

Tuesday, 17 Oct, 2023

MINOX International Group Berhad

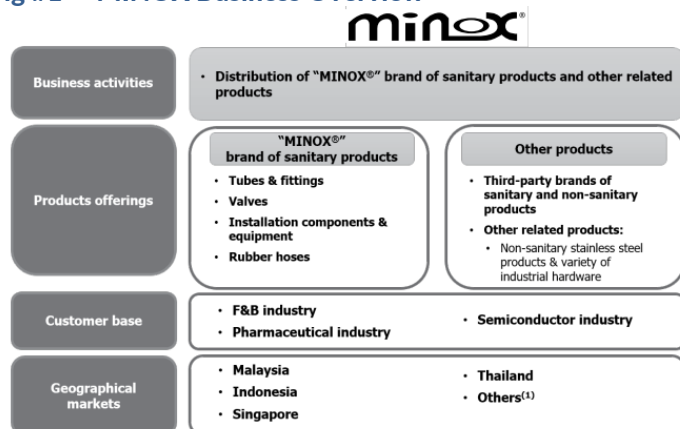
Stainless Steel Fittings and Valves Specialist

- MINOX plans to expand into the semiconductor industry by developing different types of vacuum fittings and valves. Meanwhile, MINOX is expected to venture its presence in Singapore by setting up a new warehouse in Singapore.
- At the IPO offer price of RM0.25, MINOX is trading at 11.2x based on FY22 core net EPS of 2.2 sen. Meanwhile, MINOX's forward P/E valuation for FY23-24f is estimated at 9.4x and 8.1x, respectively.
- We arrived at our fair value of RM0.37 (49.1% potential upside from its IPO price) by ascribing a target P/E of 13x to our forecasted FY23-24f average EPS of 2.87 sen. The assigned P/E is more than a 50% discount to the Bursa Malaysia Industrial Production P/E of 28.57, due to MINOX having a smaller market capitalisation.

Company Background

- Established in 1998, MINOX International Group Berhad (MINOX) is principally involved in the distribution of stainless-steel sanitary valves, tubes & fittings, installation components & equipment, rubber hoses under the "MINOX®" brand and other related products.
- MINOX's products are used by clients in various industries such as F&B, Pharmaceutical and Semiconductor industries, based in various geographical markets such as Malaysia, Indonesia, Singapore, Thailand, Etc.
- Currently MINOX has 13 third-party manufacturers and 1 supplier that supply their "MINOX®" brand of sanitary products.

Fig #1 MINOX Business Overview



Note:

⁽¹⁾ Comprises mainly Bahrain, Cambodia, Denmark, Germany, India, Japan, South Korea, Myanmar, Sri Lanka, Spain, Taiwan, the Philippines, United Arab Emirates and Vietnam.

Source: Company prospectus

- MINOX is principally engaged in the distribution of stainless-steel sanitary valves, tubes & fittings, installation components & equipment, rubber hoses under the "MINOX®" brand and other related products. They have a comprehensive range of products, ranging from different types and specifications (i.e., size, dimension, and material grade) that cater to industrial end-customers' diverse requirements.

IPO note report

Loui Low Ley Yee
louilow@msec.com.my
(603) 2201 2100

Not Rated

IPO price	RM0.25
Fair value	RM0.37
Capital upside	49.1%
Dividend return	0.0%
Total return	49.1%

FBM KLCI	1438.96
FBM Small Cap	16160.89

Company profile

MINOX is principally involved in the distribution of stainless-steel sanitary valves, tubes & fittings, installation components & equipment, rubber hoses under the "MINOX®" brand and other related products.

Stock information

Bursa Code	0288
Bloomberg ticker	MINOX MK
Listing market	ACE
Share issued (m)	360.0
Market Cap (m)	90.0
Shariah	Yes

Major shareholders

	%
Cheong Chee Son	51.4
Looi Poo Poo	10.4
Gamal Abdul Nashir	4.9





Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	8.0	9.5	11.1
EPS (sen)	2.2	2.7	3.1
P/E (x)	11.2	9.4	8.1

Tuesday, 17 Oct, 2023

2

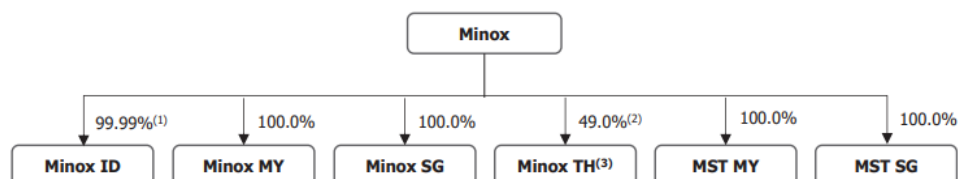
Fig #2 MINOX products

Products	Examples
Stainless steel sanitary valves	 <p>Tubes</p> <p>Tube End Cap</p> <p>Elbow</p> <p>Tee</p> <p>Pipe Hanger</p> <p>Reducer</p>
Tubes & fittings	 <p>Butterfly Valve</p> <p>Diaphragm Valve</p> <p>Non Return Valve</p> <p>Pressure Relief Valve</p> <p>2-piece Ball Valve</p> <p>Seat Valve</p> <p>Floating Valve</p> <p>Sampling Valve</p> <p>3-piece Ball Valve</p> <p>Flow Control Valve</p> <p>Air Release Valve</p> <p>Aseptic Sampling Valve</p>
Installation components & equipment	 <p>Air Vent</p> <p>Breather Vent Filter</p> <p>Inline Sight Glass</p> <p>Level Gauge</p> <p>Manhole Cover</p> <p>Spray Ball</p> <p>Tank Sight Glass</p>
Rubber hoses	

Source: Company

- Some of the **Competitive Strengths** of MINOX include:
 - the ability to provide prompt response to customers due to vast team of regional engineers
 - its large network of third-party manufacturers/suppliers from various countries
 - the MINOX products meet various industrial certifications
 - comprehensive range of products with 25 years of proven track record.

Fig #3 MINOX Post-IPO group structure



Source: Company prospectus

Industry Overview (from Protégé Associates)

- **In the Sanitary Valves and Fittings industry.** Sanitary valves and fittings are mainly used in industries which require high levels of hygiene, sterility, and cleanliness such as pharmaceutical, medical, F&B etc. There has been a need for sanitary valves and fittings due to global rapid urbanisation and industrialisation.

Fig #4 Growth forecast and Demand drivers

Year	Market Size (RM million)	Growth Rate (%)
2019	251.64	-
2020	138.91	-44.8
2021	189.00	34.3
2022	213.57	13.0
2023 ^f	234.93	10.0
2024 ^f	260.77	11.0
2025 ^f	289.45	11.0
2026 ^f	324.19	12.0
2027 ^f	363.09	12.0

Compounded annual growth rate ("CAGR") (2023-2027) (base year of 2022): 11.2%

Note: ^f denotes forecast

Source: Protégé Associates, Company prospectus

- **From 2023 to 2027, the Sanitary Valves and Fittings Industry in Malaysia** is projected to grow at a CAGR of 11.2% from RM213.57m in 2022 to RM363.09m in 2027, supported by demand factors such as:
 - Expansion in the local end-user industries,
 - Continued Government fiscal incentives,
 - Advancement in manufacturing technologies.
- **MINOX is considered a regional player** as most of their sales are derived from operations in the sanitary valves and fittings industry in Asia Pacific. For FYE22, MINOX generated revenue of RM45.02m, which is equivalent to 1.7% market share in Asia Pacific in 2022. At the same time, MINOX's revenue from Malaysia operations of RM16.23m in FYE22 is equivalent to 7.6% market share in Malaysia in 2022.

Fig #5 Comparison between MINOX and Selected Competitors

	FYE	Revenue (RM'000)	Gross Profit (RM'000)	Profit Before Tax (RM'000)	Profit After Tax (RM'000)	Gross Profit Margin ¹ (%)	Profit Before Tax Margin ² (%)	Profit After Tax Margin ³ (%)
Local Market Players								
Minox	31-12-2022	45,020.00	26,598.00	13,493.00	10,549.00	59.1	30.0	22.9
ABS	31-12-2021	26,559.26	10,660.83	3,550.16	2,532.78	40.1	13.4	9.5
Alfa Laval*	31-12-2022	220,857.29	44,394.79	22,574.20	16,452.53	20.1	10.2	7.4
Astral	31-12-2021	1,443.32	656.22	38.64	34.14	45.5	2.7	2.4
CD Global	31-05-2022	1,535.59	714.73	167.08	129.97	46.5	10.9	8.5
Encord	31-12-2021	17,922.46	4,270.57	974.55	701.75	23.8	5.4	3.9
NKE Flow	31-12-2022	2,117.97	993.28	280.28	227.48	46.9	13.2	10.7
Foreign Market Players in Thailand								
	FYE	Income from Sales and Services (RM'000)*	Gross Profit (RM)*	Profit Before Tax (RM'000)*	Profit After Tax (RM'000)*	Gross Profit Margin ¹ (%)	Profit Before Tax Margin ² (%)	Profit After Tax Margin ³ (%)
Patkol	31-12-2022	10,062.50	2,449.87	722.26	563.78	24.3	7.2	5.6
PME	31-12-2022	2,768.01	2,205.45	908.44	726.36	79.7	32.8	26.2
SCN	31-12-2022	2,365.29	889.90	181.37	157.59	37.6	7.7	6.7
SRM	31-12-2022	603.09	149.95	75.81	75.81	24.9	12.6	12.6
Sister Group	31-12-2022	5,980.46	1,799.36	8.53	2.86	30.1	0.1	0.0

Source: Companies Commission of Malaysia, Department of Business Development Thailand, MINOX and Protégé Associates

Fig #6 Prospects of the Sanitary Valves and Fittings Industry in Malaysia

- **Growth in Asia Pacific is expected** to be supported (i) by the expansion of pharmaceutical and F&B industries in emerging economies such as China and India, and (ii) growing requirement for water treatment. Moving forward, the sanitary valves and fittings industry in Asia Pacific is expected to reach USD642.97m in 2023 and should grow at a CAGR of 6.1% to reach USD825.60m in 2027.
- **Closer to home, growth within the Malaysian sanitary valves and fittings industry** is likely to come from (i) the expansion in the local F&B manufacturing industry, (ii) a prevalence of chronic lifestyle disease boosted demand for pharmaceutical products, and (iii) the technological advancement spurring demand for semiconductors. On the supply side, the National Food Security Policy Action Plan 2021-2025 as well as tax incentives for pharmaceutical manufacturers by the Malaysia Government will spur the growth in these industries which will increase the demand for local sanitary valves and fittings.

Investment merits & IPO Details

- **Established track record.** MINOX has 25 years of track record in supplying various stainless steel sanitary products to both local and overseas customers. Currently, MINOX has approximately 1,700 active and recurring customers comprising of project consultants, contractors, and industrial end-customers. As at LPD, major customers have been dealing with MINOX for between 5 to 13 years;
- **Expansion into the Semiconductor Industry.** Out of the RM22.50m IPO proceeds (Fig #7), 40.1% or RM9.01m will be used to develop different types of vacuum fittings and valves and to set up a new warehouse in Singapore, which will help MINOX penetrate further into the semiconductor industry in Singapore and other regions.

Tuesday, 17 Oct, 2023

5

Fig #7 Utilisation of IPO proceeds

Utilisation of proceeds	RM'm	%	Estimated timeframe for utilisation
Product development and deployment	4.00	17.8	Within 24 months
Construction of Warehouse 4	4.00	17.8	Within 24 months
Setting up a new warehouse in Singapore	5.01	22.3	Within 36 months
Repayment of bank borrowings	4.50	20.0	Within 6 months
General working capital	1.59	7.0	Within 12 months
Estimated listing expenses	3.40	15.1	Within 1 month
Total	22.50	100.0	

Source: Company prospectus

Financials

- **Higher sales in FY22.** MINOX recorded revenue of RM45.0m (+31.0% YoY) and the core PATMI remained flat due to (i) higher inventory costs and (ii) after adjusting for a one-off exceptional item of RM2.0m from the reported PATMI of RM10.0m.
- **Likely to grow with its expansion plans.** We forecast MINOX's revenue to grow at 8% and 10% to RM48.7-53.6m for FY23-24f supported by (i) new product development and deployment and (ii) setting up of new warehouses. Thus, we project its core PATMI to grow at a rate of 19.0-16.3% to RM9.5-11.1m for FY23-24f.

Financial Highlights

FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	38.8	34.4	45.0	48.7	53.6
EBITDA	8.4	13.5	14.3	14.8	16.3
PATMI - Core	3.3	8.0	8.0	9.5	11.1
PATMI - Reported	3.3	8.0	10.0	9.5	11.1
Revenue growth (%)	-3.5%	-11.5%	31.0%	8.1%	10.0%
Core PATMI growth (%)	-58.2%	143.4%	0.8%	19.0%	16.3%
Core EPS (sen)	0.9	2.2	2.2	2.7	3.1
P/E (x)	27.5	11.3	11.2	9.4	8.1
DPS (sen)	0.3	0.9	0.4	-	-
Dividend yield (%)	1.34	3.79	1.67	-	-
P/B (x)	2.8	2.4	1.9	1.3	1.3
ROE (%)	10.5	22.9	19.2	16.5	16.1
Net Gearing (%)	64%	45%	23%	CASH	CASH

Source: Company prospectus, MSSB Research

Valuation

- At the IPO offer price of RM0.25, MINOX is trading at 11.2x based on FY22 core net EPS of 2.2 sen. Meanwhile, MINOX's forward P/E valuation for FY23-24f is estimated at 9.4x and 8.1x, respectively.
- We arrived at our fair value of RM0.37 (49.1% potential upside from its IPO price) by ascribing a target P/E of 13x to our forecasted FY23-24f average EPS of 2.87 sen. The assigned P/E is >50% discount to the Bursa Malaysia Industrial Production P/E of 28.6x, due to MINOX having a smaller market capitalisation.
- MINOX currently does not have a formal dividend policy, however the management may implement one in the future.

Fig #8 Bloomberg – Bursa Malaysia Industrial Production P/E

Bursa Malaysia Industrial Production Index						
Members	Historical Summary					
Measure	Current Price Earnings	Group by No Groupings	Freq	Yearly		
Name	10/16/2023	12/30/2022	12/31/2021	12/31/2020	12/31/2019	12/31/2018
Bursa Malaysia IndusProd	28.57	12.71	16.59	85.01	24.93	19.30

Source: Bloomberg

Investment risks

- **MINOX is highly dependent on third-party manufacturers/suppliers and do not have long-term agreements.** There may be operation risks without long-term agreements with third-party manufacturers/supplier, as they are not obliged to provide their services to MINOX. If several third-party manufacturers/suppliers are lost simultaneously, and not replaced in a timely manner, MINOX's business operations and financial performance may be impacted negatively.
- **MINOX is subject to fluctuation in the cost of purchases resulting from the volatile raw material prices.** MINOX currently engages third-party manufacturers to manufacture "MINOX®" brand of sanitary products. The third-party manufacturers are also responsible for sourcing and purchasing of raw material (i.e., stainless steel). Therefore, any significant increase in manufacturing cost charged by the manufacturers due to the increase in raw material prices may lead to an increase in the purchase price.

Disclaimer

Research analyst(s) of MSSB whom produced this report hereby certifies that the views expressed in this report accurately reflect his/her personal opinions about all of the subject corporation(s) and securities in this report. He/She does not carry out, whether for himself/herself or on behalf of MSSB or any other persons did not receive and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. As of the report date, the analyst whom prepared this report does not have any interest in the following securities covered in this report, unless otherwise stated.

As of **Tuesday, 17 Oct, 2023**, the analyst(s), Loui Low Ley Yee, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned