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20 October 2016 Thursday



## BCM Alliance Berhad

### “Dominating Self-Service Commercial Laundry Market”

BCM Alliance Berhad (BCM) will be making its debut in Ace Market of Bursa Malaysia on the 24<sup>th</sup> October 2016. BCM strengths are in the commercial laundry equipment segment which will be supported by its sole distributor role of various well-known international brands as well as after-sales service in both the commercial laundry equipment and medical devices businesses. BCM started its operation in 1996 and hence, boasting itself with 20 years of experience. At the IPO price of RM0.19, we are of the view that BCM's IPO price is trailing its fundamentals. **SUBSCRIBE.**

#### Corporate Profile

BCM is involved in two main businesses, comprising; 1) distribution of commercial laundry equipment and 2) distribution of medical devices. In commercial laundry equipment business, BCM engages in the supply, installation, testing, and commissioning of vended commercial laundry equipment. In medical devices business segment, BCM distributes medical imaging equipment, as well as disinfection, sterilization, and surgical room equipment.

Apart from distribution, BCM also provides after-sales service which is one of the main core services for the Group. BCM has a market share of 40.1% in the vended commercial laundry equipment industry with annual revenue CAGR of 50% in the last 4 years, signifying positive prospects in both the commercial laundry equipment and medical devices industry.

#### NON RATED

IPO Retail Price (RM)	RM0.19
Fair Value (RM)	NA
Previous Value (RM)	NA
Previous Recomm.	NA
Upside/(Downside) To Target	NA
Dividend Yield (FY16)	NA

#### Listing Details

Listing Sought	ACE Market
Listing Date	24 <sup>th</sup> Oct 2016

#### Stock Information

Shariah Status	Yes
Sector	Trading/Services
Total IPO Shares (mn)	84.25
Institutional Offering (mn)	NA
Retail Offering (mn)	22
Market Cap (RM mn)	80
Share Capital (mn)	421,250
Par Value (RM)	0.05

#### Major Shareholders

Koh Lap Hing	9.4%
Hew Chun Shun	9.4%
Chung Eng Lam	8.9%
Liaw Chong Lin	8.9%
Lim Jit Wei	8.4%

**Investment Highlights:**

- **Distributor of well-established and well-known brands for both commercial laundry equipment and medical devices**

BCM has been focusing on commercial laundry equipment business segment after the restructuring of CS Laundry in 1998 which saw BCM venturing into the distribution of commercial laundry equipment which tapped on the expertise of its Executive Directors. Through the expertise of the promoters, the Group grew from a traditional non-service laundry shops in the early formation of CS Laundry into a provider of self-service launderette outlets through the establishment of Speed Queen concept stores.

Leveraging on the wealth experience of its directors, CS Laundry has secured tied-up from various well-known international brands namely Alliance Laundry (an international manufacturer of commercial laundry equipment listed in New York Stock Exchange) in commercial laundry equipment segment and Hitachi Medical System (a subsidiary of Hitachi Medical Corporation) and Steris Corporation (a leading global manufacturer of infection prevention, contamination control). Interestingly, BCM did not face any competition to distribute its international partners' products in Malaysia. These brands would limit number of distributors appointed in every country especially in Malaysia as competition amongst the distributor may jeopardise the sales performance and brand dilution resulting from potential price undercutting and disjointed promotion of brand.

**Table 1: International Partners in Commercial Laundry Equipment and Medical Devices Segment**

Distributor of Well-Known Products			
Commercial Laundry Equipment Segment		Medical Devices Segment	
Company	Origination	Company	Origination
Alliance Laundry	USA	Steris Corporation	USA
Lapauw International	Belgium	Hitachi Medical	Japan
Renzacci S.p.A Industria Lavatrici	Italy	Medifa-Hesse GmbH&Co.KG	Germany
Onerra Laundry Barcelona S.A (Domus)	Spain	Ziehm Imaging GmbH	Germany
Jiangsu Sea-Lion Machinery Group	China	MinXRay Inc	USA
Jensen Asia	Belgium	CareStream Health	USA
Maxi Companies	USA	Quantum Medical Imaging LLC	USA
		GE Healthcare	Germany
		Trilux Medical GmbH & Co.	Germany
		NewMed S.r.L.	Italy
		Elma Schmidbauer GmbH	Germany

Source: Prospectus

- **Diversity in range of products and services**

Anchored by the expertise of its directors and experienced management team, BCM is able to provide end-to-end services for both the commercial laundry equipment and medical devices segments. In commercial laundry equipment segment, BCM provides comprehensive services, including distribution of commercial laundry equipment as well as conceptualisation of design, supply and installation of fully-functional laundry to after-sales service repair and maintenance service. Additionally, BCM has received acknowledgement from Alliance Laundry to setup Speed Queen self-service laundrettes.

In medical devices segment, BCM is a provider of comprehensive range of medical imaging equipment as well as disinfection, sterilisation and surgical room products. Additionally, BCM also provides design consultancy, supply and installation of equipment which cater to the complete setup of medical imaging room or central sterile supply department as well as after-sales repair and maintenance services. This medical equipment includes X-Rays, MRI system, CT scan, CR system and medical imaging films and printers where it gets the supply from the international partners.

- **Focus on efficient and reliable after-sales service**

Given its comprehensive business from distribution to after-sales service, BCM is emphasising on good customer experience for continual improvement which is important for their business growth. Thanks to its impressive customer service, BCM has been able to secure recurring orders from customers as well as derive sales through referrals from its customers.

BCM's strength lies in both commercial laundry equipment and medical devices segments where its after-sales service are responsive to customer complaints quickly and take preventive actions within fourteen days. The strength continues until today where the Group managed to achieve 99% service delivery timeline in FY13-FY15 for every reported on-site maintenance/service demand.

Not stopping there, the Group is proud to secure certification of ISO 9001:2008 and DIN ISO 13485:2003 from local and international accreditations to meet increasing demand for quality standards, which is central to its operation in the commercial laundry equipment and medical devices distribution. In addition, the Group is conducting yearly customer satisfaction and questionnaire as well as testing and commissioning stage of products in order to gather feedbacks for continuous improvement.

- **Established track record as well as strong management team**

Strong management team has been critical to BCM success where all of the personnel have experience of 20-30 years in sales, distribution and servicing in both commercial laundry equipment and medical devices segments. We duly noted that the business adopted by BCM is easily replicated by its competitor and hence, we deem the success lies within the promoters' deep knowledge in their field as shown by its sustainability in both the commercial laundry equipment and medical devices business segments. Importantly, BCM is proud with its after-sales

service capability which has garnered solid thrust from its customers and instrumental in attracting new and recurring orders. This is proved through the variability of its customers from private and government hospitals in installing and maintaining the medical devices.

- **Growing demand for self-service launderette**

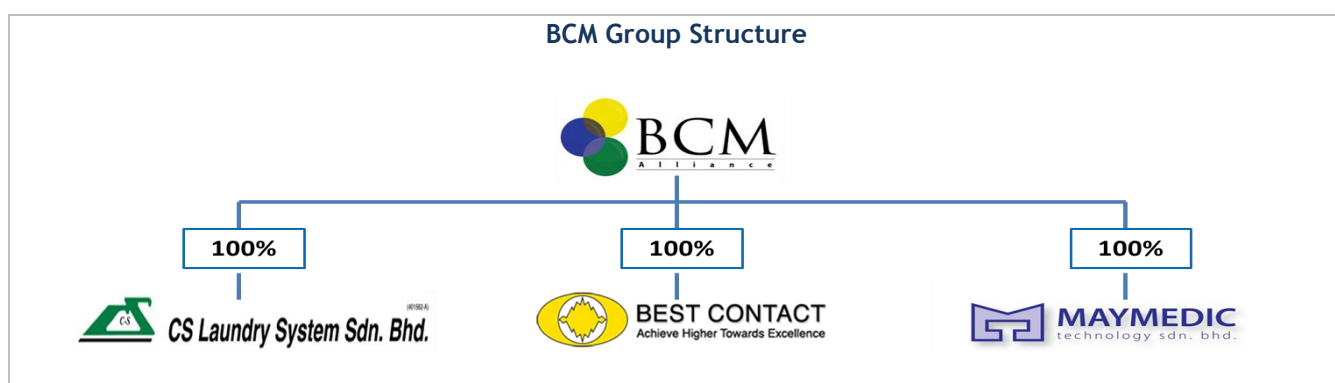
Over the years, the number of self-service launderettes have expanded rapidly and expected to reach RM146.3 million market size with forecast CAGR of 11.2% from 2016 till 2020. The demand is mainly due to the steady growth of urbanization and fast lifestyles. Based on this, BCM is eyeing to fetch further market share in the commercial laundry equipment capitalizing on the varieties of its products.

Additionally, the rising of entrepreneurship in the self-service laundry is timely for BCM to grow its business and franchise idea. We estimate that the rising cost of life is a stepping stone for Malaysian to step into this business given its low start-up cost (from RM230k) as well as minimal technical knowledge required.

In medical devices business segment, we opine that BCM is benefiting from rising number of private and government hospitals in Malaysia. For private sector, for instance, KPJ is aiming to open eight hospitals in the next 2-3 years to support the ageing Malaysian population as well as increasing public awareness to prevent diseases in Malaysia. Being KPJ's trusted client, we are of the view that BCM would be the straightforward winner for KPJ's medical devices supply for the newly opened hospitals.

### Company Background

BCM history can be traced back in 1996 through the formation of CS Laundry when Chung Eng Lam joined Koh Lap Hing and Hew Chun Shun. All three promoters decided to work together to expand their business from maintenance provider, repair and installation service into the distribution of equipment.

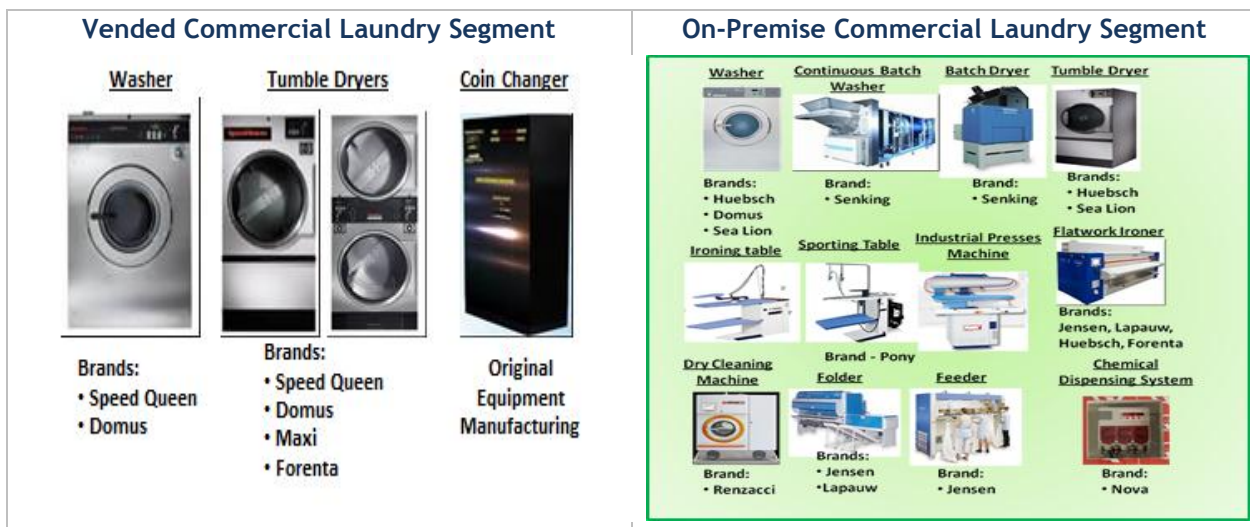


Source: Prospectus

## 1. CS Laundry

CS Laundry was established on 10 September 1996 by Koh Lap Hing and Abdul Halim bin Jamaludin with the intention to seek new business opportunities in the laundry cleaning services. In December 1998, CS Laundry underwent a change in shareholding structure that saw the entry of five new shareholders. The change resulting in CS Laundry venturing into the distribution of commercial laundry equipment which tapped into its Executive Directors' technical expertise and experiences in the area of maintenance, repair and installation of equipment.

During the early years of CS Laundry between 1998-2000, the distribution range of commercial laundry equipment was targeted at traditional non-service laundry shops and outsourced laundry service provider that were predominantly located in the Klang Valley. In 2000, CS Laundry expanded its distribution of equipment and services offerings into the hospitality sector in Malaysia, including providing consultancy services such as designing, recommendation of the types of commercial laundry equipment to be installed, drawing of schematics and layouts, flow and space planning, fixtures and fittings as well as other fit-outs to be installed. Additionally, CS Laundry provides support in terms of training, after-sales services as well as repair and maintenance services in the hospitality sector.

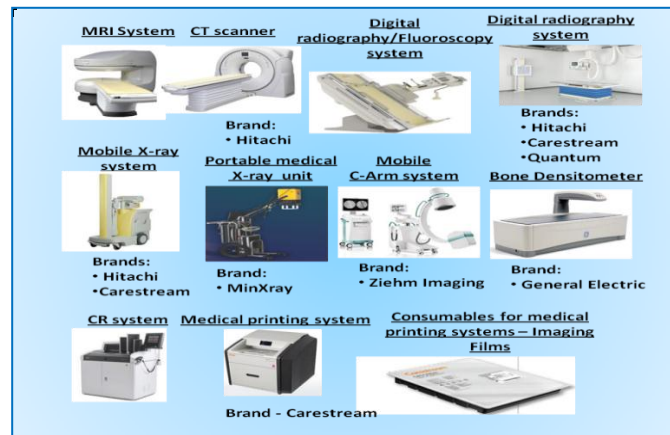


Source: Prospectus

## 2. Best Contact

BCM's venture in the distribution of medical devices business segment began in 2004 via Best Contact. In 2004, Best Contact underwent business rationalisation to change its business focus into the distribution of medical devices, which began with the distribution of the Hitachi brand of medical imaging equipment such as X-Ray system, MRI system, CT scanner system and ultrasound machine.

### Medical Imaging Equipment



Source: Prospectus

### 3. Maymedic

In 2006, Maymedic was established to venture into the distribution of sterilisation, disinfection and surgical room equipment sub-segment, as part of its expansion drive to further expand the range of distribution of medical devices to the healthcare sectors in Malaysia. In the same year, BCM was appointed to distribute the Steris brand of sterilisation, disinfection and surgical room equipment in Malaysia.

### Disinfection, Sterilisation and Surgical Room Equipment



Source: Prospectus

Table 2: Chronology of Events

Years	Events
1978	Incorporation of Syarikat Sunto Trading
1994	Establishment of Best Contact
1996	Establishment of CS Laundry
1998	Restructuring of CS Laundry
2001	Appointed by Alliance Industry to distribute its products
2004	Restructuring of Best Contact Appointed exclusive distributor for Hitachi product
2006	Establishment of Maymedic
2015	Set up first Speed Queen self-service launderette

Source: Prospectus

### Selected Future Plan Analysis

- **Setting up chain of eleven new Speed Queen self-service launderette outlets**

BCM is eyeing to expand its Speed Queen self-service launderette outlets in Malaysia by 2018 with estimated cost of each outlet from RM230k, bringing the total investment to RM2.6 million. 16.2% from IPO proceeds is set aside to set-up of eleven new Speed Queen outlets. BCM believes that by having more Speed Queen self-service launderette, it will showcase the brand of Speed Queen in Malaysia and BCM is expected to rake more market share given the rising self-service launderette in Malaysia. This sub-sector is estimated to grow at 11.7% or RM106.1 million in 2016. Additionally, by having readied Speed Queen outlets, the prospective investor/buyer is able to view the actual product performance assessment. Of note, BCM has been operating its first Speed Queen self-service launderette in Taman United, Kuala Lumpur since September 2015 which has done well to showcase the ability of BCM's the Speed Queen brand.

- **Continuous expansion of existing portfolio of products and brands**

BCM is looking to expand its product offerings by securing more products from respectable partners in commercial laundry equipment segment via obtaining additional product distributorships. Some of its customers are already requesting for certain brands that have features and capabilities and thus, amplifying BCM's intention to further expand its products range.

- **Expansion of sales & marketing team**

We like the fact that BCM is trying to strengthen its brand by utilizing 10.7% or RM1.71 million of total proceeds by undertaking aggressive promotional, advertising and marketing efforts. To do this, BCM will undertake variety of campaigns, promotions, online advertisements, billboards and other target based marketing activities. BCM also aims to broaden its customer base into the South East Asia region, mainly Indonesia and IndoChina.

### IPO Details

BCM is seeking for listing on the ACE Market of Bursa Malaysia on 24<sup>th</sup> October 2016. The issue price is set at RM0.19 and expected to reach market capitalization of RM80 million upon listing.

Table 3: IPO Details

Activity	No. of Shares (mil)
Existing issued and paid up capital	337
New shares to be issued pursuant to the public issue	84.25
Enlarged issued and paid-up capital upon listing	421.25
Market Cap upon listing (RM million)	80.03
IPO Price	RM0.19

Source: Prospectus

**Utilization of proceeds**

BCM will utilize 84.4% of IPO proceeds amounting RM13.5 million to finance its operations and the balance of RM2.5 million will be used for listing expenses.

Table 4: IPO Utilization Proceeds

Activity	RM million	% of Proceeds	Expected Time Frame
Setting up chain of 11 new Speed Queen self-service launderette outlets	2.6	16.2	Up to 24 months
Working Capital Requirement			
i. Purchase of brand new commercial laundry equipment and medical devices	7.7	48.1	Up to 24 months
ii. Day-to-day working capital expenses	3.2	20.1	Up to 12 months Within 1 month
Estimated listing expenses	2.5	15.6	
<b>Total</b>	<b>16.008</b>	<b>100.0</b>	

Source: Prospectus

**IPO Timetable**

Table 5: IPO Timetable

Activity	Date
Prospectus launch	28 September 2016
Closing of application	10 October 2016
Balloting of application	13 October 2016
Listing	24 October 2016

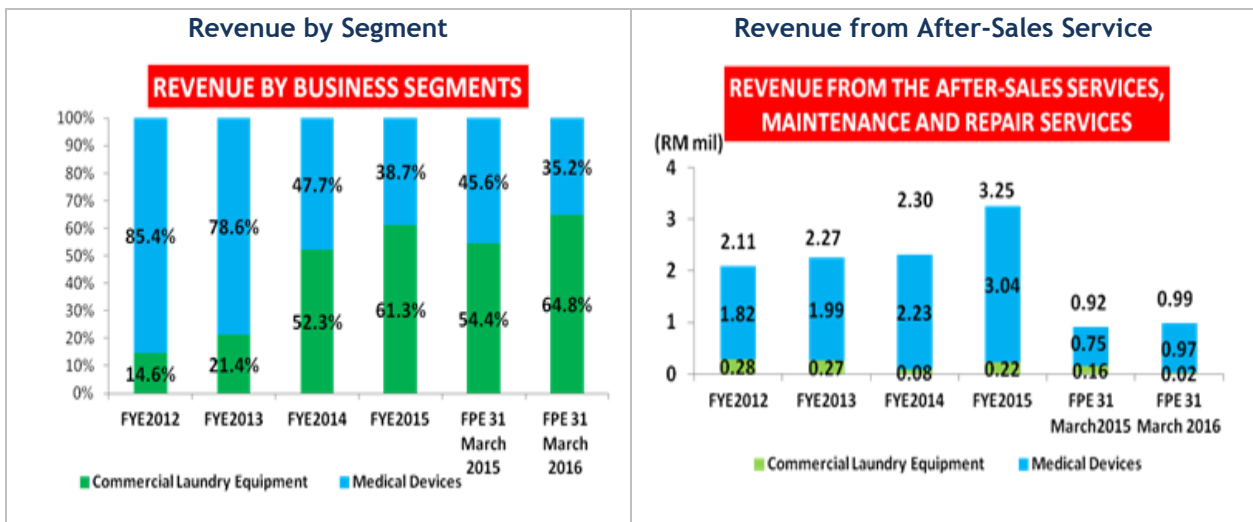
Source: Prospectus

**Financial Review**

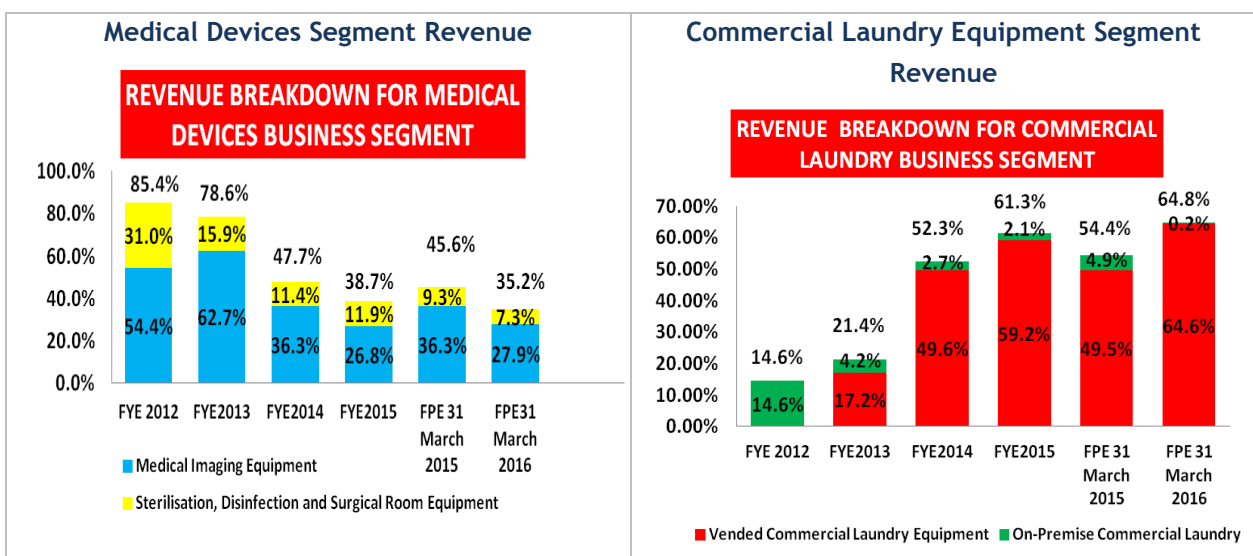
BCM derives its revenue primarily from commercial laundry equipment and medical devices segments in Malaysia. BCM revenue grew at CAGR of 50% over the past 4 years, including CAGR of 141.7% for commercial laundry equipment segment and CAGR of 15.3% for medical devices segment. The success was owing to the increasing contribution from the commercial laundry segment which its revenue grew in double-digit during FY13-FY14. Additionally, revenue jump from after-sales service and maintenance from medical devices segment were attributed to its tie-up with international brands as well as increasing distribution to the hospitals.

Entering FY16, we expect that BCM revenue will register smooth operations and continuous growth and hence, this will lift FY16 revenue to grow by ~4% and ~10% in FY17 respectively underpinned by higher sales in the commercial laundry equipment segment, owing to the success of self-service Speed Queen.

Given the steady demand growth driven by convincing economic momentum in BCM's business footprints, we expect that BCM is able to deliver steady earnings momentum. The steady earnings trajectory indicates that investors will be rewarded with the expected dividend payments in the future.



Source: Corporate Factsheet



Source: Corporate Factsheet

### Valuation and recommendation

Given our projection which is underpinned by its bright prospects, at the IPO price of RM0.19, we surmise that BCM's listing price is trailing its fundamentals. **Subscribe.**

Table 5: SOP Valuation

Segment	FY16 Net Profit	Method	Stake	Value/Share
Commercial laundry equipment	RM6.8 million	11x PE	100%	74.8
Medical devices	RM3.6 million	15x PE	100%	54.0
Equity Value				128.8
Net Debt/share				-3.05
Number of shares (million)				421.25
Equity Value/Share (RM)				0.29

Source: M&A Securities

Table 13: BCM Profit and Loss

FYE December (RM million)	FY12	FY13	FY14	FY15	FY16F
Revenue	19.1	35.4	51.0	64.3	76.6
Cost of sales	-11.7	-25.7	-33.4	-45.3	-49.8
Gross profit	7.3	9.7	17.7	19.0	26.7
Other operating income	0.1	0.2	0.4	0.2	0.3
Administrative expenses	-5.9	-6.7	-9.4	-10.3	-12.0
Depreciation	-0.5	-0.3	-0.5	-0.5	-0.6
EBIT	1.1	2.8	8.1	8.4	14.3
Finance cost	-0.3	-0.3	-0.4	-0.4	-0.4
PBT	0.8	2.5	7.7	8.1	13.9
Taxation	-0.6	-0.5	-2.1	-1.9	-3.5
PAT	0.2	2.0	5.6	6.1	10.4
EPS (sen)	0.06	0.6	1.67	1.82	2.46
GP margin	38%	27%	35%	30%	35%
PBT margin	4%	7%	15%	13%	18%
PAT margin	1%	6%	11%	10%	14%

Source: M&A Securities, Prospectus

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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