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UNIVERSITI MALAYSIA SABAH

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTANCY
UNIVERSITY MALAYSIA SABAH

BD20203

MONEY AND CAPITAL MARKETS

Semester 1 2023/2024

Section 2

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Group Assignment II:

IPO ANALYSIS (Mercury Securities Group Berhad)

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1.0 THE NATURE OF IPO

An initial public offering (IPO) is a process that leads to the sale of company shares on the public market through the stock exchange. An IPO also known as offering the shares of a private corporation to the public in a new stock issuance for the first time. The subsequent stock exchange valuation of the company's shares depends on many market factors that can influence the demand and supply on the trading floor, both dependent on and independent of it. The goal of an IPO is to obtain additional capital from public investors since the transition from a private to a public firm usually entails a share premium for current private investors, it can be an important time for private investors to completely earn incentives from their investment. In the meanwhile, it allows access to the offering by public investors.

Initial public offering in conjunction with the listing of Mercury Securities Group Berhad (MSGB company) on the ace market of Bursa Malaysia Securities Berhad (Bursa Securities) comprising a public issue of RM 157,095,700.00 new ordinary shares in MSGB company. Offering divided into four parts which are to Malaysian Public (RM 44,650,000), Eligible directors, employees and persons who have contribute to success (RM 22,325,000), Private placement to selected investors (RM 45,470,700) and Private placement to selected bumiputera investors approved by the Ministry of Investment, Trade and Industry (MITI) (RM 44,650,000).

2.0 TOTAL NEW SHARES ISSUED AND THE IPO PRICE

1. 44,650,000 new shares made available for application by the Malaysian Public.
2. 22,325,000 new shares made available for application by our eligible director, employees and persons who have contributed to our success.
3. 45,470,700 new shares made available by way of private placement to selected investors.
4. 44,650,000 new shares made available by the way of private placement to selected bumiputera investors approved by the ministry of investment, trade and industry.

At an IPO price/offer price of RM0.25 per share, payable in full upon application.

3.0 BACKGROUND OF THE COMPANY

Mercury Securities Group Sdn. Bhd. was incorporated in Malaysia under the Act on 18 May 2021 as a private limited company. This company was subsequently converted into a public limited company on 28 February 2022. There are an investment holding company and through their subsidiaries, the company are principally engaged in the stockbroking, corporate finance advisory and other related businesses as well as provision of nominee and custodian services. Mercury Securities acquired the CMSL of PTB Securities Sdn Bhd, a licenced stockbroking company, for dealing in securities and stockbroking business in line with the SC's direction.

Mercury Securities was incorporated in 1984 under the name of Seberang Securities Sdn Bhd, where its directors and shareholders were Haji Mat Zuki Bin Mahmud and Oon Chong Kheh. Seberang Securities Sdn Bhd was involved in stockbroking operations. In the 1994, Mercury Securities started to offer margin financing facility services, where we extended credit facilities to our stockbroking clients to fund their purchase of quoted securities.

In 2004, Mercury Securities became a Participating Organisation of Bursa Securities following the demutualisation of Kuala Lumpur Stock Exchange. The company embarked on an expansion plan by opening their 1st branch office, the KL Branch. Mercury Securities completed a privatisation exercise that involved 2 companies listed on Bursa Securities. Mercury Securities was appointed as the principal adviser of Plenitude Berhad for the proposed takeover of all the ordinary shares of The Nomad Group Berhad to be settled via the issuance of new ordinary shares of Plenitude Berhad.

Mercury Securities completed the initial public offering of Cosmos Technology International Berhad on the ACE Market on 6 October 2022. Cosmos Technology International Berhad is the 1st LEAP Market listed company to progress to an ACE Market listing. Mercury Securities acted as its principal adviser, sponsor, sole underwriter and sole placement agent. Mercury Securities Group is principally engaged in the stockbroking, corporate finance advisory and other related business as well. Its subsidiary, Mercury Securities, is a licensed 1+1 broker offering stockbroking and corporate finance advisory services.

4.0 INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, AND DIRECTORS

Introduce the key individuals involved in the Mercury Securities Group Sdn.Bhd., such as promoters, substantial shareholders, and directors.

4.1 Promoters and Substantial Shareholders

The shareholdings of Promoters and Substantial Shareholders in Mercury Securities Group Sdn. Bhd. before and after IPO are set out below:

Name	Nationality / Country of Incorporation	After the Acquisition and before our IPO				After our IPO			
		Direct		Indirect		Direct		Indirect	
		No. of Shares	^(a) (%)	No. of Shares	^(a) (%)	No. of Shares	^(b) (%)	No. of Shares	^(b) (%)
<u>Promoter and Substantial Shareholder</u>									
Chew Sing Guan	Malaysian	331,156,900	45.00	-	-	331,156,900	37.08	-	-
<u>Substantial Shareholders</u>									
Enrogetz	Malaysia	331,156,900	45.00	-	-	259,644,600	29.08	-	-
Dato' A. Rahman Bin Safar	Malaysian	73,590,500	10.00	-	-	73,590,500	8.24	-	-
Faizal Bin Mat Zuki	Malaysian	-	-	^(c) 331,156,900	45.00	-	-	^(c) 259,644,600	29.08

Table 1.0: Promoters and Substantial Shareholders

Based on the company Promoter and Substantial Shareholders, who collectively hold approximately 74.40% of their enlarged issued share capital after the IPO, there is no other person who is able to, directly or indirectly, jointly or severally, exercise control over the Company. As at the LPD, there is no arrangement which may result in a change in control of this Company. Deemed interested by virtue of his shareholdings in Enrogetz pursuant to Section 8 of the Act.

4.2 Directors Shareholdings

The details of the Directors and their respective shareholdings in the Company after the Acquisition and before our IPO, and after our IPO (assuming full subscription of the IPO Shares allocated for their Directors under the Pink Form Allocations) are as follows:

Name (Designation)	Nationality	After the Acquisition and before our IPO				After our IPO			
		Direct		Indirect		Direct		Indirect	
		No. of Shares	^(a) (%)	No. of Shares	^(b) (%)	No. of Shares	^(b) (%)	No. of Shares	^(b) (%)
Dato' Baharon Bin Talib (Independent Non-Executive Chairman)	Malaysian	-	-	-	-	250,000	0.03	-	-
Chew Sing Guan (Non-Independent Executive Director / Managing Director)	Malaysian	331,156,900	45.00	-	-	331,156,900	37.08	-	-
Dato' A. Rahman Bin Safar (Non-Independent Non- Executive Director)	Malaysian	73,590,500	10.00	-	-	73,590,500	8.24	-	-
Chan Kim Hing (Independent Non-Executive Director)	Malaysian	-	-	-	-	150,000	0.02	-	-
Datin Chua Suat Khim (Independent Non-Executive Director)	Malaysian	-	-	-	-	150,000	0.02	-	-
Himahlini A/P M. Ramalingam @ Yalumalai (Independent Non-Executive Director)	Malaysian	-	-	-	-	150,000	0.02	-	-

Table 1.1: Directors Shareholdings

Based on the Directors Shareholdings of this company, Chew Sing Guan namely Lim Eng Ean, who is also a director of Mercsec Asing and Mercsec Tempatan disposed of his entire 50.00% equity interest to the remaining shareholder on 5 April 2022. As at the date of disposal, the company was in dormant status with no intended principal activity. The return by liquidator relating to the final meeting together with the liquidator's statement of accounts showing how the winding-up has been conducted had been lodged with Companies Commission of Malaysia on 26 April 2022.

5.0 UTILIZATION OF IPO PROCEEDS

5.1 Growth strategies and future plans

- a) expand the provision of margin financing facility services to fund its existing and new stockbroking clients
- b) enhance its online trading platforms to improve its client trading experience

5.2 Competitive strength

- a) established track record of 31 years in the provision of stockbroking services since 1992
- b) network of branch offices, dealers and Remisiers
- c) online trading platform
- d) licensed by the securities commission
- e) 2 revenue streams and client
- f) experienced management team

6.0 WHY AND HOW THE IPO PROCEED WILL BE UTILIZED

We intend to use the gross proceeds from our IPO analysis of RM 39.27 million.

<u>Details of use of proceeds</u>	<u>(RM'000)</u>	<u>(%)</u>	<u>Estimated timeframe for use from the date of our Listing</u>
Margin financing facility services	26,860	68.39	Within 24 months
Enhancement of digitalisation programme and marketing activities for the stockbroking business and operations of our Group	2,880	7.33	Within 18 months
Working capital	4,634	11.80	Within 12 months
Estimated listing expenses	4,900	12.48	Within 3 months
Total	39,274	100.00	

In conclusion, in the IPO analysis of Mercury Securities Group Berhad we intend to use 75.72% of the net proceeds from our public offering to finance the development and modernization of our stockbroking division in order to propel our company's progress. In regards to the amount of money to be raised from our IPO, there is no minimum subscription level.

A) Margin financing facility services

Margin income, which includes interest, processing fees, roll-over fees, and commitment costs, is one of the sources of income for our stockbroking segment. The increased demand for our stockbroking clients' margin financing facility services resulted in a 36.09% compound annual growth rate (CAGR) in our margin income from FYE 2019 to FYE 2022, as indicated below.

	<u>FYE 2019</u>	<u>FYE 2020</u>	<u>FYE 2021</u>	<u>FYE 2022</u>	<u>FPE 2023</u>
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Total margin income	3,604	4,981	7,373	9,084	3,513
% of total revenue from the Stockbroking Segment	18.44%	14.40%	18.28%	30.03%	38.64%

We already provide margin financing facilities services utilizing money that is generated internally. After allocating the funds necessary for working capital at the relevant time, which varies periodically, the amount available for margin financing facilities services is calculated based on the availability of the owners' funds. In order to finance our current and potential stockbroking clients' purchases of securities, which are primarily traded on Bursa Securities, we plan to spend RM26.86 million of the proceeds from the public issue to the expansion of our margin financing facility services. As a result, margin income for Mercury Securities Group Berhad would contribute to further increasing our revenue for the Stockbroking Segment. We could earn brokerage fees from the purchase in addition to margin profits.

B) Enhancement of digitisation programme and marketing activities for the stockbroking business and operations of our group.

Enhancing our digitalization programme for our stockbroking operations and accompanying marketing initiatives is one of our group's business aims and plans. Because of this, we have set aside RM2.88 million of the Public Issue's earnings for the following:

	<u>(RM'000)</u>	<u>(%)</u>
Upgrading of backroom administration and support systems ^(a)	1,380	47.92
Marketing activities ^(b)	1,500	52.08
Total estimated cost	<u>2,880</u>	<u>100.00</u>

A) Incorporates the approximate cost of improving our current back office procedures through digital process simplification.

B) Add the expected cost of increasing marketing and customer service efforts to advertise our online trading platforms, MST28 Trading Platform and ECOS Trading Platform, in order to grow our online clientele and raise Mercury Securities' brand awareness in larger retail and institutional markets, which will produce sales leads for our company. Here are the specifics:

	<u>(RM'000)</u>
Staff and set-up costs for expansion of marketing team	537
Staff and set-up costs for expansion of client service team	542
Marketing and branding consultancy fees	229
Promotional events and advertising	192
Total estimated cost	<u>1,500</u>

Based on suggested quotes from suppliers or vendors, the above-estimated cost was calculated. If the actual cost turns out to be higher than the amount planned above, the shortfall will be covered by funds generated internally or by the portion set aside for our general working capital requirements. In contrast, any surplus monies that aren't used for the purposes listed above will go towards meeting the working capital needs of our organization. For additional information on our digitalization programme, please see Section 7.26.2 of this Prospectus.

C) Working capital

We assume that as our business grows, so too will our group's needs for operating cash. Our Group plans to use the estimated RM4.63 million in proceeds from the initial public offering (IPO) to finance working capital needs. These needs include, but are not restricted to, meeting daily trade obligations that are payable to Bursa Eliminating for our stockbroking business, as well as general administrative and regularly operating expenses like statutory payments, telecommunication costs, and other operating costs.

The breakdown of anticipated usage for our group's working capital needs is as follows:

	<u>(RM'000)</u>	<u>(%)</u>
Daily obligation for trades that are due and payable to Bursa Clearing ^(a)	3,947	85.18
Statutory payments ^(b)	300	6.47
Telecommunication charges	100	2.16
Other operating expenses ^(c)	287	6.19
Total estimated cost	<u>4,634</u>	<u>100.00</u>

D) Estimated listing expenses

From the earnings of the Public Issue, we have allocated over RM4.90 million to pay for the subsequent projected listing costs:

	<u>(RM'000)</u>
Professional fees ^(a)	3,190
Fees to authorities	100
Estimated underwriting commission, placement fees and brokerage fees	910
Printing and advertising	400
Other miscellaneous expenses relating to our Listing ^(b)	300
Total estimated cost	<u>4,900</u>

This covers, among other people, the fees for independent financial advisors (IMR), internal control consultants, reporting accountants, solicitors, company secretaries, and issuing houses. Additional incidental or associated costs associated with our IPO, such as those for translators, media relations, and IPO events.

As mentioned in Section 4.6.3 above, proceeds designated for working capital purposes will cover any deficit in the event that the actual listing expenditures exceed the expected costs. On the other hand, working capital requirements will be covered by any excess if the actual listing expenses are less than planned. Any portion of the public issue's gross proceeds will be deposited in short-term deposits with regulated financial institutions, pending their ultimate usage for the previously mentioned objectives.

7.0 HOW THE IPO PRICE WAS DETERMINED

Our Directors and PIVB, as the Principal Adviser, Sponsor, Sole Underwriter and Sole Placement Agent, had determined and agreed to the IPO Price of RM0.25 per IPO Share, after taking into consideration the following factors:

A) PE Multiple of approximately 12.63 times based on the historical audited combined statements of comprehensive income of the Group for the FYE 2022, calculated based on audited combined we recorded a PAT attributable to owners of the Company of RM17.66 million, representing an EPS of 1.98 sen and enlarged issued share capital of 893,000,000 Shares upon Listing,

B) Pro forma consolidated NA per Share as at 30 April 2023 of **RM0.18** based on enlarged issued share capital of 893,000,000 Shares in the Company upon Listing and the NA after the use of proceeds raised from our Public Issue.

C) Business strategies and plans

The business strategies and plans to drive the business growth and expansion include expansion on the provision of margin financing facility services, resources in proprietary trading and enhancement of digitalisation programme, ICT system and marketing activities as well as expansion of the operational facility.

D) Competitive advantages and key strengths, and industry overview

Competitive advantages and key strengths, include among others, an established track record of 31 years in the provision of stockbroking services and 10 years track record in the provision of corporate finance advisory services, a network of branch offices, dealers and remisiers to support the stockbroking business in Peninsular and East Malaysia as well as the online trading platforms, which increases their addressable market of potential clients that are not within the proximity of our branch offices. Further, they have 2 business segments, stockbroking and corporate finance advisory services with 2 client bases to provide client diversity and sources of revenue to sustain and grow the business.

8.0 ANALYSIS ON THE FINANCIAL INFORMATION.

FYE(RM'000)	2019	2020	2021	2022	2023	2024E	2025F
Revenue	31,524	49,762	61,007	43,382	11,439	12,010.95	12,611.498
Cost of services	-17,690	-27,704	-30,661	-19,887	-3634	-5,765.256	-6,053.519
Gross Profit	13,834	22,058	30,346	23,495	7805	6,245.694	6,557.979
Other income	4817	3375	3176	2947	1884	1,201.095	1,261.15
Net trading gains on financial assets at fair value	1316	5381	2202	3949	455	7,206.57	7,566.898
Administrative and other operating expenses	-6420	-7123	-8200	-7143	-3249	-2,282.081	-2,396.185
Allowance for expected credit losses on trade			-358				
Finance cost	-156	-384	-63	-47	-15	-3,843.504	-4,035.679
Profit Before Tax	13391	23307	27103	23201	6880	8528	
Income tax expense	-3546	-6109	-6843	-5538	-1803	-1,561.424	-1,639.495
Profit After Tax	9845	17198	20260	17663	5077	6,967	7,314
Other comprehensive (loss)/income							
Fair value adjustment on other investment	-150	-33	-172	-140	-15	-3,122.847	-3,278.989
Realisation of fair value reserve other investment			60			240.219	248
Realisation of revaluation surplus upon depreciation				-62	-31	-994	-1044
Net surplus on revaluation of buildings			2488			961	1009
Transfer of fair value reserve to retained profits			-60			-236	-248
Transfer of revaluation surplus to retained profits				62	31	994	1044
Total Comprehensive Income,Net of Income Tax	9695	17165	22920	17523	5092	7,932	12359
Share Capital (RM'000)	893,000	893,000	893,000	893,000	893,000	893,000	893,000

TREND ANALYSIS

FYE (RM'000)	2019	2020	2021	2022	2023	Average
Revenue		57.85	22.60	-28.89	-73.63	-5.52
Cost of services		56.61	10.67	-35.14	-81.73	-12.40
Gross Profit		59.45	37.57	-22.58	-66.78	1.92
Other income		-29.94	-5.90	-7.21	-36.07	-19.78
Net trading gains on financial assets at fair value		308.89	-59.08	79.34	-88.48	60.17
Administrative and other operating expenses		10.95	15.12	-12.89	-54.51	-10.33
Allowance for expected credit losses on trade						0.00
Finance cost		146.15	-83.59	-25.40	-68.09	-7.73
Profit Before Tax		74.05	16.29	-14.40	-70.35	1.40
Income tax expense		72.28	12.02	-19.07	-67.44	-0.56
Profit After Tax		74.69	17.80	-12.82	-71.26	2.10
Other comprehensive (loss)/income						0.00
Fair value adjustment on other investment		-78.00	421.21	-18.60	-89.29	58.83
Realisation of fair value reserve other investment						0.00
Realisation of revaluation surplus upon depreciation					-50.00	-12.50
Net surplus on revaluation of buildings						0.00
Transfer of fair value reserve to retained profits						0.00
Transfer of revaluation surplus to retained profits					-50.00	-12.50
Total Comprehensive Income,Net of Income Tax		77.05	33.53	-23.55	-70.94	4.02

COMMON SIZE ANALYSIS

FYE (RM'000)	2019	2020	2021	2022	2023	Average
Revenue	100.00	100.00	100.00	100.00	100.00	100.00
Cost of services	-56.12	-55.67	-50.26	-45.84	-31.77	-47.93
Gross Profit	43.88	44.33	49.74	54.16	68.23	52.07
Other income	15.28	6.78	5.21	6.79	16.47	10.11
Net trading gains on financial assets at fair value	4.17	10.81	3.61	9.10	3.98	6.34
Administrative and other operating expenses	-20.37	-14.31	-13.44	-16.47	-28.40	-18.60
Allowance for expected credit losses on trade						0.00
Finance cost	-0.49	-0.77	-0.10	-0.11	-0.13	-0.32
Profit Before Tax	42.48	46.84	44.43	53.48	60.15	49.47
Income tax expense	-11.25	-12.28	-11.22	-12.77	-15.76	-12.65
Profit After Tax	31.23	34.56	33.21	40.72	44.38	36.82
Other comprehensive (loss)/income						0.00
Fair value adjustment on other investment	-0.48	-0.07	-0.28	-0.32	-0.13	-0.26
Realisation of fair value reserve other investment			0			0.02
Realisation of revaluation surplus upon depreciation				-0.14	-0.27	-0.08
Net surplus on revaluation of buildings			4.08			0.82
Transfer of fair value reserve to retained profits			-0.10			-0.02
Transfer of revaluation surplus to retained profits				0.14	0.27	0.08
Total Comprehensive Income,Net of Income Tax	30.75	34.49	37.57	40.39	44.51	37.54

FINANCIAL RATIO ANALYSIS

FYE(RM'000)	2019	2020	2021	2022	2023	2024E	2025F
a)Liquidity Ratio							
b)Profitability Ratio							
Gross Profit Ratio	43.88	44.33	49.74	54.16	68.23		
PBT Ratio	42.48	46.84	44.43	53.48	60.15		
Net Profit Ratio	30.75	34.49	37.57	40.39	44.51		
c)Efficiency Ratio							
d)Gearing Ratio							
e)Market Valuation Ratio							
Offer Price (RM)	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Net EPS (RM)	0.01	0.02	0.03	0.02	0.01	0.01	0.01
Net EPS (SEN)	1.10	1.93	2.27	1.98	0.57	0.78	0.82
Price-Earnings Ratio (PER)	23.03	13.01	9.74	12.74	43.84	28.15	18.06
Decision							
Offer price	0.25						
NTAB (RM)	0.18	DONT BUY	OVERPRICED				
Estimated price based on Market PER @23x (RM)	0.32	BUY	UNDERPRICED				
Average PER @ 21x	0.29	BUY	UNDERPRICED				
Industry PER @ 19x	0.26	BUY	UNDERPRICED				

9.0 EVALUATION ON THE IPO PRICE (WHETHER UNDERPRICED, OVERPRICED OR FAIRLY PRICED)

Investment bankers devote a significant amount of effort to assessing the announced firm. Investors ultimately determine the value of a company when they decide to join in an offer and when they buy or sell shares once the firm begins trading on the market (CFI, 2021). Therefore, this section shows the offer price of MSGB Company compared to the market price and then evaluated whether under-priced, overpriced or fairly priced. In general, If the value of an investment (for example, a stock) is traded exactly at its intrinsic value, then it is considered fair value (within a reasonable margin). However, when an asset trades below or beyond that value, it is considered under-priced or overpriced (CFI, 2019).

The current price of MSGB Company is RM0.25 while Net Tangible Assets (NTAB) is priced at RM0.18. This indicates that NTAB (RM0.18) is trading at a much higher price than the current trading price (RM0.25) and this indicates that the price of MSGB Company is overpriced. An overvalued asset occurs when an investment trades for more than its intrinsic value. In addition, with a Net EPS ratio of MSGB Company 0.01, Est price based on market is RM0.32 and the average is RM0.29, compared to the company's current price of RM0.25, this shows that Est price based on market and average is under-priced because both are priced lower than the trading price.

In conclusion, suppose there are two categories of investors who invest in IPOs (insiders) and the entire market (outsiders). If Insiders know the true value of the company, they will stay away because the real value is too expensive. If the IPO is less expensive, the insider will buy the shares. In short, if the IPO is under-priced, everyone will buy the shares. If the IPO is too expensive, insiders will not buy. Outsiders, who are aware of this, will likewise reject the offer. Based on the evaluation, we are suppose to buy this company because the IPO price is underpriced at the estimated price based on Market Price Earning Ratio, Average Price Earning Ratio and Industry Price Earning Ratio.

10.0 REFERENCES

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