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FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTANCY

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GROUP ASSIGNMENT II :

IPO ANALYSIS PANDA ECO SYSTEM BERHAD

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NATURE OF IPO

IPO (Initial price offering) is the process of offering shares of a private corporation to the public in a new stock issue for the first time. The purpose of a company changing from a private company to a publicly traded one is to obtain new capital or increase the company's capital. This means that the public can buy company shares provided by the company on the stock exchange. Companies that do public offerings must comply with the regulations set. For example, it provides detailed financial information and essential information related to the company in its IPO prospectus. According to Panda Eco System Berhad, the Public issue is 109,286,800, representing approximately 16.3% of their enlarged share capital offered at their IPO price.

The ratio of shares offered to the public from the sale of existing shareholdings to the total number of shares offered during the initial public offering (IPO) is used to determine the "offer for sale." According to the "offer for sale" action, current shareholders would get the proceeds from the shares that are sold to investors during an initial public offering (IPO). That is, the process falls short of the initial public offering's (IPO) stated purpose of raising capital. The new investors anticipate fresh financial inflows to support the company's financing of new initiatives and maintenance of its steady growth. It is anticipated that potential investors would show less interest in IPO companies that primarily use "offer for sale" activities. Stated differently, investors are more inclined to invest in initial public offerings (IPOs) that sell just freshly issued shares as opposed to those that sell both "public issues" and "offers for sale." It is anticipated that companies whose shares are sold through "offer for sale" activities will do poorly in the aftermarket at first compared to companies whose shares are issued anew. Panda Eco System Berhad's IPO consisted of a public offering and sale to the general public. Offer price of RM0.16 per share under our public Issues and Offer for sales. Offer for sale of 61,810,000 offer shares by Panda Eco System Berhad selling shareholders according to the offer for sale. It was 9.2% compared to the total number of shares of private placement to selected investors which is 94,763,200. The offer for sale is expected to raise gross proceeds of approximately RM9.9

million which will accrue entirely to Panda Eco System Berhad selling shareholders and will not receive any of the proceeds.

TOTAL NEW SHARES ISSUED AND IPO PRICE

Panda Eco System Berhad's total new share issue consists of Malaysian Public, Eligible Persons, and Private placement to selected investors. 33,559,400 Issue Shares, representing 5.0% of their enlarged share capital, are reserved for application by the Malaysian Public. 16,779,700 Issue Shares made available to public investors and 16,779,700 Issue Shares made available to Bumiputera public investors. Next, this company has 42,774,200 Issue Shares, representing approximately 6.4% of their enlarged share capital, reserved for our Eligible Persons under the Pink Form Allocations. Private placement to selected investors is 32,953,200 Issue Shares, representing approximately 4.9% of their enlarged share capital.

The price at which a company's shares are initially made available to the public on a stock market is known as the initial public offering (IPO) price. These prices are carefully set based on a several variables, such as the financial standing of the issuing firm. The firm determines a price at which its shares will be made accessible to investors during the IPO process, sometimes with the help of investment banks. This price is an important factor in determining investor interest as it represents the company's perceived value. For the firm, the IPO price is a critical point in time since it affects the amount of cash it can obtain and how valuable the market believes it is. The IPO price of Panda Eco System Company is RM0.16 per IPO share.

BACKGROUND COMPANY

Panda Eco System Berhad (PESB) is principally involved in developing, customizing, implementing, and integrating retail management solutions. Panda Eco System Berhad started its business in 2003. This company has a good reputation in Bursa Malaysia. This entity started in 2003 after being founded by two individuals in Melaka who shared a vision and had the same

interest in developing a retail ecosystem that has the potential to drive revenue growth for retailers.

The founders are Chief Executive Officer Mr. Loo Chee Wee and Chief Technology Officer Mr. Tay Kheng Seng. They established KC Software House to provide retail solutions to retailers. The partnership was later transformed into a sole proprietorship limited company named Panda Software House Sdn Bhd in 2010 where "Panda" was officially adopted as the company's pro Panda Eco System Berhad has expertise in providing customized retail management solutions to meet the operational needs of retail chain stores. Additionally, they are involved in third-party software trading, information technology hardware trading as well as software customization, implementation, and integration of process control and automation solutions.

The headquarters of Panda Eco System is located in Melaka. To ensure the best service efficiency can be provided to customers, this company has established 4 service hubs in Kuala Lumpur, Johor Bahru, Kuching, and Kota Kinabalu. Therefore, this company has a good reputation in Bursa Malaysia.

PROMOTERS, SUBSTANTIAL SHAREHOLDERS AND DIRECTORS

The Promoters and substantial shareholders in Panda Eco System Berhad before and after share capital of 561,900,200 shares before our IPO and share capital of 671,187,00 shares after IPO. The promoter and substantial shareholders direct the number of shares and indirectly the number of shares. They have three people who are substantial shareholders for shareholdings which are Goldcoin Capital, Lee Chee Wee, and Tay Kheng Seng.

The promoters and substantial shareholders' respective shareholdings in our company include 200 subscriber shares which are transferred to Goldcoin Capital. The promoters who can directly, indirectly, jointly Panda Eco System Berhad, the promoters, and substantial shareholders within 2 years preceding the prospectus.

The directors' shareholdings after the IPO decreased. For instance, the number of shares indirectly before IPO directors Tay Kheng Seng is 539,527,200 to 478,217,200 after IPO. This is because the increase was due to a reduction in shares at a discounted price. When shareholders exercise this right, reduce indirect shares.

The directors for Panda Eco System Berhad are Tay Kheng Seng, Dato 'Leanne Koh Li Ann Chan Kam Chiew, and Siew Suet Wei. The principal business performed outside Panda Eco System Berhad, shareholdings for direct fall from 32% to 15%, this was performed by Tay Heng Seng. Therefore, director's fees were paid to Lee Chae Wee and Tay Kheng Seng in January 2023 by Panda Software. No, the directors' fee will be paid to Tay Kheng Seng and Lee Chee Wee. They will be remunerated by Salaries and other emoluments instead.

WHY AND HOW THE IPO PROCEEDS WILL BE UTILISED

The allocation of IPO proceeds offers a complete plan intended to encourage innovation, development, and operational expansion in all areas of the business.

1. R&D of New Solutions (RM 2,712,000, 15.5%):

- A substantial amount will go into research and development activities, which will facilitate the development of new ideas. The company's goal to maintain its competitiveness by launching new goods or improving current ones during the next 36 months is in alignment with the funds invested.

2. Business Expansion (Regional Expansion in ASEAN (RM 1,890,000, 10.8%):

- The company intends to allocate resources towards regional expansion to gain market share in ASEAN. Within the following 36 months, this planned move aims to seize fresh market shares and take advantage of future growth potential clients.

3. Establishing Additional Service Hubs and Workforce Expansion (RM 2,634,000, 15.1%):

- The funding will be utilized towards increasing the current staff in Malaysia and creating additional service Hubs. Within 24 months, the company's service capacity and client exposure shall increase as a result of its development into the service industry.

4. Expansion of CTS Department (RM 1,680,000, 9.6%):

- The company's dedication to strengthening its core competencies can be seen by its investment in the CTS department's expansion. The objective of the project is to improve service delivery effectiveness as well as effectiveness over the next 24 months.

5. HQ Expansion (RM 3,000,000, 17.2%):

- The significant investment that was made in expanding the company's headquarters suggests that the infrastructure of the business is a priority. In order to support future development and enable operational improvements over the next 36 months, this expansion is essential.

6. Working Capital (RM 2,833,000, 16.2%):

- Directing funds to working capital guarantees that there will be sufficient funding on hand for both strategic and ongoing operations over the following 24 months.

7. Estimated Listing Expenses (RM 2,736,000, 15.6%):

- These expenses are a representation of the expenditures related to the initial public offering (IPO) process, including marketing, legal, and underwriting fees. It is anticipated that the funds will be put to use within a month of the IPO.

In summary, the proceeds from the initial public offering (IPO) will be strategically utilized to support the company's expansion and innovation. This will be accomplished in several ways, including by making investments in R&D, exploring new markets, enhancing infrastructure, and supporting key departments. These funds are distributed in a way that optimizes their use within

certain periods and aligns with the company's larger objectives of boosting competitiveness, growing operations, and creating value for its stakeholders. Overall, the total funds that had been utilized were RM 17,485,000.

HOW THE IPO PRICE WAS DETERMINED.

The intricate process of determining the Initial Public Offering (IPO) price for PANDA ECO SYSTEM BERHAD involved a meticulous and collaborative evaluation, engaging diverse factors and criteria in order to achieve a robust valuation. This joint effort between PANDA ECO SYSTEM BERHAD and M&A Securities, along with the Adviser, Sponsor, Underwriter, and Placement Agent, marked a critical phase in the company's journey toward going public. The determination of the IPO price was underpinned by a comprehensive assessment outlined in the Prospectus.

A pivotal criterion in this valuation process was the pro forma net asset per share (NA per Share), meticulously calculated at RM0.04. This calculation incorporated the pro forma Net Asset after the IPO, factoring in the enlarged share capital of 671,187,000 Shares upon Listing. Additionally, a price-earnings (PE) multiple was applied, resulting in an approximate PE multiple of 15.2 times, derived from the earnings per share for the financial year ending FYE 2022.

Moreover, the assessment delved into the historical financial track record, encompassing revenue, gross profit, other income, and profit after tax for the years 2019, 2020, 2021, and 2022. This comprehensive analysis extended to forecasting performance for the financial period ending FPE 2023. The thorough scrutiny of these financial metrics provided a holistic understanding of the company's financial trajectory.

Further enriching this evaluation were considerations of competitive strengths, business strategies, and prospects, in alignment with sections 7.15 and 7.18 of the Prospectus. This qualitative analysis contributed insights into the company's market positioning, strategic initiatives, and future growth potential.

The broader context of the IPO was also taken into account, incorporating the purposes of the IPO. These encompassed not only fundraising for specific objectives but also gaining recognition through listing status, enhancing the company's reputation, and attracting skilled professionals from the retail management solutions industry and retail sectors across Malaysia, Indonesia, and the Philippines.

The collaborative effort between PANDA ECO SYSTEM BERHAD and its financial adviser, sponsor, underwriter, and placement agent was directed at ensuring a fair and transparent valuation of the IPO price. This commitment was fundamental in providing potential investors with a nuanced understanding of the multifaceted factors considered in arriving at the IPO price.

The detailed analysis and comprehensive evaluation process, meticulously outlined in the Prospectus, stand as a testament to the company's dedication to integrity and fairness in the valuation process. This commitment not only reinforces transparency but also furnishes potential investors with reliable and meaningful information, empowering them to make well-informed investment decisions. The emphasis on transparency and clarity in this process aligns with the company's ethos, positioning it as an entity dedicated to fostering trust and informed decision-making among its stakeholders (PAGE 43).

ANALYSIS OF FINANCIAL INFORMATION

FYE 000	2019	2020	2021	2022	2023	2024F
Revenue	13,311	16,395	20,003	20,982	21,600	22,248
Cost of sales	-5,268	-6,741	-8,651	-9,332	-8,840	-9,344
Gross Profit (GP)	8,043	9,654	11,352	11,650	12,760	12,904
Other income	312	718	2,010	411	276	1,046
Administrative and other expenses	-1,420	-2,207	-3,392	-3,924	-5,330	-3,337
Finance costs	-50	-41	-14	-5	-28	-44
(Net impairment losses)/ Net reversal of impairment losses on financial assets	-94	1	474	340	-212	-185
Profit Before Tax (PBT)	6,791	8,125	10,430	8,472	7,500	10,679
Tax expense	-94	-1,254	-2,530	-1,424	-2,000	-1,557
Profit After Tax (PAT)	6,697	6,871	7,900	7,048	12,966	9,122
Other comprehensive income	75	848	0	0	0	334
Total comprehensive income	6,772	7,719	7,900	7,048	12,966	9,455
Share Capital (000)	671,187	671,187	671,187	671,187	671,187	671,187

Overall, the increase in Panda Eco System Berhad's income is increased from the 2019 to 2024 forecast, from 13,311,000 and 22,248,000. This increase can increase Panda Eco System Berhad's investment in the retail business. Next, the cost of sales also increased which is

5,628,000 in 2019 to 9,344,000 in 2020. This increase can increase the production cost of Panda Eco System Berhad in its business. Profit Before Tax (PBT) increased from 6,791,000 in 2019 to 10,679,000 in the 2024 forecast, the increase in profit before tax shows that Panda Eco System's profit rate shows an increase. However, Profit After Tax (PAT) shows a decrease of 6,697,000 in 2019, to 9,122,000 in 2024 forecast. Therefore, overall, Panda Eco System Berhad has a good income because the company's revenue is greater than the cost of sales.

1. TREND ANALYSIS					
FYE	2019	2020	2021	2022	AVERAGE
Revenue		23.17	22.01	4.89	16.69
Cost of sales		27.96	28.33	7.87	21.39
Gross Profit (GP)		20.03	17.59	2.63	13.41
Other income		130.13	179.94	-79.55	76.84
Administrative and other expenses		55.42	53.69	15.68	41.6
Finance costs		-18	-65.85	-64.29	-49.38
(Net impairment losses)/ Net reversal of impairment losses on financial assets		-101.06	47300	-28.27	15723.56
Profit Before Tax (PBT)		19.64	28.37	-18.77	9.75
Tax expense		1234.04	101.75	-43.72	430.69
Profit After Tax (PAT)		2.6	14.98	-10.78	2.26
Other comprehensive income		1030.67	-100	0	310.22
Total comprehensive income		13.98	2.34	-10.78	1.85

Trend Analysis for revenue decreased from 23.17% in 2020 years to 4.89% in 2022 years, the revenue of because the profit received in the retail business is low. Gross profit (GP) in 2020 will decrease by 2.63% in 2022 because the mix of products sold has changed which alters the gross profit if different products have different gross margins.

Profit After Tax 2.60% in 2020 years decreased to -10.78% in 2022 years decreases because of the company's different size scale, the reason is that income tax payments have little bearing on the efficiency of a company because the company has less control over them than other factors. This trend analysis is used to determine changes in the Company's share prices, it can also see an increasing trend in product prices and predict that the prices will continue to increase in the future.

2. COMMON SIZE ANALYSIS					
FYE	2019	2020	2021	2022	AVERAGE
Revenue	100	100	100	100	100
Cost of sales	-39.6	-41.1	-43.2	-44.5	-42.1
Gross Profit (GP)	60.4	58.9	56.8	55.5	57.9
Other income	2.3	4.4	10.1	2	4.7
Administrative and other expenses	-10.7	-13.5	-16.9	-18.7	-14.95
Finance costs	-0.4	-0.3	-0.1	0	-0.2
(Net impairment losses)/ Net reversal of impairment losses on financial assets	-0.7	0	2.4	1.6	0.83
Profit Before Tax (PBT)	51	49.6	52.1	40.4	48.28
Tax expense	-0.7	-7.6	-12.6	-6.8	-6.93
Profit After Tax (PAT)	50.3	41.9	39.5	33.6	41.33
Other comprehensive income	0.6	5.2	0	0	1.45
Total comprehensive income	50.9	47.1	39.5	33.6	42.78

Over the four years, there has been a steady increase in the cost of sales as a percentage of revenue. 39.60% of total income in 2019 came from the cost of sales, a figure that grew over time to 44.50% in 2022. The cost of sales was, on average, 42.10% of total revenue. This increase suggests that the direct expenses of manufacturing products or services have increased, which may have affected the gross profit margin of the business.

Meanwhile, there was a downward trend in the gross profit margin throughout the same time. The gross profit margin is the difference between revenue and cost of sales. With an average of around 57.90%, the gross profit margin dropped from 60.40% in 2019 to 55.50% in 2022. This drop implies that the business had trouble staying profitable, maybe as a result of rising manufacturing costs or competitive pressure on prices.

Profit After Tax as a proportion of revenue indicates the company's profitability, which fell significantly from 50.30% in 2019 to 33.60% in 2022. This decline shows that, in comparison to the overall income produced annually, the company's ability to turn a profit after deducting all costs, including taxes, has decreased significantly.

In conclusion, the common size analysis shows a steady rise in the cost of sales as a proportion of revenue over the course of the four years, along with a declining trend in gross profit margin and profitability. These trends suggest that the company may face difficulties controlling costs and sustaining profitability.

3. Financial Analysis Ratio							
FYE	2019	2020	2021	2022	2023E	2024F	AVERAGE
a) Liquidity Ratio							
Current Ratio	6.4	2.1	2.2	4	5.7	4.98	4.23
Acid-test (Quick) ratio	6.2	2.1	2.2	3.9	5.6	4.9	4.15
Average collection period	73	68	44	37	44	31.6	49.6
Accounts Receivable Turnover	5	5.4	8.3	9.8	4.1	6.14	6.46
Inventory Turnover	26	29	29	31	17	19.62	25.27
b) Profitability Ratio							
Gross Profit Ratio	60	59	57	56	59	57.27	58.05
PBT Ratio	51	49	52	40	34	30.5	42.75
Net Profit Ratio	50	42	39	34	25	21.88	35.31
c) Efficiency Ratio							
Total Assets Turnover	1.03	0.76	1.43	1.27	0.62	0.74	0.975
Fixed Assets Turnover	16.64	14.66	19.23	25.94	12.97	17.37	17.8
d) Gearing ratio							
	0.1	0.1	0	0	0	-0.04	0.027
e) Market Valuation Ratio							
Offer Price (RM)	0.16	0.16	0.16	0.16	0.16	0.16	0.16
Net EPS (RM)	1.19	1.22	1.41	1.25	1.49	0.57	1.19
Price earning Ratio (PER)	13.45	13.11	11.35	12.8	10.74	28.07	15.21

The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. The current ratio for this company is not consistent where 6.4 times in 2019 decreased to 2.1 times in 2020 by 69.19 percent. Then increased again from 2021 2.2 times to 5.7 times in 2023. This increase is 159 percent. The current ratio of this company has a ratio that exceeds 1, indicating that this company has current assets that exceed current liabilities. The Acid-test ratio shows an inconsistent value where 6.2 times in 2019 decreased to 2.1 times in 2020. This decrease is 66.13 percent. then increased again 2.2 times in 2021 until 5.6 times in 2023. This increase is as much as 154 percent. This firm has sufficient short-term assets to cover its immediate liabilities. The average collection period shows 73 days in 2019 decreased to 37 days in 2022, this shows that the company is collecting its receivables more quickly. Then increased to 44 days in 2023. Account receivable turnover shows an increase from 5.0 times in 2019 to 9.8 times in 2022. This increase is 96 percent. This shows that the company can collect its receivables more quickly. Then it decreased to 4.1 times in 2023. Inventory turnover is shown from 2019 that is 26 times until 2022 with 31 times showing an increase of 19 percent. This shows that this company is efficient in managing its inventory and this company can sell its inventory quickly.

Gross profit margin for this company shows a slight decrease from 60 percent in 2019 to 56 percent in 2022, but increases again in 2023. The PBT ratio shows a downward trend from 51

percent in 2019 to 34 percent in 2023. This means the operating cost has a larger share compared to sales. Net profit margin shows a decrease from 50 percent in 2019 to 25 percent in 2023. This is because the profit received in the retail business is low.

The total assets turnover decreased from 1.03 times in 2019 to 0.76 times in 2020 before increasing again to 1.43 times in 2021. It decreased again from 1.27 times in 2022 to 0.62 times in 2023. It indicates that the company has not efficiently used its assets to generate sales in the last two years. Other than that, the fixed assets turnover is also not consistent because it decreased from 16.64 times in 2019 to 14.66 times in 2020 before it increased again to 25.94 times in 2022. It indicates that from 2020 to 2022 the company has effectively used investments in fixed assets to generate sales.

The gearing ratio has decreased from 0.1 times in 2019 to 0 times in 2022. It indicates that the company has a good performance. This means that the company has more conservative spending habits or operates in a cyclical industry. Also, it indicates that the business is going well, and the company has been generating more profit

The offer price of this company is RM0.16 per share. Net EPS is how much money a company makes for each share of its stock. The EPS value showed inconsistency where it increased from 1.19 sen in 2019 to 1.41 sen in 2022, then decreased to 0.49 in 2023. For the Price Earnings Ratio, it has been decreased from 13.45 times in 2019 to 11.35 times in 2021. It's because the current stock price is low relative to earnings. In 2022, it will be increased again to 12.8 times. It is because of the growth in earnings and sales.

DECISIONS	Values	Buy/Don't Buy
Offer Price	0.16	
NTAB (RM)	0.04	DON'T BUY
Estimated Price based on market PER @ 20.9 x (RM)	31.14	BUY
Average PER @ 15x (RM)	22.35	BUY
Industry PER	31.73	BUY

The decisions outlined for PANDA ECO SYSTEM BERHAD present potential investors with a complex landscape, necessitating a comprehensive analysis to gauge their implications accurately.

Firstly, the consistent offer price of RM 0.16 over the years signifies stability in the company's valuation. However, the decision not to buy based on the Net Tangible Assets Backing (NTAB) value of RM 0.04 raises a red flag, suggesting that the company's net tangible assets may not provide sufficient support for investment.

On the positive side, the decision to buy is supported by the estimated price derived from the market Price-Earnings Ratio (PER) of 20.9x at RM 31.14. This implies an attractive investment opportunity, as the potential market value, as indicated by the PER, seems favorable. The decision is further reinforced by the average PER at 15x, signaling potential investment value based on market valuation metrics.

The alignment with the industry Price-Earnings Ratio (PER) of RM31.73 also leans toward a decision to buy, indicating that the company's market valuation is in line with industry standards. However, the mixed sentiment across these decisions necessitates a more in-depth analysis for potential investors. While caution is advised due to the low NTAB value, the attractiveness of the estimated price, average PER, and alignment with the industry PER underscore potential investment value.

To make well-informed investment decisions, potential investors should delve deeper into the company's financial health, market positioning, and prospects. A thorough examination of trend analysis, common size analysis, and financial ratios, as provided in the financial report, would be essential in gaining a holistic understanding of PANDA ECO SYSTEM BERHAD's viability as an investment.

In conclusion, the decisions provided present a nuanced scenario, prompting potential investors to conduct a meticulous analysis before making investment choices. The varied factors involved, from stability in offer price to caution indicated by NTAB, and the positive signals from market

and industry PERs, highlight the importance of a multifaceted evaluation for those considering investment in PANDA ECO SYSTEM BERHAD.

EVALUATION OF THE IPO PRICE

PANDA ECO SYSTEM BERHAD's initial public offering (IPO) pricing can be evaluated through a comprehensive analysis of its financial performance and market valuation ratios. The provided financial report reveals essential data spanning from 2019 to 2024, offering insights into the company's revenue, expenses, and various financial ratios. In assessing the IPO pricing, focus will be placed on the profitability ratios, market valuation ratios, and the offer price relative to the company's financial performance.

A crucial component in evaluating IPO pricing is the Price Earnings Ratio (PER), a key market valuation ratio. The data indicates an average PER of 15.21 for the years 2019 to 2024. Notably, the estimated PER for the IPO stands at 20.9x, while the industry average PER is reported as 31.73.

Comparing the estimated price based on the market PER (@20.9x) of RM 31.14 with the average PER of RM 22.35 and the actual offer price of RM 0.16, it becomes evident that the IPO price may have been significantly underpriced. This inference is supported by the comparison of the average PER with the estimated and industry PER values, indicating a potential undervaluation of the IPO price.

Furthermore, the financial ratios offer additional insights into the company's performance. The liquidity ratios indicate robust financial liquidity, with the current ratio averaging 4.23 and the acid-test ratio averaging 4.15. Additionally, the profitability ratios demonstrate a stable gross profit ratio averaging 58.05% and a fluctuating PBT ratio ranging from 30.5% to 52%. The efficiency ratios portray competitive asset utilization, with the total assets turnover averaging 0.975 and the fixed assets turnover averaging 17.8. Moreover, the gearing ratio reflects minimal debt financing and even a negative value in some years.

In evaluating the IPO pricing, it is vital to consider the company's financial trends, market conditions, and external influences. While the financial data suggests the potential undervaluation of the IPO, a holistic assessment incorporating qualitative parameters and market sentiment is essential for a comprehensive evaluation.

In conclusion, based on the provided financial data and market valuation ratios, the IPO price of PANDA ECO SYSTEM BERHAD appears to have been underpriced. This inference is supported by the comparison of the IPO offer price with the estimated and average PER prices. However, the assessment should consider broader market dynamics for a comprehensive understanding of the IPO pricing.

Reference :

