impacted in 2020, through its exposure in both the residential and non-residential segments. Revenue plunged by 39% YoY. This decline was also due to the completion of a number of projects in FY19 and FY20. Compared to FY19, PBT ticked up by a mere 1% YoY in FY20, to MYR21.8m. This was mainly due to the reversal of impairments arising from financial instruments and contract assets, which resulted in a net gain on impairment of MYR6m. Consequently, net profit grew by 5% YoY to MYR16.3m. However, after stripping out the one-off item, earnings declined by 61% YoY to MYR10.3m. This was not a surprise, as the majority of construction companies reported lower earnings in 2020.

Net cash position post-IPO. A big chunk of Tuju Setia's IPO proceeds will be used to buy construction machinery and equipment, and BIM system software. Consequently, investments in these should bring more opportunities for the company to expand its earnings base, while strengthening its balance sheet at the same time. Its net cash position will provide the company with more room to undertake new major jobs in the future. From a strategic perspective, the move seems timely, premised on expectation of the economy moving to an early expansion stage post-pandemic.

3-year net profit CAGR of 33%. Excluding the estimated listing expenses, we project its FY20-23F earnings CAGR at 33%. This is largely in tandem with the company's healthy new orders, assuming a yearly replenishment of MYR300m annually. We do not discount the possibility of further margin expansion, should the group win more orders to design and construct hospitals. While we note that new projects (still at the planning stage) may face the likelihood of being deferred, we believe Tuju Setia's current jobs in hand – worth close to MYR1bn – should be able to provide some buffer. In Malaysia, we continue to feel optimistic on the sector's prospects, fuelled by the incoming Mass Rapid Transit 3 project, which will likely spur more high-rise developments along its routes.

Our fair value of MYR0.85 is based on 12x FY22F P/E, in line with the P/Es pegged to most of its peers. The P/E we ascribed to small- and mid-cap companies are in the range of 10-14x – and 12x is the one we consistently use for companies with healthy outstanding orderbooks and margins. Firms with superior margins will be ascribed a higher P/E of 14x. For bigger-cap companies, the P/Es we applied range at 16-18x. For context, the average 5-year mean P/E of the KLCON index is 13.7x. As such, our target P/E can be considered conservative. Moving forward, we do not discount that the margin could trend higher, should the group manage to clinch more jobs that fetch higher margins. In Malaysia, Tuju Setia's new orders could remain relatively healthy, at c. MYR300m pa, supported by its track record, strong clientele base, quality of job execution, and management experience.

Figure 1: Peer comparison of construction companies ⁽¹⁾

Company	Mkt cap (MYRm)	P/E (x)		Earnings growth (%)		P/BV (x)		ROE (%)		Div yield (%)	
		FY21F	FY22F	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
Inta Bina	171.3	6.5	5.4	219.7	20.5	na	1.2	18.6	5.9	3.2	3.17
GDB	568.8	10.2	9.4	108.7	8.0	2.9	4.1	39.6	20.2	3.4	3.43
Kerjaya Prospek	1,651.8	12.5	10.6	48.8	18.0	1.4	1.5	12.1	8.3	2.6	2.65
Tuju Setia	222.0	12.7	9.9	70.6	28.3	1.3	1.1	11.0	13.0	2.0	2.5
		10.5	8.8	112.0	18.7	1.9	2.0	17.6	12.5	2.8	2.9

Note: (1) refers to data as at Apr 2021. Forecasts are based on consensus estimates.

Source: Bloomberg, RHB

Figure 2: Principal details of the IPO

Description	Units
Number of shares to be offered under the public issue	80,000,000
Malaysian Public	15,842,000
Eligible Directors, employees and persons who have contributed to the success of our Group	6,336,000
Private placement to selected investors	26,139,000
Private placement to selected Bumiputera investors approved by the MITI	31,683,000
Number of Shares to be offered under the Offer for Sale	27,000,000
Enlarged issued share capital upon listing	MYR93,892,676 comprising 316,828,700 shares
IPO Price	0.70
Market capitalisation upon Listing (based on the IPO Price and our enlarged issued share capital after the IPO)	221,780,090

Source: Company data

Orderbook

As at the latest practicable date (LPD), Tuju Setia has a total orderbook of MYR953.1m. Of this amount, MYR350m (36.7%) is expected to be recognised in FY21, while the remaining MYR603.1m (63.35%) should be recognised progressively in FY22-23F. Note that its orderbook is project-based and generally non-recurring in nature. As such, the company's future capability of earnings generation and growth are largely dependent on its success in securing new contracts. Against this backdrop, we believe Tuju Setia will continue to leverage on its core competency in building projects that focus on high-rise buildings, to secure new contracts to sustain and grow its business.

Figure 3: Existing orderbook

Projects	Outstanding Value (MYRm)	Scope of works	Clients
Menara TCM	2.7	Construction of an office building with an elevated car park	Tong Ah Company
TWY Mont Kiara	0.1	Construction of serviced apartments, podium and a basement car park	TWY Development
PPAM Sofiya Residensi	3.5	Construction of affordable apartments	Perdana ParkCity
Emerald Hills (Phase 3)	18.4	Construction of condominiums, and an elevated and basement car park	GLM Emerald Hills (Cheras)
Mutiara Central	59.3	Construction of a commercial building comprising offices, retail shops and related facilities, and an elevated and basement car park	Opus Development
Kajang Women and Children's Hospital	115.0	Construction of the new women and children's complex for Kajang Hospital	Naluri Rezeki
Riana Dutamas (Phase 2)	172.8	Construction of serviced apartments, related facilities and a multi-storey car park	368 Segambut
TUAI Residence	72.1	Construction of condominiums, related facilities, a power substation and a multi-storey car park	Suntrack Development
121 Residence	143.5	Construction of serviced apartments, SoHo, related facilities and a multi-storey car park	FDM Development
Emerald Hills (Phase 4)	186.4	Construction of condominiums, and an elevated and basement car park	GLM Emerald Hills (Cheras)
The Pulse Residence	179.1	Construction of a mixed-use commercial building comprising serviced apartments, a retail podium, related facilities, electrical substation and a multi-storey car park	BSC Land Development

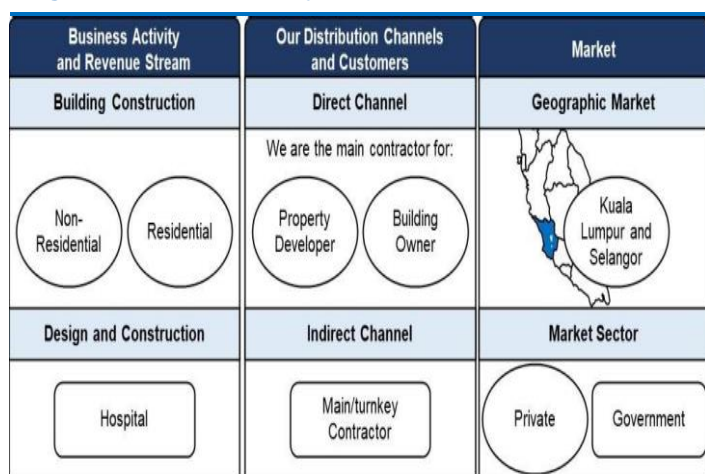
Source: Company data, RHB

Figure 4: Completed major projects 2018-2020

Projects	Contract Value (MYRm)	Scope of works	Clients
RUMAWIP SkyAwani Residence	194.2	Construction of a mixed-use commercial building comprising affordable apartments, a retail podium, an elevated car park, electrical substations and related facilities in Sentul, Kuala Lumpur	Citra Amal
Geo Bukit Rimau	210.0	Construction of a mixed-use commercial building comprising serviced apartments, shop units, a car park and related facilities in Shah Alam, Selangor	Knox Wawasan Development
Nadayu 63	105.65	Construction of a mixed-use commercial building comprising serviced apartments, a retail podium, car park and related facilities in Taman Melawati, Selangor	Twin Ridge
Grand Medini Residence	210.9	Construction of apartments and an elevated car park and related facilities in Johor	Grand Global Medini

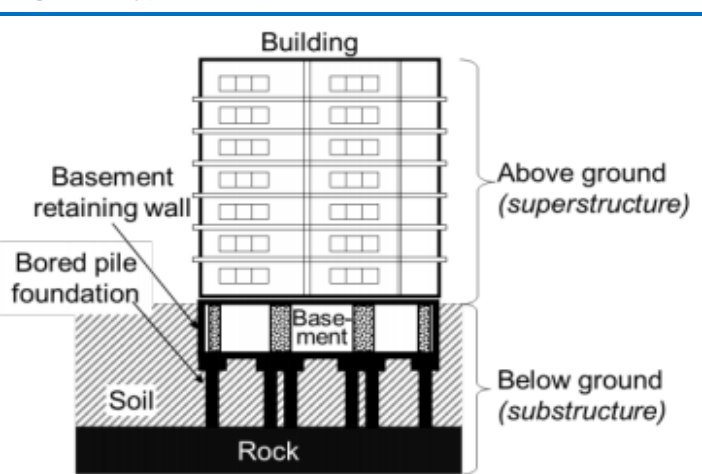
Source: Company data, RHB

Figure 5: Overview of Tuju Setia's business activities



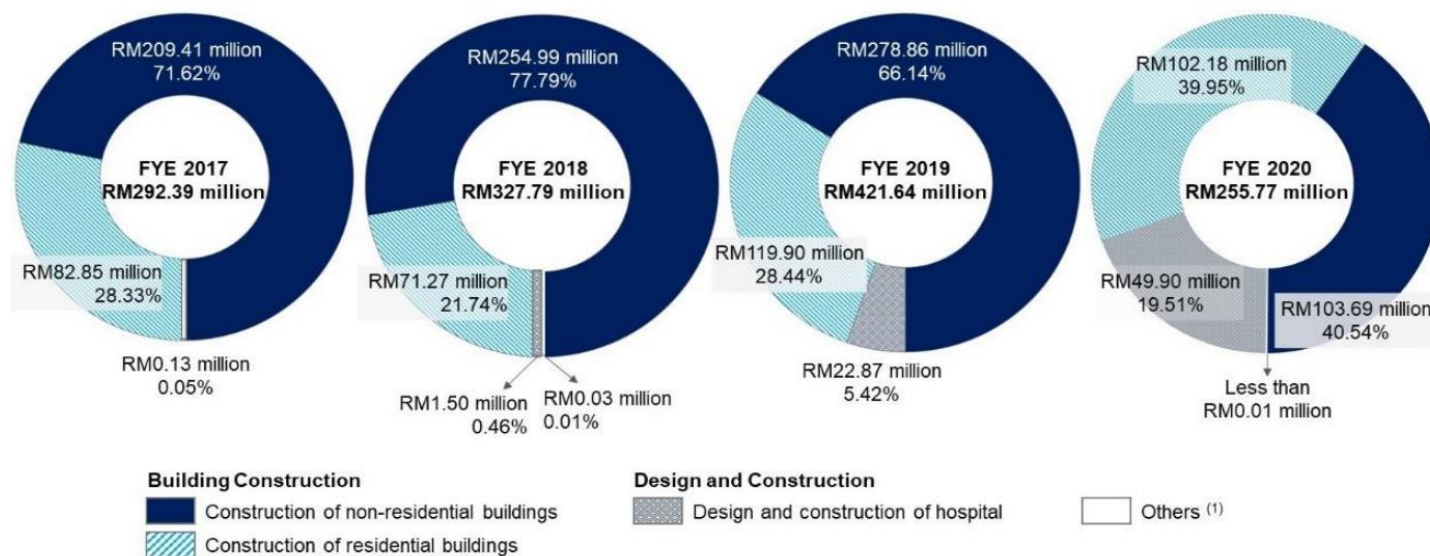
Source: Company, RHB

Figure 6: Types of superstructure works



Source: Company, RHB

Figure 7: Segmental revenue (2017-2020)



Note (1): Includes rental of machinery and equipment to third-party construction contractors
Source: Company data

Outlook

Banking on the economic recovery. As interest rates should remain low, this should further support the sector's recovery and push companies to be aggressive in competing for new contracts. Also, the lower overall cost of funds will provide support in financing present and future operations. In our view, new launches of property projects are expected to recover gradually, in line with the improving demand for new high-rise properties. The roll-out of the MRT3 project is expected to open more opportunities for transit-oriented development.

Huge allocation for healthcare in 2021. While the company continues to leverage on its core competency in the construction of high-rise building, its growth plan also includes expanding services to cover design and construction of hospital projects. On that account, we believe growth prospects are bright, as it should be able to find more opportunities in public projects. In the Budget 2021 announcement, the Malaysian Government allocated MYR31.9bn for healthcare services. Of this amount, MYR366m is for the construction of new hospitals.

Clientele among well-established property developers and reputable corporations that are mainly involved in the construction of office buildings and high-rise residential properties. We understand that Tuju Setia's ability to provide timely and quality works has allowed it to establish positive ties with well-established developers and reputable corporations. Some of its major customers include SP Setia, IJM Land, UEM Sunrise and Top Glove. Given the nature of its business, revenue contributions are based on percentage of completion. As long as the requirements and specifications set are diligently met, we believe Tuju Setia has great potential to receive more tender invitations and secure new contracts from these clients. Its clientele could also expand to customers in the healthcare industry. This is deemed as strategic, as the company continues to improve its capability in designing and building hospitals.

Experienced management team. The continuous growth of Tuju Setia's business has been attributable to the efforts, commitments and abilities of Managing Director Wee Eng Kong and Non-Executive Director Dato' Wee Beng Aun. Both individuals have more than 30 years of experience in the industry. Wee Eng Kong is responsible for overseeing the group's direction of growth, strategy, business development, and operations.

Both individuals will have a collective stake of 66% after the company's listing.

Figure 8: Utilisation of IPO proceeds

Details	Amount (MYRm)	Percentage (%)	Estimated timeframe for utilisation upon listing
Purchase of construction machinery and equipment, and BIM system software	24.0	57.14	Within 24 months
Purchase of land and construction of storage facilities	8.0	14.28	Within 36 months
Working Capital	19.0	33.93	Within 12 months
Estimated listing expenses	5.0	8.93	Within 3 months
Total public issue proceeds	56.0	100.0	

Source: Company data

Key risks

Delay in project progress, which could lead to cost overruns and/or result in liquidated damages being imposed by clients, which will further affect its financial performance.

Fluctuating prices of construction materials. Construction materials such as concrete and steel are commonly used in construction projects. The group is subject to risks relating to unfavourable increases in the prices of construction materials, which may pressure earnings.

Failure to replenish sufficient new orders. This will lead to a decline in construction income, which will negatively impact its NPM.

Company overview

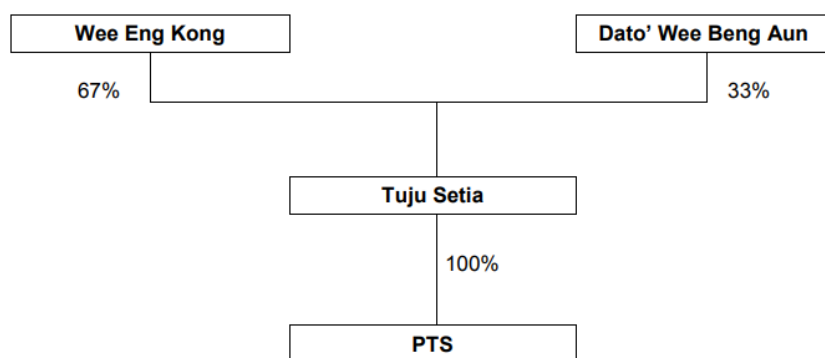
Tuju Setia was incorporated on 18 Feb 2020 as a private limited company. Subsequently, it became a public limited company on 24 Aug 2020. Tuju Setia is an investment holding company. Through wholly-owned subsidiary Pembinaan Tuju Setia (PTS), it is primarily involved in the provision of construction services, including the construction of non-residential and residential buildings in Malaysia. Tuju Setia was incorporated for the purpose of a restructuring exercise, as part of the listing scheme in relation to its IPO, which will result in the company becoming the holding company of PTS.

In the past, Tuju Setia has undertaken various construction works for non-residential buildings. These include mixed-use commercial buildings, offices, serviced apartments and institutional buildings such as schools and hospitals. In the residential segments, it has also completed works for high-rise condominiums and affordable apartments.

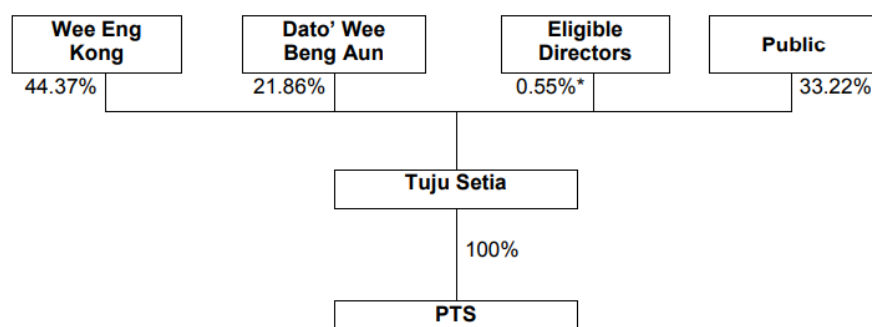
In 2018, it secured its first contract for the design and construction of a hospital. The project has since become a reference for its capabilities to undertake future design work, in addition to the construction of buildings.

Figure 9: Group structure before and after the acquisition

Before our Listing



After our Listing



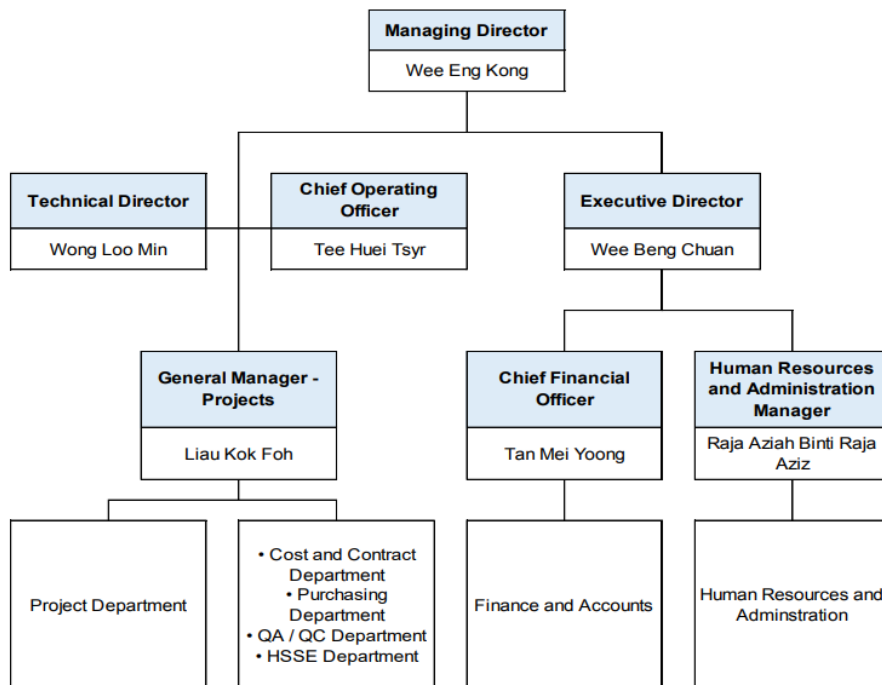
Source: Company data, RHB

Key Management

Figure 10: Management reporting structure

MANAGEMENT REPORTING STRUCTURE

The management reporting structure of our Group is as follows:-



Source: Company data

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