

ITMAX System Bhd (ITMAX MK)

Solidifying its competitive advantage

Much to look forward to in FY24E; BUY maintained

Future contract win rate probability remains favourable, as we believe that ITMAX maintains a significant cost, security and technical advantage over its peers in the domestic smart city space. Our forecasts, BUY rating, and TP of MYR2.10 are maintained. Our TP is pegged to 24.4x FY24E PER, a 20% premium to the simple PER average of its comparable peers.

Bidding for CCTV jobs in other states

Having secured long-tenure 15-year CCTV LOAs from 3 of the 4 designated Greater Johor Bahru (GJB) town councils in 3Q23, ITMAX's current unbilled orderbook stands at c.MYR870m. We expect the LOA for the remaining GJB district of Kulai to be secured in 1Q24 and for further CCTV LOAs from Johor's 12 other districts to be secured throughout FY24/25. ITMAX's tender pipeline also remains healthy at c.MYR600m (80% CCTV; 20% S&I) and includes bids for various traffic control and monitoring work in states outside KL and Johor. Winning new jobs in these states (ie. Selangor, Penang, Sabah) could serve as the next rerating catalyst, in our view.

Continuous innovation to bolster margins

ITMAX currently offers 27 AI features for its CCTVs, with monthly rental rates differing by customer in accordance with the number of features subscribed. We gather that 15 additional features (human behavioural pattern recognition, detailed vehicle profiling, traffic violation detection, infrastructure damage identification) are currently in development that could yield margin expansion once commercialised. As the new AI features are being developed based on "pain-point" feedback from its town council customers, we believe that take-up will be positive post-implementation.

Direct beneficiary of national smart city framework

ITMAX also stands to benefit from accommodative government policy in the smart city space. In Budget 2024, a combined MYR200m was allocated to upgrade street-lighting and traffic light infrastructure at both federal/municipal levels. Owing to limited competition and an established public infrastructure S&I track record, we are cautiously optimistic of ITMAX's chances of securing related open tender contracts in the future.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	80	107	149	215	257
EBITDA	48	74	101	144	171
Core net profit	29	45	66	95	113
Core EPS (sen)	2.8	4.3	6.4	9.2	11.0
Core EPS growth (%)	130.7	52.3	47.3	44.3	19.9
Net DPS (sen)	0.0	0.8	1.3	1.7	2.0
Core P/E (x)	na	32.8	28.2	19.6	16.3
P/BV (x)	na	5.1	5.5	4.5	3.8
Net dividend yield (%)	na	0.6	0.7	1.0	1.1
ROAE (%)	69.1	23.9	20.8	25.3	25.2
ROAA (%)	21.4	16.0	15.8	19.9	20.4
EV/EBITDA (x)	39.6	17.9	16.9	11.8	9.7
Net gearing (%) (incl perps)	83.6	net cash	net cash	net cash	net cash
Consensus net profit	-	-	65	82	95
MIBG vs. Consensus (%)	-	-	0.0	16.1	19.8

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BUY

Share Price	MYR 1.80
12m Price Target	MYR 2.10 (+17%)
Previous Price Target	MYR 2.10

Company Description

Itmax System Bhd. engages in providing video surveillance and analytics services.

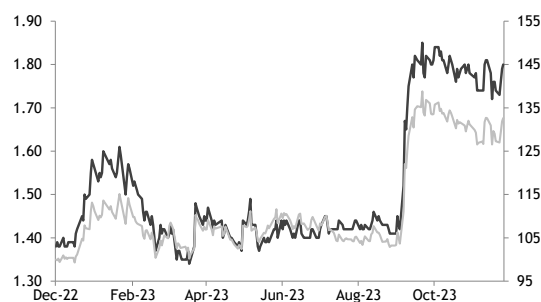
Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	1.0
Free float (%)	36.1
Issued shares (m)	1,028
Market capitalisation	MYR1.9B USD396M

Major shareholders:

Sena Holdings Sdn. Bhd.	53.2%
BINTI ZAINAL ABIDIN AFINALIZA	10.6%
Kenanga Investors Bhd.	3.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	28	na
Relative to index (%)	2	29	na

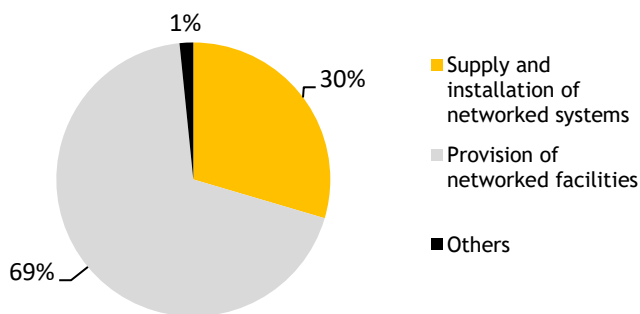
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Value Proposition

- ITMAX provides a niche exposure in the *video surveillance and smart city* industry through its end-to-end smart solutions.
- Starting as an M&E contractor, ITMAX now provides enhanced smart city solutions supported by its technical expertise and extensive network infrastructure.
- The traffic/video surveillance industry in Malaysia is relatively nascent in comparison to other developed cities.
- ITMAX is pursuing clientele diversification through tendering for more non-DBKL contracts, while expanding its R&D capabilities to broaden its solutions to the market.

Revenue by business segment - FY22

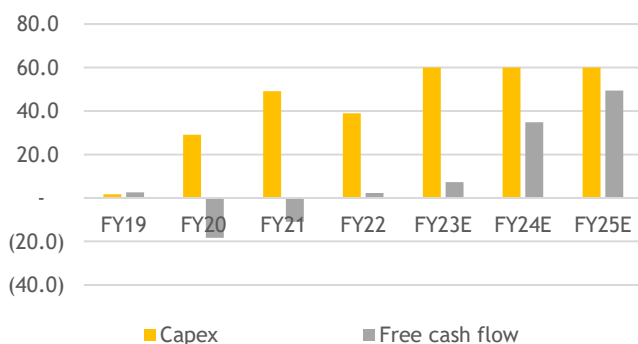


Source: Company

Financial Metrics

- ITMAX is growing its recurring revenue business through the increase in surveillance cameras under circulation. This provides a much higher operating margin in comparison to its supply & installation business.
- EBITDA margin was just 8% in FY19 but has since ballooned to 59% in FY22 with increasing contributions from its higher margin recurring business.
- Free cash flow was in negative territory in FY20-21 as a result of incremental capex incurred to roll out the assets required for the network surveillance business. Free cash flow turned positive in FY22, aided by its recent IPO proceeds and we expect it to remain positive on the back of improving operating cashflow generation.

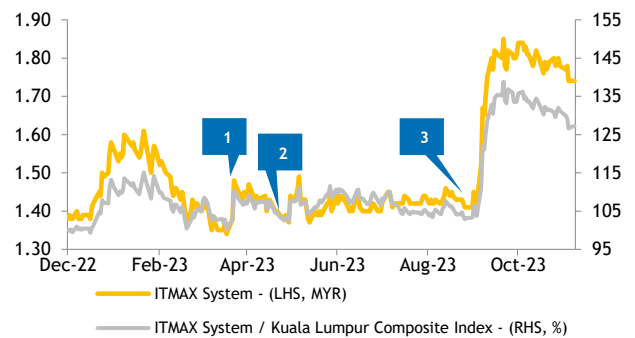
ITMAX's net cash flow (MYR'm)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- Received a 3-year, MYR57m contract extension for street lighting system in Kuala Lumpur.
- The state of Johor approved the acquisition of 1,500 smart CCTVs for installation in 3 major cities in the state.
- Receives first two LOAs for CCTV installation in Johor from MBBJ (Johor Bahru) and MBIP (Iskandar Puteri).

Swing Factors

Upside

- Continuous variation orders on its video surveillance contract with DBKL to add more cameras under circulation and AI features.
- Adoption of similar video surveillance solutions by other states and municipals in Peninsular and East Malaysia.
- Roll-out of smart surveillance solutions for more commercial players.
- Stronger-than-expected orderbook replenishment across all its business segments.

Downside

- Loss of existing contracts with DBKL to another competitor.
- Higher-than-expected cost drag related to its expansionary initiatives.
- Significant reduction in DBKL's operating budget that may impede continuity of existing contracts, as well as potentially variation orders.

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Risk Rating & Score ¹	NA
Score Momentum ²	NA
Last Updated	NA
Controversy Score ³ (Updated: NA)	NA

Business Model & Industry Issues

- ITMAX is a leading solution provider in the field of Public Space Networked Systems, therefore the group is constantly dealing with increased velocity of data usages as it expands its operational footprint.
- Its business operations are therefore susceptible to data leakages and breaches, hence cyber security measures i.e. anti-virus software and firewall system are therefore of paramount importance. Its customer's data is protected under Personal Data Protection Act (PDPA) 2010.
- Its smart city solutions also promote sustainable solutions i.e. the use of more energy-efficient LED street lights, intelligent traffic monitoring system to reduce traffic congestion, and monitoring of illegal rubbish dumping through its cameras.
- The group refers to the Global Reporting Initiative's (GRI) Sustainability Reporting Standards for its sustainability statement. It has yet to form a medium-term roadmap on its sustainability journey.

Material E issues

- Its smart city solutions i.e. the installation of LED street lights, intelligent traffic system, as well as using AI cameras for enhanced monitoring of river water levels and illegal rubbish dumping, help in reducing overall energy consumption and achieve lower carbon footprint.
- At the group level, total electricity consumption in FY22 rose by 0.15% YoY to 142,267 kWh, while water consumption rose by 9.3% to 108 m3 due to higher staff count, the return of staff to office premises post pandemic, as well as an increased number of projects involved.

Material S issues

- ITMAX employed 152 staff as at end-FY22, of which 29% were women (FY21: 24%). 34% were below 30 years of age, 58% between 30 and 50 years, and 8% above 50 years.
- The group provides professional training on safety and workplace communication in order to enhance personal development and soft skills of the staff. It also provides internship and university collaboration programmes with local institutions.
- ITMAX also organised seminars with the community to spread awareness on green, sustainable cities using technologies.

Key G metrics and issues

- The Board consist of 8 members, in which 4 are Independent Non-Executive Directors (INEDs), and 4 are female directors. There are 3 representatives in each of the nomination and remuneration committee, all of which are INEDs.
- The major shareholders i.e. Tan Sri Tan and Datin Afinaliza are both represented on the Board.
- KPMG PLT is the company's auditor.
- The group's Managing Director and Chief Executive Officer, William Tan received MYR746k in total compensation in FY22, representing 1.8% of the group's headline PAT.
- There were no material contracts of the company and its subsidiaries that involved the directors and major shareholders' interests in FY22.
- Its systems and processes are certified with International Organisation for Standardisation ("ISO") 9001:2015, which governs the standards for quality management system.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Risk Statement

There are several risk factors that could negatively impact our earnings forecasts, target price and recommendation on ITMAX System. These include a high dependency on non-recurring project-based contracts and large single customer (DBKL). Although it has subsisting contracts and a long working relationship with its key customer, failure to replenish its orderbook could adversely affect earnings.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	na	35.2	28.5	19.6	16.3
Core P/E (x)	na	32.8	28.2	19.6	16.3
P/BV (x)	na	5.1	5.5	4.5	3.8
P/NTA (x)	na	5.2	5.5	4.5	3.7
Net dividend yield (%)	na	0.6	0.7	1.0	1.1
FCF yield (%)	na	0.2	0.4	2.4	3.7
EV/EBITDA (x)	39.6	17.9	16.9	11.8	9.7
EV/EBIT (x)	45.4	21.0	19.7	13.5	11.1
INCOME STATEMENT (MYR m)					
Revenue	79.8	107.3	149.2	215.0	257.4
EBITDA	47.8	73.5	101.4	143.7	171.2
Depreciation	(6.1)	(10.7)	(14.3)	(18.4)	(22.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	41.8	62.9	87.1	125.3	149.0
Net interest income / (exp)	(0.9)	(2.6)	0.1	0.9	2.2
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	(3.9)	(0.7)	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	40.9	56.3	86.4	126.2	151.2
Income tax	(11.7)	(15.7)	(21.6)	(31.5)	(37.8)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	29.2	40.6	64.8	94.6	113.4
Core net profit	29.2	44.5	65.6	94.6	113.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	30.0	217.6	197.0	209.3	242.7
Accounts receivable	15.4	18.3	25.5	36.7	43.9
Inventory	10.6	8.4	22.3	31.7	38.0
Property, Plant & Equip (net)	95.2	127.3	173.0	214.6	252.4
Intangible assets	1.0	3.8	3.8	3.8	3.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	11.0	16.5	16.5	16.5	16.5
Total assets	163.1	391.9	438.2	512.7	597.3
ST interest bearing debt	19.8	19.0	19.0	19.0	19.0
Accounts payable	26.1	15.8	24.4	36.9	44.0
LT interest bearing debt	55.2	56.5	41.5	26.5	11.5
Other liabilities	8.0	15.0	15.0	15.0	15.0
Total Liabilities	109.2	106.1	99.7	97.3	89.4
Shareholders Equity	53.9	285.8	338.4	409.1	492.5
Minority Interest	0.0	0.0	0.0	6.3	15.4
Total shareholder equity	53.9	285.8	338.4	415.4	507.9
Total liabilities and equity	163.1	391.9	438.2	512.7	597.3
CASH FLOW (MYR m)					
Pretax profit	40.9	56.3	86.4	126.2	151.2
Depreciation & amortisation	6.1	10.7	14.3	18.4	22.2
Adj net interest (income)/exp	0.9	2.6	(0.1)	(0.9)	(2.2)
Change in working capital	(4.8)	(24.8)	(12.4)	(8.1)	(6.4)
Cash taxes paid	(6.1)	(8.5)	(21.6)	(31.5)	(37.8)
Other operating cash flow	1.1	4.8	0.7	0.0	0.0
Cash flow from operations	38.3	41.3	67.4	105.0	129.2
Capex	(49.2)	(39.0)	(60.0)	(60.0)	(60.0)
Free cash flow	(10.9)	2.3	7.4	45.0	69.2
Dividends paid	(6.0)	(8.0)	(13.0)	(17.7)	(20.9)
Equity raised / (purchased)	0.0	203.9	0.0	0.0	0.0
Change in Debt	35.8	(2.5)	(15.0)	(15.0)	(15.0)
Other invest/financing cash flow	(8.1)	(11.9)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	10.8	183.8	(20.6)	12.3	33.4

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	67.8	34.5	39.1	44.1	19.7
EBITDA growth	143.0	53.7	37.8	41.8	19.1
EBIT growth	137.9	50.4	38.6	43.8	18.9
Pretax growth	132.2	37.6	53.5	46.0	19.9
Reported net profit growth	130.7	38.9	59.7	46.0	19.9
Core net profit growth	130.7	52.3	47.3	44.3	19.9
Profitability ratios (%)					
EBITDA margin	60.0	68.5	67.9	66.8	66.5
EBIT margin	52.4	58.6	58.4	58.3	57.9
Pretax profit margin	51.3	52.5	57.9	58.7	58.7
Payout ratio	0.0	20.0	20.0	18.7	18.4
DuPont analysis					
Net profit margin (%)	36.6	37.8	43.4	44.0	44.1
Revenue/Assets (x)	0.5	0.3	0.3	0.4	0.4
Assets/Equity (x)	3.0	1.4	1.3	1.3	1.2
ROAE (%)	69.1	23.9	20.8	25.3	25.2
ROAA (%)	21.4	16.0	15.8	19.9	20.4
Liquidity & Efficiency					
Cash conversion cycle	(271.8)	(140.7)	(7.7)	20.3	16.1
Days receivable outstanding	73.8	56.5	52.8	52.0	56.4
Days inventory outstanding	183.0	164.1	198.3	237.0	250.1
Days payables outstanding	528.5	361.4	258.9	268.8	290.3
Dividend cover (x)	nm	5.0	5.0	5.4	5.4
Current ratio (x)	1.3	6.5	5.3	4.8	5.0
Leverage & Expense Analysis					
Asset/Liability (x)	1.5	3.7	4.4	5.3	6.7
Net gearing (%) (incl perps)	83.6	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	83.6	net cash	net cash	net cash	net cash
Net interest cover (x)	48.7	24.1	na	na	na
Debt/EBITDA (x)	1.6	1.0	0.6	0.3	0.2
Capex/revenue (%)	61.7	36.4	40.2	27.9	23.3
Net debt/ (net cash)	45.1	(142.1)	(136.6)	(163.9)	(212.2)

Source: Company; Maybank IBG Research

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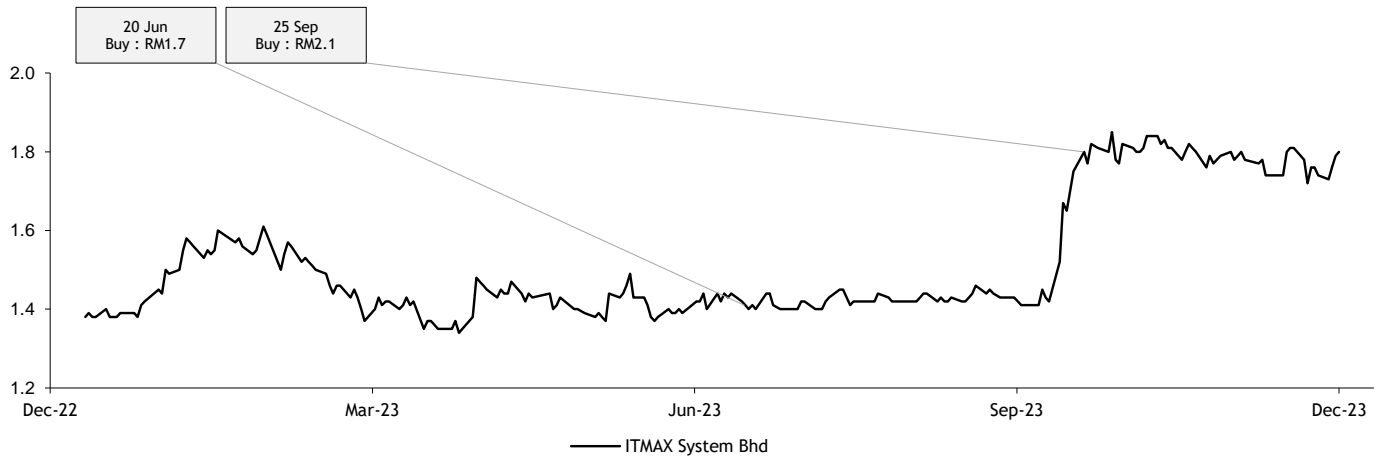
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