Lim Seong Hai Capital Bhd (LSH)

Leaping to Stellar Heights

- **LSH is a construction and engineering company providing services, solutions, and products. It also engages in property development, leveraging its expertise for additional revenue through real estate projects.**
- **We project a 3-year earnings CAGR of 9.7%, with core PAT expected to reach RM81.9-98.1m over the next three years; driven by the Company's plans to (i) strengthen its position as a key player in construction and engineering works, (ii) expand its property development segment, and (iii) establish its new facility management business.**
- **We assign a fair value of RM1.60 per share for LSH, representing an 81.8% upside from the IPO price of RM0.88. This valuation is based on P/E ratio of 16x, pegged to the mid-FY26F EPS of 10.0 sen. We believe the valuation is fair as compared to its peers' forward and historical P/E peers of 15.5-20.7x. However, we do not rule out the possibilities that an upward rerating catalyst for LSH given its (i) strong order book coverage, (ii) solid net profit margins, and (iii) new business segment expected to drive additional revenue growth.**

Investment Highlights

The BEST Collaboration Framework… This unique in-house proposition enables LSH to form joint venture partnerships with landowners, property developers, and contractors, achieving the shared objective of value enhancement in projects. By leveraging LSH's expertise in technical input, project management, and working capital, the partner receives a performance bond without needing significant financial strength or large working capital, while simultaneously allowing LSH to tender for various types of work. In addition to Industry Revolution (IR) 4.0, we view LSH's collaboration with Gamuda Industrial Building System as a strategic move to further grow its job pipeline.

…becoming a key proxy. While the Company can bid for a broad variety of work scopes awarded or subcontracted through its BEST Collaboration Framework partnership, it can also match the lowest accepted tender for any critical or specialized work scope without significantly compromising its margins; by leveraging its healthy working capital and its ability to capitalize on its partnerships to be nominated as the project's supplier, ensuring consistent demand for the Company's products. As of the latest practical date, the average arrangement fee was 75% of the pre-tax project profit, totalling RM34.3, for its partnerships with ASSB, ASES, Besteel Engtech, and SLP Construction, both completed and ongoing projects.

Strong momentum ahead. Collectively, we estimate that LSH's key clients—ASSB and ASES—will launch property developments with a combined GDV of RM1.5bn over the next five years. These include ongoing multi-phase projects such as (i) the LSH Segar Project in Cheras, which has a take-up rate of c.86.9% as of the latest practicable date and is expected to provide a robust rental income stream to the Company, and (ii) the Lake Side Homes Project in Sungai Besi, where the Company is already appointed as the existing contractor. Moreover, as its property development projects are focused on affordable residential developments such as *'Residensi Wilayah'* and *'PPAM'*, we believe that the recent government initiatives in Budget 2025, which aim to enhance homeownership accessibility, particularly for first-time buyers, will stimulate interest in LSH's properties.

IPO Note – Not rated

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Non-Rated

Share price	**RM0.88**
Target price	**RM1.60**
Previous TP	-
Capital upside	81.8%
Dividend return	3.5%
Total return	85.3%

Company profile

LSH is a construction company offering engineering, construction services, and related products. It also engages in property development, leveraging its expertise for additional revenue through property sales.

Stock information	
Bursa Code	0351
Bloomberg ticker	LSH MK
Listing market	ACE
Share issued (m)	838.4
Market Cap (m)	737.8
Shariah compliant	YES
MITI	YES

Major shareholders	%
LSH Resources	64.7

Earnings snapshot

FYE (Dec)	FY24	FY25f	FY26f
PATMI (m)	74.3	81.9	85.8
EPS (sen)	8.86	9.77	10.23
P/E (x)	9.9	9.0	8.6

Timetable of IPO

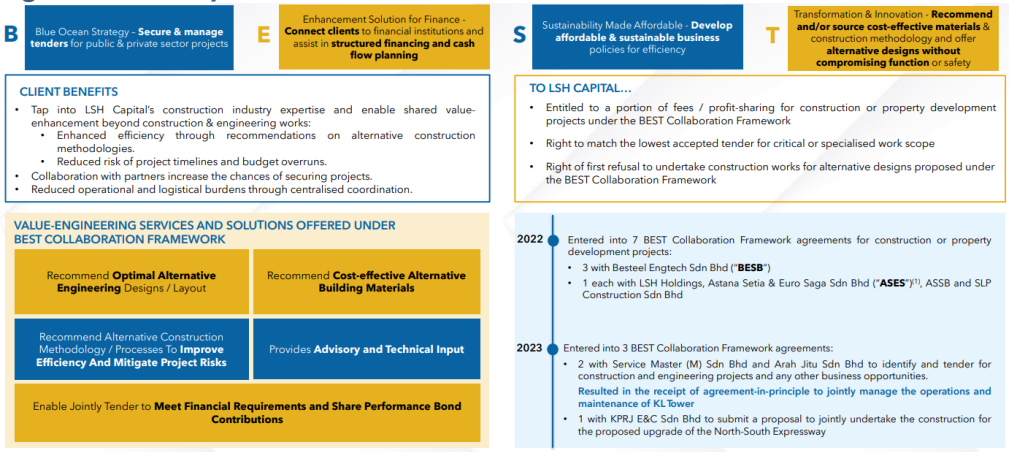
Opening of application	28 February
Closing of application	6 March
Balloting of application	10 March
Allotment of the IPO shares	19 March
Listing on the ACE market	21 March

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Growing into an untapped segment. After substantial growth in its new segment—property development—the Company intends to continue its expansion by establishing a facility management division, which is expected to provide a steady cash flow. This segment will include (i) operational management, (ii) housekeeping, (iii) security, (iv) health and safety compliance, and (v) landscaping. As of the latest practical date (LPD), the Company has entered into a collaboration with Service Master (M) Sdn Bhd, resulting in an agreement to manage the Kuala Lumpur Tower. Additionally, the Company has secured a contract to manage the *'Blue Pool'* facility and plans to manage facilities for residential buildings, which we believe will complement its current business.

Fig #1 Summary of BEST Collaboration Framework



Source: Lim Seong Hai Capital Berhad

Fig #2 LSH's ongoing projects

Project Name / Project Type	Customer	Project Location	Start Date / Expected Completion Date	Percentage Completion (1)	Contract Value (RM mil)	Outstanding Orderbook (RM mil)(1)
Construction Projects						
LSH Segar	ASSB	Cheras, Kuala Lumpur		48.91%	260.6	133.1
Lake Side Homes	ASES	Sungai Besi, Kuala Lumpur		0.52%	779.9	775.8
Sentul Ria	LSH Holdings	Sentul, Kuala Lumpur		7.78%	103.9	95.8
Wisma LSH Extension	LSH Holdings	Setapak, Kuala Lumpur		8.55%	9.0	8.2
Total Building Projects					**1,153.3**	**1,013.0**
Infrastructure Construction and Engineering Work Projects						
Flood retention	Pertama Makmur Sdn Bhd	Pendang, Kedah		56.81%	78.5	33.9
Road works	Euro Saga Sdn Bhd	Jerantut, Pahang		12.91%	201.0	175.1
Road works	Ganti Juara Sdn Bhd	Sembrong, Johor		69.43%	23.1	7.1
Bridge works	BESB	Nibong Tebal, Penang		89.43%	112.1	11.8
Road works	SLP Construction Sdn Bhd	Tangkak, Johor		32.57%	128.1	86.4
Road works	Tekad Warisan Sdn Bhd	Kota Belud, Sabah		87.50%	44.4	5.6
Cold water and sanitary plumbing works(2)	BESB	Gemas, Negeri Sembilan		38.57%	20.2	12.4
Electrical works(2)	BESB	Gemas, Negeri Sembilan		18.53%	38.4	31.3
Reinforced concrete works(2)	BESB	Gemas, Negeri Sembilan		83.87%	41.0	6.6
Earthwork	BESB	Nibong Tebal, Penang		0.07%	23.2	23.1
Architectural works(2)	BESB	Gemas, Negeri Sembilan		7.80%	95.4	88.0
Infrastructure works(2)	BESB	Gemas, Negeri Sembilan		0.00%(3)	24.1	24.1
Total Civil Engineering Projects					**829.5**	**505.4**
Total Value					1,982.8	1,518.4

Source: Lim Seong Hai Capital Berhad

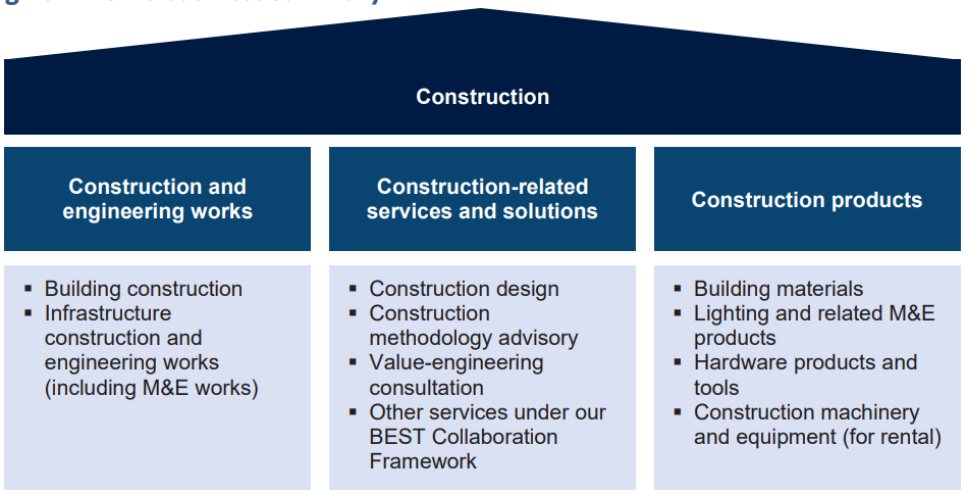
Order book cover ratio of 4.2x to provide earnings visibility. As of the LPD, LSH's outstanding order book stands at RM1.5bn, representing 4.2x orderbook-to-cover ratio of its FY24 revenue. The order book includes construction projects (66.7%) and civil engineering projects (33.3%); reflecting the Company's ability to secure projects and maintain a steady flow of contracts, which we believe is driven by its strategic BEST Collaboration Framework. Additionally, the Company has achieved healthy profit margins of 16-20%, outperforming peers in the Construction & Engineering Bloomberg index, benefiting from long-standing client relationships that result in flexible contract terms to manage material cost fluctuations.

Company Background

LSH is a full-fledged construction company with the capability to undertake a broad range of construction and engineering works. It provides construction-related services and solutions, including supplying construction products that complement its construction and engineering works, as well as meeting the needs of the broader construction industry.

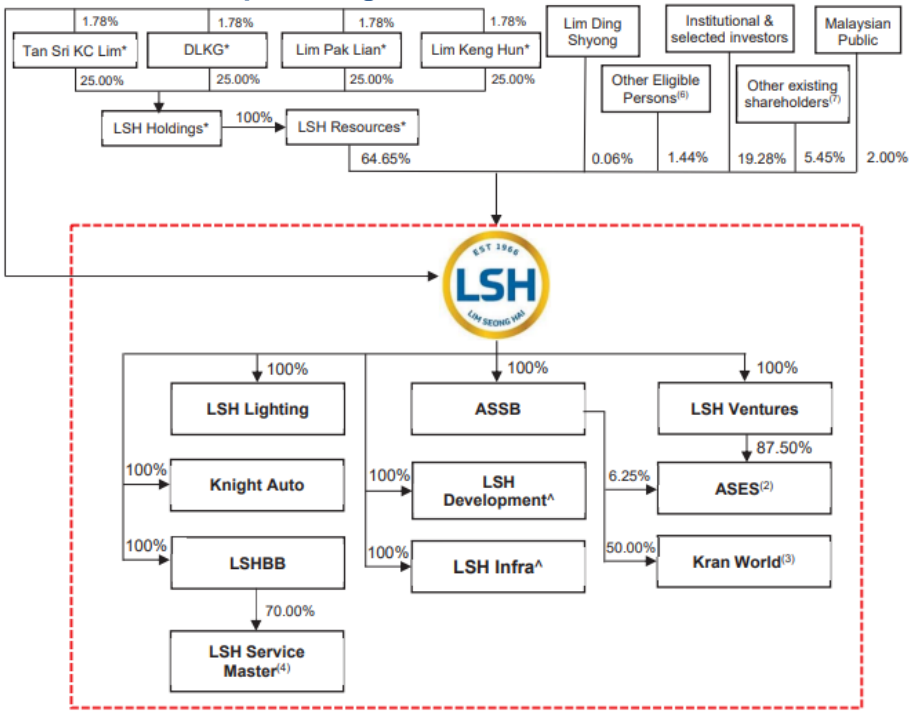
In addition to its primary focus as a construction company, the Company is also involved in property development activities, allowing it to leverage its strengths and expertise in the construction sector. This diversification provides an additional revenue stream through the sale of property units under its own development projects.

Fig #3 LSH's business summary



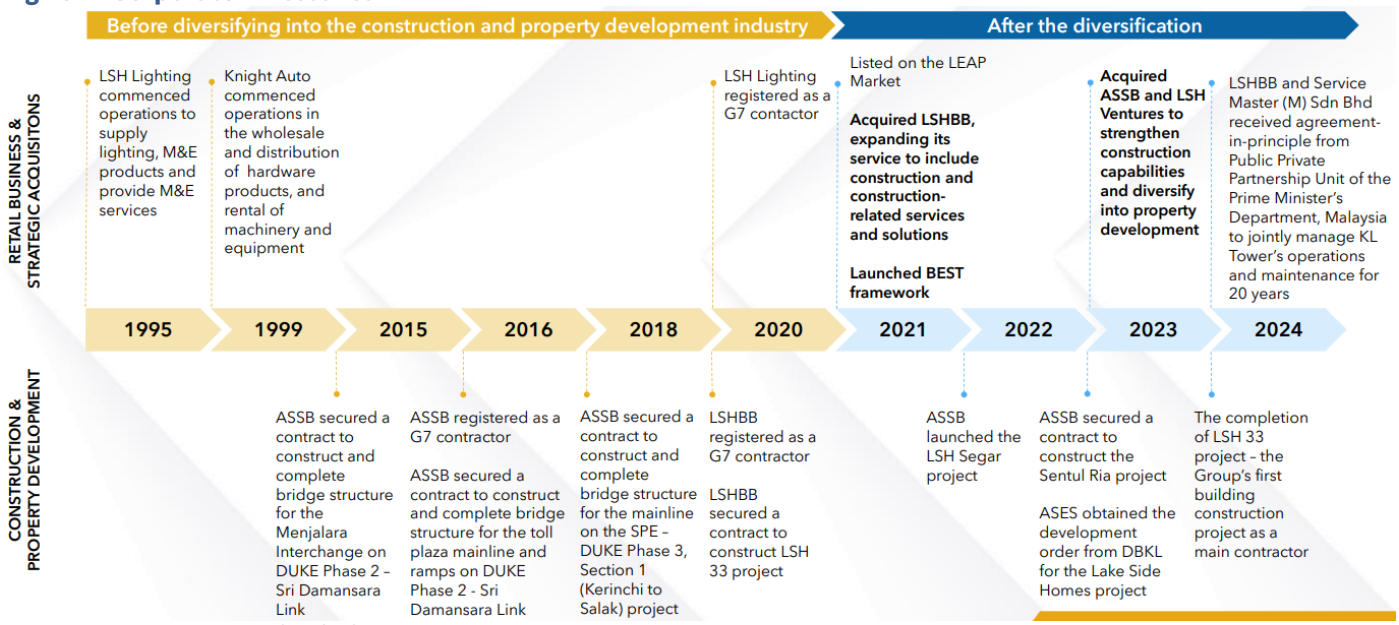
Source: Lim Seong Hai Capital Berhad

Fig #4 LSH's structure post listing



Source: Lim Seong Hai Capital Berhad

Fig #5 Corporate Milestones



Source: Lim Seong Hai Capital Berhad

Future Plans and Business Strategies

Strengthening its position as a construction and engineering player. As of the latest practicable date, the Company's orderbook stood at RM1.52bn, expected to be recognized progressively until 2030. Besides this, the Company plans to allocate c.RM108.9m for working capital, leveraging its construction and engineering expertise to maintain a healthy job replenishment through tendering activities or its BEST Collaboration Framework.

Strengthening its position as property developers. Its new business segment, property development, which saw a substantial growth of 419.4% in just over a year, driven by the LSH Segar Project and Lake Side Homes project; having an estimated GDV of c.RM1.5bn and are expected to generate revenue progressively until FYE 2030. Riding on this momentum, the Company aims to expand its property development projects by identifying new landbanks or development opportunities.

Venturing into facility management services segment. Moving forward, the Company plans to establish a new business segment—facility management services—which will include (i) operational management, (ii) maintenance services, (iii) housekeeping and cleaning, (iv) security and surveillance monitoring, (v) health and safety compliance, and (vi) landscaping. Having recently secured contracts to manage the facilities of Kuala Lumpur Tower and Blue Pool, we believe this business segment will provide a steady revenue stream while also complementing the Company's property development business.

Fig #6 Use of proceeds

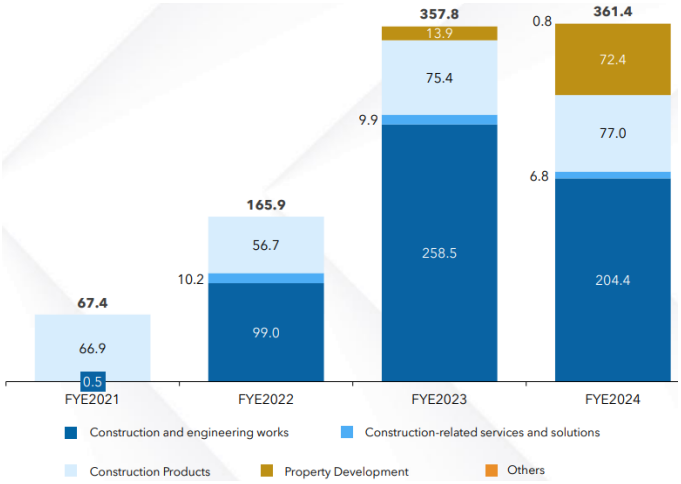
Use of proceeds	RM'm	%	Estimated time frame
Working capital for the Company's construction projects	108.9	93.7	Within 24 months
Estimated expenses in relation to its Transfer of Listing	7.3	6.3	Within 1 month
Total	116.2	100.0	

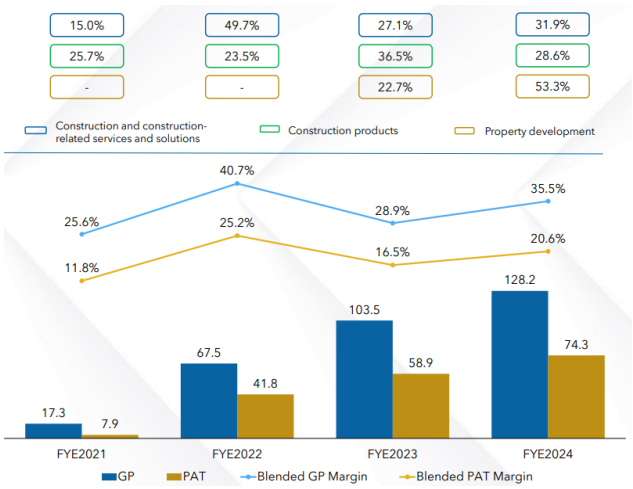
Source: Lim Seong Hai Capital Berhad

Financials

Revenue highlights. The Group reported a revenue of RM361.4m in FY24, reflecting a CAGR of 75.0% from RM67.4m in FY21. This growth was driven by higher revenue from (i) construction engineering works, (ii) the supply of construction products, and (iii) property unit sales from the LSH Segar Project. While revenue growth was flat in FY24 compared to FY23, this was due to lower construction activity for the LSH 33 project, which neared completion and was finalized in June 2024. Core earnings stood at RM74.3m.

Fig #7 LSH's revenue and profitability breakdown





Source: Lim Seong Hai Capital Berhad

Earnings forecasts. Moving forward, we project a 3-year earnings CAGR of 9.7%, with core PAT expected to reach RM81.9m, RM85.8m, and RM98.1m over the next three years. This growth will be driven by the Company's plans to (i) strengthen its position as a key player in construction and engineering works, (ii) expand its property development segment, and (iii) establish its facility management business, which will provide a steady recurring income. We expect margins to stabilize while remaining above industry peers, supported by the Company's unique strategic position through its BEST partnership framework.

Fig #8 Financial Highlights

FYE Sept (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Revenue	357.8	361.4	413.8	440.1	501.1
EBITDA	82.1	106.0	119.3	126.8	144.2
EBIT	76.4	99.9	112.0	117.7	133.7
PBT	75.7	97.7	107.8	112.9	129.1
PAT	58.9	74.3	81.9	85.8	98.1
PATMI – Core	58.9	74.3	81.9	85.8	98.1
% change YoY – Core PATM	40.8%	26.2%	10.3%	4.7%	14.4%
Core EPS (sen)	7.02	8.86	9.77	10.23	11.70
P/E (x)	12.5	9.9	9.0	8.6	7.5
DPS (sen)	2.1	2.7	2.9	3.1	3.5
Yield (%)	2.4%	3.0%	3.3%	3.5%	4.0%
BVPS (RM/share)	0.50	0.57	0.75	0.82	0.91
P/B (x)	1.8	1.6	1.2	1.1	1.0
ROE (%)	23.5%	16.6%	14.8%	13.0%	13.5%
Net Gearing (%)	0.0%	CASH	CASH	CASH	CASH

M+ Research

Valuations

We assign a fair value of RM1.60 per share for LSH, representing an 81.8% upside from the IPO price of RM0.88. This valuation is based on P/E ratio of 16x, pegged to the mid-FY26F EPS of 10.0 sen. We believe the valuation is fair as compared to its peers' forward and historical P/E peers of 15.5-20.7x. However, we do not rule out the possibilities that an upward rerating catalyst for LSH given its (i) strong order book coverage, (ii) solid net profit margins, and (iii) new business segment expected to drive additional revenue growth.

Fig #9 Peer comparison

Ticker		Name	Weight (%)	Shares	Price	ROE LF	PM LF	BEst P/E BF12M	P/E
▾ Construction & Engineering (44 members)			94.742273	41,413.730863		10.79%	4.93%	15.46	20.72
GAM	MK	Gamuda Bhd	43.682523	5,703.875474	4.1000	8.08%	4.97%	16.85	24.62
IJM	MK	IJM Corp Bhd	13.558451	3,647.566120	1.9900	5.69%	7.36%	12.85	12.03
SCGB	MK	Sunway Construction Group Bhd	9.877472	1,292.911010	4.0900	22.01%	4.94%	19.57	28.25
KPG	MK	Kerjaya Prospek Group Bhd	4.947068	1,267.207766	2.0900	14.00%	7.26%	13.14	16.47
BNASTRA	MK	Binastra Corp Bhd	3.542682	1,090.006600	1.7400	50.87%	9.10%	14.16	20.67
AME	MK	AME Elite Consortium Bhd	1.998511	640.672649	1.6700	9.89%	11.27%	9.67	13.08
WCTHG	MK	WCT Holdings Bhd	1.864690	1,559.814471	0.6400	8.98%	10.57%	14.18	3.36
EKO	MK	Ekovest BHD	1.495555	2,965.410802	0.2700	-6.31%	-19.61%	--	--
AZAMJAYA	MK	Azam Jaya Bhd	0.943290	500.000000	1.0100	31.61%	4.66%	12.20	39.45
MUHI	MK	Muhibbah Engineering M Bhd	0.901171	730.986818	0.6600	0.81%	7.29%	7.37	6.58
ECON	MK	Econpile Holdings Bhd	0.820802	1,417.500025	0.3100	-3.15%	0.17%	24.72	--
MLG	MK	MGB Bhd	0.718346	591.652605	0.6500	10.41%	5.62%	5.65	6.40
EVSD	MK	Eversendai Corp Bhd	0.663857	781.105000	0.4550	20.90%	2.69%	--	25.14
KITACON	MK	KUMPULAN KITACON Bhd	0.663105	500.000000	0.7100	14.21%	5.99%	5.46	9.76
VARIA	MK	Varia BHD	0.601861	432.500000	0.7450	2.09%	3.92%	--	71.87
KICB	MK	Kimlun Corp Bhd	0.594075	353.382716	0.9000	5.68%	3.96%	7.02	6.32
GDB	MK	GDB Holdings Bhd	0.525347	937.500000	0.3000	12.48%	10.12%	--	10.49
MDJ	MK	Mudajaya Group Bhd	0.521194	2,657.397503	0.1050	-3.83%	86.94%	--	2.69
BIN	MK	Bina Puri Holdings BHD	0.511904	806.038048	0.3400	-3.15%	2.82%	--	16.91
JAK	MK	JAKS Resources Bhd	0.466033	2,626.269669	0.0950	1.30%	144.91%	--	4.11
MHB	MK	Mitrajaya Holdings Bhd	0.456677	776.148910	0.3150	0.20%	11.18%	--	10.90

Source: Bloomberg, M+ Research

Investment risks

Dependent on registration and licenses. Inability to maintain or renew its certificates of registration with the G7, the Company will be restricted or prohibited from providing its services, thereby adversely affecting its business and financial position.

Non-recurring projects. The Company may not be able secure new projects, as it derives most of its revenue from non-recurring, project-by-project contracts, with many projects awarded on a potentially one-off basis.

Inability to complete projects in a reliable and timely basis. Failure to deliver contractual work on time may negatively impact the Company's reputation, business, financial condition, and operational results.

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

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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