

## DS Sigma Holdings Bhd

### Superior margins total packaging solution provider

- Total packaging solutions provider with established track record that is underpinned by its manufacturing capabilities of corrugated paper packaging products as well as fast and lean inventory management system.
- We project core earnings to be driven by normalising economy in FY24, as well as the group's strategies to penetrate the northern region of Peninsular Malaysia within the solar PV and medical devices industries.
- DS Sigma is valued by pegging its FY24f core EPS of 5.0 sen to P/E of 16.0x, leading to a FV of RM0.80.

### Company Background

- DS Sigma Holdings bhd (DS Sigma) history traces back to 2002 following the establishment of Kaisung Industries Sdn Bhd (Kaisung) to undertake the supply of plastics and other protective packaging products mainly for customers in consumer electronics industry, with Samsung Electronics (Malaysia) Sdn Bhd (Samsung Electronics) being its first customer. Subsequently, Dai Suwon Packaging Sdn Bhd (DS Packaging) and Dai Suwon Manufacturing Sdn Bhd (DS Manufacturing) were incorporated in 2003 and 2004 respectively. The former focused on the supply of corrugated paper packaging products, while the latter focused on manufacturing.
- In 2006, the group (i) added new machineries such as flexographic printing machine, (ii) commenced of manufacturing of paper pallets, and (iii) commenced of processing for plastic and foam bags where it cut and seal plastics and foam sheets into bags. 2 new customers were secured in 2006, namely Sony Supply Chain Solutions (Malaysia) Sdn Bhd (SSCSM) and Panasonic Appliances Air-Conditioning Malaysia Sdn Bhd (PAACM), while another key customer namely Panasonic AVC Network Kuala Lumpur Malaysia Sdn Bhd (PAVC) was secured in 2010.
- In 2013, the group secured Sony EMCS (Malaysia) Sdn Bhd (SOEM) as another key customer. An additional flexographic printing machine has been purchased to cater to increasing demand. In 2014, DS Sigma purchased Nilai factory and relocate 1 of its corrugated carton printing lines to the factory. The group's manufacturing operations was relocated to No.29 Klang Factory in 2015.
- DS Sigma acquired additional factory (No.27) next to No.29 Klang site in 2018. Its subsidiary, DS packaging commenced manufacturing of corrugated paper packaging products and purchased its first automatic flatbed die-cutting machine to produce folder-type cartons and trays with complex cuts and in larger quantities. In 2019, DS Packaging purchased its own flexographic printing machine and the group purchased its first automatic folding, stitching, and gluing machine. In 2022, another flexographic printing machine was acquired to replace existing machines.
- DS Sigma, headed by its Managing Director, Lucille Teoh Soo Lien and its Executive Director, Beh Seng Lee who bring with them circa 30 and 29 years of experience in the packaging industry, respectively will be listed on the ACE Market in 2023.

Not-Rated

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### Not Rated

Share price	RM0.55
Target price	RM0.80
Previous TP	-
Capital upside	45.5%
Dividend return	-
Total return	32.7%

FBM KLCI	1,467.32
FBM Small Cap	15,047.57

### Company profile

DS Sigma is principally involved in the manufacturing of corrugated paper packaging products including cartons, protective packaging, and paper pallets as well as supply of non-paper based protective packaging products such as plastics, foam, and rubber products.

### Stock information

Bursa Code	0269
Bloomberg ticker	DSS MK
Listing market	ACE
Share issued (m)	480.0
Market Cap (m)	264.0
52W High/Low	-
Est. Free float	33.3
Beta	-
3-mth avg vol ('000)	-
Shariah compliant	-

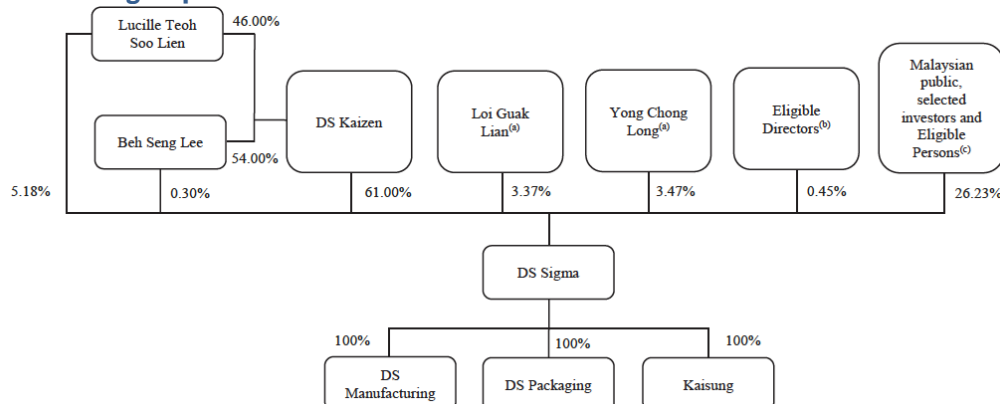
### Major shareholders

	%
DS Kaizen	61.0
Lucille Teoh Soo Lien	5.2
Beh Seng Lee	0.3

### Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	20.9	19.6	23.9
EPS (sen)	4.4	4.1	5.0
P/E (x)	12.6	13.5	11.1

## Post-IPO group structure



Source: Company, prospectus

## Business Overview

Business Activities and Revenue Streams	Principal Market	Our Distribution Channel and Customer Base
<p><b>Packaging Products</b></p> <p>Manu-facturing → Supply</p>	<p><b>Malaysia</b></p> <p>We operate in Malaysia where we serve customers in Selangor, Negeri Sembilan and Johor</p>	<p><b>Direct Channel</b></p> <ul style="list-style-type: none"> <li>Consumer electronic product manufacturers</li> <li>Parts manufacturers<sup>(a)</sup></li> <li>Other end users<sup>(b)</sup></li> </ul> <p><b>Indirect Channel</b></p> <ul style="list-style-type: none"> <li>Procurement centre</li> <li>Others<sup>(c)</sup></li> </ul>

Source: Company, prospectus

- DS Sigma is a total packaging solutions provider with its in-house manufacturing of corrugated paper packaging products including cartons, protective packaging and paper pallets. Complementing its services, the group supply a variety of non-paper based protective packaging products which include plastic, foam, and rubber products.

## Corrugated paper packaging products



Source: Company

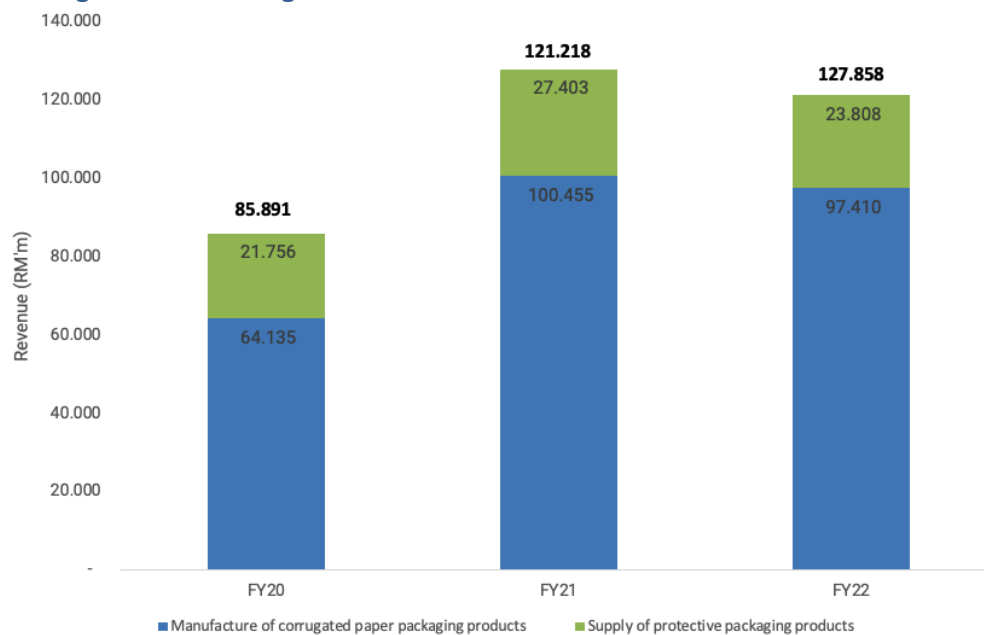
## Plastic-based protective packaging products



Source: Company

- Manufacturing of corrugated paper packaging products was the major contributor to DS Sigma's revenue, accounted for 74.7-80.4% of its revenue in FY20-22. Meanwhile, supply of protective packaging products accounted for 19.6-25.3% of its revenue.

## DS Sigma's revenue segmentation



Source: Company, MSSB Research

- DS Sigma focuses on providing industrial packaging such as packaging for metal, plastics, E&E components, as well as consumer durable goods packaging such as packaging for television and microwave ovens. Its principal market is Malaysia as the group mainly serves customers located in Selangor, Negeri Sembilan, and Johor.

## DS Sigma's major customers in FY22

Major customers	Length of relationship (Years)	Revenue contribution	
		RM ('m)	%
(i) Samsung Electronics	20	22.9	18.9%
(ii) SOEM	9	22.9	18.9%
(iii) SSCSM	16	21.6	17.8%
(iv) PAACM	16	18.1	15.0%
(v) YH Precision (M) Sdn Bhd	19	6.2	5.1%
<b>Total</b>		<b>91.7</b>	<b>75.6%</b>

Source: Company, prospectus

- Besides, the business involves in the provisioning of total and partial packaging. In total packaging, the packaging products are sold as a complete set, which may comprise a combination of its in-house manufactured products such as corrugated cartons, protective packaging, and paper pallets, as well as externally purchased non-paper based protective packaging materials. For partial packaging, its customers purchase part of the packaging materials separately.
- DS Sigma utilises both direct and indirect distribution channels. Direct distribution channel strategy focuses on its sales and marketing activities directly with the ultimate end users, which enable the group to work closely with the customers to meet their packaging and logistics needs.
- Indirect distribution channel refers to the marketing and selling of products to intermediaries including procurement centres, packaging manufacturers, and logistics and printing service providers. These intermediaries would then resell DS Sigma's packaging product to end users.
- To date, DS Sigma has 3 operational facilities in Peninsular Malaysia namely its Klang factories and Puchong facility in Selangor, and Nilai factory in Negeri Sembilan with a total built-up area of approximately 100,973 sq-ft.

## Investment merits

### One-stop packaging centre

- DS Sigma serves as a one-stop packaging centre leveraging on its in-house manufacturing of corrugated board products, supply of packaging materials and provision of front-end value-added services. Value-added services include development of optimum packaging solutions, continuous discussion carried out between its in-house technicians and customers, as well as prototyping and testing to ensure the effectiveness of the products.

### Established track record

- With an established track record of 20 years, DS Sigma have developed long-term relationships with its customers where its top 5 customers have been dealing with the group between 9 to 20 years. These include Samsung Electronics, SOEM, SSCSM, PAACM, and YH Precision (M) Sdn Bhd.



## Fast and lean inventory management system

- In addition to front-end value-added services, the group provides other services such as (i) consignment inventory management to ensure that a minimum level of packaging products is always available, (ii) JIT inventory management where packaging products are delivered when it is needed to reduce customers' carrying cost, and (iii) assembly & packing services at customers' premises. Its ability to provide convenience to customers helps to cultivate customers' loyalty and attract new customers.

## Dynamic expansion plans

- DS Sigma intends to (i) expand its business operations to Penang to target new customers located in the northern region of Peninsular Malaysia as well as establish a new factory in Klang, (ii) purchase new machinery such as automated and robotic packing machines, honeycomb board machines, and 6-colour flexographic printing machine, (iii) establish packaging design and innovation centre, and (iv) expand its target markets to serve customers within the E&E industry focusing on the solar photovoltaic and medical devices industry. We believe these strategies will help the group penetrating in to different markets.

## Financials

- DS Sigma's core net profit witnessed solid growth in FY20-22, registering RM20.9m in FY22 (2Y CAGR +46.9%). Do note that FY22 revenue decreased by 5.2% YoY to RM121.2m, primarily due to fewer orders from some of the major customers who faced business interruptions during the NRP phase 1, coupled with fewer order from a major customer that had to halt Russian product models amidst the international sanctions placed on Russia in early 2022. Nevertheless, improved margin contributed by higher volume of corrugated paper packaging products sold which resulted in a decrease in unit manufacturing cost, coupled with the increase in sales of higher margin paper pallets had cushioned the impact from declined revenue in FY22.
- Moving forward, we are projecting the core net profit to decrease 6.2% YoY to RM19.6m in FY23f, taking into account the potential global economic downturn. Do note that reported net profit decreased 27.6% YoY as it takes into account the listing expenses amounted to RM4.4m. Meanwhile, we expect the margins to stay near to FY22 margin over the next 2 financial years.
- For FY24f, we expect that DS Sigma's top and bottom line to register growth at RM138.2m (+20.0%) and RM23.9m (+21.9%) respectively, in view of the normalising economy that will stimulate the consumption of goods as well as the export for the E&E sector, which bodes well for the packaging industry.
- The expansion of its business operations to Penang via renting of a warehouse cum office with the approximate size of 25,000 sq. ft. will bear fruit over the next few years, enabling DS Sigma to penetrate the market in the northern region of Peninsular Malaysia. Meanwhile, DS Sigma's plan to serves customers within the solar PV and medical devices industry will provide new source of revenue.

## Financial Highlights

FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	85.9	127.9	121.2	115.2	138.2
EBITDA	15.1	29.8	31.6	28.5	34.1
PATMI - Core	9.7	20.3	20.9	19.6	23.9
PATMI - Reported	9.7	20.3	21.0	15.2	23.9
Revenue growth (%)	-	48.9	(5.2)	(5.0)	20.0
Core PATMI growth (%)	-	109.7	2.9	(6.4)	21.9
Core EPS (sen)	2.0	4.2	4.4	4.1	5.0
P/E (x)	27.2	13.0	12.6	13.5	11.1
DPS (sen)	2.4	1.5	3.5	-	-
Dividend yield (%)	4.4	2.7	6.4	-	-
P/B (x)	11.9	10.0	5.6	2.8	2.7
ROE (%)	43.7	76.8	44.1	21.0	24.4
Net Gearing (%)	1.6	5.5	Net Cash	Net Cash	Net Cash

Source: Company prospectus, MSSB Research

## IPO Details

### Utilisation of IPO proceeds

Detail of utilisation	Estimated time frame for utilisation	RM ('m)	%
(i) Expansion of operational facilities	Within 24 months	17.2	34.3%
(ii) Purchase of machinery	Within 24 months	16.0	31.9%
(iii) Establish packaging design centre	Within 24 months	1.1	2.2%
(iv) Repayment of bank borrowings	Within 12 months	6.0	12.0%
(v) Working capital	Within 12 months	5.4	10.8%
(vi) Estimated listing expenses	Within 3 months	4.4	8.8%
<b>Total</b>		<b>50.1</b>	<b>100.0%</b>

Source: Company, prospectus

### Timetable

Events	Date
Opening of the application period for the IPO	13th December 2022
Closing of the application period for the IPO	21st December 2022
Balloting of applications	27th December 2022
Allotment of IPO Shares to successful applicants	4th January 2023
Listing on the ACE Market	6th January 2023

Source: Company, prospectus

## Valuation

- At an IPO offer price of RM0.55, DS Sigma's forward PE valuation for FY23f and FY24f stands at 13.5x and 11.1x, based on our estimated FY23f and FY24f EPS of 4.1 sen and 5.0 sen respectively. We arrived our fair value of RM0.80 (45.5% upside potential upside from its IPO price) by ascribing a target PE of 16.0x to its FY24f EPS.

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- The assigned target P/E represents approximately 25.5% premium to the average P/E of related companies listed on Bursa Malaysia for FY21/22 at 12.8x. The premium is premised to (i) DS Sigma's higher-than-average profit margins, (ii) long-term relationship with major customers, and (iii) as potential candidate to transfer to Main Market of Bursa Malaysia.
- We like DS Sigma for its position as a total packaging solutions provider in Malaysia's packaging market with fast and lean inventory management system. We also favour DS Sigma's ongoing expansion to penetrate the northern region in Peninsular Malaysia as well as its intention to serve customers in solar PV and medical devices industries.
- While DS Sigma does not adopt a formal dividend policy, we believe preserving capital for their expansion of operating facilities, purchase of machineries, and establish of packaging design centre would be their key focus over the near term.

**Fig #10 Peers comparison**

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x)		4Y avg net profit margin (%)	Revenue	Net Income
					FY22	FY23f		RM 'm	RM 'm
<b>DS Sigma Holdings Bhd</b>	<b>ACE</b>	<b>Jun</b>	<b>0.550</b>	<b>264.0</b>	<b>12.6</b>	<b>13.5</b>	<b>14.7</b>	<b>121.2</b>	<b>20.9</b>
Muda Holdings Bhd	MAIN	Dec	1.810	552.1	7.2*	NA	4.6	1740.6	76.8
Master-Pack Group Bhd	MAIN	Dec	2.520	137.6	9.5*	NA	7.2	154.0	14.5
Magni-Tech Industries Bhd	MAIN	Apr	1.830	793.2	8.7	7.7	9.7	989.0	91.4
HPP Holdings Bhd	ACE	May	0.425	165.1	19.7	12.1	14.4#	85.8	8.4
Omapaper Bhd	MAIN	Dec	1.240	91.9	18.8*	NA	3.2	316.4	4.9
<b>Avg ex-DS Sigma Holdings Bhd</b>					<b>12.8</b>	<b>9.9</b>	<b>7.8</b>	<b>657.1</b>	<b>39.2</b>

\*FY21

#2Y avg margin

Source: Company prospectus, Bloomberg