

SAM Eng & Equipment (SEQB MK)

Expecting sequential quarterly improvements

Lowering FY25-27E earnings; maintain BUY

We cut FY25E EPS by 19% to account for: i) lower aerospace revenue and margins as we factor in a gradual improvement from 2QFY25E after impacted by raw material shortages and material quality defects from a supplier; and ii) a higher group effective tax rate. We also trim FY26-27E EPS by 7%/6% to account for a slower ramp up of its RJ2 + BB1 plants due to delay in the semiconductor sector recovery. Consequently, our new TP is MYR5.71 (previously MYR6.15), based on unchanged 32.7x PER (approx. +1SD of 5Y mean) on FY26E EPS. Maintain BUY.

Upcoming quarters should see improvement

1QFY25 core net profit (CNP) of MYR9.9m (-68% QoQ, -43% YoY) was dragged by the aerospace segment due to: i) deliveries that were temporarily halted due to a change in product design; and ii) material shortages and quality defects found in materials from a supplier. However, our industry checks indicate that these issues are only a temporary blip, and operations should normalise in the next 1-2 quarters.

Global aerospace growth outlook still intact

Our research finds that both Airbus and Boeing plan to raise their monthly production from 2026-2027. Forecast International (a US-based market researcher) estimates the Jul 2024 monthly production rate for A320neo is 52, still behind 2019's level of 60. Airbus plans to ramp up this model's production rate to 75 by 2027. Also, Boeing plans to raise its production of 737Max and 787 to 50 and 10 units each by 2026 (from <38 and 4 units currently), which will still be behind 2019's level of 52 and 12. This is due to supply chain disruptions/shortages: i) shortage of engines, landing gears, seats and toilets; ii) FAA restricting B737Max due to door plug issues; iii) incorrect installation of fasteners on B787 fuselages.

Structurally still a secular growth stock

We expect earnings to gradually improve from 2QFY25E as issues at its aerospace segment are resolved. We still like SAMEE as a secular growth stock with Customer X and Y (FE SPEs) as top-paying customers. Our revised earnings imply a 13% 3-year FY24-27E CNP CAGR. SAMEE has guided for a doubling in revenue in 5 years.

FYE Mar (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	1,445	1,497	1,660	1,930	2,200
EBITDA	196	247	225	270	321
Core net profit	83	108	81	118	156
Core EPS (sen)	12.2	16.0	11.9	17.5	23.0
Core EPS growth (%)	18.2	31.3	(25.5)	46.4	32.0
Net DPS (sen)	2.5	3.3	3.0	4.4	5.8
Core P/E (x)	36.5	31.1	35.1	24.0	18.2
P/BV (x)	3.7	2.4	1.9	1.8	1.7
Net dividend yield (%)	0.6	0.7	0.7	1.0	1.4
ROAE (%)	11.8	9.7	5.5	7.7	9.5
ROAA (%)	5.9	5.9	3.8	5.2	6.4
EV/EBITDA (x)	17.7	14.7	13.6	11.2	9.2
Net gearing (%) (incl perps)	56.3	18.2	14.5	11.5	6.7
Consensus net profit	-	-	97	124	152
MIBG vs. Consensus (%)	-	-	(17.1)	(4.5)	2.4

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BUY

Share Price	MYR 4.19
12m Price Target	MYR 5.71 (+37%)
Previous Price Target	MYR 6.15

Company Description

Sam Engineering & Equipment (M) Bhd is a contract manufacturer of production equipment and aerospace products

Statistics

52w high/low (MYR)	6.74/3.49
3m avg turnover (USDm)	1.0
Free float (%)	42.3
Issued shares (m)	677
Market capitalisation	MYR2.8B
	USD662M

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Co)	55.2%
EPF	6.7%
Norges	2.8%

Price Performance



— SAM EGE - (LHS, MYR) — SAM EGE / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	0	(35)	(5)
Relative to index (%)	1	(36)	(18)

Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

Risk Rating & Score ¹	24.7 (Medium)
Score Momentum ²	+0.7
Last Updated	27 Apr 2024
Controversy Score ³ (Updated: 27 Oct 2021)	0

Business Model & Industry Issues

- SAMEE has decent disclosures and has established an ESG framework - in which its guiding principles are aligned with the relevant United Nations Sustainable Development Goals. SAMEE recognises the importance of aligning with the TCFD recommendations and are actively working towards integrating them into its sustainability framework.
- SAMEE's targets to reduce 10% of GHG emissions intensity each year over the next 3 years. The Group has launched several new initiatives to enhance its ESG performance, including a water management plan, rainwater harvesting, operational reduction, solar panel installation, car-pooling system, recycling programmes and operational sustainability.
- We are comfortable with SAMEE given its strong track record across the ESG parameters and compliance with international standards.

Material E issues

- In FY23, waste intensity: 0.31MT per MYR'm revenue (FY22: 0.26MT).
- In FY23, energy intensity: 27.14 MWh per MYR'm revenue (FY22: 30.00 MWh).
- In FY23, water intensity: 0.12 mega litres per MYR'm revenue (FY22: 0.12 mega litres).
- In FY23, GHG intensity: 14.12MT CO2e per MYR'm revenue (FY22: 15.18MT CO2e).
- SAMEE will consider the collection and calculation of Scope 3 emission data where feasible, to assess the carbon emissions of the industry and seek decarbonisation opportunities from the perspective of the supply chain.
- SAMEE has set a target to reduce its GHG emission intensity by 10% every year for the next 3 years.

Material S issues

- Has a diversified workforce, with 27% non-Malaysian employees in FY22 (FY21: 25%).
- Female representation in FY23: (i) managerial level positions (28%); (ii) non-managerial level (18%).
- Managerial level age group in FY23: (i) 1% under 30 years old; (ii) 80% between 30-50 years old; (iii) 19% over 50 years old.
- Non-managerial level age group in FY23: (i) 57% under 30 years old; (ii) 37% between 30-50 years old; (iii) 6% over 50 years old.
- FY23 average training hours per employee in Malaysia: (i) 41.40 hours for management position; (ii) 69.92 hours for non-management position.

Key G metrics and issues

- SAMEE's Board comprises 7 directors - 4 Independent Non-Executive Directors (INEDs), 2 NINEDs (incl. Chairman), and 1 ED (CEO). Independent directors make up 57% of total, thus meeting the recommendations of the Malaysian Code on Corporate Governance (MCCG).
- A very experienced and gender-diversified Board - 57% are above 60 years old and 29% are female, about in-line with the MCCG recommendation for 30% female directors.
- Temasek is SAMEE's major shareholder with a 55.2% stake.
- SAMEE has been audited by KPMG, one of the Big Four accounting firms globally since FY11, per Bursa records.
- Its Audit Committee is made up of 3 INEDs and 1 NINED.
- Its Risk & Sustainability Committee is made up of 2 INEDs and 1 NINED.
- Its Board Nomination & Remuneration Committee comprises 2 INED and 1 NINED.
- SAMEE completed the acquisition of a 100% stake in Aviatron (M) S/B from Singapore Aerospace Manufacturing Pte Ltd, the holding company of SAMEE, for MYR203.4m cash on 26 Feb 2024.
- SAMEE implemented a 1-for-4 rights issue at MYR3.60 per rights share, that raised MYR487m, also completed on 26 Feb 2024.

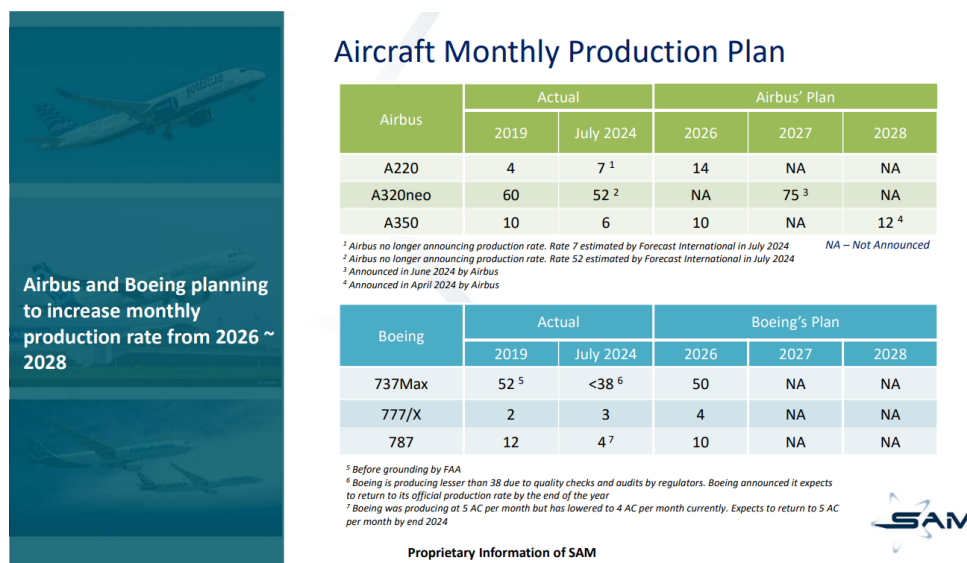
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven 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).

Revising forecasts

We lower FY25E CNP by 19% to account for: i) lower aerospace segment revenue and profit margin as we factor in a gradual improvement from 2QFY25E after impacted by raw material shortages and material quality defects from a supplier which were non-conformant in 1QFY25; and ii) a higher group effective tax rate. We have lowered FY25E aerospace revenue by 3% and aerospace PBT margin by 0.7ppts to 0.3%. Our revised group effective tax rate is 29% (vs. 24% previously) as some of its subsidiaries are loss-making.

We also trim FY26-27E EPS by 7%/6% to account for a slower ramp up of its RJ2 + BB1 plants due to a delay in the semiconductor sector recovery. We trim our FY26-27E equipment segment's revenue by 7%/6% respectively.

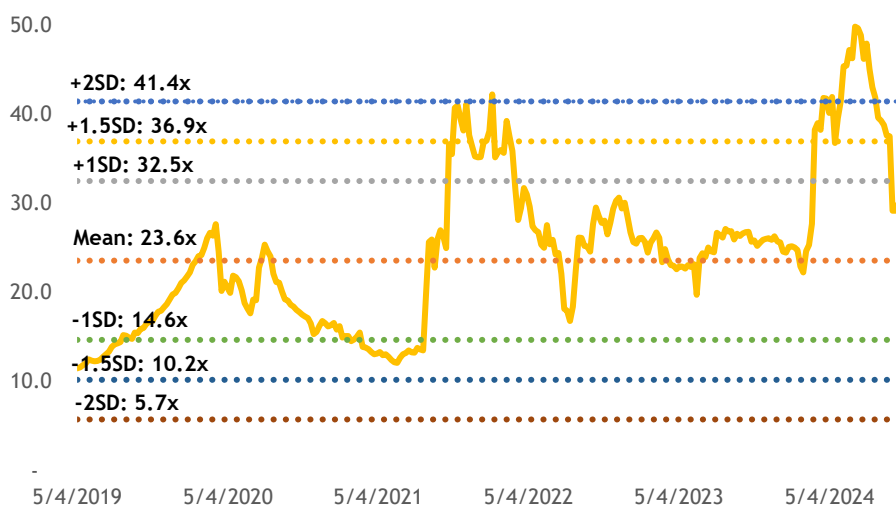
Fig 1: Aircraft Monthly Production Plan



Source: Company, Maybank IBG Research

Valuation

Fig 2: 12M forward PER



Source: Maybank IBG Research, Bloomberg

Risk statement

There are several risk factors affecting our earnings estimates, target price and rating for SAMEE such as: i) a longer-than-expected delay in recovery in both the semiconductor and aviation industry; ii) a reduction/loss in market share for supplies to Customer X; iii) production issues for both its aerospace and equipment segments.

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	33.9	27.4	35.1	24.0	18.2
Core P/E (x)	36.5	31.1	35.1	24.0	18.2
P/BV (x)	3.7	2.4	1.9	1.8	1.7
P/NTA (x)	3.7	2.4	1.9	1.8	1.7
Net dividend yield (%)	0.6	0.7	0.7	1.0	1.4
FCF yield (%)	nm	nm	2.3	2.3	3.8
EV/EBITDA (x)	17.7	14.7	13.6	11.2	9.2
EV/EBIT (x)	26.7	20.8	24.5	18.3	14.0

INCOME STATEMENT (MYR m)

Revenue	1,445.4	1,497.4	1,660.1	1,930.1	2,200.1
EBITDA	196.1	247.4	224.8	269.9	321.3
Depreciation	(66.1)	(72.9)	(100.3)	(105.3)	(110.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	130.0	174.5	124.5	164.7	211.0
Net interest income / (exp)	(15.1)	(30.7)	(10.8)	(9.1)	(5.7)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	115.0	143.8	113.7	155.6	205.3
Income tax	(26.1)	(35.2)	(33.0)	(37.3)	(49.3)
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	88.8	108.6	80.7	118.2	156.0
Core net profit	82.5	108.4	80.7	118.2	156.0

BALANCE SHEET (MYR m)

Cash & Short Term Investments	21.0	36.2	111.0	175.3	273.0
Accounts receivable	342.1	461.0	511.1	594.2	677.3
Inventory	481.1	399.6	443.1	515.1	587.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	514.8	703.8	653.5	598.2	537.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	248.6	466.6	466.6	466.6	466.6
Total assets	1,607.6	2,067.2	2,185.2	2,349.5	2,542.0
ST interest bearing debt	404.6	278.4	308.4	338.4	368.4
Accounts payable	241.2	252.7	280.1	325.7	371.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	74.9	19.0	19.0	19.0	19.0
Other liabilities	72.0	84.0	84.0	84.0	84.0
Total Liabilities	792.8	633.8	691.3	766.8	842.4
Shareholders Equity	814.9	1,433.4	1,493.9	1,582.6	1,699.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	814.9	1,433.4	1,493.9	1,582.6	1,699.6
Total liabilities and equity	1,607.6	2,067.2	2,185.2	2,349.5	2,542.0

CASH FLOW (MYR m)

Pretax profit	115.0	143.8	113.7	155.6	205.3
Depreciation & amortisation	66.1	72.9	100.3	105.3	110.3
Adj net interest (income)/exp	13.7	0.0	0.0	0.0	0.0
Change in working capital	(203.7)	71.1	(66.1)	(109.6)	(109.6)
Cash taxes paid	(29.2)	(40.2)	(33.0)	(37.3)	(49.3)
Other operating cash flow	(4.8)	33.5	0.0	0.0	0.0
Cash flow from operations	(32.4)	238.3	114.9	113.9	156.7
Capex	(219.2)	(287.7)	(50.0)	(50.0)	(50.0)
Free cash flow	(251.6)	(49.4)	64.9	63.9	106.7
Dividends paid	(18.9)	(13.5)	(20.2)	(29.6)	(39.0)
Equity raised / (purchased)	0.0	487.4	0.0	0.0	0.0
Change in Debt	268.5	(379.9)	30.0	30.0	30.0
Other invest/financing cash flow	(28.3)	(43.0)	0.0	0.0	0.0
Effect of exch rate changes	20.3	13.6	0.0	0.0	0.0
Net cash flow	(10.0)	15.2	74.8	64.3	97.7

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	25.9	3.6	10.9	16.3	14.0
EBITDA growth	20.3	26.2	(9.1)	20.1	19.0
EBIT growth	26.4	34.2	(28.6)	32.2	28.1
Pretax growth	14.5	25.1	(20.9)	36.8	32.0
Reported net profit growth	17.8	22.2	(25.6)	46.4	32.0
Core net profit growth	18.2	31.3	(25.5)	46.4	32.0
Profitability ratios (%)					
EBITDA margin	13.6	16.5	13.5	14.0	14.6
EBIT margin	9.0	11.7	7.5	8.5	9.6
Pretax profit margin	8.0	9.6	6.8	8.1	9.3
Payout ratio	19.0	20.6	25.0	25.0	25.0
DuPont analysis					
Net profit margin (%)	6.1	7.3	4.9	6.1	7.1
Revenue/Assets (x)	0.9	0.7	0.8	0.8	0.9
Assets/Equity (x)	2.0	1.4	1.5	1.5	1.5
ROAE (%)	11.8	9.7	5.5	7.7	9.5
ROAA (%)	5.9	5.9	3.8	5.2	6.4
Liquidity & Efficiency					
Cash conversion cycle	130.7	151.5	143.7	141.0	142.7
Days receivable outstanding	82.0	96.5	105.4	103.1	104.0
Days inventory outstanding	115.0	125.2	104.1	103.1	105.3
Days payables outstanding	66.4	70.2	65.8	65.2	66.6
Dividend cover (x)	5.2	4.9	4.0	4.0	4.0
Current ratio (x)	1.5	2.1	2.2	2.2	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	3.3	3.2	3.1	3.0
Net gearing (%) (incl perps)	56.3	18.2	14.5	11.5	6.7
Net gearing (%) (excl. perps)	56.3	18.2	14.5	11.5	6.7
Net interest cover (x)	8.6	5.7	11.5	18.1	36.9
Debt/EBITDA (x)	2.4	1.2	1.5	1.3	1.2
Capex/revenue (%)	15.2	19.2	3.0	2.6	2.3
Net debt/ (net cash)	458.5	261.2	216.5	182.1	114.5

Source: Company; Maybank IBG Research

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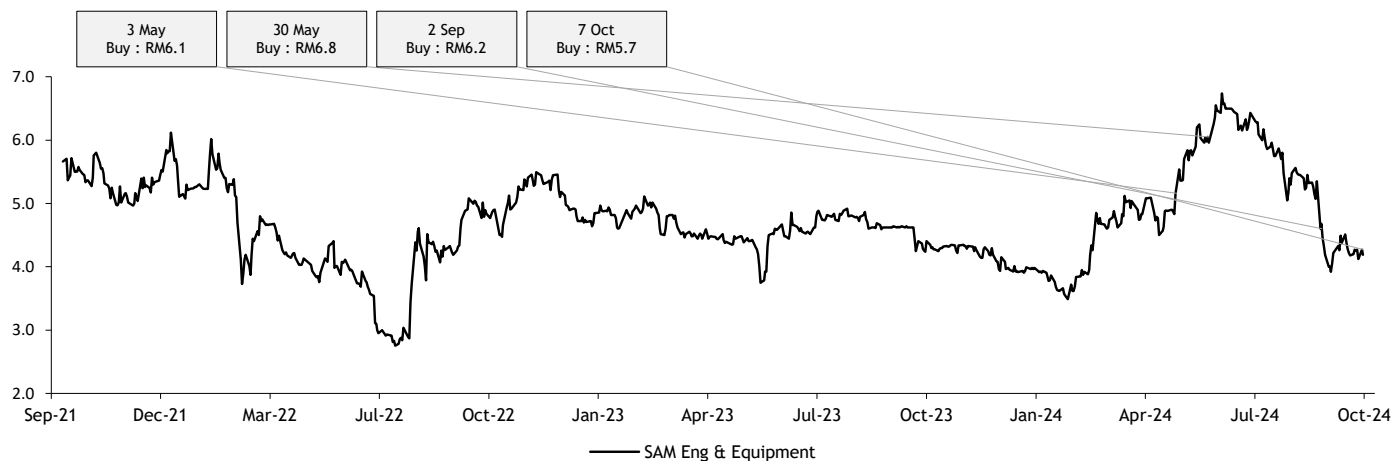
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