

**DESCRIPTION**

Unitrade Industries Bhd is principally involved in the wholesale and distribution of a wide variety of building materials for building and construction works.

Fair Value	RM0.34
IPO Price	RM0.32
Expected Return	6.3%
Closing Application Date	30 May 2022
Indicative Listing Date	14 June 2022

Market	ACE
Bursa Code	0247
Bloomberg Ticker	UNITRAD MK
Shariah-compliant	-

**IPO DETAILS**

	<b>Shares(m)</b>
Offer for Sale	125.0
Public Issue	312.5

**UTILISATION OF PROCEEDS**

	<b>RM (m)</b>
Working capital	50.5
Repayment of bank borrowings	39.8
Capital expenditure for pipe fabrication centre	5.0
Estimated listing expenses	4.7
<b>Total</b>	<b>100.0</b>

**KEY STOCK DATA**

Market Capitalisation (RM m)	500.0
No. of Shares (m)	1,562.5

**MAJOR SHAREHOLDERS**

	<b>%</b>
Unitrade SAS S/B	50.5
Sim Keng Chor	10.7
Teh Beng Khim	4.5

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## One-Stop Supplier of Building Materials

Unitrade Industries Bhd (UNITRAD) is principally involved in the wholesale and distribution of a wide variety of building materials for building and construction activities, such as pipes, valves, fittings and accessories for mechanical and electrical (M&E) works; as well as reinforcement steel, structural steel and other building materials for civil works. UNITRAD is also involved in the manufacturing and sale of pre-insulated pipes primarily used to transport and maintain the temperature of fluids in the pipes in underground or aboveground piping systems. They are used in a wide range of industrial, commercial and domestic applications such as air-conditioning systems, electric heating, industrial processing as well as oil storage and handling. In addition, the group provides rental of temporary yet reusable structural support equipment such as scaffolding, steel plates and hollow sections for use in various building and construction activities.

Moving forward, UNITRAD plans to streamline the management of its resources to reduce operational expenses, besides enhancement of its offerings with set-up of a pipe fabrication centre that provides end-to-end pipe services to its customers. We derive a fair value of **RM0.34** based on an 11x PE multiple to its CY23F EPS of 3.1sen. The IPO is expected to raise approximately RM100.0m from the issuance of 312.5m new shares. Besides utilising 50.5% of the proceeds as working capital, 39.8% and 5.0% of the proceeds are allocated for repayment of bank borrowings and capital expenditure for pipe fabrication centre, respectively.

§ **Growth drivers.** UNITRAD's growth will be dependent on: i) consolidation of its operations within one location to enhance operational efficiency, and ii) provision of value-added services for pipes to its customers.

§ **Competitive strengths.** UNITRAD's competitive strengths include: i) offering an extensive range of building materials, ii) carrying its house brand of pipes, valves, fittings and accessories, iii) usage of its products spans throughout the lifecycle of buildings and infrastructure, iv) having an established history and proven track record, v) having a well-established network of suppliers, both locally and overseas, vi) internationally recognised in terms of quality and safety standards for its in-house manufactured pre-insulated pipes, and vii) having an experienced key management team.

§ **Catalysts.** Key drivers may include: i) government's plans to spur the growth of construction and infrastructure sectors, and ii) indispensable refurbishment, retrofitting, repair and maintenance of buildings and infrastructure.

§ **Key risks.** Key downside risks, among others, include: i) competition from other industry players, ii) its inventories are subject to the risk of impairment losses, iii) its receivables are subject to impairment loss or write off, iv) foreign exchange fluctuation, v) changes in interest rates, and vi) fluctuations in the price of steel products.

**KEY FINANCIAL SUMMARY**

FYE March (RM m)	2019A	2020A	2021A	2022F	2023F	CAGR
Revenue	1,048.7	1,077.6	1,025.0	1,134.6	1,210.6	3.7%
Gross Profit	79.8	80.9	88.7	108.4	115.6	9.7%
Pre-tax Profit	27.9	29.1	40.0	59.3	62.7	22.5%
Net Profit	19.0	19.1	28.7	44.5	47.1	25.6%
EPS (Sen)	1.2	1.2	1.8	2.9	3.0	25.6%
P/E (x)	26.4	26.1	17.4	11.2	10.6	
DPS (Sen)	-	-	-	0.9	0.9	
Dividend Yield (%)	-	-	-	2.7	2.8	

Source: Company, PublicInvest Research estimates

*Is principally involved in the wholesale and distribution of a wide variety of building materials for building and construction activities*

*Is also involved in the manufacturing and sale of pre-insulated pipes ...*

*... and provides rental of temporary yet reusable structural support equipment*

## Company Background

Unitrade Industries Bhd (UNITRAD) is principally involved in the wholesale and distribution of a wide variety of building materials for building and construction activities such as pipes, valves, fittings and accessories for mechanical and electrical (M&E) works; as well as reinforcement steel, structural steel and other building materials for civil works. UNITRAD is also involved in the manufacturing and sale of pre-insulated pipes primarily used to transport and maintain the temperature of fluids in the pipes in underground or aboveground piping systems. They are used in a wide range of industrial, commercial and domestic applications such as air-conditioning systems, electric heating, industrial processing as well as oil storage and handling. In addition, the group provides rental of temporary yet reusable structural support equipment such as scaffolding, steel plates and hollow sections for use in various building and construction activities. UNITRAD's products are used in the construction of new buildings and infrastructure; in building refurbishments and retrofitting; and in the repair and maintenance of buildings and M&E equipment.

**Table 1: Key milestones**

Year	Event
1979	- Set up a sole proprietorship under the name of Syarikat Unitrade to trade pipes, valves, fittings and accessories for M&E works, primarily fire protection systems and plumbing works
1984	- Set up Syarikat Logam Unitrade S/B to assume the business of Syarikat Unitrade
1995	- Completed construction of a warehouse with a built-up area of approximately 17,500 sqft and a 3-storey office building with a built-up area of approximately 10,000 sqft
2001	- Introduced its house brand of pipes, valves, fittings and accessories under the brand name "Alfran" - Successfully registered its Alfran trademark with the MyIPO
2007	- Completed construction of a larger warehouse with a built-up area of approximately 117,700 sqft and a 3-storey office building with a built-up area of approximately 26,200 sqft - Expanded its offerings to include manufacturing of pre-insulated pipes and trading of related materials for heating, ventilation and air-conditioning (HVAC) systems with acquisition of Ricwil (Malaysia) S/B
2009	- Ricwil (Malaysia) S/B relocated to a larger factory with a manufacturing space of approximately 47,500 sqft and a 2-storey office building with a built-up area of approximately 6,500 sqft
2014	- Rented an adjacent piece of land to Ricwil (Malaysia) S/B's factory as additional storage space for Ricwil (Malaysia) S/B's operations
2017	- Unitrade United S/B was incorporated to provide rental of temporary structural support equipment such as scaffolding, steel plates and hollow sections for the construction industry
2021	- Completed construction of its industrial complex which will house its new headquarter, factory and warehouse to consolidate its operations under Syarikat Logam Unitrade S/B, Ricwil (Malaysia) S/B and Unitrade United S/B within one location and to cater for future growth of its business

Source: Company Prospectus, PublicInvest Research

## Business Overview

UNITRAD is involved in sourcing, **wholesale and distribution of a wide variety of building materials** for building and construction works such as pipes, valves, fittings and accessories for M&E works; and reinforcement steel, structural steel and other building materials for civil works. UNITRAD sources for these products in bulk from its network of suppliers which the group stores in its warehouse to maintain an inventory of ready stock for its customers. Having an inventory of ready stock enables UNITRAD to deliver the products to the customers in a timely manner.

*Sources building materials in bulk from a network of 483 suppliers as at 31 March 2022*

*Manufactures and sells pre-insulated pipes*

*Provides rental of temporary structural support equipment*

*Has about 6,319 SKUs of pipes, valves, fittings and accessories, reinforcement steel, structural steel, other building materials as at 31 March 2022*

UNITRAD's suppliers are mainly building materials manufacturers and as at 31 March 2022, the group has a network of 483 suppliers. UNITRAD takes into consideration the group's existing customers and market demand as well as speed and frequency of delivery when UNITRAD stocks up its inventory. UNITRAD continuously sources for new suppliers and products based on market demand. Suppliers are identified based on geographical locations for origin sourcing, product quality, production capacity, lead time and pricing. For existing products which UNITRAD carries, the group also continuously sources for additional or alternative suppliers to expand its existing sourcing network.

As for wholesale and distribution of building materials, UNITRAD's customers are building contractors, M&E contractors, steel traders, downstream steel products manufacturers, hardware retailers and traders. For customers located within Kuala Lumpur and Selangor, UNITRAD delivers the products using its in-house fleet of trucks and contracted trucks. For customers located outside of Kuala Lumpur and Selangor, UNITRAD appoints third party logistics providers to deliver the products to the customers. The building materials sold to the customers are not subject to warranty claims.

Also, UNITRAD is involved in the **manufacturing and sale of pre-insulated pipes** under the brand name "HI-GARD™", "TERRA-GARD™" and "COPPER-GARD™". UNITRAD's pre-insulated pipes can be customised according to its customer's requirements, in terms of insulation materials and piping materials used, to suit different applications by taking into consideration factors such as installation environment, type of medium carried, temperature and/ or pressure. The manufactured pre-insulated pipes are then transported as complete systems to project sites for installation that is undertaken by the customers which are the contractors for the project owners.

UNITRAD's pre-insulated pipes are used in M&E works, primarily in HVAC applications. Hence, the customers for UNITRAD's pre-insulated pipes are mainly M&E contractors. On a case-to-case basis, UNITRAD may provide product warranty ranging from two years to five years to the customers in which the group will absorb the costs incurred for replacement of parts, labour expenses and/ or other expenses due from manufacturing defects of its pre-insulated pipes. The warranty period is granted at UNITRAD's discretion and depends on negotiations with customers.

In addition, UNITRAD provides **rental of temporary structural support equipment** such as scaffolding, steel plates and hollow sections for use in various building and construction activities. The scaffoldings, steel plates and hollow sections are reusable and can be repeatedly rented out to customers throughout their useful lifespan, which are typically 10 years. All of its scaffoldings are sourced from manufacturers who comply with MS 1462-1 series of Malaysian Standards by Standard and Industrial Research Institute of Malaysia (SIRIM) which comes with product certification by Construction Industry Development Board (CIDB).

The duration of rental for UNITRAD's scaffoldings, hollow sections and steel plates to building contractors typically ranges up to six months or a year, depending on its customer's requirements. Upon confirmation of a rental contract, UNITRAD will arrange for the transportation of the selected rental product to the customer's designated location. For every rental contract that has completed its tenure, UNITRAD will transport the equipment back to its warehouse to undergo quality inspection. Repair works will be undertaken for damaged equipment to ensure the safety and quality prior to the next rental to subsequent customers.

UNITRAD has an extensive range of ready-stock products available at its warehouse. As at 31 March 2022, UNITRAD has about 6,319 stock keeping units (SKUs) of pipes, valves, fittings and accessories, reinforcement steel, structural steel, other building materials (such as bricks, paints, netting, cement, ready-mixed concrete, doors, windows, precast concrete, wall and floor finishes, fences, sand and aggregates and scaffolding) stocked in its warehouse. UNITRAD's pre-insulated pipes are manufactured upon the confirmation of order based on customer's specifications and requirements. Over the years, UNITRAD had purchased scaffoldings, steel plates and hollow sections to build its stockpile of rental assets.

*Is also an exclusive distributor of premium fittings*

*Sells its house brand of pipes, valves, fittings and accessories under the brand name "Alfran", and stainless steel fittings under the brand name "S2S"*

*Serves a wide network of 1,232 active customers as at 31 March 2022 which include developers, contractors, steel traders, hardware retailers and traders*

Further to the wholesale and distribution of third party branded products, UNITRAD is also an exclusive distributor of Shanghai Vision Mechanical Joint Co Ltd, Taizhou Realflex Pipetec Co Ltd and Jinan Meide Casting Co Ltd, for the distribution and sale of premium fittings as approved by Underwriters Laboratories and/ or Factory Mutual under the brand names VISION, Realflex and SCI in Malaysia respectively. UNITRAD sources mainly premium fittings such as mechanical grooved fittings, flexible hoses and malleable iron fittings from these suppliers, which the group is not able to source locally. Therefore, UNITRAD imports these products for sale in Malaysia.

UNITRAD is not materially dependent on these distributorships as there are alternatives to these products and collectively the products distributed only contributed 1.1% of the group's revenue for 8MFY22. Furthermore, UNITRAD sell its house brand of pipes, valves, fittings and accessories under the brand name "Alfran", and stainless steel fittings under the brand name "S2S". Both Alfran and S2S are trademarks registered with MyIPO since Nov 2001 and July 2012 respectively. The group sources and imports its Alfran and S2S products from original equipment manufacturers (OEMs) in China.

UNITRAD's sales and marketing activities are as follows: i) direct approach with potential customers such as contractors and hardware retailers, ii) referrals from its business associates, namely property developers, contractors, architects, consultants and quantity surveyors, iii) participation in trade fairs, exhibitions and industry networking events, iv) media advertisement such as business directory publications and association magazine publications as well as digital advertising through initiatives such as search engine optimisation services and social media marketing, together with v) establishment of corporate website.

UNITRAD serves a wide network of 1,232 active customers as at 31 March 2022 which include developers, contractors, steel traders, hardware retailers and traders. As such, the group does not depend on any of its major customers. UNITRAD does not enter into any agreement or contract with its customers as well. Also, UNITRAD does not depend on any of its major suppliers since UNITRAD has a sourcing network comprising over 426 suppliers locally and 57 suppliers overseas as at 31 March 2022. In relation to reliance of third party OEMs to manufacture its Alfran and S2S branded products, there are several OEMs available in the market, which can be substituted amongst one another.

**Table 2: Revenue segmentation by business activity**

Business activity	FY19 (%)	FY20 (%)	FY21 (%)	8MFY22 (%)
Wholesale and distribution	96.6	96.6	96.8	97.5
Manufacturing and sale of pre-insulated pipes	2.2	2.0	2.0	1.6
Rental of temporary structural support equipment	1.2	1.4	1.2	0.9

Source: Company Prospectus, PublicInvest Research.

**Table 3: Revenue segmentation by geographical market**

Geographical market	FY19 (%)	FY20 (%)	FY21 (%)	8MFY22 (%)
Malaysia	99.3	99.7	99.6	99.7
Overseas	0.7	0.3	0.4	0.3

Source: Company Prospectus, PublicInvest Research

Note: The products sold overseas (among Australia, Bangladesh, Brunei, Cambodia, China, Hong Kong, Indonesia, Singapore and Thailand) are mainly pre-insulated pipes.

**Table 4: Operation capacity and utilisation rate**

Financial period	Annual manufacturing capacity (number of pipes)	Utilisation rate (%)
FY19	121,050	38.96
FY20	121,050	42.79
FY21	121,050	37.89
8MFY22	80,700	26.48

Note: For 8MFY22, utilisation was lower mainly due to closure of operations during Movement Control Order and National Recovery Plan.

*Consolidation of its operations within one location to enhance operational efficiency*

*Is able to accommodate and hold more products as inventories while intensifying the group's sales and marketing activities*

*Provision of value-added services for pipes to its customers*

*Expects to derive better margin from sales of pipes from the value-added service*

## Future Plans

**Consolidation of its operations within one location to enhance operational efficiency.** UNITRAD plans to consolidate the group's operations under Syarikat Logam Unitrade S/B, Ricwil (Malaysia) S/B and Unitrade United S/B within one location to enhance the operational efficiency of its businesses. Prior to the consolidation, the operations of UNITRAD's distribution and wholesale business, manufacturing business and rental business segment are located in different locations. Through the consolidation, UNITRAD will be able to streamline the management of its resources and at the same time, resources can be optimally shared among the individual business segments to reduce operational expenses. On 31 Dec 2021, UNITRAD has completed the relocation to its newly constructed industrial complex comprising its headquarters, warehouse and factory facility.

Upon relocation of Ricwil (Malaysia) S/B's manufacturing operations to the new industrial complex, UNITRAD has applied for the business premise license and reissuance of the manufacturing licence to reflect the change in factory location. The group obtained the conditional approval for the reissuance of the manufacturing licence on 14 Jan 2022 and has submitted the requisite documents to Malaysian Investment Development Authority (MIDA) for the issuance of the manufacturing licence. As at 31 March 2022, the estimated timeline for the receipt of the business license and the reissuance of the manufacturing licence is by May 2022. Notwithstanding the need to reissue the license, based on discussions with officers in MIDA, after the application for reissuance is made, Ricwil (Malaysia) S/B can operate in the new industrial complex with its existing license, pending the reissuance of the new license.

UNITRAD's new warehouse has a built-up area of approximately 281,000 sqft which is relatively larger as compared with its existing warehouses with a total built-up area of approximately 117,000 sqft. With this, UNITRAD is able to accommodate and hold more products as inventories while intensifying the group's sales and marketing activities to secure more large projects and continue expanding its network of business associates to market its products.

**Provision of value-added services for pipes to its customers.** As UNITRAD is presently involved in the wholesale and distribution of pipes, the group plans to set up a pipe fabrication centre that provides end-to-end pipe services the likes of pipe cutting, grooving, threading, welding and painting services to its customers. As a manufacturer of pipes, UNITRAD expects to derive better margin from sales of pipes from the value-added service, as compared with its distribution of building materials. Nevertheless, the key purpose of this new venture remains to be an enhancement of the group's other offerings, which UNITRAD expects to sell better together the pipes from its value-added service.

Specifically, by leveraging on its pipe fabrication centre (that shares the same manufacturing space with its pre-insulated pipes manufacturing activities), UNITRAD's customers can reduce their manpower required to cut, groove, thread, weld and paint the pipes at construction site. The pipes are fabricated off-site and delivered to the customers' construction sites ready for installation according to their construction progress at site. This will also allow more effective use of space at the construction sites, reduce on-site disruption and speed up overall construction progress. Furthermore, safety at construction sites can be improved with less workers, equipment and materials reducing site congestion.

In order to set up its pipe fabrication centre, UNITRAD plans to purchase new machinery and equipment to set out a production line with multiple stations of machinery comprising pipe cutting machine, pipe grooving machine, pipe threading line, hole punching and robotic branch welding line, pipe painting line and computer numeric control (CNC) turning centre, as well as ancillary equipment such as band saw, V-roller conveyors and racks, and manual swing lifting device with motorised hoist. The purchase, installation and commissioning of machinery and equipment will take place progressively in three phases. For the first phase, set-up of all the required stations is expected to be completed within 12 months upon its listing. In the second and third phases, capacity and automation of corresponding stations are expected to be expanded and improved accordingly with purchase of additional machine and equipment within 24 and 36 months, respectively, from the date of its listing.

*Offering an extensive range of building materials*

*Carrying its house brand of pipes, valves, fittings and accessories*

*Usage of its products spans throughout the lifecycle of buildings and infrastructure*

*Having an established history and proven track record*

*Having a well-established network of suppliers, both locally and overseas*

*Internationally recognised in terms of quality and safety standards for its in-house manufactured pre-insulated pipes*

*Having an experienced key management team*

## Competitive Strengths

**Offering an extensive range of building materials.** UNITRAD is a distributor and wholesaler, offering an extensive range of about 6,319 SKUs of building materials as at 31 March 2022 for use in various building and construction activities. UNITRAD hold a large inventory of ready stocks, and can cater to a broad range of customer requirements. The group is also an exclusive distributor of Shanghai Vision Mechanical Joint Co Ltd, Taizhou Realflex Pipetec Co Ltd and Jinan Meide Casting Co Ltd, for the distribution and sale of premium fittings under the brand names VISION, Realflex and SCI in Malaysia respectively.

**Carrying its house brand of pipes, valves, fittings and accessories.** UNITRAD carries its house brand of pipes, valves, fittings and accessories branded under Alfran, stainless steel fittings branded under S2S and pre-insulated pipes branded under HI-GARD™, TERRA-GARD™ and COPPER-GARD™, which are registered trademarks with MyIPO. Its house brands differentiate from non-branded products in terms of compliance to international standards of manufacture, product specifications and product chemical compositions. These house branded products are also marketed as premium products and sold with a premium.

**Usage of its products spans throughout the lifecycle of buildings and infrastructure.** UNITRAD's products are used throughout the lifecycle of buildings and infrastructure, from new building and infrastructure construction to building refurbishments, retrofitting, repair and maintenance together with provision of M&E services, allowing the group to cater to a broad and diversified use, and reduce its business concentration risk arising from any unanticipated downturns in a particular segment or lifecycle of the construction industry.

**Having an established history and proven track record.** UNITRAD has an established history and proven track record, with over 43 years of experience in the industry, which enable the group to cater to the needs of a broad customer base of 1,232 active customers as at 31 March 2022. As at 8MFY22, the length of relationship with its customers range from below six years (557 customers), six to 10 years (201 customers), and over 10 years (330 customers). UNITRAD's relationship with its major customers ranges from 1 to 24 years.

**Having a well-established network of suppliers, both locally and overseas.** UNITRAD has developed a sourcing network comprising over 426 suppliers locally and 57 suppliers overseas as at 31 March 2022. As at 8MFY22, the length of relationship with its local and overseas suppliers range from below six years (local: 286 suppliers, overseas: 42 suppliers), six to 10 years (local: 38 suppliers, overseas: 3 suppliers), and over 10 years (local: 98 suppliers, overseas: 10 suppliers). Further, UNITRAD also continuously sources for new products based on market demand in order to remain competitive in the market. For existing products which it carries, the group also continuously source for additional or alternative suppliers to expand its existing sourcing network.

**Internationally recognised in terms of quality and safety standards for its in-house manufactured pre-insulated pipes.** UNITRAD's pre-insulated pipes are certified to the standards of ISO 9001:2015 Quality Management System and FM Approval Class:4924. Furthermore, as part of its commitment to environmental protection, UNITRAD has participated in the Department of Environment of Malaysia's initiatives in which the group has eliminated the usage of Hydrochlorofluorocarbons (HCFC) through the 'HCFC Phase-out Management Plan Stage-1' project. Notably, HCFC is a chemical substance that contributes to the depletion of the protective ozone layer which leads to global warming. As such, UNITRAD is committed to ensure that the raw materials used in the manufacturing of its pre-insulated pipes does not comprise HCFC compound.

**Having an experienced key management team.** UNITRAD's key management team has accumulated years of experience in their respective field and key expertise, industry experience and in-depth knowledge of its business operations. They are led by UNITRAD's founder and Executive Vice Chairman Sim Keng Chor and UNITRAD's Managing Director Nomis Sim Siang Leng, both of whom have over 50 years and 20 years of experience respectively in the building materials industry.

*Competition from other industry players*

*Its inventories are subject to the risk of impairment losses*

*Its receivables are subject to impairment loss or write off*

*Foreign exchange fluctuation*

*Changes in interest rates*

*Fluctuations in the price of steel products*

## Key Risks

**Competition from other industry players.** The building materials industry is fragmented, and UNITRAD competes with other suppliers ranging from small independent firms to larger public listed companies. In particular, the supply of pipes, valves, fittings and accessories, reinforcement steel, structural steel and other building materials is competitive due to a large number of industry players. UNITRAD competes with other industry players in terms of product pricing, range and quality of products, service offerings, ability to deliver on timely manner and availability of stock, amongst others.

**Its inventories are subject to the risk of impairment losses.** UNITRAD keeps inventories for up to 36 months, and conduct annual assessments of its inventory value. UNITRAD will impair slow moving inventories above 36 months and inventories where their net realisable value is below cost. Moreover, in the event there is a drop in steel prices, UNITRAD may experience impairment in the carrying amount of its inventories to the net realisable values which may affect the group's financial performance. Such impairments will result in a lower profitability and may affect UNITRAD's financial performance.

**Table 5: Impairment loss on inventories**

Impairment loss	FY19	FY20	FY21	8MFY22
Impairment loss on slow-moving inventories	1.79m	0.53m	1.92m	0.37m
Reversal of impairment loss on inventories	-0.05m	-0.09m	-0.07m	-

Source: Company Prospectus, PublicInvest Research

**Its receivables are subject to impairment loss or write off.** UNITRAD generally grants its customers credit periods between 30 to 120 days. In the event payment is not received within the credit period or default in payment by the customers, UNITRAD may provide impairment loss on trade receivables or write off trade receivables as bad debts, which may adversely affect the group's financial performance. As at 31 March 2022, trade receivables past due but not impaired amounts to RM12.5m or 3.5% of total receivables as at 30 Nov 2021.

**Table 6: Impairment loss on receivables**

Impairment loss	FY19	FY20	FY21	8MFY22
Impairment loss on trade receivables	11.171m	7.853m	5.062m	9.536m

Source: Company Prospectus, PublicInvest Research

**Foreign exchange fluctuation.** A depreciation of the RM against the USD will lead to higher costs of supplies and raw material in RM. As UNITRAD's sales are transacted predominantly in RM where over 99% of the group's revenue is derived locally, depreciation of the RM against the USD may ultimately affect the cost of the group's purchases and may affect the group's financial performance as it would reduce UNITRAD's gross profit margin if the group is unable to pass the costs to its customers in a timely manner.

**Changes in interest rates.** UNITRAD's exposure to changes in interest rate relates primarily to its bank borrowings. The group has entered into interest rate swap agreements in respect of its revolving credit facility. A sensitivity analysis performed on UNITRAD based on the outstanding floating rate of its bank borrowings as at 30 Nov 2021 indicates that UNITRAD's profit before taxation for 8MFY22 would increase or decrease by approximately RM1.1m, as a result of increase or decrease in interest rates by 100 basis points on these borrowings.

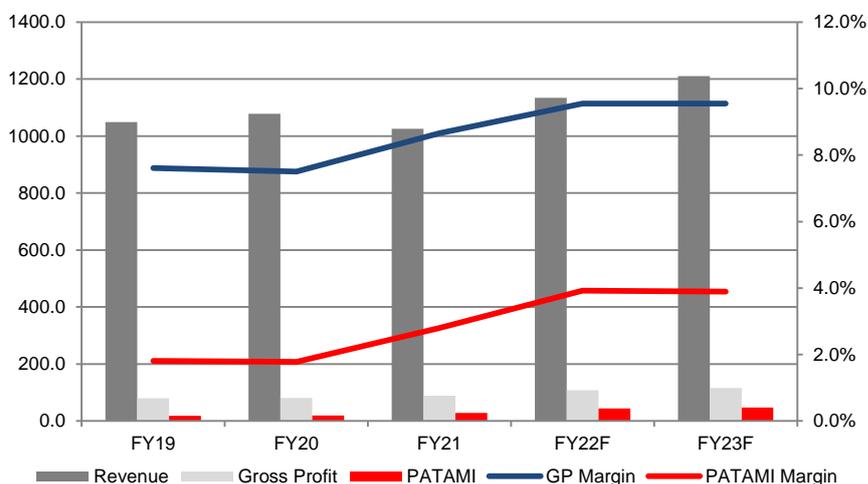
**Fluctuations in the price of steel products.** Increases in the price of steel may lead to a rise in UNITRAD's cost of sale as well as the group's carrying cost for maintaining its inventories. If UNITRAD is unable to pass on this increase in supply cost to its customers, the group will bear the increasing costs and this may have a material impact on its financial results. Conversely, decreasing steel prices will result in a similar drop in UNITRAD's selling prices and affect the net realisable value of its steel inventories. Should UNITRAD has purchased the steel inventories at a higher price, the group may suffer from narrowing margins.

## Financials

**Revenue bolstered by construction activities.** Recent data from Department of Statistics Malaysia has shown that 1QCY22 construction activities improved 16.8% YoY from 14,241 to 16,632 projects despite recording a decline of 4.5% QoQ basis. In terms of the value of construction activities, the sector expanded 6.6% QoQ from RM2.7bn to RM2.9bn. These indicators bode well with UNITRAD's wholesale and distribution of building materials business in conjunction of its expansion into pipe fabrication. The group recorded RM1,048.7m revenue in FY19. In the subsequent year, the group chalked 3% jump in revenue at RM1,077.6m in FY20 following the spike in steel demand resulting from COVID-19 outbreak. The group's revenue normalised to RM1,025.0m in FY21, a 5% decline YoY due to slowdown of construction activities and lockdowns. That said, we expect revenue and PATAMI to improve in FY22 by 11% and 55.1%, backed by high steel prices, its enhanced capacity to manage costs and widened products offering in addition to its business expansion into pipe fabrication.

Nonetheless, we expect the group to record revenue and PATAMI growth of 6.7% and 5.8% for FY23 respectively based on 10-year average construction GDP growth of 6.7% and profit margin of 9.6% at gross level.

**Figure 1: Revenue and profitability**



Source: Company Prospectus, PublicInvest Research

**Improved gearing.** Before the IPO, the group's gearing stood at 1.8x. Post IPO, the Group's indebtedness would drop 84 basis points to 0.96x. RM39.8m of the total funds raised from the exercise would be used to pare down its outstanding borrowings of RM390.6m as at 31 March 2022. The repayment is expected to result in annual interest savings ranging from RM0.9m to RM1.8m.

**Dividend policy.** While UNITRAD does not have a formal dividend policy, it is in the group's intention to recommend and distribute a payout ratio up to 30% in the future. As such, we forecast an annual dividend payout of 30%, which translates to a dividend yield of 2.6% and 2.7% for FY22F and 23F respectively.

## Valuation

**P/E valuation approach.** We picked Engtex Group, AYS Ventures and Chuan Huat Resources as UNITRAD's peers. We derive a fair value of RM0.34, pegging CY23F EPS of 3.1sen to PE multiple of 11x. We believe it is justifiable given the improving construction outlook and its strong specialty in the building materials wholesale and distribution in Malaysia. Going forward, the group's earnings are expected to be supported by elevated steel prices, its widened products offering and better cost management as a result of its warehouse expansion.

**Table 7: Peer Comparison**

Company Name	Market Cap (RM m)	Trailing PE (x)	P/BV (x)	ROA (%)	ROE (%)	Div Yield (%)
Engtex Group	306.8	13.3	0.4	5.7	10.7	1.1
AYS Ventures	203.5	7.5	0.6	11.3	29.7	5.7
Chuan Huat Resources	81.8	7.7	0.3	3.2	6.1	3.6
Unitrade Industries	500.0	9.4	1.5	4.6	12.4	2.6

Source: Bloomberg

## IPO Details

UNITRAD is seeking a listing with an enlarged issued and paid-up share capital of 1,562,500,000 shares on Bursa Malaysia's ACE Market. Pursuant to the IPO listing, the company's market capitalisation is RM500.0m based on its IPO price of RM0.32.

The IPO allocation, post-IPO share capital of UNITRAD and utilisation of IPO proceeds are shown in the following tables.

**Table 8: IPO allocation**

Categories	No. of shares	% of enlarged share capital
<b>Public Issue:</b>		
Malaysian public (via balloting)^	78,125,000	5.0
Eligible parties	63,500,000	4.1
Placement to selected investors by MITI*	117,187,500	7.5
Placement to selected investors	53,687,500	3.4
Subtotal	312,500,000	20.0
<b>Offer for sale:</b>		
Placement to selected investors by MITI*	78,125,000	5.0
Placement to selected investors	46,875,000	3.0
Sub-total	125,000,000	8.0
<b>Total</b>	<b>437,500,000</b>	<b>28.0</b>

Source: Company Prospectus

^ 50.0% shall be set aside for Bumiputera investors

\* Ministry of International Trade and Industry Malaysia

**Table 9: Post-IPO share capital**

	No. of shares
Issued share capital as at 29 April 2022	1,250,000,000
To be issued pursuant to the IPO	312,500,000
<b>Enlarged share capital upon listing</b>	<b>1,562,500,000</b>

Source: Company Prospectus

**Table 10: Utilisation of IPO proceeds\***

Details of utilisation	RM m	%
Working capital	50.5	50.5
Repayment of bank borrowings	39.8	39.8
Capital expenditure for pipe fabrication centre	5.0	5.0
Estimated listing expenses	4.7	4.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: Company Prospectus

\* based on RM0.32 for 312,500,000 new shares issued

## KEY FINANCIAL DATA

### INCOME STATEMENT DATA

FYE March (RM m)	2019A	2020A	2021A	2022F	2023F
Revenue	1048.7	1077.6	1025.0	1134.6	1210.6
Cost of Sales	-968.9	-996.7	-936.3	-1026.2	-1095.0
<b>Gross Profit</b>	<b>79.8</b>	<b>80.9</b>	<b>88.7</b>	<b>108.4</b>	<b>115.6</b>
Other Income	3.9	7.1	5.8	6.2	6.6
Administrative and Other Expenses	-32.9	-35.9	-39.7	-35.6	-39.9
Finance Costs	-13.9	-16.8	-13.9	-13.4	-10.6
Share of loss of equity accounted joint venture	-	-	-	-	-
<b>Profit Before Taxation</b>	<b>27.9</b>	<b>29.1</b>	<b>40.0</b>	<b>59.3</b>	<b>62.7</b>
Taxation	-6.9	-8.7	-10.9	-14.2	-15.1
Effective Tax Rate (%)	25%	30%	27%	24%	24%
<b>PATAMI</b>	<b>19.0</b>	<b>19.1</b>	<b>28.7</b>	<b>44.5</b>	<b>47.1</b>
<b>Growth (%)</b>					
Revenue	-	2.8	-4.9	10.7	6.7
Gross Profit	-	1.4	9.6	22.2	6.7
PATAMI	-	0.9	50.0	55.1	5.8

Source: Company Prospectus, PublicInvest Research estimates

### BALANCE SHEET DATA

FYE March (RMm)	2019A	2020A	2021A	2022F	2023F
Property, Plant and Equipment	46.5	152.8	166.9	184.1	201.9
Inventories	131.6	129.1	117.3	161.7	172.5
Trade and Other Receivables	315.7	384.3	427.1	438.7	468.1
Cash and Cash Equivalents	66.6	37.7	88.4	169.4	87.7
Other Assets	11.5	11.3	12.6	16.3	16.4
<b>Total Assets</b>	<b>571.9</b>	<b>715.2</b>	<b>812.3</b>	<b>970.2</b>	<b>946.6</b>
Trade and Other Payables	69.2	54.5	96.3	80.7	86.3
Borrowings	318.3	456.6	489.6	511.3	448.6
Deferred tax liabilities	1.4	1.8	1.5	2.3	2.3
Other Liabilities	-	0.3	1.6	13.1	13.1
<b>Total Liabilities</b>	<b>388.9</b>	<b>513.2</b>	<b>589.0</b>	<b>607.4</b>	<b>550.3</b>
<b>Shareholders' Equity</b>	<b>183.0</b>	<b>202.0</b>	<b>223.3</b>	<b>362.7</b>	<b>396.3</b>
<b>Total Equity and Liabilities</b>	<b>571.9</b>	<b>715.2</b>	<b>812.3</b>	<b>970.2</b>	<b>946.6</b>

Source: Company Prospectus, PublicInvest Research estimates

### PER SHARE DATA & RATIOS

FYE March	2019A	2020A	2021A	2022F	2023F
Book Value Per Share	0.1	0.1	0.1	0.2	0.3
NTA Per Share	0.4	0.5	0.5	0.6	0.6
EPS (Sen)	1.2	1.2	1.8	2.9	3.0
DPS (Sen)	-	-	-	0.9	0.9
Payout Ratio (%)	-	-	-	30.0	30.0
ROA (%)	3.3	2.7	3.5	4.6	5.0
ROE (%)	10.4	9.5	12.9	12.3	11.9

Source: Company Prospectus, PublicInvest Research estimates

## **RATING CLASSIFICATION**

### STOCKS

<b>OUTPERFORM</b>	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
<b>NEUTRAL</b>	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
<b>UNDERPERFORM</b>	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
<b>TRADING BUY</b>	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
<b>TRADING SELL</b>	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
<b>NOT RATED</b>	The stock is not within regular research coverage.

### SECTOR

<b>OVERWEIGHT</b>	The sector is expected to outperform a relevant benchmark over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform a relevant benchmark over the next 12 months.

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#### **Published and printed by:**

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