

Vestland Bhd

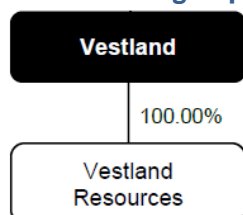
Design & build specialist building contractor

- Local building contractor specialising in design & build method and incorporates a digital management application which improves business operation efficiency.
- We project its core earnings will continue to expand in the coming years that will be driven by the execution of a solid outstanding orderbook of RM947.4m (orderbook-to-cover ratio of 5.5x against FY21 revenue of RM171.1m) which will provide strong earnings visibility till FY26.
- VLB is valued by pegging its FY23f core EPS of 3.6 sen to PE of 12.0x, leading to a FV of RM0.43.

Company Background

- Vestland's (VLB) commenced their operations as a contractor for residential and non-residential buildings in 2011. Residential buildings include apartments and landed residential buildings, while non-residential buildings include mixed use commercial buildings and offices, industrial buildings, service apartments, hostels and hotels.
- VLB secured their first high-rise project in 2014 for the construction of Pearl Suria Residence, a 25-storey high rise mixed-use development with a contract value of RM91.8m. That was also the maiden construction project whereby the group was engaged as a main contractor.
- In 2020, VLB expanded into the provision of design and build construction services via the Residensi Armani Petaling (Cheras) project valued at RM58.0m. On the following year, VLB obtained a Certificate of Government Procurement Works (SPKK) from CIDB that allows the group to participate in tenders for government projects in the area of building construction, civil engineering as well as mechanical and electrical works. VLB is also registered as G7 contractor with CIDB which allows the group to tender for projects at unlimited size nor value.
- To-date, VLB has completed 35 projects with collective contract value of RM1.13bn. VLB currently have 3 on-going build projects, 8 on-going design and build projects as well as 3 projects in civil engineering works that are in various stage of completion and will run till 2026.

Fig #1 Post-IPO group structure



Source: Company, prospectus

IPO note report

Kenneth Leong
kennethleong@msec.com.my
(603) 2201 2100

Not Rated

| | |
|-----------------|--------|
| Share price | RM0.33 |
| Target price | RM0.43 |
| Previous TP | - |
| Capital upside | 30.3% |
| Dividend return | - |
| Total return | 30.3% |

| | |
|---------------|-----------|
| FBM KLCI | 1,485.35 |
| FBM Small Cap | 15,379.52 |

Company profile

Engages in the construction of residential and non-residential buildings

Stock information

| | |
|----------------------|--------|
| Bursa Code | 0273 |
| Bloomberg ticker | VLB MK |
| Listing market | ACE |
| Share issued (m) | 944.3 |
| Market Cap (m) | 311.6 |
| 52W High/Low | - |
| Est. Free float | 25.5 |
| Beta | - |
| 3-mth avg vol ('000) | - |
| Shariah compliant | - |

Major shareholders

| | % |
|------------|------|
| Datuk Liew | 63.3 |
| SK Wong | 11.2 |

Earnings snapshot

| FYE (Dec) | FY21 | FY22f | FY23f |
|-----------|------|-------|-------|
| PATMI (m) | 11.2 | 22.3 | 33.8 |
| EPS (sen) | 1.2 | 2.4 | 3.6 |
| P/E (x) | 27.7 | 14.0 | 9.2 |

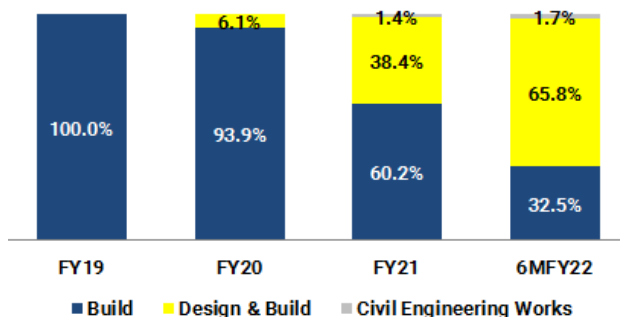
Fig #2 Business Overview



Source: Company, prospectus

- VLB principally engages in the provision of building construction services which involves build segment and design and build segment for both non-residential building projects and residential building projects across Malaysia. The group also expanded to undertake civil engineering works since 2021.
- In 6MFY22, the design and build segment accounts to 65.8% or RM92.1m of total revenue, followed by the build segment which makes up to RM45.5m or 32.5% of total revenue and lastly, the civil engineering works segment raked in RM2.3m (1.7% of total revenue). Over the past 3 years, the revenue composition has changed with design & build segment dominating the total revenue.

Fig #3 Revenue Composition



Source: Company, prospectus

- The design & build segment that saw contribution steadily improving over the years, revolves around the responsibility for the overall project management as well as planning and coordinating the design aspects of the project covering the technical specifications adhering to the building compliance requirements and coordination of the relevant submissions to the authorities. To-date, VLB is equipped with an outstanding orderbook from 8 contracts with collective value of RM653.6m. Moving forward, VLB aims to expand their design and build capabilities in bid to improve overall project margins.

- Under the build segment, VLB will be responsible for the overall project management and planning, appointment of subcontractors, procurement of labour and materials and monitoring the stages of construction works to ensure completion of works up to project handover. To-date, VLB is equipped with 3 contracts from Binastra Construction and Armani Group with a collective outstanding orderbook of RM219.5m.
- Elsewhere, the civil engineering works segment which VLB expanded their scope of works since 2021 revolves around the slope stabilisation works, earthworks and rock hacking works. To-date, VLB is equipped with an outstanding orderbook of RM74.3m from 3 contracts.
- Moving forward, VLB is equipped with an outstanding orderbook of RM947.4m across all 3 segments that will provide strong earnings visibility until 2026. The outstanding orderbook represents a solid orderbook-to-cover ratio of 5.5x against FY21 revenue of RM171.1m. Meanwhile, we gather that tenderbook is relatively healthy at approximately RM2.07bn, comprising a mixture of design and build (55.2%) and build (44.8%) segment.
- Meanwhile, VLB will focus onto projects of larger size with valued above RM200.0m as it provides greater economies of scale. The group also aims to target more government-related social projects from the Ministry of Defence (MinDef) and Ministry of Public Works for infrastructure projects, such as public government offices, schools, hospitals, police and army facilities. Government social projects traditionally offer better and quicker collection of payments.

Fig #4 Outstanding orderbook

| | | | Start Date / Expected Completion Date | | | | | | | Percentage Completion (%) ⁽¹⁾ | Contract Value (RM mil) ⁽²⁾ | Outstanding Orderbook (RM mil) ⁽³⁾ | |
|---|-----------------------|-------------------|---------------------------------------|------|------|------|------|------|------|--|--|---|-------|
| Project Name | End Customer | Project Location | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | | | | |
| Build Projects | | | | | | | | | | | | | |
| D'vine Residences | Binastra Construction | Sungai Buloh | | | | | | | | 9.5 | 216.6 | 196.1 | |
| KKB Academic Building and Student Accommodation | Government | Kuala Kubu Bahru | | | | | | | | 33.4 | 28.4 | 18.9 | |
| Permas City | Armani Group | Plentong, Johor | | | | | | | | 78.9 | 21.5 | 4.5 | |
| Total Build Projects | | | | | | | | | | | | 266.5 | 219.5 |
| Design & Build Projects | | | | | | | | | | | | | |
| Beluran Police Camp | Government | Beluran, Sabah | | | | | | | | 27.5 | 332.8 | 241.3 | |
| Selangor Cyber Valley (Phase I) | Government | Cyberjaya | | | | | | | | - | 234.9 | 234.9 | |
| Raja Uda | Armani Group | Kuala Lumpur | | | | | | | | 0.1 | 80.0 | 80.0 | |
| KKIP Warehouse Project | Armani Group | Kota Kinabalu | | | | | | | | 5.8 | 59.5 | 56.1 | |
| Residensi Armani Petaling (Cheras) | Armani Group | Kuala Lumpur | | | | | | | | 98.3 | 58.0 | 0.9 | |
| Armani Subang SOHO | Armani Group | Subang Jaya | | | | | | | | 96.6 | 43.0 | 1.5 | |
| Tanah Rata Cameron | Armani Group | Cameron Highlands | | | | | | | | 4.2 | 40.0 | 38.3 | |
| Residensi Armani Bukit Lanjan | Armani Group | Kuala Lumpur | | | | | | | | 98.3 | 35.5 | 0.6 | |
| Total Design & Build Projects | | | | | | | | | | | | 883.7 | 653.6 |
| Civil Engineering Works | | | | | | | | | | | | | |
| Plot 10 | Binastra Construction | Sungai Buloh | | | | | | | | 2.3 | 56.0 | 54.7 | |
| Habu Cameron Infrastructure | Armani Group | Cameron Highlands | | | | | | | | 1.9 | 14.5 | 14.3 | |
| Plot 9D | Binastra Construction | Sungai Buloh | | | | | | | | 0.2 | 5.3 | 5.3 | |
| Total Civil Engineering Works | | | | | | | | | | | | 75.8 | 74.3 |
| Total Value | | | | | | | | | | | | 1,226.0 | 947.4 |

Source: Company

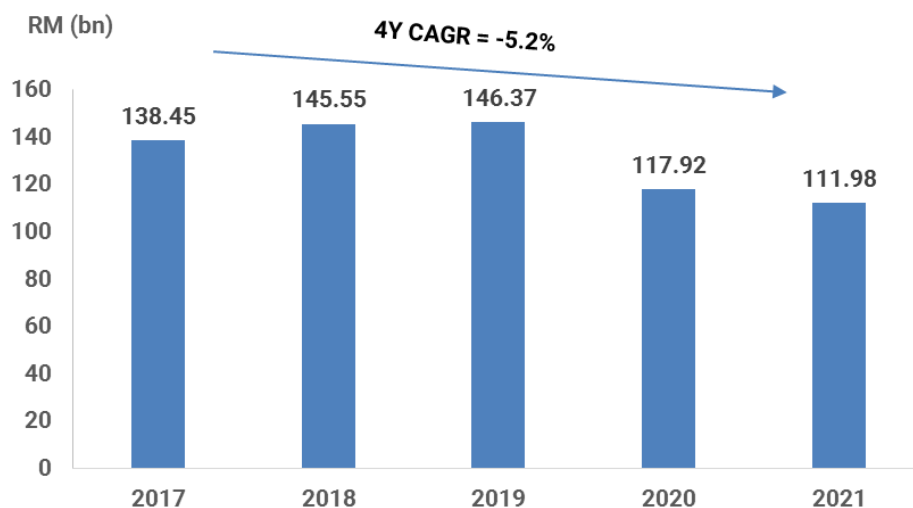
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Industry Overview

Malaysia's construction industry outlook

- The Malaysia construction industry is segmented into three major subsectors namely; building construction, civil engineering construction and specialised construction. Building construction revolves around construction of residential and non-residential buildings, while civil engineering construction comprises construction of infrastructures to cater for public usage such as power plants, pipelines, power lines, communications lines, reservoirs and sewerage systems. Meanwhile, specialised construction refers to construction of certain parts of the buildings and civil engineering works without the responsibility of the entire project.
- Historically, Malaysia's construction work completed has been on the rise (with the exception of both 2020 and 2021 due to implementation of multiple lockdowns following the Covid-19 pandemic breakout). In 2021, the value of construction work completed by subsectors stood at RM111.98bn, representing a 4-year CAGR of -5.2%.

Fig #5 Value of Construction Work Completed



Source: Department of Statistics, Vital Factor Consulting

- In the meantime, building construction for residential and non-residential projects (which is VLB's area of expertise) makes up to RM58.24bn or 52.0% of total value of construction work completed by subsectors in 2021.
- Given that the building construction industry is positively correlated with the property development industry, the performances of property transactions will be a key driver to shape the health of the building construction industry. Historically, the value of residential & non-residential property transactions (exclude 2020) In Malaysia was on the rise, ranging between RM65.87-76.90bn during 2017-2021 (4-year CAGR of 2.9%).

- Following the recovery in 2021, the value of residential and non-residential property transactions continues to demonstrate improvement in 9M2022. Going forward, we expect value transaction to remain relatively stable in 2023, premised to the sturdy demand.
- In the meantime, the government has implemented various affordable housing schemes in order to boost homeownership which is deemed to be positive for the building construction industry. A recent initiative that was introduced on 15 July 2022 was i-MILIKI, providing full stamp duty exemption for first-time homeowners of properties priced RM500,000 and below, and 50% stamp duty exemption for properties priced above RM500,000 to RM1.0m from 1st June 2022 to the end of 2023.

Investment merits

Established track record in as a building contractor in construction works

- VLB history traces back to 2011 and throughout the years, the group has established itself as a reputable contractor, having completed 35 projects with a collective value of RM1.13bn. The group is also supported by major clientele including Armani Group of Companies, Binastra and the Malaysia Government.

Strong design & build capabilities

- With a unified design and build team, VLB is able to optimise the design and construction of projects for their clients. The design and build method is able to (i) generate high progress and innovative solution, (ii) better cost and quality control, (iii) a lean project team structure and (iv) shortened project completion timeline against the traditional design-then-build method. Through their skilled design and build methodology, VLB is able to generate high single digit net margins as oppose to most of the pure-play construction players at low-to-mid single digit net margins.

Digitalised project management capabilities

- By incorporating the digital management application known as Speedbrick (a resources and material planning and control with cloud-based construction software), VLB is able to oversee the entire process (planning, construction and handover) of all their projects. This in turn improved work productivity as it would be able to streamline collaboration with subcontractors and shortened project delivery timeline. Some key benefits of Speedbrick include (i) paperless work, (ii) reduction of manpower by 1,500 hours/month and (iii) reduction of procurement process from 1-3 days to 5-15 mins.

Strong outstanding orderbook and tenderbook in pipeline

- VLB is equipped with a solid outstanding orderbook of RM947.4m (orderbook-to-cover ratio of 5.5x against FY21 revenue of RM171.1m) that will provide strong earnings visibility till FY26. In the meantime, tenderbook stands at RM2.07bn, comprising a good mix of (i) design and build and (ii) build projects that will continue to beef up the existing outstanding orderbook.

IPO Details

Fig #6 Utilisation of IPO proceeds

| | Detail of utilisation | Estimated time frame for utilisation | RM ('m) | % |
|-------|---|--------------------------------------|-------------|---------------|
| (i) | Acquisition of new head office / refinancing of borrowings for acquisition of the new head office | Within 3 months | 7.5 | 13.4% |
| (ii) | Performance bonds and/or cash deposits for construction projects | Within 15 months | 10.8 | 19.3% |
| | Working capital | | | |
| | • Payment for subcontractor services | Within 12 months | 25.0 | 44.6% |
| (iii) | • Payment to suppliers for purchases of construction materials | Within 12 months | 8.5 | 15.2% |
| (iv) | Estimated listing expenses | Within 3 months | 4.3 | 7.7% |
| | Total | | 56.1 | 100.0% |

Source: Company, prospectus

Fig #7 Timetable

| Events | Date |
|--|--------------------|
| Opening date application of VLB IPO | 27th December 2022 |
| Closing date of application of VLB IPO | 16th January 2023 |
| Balloting of applications of IPO | 18th January 2023 |
| Allotment of IPO shares to successful applicants | 27th January 2023 |
| Listing on the Ace Market | 31st January 2023 |

Source: Company, prospectus

Financials

- VLB's core net profit has demonstrated stable improvement in FY19-21, registering RM22.3m in FY21 (2Y CAGR +30.2%). Growth was largely driven by the expansion into design and build segment. Their net margins have been constantly above 5.0% level over the years (FY19-FY21) and stood at 8.3% in 6MFY22 following the higher contribution from the design & build segment that commands better margins.
- Moving forward, we are projecting core net profit to deliver further improvement, jumping 98.5% YoY to RM22.3m in FY22f, on the back of the higher contribution from the design and build segment. Already, 1HFY22 net profit jumped 153.8% YoY to RM10.7m; making up to 47.8% our forecast. We also expect net margins to remain in the high single digit level over the next 3 financial years (FY22f-FY24f).
- Going into FY23f, we expect that VLB's top and bottom line to register further improvement at RM424.6m (+44.5% YoY) and RM33.8m (+51.6% YoY) respectively, mainly supported by the execution of the outstanding orderbook of RM2.07bn on hand.

- We gather that the expansion of new head office in 1Q23 will occupy larger aggregate built-up area (10,803 sqf) vs. the existing rented office of 7,834 sqf. Also, the larger number of workstations will be able to accommodate the expansion of workforce as well as additional meeting rooms to facilitate meetings with external parties and internal discussions.

Fig #8 Financial Highlights

| FYE Dec (RM m) | FY20 | FY21 | FY22f | FY23f | FY24f |
|-----------------------|-------------|-------------|--------------|--------------|--------------|
| Revenue | 97.1 | 171.1 | 293.9 | 424.6 | 507.9 |
| EBITDA | 12.3 | 17.9 | 32.9 | 49.8 | 58.4 |
| PATMI - Core | 8.4 | 11.2 | 22.3 | 33.8 | 41.9 |
| PATMI - Reported | 7.0 | 10.6 | 23.3 | 33.8 | 41.9 |
| Revenue growth (%) | (1.6) | 76.1 | 71.8 | 44.5 | 19.6 |
| Core PATMI growth (%) | 26.3 | 34.2 | 98.5 | 51.6 | 23.8 |
| Core EPS (sen) | 0.9 | 1.2 | 2.4 | 3.6 | 4.4 |
| P/E (x) | 37.2 | 27.7 | 14.0 | 9.2 | 7.4 |
| DPS (sen) | - | - | - | - | - |
| Dividend yield (%) | - | - | - | - | - |
| P/B (x) | 9.0 | 6.7 | 5.5 | 2.5 | 2.3 |
| ROE (%) | 24.1 | 24.2 | 39.1 | 27.1 | 30.5 |
| Net Gearing (%) | 58.0 | 52.4 | 34.0 | Net Cash | Net Cash |

Source: Company prospectus, MSSB Research

Valuation

- At an IPO offer price of RM0.33, VLB's forward PE valuation for FY22f and FY23f stands at 14.0x and 9.2x, based on our estimated FY22f and FY23f core EPS of 2.4 sen and 3.6 sen respectively. We arrived our fair value of RM0.43 (30.3% potential upside from its IPO price) by assigning a target PE of 12.0x to its FY23f EPS.
- The assigned target PE represents a slight discount to Bursa Malaysia's construction sector forward PE of 13.1x for 2023f. The discount is premised to VLB's smaller market capitalisation.
- We like VLB for its established track record in the construction sector over the past 11 years and is currently backed by a solid outstanding orderbook of RM947.4m across all 3 segments that will provide strong earnings visibility until 2026. We also favour VLB for its better-than-average net margins position against selected sectorial peers and have delivered double-digit ROE over the years.
- While VLB does not adopt a formal dividend policy, we note that the group has been operating at a net operating cash flow over the years (with the exception of FY20) under review. We reckon that preserving capital for future expansion to undertake additional projects and enhance project efficiency will be the key focus for the time being.

Fig #10 Peers comparison

| Company | Market Group | FYE | Price (RM) | Market Cap (RM 'm) | P/E (x) | | Gross DY (%) | Revenue RM 'm | Net Income RM 'm |
|----------------------------|--------------|------------|--------------|--------------------|-------------|-------------|--------------|---------------|------------------|
| | | | | | FY21 | FY22f | | | |
| Vestland Bhd | ACE | Dec | 0.330 | 311.6 | 27.7 | 14.0 | - | 293.9 | 22.3 |
| GDB Holdings Bhd | MAIN | Dec | 0.260 | 243.8 | 8.8 | 10.7 | - | 590.1 | 22.9 |
| Inta Bina Group Bhd | MAIN | Dec | 0.240 | 126.1 | 10.7 | 12.2 | 4.2 | 453.7 | 10.3 |
| TCS Group Holdings Bhd | ACE | Dec | 0.230 | 89.7 | 36.3 | - | - | 231.6 | -8.4 |
| Siab Holdings Bhd | ACE | Dec | 0.145 | 71.0 | 13.2 | - | - | 158.1 | -7.7 |
| Avg ex-Vestland Bhd | | | | | 17.2 | 11.4 | 4.2 | 358.4 | 4.3 |

Source: Company prospectus, Bloomberg