CBH Engineering Holding Berhad

(0339 | CBHB MK) Ace | Mechanical & Engineering Services

IPO Note

NON-RATED

Fair Value: RM0.45

KEY INVESTMENT HIGHLIGHTS

- **CBHB's growth will be driven by an expansion of its workforce and a focus on securing larger-scale projects**
- **We project a 3-year CAGR of 18.0%, with core PAT expected to reach RM40.3-RM57.4m over the next 3-years**
- **We assign a fair value of RM0.45 per share; this value is based on a PER of 18x, pegged to its FY25f EPS of 2.49 sen**

Company Background: **CBH Engineering Holding Berhad (CBHB)** was officially listed on the Bursa Ace Market yesterday. It specializes in mechanical and electrical (M&E) engineering services, with a primary focus on power distribution systems, data centre substations, and industrial substations. The company also handles projects in the commercial, residential, and industrial sectors. The business model relies on securing large-scale contracts with an emphasis on data centre projects, and it is currently in the process of expanding their talent pool and internal capabilities.

As at 15 January 2025, CBHB has 12 existing contracts with a total unbilled order book of RM203.7m, comprising more than 70% Data Centre works. CBHB has also submitted 22 tenders with a total tender sum of RM559.7m, which are still pending evaluation. However, in a recent meeting with the management of CBHB, they stated that its tender book was around RM590.0m, due to the addition of the PJ data centre substation tender that they are actively participating in. The IPO raised approximately RM83.4m from the issuance of 298.0m new shares, with 93.2% of the proceeds allocated to working capital, to allow CBHB to tender for larger scale projects.

Growth and Expansion Strategy:

Broad Strategy: CBH Engineering has a broad growth strategy with no specific sector focus, although data centres represent a key growth area. Currently, it is tendering for a data centre substation project in Petaling Jaya valued at RM 40-50.0m. Management has advised that data centre projects remain a key focus moving forward as can be seen by the make-up of their unbilled order book and active tender book. It is also currently involved in the Maybank 118 contract, which is a retrofit building project.

Geographic Expansion: While the company has projects in Singapore, these are limited to industrial substations, with no current data centre projects in that region. For now, its focus remains in the Malaysian market as it seeks to establish a stronger footing.

RETURN STATISTICS	
Price @ 16th Jan 2025 (RM)	0.335
Expected share price return (%)	+34.33
Expected dividend yield (%)	+0.0
Expected total return (%)	**+34.33**

Company Description

CBH engineering is an electrical engineering service provider, specializing in electricity supply distribution systems. It undertakes the design, supply, installation, testing, commissioning, and maintenance of high, medium, low, and extra-low voltage electrical systems.

IPO Details

Public Issue of new shares (m)	298.0
Offer for sale of existing shares (m)	188.1
Shares outstanding (m)	1,880.9
Implied market cap	RM526.7

Major Shareholdings (%)

Quay Holdings	72.76

Additional Data

Listing Market	ACE
Bursa Code	0339

INVESTMENT STATISTICS			
FYE Dec	**2024E**	**2025F**	**2026F**
Revenue	259.5	292.2	341.9
EBIT	55.5	64.8	79.1
Profit Before Tax	56.0	65.3	79.7
Core PATAMI	40.3	47.0	57.4
Core EPS	1.8	2.1	2.5
DPS	0.0	0.0	0.0
Dividend Yield	0.0	0.0	0.0

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Internal Competencies: One of CBH's main objectives is to strengthen internal competencies by attracting more skilled personnel, particularly for its design team, which requires more technical expertise compared to its project team. It currently has 73 employees in its project team and aims to add another 11 project managers/supervisors to its personnel. It aims to further add more skilled labor to its design team as well.

Revenue and Project Growth: The company aims to maintain conservative annual revenue growth of around RM50.0m, although management notes that this figure may be lower than their actual potential. It also plans to secure at least RM150.0m in new contracts this year from its tender book, contributing to the target for FY25. In addition, CBH targets a total revenue of RM300.0m for FY25. This will come from two main sources: RM 150.0m from its outstanding unbilled order book, and RM 150.0m from tenders it hopes to win in FY25.

Exhibit 1– Breakdown of Current Unbilled Order Book

No.	Project details*	Property type/ Location	Contract value (RM million)	Balance contract value# (RM million)	Expected completion
1	M&E engineering works	Warehouse and ancillary buildings / Selangor	18.2	3.0	2025
2	Electrical engineering works	Data centre/ Johor	26.3	3.7	2025
3	Design and built of a 275 kV substation	Data centre/ Sedenak Tech Park, Johor	192.4	47.4	2025
4	Electrical engineering works	Data centre/ Cyberjaya	49.3	34.7	2025
5	Electrical engineering services	Hotel/ Kuala Lumpur	4.3	3.6	2025
6	Design and built of a 275kV substation	Data centre/ Johor	65.4	57.2	2025
7	Design and built of a 132kV substation	Data centre/ Kuala Lumpur	52.1	51.4	2025
8	*Other projects with contract values lesser than RM3.0 million*			2.7	
Total			**428.2**	**203.7**	

Source: Company

Exhibit 2 – CBHB Business Model

Principal business activities	**M&E engineering services**
Business segment	Electrical engineering services for power distribution systems and mechanical engineering services for building systems
Range of M&E services	Electrical engineering services comprising: • Electricity supply distribution works at substations • Electricity supply distribution works at end-user premises • LV electrical engineering works Mechanical engineering services comprising: • ACMV systems • Fire protection systems • Plumbing and sanitary systems • Renewable energy system
Type of buildings	• Substation • Industrial • Commercial • Residential
Principal market	Malaysia

Source: Bursa Malaysia

Exhibit 3 – Utilization of IPO Proceeds

Use of Proceed (RM83.44 million from new issue)

Proceed Utilisation	RM million
Business expansion	
i. Procurement of equipment and components for future projects	38.50
ii. *Payment to subcontractors for future projects*	18.48
iii. *Bank guarantees for future projects*	17.30
iv. *Recruitment of engineers and other personnel*	3.46
Estimated listing expenses	5.70
Total	**83.44**

Source: Company

Financial Performance and Key Metrics:

Revenue Capacity: The company's current revenue capacity is RM300.0m, with more than 70% of their order book derived from data centre projects. Its gearing ratio stands at 0.02x, and management has advised that this will remain consistent going forward, as they do not have high capital expenditures and mainly incur equipment costs.

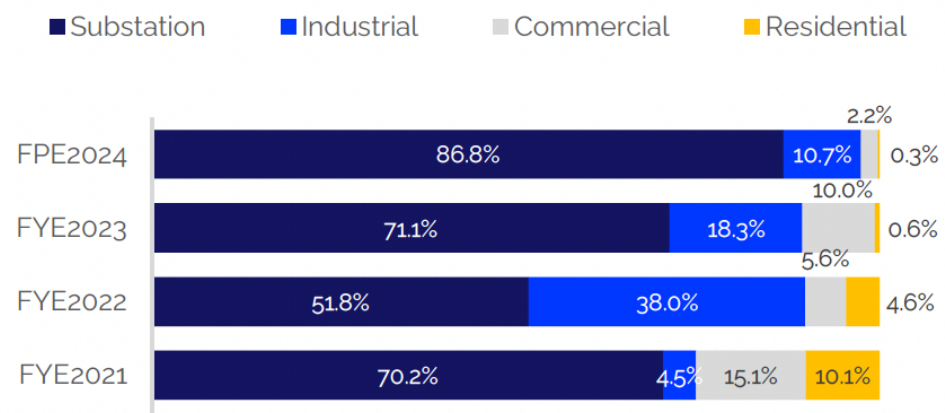
Margins: CBH's margins for data centre projects are approximately 20-25%, while commercial projects yield margins of 15-20%. Gross margins are expected to remain around the 30% mark.

Order Book and Tendering: The current tender book stands at around RM 590.0m, with approximately 70-80% of these projects focused on data centre MEP works and substations. The company's target is to secure at least RM 150.0m in new contracts this year.

Revenue Recognition and Accounting: CBH recognizes revenue on a milestone payment basis and uses a cost-income method of accounting. This differs from some peers that use accrual accounting.

Exhibit 4 – Revenue Breakdown by Building Type

Revenue Breakdown by Building Type



Source: Bursa Malaysia

Competition and Market Position

Market Share: CBH's market share in the M&E sector is approximately 2.8%, and it aims to increase this primarily through securing larger contracts. It is particularly focused on winning more large-scale data centre projects to boost its market share.

Competitive Landscape: Key competitors in the market include MN Holdings, Pestech, HE Group and Cabnet Holdings. Management reiterated that CBH does not view Critical Holdings as a significant competitor currently.

Subcontractor Management: CBH uses a flexible approach in subcontractor management, selecting subcontractors based on project needs. They work with trusted partners but are open to exploring new subcontractors to find the best fit for each project.

M&E Maintenance and Future Outlook

M&E Maintenance: CBH has moved away from long-term maintenance contracts (formerly with Jusco and Tesco) and now handles ad-hoc maintenance work. It plans to expand this segment over the coming years, aiming to generate a steady recurring revenue stream.

Future of the M&E Industry: CBH sees digital technology as a critical driver for the future of the M&E sector in Malaysia and Southeast Asia. They also anticipate an influx of Chinese contractors entering the market, which may impact local firms.

Data Centre Strategy: CBH is focused on data centre projects and aims to secure significant contracts in the next three years, with a 10-year outlook for the long-term growth of this segment.

Operational Challenges and Risk Management

Project Timelines and Risks: CBH faces risks primarily related to equipment lead times and the varying complexities of substation projects. Liquidated Ascertained Damages (LAD) were discussed during a meeting with management; however, the company clarified that there are currently no LAD claims against them, and any mention of this in their prospectus was a precautionary measure.

Working Capital Management: CBH manages its working capital with 10% performance bonds for projects, alongside equipment costs. It currently has RM190.0m in available lending capacity to support future projects. To support larger contracts and to expand their project portfolio, CBHB has allocated RM77.7m from the Public Issue proceeds for working capital.

Personnel Hiring Strategy: The company hires personnel only once they have secured a contract. This approach can potentially create risks, as they do not prepare their workforce in advance of tenders. However, they noted that this has not been a constraint thus far.

Data Centre Risks: Recently, Malaysia has been classified as a Tier 2 country by the President Joe Biden administration, permitted to import only 50,000 graphics processing units (GPUs) over two years, with data centre operators restricted to deploying a maximum of 7% of their computing capacity in any single Tier 2 nation. This could have a significant negative impact on the data centre landscape in Malaysia, adversely affecting CBHB which derives a large part of their revenue stream from data centre projects. More than 70% of CBHB's current order book are for data centre projects. This could cause delayed launching of new data centre projects from its clientele along with potential supply chain disruption.

Non-recurring projects: The Group currently derives a majority of their revenue from projects that are inherently non-recurring in nature, therefore this might create uncertainty in terms of a lack of guarantee that the group will be able to secure new large-scale projects (the key to their growth strategy).

Competition: The M&E engineering landscape in Malaysia is highly competitive, with many large-scale players such as HE Group and MN Holdings; competitors might have the ability to offer better services/pricing while being able to adapt to market changes more effectively. CBHB could be negatively impacted if competition increases in the industry through the addition of new and foreign entrants.

Dividend Policy and Management Stake

Dividend Payout: The company has confirmed that there will be no dividend payouts for FY24 and FY25. However, it plans to begin dividends in FY26. The group currently has no formal dividend policy; however, we believe that that a fair dividend payout of above 15% is justifiable, considering CBHB's strong operating cash flow.

Management Stake: The management team holds a significant stake in the company and has no intention of selling their shares post-listing.

Financial Highlights and Valuation

CBHB's revenue increased from RM67.6m in FY21 to RM208m in FY23, achieving a CAGR of 75.4% over a two-year period. The growth was mainly driven by the M&E systems segment, mostly contributed by substations, which grew by RM54.6m and accounted for 51.8% and 71.1% of the group's revenue in FY22 and FY23 respectively. The Group's gross profit (GP) margins rose from 18.0% in FY21 to 29.9% in 8MFY24; while the PAT margins increased from 5.3% in FY21 to 17.2% as of the LPD, as the group secured more large-scale data centre contracts.

Earnings forecasts: We project a 3-year earnings CAGR of 18.04% with core PAT expected to reach RM40.3m, RM47.0m and RM57.4m over FY24, FY25 and FY26 respectively. This is largely supported by the strong demand for DC facilities in Malaysia (which needs to be monitored over the coming months), higher working capital to allow the group to tender for more large-scale projects and their improved financial position, seen through their top line and bottom-line margin expansion. Our FY25 revenue is based on the assumption of RM203.7m from its outstanding orderbook due to be recognized in FY25, along with an expected 15% tender conversion rate (RM590m tender book).

Valuation: We assign a **fair value of RM0.45** per share for CBH Engineering Holding Berhad. This is based on a PER of 18x, pegged to FY25 EPS of 2.50. The valuation is in line with the 1-year forward PER of its local peer, MN Holdings, and FY25 PER of the BMCI. We deem this justifiable due CBHB's stronger financial position, high exposure to the data centre industry and its strong, sustainable profit margins.

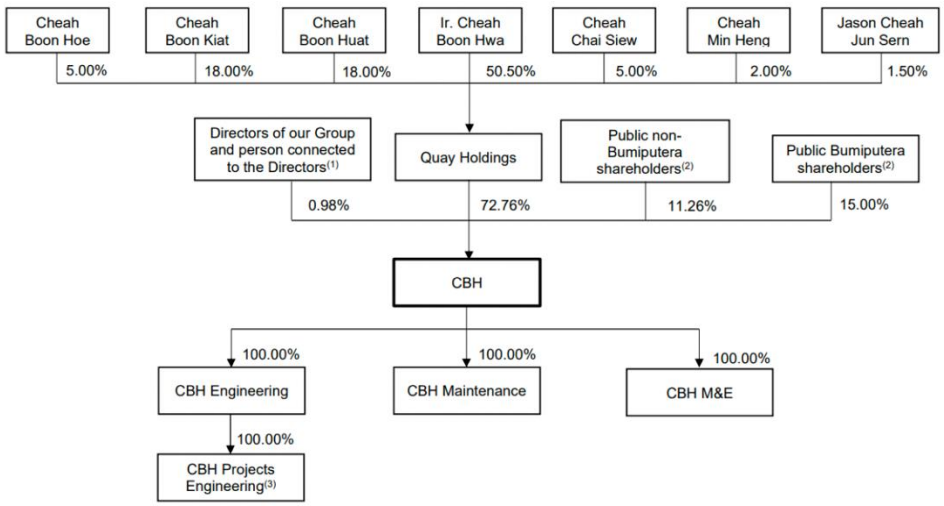
FINANCIAL SUMMARY

FYE 31st December	2022A	2023A	2024E	2025F	2026F
Revenue (RM'm)	180.1	207.6	259.5	292.2	341.9
EBIT (RM'm)	27.6	45.5	55.5	64.8	79.1
Pre-tax profit (RM'm)	27.7	46.0	56.0	65.3	79.7
Normalised PATAMI (RM'm)	20.0	33.0	40.3	47.0	57.4
FD EPS (sen)	0.2	1.1	1.8	2.1	2.5
Dividend (sen)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBIT margin	15.33%	21.91%	21.39%	22.17%	23.15%
PBT margin	15.40%	22.10%	21.58%	22.35%	23.31%
PAT margin	11.13%	15.89%	15.54%	16.09%	16.78%
Core PAT margin	11.13%	15.89%	15.54%	16.09%	16.78%

IPO Details: CBHB will have a listing price of RM0.28, raising a total of RM136.1m, RM83.4 from new issues and RM52.7m from offer for sale. They have an enlarged issued and paid-up share capital of 1,880,896,393 shares on Bursa's ACE market. Pursuant to the IPO listing, CBHB's market capitalization will be RM526.7m based on its IPO price of RM0.28. The group structure upon listing and the allocation of IPO shares will be listed below:

Exhibit 5 – Group Structure upon Listing



Source: Bursa Malaysia

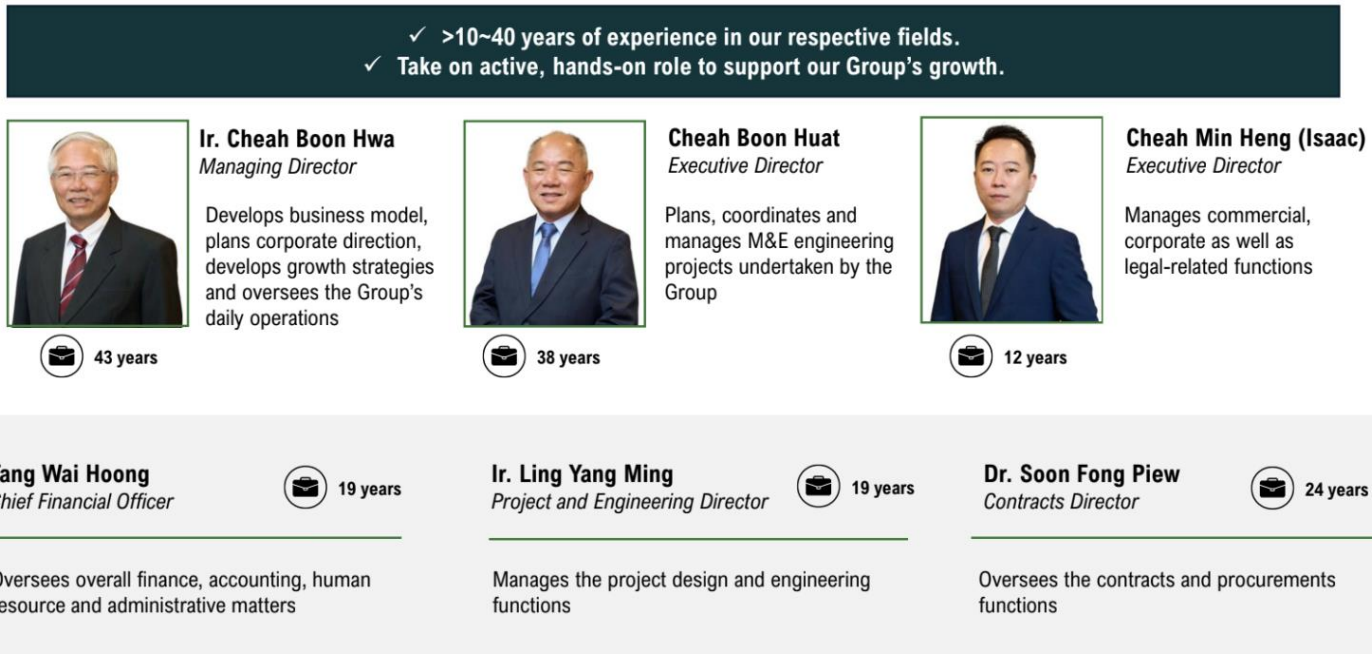
Exhibit 6 – Allocation of IPO Shares

Allocation of IPO Shares	No. of shares
Public issue of new shares (15.8%)	**298.0 mil**
Malaysian Public via balloting (5.0%)	94.1 mil
Eligible Persons via pink form (1.5%)	28.4 mil
Private Placement to Selected Bumiputera Investors approved by MITI (2.5%)	47.0 mil
Private Placement to Selected Investors (6.8%)	128.5 mil
Offer for sale of existing shares (10.0%)	**188.1 mil**
Private Placement to Selected Bumiputera Investors approved by MITI (10.0%)	188.1 mil
Total number of IPO shares	**486.1 mil**

Source: Company

Appendix

Exhibit 7: Key Management



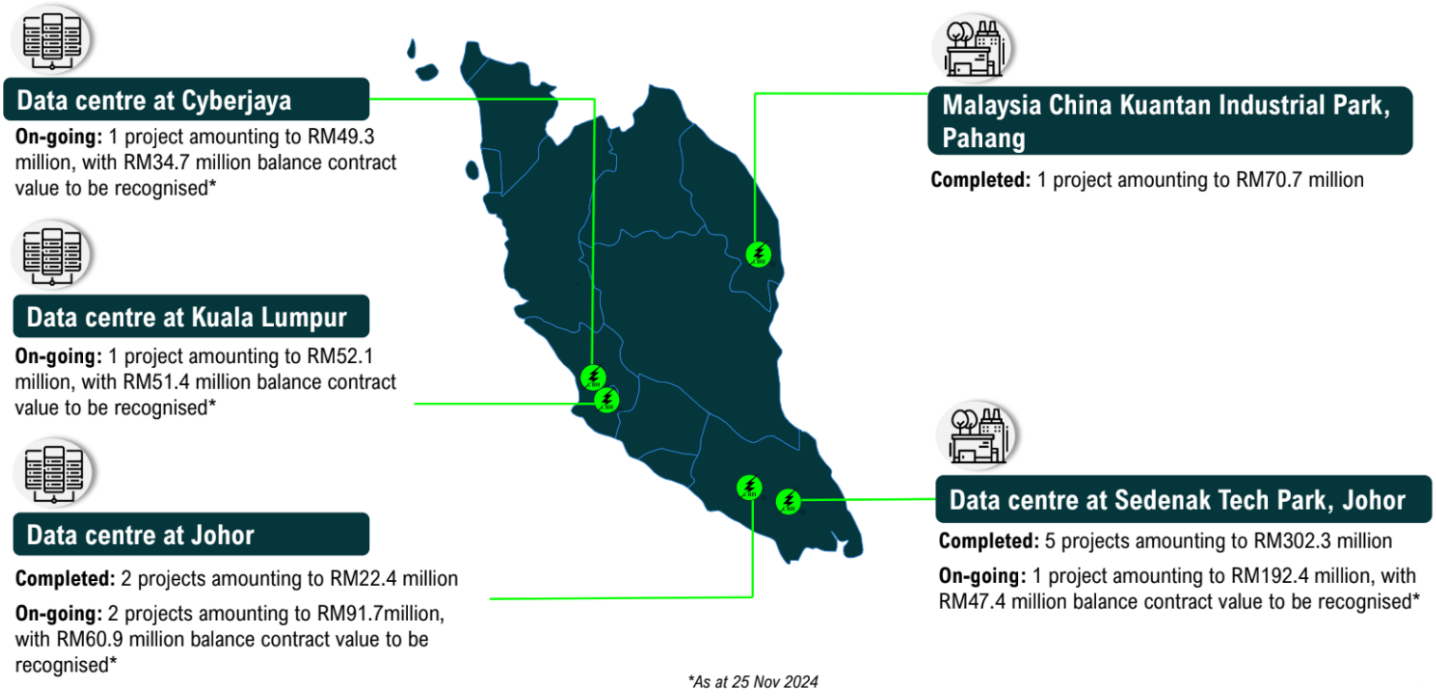
Source: Company

Exhibit 8: Types of Targeted M&E Works



Source: Company

Exhibit 9: Types of Targeted M&E Works



Source: Company

Exhibit 10: Peer Analysis

Company	Revenue (RM mil)	PAT (RM mil)	PAT Margin (%)	PER (x)	Forward PER (x)
Bintai Kinden Corporation Berhad	36.79	3.23	8.78	6.91	-
3Cabnet Holdings Berhad	198.67	3.57	1.80	19.14	-
CBH Engineering Holding Berhad	207.95	33.00	15.87	15.91	11.43
HE Group Berhad	204.20	11.00	5.39	16.94	15.00
Kinergy Advancement Berhad	199.31	27.59	13.84	38.10	-
LFE Corporation Berhad	114.35	15.16	13.26	12.73	-
MN Holdings Berhad	164.45	9.50	5.78	25.95	12.78
Pasukhas Group Berhad	146.49	Loss-making	Loss-making	-	-
Pestech International Berhad (1)	236.21	Loss-making	Loss-making	-	-

Source: Bursa Malaysia

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology