

Feytech Holdings Bhd

Significant Growth With The Automotive Seats Segment

- Established more than 20 years, Feytech is the third largest manufacturer of car seats and covers in Malaysia with 25.9% market share in FY23.
- We opine that the incorporation of automotive seats manufacturing segments will be the game changer for Feytech going forward. Hence, we project the revenue to grow by 12.7-21.4% to RM256.3-326.5m and the core net profit to increase by 10.6-12.8% to RM51.9-64.5m for FY24-26f, respectively supported by its expansion plans to meet customer demand for automotive covers and seats after securing Peugeot and Client 2.
- We ascribe a fair value of RM1.10 (upside of 37.5%) for Feytech by pegging a P/E of 17.0x to the mid-FY25f EPS of 6.47 sen. We believe the P/E of 17.0x is justified as it is in line with its peers' average P/E within the same industry of 16.0x and market-weighted average P/E of 18.2x.

Investment Highlights

Expansion plan to cater growing orders for automotive seats. As of LPD, Feytech Holdings Bhd (Feytech) Kulim Plant 1 floor area utilization rate is at 99.8%. Within the next 24 months, Feytech aims to expand its manufacturing space in Kulim to accommodate additional offline processes and workstations. This expansion will also provide more storage for finished goods and incoming materials, enabling Feytech to optimize its automotive seat manufacturing operations. Thus, the newly acquired piece of land, in Kulim Plant 2, with an approximate land area of 8.1 acres, will be able to manufacture more automotive seats to meet its growing orders that will significantly boost the top and bottom lines.

New facilities to improve utilization and client's relations. Besides, a portion of the IPO proceeds is to fund the construction of a new corporate office with a manufacturing plant and a warehouse in the Klang Valley area and to purchase new machinery, targeting to be operational by FY26, adding ~85k sqft operational area, which will better serve Feytech's customers in the central region of Malaysia. This may provide significant growth to Feytech's earnings by FY26.

Game changer with the addition of automotive seat segment. Feytech has a strong track record being in the industry for 21 years. During 2021-2023, Feytech grew its market share from 23.1% to 25.9%, making it the third-largest cover manufacturer in Malaysia. A unique advantage Feytech has over its competitors in Malaysia is that Feytech can produce both the automotive covers and seats, providing convenience to automotive vehicle OEMs to appoint them for producing both seats and covers; this makes Feytech a more competitive player vis-à-vis its peers in automotive covers and seats. Furthermore, Feytech Tampoi Plant is equipped with automated cutting machinery and automated nesting software, which able to reduce cost through (i) minimising wastages and (ii) increasing overall operational efficiency, which will translate to better profit margins.

Company Background

Established in 2002, Feytech Holdings Berhad is a Malaysian company primarily manufacturing automotive covers and seats. Feytech supplies these products to automotive original equipment manufacturers (OEMs) like Mazda and Kia Malaysia. Additionally, they produce covers for pre-delivery inspections and replacement

IPO Note – Not rated

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Non-Rated

Share price	RM0.80
Target price	RM1.10
Previous TP	-
Capital upside	37.5%
Dividend return	3.1%
Total return	40.6%

Company profile

Principally supplying automotive covers and seats to local automotive original equipment manufacturers (OEMs). Also, manufacturers cover to pre-delivery inspection (PDI) and replacement equipment (REM) segments.

Stock information

Bursa Code	5322
Bloomberg ticker	FEYTECH MK
Listing market	MAIN
Share issued (m)	843.2
Market Cap (m)	674.6
Shariah compliant	Yes

Major shareholders

	%
Tan Sun Sun	35.0
Go Yoong Chang	26.7
Connie Go	8.3

Earnings snapshot

FYE (Dec)	FY23	FY24f	FY25f
PATMI (m)	46.9	51.9	57.2
EPS (sen)	5.6	6.2	6.8
P/E (x)	14.4	13.0	11.8



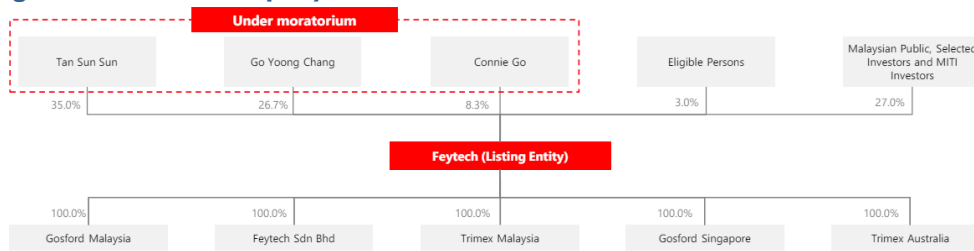
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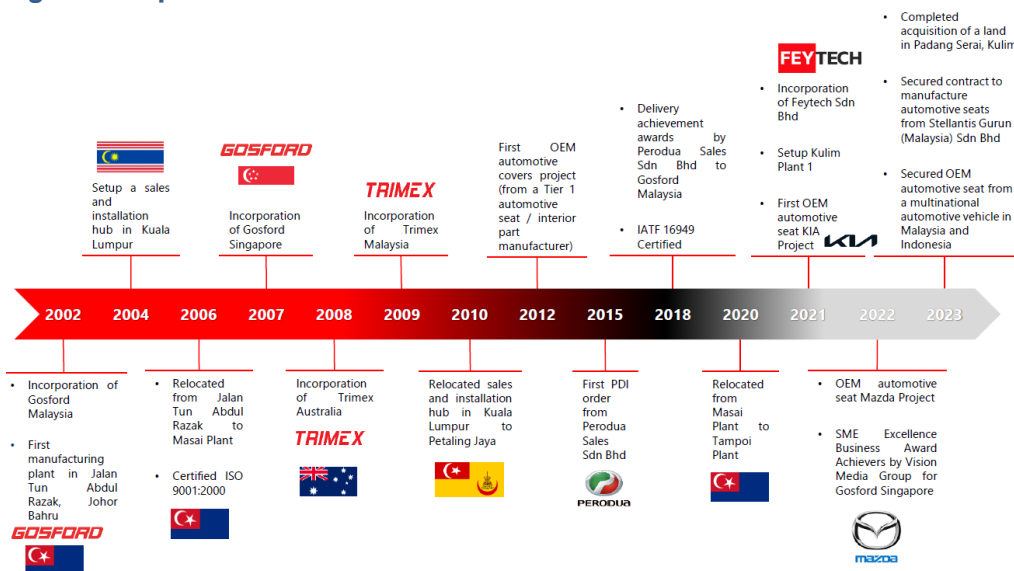
equipment, catering to distributors, car owners, dealers, and installers in the automotive industry.

Fig #1 Post-IPO company structure



Source: Feytech Holdings Berhad

Fig #2 Corporate Milestones



Source: Feytech Holdings Berhad

Fig #3 Utilisation of Proceeds

Use of Proceeds	RM' mil	%	Estimated time frame
Acquisition of land	11600	10.12%	Within 6 months
Construction of new corporate office with new manufacturing plant and warehouse	21125	18.42%	Within 24 months
Construction of new Kulim Plant 2	18760	16.36%	Within 24 months
Purchase of new machineries	3000	2.62%	Within 12 months
Working capital	52175	45.50%	Within 12 months
Estimated listing expenses	8000	6.98%	Immediate
Total	114660	100%	

Source: Feytech Holdings Berhad

Business Segments

1. Manufacturing of Automotive Covers (61.6% of FY23 Revenue)

Feytech's main bulk of revenue is generated from the Automotive Covers Manufacturing, which comprises automotive seat covers and interior part covers (Fig #5) through Original Equipment Manufacturer (OEM), Pre-Delivery Inspection (PDI) and Repetitive Manufacturing (REM) (Fig #4) mainly in Malaysia, Singapore, Australia and New Zealand.



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Fig #4 Types of OEMs Suppliers

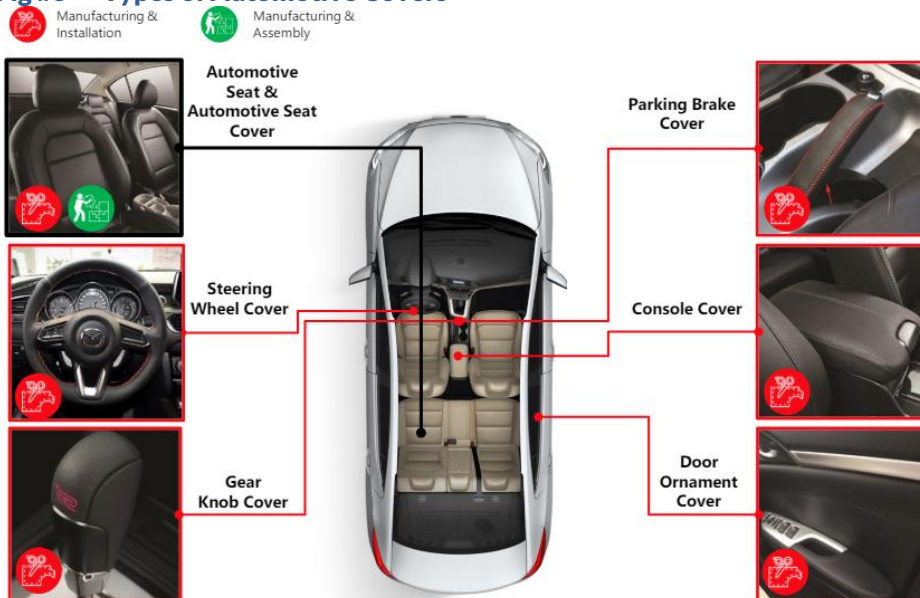
Type	Description
Tier 1 Suppliers	Companies that supply products and services directly to automotive vehicle OEMs
Tier 2 Suppliers	Companies that supply products and services directly to Tier 1 suppliers
Tier 3 Suppliers	Suppliers of raw materials for automotive seats and covers such as automotive cover materials, parts and accessories

Source: Feytech Holdings Berhad

In OEM segmentation, Feytech supplies the raw materials for automotive seats and covers to Tier 1 or Automotive Vehicle OEMs. To preserve the quality of the materials, Feytech developed prototypes that enable customers to conduct testing and adjustment until it meets the target functional specifications set by the automotive vehicle OEMs. In addition, Feytech also has an in-house testing laboratory and equipment, which will allow them to test, check and inspect the materials to ensure that they meet the requirements set by the customer.

Furthermore, Feytech generally are not required to install automotive covers onto the automotive seats. In some cases, Feytech may be required to undertake the installation of automotive covers on the interior parts such as door ornaments, steering wheels, gear knobs, handbrake consoles and consoles.

Fig #5 Types of Automotive Covers



Source: Feytech Holdings Berhad



In the PDI segment, Feytech engaged by automotive distributors and car accessory retailers to restyle, manufacture and replace automotive covers based on their designs and specifications. Feytech may also require reinstalling their manufactured automotive covers onto automotive seats and/or interior parts.

In the REM segment, Feytech engaged by customers to restyle, manufacture, replace and/or repair automotive covers based on clients designs and specifications. This involves the dismantling of used automotive covers and reinstalling of manufactured and/or repaired automotive covers on to the automotive seats and/or interior parts, followed by reinstalling of the automotive seats and/or interior parts into the vehicle.



Wednesday, 08 May, 2024

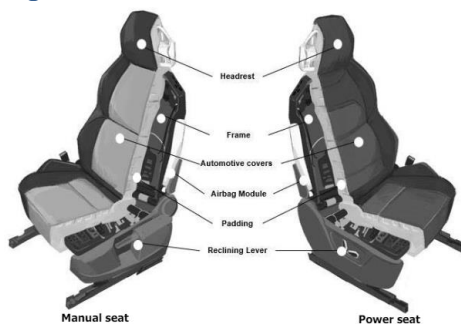
Fig #6 Summary of Automotive Covers Manufacturing

Principal Activities	Manufacturing of automotive covers		
Key Products	<ul style="list-style-type: none"> Automotive seat covers Interior part covers 		
Market Segments	OEM	PDI	REM
Customer segments	<ul style="list-style-type: none"> Automotive vehicle OEMs Tier 1 automotive seat and/or interior part manufacturers 	<ul style="list-style-type: none"> Automotive distributors Car accessory retailers 	<ul style="list-style-type: none"> Car owners Used car dealers Importers Automotive dealers Car accessory retailers Automotive cover installers
Clientele	Local OEM		

Source: Feytech Holdings Berhad

2. Manufacturing of Automotive Seats (38.4% of FY23 Revenue)

Fig #7 Power and Manual Seat



Source: Feytech Holdings Berhad

Feytech also manufactures and supplies automotive seats to OEMs such as Mazda and Kia; the operation is carried out at Kulim Plant 1, located in Padang Serai, Kulim, Kedah. The plant can produce up to 36,000 sets automotive seats annually, comprising Power Seats and Manual Seats (#Fig8).

SWOT Analysis

<p>Strength</p> <ul style="list-style-type: none"> Able to maintain stable gross profit margins despite facing higher material costs. Offers one stop for covers and seat manufacturing, giving a unique advantage over its peers. 	<p>Weakness</p> <ul style="list-style-type: none"> Profit margins may fluctuate according to materials prices, which contribute more than 60% of its costs of sales. Changes in economic and policies may disrupt business landscape.
<p>Opportunity</p> <ul style="list-style-type: none"> Expansion of production facilities to increase potential output. Strong industry outlook for used cars covers manufacturing. Strong track record helps to secure potentially large customers. 	<p>Threat</p> <ul style="list-style-type: none"> Market share <30% produces competition within a highly fragmented market. May face challenges from competitors regarding pricing, quality, manufacturing capacity

Source: MSSB Research

Financials

Feytech experienced a surge in demand for automotive seat covers in FY2021, particularly for Mazda CX-5, CX-8, and local OEM models. The increased sales of interior part covers, combined with improved product efficiency, resulted in improved gross profit margins. In FY22, Feytech introduced automotive seat sales for Kia



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Malaysia and continued to experience strong demand for Mazda and local OEM covers. During FY23, full-scale seat production for Mazda and Kia sales occurred, which contributed to the core PAT growing by 69.9% to RM46.9m.

Going forward, we project topline to grow at 12.7-21.4% to RM256.3-326.5m for FY24f-26f, while projecting its core net profit to increase by 10.6-12.8% to RM51.9-64.5m, respectively, underpinned by strong growth in its automotive seat segment, while we expect the seat covers segment to undergo stable growth rate going forward with the new models from Peugeot and New Client 2. We do not rule out the possibility of getting more business from the local OEM player when the land and production lines are ready in the AHTV zone.

Fig #8 Financial Highlights

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Revenue	126.9	211.2	256.3	289.1	326.5
EBITDA	40.4	68.0	77.2	86.8	97.9
EBIT	37.6	64.1	69.7	76.8	86.7
PBT	37.0	63.1	68.3	75.3	84.9
PAT	27.6	46.9	51.9	57.2	64.5
PATMI – Core	27.6	46.9	51.9	57.2	64.5
PATMI – Reported	27.6	43.9	51.9	57.2	64.5
% change YoY – Core PATMI	45.2%	69.9%	10.8%	10.2%	12.8%
Core EPS (sen)	3.3	5.6	6.2	6.8	7.7
P/E (x)	24.4	14.4	13.0	11.8	10.5
DPS (sen)	-	-	2.5	2.7	3.1
Yield (%)	0.0%	0.0%	3.1%	3.4%	3.8%
BVPS (RM/share)	0.10	0.15	0.33	0.37	0.41
P/B (x)	7.9	5.3	2.4	2.2	1.9
ROE (%)	34.9%	43.9%	25.8%	19.6%	19.6%
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

Source: Prospectus, MSSB Research

Valuations

We ascribe a fair value of RM1.10 for Feytech. Our valuation derived by pegging a P/E of 17.0x to the mid-FY25f EPS of 6.47 sen. We believe a P/E of 17.0x is justified as it is in line with its peers' average P/E within the same industry of 16.0x (simple average P/E) and 18.2x (market-weighted average P/E).

Fig #9 Peers comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM'm)	TTM P/E (x)	Market Cap-Weighted P/E (x)	DY (%)
FEYTECH	MAIN	Dec	1.100	674.6	13.0	-	3.1
PECCA	Main	Jun	1.380	1,037.5	23.0	15.1	2.2
APM	Main	Dec	2.780	543.5	9.0	3.1	6.5
Avg ex-FEYTECH					16.0	18.2	4.3

Source: Bloomberg, MSSB Research

Investment risks

Fluctuations in leather and synthetic leather prices. Any inability to pass on the price increase of leather or synthetic leather may adversely affect financial performance.

Dependent on key senior management. Discontinuation of service of the key senior management may disrupt key decision making within Feytech's business operations.

Economic and policies risks. Changes in the economic environment and policies may give rise to unfavourable business landscape.



Risk of impairment on trade receivables. By extending credit to customers, Feytech runs a risk of failure to receive outstanding payments from customers which may impact profitability.

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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

