Malaysia

ADD *(initiation)*

Consensus ratings*:	Buy 0	Hold 1	Sell 0

Current price:	RM0.38
Target price:	RM0.44
Previous target:	*NA*
Up/downside:	15.8%
CGS-CIMB / Consensus:	18.9%
Reuters:	DNCO.KL
Bloomberg:	DMEC MK
Market cap:	US$36.93m
	RM168.2m
Average daily turnover:	US$0.02m
	RM0.07m
Current shares o/s:	442.6m
Free float:	47.7%

**Source: Bloomberg*

Key changes in this note

- N/A

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-5	-6.2	-36.1
Relative (%)	-0.7	-4.9	-30.1

Major shareholders	% held
ABC EQUITY SDN BHD	39.5
AIK SWEE TONG	6.4
AIK CWO CHING	6.4

Analyst(s)

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Dancomech Bhd

Leader in industrial valves and equipment

- We initiate coverage on Danco, a leading domestic player in process control equipment as at FY21, with Add and RM0.44 TP (10x CY23F P/E).
- We project FY21-24F core net profit CAGR of 9.8%, driven by stable and recurring earnings, exclusive tie-ups with global brands and M&A potential.
- We think current valuations are attractive at 8.6x CY23F P/E, a 15.8% discount to its net tangible assets (NTA) with net cash of 19.2 sen/share.

Leading provider of process control equipment

Listed on the Bursa Malaysia, Dancomech's (Danco) core business is trading and distribution of process control equipment (40.3% of FY21 revenue). In our view, the beauty of this segment lies in its stream of recurring revenue (4-year revenue CAGR of 7.4% for FY17-21), backed by demand from maintenance works (65% of FY21 sales) as well as new projects (35%) in the petrochemical and palm oil sectors. Its competitive strengths are its: i) value-added services, i.e. consulting, ii) exclusive tie-ups with global brands, and iii) broad clientele (vs. just hardware/retailers). This allows it to post better GP margin (FY19-21: 28-36.7%) vs. typical trading business (we estimate 10-15%).

Growth to be driven by acquired subsidiaries

We expect Danco's future revenue growth to be driven by its revenue diversification strategy, with four acquired subsidiaries since its IPO in 2016. We see strong growth potential in two key subsidiaries: metal stamping and electronic & electrical (E&E) engineering. For the metal stamping division (we estimate 3-year topline CAGR of 17.4% in FY21-24F), we believe Danco will likely to grow its capacity by 15-20% towards end-FY22F, backed by strong demand from its existing clients and ongoing efforts to secure potential new ones. It also expects substantial contribution from its E&E engineering division (we estimate 3-year topline CAGR of 45.8% in FY21-24F), backed by a robust orderbook (we estimate at total RM7m up to end-CY23F).

Undemanding valuations with strong balance sheet

We estimate Danco is currently trading at an undemanding 8.6x CY23F P/E, a 14% discount to its 5-year historical mean (10.2x). Also, it is trading at a 15.8% discount to its net tangible assets (NTA) of 44 sen/share. It is in a net cash position of RM85.0m (as at 30 June 2022), at 50.5% of its market cap. This will support its attractive dividend yields of 5.1-5.9% for FY22-24F, in our view. We also believe its strong cash position provides opportunities for Danco to seek out more earnings-accretive M&A deals.

Initiate coverage with Add, TP of RM0.44 (10x CY23F P/E)

We expect Danco to post a core net profit CAGR of 9.8% in FY21-24F, backed by: i) recovery in sales in its trading division from the Covid-19 pandemic period (3-year CAGR of 8.7% for FY21-24F) and ii) higher contribution from other subsidiaries (mainly metal stamping and E&E engineering). We initiate coverage on Danco with an Add call and TP of RM0.44 (10x CY23F P/E, near its 5-year historical mean). Re-rating catalyst: better-than-expected sales. Downside risks: spike in input costs and lower sales volume.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (RMm)	118.8	205.4	212.7	231.3	257.5
Operating EBITDA (RMm)	22.61	30.42	32.92	36.72	41.08
Net Profit (RMm)	15.78	16.59	17.21	19.46	22.01
Core EPS (RM)	0.051	0.052	0.044	0.044	0.050
Core EPS Growth	8.7%	0.9%	(14.4%)	(1.0%)	13.1%
FD Core P/E (x)	7.39	7.33	8.56	8.64	7.64
DPS (RM)	0.020	0.022	0.020	0.020	0.022
Dividend Yield	5.32%	5.86%	5.14%	5.21%	5.89%
EV/EBITDA (x)	3.82	2.58	2.06	2.28	1.91
P/FCFE (x)	13.49	12.69	9.44	8.65	7.97
Net Gearing	(28.0%)	(34.5%)	(45.4%)	(46.7%)	(47.6%)
P/BV (x)	0.84	0.80	0.84	0.80	0.75
ROE	11.7%	11.1%	9.6%	9.5%	10.1%
% Change In Core EPS Estimates					
CGS-CIMB/Consensus EPS (x)			1.35	1.19	1.21

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

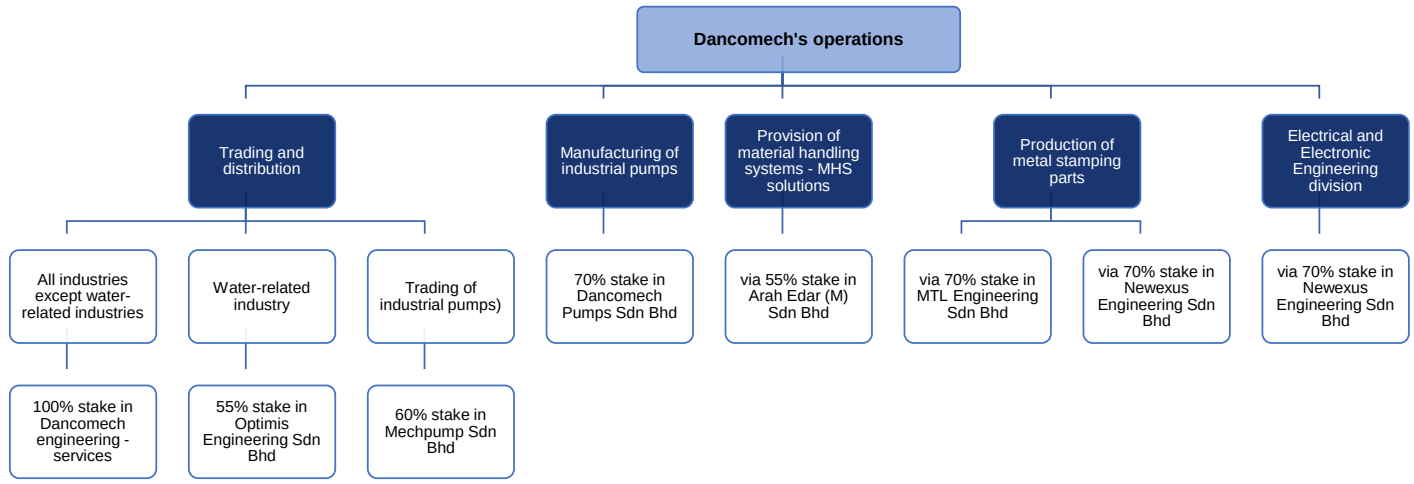
Leader in industrial valves and equipment

INVESTMENT THESIS

Trading remains its core business segment

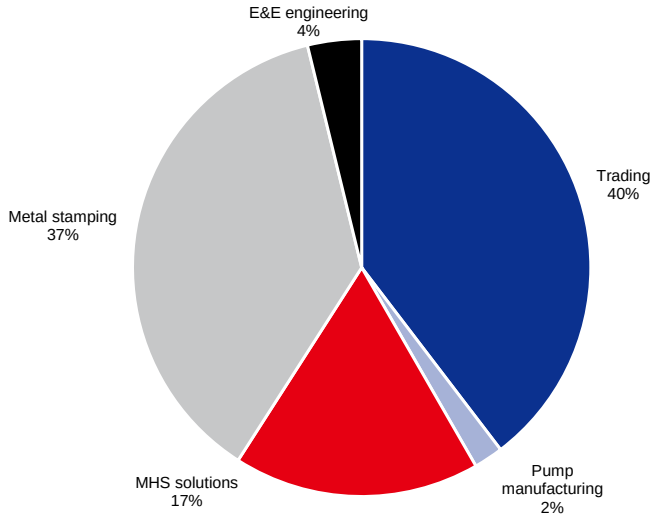
Listed on the main market of Bursa Malaysia, Dancomech Holdings Berhad (Danco) was founded in 1989 by its current managing director and major shareholder, Aik Swee Tong. The company's core business is the trading and distribution of process control equipment and measurement instruments (generally referred to as the trading division). Over the past few years, Danco has also expanded its product and service offerings (mainly through M&A activities) into various other segments, such as: i) manufacturing of industrial pumps and provision of material handling systems (MHS), ii) metal stamping, and iii) electrical and electronic (specifically involved in the engineering, contracting, commissioning and servicing of electrical, electronic, and instrumentation equipment). Danco has showed robust performance, with a 4-year CAGR (FY17-21) for revenue and core net profit of 26.4% and 9.4%, respectively.

Figure 1: Danco's operations breakdown and its subsidiaries as at FY21



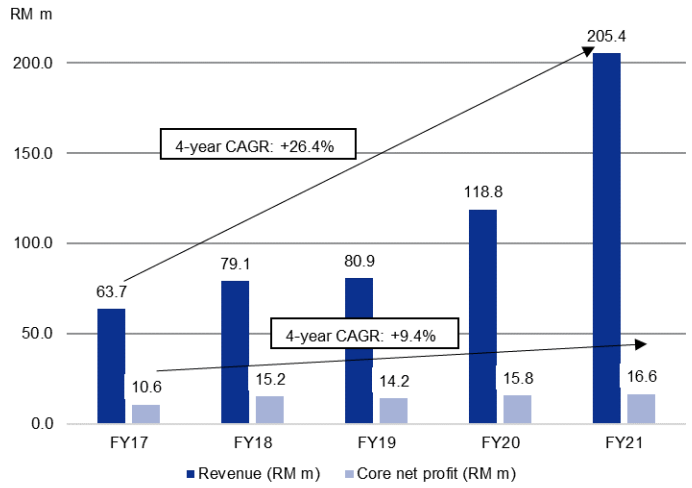
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Revenue breakdown by segment (FY21)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: 4-year CAGR (FY17-21) for revenue and core net profit of 26.4% and 9.4%, respectively



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

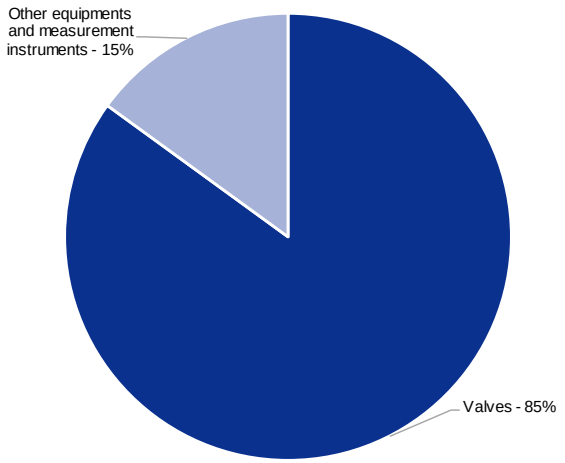
Beneficiary of growing demand for process control equipment and solutions in the ASEAN region

Under the trading division, Danco's products are mainly used in process control and industrial automation. According to the ASEAN Investment Report prepared in 2021 by the Asean Secretariat and United Nations Conference on Trade and Development, the global value of equipment and solutions for process control is expected to post a CAGR of 7.8% (over 2019-2025F) to reach US$5bn in 2025F. Hence, we believe the trading division is poised to benefit from growing demand in the ASEAN region.

Also, the market value for industrial valves (which we estimate made up 85% of 1HFY22 sales in the trading division) in Asia Pacific is estimated to deliver a CAGR of more than 5% (2022-2027F) from US$19.1bn in 2021. This will be mainly driven by growing demand in various industries, such as petrochemical, oil and gas, and plantation. As a case in point, a recent petrochemicals report published by the International Energy Agency (IEA) stated that nearly all regions (except Europe) may increase the production of primary chemicals by 2050F. In China alone, more than 512 petrochemical projects are expected to commence over 2021-2025F (based on International Energy Agency report).

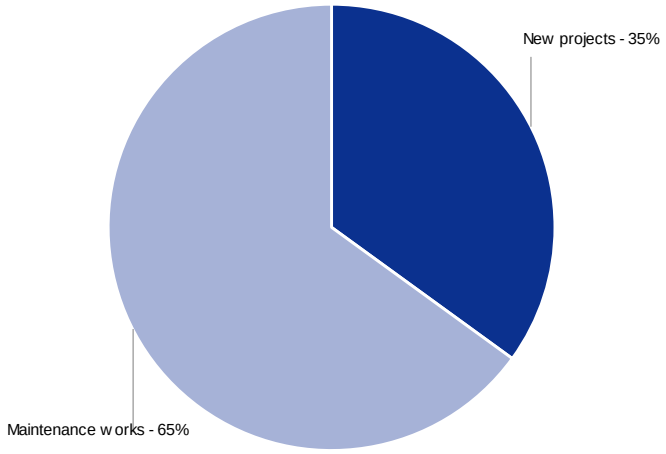
In our view, Danco has well-positioned itself in various industries to benefit from demand for its products, especially in the: i) palm oil, ii) oil and gas, iii) petrochemical, and iv) water treatment and sewerage industries. This allows Danco to benefit from both recurring (replacement for maintenance usage) and new demand (greenfield investment projects).

Figure 4: 1HFY22 revenue breakdown by key selling products in Danco's trading division (CGS-CIMB Research estimates)



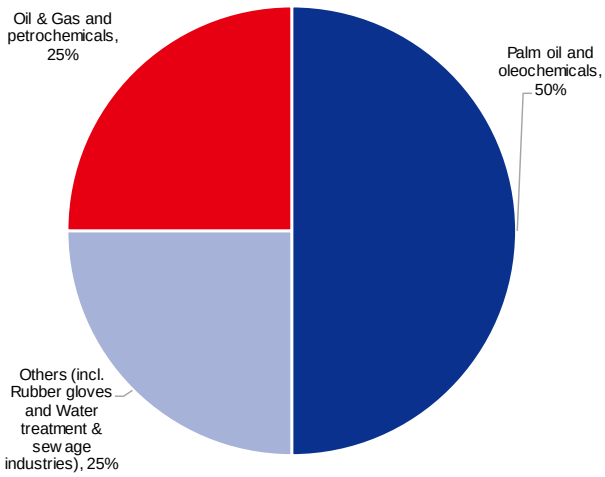
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: 1HFY22 revenue breakdown by new projects and maintenance works in Danco's trading division (CGS-CIMB Research estimates)



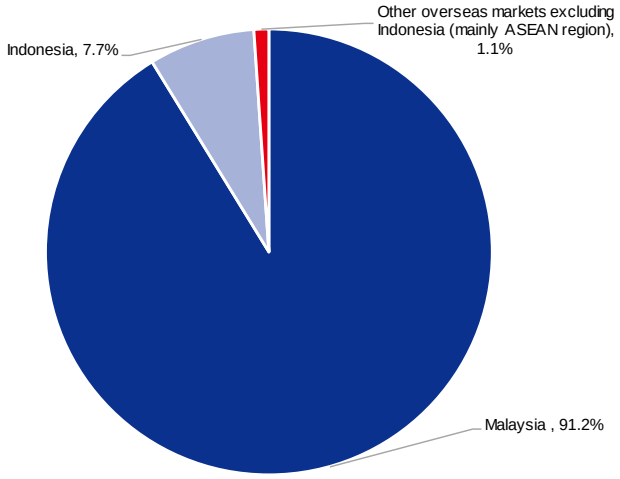
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 6: Revenue breakdown by industry in the Danco's trading division in 1HFY22 (CGS-CIMB Research estimates)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 7: Danco's 1HFY22 revenue breakdown by country (incl. all divisions) - as per reported in its 2Q22 financials



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

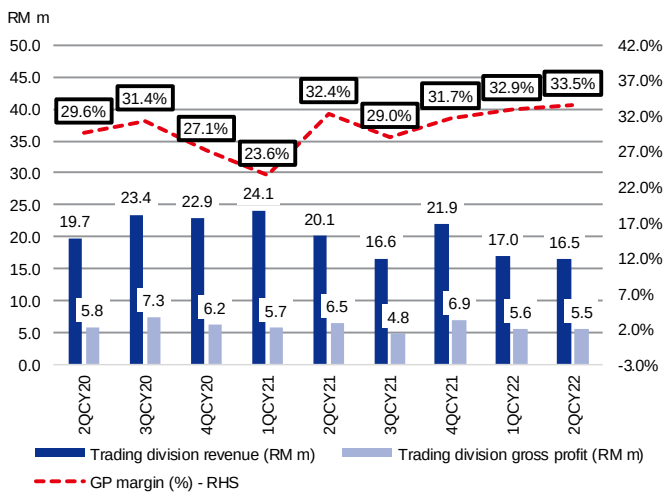
Economic moat built over the years leads to high gross profit margins ➤

In the trading segment, we believe that Danco has a competitive edge compared to its peers, led by its management's more than 20 years of experience in this segment and strong customer profile amassed across the years. Its track record in the market has also enabled Danco to build strong relationships (both exclusive and non-exclusive distributorships) with various renowned global brands (Fig 34). In addition, Danco has its own in-house brands (for customers that are less brand conscious and more price sensitive) that are outsourced to fabricators in China and Taiwan. Given its wide product portfolio encompassing multiple brands (different price points) to cater to diverse needs, the company is an attractive proposition for its clients, in our view.

On an interesting note, Danco's GP margins for this segment were relatively high (28-36.7%) across FY17-21. We attribute this to several factors:

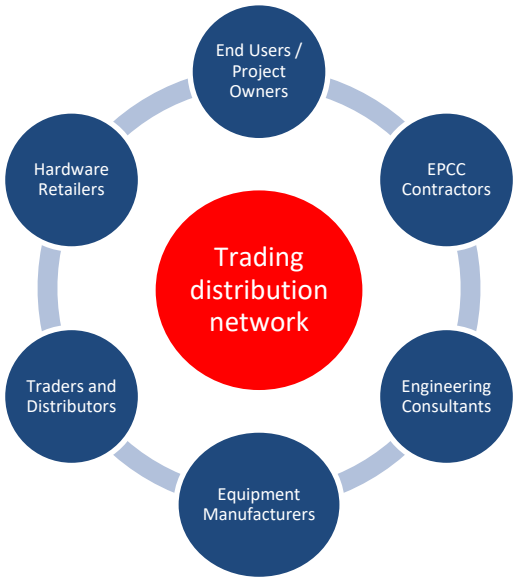
1. Danco is a sole distributor for several of its process control equipment (PCE) products (mainly valves), with accredited business partnerships/relationships for more than 10 years. This enables Danco to have a certain monopoly over products of a specific brand, with better margins from brand owners and better inventory supply in its operating markets.
2. It provides value-added services, such as consultancy services and customisable solutions, based on customers' needs and budget, rather than just being a trading company and/or distributor.
3. Rather than solely depending on demand from distributors and retailers, Danco serves a broad customer base that includes: i) end-user project owners, ii) equipment manufacturers, iii) engineering consultants, and iv) engineering, procurement, construction, commissioning (EPCC) contracts. Catering directly to end-customers and cutting out middlemen (hardware shops) allow Danco to generate better margins.

Figure 8: Gross profit margins for its trading business



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 9: Wide trading distribution network



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Benefitting from its revenue diversification strategy – Strong growth expected from metal stamping and E&E engineering

Since FY18, Danco has shown a penchant for M&A activities, acquiring four subsidiaries in the past four years. We note that the acquisitions have managed to grow Danco's top- and bottomlines over the period and have been EPS accretive for shareholders. Going forward, we see strong potential from two of its acquired subsidiaries, E&E engineering and metal stamping, as key growth drivers for Danco in FY22-24F.

1. E&E engineering via UTC (acquired on 15 Apr 2021, 55% equity stake for a cash consideration of RM2.8m)

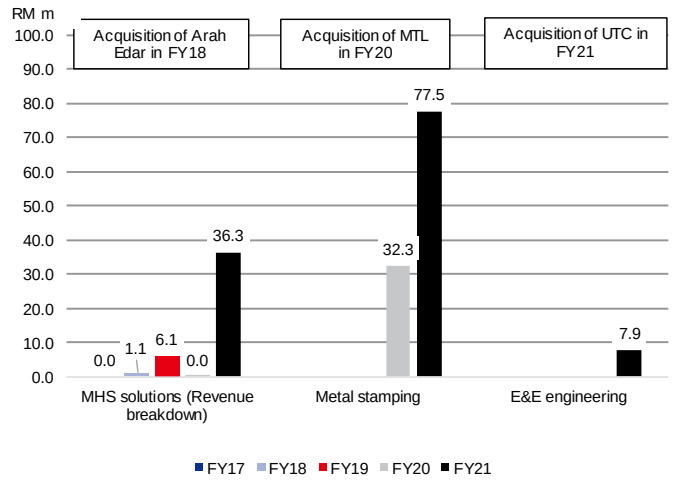
UTC is mainly involved in the business of distribution of E&E engineering-related machinery. As part of its acquisition, UTC is providing Danco with a profit guarantee agreement of a total of RM5m for the cumulative period FY22-26F (average annual net profit of RM1m). In our view, this acquisition is quite synergistic in value as this business is also engineering-related. With this acquisition, Danco will have an accelerated entry into the E&E engineering business, riding on the positive outlook for the power generation, transmission and control equipment market (e.g. transformers and power gauges), which The Business Research Company expects to reach global annual sales of US$82.5bn (RM376.5bn) by 2025F. While we understand the E&E engineering division contributed 3.9% (RM7.95m) to Danco's FY21 revenue, which implies <0.01% market share of global annual sales (RM376.5m) estimated by The Business Research Company data, we believe Danco is poised to gain market share as it expands overseas.

2. Metal stamping division via MTL (acquired on 3 Aug 2020, 70% equity stake for a cash consideration of RM23.8m, implied P/E of 6.8x MTL's FY19 earnings).

MTL is involved in producing metal stamping parts and components to manufacturers of heating, ventilation and air conditioning (HVAC) and metal furniture products. Currently, Danco's major customers in this division are mostly from the air-conditioning industry, e.g. Daikin and Panasonic, which we estimate contributed up to 90% of the division's FY21 revenue (based on its business description at MTL official website). While this segment is generally a volume-driven business with lower margins, Danco still sees strong growth prospects. Also, we understand that all of its capacity for this segment has been fully taken-up by existing customers. As a result, we expect Danco will likely expand capacity

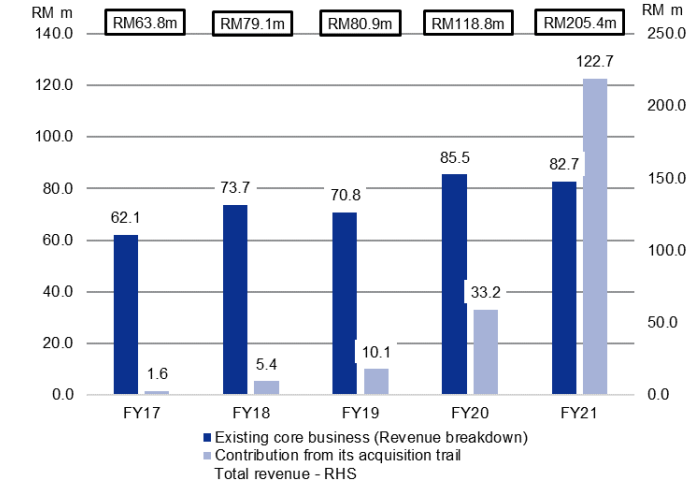
in this segment by 15-20% by end-FY22F to cater to the robust demand from its existing and potential customers

Figure 10: Segmental revenue breakdown for its acquisition trails



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 11: Revenue from newly acquired business exceeded core business in FY21



Note: represents total sales revenue (RM m).

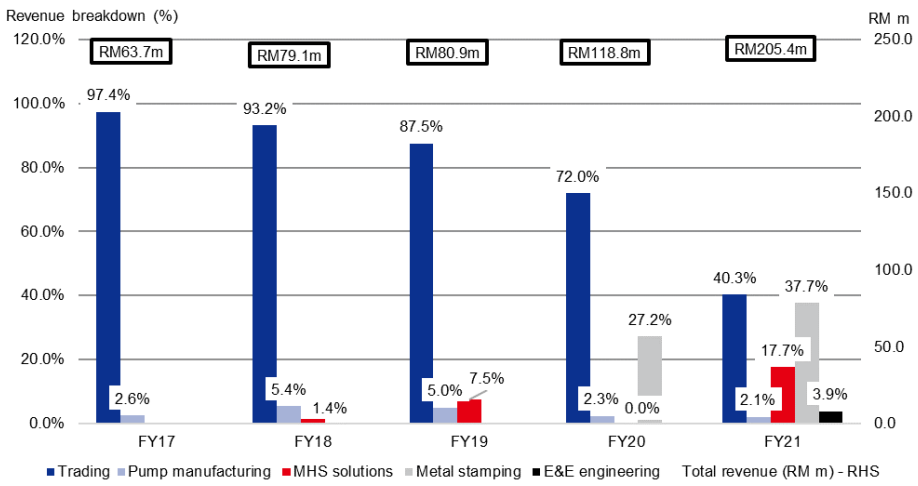
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Actively seeking more M&A opportunities to drive growth »

With its strong net cash position, we believe that Danco will still likely be on the hunt for synergistic acquisitions. Based on its past historical acquisition track record, we think the new potential acquisitions should mainly be involved in businesses that are relevant to its current operations and which can add value to its services and/or product offerings. We note that Danco has successfully acquired four new businesses in the past four years (refer to Fig 12), which highlights its ability to enhance its profitability while adding value to the businesses it acquired. Based on its M&A track record, Danco tends to take a controlling stake in a company while ensuring that the previous management team remains in charge of operations. We believe that Danco will continue to employ an M&A strategy to further grow its business.

We are positive on its growth strategy as this not only provides the company more exposure to different industries but also enhances its ability to manufacture in-house processed parts and components (that help to reduce the risk of dependency on a few major customers and suppliers).

Figure 12: Acquisition strategy for revenue diversification



Note: represents total sales revenue (RM m).

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Forecasting a core net profit CAGR of 9.8% (FY21-24F) »

We expect Danco to record a 3-year core net profit CAGR of 9.8% (FY21-24F). Note that our core net profit or EPS excludes one-off items such as gains/losses from forex, disposals/write-downs of fixed assets/inventories/subsidiaries, government grants and rental rebates. We believe this will be underpinned by a 3-year revenue growth CAGR of 7.8% over the same period, driven by 3-year revenue CAGR for its various segments of:

i) 45.8% in E&E engineering revenue (FY21-24F),

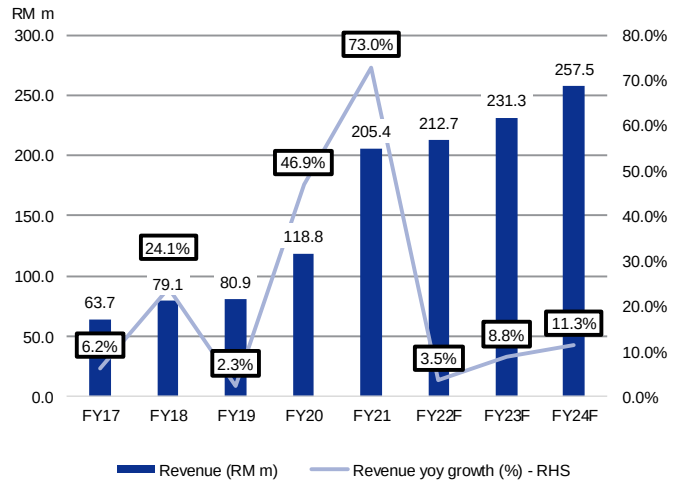
ii) 17.4% in metal stamping revenue (FY21-24F), and

iii) 8.7% in trading revenue (FY21-24F)

This is expected, in our view, to offset slower demand from its other two divisions: i) MHS solutions and ii) pump manufacturing. At this juncture, we think that these two segments have minimal orders and are not expected to contribute meaningfully to the company's financials in the next three years. Note that our revenue forecasts for FY22-24F do not include any significant contract wins in the pump and MHS solutions segments.

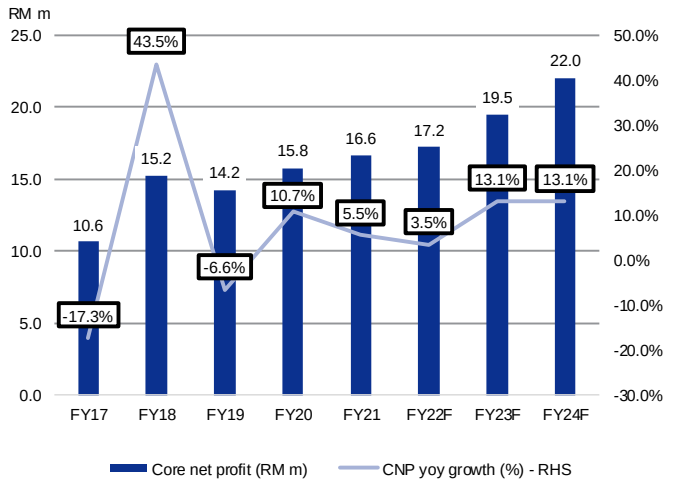
In terms of margins, we expect Danco's EBITDA margins in FY22-24F to hover around 15.5-16.0%. We note that this is lower than its EBITDA margins of 14.8-25.9% in FY17-21, owing to: i) higher contribution from the metal stamping division, which has lower margins, and ii) minimal contribution from MHS solutions and pump manufacturing divisions (higher-than-average margins).

Figure 13: Forecasting 3-year revenue CAGR of 7.8% in FY21-24F



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 14: We expect a robust 3-year core net profit CAGR of 9.8% in FY21-24F



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 15: Breakdown of actual and forecast revenue

Revenue key forecasts	FY19	FY20	FY21	FY22F	FY23F	FY24F
Segmental revenue (Total, RM m)	**80.9**	**118.8**	**205.4**	**212.7**	**231.3**	**257.5**
Trading (RM m)	*70.8*	*85.5*	*82.7*	*91.0*	*98.7*	*106.1*
Pump manufacturing (RM m)	*4.0*	*2.8*	*4.3*	*4.7*	*5.0*	*5.4*
MHS solutions (RM m)	*6.1*	*0.0*	*36.3*	*0.0*	*0.0*	*0.0*
Metal stamping (RM m)	*NA*	*32.3*	*77.5*	*108.5*	*113.9*	*125.3*
E&E engineering (RM m)	*NA*	*NA*	*7.9*	*11.9*	*17.3*	*24.6*
Others (RM m, investment holding)	*NA*	*0.3*	*0.4*	*0.5*	*0.5*	*0.6*
Elimination (RM m)	*NA*	*-2.1*	*-3.6*	*-3.8*	*-4.1*	*-4.5*
Segmental revenue growth (%)	**2.3%**	**46.9%**	**73.0%**	**3.5%**	**8.8%**	**11.3%**
Trading	*-4.0%*	*20.9%*	*-3.3%*	*10.0%*	*8.5%*	*7.5%*
Pump manufacturing	*-5.6%*	*-31.0%*	*54.6%*	*8.0%*	*8.0%*	*8.0%*
MHS solutions	*455.0%*	*-99.9%*	*>100.0%*	*NA*	*NA*	*NA*
Metal stamping	*NA*	*NA*	*140.2%*	*40.0%*	*5.0%*	*10.0%*
E&E engineering	*NA*	*NA*	*NA*	*50.0%*	*45.0%*	*42.5%*
Others (investment holding)	*NA*	*NA*	*19.8%*	*20.0%*	*15.0%*	*12.5%*
Elimination	*NA*	*NA*	*69.9%*	*3.5%*	*8.8%*	*11.3%*

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 16: Breakdown of actual and forecast gross profit and gross profit margin

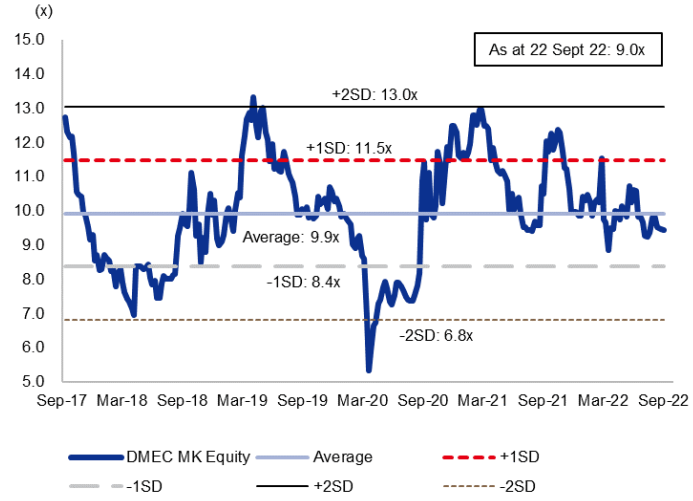
GP margin key forecasts	FY19	FY20	FY21	FY22F	FY23F	FY24F
Gross profit, GP (RM m, total)	**28.4**	**30.6**	**41.9**	**44.9**	**49.9**	**56.0**
Margins (%)	*35.1%*	*25.8%*	*20.4%*	*21.1%*	*21.6%*	*21.8%*
Growth (%)	*NA*	*7.9%*	*36.9%*	*7.3%*	*11.1%*	*12.2%*
GP Breakdown						
Trading GP (RM m)	**25.8**	**25.9**	**24.0**	**30.0**	**32.7**	**35.3**
Margins (%)	*36.5%*	*30.3%*	*29.0%*	*33.0%*	*33.2%*	*33.3%*
Growth (%)	*NA*	*0.4%*	*(7.7%)*	*25.3%*	*9.0%*	*8.0%*
Pump manufacturing GP (RM m)	**0.8**	**0.4**	**1.0**	**0.7**	**0.8**	**1.0**
Margins (%)	*19.7%*	*14.2%*	*24.1%*	*15.0%*	*16.5%*	*18.0%*
Growth (%)	*NA*	*(50.3%)*	*162.1%*	*(32.8%)*	*18.8%*	*17.8%*
MHS solutions GP (RM m)	**1.7**	**0.0**	**6.2**	**0.0**	**0.0**	**0.0**
Margins (%)	*28.6%*	*16.1%*	*17.0%*	*NA*	*NA*	*NA*
Growth (%)	*NA*	*(99.9%)*	*>100.0%*	*NA*	*NA*	*NA*
Metal stamping GP (RM m)	**NA**	**4.3**	**8.5**	**10.9**	**11.5**	**12.8**
Margins (%)	*NA*	*13.2%*	*11.0%*	*10.0%*	*10.1%*	*10.2%*
Growth (%)	*NA*	*NA*	*100.2%*	*27.3%*	*6.0%*	*11.1%*
E&E engineering GP (RM m)	**NA**	**NA**	**2.2**	**3.3**	**4.8**	**6.9**
Margins (%)	*NA*	*NA*	*27.8%*	*28.0%*	*28.0%*	*28.0%*
Growth (%)	*NA*	*NA*	*NA*	*51.3%*	*45.0%*	*42.5%*

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Undemanding valuations; steep discount to NTA despite being a growth company ➤

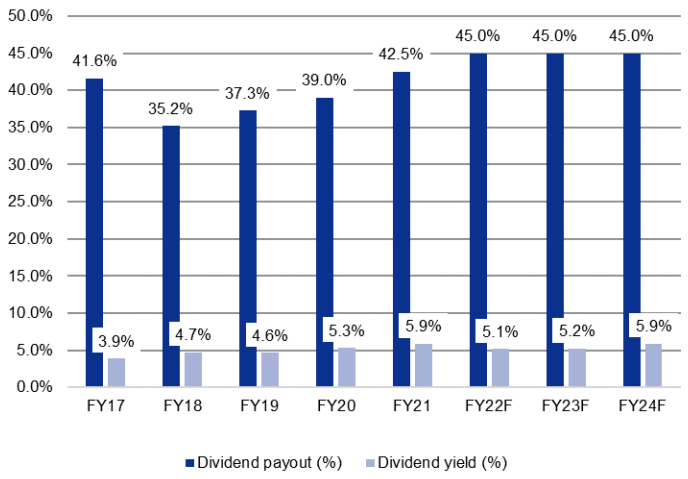
In spite of our forecast 3-year core net profit growth of 9.8% for Danco, we note that the stock is trading at a 15.7% discount to the 5-year historical average (10.2x). We believe the discount is due to low liquidity as the average daily trading value of the stock over the past 12 month was only RM0.07m . In addition, the stock is trading at a 1% discount to its net tangible assets (NTA) of 47.2 sen/share. In our view, this stock deserves to trade at higher P/E levels, given its: i) solid dividend yields of 5.1-5.9% (FY22-24F), ii) strong earnings growth profile (3-year core net profit CAGR of 9.8% in FY22-24F), and iii) diversified business model with strong exposure to various key growth sectors essential to Malaysia (palm oil, oil and gas, engineering, etc.).

Figure 17: Danco's 5-year P/E band



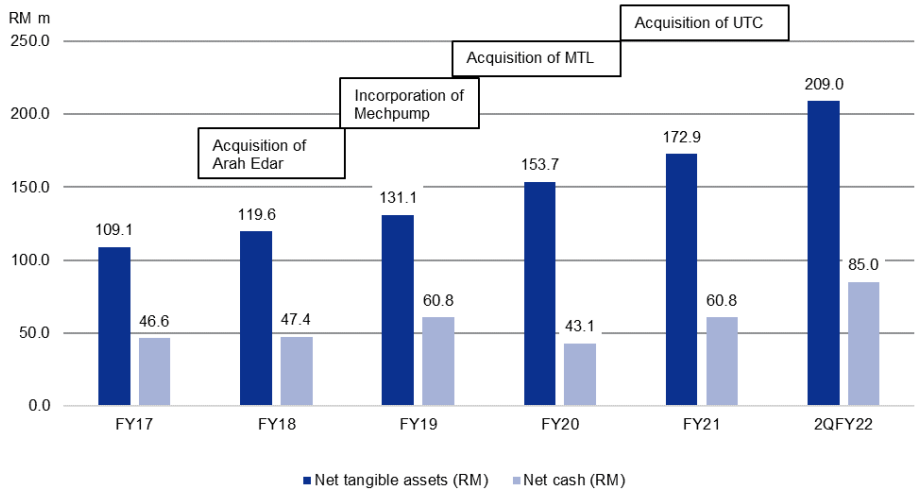
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 18: We expect attractive dividend yields of 5.1-5.9% in FY22-24F



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 19: Net tangible assets and net cash position

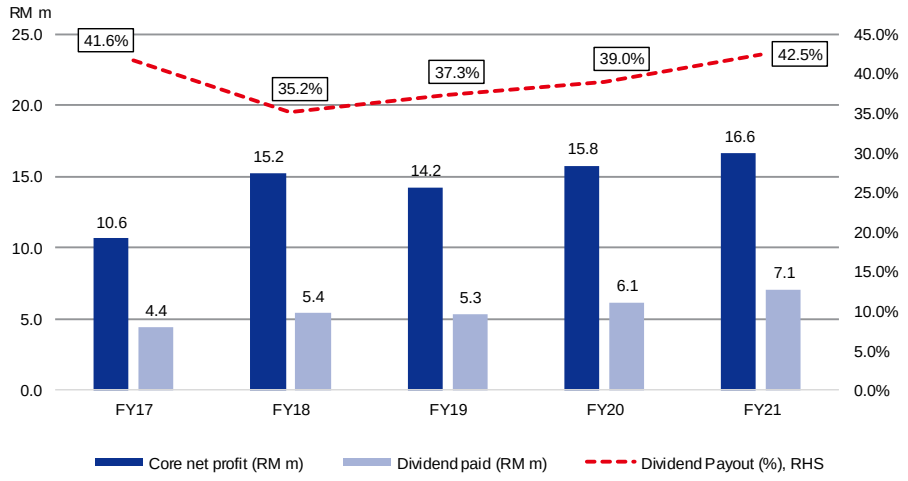


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Solid dividend yields of 5.1-5.9% in FY22-24F

As at 30 June 2022, Danco was in a net cash position of RM85.0m (19.2 sen/share); this makes up 50.5% of its market cap of RM168.2m (as at 22 Sep 2022). The company is currently trading at a 17.9% discount to its NTA of 47.2 sen/share and has recently announced that it will increase its official annual dividend payout policy to 40% (as per stated in its FY21 annual report) of its net profit (from 30% previously). We note that Danco has paid dividends at a payout range of 35.2-42.5% for FY17-21. With its strong cash position and prudent working capital management (working capital of 80-90 days), we have assumed a 45.0% dividend payout for FY22-24F, translating into a 5.1-5.9% dividend yield.

Figure 20: Backed by steady dividend payout growth



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

COMPANY BACKGROUND

A well-known trading and distribution specialist for process control equipment

Founded in 1989, Dancomech was co-established by its current managing director, Aik Swee Tong, who has more than 41 years of experience in the trading of process control equipment and measurement instruments (referred as trading division as per stated in its annual report). This segment is its bread-and-butter business, even as the company has diversified into different businesses.

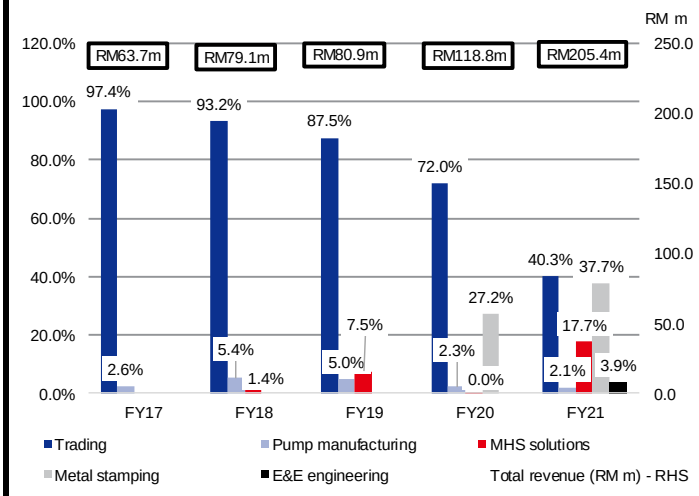
Figure 21: Subsidiaries and their core operations as at FY21

Dancomech Holdings Berhad (Parent company)

Subsidiaries	Owned stake (%)	Division
Dancomech Engineering Sdn Bhd	100%	Trading
Optimis Engineering Sdn Bhd	55%	Trading
Mechpump Sdn Bhd	60%	Trading
Dancomech Pumps Sdn Bhd	70%	Pump Manufacturing
Arah Edar (M) Sdn Bhd	55%	Material handling solution
MTL Engineering Sdn Bhd	70%	Metal stamping
UTC Engineering Sdn Bhd	55%	Electrical and electronic (E&E)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

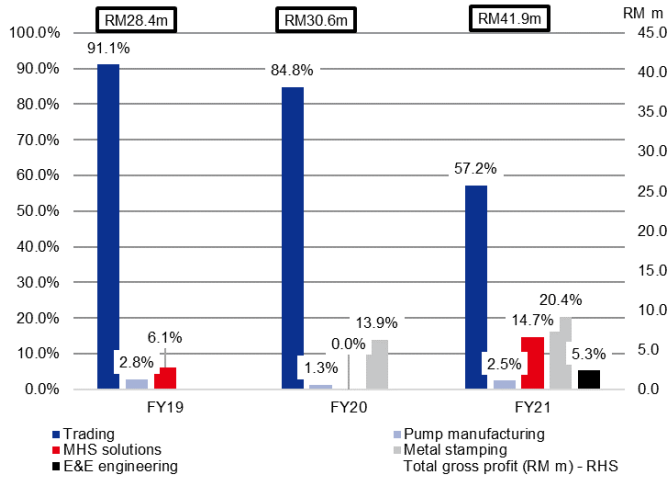
Figure 22: Segmental revenue breakdown



Note: represents total sales revenue (RM m).

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 23: Segmental gross profit breakdown



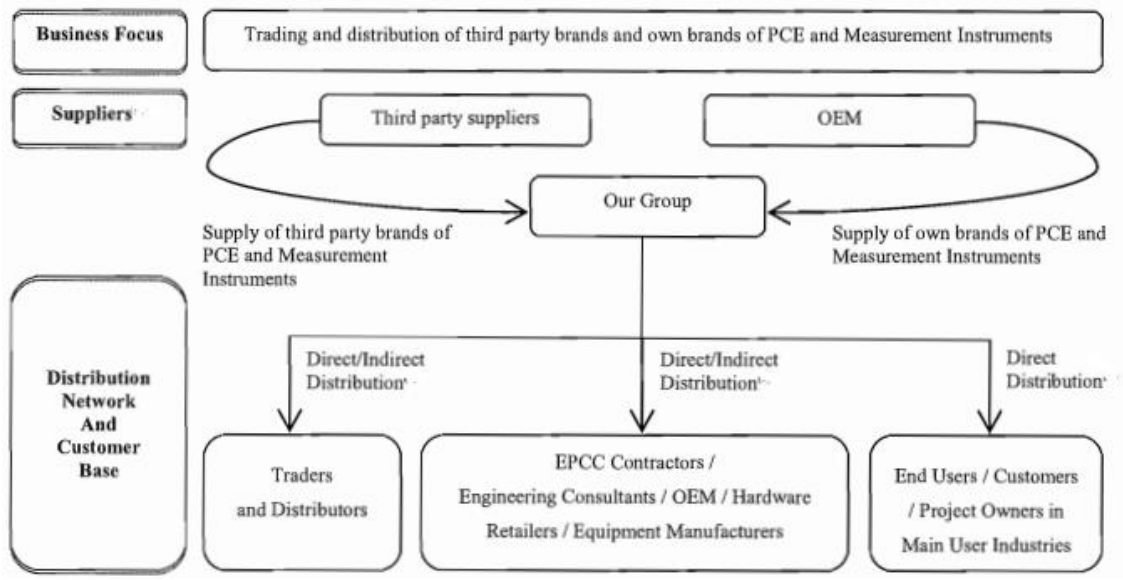
Note: No disclosure of gross profit data for FY17-18. Represents gross profit (RM m).

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

1. Selling of process control equipment and measurement instruments (the trading division)

This division posted a gross profit of RM24m in FY21, which accounted for 57.2% of the group's total gross profit. Under this division, Danco mainly trades and distributes both third-party and its own brands of process control equipment (such as valves, switches, actuators, bursting discs/explosion protection devices, expansion joints, float/steam traps) and measurement instruments (such as gauges, recorders, pressure transmitters, sight glasses) and industrial pumps. We think that the bulk of sales from this division is mainly from sales of industrial valves (we estimated at 85% of trading division sales in 1HFY22).

Figure 24: Danco's trading division business model



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

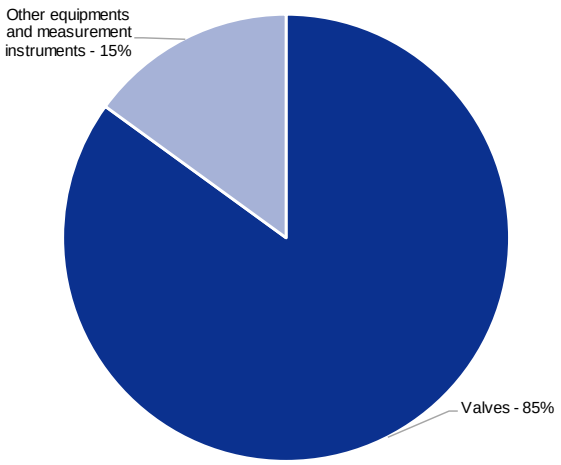
The trading division can be further segregated into several segments, which services various industries and offers different products:

i) Dancomech Engineering Sdn Bhd (DESB), a wholly-owned subsidiary, serves and supplies products to customers involved in the palm oil and oleochemicals, oil and gas, and other related industries.

ii) Optimis Engineering Sdn Bhd, a 55%-owned subsidiary, supplies products to customers in the water and wastewater industry.

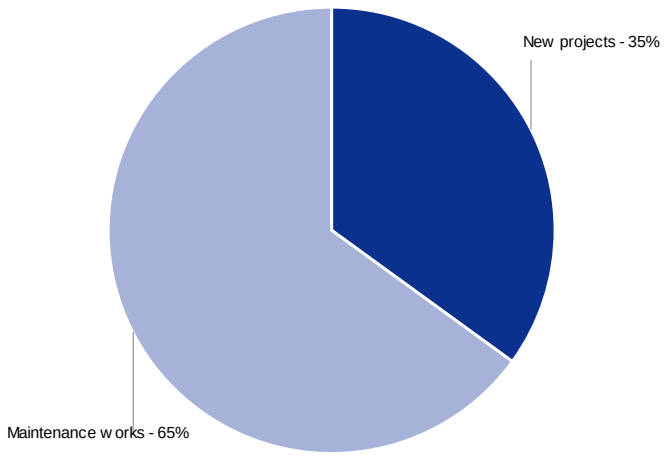
iii) Mechpump Sdn Bhd, a 60%-owned subsidiary, focuses on the trading of industrial pumps.

Figure 25: 1HFY22 revenue breakdown by key selling products in Danco's trading division (CGS-CIMB Research estimates)



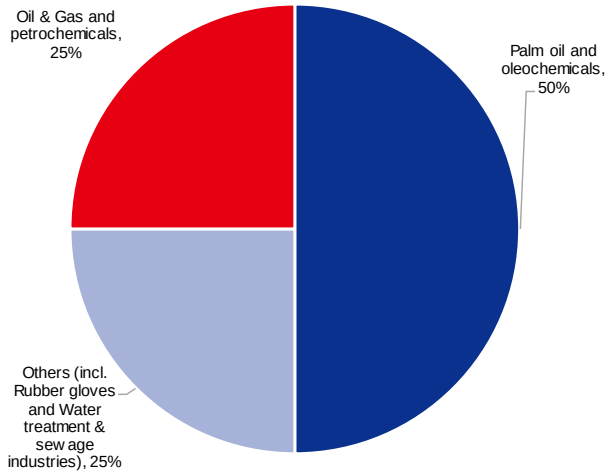
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 26: 1HFY22 revenue breakdown by new projects and maintenance works in Danco's trading division (CGS-CIMB Research estimates)



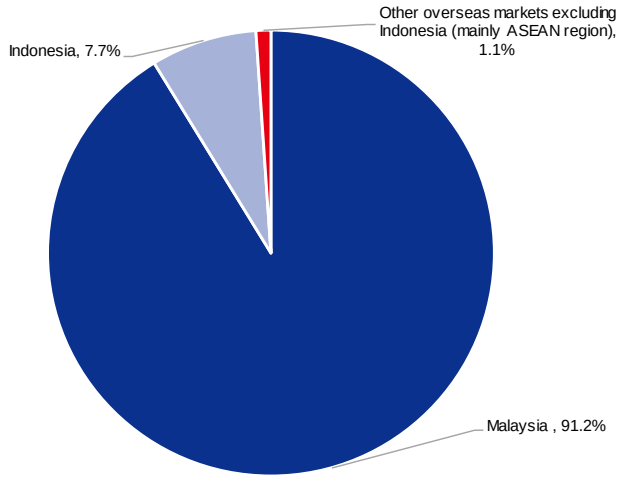
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 27: Revenue breakdown by industry in the Danco's trading division in 1HFY22 (CGS-CIMB Research estimates)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 28: Danco's 1HFY22 revenue breakdown by country (incl. all divisions) - as per reported in its 2Q22 financials



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

2. **Manufacturing of industrial pumps**

This division posted a gross profit of RM1m in FY21, which accounted for 2.5% of the group's total gross profit. Via its 70%-owned subsidiary Dancomech Pumps Sdn Bhd (Unlisted), Danco is involved in the manufacturing of industrial pumps. Products under this segment are mainly sold via its own trading arm (Mechpump) as well as third-party customers. We understand that operations for this division are located in Ipoh, Perak, Malaysia.

3. **Provision of material handling systems (MHS solutions)**

This division posted a gross profit of RM6.2m in FY21, which accounted for 14.7% of the group's total gross profit. Danco acquired a 55% stake in Arah Edar, a Malaysian company involved in the provision of MHS solutions (conveyor belt systems). On Sep 20, it secured a sub-contract worth RM36.5m from Jurong Port in Singapore to design and supply material handling equipment; the project was completed in Jan 22.

We understand that its MHS solutions operations have been slowing down, with a negligible orderbook at this juncture. This is the result of i) intense competition from China players, and ii) higher operating and raw material costs in 2022F. However, the company is actively tendering for more projects in this segment.

4. **Production of metal stamping parts**

This division posted a gross profit of RM8.5m in FY21, which accounted for 20.4% of the group's total gross profit. In 2Q20, Danco completed the acquisition a 70% stake in MTL Engineering, at an implied P/E of 6.8x on MTL's FY19 net profit. Based in Shah Alam, Selangor, MTL is involved in producing metal stamping parts and components for manufacturers of HVAC and metal furniture products (generally referred to by Danco as the metal stamping division). Currently, Danco's major customers in this division are mostly from the air-conditioning industry, e.g. Daikin and Panasonic, which we estimate to contribute up to 90% of this segment's 1H22 revenue.

5. **Electronic and electrical (E&E) engineering division**

This division posted a gross profit of RM2.2m in FY21, which accounted for 5.3% of the group's total gross profit. On Apr 2021, Danco acquired a 55% stake in UTC. Based in Subang Jaya, Selangor, UTC is mainly involved in the distribution of E&E engineering-related machinery, covering power distribution, control and automation. Besides trading (sourcing various components and parts from third-

party appliance suppliers and associates), UTC provides consulting and contracting services.

As part of its acquisition, UTC provides Danco with a profit guarantee agreement of a total of RM5m for the cumulative period FY22-26F (average annual net profit of RM1m).

Operations are located in diverse locations nationwide depending on subsidiary »

Danco's operations are located in various parts of the country, depending on each business segment. The locations of each segment's operations are summarised in the table below:

Figure 29: Subsidiaries and their core operations' location as at FY21

Dancomech Holdings Berhad (Parent company)

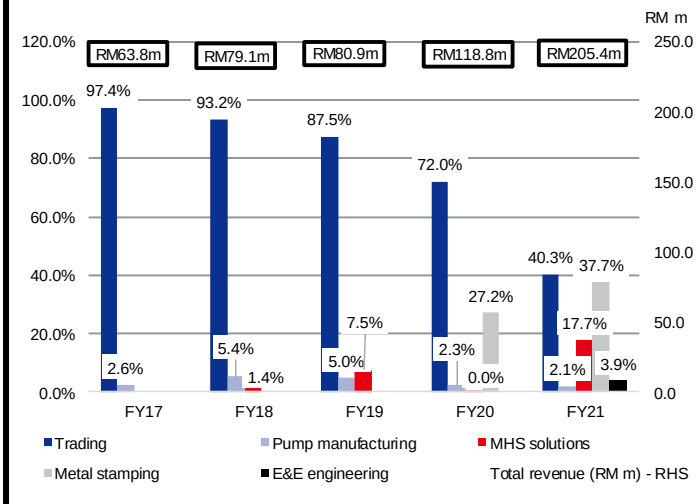
Subsidiaries	Owned stake (%)	Location	Division
Dancomech Engineering Sdn Bhd	100%	Seksyen U1, Shah Alam, Selangor	Trading
Optimis Engineering Sdn Bhd	55%	Seksyen U1, Shah Alam, Selangor	Trading
Mechpump Sdn Bhd	60%	Klang, Selangor	Trading
Dancomech Pumps Sdn Bhd	70%	Ipoh, Perak	Pump Manufacturing
Arah Edar (M) Sdn Bhd	55%	Brickfields, Kuala Lumpur	Material handling solution
MTL Engineering Sdn Bhd	70%	Section 36, Shah Alam, Selangor	Metal stamping
UTC Engineering Sdn Bhd	55%	Subang Jaya, Selangor	Electrical and electronic (E&E)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Trading contributes bulk of Danco's revenue »

Over FY17-21, the trading division contributed the bulk of Danco's total revenue (40.3-97.4%). However, the recent acquisitions of new subsidiaries have led to contribution from other segments as well. In FY21, the second largest contributor was metal stamping (37.7%), followed by MHS solutions (17.7%), E&E engineering (3.9%), and pump manufacturing (2.1%).

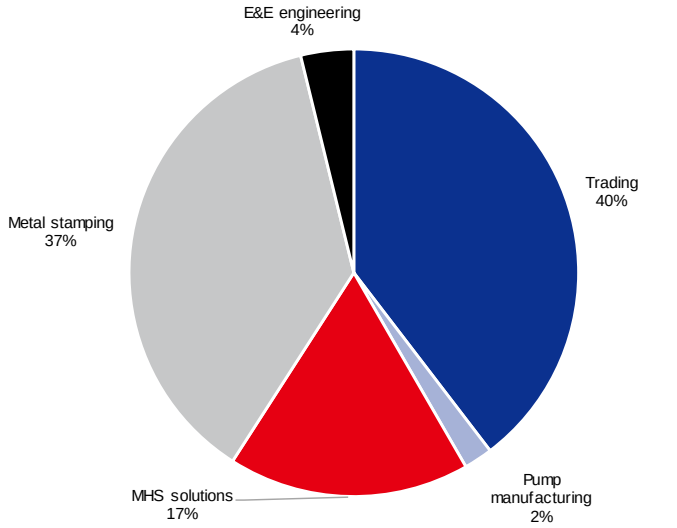
Figure 30: Revenue breakdown by division



Note: represents total sales revenue (RM m).

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 31: Revenue breakdown by division in FY21

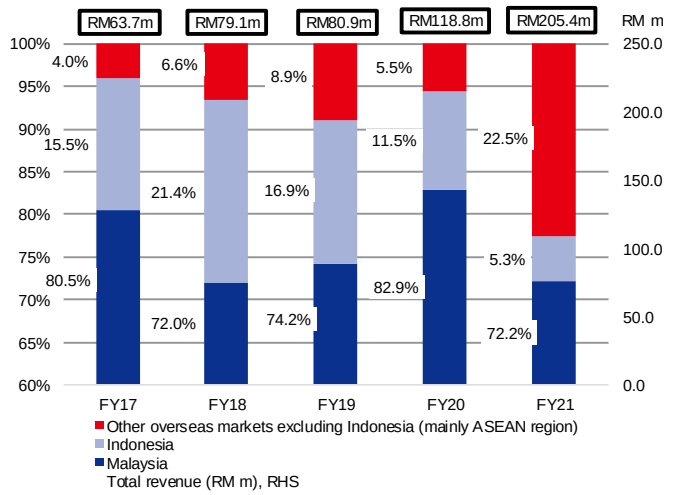


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Malaysia remains its largest operating market »

In geographical terms, Malaysia is the main focus market for Danco's operations (accounted for 72.2-82.9% of FY17-FY21 revenue). This is followed by Indonesia (5.3-21.4%) and other overseas markets ex-Indonesia (5.5-22.5%).

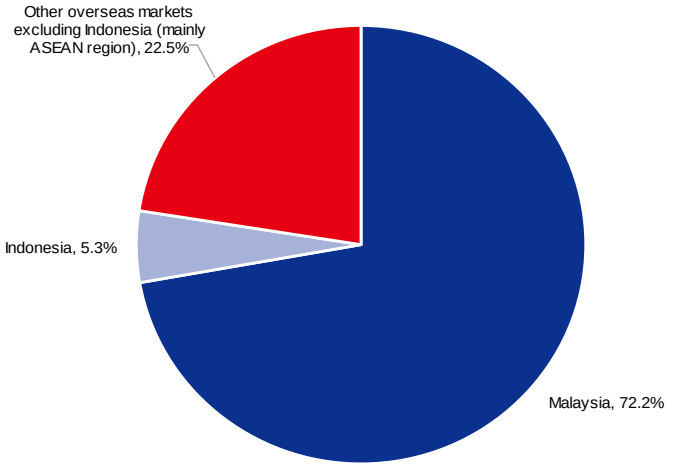
Figure 32: Revenue breakdown by geographical location



Note: represents total sales revenue (RM m).

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 33: Revenue breakdown by geographical location in FY21



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Long-time agent and distributor for several notable brands »

Over the past several years, Danco (acting as agent and distributor) has managed to form strong partnerships with several notable overseas brands in the trading business. This includes the likes of Ayvaz (Turkey), REMBE (Germany), Korea Steel Power Corp (Korea), Dae Han Control (Korea), Rototherm (British), and Neway Valve (Singapore). It also owns in-house brands, such as WAGI, VMX and Omaval, the production of which is outsourced to fabricators in China and Taiwan. We understand that its in-house and third-party brands currently account for 40-45% and 55-60% of its trading division sales volume, respectively.

In its largest division (trading), we believe that the bulk of products sold are industrial valves (we estimated at 85% of sales from this division in 1HFY22) while the remainder come from other components used in process control and industrial automation as well as measurement instruments.

Figure 34: Several notable brands in trading (own and third-party brands)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Led by experienced management team »

Danco is led by an experienced management team, which is headed by its Managing Director Mr. Aik Swee Tong and Executive Director Mr. Aik Cwo Shing, who have over 41 and 32 years of experience, respectively, in the sale of process control equipment and measurement instruments. The two directors are siblings

and are supported by another five key management personnel, mainly in charge of Danco's subsidiary company's operations and management. This includes Aik Hui Lian, the sister of Aik Swee Tong and Aik Cwo Shing.

Over the years, we have seen Danco's key management personnel grow the company both organically — in terms of increasing product range, market expansion of existing core business operations and pursuing growth in acquired businesses — and inorganically - in terms of exploring acquisitions and collaboration opportunities.

Figure 35: Management team analysis

Directors profile

Name	Age	Designation	Joining year	Years with Danco
DATUK ZAINAL ABIDIN BIN UJUD	69	**Dancomech Holdings Berhad** - Independent Non-Executive Chairman	2014	8
AIK SWEE TONG	62	**Dancomech Holdings Berhad** - Managing Director	1989	33
AIK CWO SHING	52	**Dancomech Holdings Berhad** - Executive Director	1989	33
GONG WOOI TEIK	71	**Dancomech Holdings Berhad** - Senior Independent Non-Executive Director	2014	8
LEE CHEN YOW	45	**Dancomech Holdings Berhad** - Independent Non-Executive Director	2014	8
SHARON LEE CHING YEE	52	**Dancomech Holdings Berhad** - Independent Non-Executive Director	2016	6

Key senior management profile

Name	Age	Designation	Joining year	Years with Danco
AIK HUI LIAN	65	**Dancomech Engineering Sdn Bhd** - Group Chief Operating Officer and Director	1989	33
TANG YUEN KIN	50	**MTL Engineering Sdn Bhd and Newexus Engineering Sdn Bhd** - Group Chief Financial Officer and Director	2018	4
WONG CHIAU SIEW	68	**Dancomech Engineering Sdn Bhd** - Director and Senior Sales Manager	1989	33
AIK KWO LIANG	48	**Dancomech Engineering Sdn Bhd** - Director and Senior Sales Manager	1991	31
CHANG SOO HONG	44	**Optimis Engineering Sdn Bhd** - Director and Chief Executive Officer	2009	13

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Shareholding structure »

The largest shareholder of Danco is ABC Equity Sdn Bhd, which is indirectly owned by both its managing director Aik Swee Tong and executive director Aik Cwo Shing, with a 39.5% stake. This is followed by personal stakes of 6.4% each by both Aik Swee Tong and Aik Cwo Shing.

Figure 36: Shareholding structure as at FY21

Directors shareholdings

Name	Direct interest		Indirect interest	
	No. of shares held (m)	%	No. of shares held (m)	%
DATUK ZAINAL ABIDIN BIN UJUD	0.2	0.1%	0.0	0.0%
AIK SWEE TONG	23.4	6.4%	145.4	39.5%
AIK CWO SHING	23.4	6.4%	145.4	39.5%
GONG WOOI TEIK	0.3	0.1%	0.0	0.0%
LEE CHEN YOW	0.1	0.0%	0.0	0.0%
SHARON LEE CHING YEE	0.0	0.0%	0.0	0.0%

Substantial shareholders shareholdings

Name	Direct interest		Indirect interest	
	No. of shares held (m)	%	No. of shares held (m)	%
ABC EQUITY SDN BHD	145.4	39.5%	0.0	0.0%
AIK SWEE TONG	23.4	6.4%	145.4	39.5%
AIK CWO CHING	23.4	6.4%	145.4	39.5%

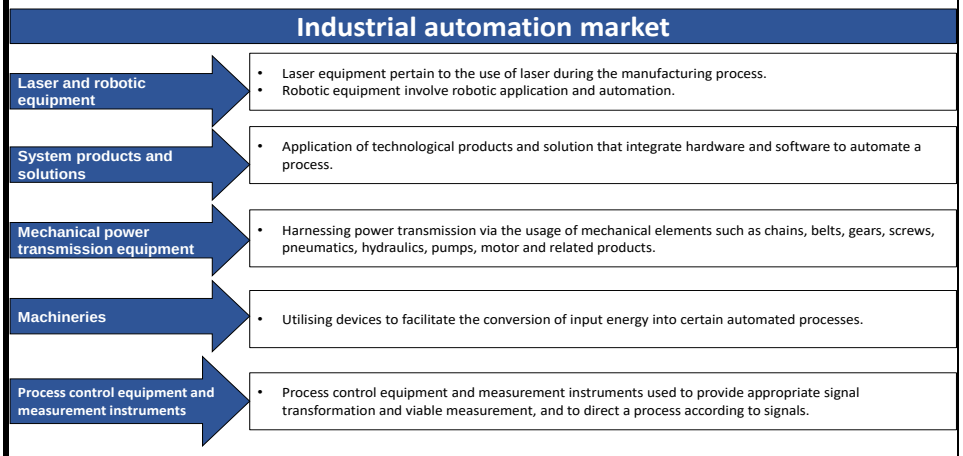
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

INDUSTRY OUTLOOK

Trading segment: Introduction to process equipment and measurement instruments

Process control equipment and measurement instruments is a sub-segment of the larger industrial automation (IA) market. By definition, process control equipment and measurement instruments are used to provide appropriate signal transformation and variable measurement as well as to direct a process according to signals. In Malaysia, these items are used as a component of industrial pipeline systems in key growth sectors, including oil and gas, petrochemical, water services and manufacturing. Among process control equipment, we estimate that a large portion of Danco's sales comes mainly from industrial valves (~85% of sales in 1HFY22).

Figure 37: Sub-segment of the larger IA market

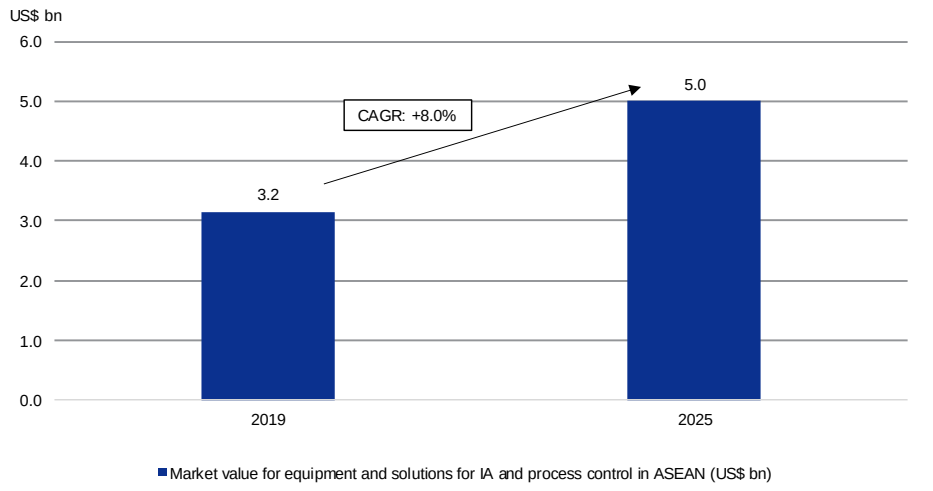


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, DANCO IPO PROSPECTUS

Equipment and solutions for IA and process control is expected to record 6-year CAGR of 8.0% (2019-2025F)

According to the ASEAN Investment Report 2020-2021, prepared by the Asean Secretariat and United Nations Conference on Trade and Development, the value of equipment and solutions for IA and process control is expected to record a 2019-2025F CAGR of 8.0% to reach US$5bn in 2025F. This is on the back of more digitalisation and upgrading of production facilities in the region, further supported by government initiatives to adopt technologies to automate operations and increase operating efficiency.

Figure 38: Market value for equipment and solutions for IA and process control in ASEAN (2019-2025F)



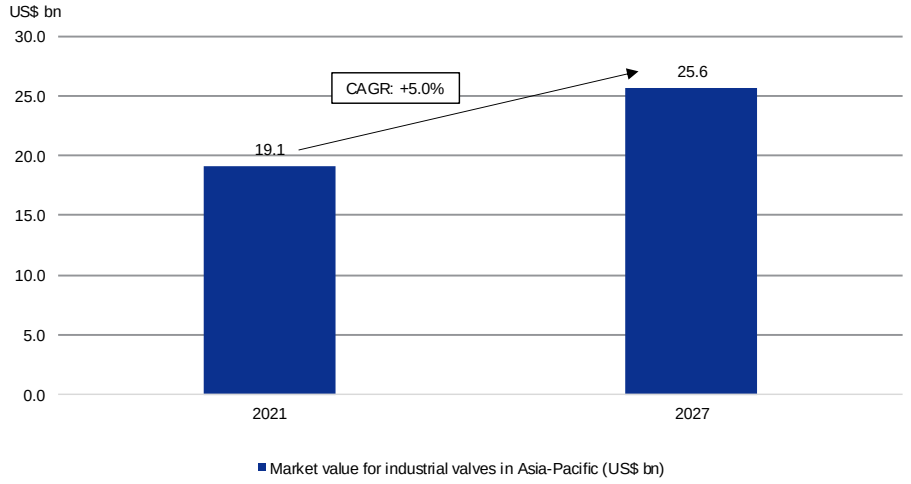
SOURCES: CGS-CIMB RESEARCH, ASEAN INVESTMENT REPORT 2020-2021

https://asean.org/wp-content/uploads/2021/09/AIR-2020-2021.pdf

Industrial valves will likely reach market value of US$25.6bn by 2027F

On the other hand, Mordor Intelligence Research (an industry analysis & consulting firm) estimates that the market value for industrial valves in Asia Pacific will post CAGR of more than 5% (2022-2027F) from US$19.1bn in 2021. As mentioned previously, we believe industrial valves made up 85% of the trading division's 1HFY22 sales.

Figure 39: Market value for industrial valves in Asia-Pacific (2021-2027F)



SOURCES: CGS-CIMB RESEARCH, MORDOR INTELLIGENCE RESEARCH
https://www.mordorintelligence.com/industry-reports/asia-pacific-industrial-valves-market#:~:text=Market%20Overview,period%20(2022%2D2027).

This will be mainly driven by growing demand in various industries, such as petrochemical, oil and gas, and plantation. For example, a recent petrochemicals report, published by the International Energy Agency (IEA), highlighted that nearly all regions except Europe may increase the production of primary chemicals by 2050F. In China alone, more than 512 petrochemical projects are expected by International Energy Agency (IEA) to commence from 2021-2025F.

Key drivers contributing to demand for process control equipment and measurement valves

In Malaysia, demand for process control equipment and measurement valves is mainly driven by key growth sectors, such as: i) palm oil, ii) oil and gas (petrochemical), and iii) water treatment and sewerage industries. As a result, demand for these products is highly dependent on investment decisions of key players in these industries in Malaysia. We have summarised the outlook for a few key sectors in the table below:

Figure 40: Industries growth outlook summary

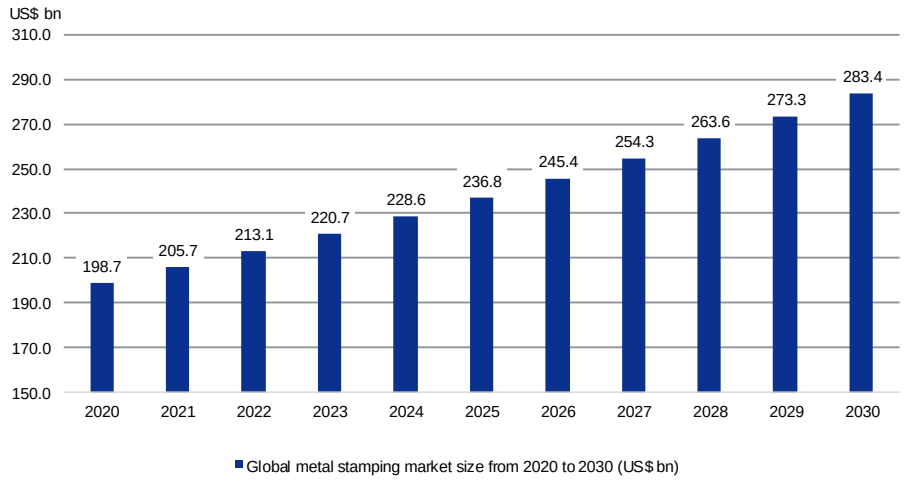
Industries	Growth outlook
Plantation Industry (palm oil mills & oleochemical plants)	- In the Malaysian Palm Oil Board's (MPOB) Palm Oil Economic Review & Outlook dated Jul 2022, MPOB forecasted the total CPO production to rise 2.1% yoy to 18.5m tonnes in 2022 and palm oil exports to increase 2.5% yoy to 16.7m in 2022.
Oil & Gas Industry	- The International Energy Agency (IEA) and The Organization of the Petroleum Exporting Countries (OPEC) expect stronger oil demand in 2022 and 2023. They estimate global oil production at 101.1m barrels per day (bpd) in 2022 and 101.7m bpd in 2023. Meanwhile, they estimate global oil demand at 101.9m bpd in 2022 and 102.9m bpd in 2023. Note that 2023 estimates are higher than pre-pandemic levels in 2019. Global oil supply was 101.4m bpd and global oil demand at 101.7m bpd in 2019. - In our view, the recovery in oil price should increase refinery and maintenance activities, which will drive demand for process control equipment and measurement instruments. - In tandem with the positive outlook for global oil supply and demand, Petronas CFO Liza Mustapha mentioned at the MIDF Conversations event held virtually on 9 Jun 2022, that Petronas has budgeted c.RM60m capex for 2022 (+96.7% yoy from RM30.5m in 2021).
Water Treatment Plants Industry	- According to The Business Research Company, we understand that the global water and sewage market size was valued at US$578.2bn in 2021. The market is expected to grow 9.1% to US$631.1bn in 2022, thanks to companies' operations recovering after lockdown measures have been lifted. The water and sewage market is expected to grow at 7.8% CAGR over 2021 to US$852.9bn in 2026. - Ken Research expects Malaysia's industrial water and water treatment market to increase by c.6% CAGR in 2017-22 to over US$700m by 2022.

SOURCES: CGS-CIMB RESEARCH, VARIOUS SOURCES

Metal stamping segment: Ample growth prospects

Based on Precedence research data (a market research and consulting organization), the global metal stamping market was estimated at US$205.7bn in 2021 and is projected to record a 8-year CAGR of 3.6% (2022-2030F) to US$283.4bn by 2030F.

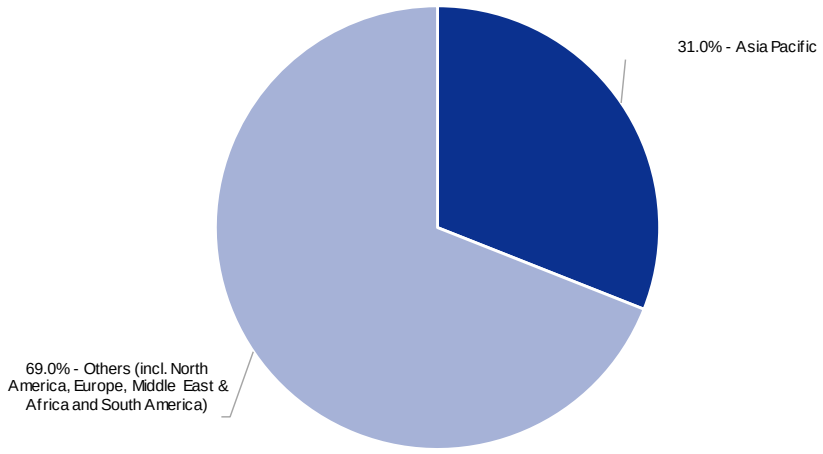
Figure 41: Global metal stamping market size from 2020 to 2030F (US$ bn)



SOURCES: CGS-CIMB RESEARCH, PRECEDENCE RESEARCH DATA

Meanwhile, the Asia-Pacific region is estimated by MMR (a global consumer and sensory research agency) to have commanded a leading market share (in terms of sales) of 31% as of 2021. This was mainly thanks to the fast-growing demand for automobiles and electronic goods, such as smartphones and consumer electronics, in the emerging Asia-Pacific nations, such as China, India, Bangladesh, Indonesia, Malaysia and Pakistan.

Figure 42: Regional sales market share analysis in 2021 for the metal stamping industry

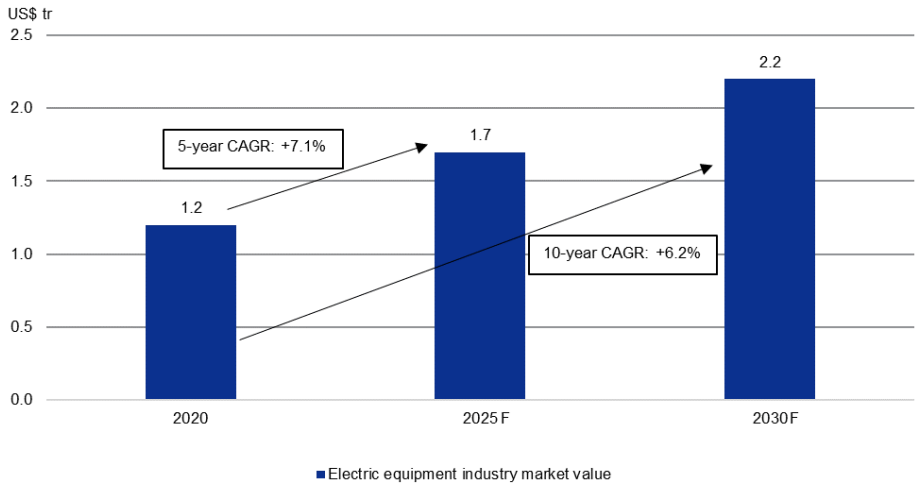


SOURCES: CGS-CIMB RESEARCH, MMR RESEARCH DATA

Electric engineering industry: Steady demand for electrical equipment and measurement instruments »

The electric engineering industry mainly comprises the distribution of electrical construction materials, wiring supplies, electric light fixtures, light bulbs, household appliances, and electrical power equipment for generation, transmission, distribution of electric energy, such as transformers, power gauges and etc. According to The Business Research Company (a market research and intelligence company), the electric equipment industry's value registered a 5-year CAGR of 3.1% from 2015 to nearly US$1.2tr in 2020. Going forward, the electric equipment industry market is expected by The Business Research Company to deliver a 5-year/10-year CAGR (in terms of sales) of 7.1%/6.2% from 2020 to US$1.7bn/US$2.2bn in 2025F/2030F.

Figure 43: Electric equipment industry market value (2020-2030F)



SOURCES: CGS-CIMB RESEARCH, THE BUSINESS RESEARCH COMPANY

Specifically in the power generation, transmission and control equipment market (e.g. transformers and power gauges), The Business Research Company expects global annual sales to reach US$82.5bn by 2025F.

Meanwhile, in terms of overall exports from Malaysia, according to Malaysia External Trade Development Corporation (MATRADE, a Malaysian external trade government agency) data as of 2020, Malaysia's electrical machinery and equipment accounted for almost 37.0% (US$86.6bn) of its total exports. This

highlights the electrical machinery and equipment industry as an area of growth and development opportunities.

SWOT ANALYSIS

Figure 44: Danco's SWOT Analysis

Strength	Opportunities
Strong track record in core industry	Increase product range
Led by experienced management team	Pursue growth in business acquired
	Expore more acquisition and collobaration opportunities
Weakness	**Threats**
Highly dependent on capex cycle of customers	Low barrier of entry
Termination of distributorship	Loss of key management personnel

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Strengths: Danco has positioned itself as an industrial valves and instrumental specialist with more than 20 years of experience and a strong track record in the valves, instrumentation and automation industries, backed by its competitive advantages of: i) wide product range, ii) long-standing relationship with major suppliers, iii) own in-house brands, and iv) consultation support to its wide client base. In addition, Danco is led by a strong management team that has extensive experience in the industry.

Opportunities: We like Danco for its growth plans. Organically, Danco plans to increase its product portfolio range to capture changing customer preferences as well as to keep up with the latest market dynamics. In addition, we see opportunities for the company to widen its customer base via geographical market expansion of its existing core trading division. Apart from its core business segment, Danco's other acquired businesses, such as Arah Edar, MTL, UTC, etc., are poised to enjoy strong growth given the current favourable industry outlook. Inorganically, Danco does not discount the possibility of exploring more potential acquisitions and collaboration opportunities.

Weaknesses: We think Danco's business model is highly dependent on the capex cycle of its customers, such as EPCC contractors, equipment manufacturers, etc., where profitability and budget allocations are significantly affected by the industry cycle. A sustained uptrend in raw material prices will directly result in weaker profitability of Danco's client base, which will then translate into lower demand for its products and services.

Threats: We think Danco's business has a low barrier to entry as middleman trading does not require significant capex outlay to become a physical upstream manufacturing hub. Thus, there could be intense competition from existing/new players in the industrial goods industry.

KEY RISKS

Profitability correlates with customers' performance

Danco's earnings from the trading division (40.3% of FY21 revenue) are mostly dependent on the performance of its customers. This is in turn dependent on the outlook of a few key industries, such as palm oil/oleochemicals and oil and gas. Specifically, weak profitability of these players (leading to lower cashflow and capital expenditure allocation) will result in lower investment and upgrading works, in turn reducing demand for products sold by Danco's trading division.

Stiff pricing competition

Particularly for its trading and E&E engineering divisions, revenue is purely dependent on trading and distribution activities. In the event that other competitors in the market (both brand owners as well as other distributors) decide to engage in pricing competition to drive sales, Danco's profitability could be adversely affected. In addition, barriers to entry for this business are low (due to the nature of the trading business) and new entrants in the industry could dampen Danco's sales.

Dependence on third-party suppliers

Danco is dependent on third-party distributorship, particularly for products sold under its trading (50-55% of sales are from third-party brands as at FY21) and E&E engineering divisions (100% of products sold are from third-party brands as at FY21). Thus, Danco's operations (product delivery timeline to customers) will be severely affected if there is any sudden change to existing business relationships, such as termination.

Reliance on existing key management personnel

In our view, Danco's success over the years has been dependent on the leadership of its management team, particularly its founder and managing director, Mr. Aik Swee Tong, and the team's wealth of experience and knowledge. Hence, we believe that any loss of key management personnel could pose risks to Danco's business and profitability.

Currency risks

Under its trading division, most of the third-party brands it carries (estimated 50% of products sold under this segment) come from overseas suppliers. This exposes the company to foreign exchange rates and price fluctuations, which could impact the company's cost of goods.

Reliance on labour for two divisions

For its metal stamping and pump manufacturing divisions, Danco's ability to manufacture products hinges on its workforce. Any inability to secure sufficient workers to optimise operations will reduce production volume, which in turn will have a negative impact on the performance of these two divisions.

Economic downturn

Demand for Danco's products is mainly dependent on investment and capex allocations of various industries. Hence, any slowdown in global and local demand could lead to weaker sales. This was evident during the Covid-19 pandemic, when Danco's trading segment recorded two years of negative revenue growth owing to lockdown restrictions as well as decreased investments by end-customers in the industries that it services.

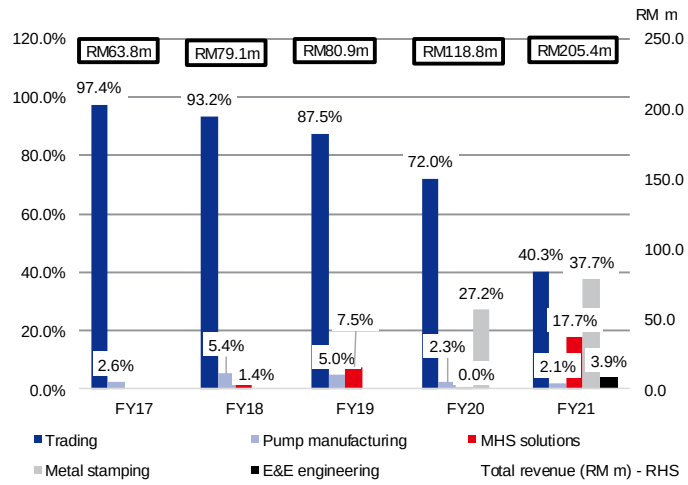
FINANCIALS

Aggressive business acquisitions underpin revenue growth over FY17-21 ›

Over FY17-21, Danco posted a robust 4-year revenue CAGR of 26.4%. This was mainly thanks to: i) growing contribution from its trading segment (4-year CAGR growth of 7.4%) and ii) increasing contribution from its acquired subsidiaries over the past five years.

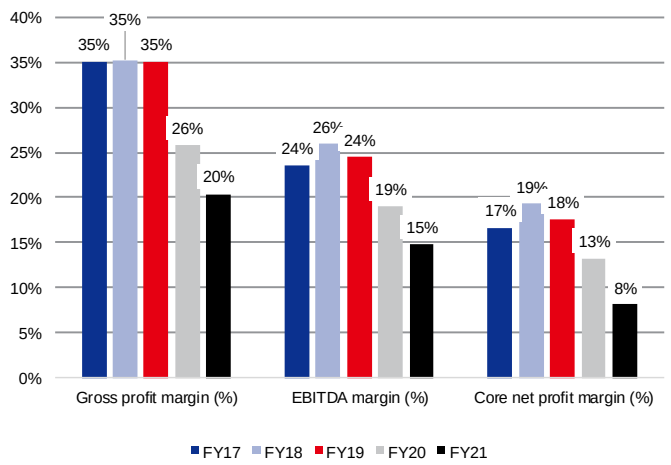
In particular, there was a significant 73.0% yoy rise in revenue from RM118.8m in FY20 to RM205.4m in FY21. This was mainly thanks to the full year contribution from its acquisition of the metal stamping business in 2018 and a large contract win (arising from the project at Jurong Port, Singapore). In FY21, the metal stamping division and MHS solutions segment contributed up to 37.7% and 17.7% of Danco's total FY21 revenue, respectively. This more than offset the weaker contribution from the trading segment, with revenue declining 3.3% yoy in FY21 due to the Covid-19 pandemic, leading to lower sales volume as a result of less demand amidst Covid-19 movement control orders implemented by Malaysia's government in FY20-21.

Figure 45: Danco's revenue CAGR at 26.4% for FY17-21



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 46: Danco's margin trends across FY17-21



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Bottomline growth at a much slower pace due to weakness in the trading division ›

Danco posted a 4-year core net profit CAGR of 9.4% over FY17-21, in tandem with revenue growth during the period. However, we note that the quantum of EPS CAGR over the period was lower compared to revenue growth, which we attribute to: i) higher contribution from lower margin segments (E&E engineering, MHS solutions, and metal stamping), ii) decline in contribution from high margin segment, i.e. trading, and iii) increase in operating costs.

FY21 core net profit only rose 5.5% yoy despite a 73% yoy surge in revenue. This was owing to higher contribution from other segments it acquired that helped to offset lower revenue contribution from the trading segment (-3.3% yoy) in FY21. On top of that, Danco incurred higher administrative expenses (+26.6% yoy) in FY21. Note that our core net profit or EPS excludes one-off items such as gains/losses from forex, disposals/write-downs of fixed assets/inventories/subsidiaries, government grants and rental rebates.

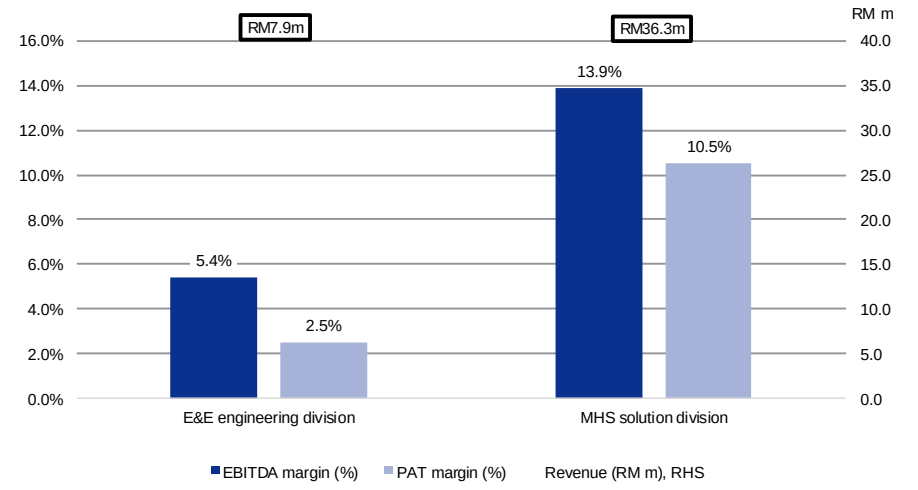
GP margins have been on a declining trend ›

Despite higher gross profit backed by topline growth, we note that Danco's GP margins declined over FY17-21. We attribute this to: i) stiffer competition and

higher product costs in the trading division that resulted in lower margins (-7.7% pts yoy), and ii) increased contribution from lower margin segments, such as the metal stamping division and MH solution division.

Across its various divisions in FY21, we note that the E&E engineering division and trading division have the highest GP margins at 27.8% and 28.0%, respectively. This is followed by pump manufacturing (24.1%), where products are mainly sold to its trading division. On the other hand, margins for the metal stamping division (11%) and MHS solutions (17%) are lower compared to other divisions given their nature of business (labour intensive and manufacturing-based).

Figure 47: E&E engineering and MHS division margin analysis as of FY21

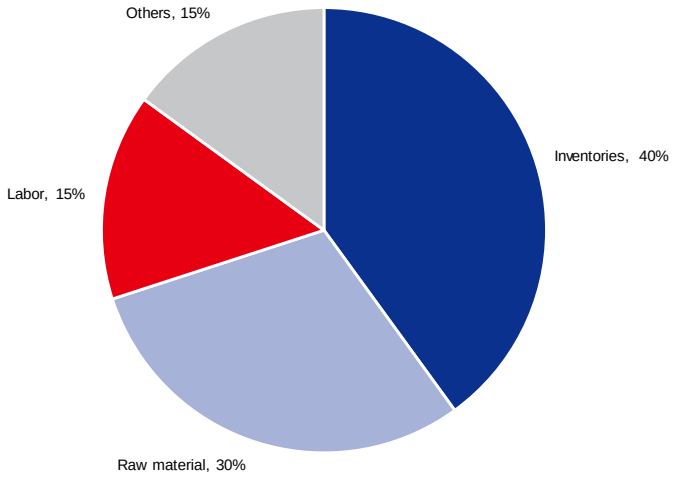


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Cost of sales are mainly raw material and inventories »

While Danco does not provide a breakdown of its costs, we believe that the largest cost component of the company is inventories (finished products from third-party brand owners) and raw materials (used in manufacturing-based divisions). This is followed by labour, utilities and others.

Figure 48: Cost of sales (ex-depreciation and amortisation) as at FY21



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Natural hedging to minimise currency risks »

As the bulk of Danco's parts and components purchases are from overseas suppliers, the company is exposed to exchange rate fluctuations, particularly US$ and the euro to some extent. To mitigate the impact of currency fluctuations,

Danco practices an active hedging policy as the bulk of its export sales are charged in US$.

Forecasting strong 7.8% revenue CAGR over FY21-24F »

We project Danco to deliver strong 7.8% 3-year revenue CAGR over FY21-24F. This will be mainly driven by:

i) Trading division

- Gradual recovery in sales from the trading division, backed by easing of lockdown measures in the local market. Note that the trading division saw lower sales for the past two years due to a slowdown in investments in key sectors that Danco supports (petrochemical, water-related, palm oil, etc.).
- A further increase in its product portfolio range in order to capture the changes in customer preferences as well as to keep up with the latest market dynamics.
- In addition, we see opportunities for Danco to widen its customer base via market expansion of its existing core trading division operations into several countries.

ii) Metal stamping

- Danco continues to see strong demand from its existing customers in the heating, ventilation and air conditioning (HVAC) as well as metal furniture products. It is currently running at 95% utilisation rate and Danco is adding more capacity to cater to demand from customers in this segment.
- Going forward, it aims to expand its metal stamping products to more industries, such as the modern poultry farming and automotive sectors.

iii) E&E engineering

- Danco continues to see strong demand for products under its E&E engineering division. This is backed by the easing of lockdown measures after two years of Covid-19 restrictions, resulting in the resumption of major construction works and more infrastructure and expansion investments nationwide.

In our view, the strong performance across these three sectors will help to offset the weak performance from its MHS solutions division (from FY22 onwards). We understand that this division currently does not have a significant orderbook and it is in the midst of tendering for new projects. Hence, we conservatively assume zero contribution from this division for FY22-24F.

Figure 49: Breakdown of actual and forecast revenue

Revenue key forecasts	FY19	FY20	FY21	FY22F	FY23F	FY24F
Segmental revenue (Total, RM m)	**80.9**	**118.8**	**205.4**	**212.7**	**231.3**	**257.5**
Trading (RM m)	*70.8*	*85.5*	*82.7*	*91.0*	*98.7*	*106.1*
Pump manufacturing (RM m)	*4.0*	*2.8*	*4.3*	*4.7*	*5.0*	*5.4*
MHS solutions (RM m)	*6.1*	*0.0*	*36.3*	*0.0*	*0.0*	*0.0*
Metal stamping (RM m)	*NA*	*32.3*	*77.5*	*108.5*	*113.9*	*125.3*
E&E engineering (RM m)	*NA*	*NA*	*7.9*	*11.9*	*17.3*	*24.6*
Others (RM m, investment holding)	*NA*	*0.3*	*0.4*	*0.5*	*0.5*	*0.6*
Elimination (RM m)	*NA*	*-2.1*	*-3.6*	*-3.8*	*-4.1*	*-4.5*
Segmental revenue growth (%)	**2.3%**	**46.9%**	**73.0%**	**3.5%**	**8.8%**	**11.3%**
Trading	*-4.0%*	*20.9%*	*-3.3%*	*10.0%*	*8.5%*	*7.5%*
Pump manufacturing	*-5.6%*	*-31.0%*	*54.6%*	*8.0%*	*8.0%*	*8.0%*
MHS solutions	*455.0%*	*-99.9%*	*>100.0%*	*NA*	*NA*	*NA*
Metal stamping	*NA*	*NA*	*140.2%*	*40.0%*	*5.0%*	*10.0%*
E&E engineering	*NA*	*NA*	*NA*	*50.0%*	*45.0%*	*42.5%*
Others (investment holding)	*NA*	*NA*	*19.8%*	*20.0%*	*15.0%*	*12.5%*
Elimination	*NA*	*NA*	*69.9%*	*3.5%*	*8.8%*	*11.3%*

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 50: Breakdown of actual and forecast gross profit and gross profit margin

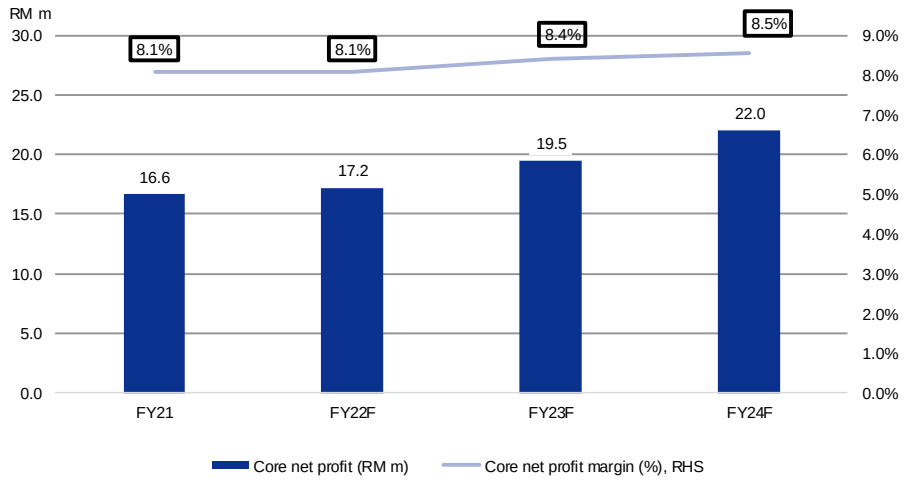
GP margin key forecasts	FY19	FY20	FY21	FY22F	FY23F	FY24F
Gross profit, GP (RM m, total)	**28.4**	**30.6**	**41.9**	**44.9**	**49.9**	**56.0**
Margins (%)	*35.1%*	*25.8%*	*20.4%*	*21.1%*	*21.6%*	*21.8%*
Growth (%)	*NA*	*7.9%*	*36.9%*	*7.3%*	*11.1%*	*12.2%*
GP Breakdown						
Trading GP (RM m)	**25.8**	**25.9**	**24.0**	**30.0**	**32.7**	**35.3**
Margins (%)	*36.5%*	*30.3%*	*29.0%*	*33.0%*	*33.2%*	*33.3%*
Growth (%)	*NA*	*0.4%*	*(7.7%)*	*25.3%*	*9.0%*	*8.0%*
Pump manufacturing GP (RM m)	**0.8**	**0.4**	**1.0**	**0.7**	**0.8**	**1.0**
Margins (%)	*19.7%*	*14.2%*	*24.1%*	*15.0%*	*16.5%*	*18.0%*
Growth (%)	*NA*	*(50.3%)*	*162.1%*	*(32.8%)*	*18.8%*	*17.8%*
MHS solutions GP (RM m)	**1.7**	**0.0**	**6.2**	**0.0**	**0.0**	**0.0**
Margins (%)	*28.6%*	*16.1%*	*17.0%*	*NA*	*NA*	*NA*
Growth (%)	*NA*	*(99.9%)*	*>100.0%*	*NA*	*NA*	*NA*
Metal stamping GP (RM m)	**NA**	**4.3**	**8.5**	**10.9**	**11.5**	**12.8**
Margins (%)	*NA*	*13.2%*	*11.0%*	*10.0%*	*10.1%*	*10.2%*
Growth (%)	*NA*	*NA*	*100.2%*	*27.3%*	*6.0%*	*11.1%*
E&E engineering GP (RM m)	**NA**	**NA**	**2.2**	**3.3**	**4.8**	**6.9**
Margins (%)	*NA*	*NA*	*27.8%*	*28.0%*	*28.0%*	*28.0%*
Growth (%)	*NA*	*NA*	*NA*	*51.3%*	*45.0%*	*42.5%*

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

… leading to robust 9.8% core net profit CAGR over FY21-24F

In line with our revenue growth forecasts, we project a healthy 9.8% core net profit CAGR for Danco over FY21-24F. Note that our quantum of core net profit CAGR is higher compared to our revenue CAGR forecast due to our assumptions of: i) higher contribution from higher margin segments (trading and E&E engineering), ii) better overall cost control, and iii) greater economies of scale. We also expect Danco's tax rate to be higher than the statutory tax rate (24%) at 27% for FY22-23F and 26.5% for FY24F. This is due to non-tax deductible losses from certain subsidiaries.

Figure 51: Core net profit and margin forecast

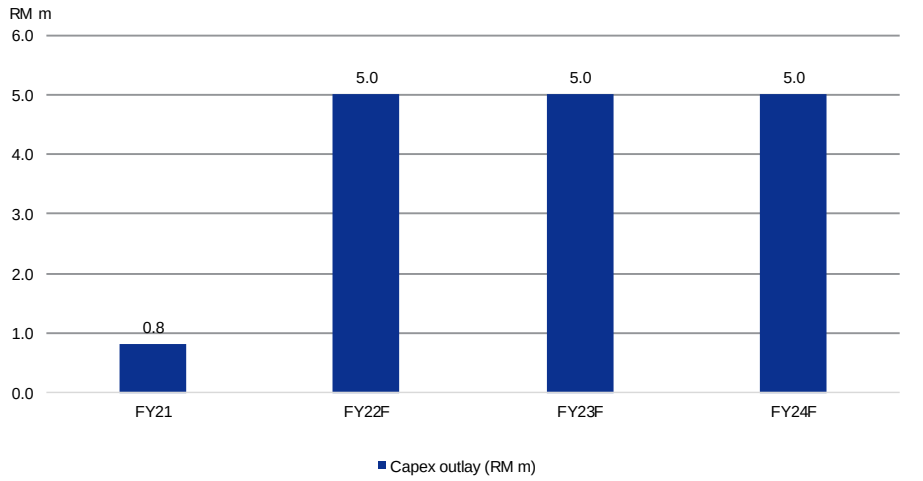


SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Bulk of capex spending likely to be for its metal stamping division

In terms of capex spending, we input annual capex of RM5m for FY22-24F. This is mainly to expand its capacity for its metal stamping division as well as maintenance purposes, especially for its manufacturing-based divisions. Note that capex requirements for trading and E&E engineering divisions are minimal due to the trading nature of the businesses.

Figure 52: Capex outlay forecast (RM m)

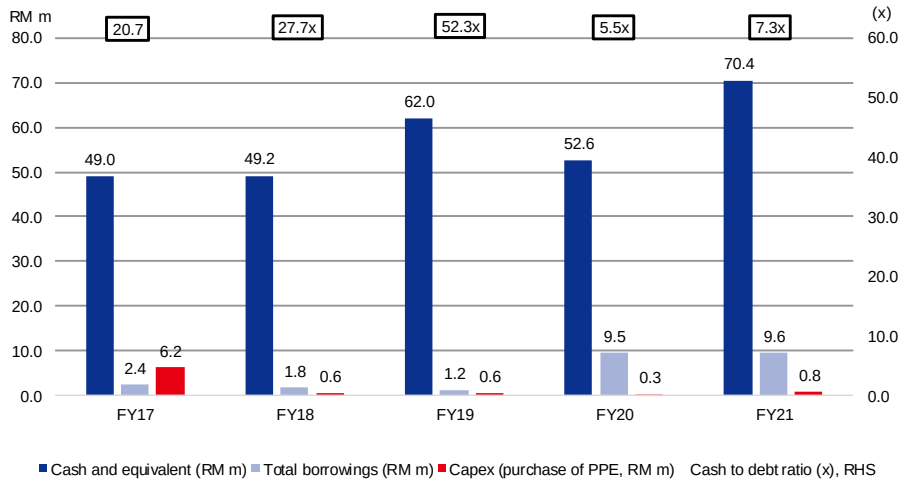


SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Manageable historical capex level although actively on the acquisition trail

We expect Danco to comfortably finance its projected capex in FY22-24F via its healthy operating cashflows (RM19.7m-24.8m p.a.) and net cash position of RM101.1m/RM111.2m/RM121.9m at end-FY22F/23F/24F. As of 30 June 2022, Danco was in a net cash position of RM85.0m. This is equivalent to 50.5% of its current market cap. We estimate that Danco does not have any debt covenants at this juncture while we have yet to input any capex for any potential M&A opportunities.

Figure 53: Manageable capex level coupled with its high net cash position



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 54: Steady working capital

	FY17	FY18	FY19	FY20	FY21
Inventories days	189	184	194	137	89
Trade & other receivable days	101	99	101	93	79
Trade & other payable days	71	72	71	66	74
Cash conversion cycle (days)	219	211	225	164	94

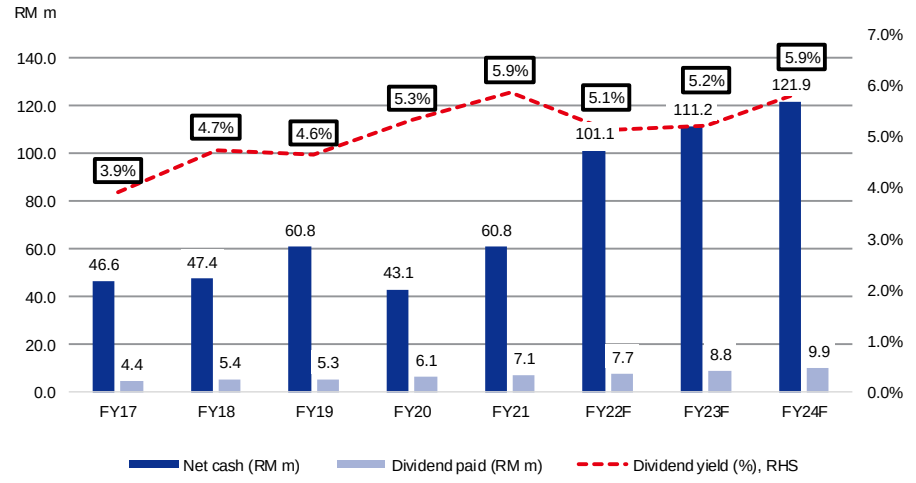
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Target payout ratio of 45% of PAT as dividends

Since Danco was listed in 2016, it has declared annual dividend payout ratio of 37.3-42.5% (1.8sen/2.0sen/2.2sen for FY19/20/21). In Mar 22, Danco stated that it revised its dividend policy to reflect a payout ratio of up to 40% of its annual net profit (as per stated in its FY21 annual report), from up to 30% previously in FY16.

Based on our net profit forecast for FY22-24F, this translates to dividend yields of 5.1-5.9% based on a flat annual dividend payout of 45%. Nevertheless, we believe that Danco has the potential to pay higher dividends in the future given its strong FCF generation and manageable working capital needs.

Figure 55: Danco's net cash position and potential dividend paid (RM'm) (CGS-CIMB Research estimates)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Enlargement of share base with progressive conversion of warrants

On 20 Jan 17, Danco announced it was proposing the issuance of 149m free warrants on the basis of one free warrant for 2 ordinary shares (total share base of 298m at that juncture). The exercise price of the warrants was RM0.30 per warrant. The warrants was for a period of five years (expiring on 22 May 22), which shareholders could exercise at any time during the period. Over the years (FY17-21), shareholders have exercised the free warrants, enlarging the share base. Post the maturity date of all warrants on 22 May 22, Danco's share base widened to 442.6m with the conversion of 144.5m warrants, leading to total warrant proceeds of RM43.4m in total for the past five years. As of 30 June 2022, we gather (as per stated in its bursa announcement) that 110.3m warrants were exercised, raising capital by RM33.1m.

Figure 56: Enlargement of share base with progressive conversion of warrants

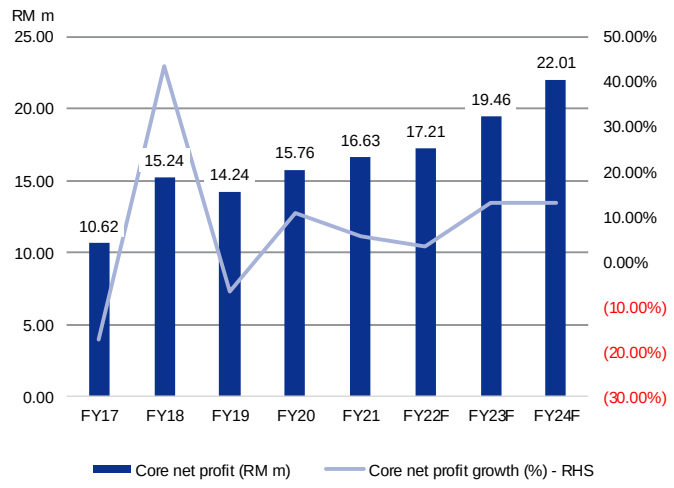
	FY17	FY18	FY19	FY20	FY21	FY22F	FY23F	FY24F
Beginning no. of shares (m)	149.00	298.01	298.01	304.01	309.10	332.23	442.55	442.55
Closing no. of shares (m)	298.01	298.01	304.01	309.10	332.23	442.55	442.55	442.55
Number of warrants converted (m)	*0.01*	*0.00*	*6.01*	*5.09*	*23.13*	*110.32*	*0.00*	*0.00*
Weighted average no. of shares (m)	223.50	298.00	301.01	306.56	320.67	387.39	442.55	442.55
Cash raised (RM m, based on conversion of RM0.30/share)	*0.00*	*0.00*	*1.80*	*1.53*	*6.94*	*33.09*	*0.00*	*0.00*
Net profit (RM m)	10.74	14.99	14.26	15.78	16.59	17.21	19.46	22.01
Core net profit (RM m)	10.62	15.24	14.24	15.76	16.63	17.21	19.46	22.01
Core net profit growth (%)	(17.25%)	43.53%	(6.58%)	10.69%	5.51%	3.47%	13.11%	13.09%
Core EPS (sen)	4.75	5.11	4.73	5.14	5.19	4.44	4.40	4.97
Core EPS growth (%)	(58.63%)	7.65%	(7.52%)	8.69%	0.87%	(14.35%)	(0.98%)	13.09%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

… leading to dilution effect in FY22F core EPS performance »

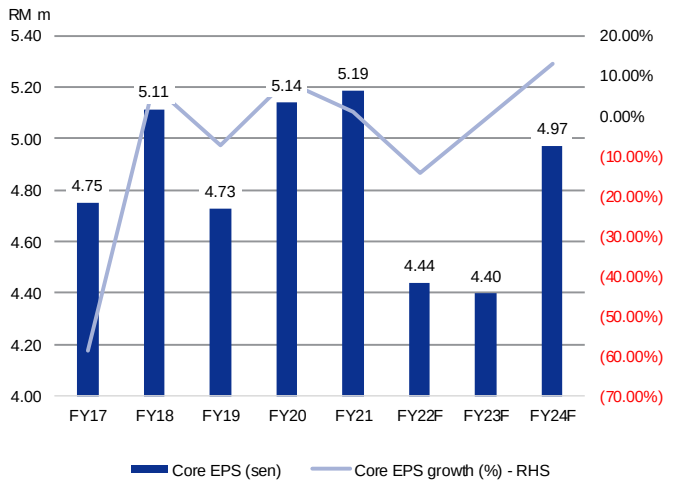
While we expect Danco to post 3.5%/13.1% yoy growth in FY22F/FY23F core net profit (excludes one-off items such as gains/losses from forex, disposals/write-downs of fixed assets/inventories/subsidiaries, government grants and rental rebates), we note that its FY22F core EPS is expected to decline by 14.4% yoy. This is on the back of its weighted enlarged share base of 387.4m (+20.8% yoy) in FY22, compared to 320.7m for FY21. Also, the enlarged share base of 442.6m will be fully reflected in FY23F (full year impact of enlarged share base with the expiry of warrants on 22 May 22).

Figure 57: Core net profit and its growth



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 58: Core EPS and its growth



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

VALUATION AND RECOMMENDATION

Stock is under-researched

While Danco is an under-covered stock, we believe this is due to low liquidity as the average daily trading value of the stock over the past 12 month was only RM0.07m. At this juncture, we estimate that institutional holdings in the stock are low at c.3% (based on Bloomberg data). Thus, we believe there is room for institutional investor participation to increase given its balance sheet strength and robust earnings (core net profit) growth in FY22-24F.

Direct peers are trading at a discount but likely due to low liquidity and weaker dividend yields

Overall, we believe that Danco has no comparable listed peers given its unique exposure to different revenue streams. The closest competitors, in our view, are CBIP, Unimech, Pantech Unitrade and Engtex given their varying involvement in the process control equipment (PCE), measuring instrument and pump businesses. In comparing their historical results (no forward-looking estimates available), Danco is trading at a higher CY21 P/E multiple of 10.0x (29.9% premium over its peers' 7.7x). We believe this is justified given its higher dividend yields (double compared to its peers) and lower CY21 EV/EBITDA of 3.2x (compared to peers' 4.8x). The lower EV/EBITDA is due to acquisitions of more manufacturing-based businesses in recent years, leading to higher depreciation charges (peers are mainly trading-based).

Figure 59: Peer comparison (based on historical performance)

Company	Bloomberg ticker	Recom.	Price (local curr.)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY20	CY21		CY20	CY21	CY20	CY21	CY20	CY21	CY20	CY21
Peers																
Dancomech Bhd	**DMEC MK**	**Add**	**0.38**	**0.44**	**37**	**10.6**	**10.0**	**2.6%**	**0.8**	**0.9**	**7.5%**	**8.0%**	**4.2**	**3.2**	**5.3%**	**5.3%**
CB Industrial Product Holding Bhd	CBP MK	NR	1.31	NR	138	13.2	6.7	27.6%	0.8	0.7	5.5%	10.9%	7.2	6.7	3.1%	3.1%
Unimech Group Bhd	UGB MK	NR	1.52	NR	49	13.9	9.3	NA	0.8	0.8	4.5%	6.7%	6.6	5.8	1.3%	2.0%
Pantech Group Holdings Bhd	PGHB MK	NR	0.69	NR	124	18.8	8.7	25.2%	0.8	0.7	3.8%	8.3%	9.5	5.4	1.9%	3.4%
Unitrade Industries Bhd	UNITRAD MK	NR	0.23	NR	79	11.7	8.1	NA	NA	NA	9.1%	13.2%	3.7	2.8	NA	NA
Engtex Group Bhd	ENGT MK	NR	0.59	NR	56	17.0	3.3	NA	0.4	0.3	1.8%	9.5%	10.4	4.9	1.3%	1.3%
Simple average						**14.2**	**7.7**	**18.5%**	**0.7**	**0.7**	**5.4%**	**9.4%**	**6.9**	**4.8**	**2.6%**	**3.0%**
Weighted average						**14.7**	**7.6**	**14.5%**	**0.6**	**0.6**	**5.3%**	**9.8%**	**7.3**	**5.2**	**2.1%**	**2.5%**

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG (DATA AS AT 22 SEPT 2022)
ESTIMATES FOR NON-RATED (NR) STOCKS ARE BLOOMBERG CONSENSUS ESTIMATES

Figure 60: Comparative peers' net cash and net gearing status

Comparative peers	As at	Net cash / (Net debt)	Net Gearing (x)
Dancomech	**30-Jun-2022**	RM85.0m	(0.4x) - net cash
CB Industrial Product	**30-Jun-2022**	(RM139.7m)	0.2x
Unimech	**30-Jun-2022**	(RM33.3m)	0.1x
Pantech	**31-May-2022**	(RM30.5m)	0.0x
Unitrade Industries	**30-Jun-2022**	(RM389.7m)	1.2x
Engtex	**30-Jun-2022**	(RM423.0m)	0.5x

**All NR stocks data are based on its respective annual reports.
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Currently trading at a discount to NTA and its historical mean since IPO

At this juncture, we note that Danco is trading at 8.6x 1-year forward P/E. This is a 13.1% discount to historical 5-year average (9.9x) as well as a 36.8% discount to the FTSE Bursa Malaysia (FBM) KLCI's 1-year forward P/E of 13.6x.

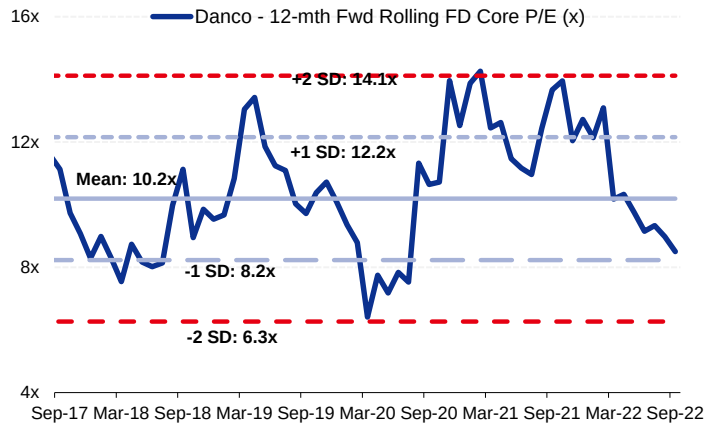
Initiate coverage with an Add »

We initiate coverage on Danco with an Add rating and a target price of RM0.44. We employ P/E as our primary valuation methodology as we believe an earnings multiple is the most practical way to value industrial goods and services stocks. We are not using the EV/EBITDA multiple as we believe this is less comparable across comparative peers which have different capex intensity.

We peg our TP to 10x CY23F P/E, which is largely in line with its 5-year historical mean (10.2x) as we expect investor interest to re-rate the stock given its: i) steady core net profit growth profile (3-year (FY21-24F) core net profit CAGR of 9.8%), ii) diversified revenue base with strong exposure to various key growth sectors essential to Malaysia (palm oil, oil & gas, engineering, etc.), and iii) strong balance sheet (net cash position of RM85.0m as at 30 June 2022). In addition, the stock is trading at a 15.8% discount to its NTA of 44 sen/share.

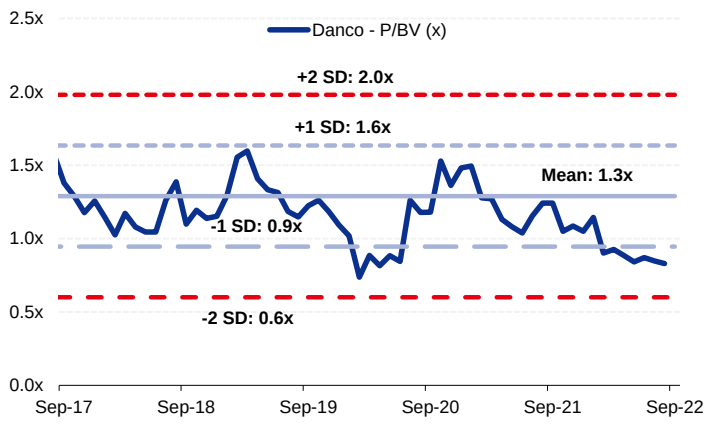
Our Add rating is premised on strong recovery in sales in its trading division from the Covid-19 pandemic period (3-year CAGR of 8.7% for FY21-24F) and higher contribution from other subsidiaries (mainly metal stamping and E&E engineering). Downside risks include: i) lower-than-expected sales volume, ii) spike in input costs and iii) intensifying competition.

Figure 61: Danco - 12-mth Fwd Rolling FD Core P/E (x)



SOURCE: CGS-CIMB RESEARCH, COMPANY

Figure 62: Danco - 12-mth Fwd P/BV



SOURCE: CGS-CIMB RESEARCH, COMPANY

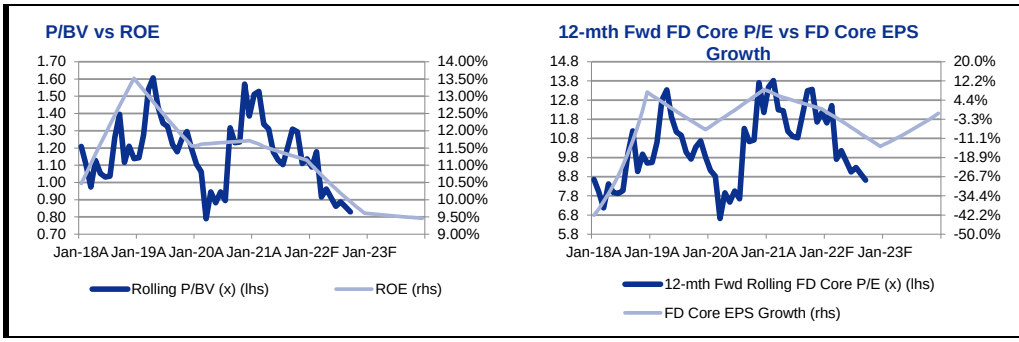
ESG in a nutshell

We believe that Danco needs to improve its disclosure in terms of its ESG. In particular for the environment and social aspects, the company does not reveal its ESG-related goals or operational data. However, we gather from its annual report that the company recognizes that embedding sustainability is important and will take steps to enhance its disclosure/initiatives.

Keep your eye on	Implications
The company has said that it values its employees' welfare, benefits, career progression, health and safety. However, it has not released any relevant data at this juncture, including the number of total employees.	We view this negatively as we are unable to track its latest employment status and thus are unable to carry out further analysis on the matter and regarding labour-related social compliance.
ESG highlights	**Implications**
Danco has undertaken several initiatives to reduce energy consumption and promote the use of renewable energy. For instance, we understand that Danco has installed a solar power system at its head office for the generation and consumption of renewable energy. However, we note that Danco does not share data in regards to energy-saving initiatives.	While we are positive that Danco is making an effort to be environmentally-friendly in its daily operations, we believe the company should focus on providing data in regards to its efforts to reduce energy consumption so as to provide investors with greater clarity on its efforts to manage the impact of its operations on the environment.
Trends	**Implications**
As of Dec 21, Danco has three independent representatives and only one female member on its Board of Directors, out of a total of six members.	We are positive on this matter as the Malaysia Code of Corporate Governance (MCCG) advocates for at least half of the board to comprise independent directors. Meanwhile, we are negative that less than 30% of Danco's board members are females.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	**118.8**	**205.4**	**212.7**	**231.3**	**257.5**
Gross Profit	**30.6**	**41.9**	**44.9**	**49.9**	**56.0**
Operating EBITDA	**22.6**	**30.4**	**32.9**	**36.7**	**41.1**
Depreciation And Amortisation	(2.3)	(3.8)	(3.8)	(4.0)	(4.2)
Operating EBIT	**20.3**	**26.6**	**29.1**	**32.7**	**36.9**
Financial Income/(Expense)	1.1	0.1	0.4	0.7	0.8
Pretax Income/(Loss) from Assoc.	(0.0)	(0.1)	(0.1)	(0.1)	(0.0)
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**21.4**	**26.6**	**29.4**	**33.3**	**37.6**
Exceptional Items					
Pre-tax Profit	**21.4**	**26.6**	**29.4**	**33.3**	**37.6**
Taxation	(5.5)	(6.4)	(7.9)	(9.0)	(10.0)
Exceptional Income - post-tax					
Profit After Tax	**16.0**	**20.1**	**21.5**	**24.3**	**27.7**
Minority Interests	(0.2)	(3.5)	(4.3)	(4.8)	(5.6)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**15.8**	**16.6**	**17.2**	**19.5**	**22.0**
Recurring Net Profit	15.8	16.6	17.2	19.5	22.0
Fully Diluted Recurring Net Profit	**15.8**	**16.6**	**17.2**	**19.5**	**22.0**

Cash Flow

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	22.61	30.42	32.92	36.72	41.08
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2.14)	(2.38)	(5.29)	(4.47)	(6.27)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(0.63)	3.96	3.51	3.45	3.45
Other Operating Cashflow	(1.19)	(3.86)	(3.51)	(3.45)	(3.45)
Net Interest (Paid)/Received	0.00	(0.00)	0.00	0.00	0.00
Tax Paid	(5.26)	(7.08)	(7.94)	(8.98)	(9.97)
Cashflow From Operations	**13.39**	**21.06**	**19.69**	**23.27**	**24.84**
Capex	(0.31)	(0.82)	(5.00)	(5.00)	(5.00)
Disposals Of FAs/subsidiaries	0.02	0.02	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	(17.23)	(0.93)	0.00	0.00	0.00
Other Investing Cashflow	14.12	(7.04)	0.91	1.16	1.26
Cash Flow From Investing	**(3.40)**	**(8.77)**	**(4.09)**	**(3.84)**	**(3.74)**
Debt Raised/(repaid)	(1.35)	(2.69)	0.00	0.00	0.00
Proceeds From Issue Of Shares	1.53	6.94	33.09	0.00	0.00
Shares Repurchased					
Dividends Paid	(5.32)	(6.33)	(7.74)	(8.76)	(9.90)
Preferred Dividends					
Other Financing Cashflow	(0.24)	(1.23)	(0.61)	(0.61)	(0.51)
Cash Flow From Financing	**(5.38)**	**(3.31)**	**24.75**	**(9.36)**	**(10.41)**
Total Cash Generated	4.60	8.99	40.34	10.07	10.69
Free Cashflow To Equity	**8.63**	**9.61**	**15.59**	**19.43**	**21.10**
Free Cashflow To Firm	**10.17**	**12.79**	**16.07**	**19.91**	**21.58**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	52.6	70.0	110.3	120.4	131.1
Total Debtors	40.9	48.1	51.0	55.5	61.7
Inventories	38.5	41.0	43.7	47.2	52.4
Total Other Current Assets	4.6	10.5	10.5	10.5	10.5
Total Current Assets	**136.6**	**169.5**	**215.5**	**233.6**	**255.7**
Fixed Assets	62.8	62.5	63.7	64.7	65.5
Total Investments	1.2	1.0	1.0	1.0	1.0
Intangible Assets	0.0	2.0	2.0	2.0	2.0
Total Other Non-Current Assets	0.1	0.5	0.5	0.5	0.5
Total Non-current Assets	**64.1**	**66.0**	**67.2**	**68.2**	**69.0**
Short-term Debt	1.7	2.4	2.4	2.4	2.4
Current Portion of Long-Term Debt					
Total Creditors	22.7	43.4	43.7	47.2	52.4
Other Current Liabilities	11.6	3.4	3.4	3.4	3.4
Total Current Liabilities	**36.1**	**49.2**	**49.5**	**53.0**	**58.3**
Total Long-term Debt	7.8	7.1	7.1	7.1	7.1
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.7	1.9	1.9	1.9	1.9
Total Non-current Liabilities	**8.5**	**9.1**	**9.1**	**9.1**	**9.1**
Total Provisions	2.4	2.4	2.4	2.4	2.4
Total Liabilities	**47.0**	**60.7**	**61.0**	**64.6**	**69.8**
Shareholders' Equity	140.6	157.8	200.3	211.0	223.1
Minority Interests	13.1	17.1	21.4	26.2	31.8
Total Equity	**153.7**	**174.9**	**221.7**	**237.2**	**255.0**

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	46.9%	73.0%	3.5%	8.8%	11.3%
Operating EBITDA Growth	14.2%	34.5%	8.2%	11.6%	11.9%
Operating EBITDA Margin	19.0%	14.8%	15.5%	15.9%	16.0%
Net Cash Per Share (RM)	0.14	0.18	0.23	0.25	0.27
BVPS (RM)	0.45	0.47	0.45	0.48	0.50
Gross Interest Cover	106.5	53.4	60.8	68.3	77.0
Effective Tax Rate	25.5%	24.3%	27.0%	27.0%	26.5%
Net Dividend Payout Ratio	39.0%	42.6%	45.0%	45.0%	45.0%
Accounts Receivables Days	93.01	79.05	84.99	83.98	83.29
Inventory Days	137.2	88.7	92.1	91.4	90.5
Accounts Payables Days	66.31	73.76	94.66	91.43	90.52
ROIC (%)	21.7%	17.9%	18.0%	19.2%	20.9%
ROCE (%)	14.5%	15.4%	14.3%	14.0%	14.8%
Return On Average Assets	8.78%	9.20%	8.17%	8.14%	8.64%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Trading GP	25.9	24.0	30.0	32.7	35.3
Pump manufacturing GP	0.4	1.0	0.7	0.8	1.0
MHS solutions GP	0.0	6.2	-	-	-
Metal stamping GP	4.3	8.5	10.9	11.5	12.8
E&E engineering GP	-	2.2	3.3	4.8	6.9

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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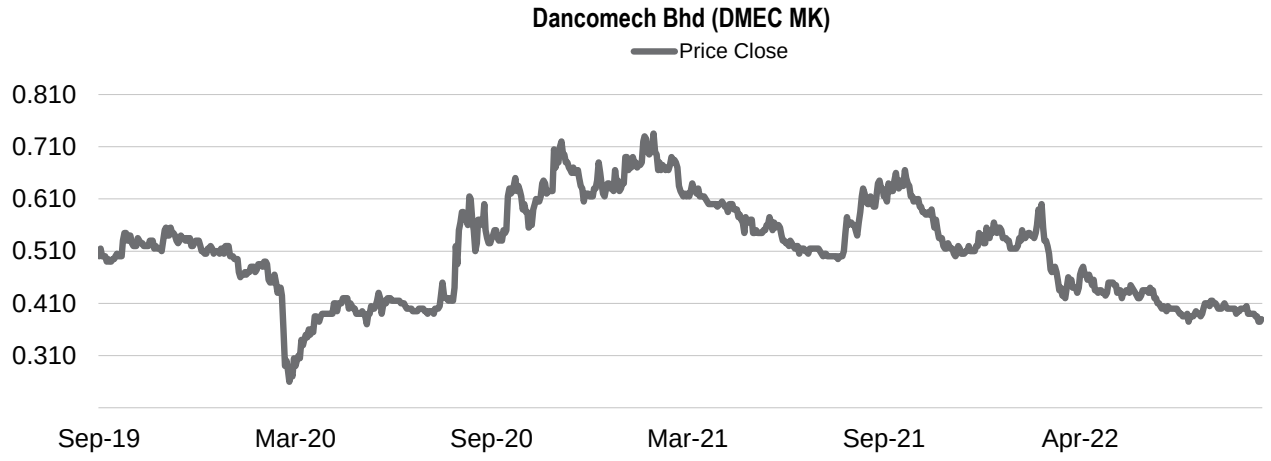
Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022 643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

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