Innovative Solutions in Security Monitoring Industries

TECHSTORE BERHAD

Fair Value: RM0.37 (+85%)

Company Description

TechStore Berhad ("TechStore") is primarily involved in the provision of enterprise information technology ("IT") services, primarily involving the IT security and automation solutions to support customers' operations. The Group works with its customers to provide the design, development, customisation, testing and integration of IT security and automation solutions to meet customers application needs. In addition, TechStore also provides maintenance and support services for the IT solutions.

Investment Highlight

- **Diverse and strong customer base:** The Group's customers are diverse from public and private sector involved in wide range of business activities – from transportation and hospitality and leisure, to utilities and logistics. TechStore major customer is Setia Utama, which has contributed 77.4%, 78.2%, 62.0% and 30.7% revenue, for FYE 2021, FYE 2022, FYE 2023 and FPE 2024 respectively. The Group has an order book amounting to RM104.7 million ("mn") and big tender book amounting to RM647.2mn.
- **Part of the Johor-Singapore Special Economic Zone ("JS-SEZ") initiatives:** TechStore has been awarded projects related to the Rapid Transit System ("RTS") link between Singapore and Malaysia, i.e. the JS-SEZ initiative. This opportunity allows the Group to expand its geographical reach and offer its services to more potential customers within the region.
- **Ongoing support from local Government:** As outlined in the National Transport Policy ("NTP") 2019-2030, Malaysia government continues to embrace and adopt digitalisation – with the aim to improve public transportation infrastructure and systems in Malaysia that enhances the growth prospects of the local enterprise IT services industry serving the public land transportation sector. The advent of 5G technologies and emergence of various technology-led industries such as fintech, are also expected to drive digital economy leading to potential rising demand for enterprise IT service offerings.
- **Sustainable positive outlook in the industry:** The size of the IT enterprise services industry in Malaysia was valued at RM21.17 billion ("bn") in 2022 (a 6.2% increase from RM19.95bn in 2021). This is led by the solid demand for digitalisation of business operations. Looking forward – the market size is expected to grow from RM22.9bn in 2024 to RM28.8bn in 2028 – estimated 5.6% compound annual growth rate ("CAGR") growth. Financial technology ("fintech") have further heightened the demand for the industry. This is mainly driven by the digital transformation economy, growth in investments, and the local rail transportation sector.

Valuation / Recommendation

We derive a fair value of RM0.37 based on 14.93x multiple to its FYE2025F EPS of 2.48sen. The initial public offering ("IPO") aims to raise approximately RM30mn from the issuance of 125mn new shares. A total of 45.92%% is allocated for working capital, 20.00% will be utilised for repayment of bank borrowings, 10.87% of proceeds will be for operating expenses, 9.21% for capital expenditure, while the remaining of 14.00% of it will be used for listing expenses.

As the current ratio is above 1x at 2.15x, while gearing ratio is below 1x at 0.25x (as of FYE2023). This indicates healthy capability to repay current liabilities and healthy funding ability for the TechStore. Overall, the outlook is expected to be positive for the Group in view of the demand of its services.

IPO TIMELINE	
Opening Date	22 Jan 2025
Closing Date	4 Feb 2025
Listing Date	18 Feb 2025
IPO Price (RM)	0.20
Expected Return	85.00%
Market/ Sector	Technology
Bursa Code	0343

IPO Details	Shares(mn)
Offer for Sale	25.00
Public Issue	125.00
Enlarged share	500.00
	RM(mn)
Market Cap	100.00
Shariah compliant	Yes

Substantial Shareholders	Shares(mn)	(%)
Tan Hock Lim	295.16	31.61
Mohd Fadzil bin Mohd Daud	54.69	27.80

Utilisation of IPO Proceeds	RM(mn)	(%)
Working capital	11.48	45.92
Repayment of bank borrowings	5.00	20.00
Recruitment of business development personne	2.72	10.87
Capital expenditure	2.30	9.21
Estimated listing expenses	3.50	14.00
Total	**25.00**	**100.00**

Allocation	Shares(mn)	(%)
Public Issue		
Malaysian Public via balloting process:		
• Public investors	12.50	2.50
• Bumiputera public investors	12.50	2.50
Eligible Directors	0.80	0.16
Eligible employees	3.94	0.79
Persons who have contributed to the success of Group	20.27	4.05
Private placement to selected investors	12.50	2.50
Private placement to Bumiputera investors approved by MITI	62.50	12.50
Subtotal	125.00	25.00
Offer for sale		
Private placement to selected investors	25.00	5.00
Subtotal	25.00	5.00
Total	**150.00**	**30.00**
Total enlarged share capital upon listing	**500.00**	

Source: Company Prospectus

Key Financial Summary

FYE Dec (RMmn)	2022A	2023A	2024F	2025F	2026F
Revenue	42.24	62.21	68.57	100.07	**124.70**
Gross Profit	10.97	15.06	16.61	24.23	**30.20**
Pre-tax Profit	9.38	10.50	11.57	16.88	**21.04**
Core Net Profit	7.21	7.72	8.51	12.42	**15.48**
Core EPS (Sen)	1.44	1.54	1.70	2.48	**3.10**
P/E (x)	13.87	12.95	11.75	8.05	**6.46**
DPS (Sen)	0.06	0.00	0.00	0.00	**0.00**
Dividend Yield (%)	0.30	0.00	0.00	0.00	**0.00**

Source: Company Prospectus, S&P Global, Eco Asia Research Estimates
EPS, P/E and DPS from 2022A to 2023A (pre-IPO) are on pro-forma basis for comparative purposes only.

Company Background

TechStore was incorporated in Malaysia under the Act on 23 January 2024 as a private limited company under the name TechStore Sdn Bhd. The Group converted into a public limited company and assumed its current name on 6 June 2024. Below is its milestones of history and development.

Key Milestones

- Incorporated Tech-Store Malaysia Sdn Bhd "TSM" under the name Secure Depot Sdn Bhd
- Secured job for the Prime Minister's residence

2011

2012

- Incorporated SeeTec Asia Sdn Bhd "SeeTec Asia"
- Secured job in the finance and banking industry ...

- Secured job in the Iskandar Region
- Secured job for the Prime Minister's residence
- Secured job for for the MRT Kajang line

2013

2015

- Secured job for the LRT Kelana Jaya line
- Secured job for the LRT Ampang line
- Secured job for the MRT Kajang line ...

- Secured job for Rapid Bus in Penang
- Secured job for a theme park in Malaysia

2016

2017

- Secured job for the State Railway of Thailand Red Line in Thailand

- Certified with ISO 9001:2015 by Globalgroup

2018

2019

- Secured job for the LRT Ampang line
- Secured job for the LRT3 line

- Certified with ISO14001:2015 by Certification Partner Global
- Secured job for KTM locomotive trains
- Secured job for RTS link between Malaysia and Singapore

2021

2022

- Secured job for port access management system, RTS link between Malaysia and Singapore, LRT Kelana Jaya line and AFC storage servers
- Certified with MS ISO37001:2016 by TUV Nord (M) Sdn Bhd
- Obtained MOF certification
- Grade 7 contractor with CIDB

- Secured job for large-scale solar photovoltaic project in Kedah
- Secured job for the provision of HRMIS for a Government agency
- Secured job for LRT Ampang line,...

2023

2024

- Incorporated under the name TechStore Sdn Bhd
- Secured job for Malaysia Agencies Fit-out Works
- Secured job for international company supplying trains to KTM Berhad
- Secured job for Government agency

BURSA MALAYSIA

- Listing on ACE Market

2025

Journey continues...

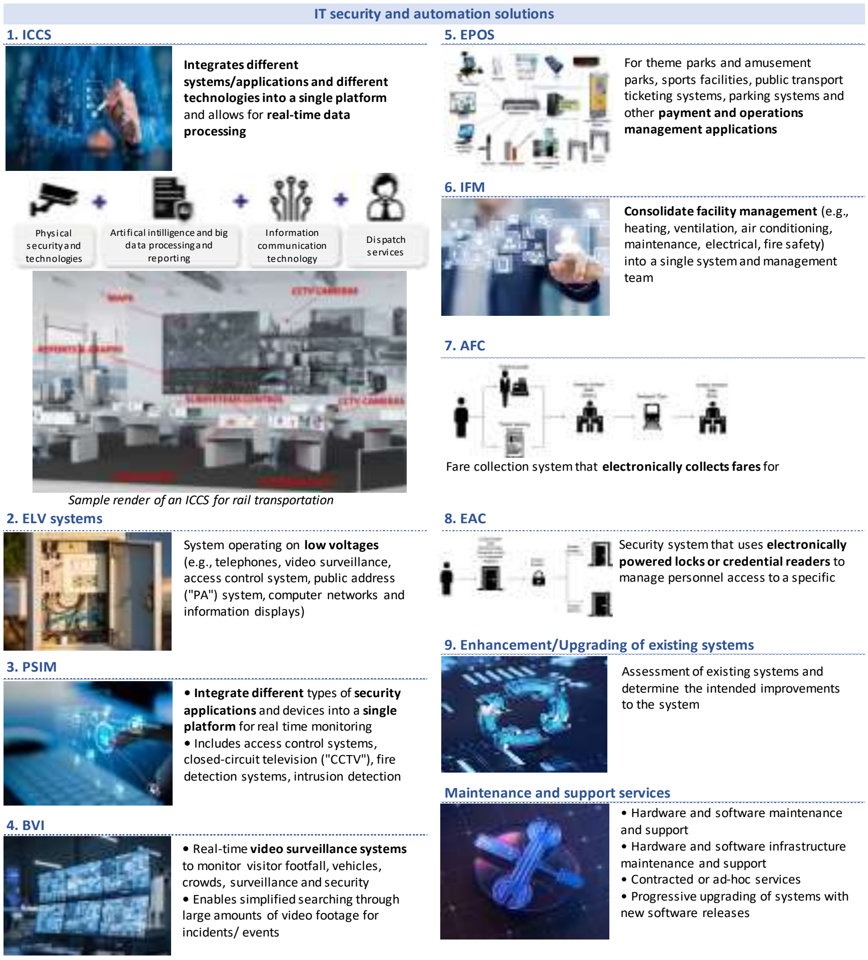
Source: Company Prospectus

Business activities

Design and implementation of security and automation solutions: TechStore designs and implement IT security and automation solutions that are customisable depending on customers' requirements – on a turnkey basis including design, development, customisation, installation, testing, commissioning, maintenance, support and enhancement services for the following categories:

1) **Integrated command and control system ("ICCS"):** Integrates different systems and technologies into a single platform for real-time processing for the following:
   a) Physical security and technologies
   b) Artificial intelligence ("AI") and big data processing and reporting
   c) Information communication technology ("ICT")
   d) Dispatch services
2) **Extra low-voltage ("ELV")**: Low-voltages building system
3) **Physical security integrated management ("PSIM")**: Integrates different types of security applications and devices into a single platform
4) **Business video intelligence ("BVI")**: Real-time video surveillance systems
5) **Electronic payment and operating systems ("EPOS")**: Multiple payment applications
6) **Integrated facility management ("IFM")**: Single system and management team
7) **Automatic fare collection ("AFC")**: Electronic fare-collection system
8) **Electronic access control ("EAC")**: Security system (electronically-powered locks)
9) **Enhancement/Upgrading of existing systems**: Assessment of the existing systems for improvements

Provision of maintenance and support services: Preventive, comprehensive, or reactive issue (covers software, hardware, as well as infrastructure).



Source: Company Prospectus

Industries served


Transportation
84% revenue


Utilities
5% revenue


Hospitality and leisure
5% revenue


IT and security
4% revenue


Logistics
2% revenue

Completed Projects

Served 2 out of 3 LRT lines in Klang Valley


• LRT Kelana Jaya line (2 projects)

Served the first MRT line in Malaysia


• MRT Kajang line (3 projects)

Involved in the Singapore-Malaysia RTS link


• RTS link between Singapore and Malaysia (1 project)

Ongoing Projects

11 Projects	RM104.7 mil Unbilled	Tender book: RM647.2 mil#

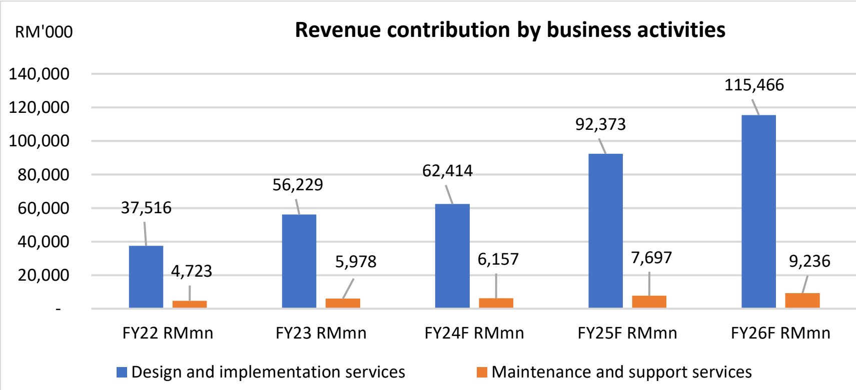
Geographical markets

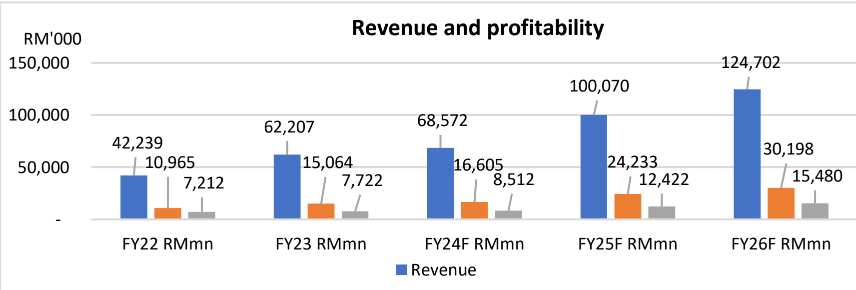
Malaysia	Singapore
96% revenue	4% revenue

Source: Company Prospectus

Revenue and Profitability

The Group revenue from FYE2022 to FYE2023 was mainly derived from the Design and Implementation services, which accounted around 90.40% of TechStore's total revenue (as of FYE2023). The following shows revenue contributions by business activities as well as the revenue and profitability from FYE2022 to FYE2023, FYE2024F, FYE2025F and FYE2026F:





Source: Company Prospectus / Eco Asia Research Estimates

Business Strategies

1) **Expansion of business development team:**
   a) To hire 14 employees comprising 2 managers, 4 senior executives, and 8 executives to expand the business development team. This is to expand its business development team – to be segmented into several teams focused to develop projects from other different end-user industries as follows:
      i) Planning and executing sales and marketing activities
      ii) Attending inquiries from potential customers
      iii) Preparation of proposals, presentation to customers
      iv) Preparation of tender and quotations
2) **Purchase of additional equipment and IT hardware and software:**
   a) To support its growth, the Group intends to purchase additional equipment as well as IT software as below:
      i) Equipment – 1 Van, 3 Pickup trucks, 1 Hydraulic lift and 1 Rooftop solar photovoltaic system
      ii) IT Hardware – 72 Laptops, 1 Photocopier/printer and 1 Plotter printer
      iii) IT Software – 10 computer-aided design ("CAD"), 2 Enterprise project portfolio management software and 436 Service software
3) **Establishment of a branch in Johor Bahru:**
   a) In order to ensure that TechStore is able to improve on the timeliness and efficiency of its services – following the awarded projects related to the RTS link between Singapore and Malaysia – The Group intends to set up a branch office in Danga Bay, Johor Bahru that will commence operations by the third quarter of 2025.

Key Risks

Dependent on Setia Utama as major customer: TechStore dependents on Setia Utama as the main contractor of the light rail transit ("LRT")3 line that connects Johan Setia and Bandar Utama. The Group has been providing design and implementation services to Setia Utama since 2019, which has accounted revenue for 77.4%, 78.2%, 62.0% and 30.7% for FYE 2021, FYE 2022, FYE 2023 and FPE 2024 respectively. Failure to secure new contracts of similar value to replace the loss of revenue from Setia Utama could adversely affect its future prospects.

Potential delay on design and implementation services: The services provided by TechStore are subject to unanticipated delays or interruptions caused by various factors – which are changes in project scope, unavailability of resources, inaccurate cost estimation, inaccurate project timeline estimation, as well as unanticipated shortage or loss of manpower. Hence, it may affect the timing of delivery of its projects and subsequently affect revenue recognition and collection of payment from customers.

Risk of early termination of contracts: The Group includes clauses for early termination in contracts or purchase orders in the event of failure to fulfil service terms, neglect of obligations, involvement in corruption or unlawful activities, or insolvency occurred. Thus, any early termination of contracts may result adverse impact on its financial performance.

Intense competition within industry: TechStore operates in the market that is competitive and characterised by rapid technological innovation – in terms of technology, range and quality of services, price, and timeliness of project delivery. Competitors with longer operating histories that possess superior technical are likely to offer better value propositions in the market. At the same time, price competition could be derived from existing and new entrants. Hence, if the Group is unable to maintain excellent quality of services, its business and financial condition could be affected.

Limited technical professionals' availability: TechStore reliant IT personnel for the implementation and execution of the projects. The expertise within the Group is crucial in delivering our services, from consultation to implementation of the respective solutions as well as operations, maintenance and support services. Any loss of technical personnel due to turnover that cause a shortfall in workforce will limit its ability to grow our revenue – hence – will cause disruptions to project deliverables.

Industry Outlook

The local enterprise IT services industry is projected to expand at a CAGR of 5.6% from RM22.92bn in 2024 to reach RM28.80bn in 2028. The industry outlook is expected to be positive in view of demand from a digital transformation economy which has accelerated the adoption of IT services such as cloud computing and Internet of Things ("IoT") including end-user markets that were not traditionally heavy users of IT.

Strong support from the local Government can be seen in the launching of the National Fourth Industrial Revolution ("4IR") policy (2021-2030), and the Digital Economy Blueprint (2021-2030) known as the MyDigital which aims to create new socioeconomic growth opportunities for the economy and build digital infrastructures and talents to drive digital transformation in public and private sectors.

DEFINITION OF RATINGS

Eco Asia Investment Advice uses the following rating system:

STOCK RECOMMENDATION
BUY Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL Share price may fall by more than 15% in the next 3 months.
SELL Share price may fall by more than 10% over the next 12 months.
NOT RATED Stock is not within regular research coverage.

SECTOR RECOMMENDATION
OVERWEIGHT The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings
The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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