

Vestland Berhad

TP: RM0.38 (+15.2%)

Backed by Robust Outstanding Book of RM947.4mn

Ace Market Listing

NOT RATED

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Background

Vestland Berhad (VESTLAND) is principally involved in the construction of residential and non-residential buildings.

IPO Statistic

The IPO entails a public issue of 170,000,000 new ordinary shares, and an offer for sale of 70,800,000 shares at an IPO price of RM0.33/share.

Public issue:

- 47,216,000 new shares for application by the Malaysian public;
- 27,745,000 new shares for application by eligible parties; and
- 95,039,000 new shares for private placement to Bumiputra investors approved by MITI.

Main Competitive Advantages

1. Established track record in building construction;
2. Capable to offer design and build construction projects; and
3. Experienced management team.

Valuation

At an IPO price of RM0.33/share, VESTLAND is priced at a trailing PER of 29.3x FY21 core EPS. We value the company at 10x CY24 EPS, arriving at a fair value of **RM0.38/share**.

Earnings Summary

FYE Dec (RMmn)	2020	2021	2022F	2023F	2024F
Revenue	97.1	171.1	310.0	380.0	450.0
Gross profit	14.3	23.5	45.0	57.0	68.9
EBITDA	12.3	17.9	33.1	41.9	50.6
EBITDA margin (%)	12.7	10.5	10.7	11.0	11.2
EBIT	10.7	16.2	31.4	40.2	48.7
PBT	9.6	14.6	29.8	38.5	47.0
PAT	7.0	10.6	22.7	29.3	35.7
Core profit	8.0	10.6	22.7	29.3	35.7
Core EPS* (sen)	0.8	1.1	2.4	3.1	3.8
PER^ (x)	39.0	29.3	13.8	10.6	8.7
Gross dividend (sen)	n.a	n.a	0.5	0.5	0.5
Dividend yield^ (%)	n.a	n.a	1.5	1.5	1.5

Note: *based on enlarged share base of 944.3mn, ^ based on IPO price of RM0.33/share

Share Information

Listing	Ace Market
Enlarged Share Capital (mn)	944.3
Market Cap @ RM0.33 (RM mn)	311.6
Issue price (RM)	0.33
Oversubscription rate	N/A
Estimated free float (%)	25.5
Tentative listing date	31-Jan-23

Tentative Listing Dates

Event	Tentative Date
Opening of the IPO	27-Dec-22
Closing of the IPO	16-Jan-23
Balloting of Applications	18-Jan-23
Allotment of Shares	27-Jan-23
Listing	31-Jan-23

Ratio & Analysis

NTA per share (post IPO) (sen)	12.0
Price to NTA (x)	2.7
Proforma Gearing (x)	Net Cash

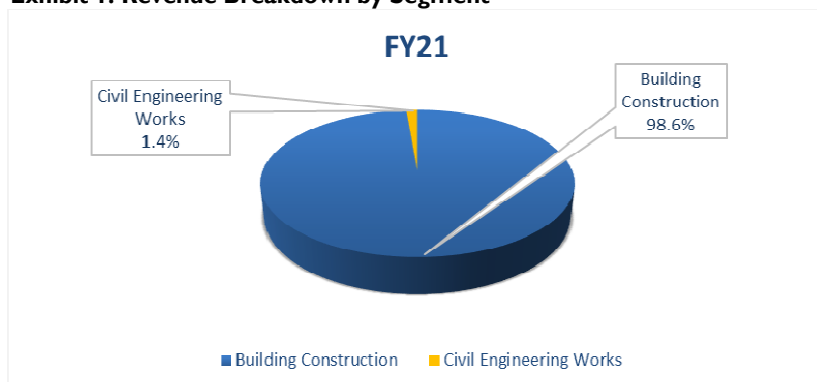
Utilisation of Proceeds

	RM(mn)	%
Acquisition of new head office/refinancing of borrowings for acquisition of new head office	7.5	13.4
Performance bonds or cash deposits for construction projects	10.8	19.2
Working capital	33.5	59.7
Estimated listing expenses	4.3	7.7
TOTAL	56.1	100.0

Business Overview

VESTLAND is principally involved in the construction of residential and non-residential buildings. Along the years, the group has built up a good working relationship with government as half of its current outstanding book is from government.

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	47,216,000	5.0
Eligible parties	27,745,000	2.9
Placement to Bumiputera investors approved by MITI	95,039,000	10.1
Offer for Sale		
Private placement to selected investors	70,800,000	7.5

Source: Company, TA Securities

Utilisation of Proceeds

The estimated gross proceeds of RM56.1mn raised are expected to be utilised for the following:

Exhibit 3: Utilisation of Proceeds

Utilisation of proceeds	Estimated timeframe for utilisation	RM'000	%
Acquisition of new head office/refinancing of borrowings for acquisition of new head office	Within 3 months	7,502	13.4
Performance bonds or cash deposits for construction projects	Within 15 months	10,800	19.2
Working capital	Within 12 months	33,498	59.7
Estimated listing expenses	Within 3 months	4,300	7.7
Total		56,100	100.00

Source: Company, TA Securities

Key Competitive Advantages

1) Established track record in building construction

VESTLAND has an established track record of about 11 years as a building contractor in the construction industry since the commencement of its business operation in 2011. Along the years, the group has successfully completed 16 construction projects with a total contract value of RM670.0mn.

2) Capable to offer design and build construction projects

The group has expanded its construction capabilities to “design and build” construction projects since 2020. Under this type of project, the group is responsible for the overall project management as well as early involvement in the planning and coordination of the design aspects of the project covering the technical specifications. The design works shall enable the group to provide a total solution with a single point of contact to the customers.

3) Experienced management team

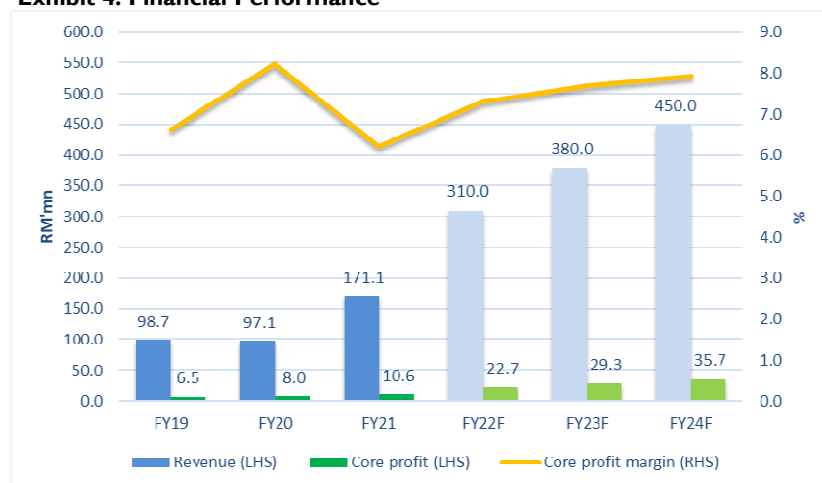
The group is led by an experienced management team headed by its group managing director, Datuk Liew Foo Heen and the executive director, Wong Sai Kit. Both of them have about 20 years and 22 years of experience in the construction industry respectively.

Key Risks Relating to Business and Industry

- 1) Continuity of order book is not assured;
- 2) Escalating raw materials cost; and
- 3) Dependent of foreign workers.

Financial Highlights

Exhibit 4: Financial Performance



Source: Company, TA Securities

The revenue for FY20 fell by 1.6% YoY to RM97.1mn from RM98.7mn a year ago, mainly due to lower revenue contribution from its build segment. Nevertheless, the group's core profit jumped 22.1% YoY to RM8.0mn from RM6.5mn a year earlier due to higher gross profit margin generated from the Glenz Mixed Commercial Development Project and TUDM Army Camp Package 3 Project. In the subsequent year, the group saw its revenue jump by 76.1% YoY to RM171.1mn, primarily due to higher revenue from the design and build segment. As a result, the core profit surged 33.3% YoY to RM10.6mn from RM8.0mn a year earlier.

Moving forward, we forecast the revenue and core profit to be stronger, underpinned by its robust outstanding order book as well as full resumption of construction activities.

Future Plans and Business Strategies

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

1) Focus on strengthening its core competency in construction services

The group will continue focusing on expanding its order book by leveraging on

its capabilities in both design and build as well as its civil engineering services.

2) Operational facility expansion

The group has acquired a new head office at Sham Alam, Selangor. The new head office will comprise 12 office suites with an aggregated built-up area of 10,803 sq ft. The new head office is designed to accommodate a larger number of workstations in order to cater for expanded workforce. The group intends to move into the new office by 1Q2023.

Outlook

According to an independent market research report prepared by Vital Factor Consulting, which was enclosed in the IPO prospectus, the real GDP of construction sector in Malaysia is estimated to grow by 2.3% in 2022 and forecasted to grow by 4.7% in 2023 due to a better performance in all subsectors.

Generally, VESTLAND is backed by a robust outstanding order book of RM947.4mn as of 28 November 2022, translating into about 5.5x FY21 revenue. This would provide a very strong earnings visibility to the group for the next few years. Meanwhile, the group currently has a solid tender book of about RM2.1bn.

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 RM41.0mn or 4.3sen/share.

Dividend Policy

The group currently does not have any formal dividend policy.

Earnings Forecast

We estimate the group to record earnings growths of 113.0%, 29.2% and 21.9% to RM22.7mn, RM29.3mn, and RM35.7mn for FY22, FY23 and FY24 respectively, supported by its unbilled order book of RM947.4mn as of 28 November 2022 and full resumption of construction activities. We expect the domestic market will remain as the primary revenue generator.

All in, our FY22-24 earnings projections are premised on the key assumptions below:

- Order book replenishment assumptions of RM300.0mn/RM330.0mn/RM350.0mn for FY22/FY23/FY24 respectively; and
- Gross margins of 14.5%, 15.0%, and 15.3% for FY22, FY23, and FY24, respectively.

Valuation

We assign a target PE multiple of 10x CY24 EPS to VESTLAND and arrive at a fair value of RM0.38/share.

This is after considering the group has:

- a. Established track record in building construction;
- b. Capabilities to offer design and build construction projects;
- c. Robust outstanding order book; and
- d. Experienced management team.

Exhibit 5: Peer Comparison

Stock	Share price (RM)	Market Cap (RMmn)	EPS^ (sen)	P/E ratio (x)	DPS^ (sen)	Div Yield^ (%)	Net gearing (x)	P/B ratio (x)
KERJAYA	1.18	1495.3	8.5	13.9	3.5	3.0	Net cash	1.1
INTA	0.24	128.5	2.2	10.9	1.0	4.2	0.2	0.8
HAILY	0.395	70.4	3.6	11.0	1.7	4.3	Net cash	0.9
AVERAGE				11.9		3.8		0.9
VESTLAND*	0.33	311.6	1.1	29.3	n.a	n.a	Net cash	2.7

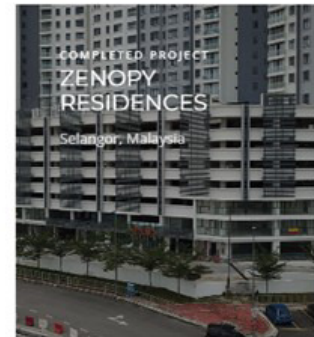
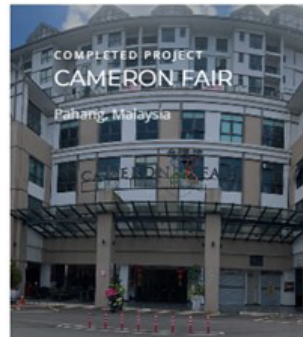
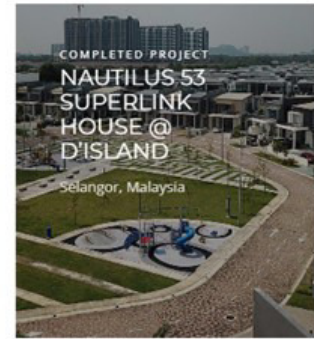
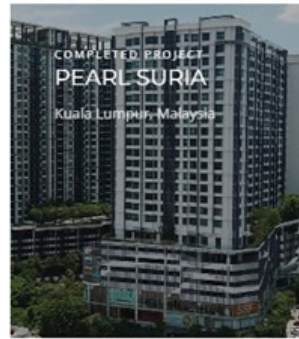
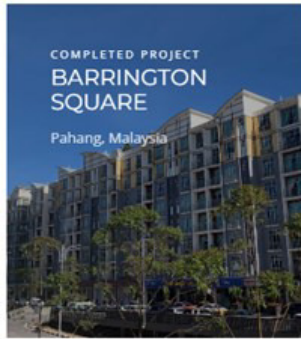
Note: *based on pro-forma balance sheet

^based on previous financial year

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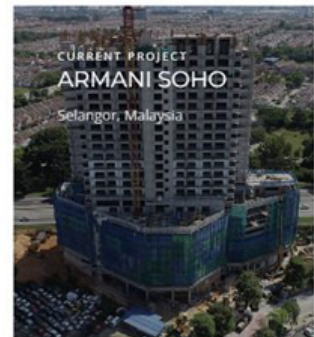
Appendix

Exhibit 6: Completed Projects



Source: Company

Exhibit 7: On-going Projects



Source: Company

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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.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	NR	NR	NR	NR
Remark	NR	NR	NR	NR

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

Disclaimer

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As of Friday, January 13, 2023, 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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