



MERCURY SECURITIES SDN BHD

(A Participating Organisation of Bursa Malaysia Securities Berhad)

HPMT Holdings Bhd

“Initial Public Offering – Main Market”

BACKGROUND

HPMT Holdings Bhd (HPMT) Group principally involved in:

1. the manufacturing and distribution of cutting tools;
2. trading of third party cutting tools, supporting equipment; and
3. accessories for metalworking and provision of physical vapour deposition coating services.

INVESTMENT MERITS

1. 40 years of proven track record in the cutting tools industry;
2. competent and skilled workforce;
3. extensive portfolio of products caters to various end-users;
4. sales network in more than 30 countries, with particular focus in Europe and Asia; and
5. in-house R&D provide crucial support to product development initiatives

VALUATION/RECOMMENDATION

HPMT's prospects is positive as global cutting tools market is expected to embark on expansionary trend with forecast CAGR of 3.9% from 2019 to 2023 and we believe HPMT is well position to capture the demand growth and expand its market share for local as well as export market..

We have a subscribe recommendation with a target price of RM0.71 derived based on 12.0x PE of our estimated EPS of 5.9 sen for FY20E. The target price represents a potential return of 26.0% over the IPO price.

EARNINGS SUMMARY

FY 31 Dec (RM m)	2017	2018	2019	2020	2021
Revenue	85.2	85.3	95.8	115.9	129.7
EBITDA	20.7	17.9	21.9	31.3	32.4
Core Net Profit	15.8	9.4	12.9	19.3	19.2
Core EPS (sen)	4.8	2.9	3.9	5.9	5.9
Core EPS Growth (%)	55.4	-40.5	37.7	49.3	-0.4
Net DPS (Sen)	0.0	0.0	1.2	0.0	0.0
Core PE	11.7	19.6	14.2	9.5	9.6
Dividend Yield (%)	-	-	2.1	3.1	3.1
Debt/Equity (%)	0.3	0.3	0.3	0.3	0.3
ROA (%)	13.9	5.4	7.1	10.0	9.6
ROE (%)	23.5	8.3	10.6	14.2	12.9
NTA per share (RM)	0.2	0.3	0.4	0.4	0.5
Price to NTA (x)	2.9	1.6	1.5	1.4	1.2

IPO Report

Friday, 24th May 2019

MAIN MARKET

Industrial Products & Services

SUBSCRIBE

IPO Price	:	RM 0.56
Fair Value (FV)	:	RM 0.71
FV Upside	:	26%

LISTING DETAILS

Issuer Manager	:	Hong Leong Investment Bank
Fund Raised (RM m)	:	42.3
Shares on Offer (m)	:	41.1
New Shares (m)	:	75.6
Listing	:	12 th Jun'19

POST LISTING

Ordinary Share (m)	:	328.5
Mkt Cap (RM m)	:	184.0
Est Free Float	:	37.4%
P/E	:	15.1
P/B	:	1.6

MAJOR SHAREHOLDERS

HPMT Capital	:	62.6%
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**DETAILS OF IPO**

IPO at an issue price of RM0.56 per IPO Share comprise of a total of 116.6m shares, representing 35.5% of the enlarged issued and paid-up share capital of HPMT.

Fig 1: Details of IPO:

	Public issue (m)	Offer for sale (m)	Total (m)	(%)
Retail Offering:				
(i) Malaysian Public	16.4	-	16.4	5.0%
(ii) Eligible Persons	8.3	-	8.3	2.5%
Institutional Offering (by way of private placement):				
(iii) Institutional and selected investors	50.8	8.2	59.0	18.0%
(iv) Bumiputera investors approved by the MITI	-	32.8	32.8	10.0%
Total	75.6	41.1	116.6	35.5%

Source: Company

OVERVIEW OF THE GROUP

HPMT history can be traced back to the formation of Herroz in 1978 by founder Ku He @ Khoo Yee Her. Back then, Herroz was principally involved in the trading of cutting tools and other supporting equipment and accessories in Malaysia.

In 2000, its manufacturing arm namely HPMT Industries began undertaking cutting tools regrinding and modification services and venture into cutting tools manufacturing, started with manufacturing of customised tools that were mainly utilised in the production of electronic and computer components.

In 2001, the Group launched its own standard milling tools under its own HPMT brand name using solid tungsten carbide rods as its main raw material.

In 2004, as business grew, the Group relocated all its business operations to manufacturing facility in Shah Alam.

In 2005, participated EMO exhibition in Germany and begin expansion in other European countries.

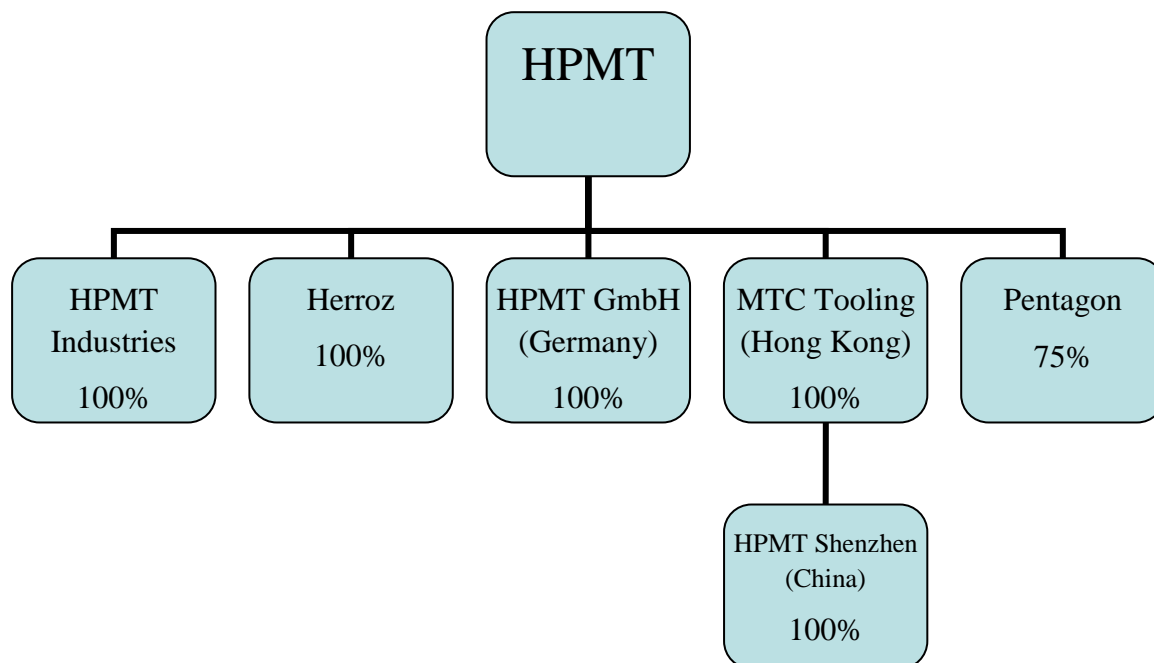
In 2006, set up new subsidiary in Shenzhen, China to better service customers in Southern China market.

In 2011, established HPMT GmbH, distribution and trading company in Germany to further strengthen presence in European market.

In 2016, set up in-house PVD coating facility to undertake coating services for its cutting tools manufactured.

In 2017, established Pentagon (75%-owned subsidiary) to provide coating service to its manufacturing unit, other local cutting tool manufacturers and other industries.

Fig 2: The Group structure upon listing



Source: Company

Fig 3: Board of Directors and Key Management

Name	Position
1. Ku He @ Khoo Yee Her	Executive Chairman / Promoter and Substantial Shareholder
2. Khoo Seng Giap	Managing Director and Promoter
3. Tan Kim Chuan	Executive Director/CFO
4. Dato' Khoo Ah Chye	Non-independent Non-Executive Director and Promoter
5. Peter Ho Kok Wai	Senior Independent Non-Executive Director
6. Chua Put Moy	Independent Non-Executive Director
7. Lee Ee Sian	Independent Non-Executive Director
8. Oei Kok Eong	Independent Non-Executive Director

Source: Company



Fig 4: Revenue segmented by business activities and products

Business Activities and Products	Revenue							
	FY 15A		FY 16A		FY 17A		FY 18A	
	RM m	%	RM m	%	RM m	%	RM m	%
Manufacturing								
Standard tools	47.9	69.6%	51.5	68.5%	57.1	67.1%	56.1	65.8%
special tools	17.4	25.3%	20.2	26.9%	23.0	27.0%	21.5	25.2%
sub-total	65.4	94.9%	71.7	95.4%	80.1	94.1%	77.6	91.0%
Trading	3.5	5.1%	3.5	4.6%	4.3	5.0%	5.5	6.5%
Coating	-	0.0%	-	0.0%	0.8	0.9%	2.1	2.5%
Total	68.9	100.0%	75.2	100.0%	85.1	100.0%	85.3	100.0%

Source: Company

The Group's revenue derived mainly from the Manufacturing, which accounted for more than 90.0% of Group's total revenue for the past 4 financial years.

Fig 5: Revenue segmented by principal markets

Principal markets	Revenue							
	FY 15A		FY 16A		FY 17A		FY 18A	
	RM m	%	RM m	%	RM m	%	RM m	%
Malaysia	8.9	12.9%	11.2	14.9%	13.5	15.9%	17.0	19.9%
Overseas								
Europe	32.5	47.2%	34.4	45.8%	41.7	48.9%	43.2	50.7%
Asia (excluding Malaysia)	27.2	39.5%	29.3	39.0%	29.6	34.8%	24.7	28.9%
Others	0.3	0.4%	0.2	0.3%	0.3	0.4%	0.4	0.5%
Total	68.9	100.0%	75.2	100.0%	85.2	100.0%	85.3	100.0%

The growth and expansion of the Group has historically occurred in Asia and Europe market, accounted for approximately 50% respectively of total revenue.

FUTURE PLANS AND STRATEGIES

HPMT intends to grow its business organically via following plans and strategies:

Expand production capacity

Currently own and operate 53 CNC universal grinding machines and 11 CNC cylindrical grinding machine, intend to increase production capacity from 148,200 pieces per month as at 31 Dec'18 to 212,600 pieces per month as at 31 Dec'21 by purchasing 18 additional CNC universal grinding machines as well as other supporting machineries and equipment, namely 3 additional CNC cylindrical grinding machines, 1 CNC vertical machining center, 10 filtration systems and 1 measurement equipment, which are expected to be delivered progressively from 2019 to 2021.

Develop sales network

Expand sales team in Malaysia, Germany, Hong Kong and/or China to support business expansion and keep higher inventory of finished goods to improve stock availability with the aim to fulfilling customers' orders more promptly.

Develop products and services

Intend to continue develop new or enhanced products to better meet customers' evolving requirement and preferences.



UTILISATION OF PROCEEDS

The total gross proceeds from the IPO of RM42.3m will be utilised in the following manner:

No.	Details of utilisation of proceeds	Estimated timeframe	RM'm	%
1.	Purchase of new machineries and equipment	Within 36 months	34.0	80.4
2.	Working capital	Within 24 months	2.9	6.9
3.	Estimated listing expenses	Immediate	5.4	12.8
Total gross proceeds			42.3	100.0

Source: Company

The bulk of IPO proceed is allocated for the purposes of **purchase of new machineries and equipment**. Monthly production capacity is expected to increase at 3 years CAGR of 12.8% from 148,200 pieces as at 31 Dec 2018 to 212,600 pieces of cutting tools per month by 31 Dec 2021.

DIVIDEND POLICY

HPMT intend to adopt dividend policy with dividend payout of approximately 30% of PATMI.

RISK FACTORS

Major risks relating to HPMT are as follows:

1. FOREX fluctuation
2. Raw material availability and price fluctuations
3. Dependence on key management and skilled personnel
4. Absence of long-term contracts with customers
5. Failure to develop competitive products and develop sales network
6. Dependence on top 5 customers

VALUATION/RECOMMENDATION

At IPO price of RM0.56 per IPO Share, HPMT is valued at 19.6x core PE based on FY18A core EPS of 2.9 cents, and representing P/B of 1.6x based on pro-forma consolidated NA per share upon listing.

We have a subscribe recommendation with a target price of RM0.71 derived based on 12.0x PE of our estimated FY20E EPS of 5.9 sen. The target price represents a potential return of 26.0% over the IPO price.



Recommendation Framework

Subscribe	The stock's total return is expected to be +10% or better over the next 12 months.
Neutral	The stock's total return is expected to be within +/-10% over the next 12 months.
Do Not Subscribe	The stock's total return is expected to be -10% or worse over the next 12 months.

DISCLAIMER

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