

The Malaysian Reserve

JOIN THE REAL CONVERSATION™

Diverse customer base to fuel CEKD's revenue growth

by NUR HAZIQAH A MALEK

THE encouraging demand from CEKD Bhd's diverse customer base is expected to lift its revenue growth, alongside its higher production efficiency.

RHB Investment Bank Bhd analyst Lim Jia Yi stated that CEKD's diverse customer base is showing encouraging demand especially as the rapid growth in the e-commerce space which was further accelerated by the Covid-19 pandemic, has led to a boost in online purchases and higher demand for packaging materials.

"The rise in exports of electrical and electronics (E&E) products to major trading partners — China and the US — is expected to lead to higher demand for its products.

"Customer innovation has led to

specification revisions, and this tends to drive demand for more die-cutting tool moulds to die-cut paper boxes, cartons and electrical components," the analyst noted that in a report on the IPO bound company last week.

In terms of industry revenue in the financial year 2020 (FY20), CEKD is estimated to have a 13.4% market share in the die-cutting tool manufacturing industry.

Lim believes CEKD's ability to cater to custom die-cutting solutions, aside from its participation in the early development stages of its customers' product packaging solutions, should contribute to customer stickiness.

"The group has identified a factory which is worth RM8.8 million to consolidate two of Hotstar's operations under the same roof.

"This should help to streamline its productivity and lift production efficiency, with no immediate capacity expansion plans," she wrote.

She added as the new factory is unable to consolidate operations for all three rented properties, CEKD is sourcing for a second new factory.

"The die-cutting mould company is exploring potential opportunities to widen its customer base in the South-East Asian market such as Vietnam and Thailand, through existing customers that have business operations in these areas.

"The group plans to participate in trade exhibitions and provide technical sharing sessions to raise product awareness," she stated.

Being the sole certified die maker in South-East Asia by Bobst (an established die-cutting machine manufacturer with a presence in over 20 countries in Europe and South-East Asia), the recognition of CEKD's product quality will help it to stand out among peers in terms of branding.

"We gather that margins could be higher for products that have higher complexity and requirements," she said.

RHB estimated CEKD to post a profit after tax of RM6.2 million to RM8.9 million for FY21 to FY23.

Lim added that this is based on the assumption there would be a global economic activity pick-up across various industries and the launch of new products driving additional demand for moulds.

"This is assuming no significant delay or cancellation of orders caused by heightened movement restrictions or disruption in business operations," she added.

RHB noted that risk to CEKD's business prospects include ongoing pandemic and future outbreak causing business disruption, raw materials availability, general market downturn which could lead to lower demand.

CEKD is scheduled to list on the ac market on Sept 29, at an offer price of 48 sen a share.

The group aims to raise RM24.28 million from the public issue of 50.59 million new shares.

RHB has given a fair value of 57 sen for CEKD on the basis of 14 times FY22 forecast (August) price to earnings ratio.