

## Metronic Global Bhd

21 May 2004

### Public Issue of 71m New Shares

**Offer Price - RM0.21**  
**Fair Valuation - RM0.42**

#### Highlights

◆ Metronic Global Berhad's (MGB) specialises in the design, supply, installation and maintenance of IBMS and ISMS systems, which involve the integration of hardware and software at a single base location for the control and management of the heating, ventilation and air conditioning, light, fire and security equipment within a building. It captures about 21% share in domestic IBMS/ISMS market with its business focus being local government organisations and private companies.

◆ Sales of ISMS/IBMS systems contribute to 64% of total revenue, followed by e-projects management (30%) and systems maintenance works (2-3%). Net profit ranged between RM3m and RM8m in FY12/99-03 despite increase in revenue from RM50m in FY12/01 to RM130-132m p.a. in FY12/02-03 as revenue growth was boosted by the low profit-margins contract awarded by the Ministry of Education for the supply of computer equipment.

◆ Going forward, outlook is driven by the rising outsourcing needs of Building Automation System (BAS) and the company's aggressive move to expand market coverage. As a local player, MGB is able to offer its services at a more competitive costing versus the multinational players and it will focus on building its distribution network locally and overseas by appointing more distribution agents. MGB has also embarked on several R&D collaboration initiatives with US-based Tridium Inc and Japan-based Murata Ltd on selected high growth products.

◆ Management has projected a +17% yoy increase in revenue to RM154.5m in FY12/04, driven by the estimated RM190m revenue to be recognised from RM373m worth of ongoing projects. Net profit is projected to rise from RM3.5m in FY12/03 to RM5.9m, after netting off the RM1.6m pre-acquisition profit. We are projecting for FY12/05-06 net profit at RM8.7m (EPS: 3.1sen) and RM10.1m (EPS: 3.6sen) respectively, an average yoy growth of +16.3% p.a.

◆ Fair value is pegged at RM0.42, based on 16x FY12/04 PER, taking into account the average FY04 PER of Mesdaq counters and the 17x FY06/05 PER fetched by its close comparable, AWC Facilities.

#### LISTING DETAILS

<b>Listing</b>	: KLSE Mesdaq
<b>Tax Resident</b>	: Malaysia
<b>Exp Listing Date</b>	: 24 May 2004
<b>Public Issue</b>	: (1) 8m new shares to public. (2) 54.5m new shares via private placement to identified investors (3) 8.5m new shares to eligible employees & business associates

#### MAJOR SHAREHOLDERS

MCSB ..... 74.96%\*

\* Major shareholders of MCSB are Dato' Abdul Gani Bin Yusof, Dr Ng Tek Che and Liew Chiap Hong.

#### MANAGEMENT FORECAST

**FY12/04**

Revenue (RMm)	154.5
PBT (RMm)	10.4
PAT (RMm)	7.5
PAT&After Pre-acq profits (RMm)	5.9
Net EPS (sen)	2.6
Net DPS (sen)	0.36

#### INVESTMENT STATISTICS

**Bloomberg Page : MEGB MK**

FYE 31 Dec	Turn-over (RMm)	Pre-tax Profit (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PER (x)	P/NTA (x)	Gross Div (sen)	Div Yield (%)
2003a	132.0	7.3	3.5	1.2	-52.6	34.4	-	-	-
2004f	154.5	10.4	7.5	2.6	+>100	16.0	2.6	0.5	0.9
2005f	162.5	12.1	8.7	3.1	+16.4	13.7	3.1	0.6	1.0
2006f	172.5	14.0	10.1	3.6	+16.1	11.8	3.6	0.7	1.2

<b>Issued capital</b>	: 283.5m shares	<b>Par value</b>	: RM0.10 per share
<b>Book NTA per share (FY04f)</b>	: RM0.19	<b>Market cap</b>	: RM119.1m*
<b>Price/NTA</b>	: 2.6x*	<b>Status</b>	: KLSE Mesdaq

\* Based on fair value of RM0.42/share

## Background

**Metronic Global Berhad's (MGB) is a key player in the building automation systems.** It specialises in the design, supply, installation and maintenance of Intelligent Building Management System (IBMS) and Integrated Security Management System (ISMS) and e-project management of mechanical/electrical services. IBMS and ISMS involve the integration of hardware and software at a single base location for the control and management of the heating, ventilation and air conditioning, light, fire and security equipment within a building.

**Table 1**

### **METRONIC GLOBAL BERHAD'S MAIN PRODUCTS & CUSTOMER GROUPS**

	<b>Technical Edge</b>	<b>Products</b>
Intelligent Building Management System (IBMS)	<ul style="list-style-type: none"> <li>- An integration of BAS, Access Control, CCTV System and Addressable Fire Control &amp; Monitoring System.</li> <li>- Provides a centralised monitoring/control of entire building services via sensors and equipment placed at strategic areas.</li> <li>- Helps to regulate and optimise energy costs, maintenance and manpower costs.</li> </ul>	<ul style="list-style-type: none"> <li>- NexWatch</li> <li>- CCTV Systems</li> <li>- SecureMax</li> </ul>
Integrated Security Management System (ISMS)	A security solution to integrate all the individual security system like CCTV, Card Access, Perimeter Intrusion Detection system, Door monitoring system, Guard Tour system and asset tracking system into one single intelligent system.	<ul style="list-style-type: none"> <li>- Invensys Building Automation System</li> <li>- Invensys Control Valve</li> <li>- Simplex Fire Alarm System</li> <li>- Murata Automated Storage &amp; Retrieval System</li> <li>- SecureMax</li> </ul>
Java Based Control & Monitoring Software (JBCM)	<ul style="list-style-type: none"> <li>- A universal control and monitoring software for accessing, automating and controlling smart devices over the Internet.</li> <li>- Allows the building industry to integrate all types of embedded devices into a single inter-operable system, regardless of protocol, to control and monitor sites over the Internet and to collect and analyse data.</li> </ul>	<ul style="list-style-type: none"> <li>- Tridium – JACE</li> <li>- Tridium – Ni@gara FrameWork</li> <li>- Tridium – Vycon</li> </ul>

\* Source : Metronic Global Berhad

**MGB is a leading local player in IBMS/ISMS industry with 21% market share.** The objectives of MGB's systems are to reduce resource consumption, to enhance safety and security, as well as to increase the comfort of the occupants. The main technology expertise of the company lies in the customisation of the Java-based Ni@gara Framework, a fully internet-enabled distributed infrastructure software designed by the US-based Tridium Inc. MGB is an agent for the leading US-based IBMS and ISMS companies, which include NexWatch and Invensys. MGB captures about 21% share in domestic IBMS/ISMS market, which is dominated by foreign players like Johnson Controls (32% market share), Honeywell Engineering Sdn Bhd (31%) and Siemens Building Technologies Sdn Bhd (7%).

**MGB's current business focus is on local government organisations and private companies.** Since it commenced operation in 1984, the company has successfully implemented more than 300 projects worth in excess of RM700m. Among its various projects completed in 2000-2003 include Ministry of Health Y2K upgrade (RM16m), Putrajaya Parcel C & D (RM13m), Pandan Hospital (RM48m), Computer Equipment Supply for schools in Sabah, Perlis and KL (RM78m), Alor Setar Hospital (RM27m), Putrajaya Convention Centre (RM6.6m).

## Financial Review

**Sales of ISMS/IBMS systems contribute to 64% of total revenue and profit,** followed by e-projects management (30%) and systems maintenance works (2-3%). In FY12/99-03, MGB's net profit ranged between RM3m and RM8m due to the fluctuation in revenue base and profit margins. Revenue increased substantially from RM50m in FY12/01 to RM130-132m p.a. in FY12/02-03 mainly attributed to the recognition of revenue from the RM78m contract awarded by the Ministry of Education for the supply of computer equipment. However, the slim profit margins of the contract did not translate into proportionate increase in earnings. As such, it recorded net profits of RM7.3m in FY12/02 and RM3.5m in FY12/03, compared to the average earnings of RM6.4m achieved in FY12/99-01.

## Outlook

**The growth strategy of MGB is to aggressively expand its market coverage by leveraging on its patented technologies and track records.** The advantage of Internet-based building automation system (BAS) applications, which empowers building managers to integrate the various functions within the buildings and to obtain necessary information to implement strategic decisions or actions in a timely manner, are driving the adoption of IBMS. Meanwhile, cost efficiency gained from outsourcing augurs well for the prospects of IBMS providers like MGB. MGB is well positioned to capitalised on the trend towards open systems and internet-based BAS given its track records. As a local player, it is able to offer its services at a more competitive costing compared to the multinational players. The company will also be focused on building its distribution network locally and overseas by appointing more distribution agents. Its targeted overseas markets are China and Thailand.

**On going R&D effort to add value to core products.** MGB spent RM0.3-0.4m yearly or 0.3-0.6% of its total revenue on R&D in FY12/01-03. It plans to allocate RM3m or 20% of its IPO proceeds for R&D. The R&D team currently focuses product quality to achieve zero-defects and minimise problem areas during project implementation and deployment. It has also embarked on several R&D collaboration initiatives with renowned companies like the US-based Tridium Inc and Japan-based Murata Ltd on selected high growth products. It is currently in the process of producing a revolutionary compact and versatile digital Input/Output module, high-tech low-cost home automation and security systems and universal controls software to be used in conjunction with existing and future controls hardware.

## Earnings Forecast & Valuations

Management has projected a +17% yoy increase in revenue to RM154.5m in FY12/04, driven by the estimated RM190m revenue to be recognised from its 50 ongoing projects worth RM373m. Net profit is projected to rise from RM3.5m in FY12/03 to RM5.9m, after netting off the RM1.6m pre-acquisition profit. For FY12/05-06, we are projecting net profit growth rate to average +16.3% p.a. to RM8.7m (EPS: 3.1sen) and RM10.1m (EPS: 3.6sen) respectively.

Our FY12/05-06 earnings forecast is based on projected 5-6% (+RM8m and +RM10m p.a.) annual growth in revenue and PBT margins of 7-8%. In the past five years, revenue growth averaged RM1.9m a year. FY12/05-06 PBT margin is expected to improve from 5.5% in FY12/03, but will still be below the 11-14% range achieved in FY12/99-01 due to industry competition.

We have derived Metronic Global's **fair value at RM0.42**, based on 16x FY12/04 PER. The solution providers listed on Mesdaq are trading at FY04 PER of 10-20x and the Mesdaq counters are trading at average FY12/04 PER of 16.1x. Meanwhile, a close comparable, the building maintenance service provider, AWC Facilities, which is listed on the MESB Second Board, is trading at 17.1x of our FY06/05 EPS forecast of 5.1sen/share.

**Table 1**

### EARNINGS REVIEW

FYE 31 Dec	FY99a (RMm)	FY00a (RMm)	FY01a (RMm)	FY02a (RMm)	FY03a (RMm)	FY04f (RMm)	FY05f (RMm)	FY06f (RMm)
Revenue	55.5	82.4	50.3	130.0	132.0	154.5	162.5	172.5
yoy chg %	-	+48.4	-38.9	+>100	+1.5	+17.0	+5.2	+6.2
EBITDA	7.7	9.6	7.2	9.1	8.0	28.0	13.0	15.0
Interest Income	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.4
Interest expense	-0.1	0.0	-0.2	-0.1	-0.2	0.0	-0.2	0.0
Depreciation	-0.2	-0.2	-0.6	-0.7	-0.7	-0.9	-1.1	-1.3
PBT	7.5	9.5	6.6	8.5	7.3	10.4	12.1	14.0
Taxation	-0.1	-2.7	-1.6	-1.2	-3.8	-2.9	-3.4	-3.9
Net Profit	7.4	6.9	4.9	7.3	3.5	7.5	8.7	10.1
Yoy chg%	-	-7.4	-28.2	+48.6	-52.6	+>100	+16.4	+16.1
S/cap (mln)	283.5	283.5	283.5	283.5	283.5	283.5	283.5	283.5
EPS (sen)	2.6	2.4	1.7	2.6	1.2	2.6	3.1	3.6
Yoy chg%	-	-7.4	-28.2	+48.6	-52.6	+>100	+16.4	+16.1
PER (x) @ RM0.42/share	16.1	17.4	24.2	16.3	34.4	16.0	13.7	11.8
NTA/share (RM)					0.12	0.19	0.27	0.37
P/NTA (x) @ RM0.42/share					1.2	2.6	3.1	3.6
Gross DPS (sen)						0.5	0.6	0.7
Net DPS (sen)						0.4	0.4	0.5
Net Div Yld (%)@ RM0.42/share						0.9	1.0	1.2
Margins :								
EBITDA	13.8	11.6	14.3	7.0	6.0	18.1	8.0	8.7
PBT	13.6	11.6	13.0	6.5	5.5	6.7	7.4	8.1
Net Profit	13.4	8.3	9.8	5.6	2.6	4.8	5.3	5.8

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