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Cheeding may be worth more than double its IPO price, say two brokers

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KUALA LUMPUR (Sept 23): Cheeding Holdings Bhd may be worth more than double its listing price, said two brokers ahead of its ACE Market debut.

The utilities engineering services firm is among the few contractors qualified for high-voltage works, positioning it as a direct proxy to national grid expansion and the Asean Power Grid, said Apex Securities in initiating coverage on Cheeding with a 'buy' call.

"Licensed up to the highest voltage class in Malaysia, Cheeding holds a strong competitive moat and margin profile," the house said.

The house values Cheeding at 73 sen, a potential return of 103% from its initial public offering (IPO) price of 36 sen per share. The company will close applications for its IPO on Tuesday, and listing is scheduled for Oct 7.

Cheeding mainly builds electric transmission towers and provides maintenance of overhead and underground infrastructure, as well as substation engineering services and related activities.

Tenaga Nasional Bhd (KL:TENAGA), Cheeding's main client, has been approved to spend nearly RM43 billion to accelerate the nation's energy transition plan.

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The Asean Power Grid, meanwhile, may require up to US$100 billion (RM420.6 billion) to interconnect the region's electricity systems.

Cheeding will benefit from a planned increase in capital expenditure on electricity grids, Public Investment Bank said. Cheeding is also set to be the sole listed company focusing on overhead transmission with superior margins, it added.

Cheeding has consistently maintained robust net margins of 22%-23%, supported by its "lean cost structure and focus on overhead infrastructure projects", Public Investment said in an unrated note.

While its peers carrying out underground or substation works only manage a net margin of around 12%, overhead transmission projects typically command higher margins due to "greater flexibility in managing costs and resources", Public Investment said.

As a net cash company, Cheeding's profitability is also reinforced by its minimal borrowings that keep financing costs low, the house noted.