



# Investment Idea



23 November 2022

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## Investment Idea / IPO Note

# ECA Integrated Solution Bhd

## Riding on the automation trajectory

By Rakuten Trade Research

★★★★☆ **BUY**  
 IPO Price: **RM0.17**  
 Target price: **RM0.32**

ECA Integrated Solutions Berhad (ECA), a Penang-based automated manufacturing solution provider is making its debut on the Ace Market Bursa Malaysia today. ECA is principally involved in providing Integrated production systems (IPS), standalone automated equipment and after sales services including provision of technical support services and spare part replacement. IPS was the prime generator of its FY22 revenue with 85% contribution, whereas standalone automated equipment made up of 10% followed by 5% from after sales services. ECA's FY19-FY21 revenue and net profit grew by 63.5% and 144% CAGR attributed to strong IPS job orders. Driven by growing demand, we forecast ECA to register net profits of RM7.2m and RM9.3m for FY22 and FY23. BUY with a TP of RM0.32 based on 20x PER over FY23 EPS, 30% discount to its listed peers due to smaller market capitalization.

The group's IPS is customized modules that allow software-controlled to perform the complete set of operation process with minimal human labour and error rate. ECA plans to widen its solutions range by providing smart factory solutions to embrace Industry 4.0 via more D&D initiatives collaboration and cross-selling the smart factories to the existing customers.

ECA earmarked RM7.7m of its IPO proceeds to acquire new machineries within the next 2 years, comprising of gantry machining centres, CNC vertical machines and mill tap centres to cater greater fabrication works and enhance productivity and accuracy in its D&D. Additionally, RM1m out of the RM14m working capital from IPO proceed projected to recruit skilled manpower to ramp up the capabilities in mechanical, software, and electrical engineering.

ECA has a broad regional customer base spanning across Malaysia, North America, Europe and Asia. ECA expects to ride on the mass adoption of semiconductor, EV, 5G and Solar which collectively contributed 65% of its FY21 revenue. According to Providence Independent Market Research, automated manufacturing solutions are anticipated to grow with 2-years CAGR of 8.7% globally and 19.3% domestically. Thus, we believe the spurring industry will provide huge opportunities for ECA.

As at 5 Oct 2022, the group has accumulated RM14.7m outstanding purchase order and expected to be recognized in FY22 and FY23. Post listing, its gearing ratio will reduce from 0.28x as at 5 Oct 2022 to 0.12x. The company targeted a dividend payout ratio of up to 20% of its PAT.

|                         |          |
|-------------------------|----------|
| KLCI                    | 1,441.29 |
| YTD FBM KLCI change     | -8.05%   |
| YTD FBM SC Index change | -8.77%   |

### Stock Information

|                                |       |
|--------------------------------|-------|
| Market Cap Upon Listing (RM'm) | 98.2  |
| Enlarged Share Capital (m)     | 577.5 |

### IPO Proceeds (RM'm)

|                            |             |
|----------------------------|-------------|
| Acquisition of machineries | 7.7         |
| Repayment of borrowings    | 1.0         |
| Working capital            | 14.0        |
| Estimated listing expenses | 2.8         |
| <b>Total</b>               | <b>25.5</b> |

### Major Shareholders

|                |       |
|----------------|-------|
| Ooi Chin Siew  | 24.3% |
| Chua Lye Hock  | 27.8% |
| Kang Ewe Kheng | 13.6% |

### Summary Earnings Table

| FY Mar (RM'm)          | 2021A      | 2022F      | 2023F      | 2024F       |
|------------------------|------------|------------|------------|-------------|
| Revenue                | 20.5       | 24.6       | 29.5       | 32.5        |
| EBIT                   | 8.2        | 7.5        | 9.6        | 13.6        |
| Pretax profit          | 8.0        | 7.2        | 9.3        | 13.3        |
| Net profit             | 8.2        | 7.2        | 9.3        | 13.3        |
| <b>Core net profit</b> | <b>8.2</b> | <b>7.2</b> | <b>9.3</b> | <b>13.3</b> |
| Consensus              | n.a.       | n.a.       | n.a.       | n.a.        |
| Core EPS (sen)         | 1.4        | 1.3        | 1.6        | 2.3         |
| EPS growth (%)         | 46.9       | 429        | 29         | 43          |
| DPS (sen)              | n.a.       | 0.3        | 0.3        | 0.5         |
| PER (x)                | 12         | 13.6       | 10.5       | 7.4         |
| BV/Share (RM)          | 0.03       | 0.08       | 0.09       | 0.11        |
| ROE (%)                | 65.7       | 38.7       | 18.4       | 22.3        |
| Div. Yield (%)         | n.a.       | 1.5        | 1.9        | 2.7         |

Sources: Company, Rakuten Trade Research

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| COMPANY            | Definition  |
|--------------------|---|
| <b>Buy</b>         | The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.   |
| <b>Trading Buy</b> | 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. |
| <b>Take profit</b> | The stock return previously recommended has gained by >10%  |
| <b>Hold</b>        | The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.  |
| <b>Sell</b>        | The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.   |
| SECTOR             |   |
| <b>Overweight</b>  | Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.   |
| <b>Neutral</b>     | Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.   |
| <b>Underweight</b> | 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.

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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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