August 28, 2024

Maybank Investment Bank

Technology

Malaysia

ITMAX System Bhd (ITMAX MK)

2Q24: Seeing continuous growth

BUY

Share Price	MYR 3.22
12m Price Target	MYR 4.25 (+32%)
Previous Price Target	*MYR 4.25*

BUY maintained; top pick for MY software

ITMAX's 1H24 results was satisfactory, with earnings momentum expected to pick up in 2H as more CCTV units are added to its network in Johor. Our FY24-26E earnings forecasts are unchanged. Our BUY rating and 1.4x PEG-derived TP of MYR4.25 are also maintained. ITMAX remains our top MY software pick for its robust growth offering 2Y [FY24-26E] CNP CAGR of 30% and with a compelling outlook as MY's leading "smart city" player.

Results within expectations; record turnover

Ex-one offs (-MYR0.1m), ITMAX registered 2Q24 core earnings of MYR19.2m (+28% YoY, +8% QoQ). Cumulatively, 1H24 core net profit of MYR37.1m (+20% YoY) met expectations, at 48% of ours/consensus' FY24E earnings respectively. ITMAX's 2Q24 turnover of MYR53.2m (+60% YoY, +16% QoQ) was another quarterly record, primarily underscored by sequential increases in segmental revenue from DIS (+4% QoQ) and SIM (+30% QoQ). Both segments collectively accounted for 98.5% of ITMAX's 2Q24 turnover.

Maiden CCTV contribution from MBJB

Robust SIM segment growth in 2Q24 was underpinned by (i) ongoing M&E works for its Segamat Specialist Hospital (SSH) project (c.70% completed as at end-2Q24) and (ii) contribution from DBKL's VO7 contract for street lighting (awarded in 1Q24). Meanwhile, the DIS segment saw maiden contribution from c.300 CCTVs installed for MBJB in the quarter, alongside stable revenue generation from its existing subscription-based DBKL and PDRM CCTV network. ITMAX's 2Q24 EBITDA margin saw a small QoQ decline (-3.6ppts), primarily from SSH/VO7-related procurement costs.

Growth to be supported by Johor CCTV installations

CCTV installation momentum for its other Johor-related CCTV contracts (MBIP/MBPG/MBKu – 500/340/300 CCTVs) remains on track. Our forecasts have imputed for c.1,300 CCTV unit installation in Johor by end-4Q24. The margin-dilutive SSH project is also expected to complete by Dec 2024. As at end-2Q24, ITMAX's unbilled orderbook was a healthy c.MYR1.5b (lasting through till 2039), while its tender book stood at c.MYR300-400m.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	107	150	186	253	313
EBITDA	72	95	125	168	207
Core net profit	43	64	77	104	131
Core EPS (sen)	4.2	6.2	7.5	10.1	12.7
Core EPS growth (%)	48.2	47.6	21.1	34.3	26.0
Net DPS (sen)	0.8	1.2	1.5	2.0	2.5
Core P/E (x)	33.7	28.8	42.8	31.8	25.3
P/BV (x)	5.1	5.5	8.3	6.9	5.6
Net dividend yield (%)	0.6	0.7	0.5	0.6	0.8
ROAE (%)	23.9	20.3	21.0	23.6	24.5
ROAA (%)	15.6	15.6	17.0	20.0	21.3
EV/EBITDA (x)	18.2	18.0	25.4	18.6	14.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	77	104	131
MIBG vs. Consensus (%)	-	-	0.0	(0.0)	0.0

Company Description

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

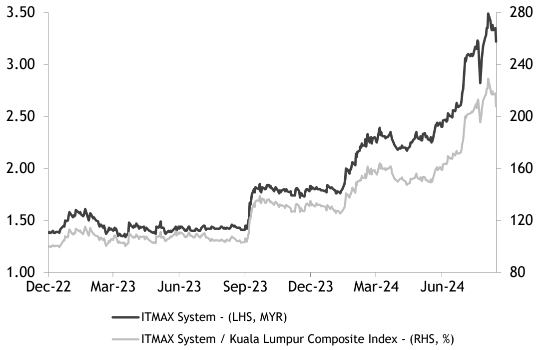
Statistics

52w high/low (MYR)	3.49/1.41
3m avg turnover (USDm)	1.8
Free float (%)	36.1
Issued shares (m)	1,028
Market capitalisation	MYR3.3B
	USD762M

Major shareholders:

Sena Holdingds Sdn. Bhd.	53.2%
BINTI ZAINAL ABIDIN AFINALIZA	10.6%
Kenanga Investors Bhd.	2.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	42	121
Relative to index (%)	3	40	94

Source: FactSet

Abbreviations:
CCTV - closed-circuit television
DBKL - Dewan Bandaraya Kuala Lumpur
DIS - Digital Infrastructure Solutions
M&E - mechanical & electrical services
MBIP - Majlis Bandaraya Iskandar Puteri
MBJB - Majlis Bandaraya Johor Bahru
MBPG - Majlis Bandaraya Pasir Gudang
MBKu - Majlis Bandaraya Kulai
PDRM - Polis Diraja Malaysia
SIM - supply, installation & maintenance
VO - Variation Order

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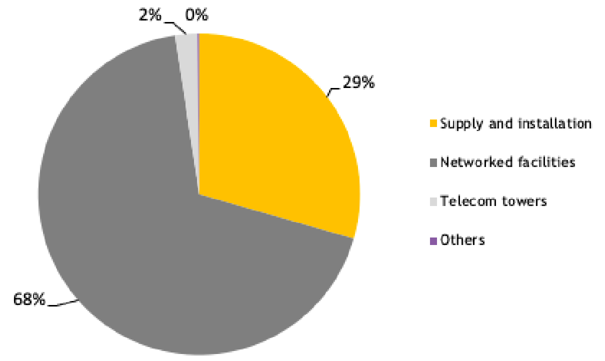
Value Proposition

- 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.

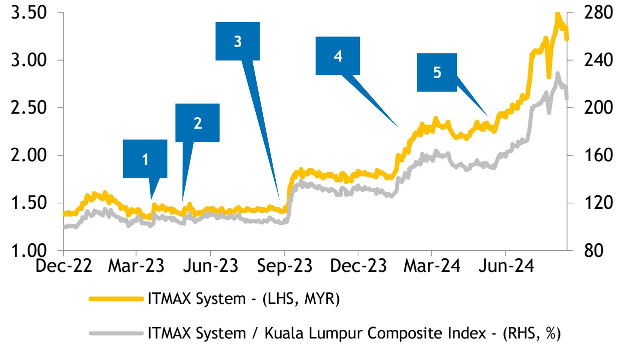
Revenue by business segment - FY23



Source: Company

Price Drivers

Historical share price trend



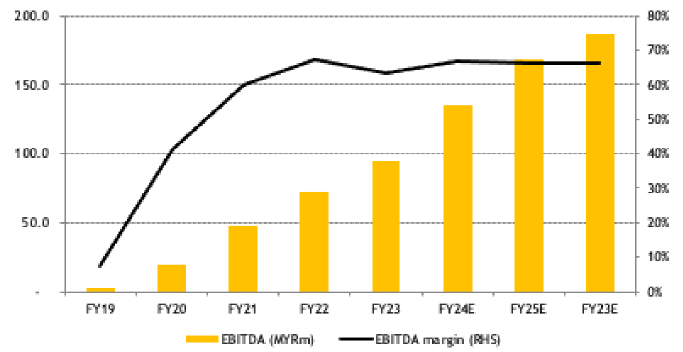
Source: Company, Maybank IBG Research

1. Received a 3-year, MYR57m contract extension for street lighting system in Kuala Lumpur.
2. The state of Johor approved the acquisition of 1,500 smart CCTVs for installation in 3 major cities in the state.
3. Receives first two LOAs for CCTV installation in Johor from MBJB (Johor Bahru) and MBIP (Iskandar Puteri).
4. Receives Variation Order 7 (VO7) from DBKL for street lighting replacement works.
5. Awarded 4th LOA for Greater JB, completing clean sweep of contract award wins for the metropolitan area.

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 67% in FY22 and 63% in FY23 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 EBITDA and margin (MYR'm)



Source: Company

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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Fig 1: ITMAX 2Q24 Quarterly Results Summary

FYE Dec (MYR m)	2Q24	2Q23	% YoY	1Q24	% QoQ	6M24	6M23	% YoY
Turnover	**53.2**	**33.4**	**59.6**	**45.8**	**16.2**	**99.1**	**68.0**	**45.6**
Cost of sales	(15.9)	(5.5)	187.1	**(11.9)**	**33.3**	(27.9)	(11.2)	149.4
Gross profit	**37.3**	**27.8**	**34.2**	**33.9**	**10.1**	**71.2**	**56.9**	**25.3**
Operating expense	(8.0)	(6.0)	34.1	**(7.0)**	**14.3**	(15.1)	(11.5)	30.6
EBITDA	**29.3**	**21.8**	**34.3**	**26.9**	**9.0**	**56.2**	**45.3**	**23.9**
Depreciation & amortisation	(4.4)	(3.6)	21.9	**(4.2)**	**5.0**	(8.5)	(7.1)	20.0
EBIT	**24.9**	**18.2**	**36.7**	**22.7**	**9.8**	**47.6**	**38.2**	**24.6**
Interest expense	(0.8)	(1.3)	(40.1)	**(0.8)**	**(8.3)**	(1.6)	(2.3)	(30.7)
Interest income	1.5	1.8	(14.4)	**1.7**	**(10.4)**	3.3	3.8	(14.4)
Associates & JV	-	-	nm	-	nm	-	-	nm
One-off items	(0.1)	**0.1**	nm	**0.2**	**nm**	0.1	(0.6)	nm
Pre-tax profit	**25.6**	**18.8**	**36.1**	**23.7**	**7.9**	**49.4**	**39.1**	**26.2**
Tax	(6.3)	(3.7)	69.7	**(5.6)**	**12.8**	(11.9)	(8.8)	35.0
Minority interest	(0.2)	0.0	nm	**(0.1)**	**nm**	(0.3)	0.0	nm
Net profit	**19.2**	**15.1**	**26.7**	**18.0**	**6.2**	**37.2**	**30.3**	**22.7**
Core net profit	**19.2**	**15.0**	**27.9**	**17.9**	**7.6**	**37.1**	**30.9**	**20.1**
Gross margin (%)	70.1%	83.4%	-13.3%	74.0%	-3.8%	71.9%	83.6%	-11.7%
EBITDA margin (%)	55.0%	65.4%	-10.4%	58.6%	-3.6%	56.7%	66.6%	-9.9%
Pretax profit margin (%)	48.1%	56.5%	-8.3%	51.8%	-3.7%	49.8%	57.5%	-7.7%
Core net profit margin (%)	36.1%	45.1%	-9.0%	39.0%	-2.9%	37.4%	45.4%	-8.0%
Effective tax rate (%)	24.6%	19.7%	4.9%	23.6%	1.1%	24.1%	22.5%	1.6%

Source: Company, Maybank IBG Research

Fig 2: ITMAX's TP Derivation based on PEG

FY25E EPS (sen) = (a)	10.1
Earnings 2Y CAGR 24-26E (%)	30.1
PEG ratio (x) - pegged to the regional peer median of 1.4x	1.4
Implied PER at FY25E (x) = (b)	42.1
Value per share (MYR) = (a) x (b)	**4.25**

Source: Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	35.2	25.1	42.8	31.8	25.3
Core P/E (x)	33.7	28.8	42.8	31.8	25.3
P/BV (x)	5.1	5.5	8.3	6.9	5.6
P/NTA (x)	5.2	5.5	8.3	6.8	5.5
Net dividend yield (%)	0.6	0.7	0.5	0.6	0.8
FCF yield (%)	0.2	0.4	1.0	1.9	2.9
EV/EBITDA (x)	18.2	18.0	25.4	18.6	14.8
EV/EBIT (x)	16.5	57.6	29.8	21.4	16.9
INCOME STATEMENT (MYR m)					
Revenue	107.3	149.7	186.3	253.2	313.3
EBITDA	72.4	94.6	124.6	168.4	207.2
Depreciation	(10.7)	(14.7)	(18.4)	(22.2)	(25.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	79.9	29.6	106.2	146.2	181.7
Net interest income /(exp)	(2.6)	3.2	0.8	1.9	3.6
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(2.7)	(0.7)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	56.3	82.4	107.0	148.2	185.2
Income tax	(15.7)	(19.2)	(26.7)	(37.0)	(46.3)
Minorities	0.0	0.0	(2.8)	(7.2)	(7.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	40.6	63.2	77.4	104.0	131.0
Core net profit	43.3	63.9	77.4	104.0	131.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	217.6	196.5	197.4	225.0	284.4
Accounts receivable	18.3	25.5	31.8	43.2	53.4
Inventory	8.4	13.9	15.7	20.3	24.4
Property, Plant & Equip (net)	127.3	172.6	214.3	252.1	286.5
Intangible assets	3.8	3.8	3.8	3.8	3.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	16.5	16.5	16.5	16.5	16.5
Total assets	**391.9**	**428.9**	**479.4**	**560.9**	**669.0**
ST interest bearing debt	19.0	19.0	19.0	19.0	19.0
Accounts payable	15.8	16.4	17.2	23.3	28.8
LT interest bearing debt	56.5	41.5	26.5	11.5	1.5
Other liabilities	15.0	15.0	15.0	15.0	15.0
Total Liabilities	**106.1**	**91.8**	**77.6**	**68.7**	**64.1**
Shareholders Equity	285.8	337.1	399.0	482.2	587.0
Minority Interest	0.0	0.0	2.8	10.0	17.9
Total shareholder equity	**285.8**	**337.1**	**401.9**	**492.2**	**604.9**
Total liabilities and equity	**391.9**	**428.9**	**479.4**	**560.9**	**669.0**
CASH FLOW (MYR m)					
Pretax profit	56.3	82.4	107.0	148.2	185.2
Depreciation & amortisation	10.7	14.7	18.4	22.2	25.6
Adj net interest (income)/exp	2.6	(3.2)	(0.8)	(1.9)	(3.6)
Change in working capital	(24.8)	(12.1)	(7.2)	(9.9)	(8.9)
Cash taxes paid	(8.5)	(19.2)	(26.7)	(37.0)	(46.3)
Other operating cash flow	4.7	0.7	0.0	0.0	0.0
Cash flow from operations	41.3	66.6	91.4	123.4	155.6
Capex	(39.0)	(60.0)	(60.0)	(60.0)	(60.0)
Free cash flow	2.3	6.6	31.4	63.4	95.6
Dividends paid	(8.0)	(12.6)	(15.5)	(20.8)	(26.2)
Equity raised / (purchased)	203.9	0.0	0.0	0.0	0.0
Change in Debt	(2.5)	(15.0)	(15.0)	(15.0)	(10.0)
Other invest/financing cash flow	(11.9)	0.0	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	183.8	(21.1)	1.0	27.6	59.4

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	34.5	39.5	24.5	35.9	23.7
EBITDA growth	51.3	30.7	31.7	35.1	23.1
EBIT growth	91.3	(63.0)	259.3	37.6	24.3
Pretax growth	37.6	46.3	29.8	38.5	25.0
Reported net profit growth	38.9	55.7	22.5	34.3	26.0
Core net profit growth	48.2	47.6	21.1	34.3	26.0
Profitability ratios (%)					
EBITDA margin	67.5	63.2	66.9	66.5	66.2
EBIT margin	74.5	19.8	57.0	57.7	58.0
Pretax profit margin	52.5	55.1	57.4	58.5	59.1
Payout ratio	20.3	19.5	20.0	20.0	20.0
DuPont analysis					
Net profit margin (%)	37.8	42.2	41.5	41.1	41.8
Revenue/Assets (x)	0.3	0.3	0.4	0.5	0.5
Assets/Equity (x)	1.4	1.3	1.2	1.2	1.1
ROAE (%)	23.9	20.3	21.0	23.6	24.5
ROAA (%)	15.6	15.6	17.0	20.0	21.3
Liquidity & Efficiency					
Cash conversion cycle	(165.1)	(5.7)	35.0	36.4	34.0
Days receivable outstanding	56.5	52.7	55.4	53.3	55.5
Days inventory outstanding	184.4	133.2	149.7	131.0	128.9
Days payables outstanding	406.0	191.6	170.0	147.9	150.5
Dividend cover (x)	4.9	5.1	5.0	5.0	5.0
Current ratio (x)	6.5	6.2	6.3	6.4	7.1
Leverage & Expense Analysis					
Asset/Liability (x)	3.7	4.7	6.2	8.2	nm
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	30.4	na	na	na	na
Debt/EBITDA (x)	1.0	0.6	0.4	0.2	0.1
Capex/revenue (%)	36.4	40.1	32.2	23.7	19.2
Net debt/ (net cash)	(142.1)	(136.0)	(152.0)	(194.6)	(264.0)

Source: Company; Maybank IBG Research

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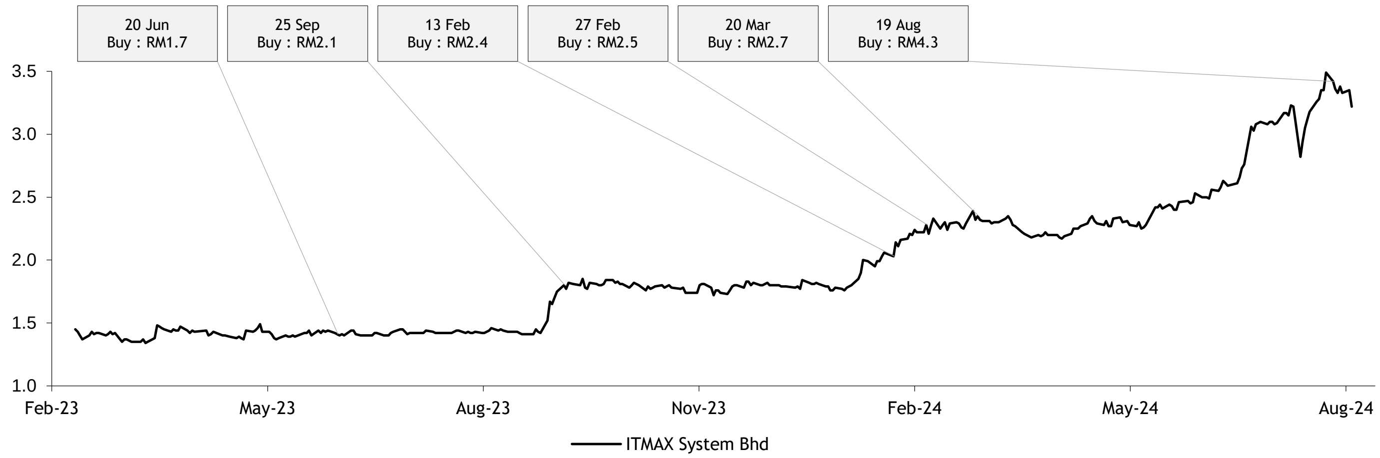

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