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ECA to automate more global factories



THE founders of ECA Integrated Solution Bhd have spent the last three decades automating factories across the world.

Today, the Penang-based company's clients are mostly large multinational companies (MNCs), with the major ones listed in the United States, Germany and Switzerland.

In the first eight months ended June 30, almost two-thirds of ECA's revenue came from outside of Malaysia.

ECA, en route to an ACE Market listing on Nov 23, offers customised automation solutions to manufacturers of semiconductor products, 5G telecommunication components, solar panel systems, automotive components and digital display tags.

Looking ahead, however, the group expects the automotive sector to spearhead ECA's growth.

The key catalyst would be the rising adoption of electric vehicles (EVs) and hybrid EVs (HEV) globally, according to ECA executive director and chief operating officer Chua Lye Hock.

“As we serve customers who are involved in the production of silicon carbide and insulated gate bipolar transistors, which are important components of EV and HEV, we will stand to benefit from the rising trend.

“The second industry that we believe will gain good traction is the solar power industry.

“With many countries committed to reaching net-zero carbon by the year 2050, we believe that national policies will continue to favor the industry in the coming years.

“Demand for solar will grow globally, taking the lead from China, Europe and the United States,” he tells StarBizWeek.

Chua will own a 27.8% stake in ECA post-initial public offering (IPO) exercise.

Chua, who has 31 years of experience in machine design and the engineering-related field, also sees a good growth opportunity for digital display tags.

“These are electronic price tags typically used in retail businesses like supermarkets and are rapidly gaining popularity in places like Europe.

“The growing emphasis on environmental, social and governance (ESG) has encouraged many big retail chains to switch from paper to digital, and we anticipate such a trend to sustain,” he adds.

In view of the growing market potential, ECA is working on expanding its business operations, partly accelerated by its upcoming IPO.

About 85% of the funds raised via the IPO will go towards acquisition of machinery (30.2%) and working capital (54.9%).

“In order to capture more jobs, we need the manpower and the facilities to do so.

“This is especially crucial as our work is highly customised,” Chua says.

He points out that the 10 new machines to be acquired will enhance the customisability of ECA's solutions, enabling it to cater to the different needs of various customers and industries.

"Furthermore, these machines also enable us to handle a larger volume of fabrication work.

"This will reduce our reliance on outsourcing as we can do more in-house fabrication which improves production lead time and quality control," he says.

ECA aims to raise RM25.5mil from the IPO with an issue price of 17 sen per share.

It is noteworthy that the public portion of ECA's IPO has been oversubscribed by 110.17 times.

Out of the RM25.5mil IPO proceeds, RM7.7mil has been earmarked for the purchase of new machines and RM14mil for working capital.

Chua says that the group is also venturing into smart factory solutions.

"As we transition to Industry 4.0, the integration of the Internet of Things and automation into the manufacturing process is becoming more important in order for manufacturers to compete in terms of efficiency and pricing globally.

"Hence, with this inclusion, we can secure orders of a greater scale as previously we couldn't due to customers' preference for smart factory solutions," according to him.

RHB Research, in a note issued on Nov 10, said that ECA has received enquiries for smart factory solutions from a major customer, although it stopped short of naming the customer.

"By procuring autonomous robots, designing a warehouse according to customer's needs, and integrating the system with proprietary software, ECA aims to develop a fully autonomous, lights-off factory that requires minimal labour.

"While contracts are likely magnitudes bigger and margins lower, this is still under development," it said.

In response to RHB Research's comment that margins of smart factory solutions would be lower, Chua says one must "look at the big picture".

He also notes that smart factory solutions would complement ECA's integrated production systems (IPS) solutions.

"Packaging our IPS and smart factory solutions together, ECA can provide a holistic offering to our MNC customers and stand a much higher chance of securing larger orders.

"From that perspective, the growth opportunities are tremendous and with larger orders, one can deduce the impact on our bottom line in terms of absolute contribution," says Chua.

Between the financial years of 2019 and 2021 (FY19 and FY21) ended Oct 31, ECA's profit after tax (PAT) had grown by a compound annual growth rate of 144.4%.

The group has also enjoyed strong double-digit PAT margins over the last few years.

For the eight-month period ended June 30, it recorded a PAT margin of 25.7%.

Chua is confident that ECA would maintain the strong margin in the upcoming years, given the strong business moat and tax exemption incentive.

"We attribute our strong profitability to our customisation ability, particularly for our IPS solutions. Our strong reputation, solution delivery and track record have gained the trust of various multinational companies.

"Hence, this business moat allows us to enjoy a high profit margin today.

"Furthermore, we have been granted pioneer status by the International Trade and Industry Ministry, which entitled us to a tax exemption of 100% on our statutory income for a period of 10 years (five plus five years).

"We expect to continue enjoying such incentives up until 2027," according to him.

Despite the group's strong financial performances in the past, a major concern revolving around ECA is its dependence on certain major customers.

In the first eight months ended June 30, ECA's Customer A and Customer B contributed 70.1% of the group's total revenue.

Commenting on this, Chua said ECA's ability to custom-make the IPS solutions gives the group an advantage in client retention.

"As our solutions are unique and tailor-made specifically to solve a certain pain point of our customers, the likelihood of termination is relatively low due to customer stickiness.

"To further elaborate, customers must go through a lengthy and stringent due diligence process and qualification in selections.

"Besides, the learning curve also takes time as these processes are highly specific," he says.

Nevertheless, Chua highlights that ECA is constantly looking to further diversify its customer base.



As of end-June 2022, the number of ECA's customers had increased to 17, as compared to just seven in FY19.

"Moving forward, we expect the list to grow bigger as we continue to gain traction within the automation manufacturing systems industry.

"With that, we should be well diversified in the unlikely event that one of our customers drops out," says Chua.

It is also noteworthy that ECA has one of the lowest valuations in the industry.

Based on data provided by TA Research on Nov 10, ECA is valued at a price-to-earnings ratio (PER) of nine times for 2023.

In comparison, the 2023 PER of industry peers such as Greatech Technology Bhd , Pentamaster Corp Bhd  and Cnergenz Bhd are 21.3 times, 24.2 times and 21.8 times, respectively.