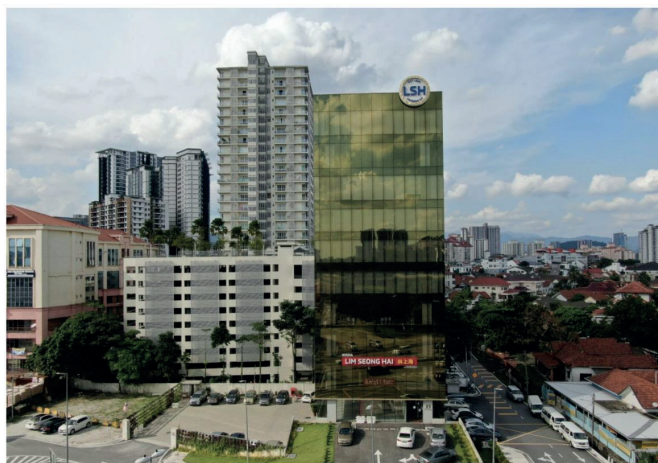


Marginal Upside In Fair Value For LSH's ACE Market Transfer



RHB Investment Bank Bhd (RHB Research) has maintained a fair value of RM1.13 for Lim Seong Hai Capital Bhd (LSH), representing a 28% upside as the company prepares for its listing transfer from the LEAP Market to the ACE Market. The company aims to raise RM116 million through the public issue, primarily to support working capital for its construction projects.

The research house expects a three-year compound annual growth rate (CAGR) of 10% from FY24 to FY27, driven by increased contributions from its property development and construction divisions.

LSH operates as a full-fledged construction company offering engineering works, construction-related services, and the supply of construction materials. It also has a property development arm. The company's outstanding order book stands at RM1.5 billion, with 67% linked to residential building projects and the remaining 33% allocated to infrastructure works such as roadworks, flood retention, and earthworks.

The company is allocating 93.7% of its IPO proceeds to working capital, with plans to utilise the funds within 24 months. This move is expected to enhance LSH's ability to tender for new projects. The company recently entered a strategic collaboration with Permodalan Negeri Selangor and IJM Corporation to study key transportation links for the Southern Selangor Integrated Regional Development (IDRISS), reinforcing its presence in infrastructure projects.

RHB Research projects LSH's core earnings to grow at a 10% CAGR over the next three years, driven by its property development projects, LSH Segar and Lake Side Homes, which have a combined gross development value of RM1.6 billion and will be recognised progressively until FY30.

The group's order book, consisting of 16 ongoing projects worth RM1.5 billion as of January 2025, provides earnings visibility for the next four years. The company's job replenishment assumption of RM300 million annually from FY25 to FY27 is supported by stronger demand for residential properties, reflected in a 10% year-on-year decline in Malaysia's residential property overhang in 2024.

RHB Research has applied a 12-times price-to-earnings ratio to LSH's FY26 forecasted earnings, aligning with the valuation range of small- and mid-cap contractors with property development exposure, which trade at price-to-earnings multiples between 6 to 14 times. In comparison, Kerjaya Prospek, which has a larger market capitalisation of RM2.6 billion, is trading at a forward price-to-earnings ratio of 13.7 times. Given LSH's smaller market cap and lower profit base, RHB Research considered its target valuation reasonable.