

Pekat Group Berhad

(0233 | PEKAT MK) ACE | Industrial Products & Services

LSS Lifts Top and Bottom Lines

KEY INVESTMENT HIGHLIGHTS

- **Core net profit of RM3.3m in 2QFY23; 1HFY23 at RM6.4m, within expectations at 53.3% of full year estimates**
- **Declares maiden dividend of 1 sen per share**
- **Solar division was main revenue generator for the quarter at RM42.8m, driven by LSS project in Batang Padang**
- **Founder back as MD after reorganising two subsidiaries**
- **Maintain BUY with a TP of RM0.57**

Within expectations. Pekat Group Berhad (Pekat) posted a core net profit of RM3.3m in 2QFY23, tripling from the same period a year ago. For the cumulative 1HFY23, the group's core net profit rose +18.1%yoy to RM6.4m, which came in within expectations at 53.3% of our full-year estimates. Pekat declared its maiden dividend of 1 sen per share during the quarter, which translates to a dividend yield of 1.8% based on our **TP of RM0.57**.

LSS drives revenue. Pekat's revenue for the quarter rose +40.8%yoy to RM59.5m, the bulk of it coming from the solar division (RM42.8m). The earthing and lightning protection (ELP) division generated RM7.9m while the trading division generated RM8.8m. The strong solar revenue came from the group's large-scale solar (LSS) project in Batang Padang, Perak.

Order book remains healthy. We estimate that Pekat's outstanding order book is within the RM200m range. Recall that the group secured a 29.99MWac CGPP quota recently and management could be involved in about 60MW of EPCC jobs pending management decision, which may replenish the order book by a further RM180m-RM240m, with earnings visibility up to FY25.

Co-founder returns as MD. Pekat co-founder Chin Soo Mau has been re-designated as the group managing director yesterday, after spending close to eight months reorganising and developing revenue growth strategies for Solaroo Systems Sdn Bhd and Pnexsoft Sdn Bhd, both Pekat's subsidiaries which are wholly-owned and 70%-owned respectively. To recap, Chin relinquished his positions as CEO and MD of Pekat on Jan 1 to focus on the two subsidiaries. Solaroo is responsible for smaller commercial and residential clientele while Pnexsoft is a software application company.

Earnings estimates. We are maintaining our earnings estimates for Pekat.

Target price. We maintain our **target price** for **Pekat** of **RM0.57** by pegging a forward PER of 25x to its FY24F EPS of 2.3 sen.

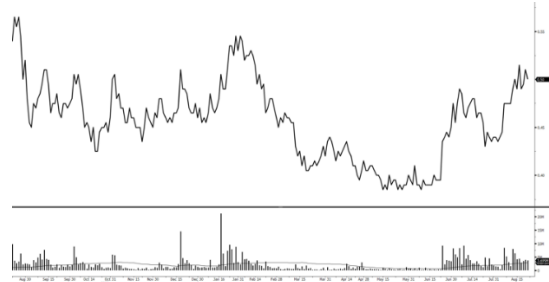
Maintain BUY. We reiterate our **BUY** recommendation on **Pekat**, which is set to benefit from the CGPP quota and also the potential growth trajectory of the group, in line with the strong focus on solar under the

Maintain BUY
Unchanged Target Price: RM0.57

RETURN STATISTICS

Price @ 22 nd Aug 2023 (RM)	0.50
Expected share price return (%)	+14.00
Expected dividend yield (%)	1.75
Expected total return (%)	+15.75

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	7.5	4.7
3 months	11.1	23.1
12 months	-7.4	-5.4

INVESTMENT STATISTICS

FYE Dec (RM'm)	2023E	2024F	2025F
Revenue	184.6	190.1	199.6
Operating Profit	20.4	21.0	22.0
Profit Before Tax	20.0	20.6	21.6
Core Net Profit	12.0	14.9	15.9
Core EPS (sen)	1.9	2.3	2.5
PER (x)	30.6	25.0	23.1
DPS (sen)	1	1	1
Dividend Yield (%)	1.8	1.8	1.8

KEY STATISTICS

FBM KLCI	1,451.53
Issue shares (m)	644.97
Estimated free float (%)	29.43
Market Capitalisation (RM'm)	322.48
52-wk price range	RM0.37-RM0.58
3-mth average daily volume (m)	2.70
3-mth average daily value (RM'm)	1.25
Top Shareholders (%)	
Chin Soo Mau	34.90
Tai Yee Chee	10.35
Wee Chek Aik	8.63

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National Energy Transition Roadmap (NETR). We are also optimistic in the group's ELP business, which generates strong recurring revenue for the group, as it is expected to benefit from the more stringent safety standards for lightning protection systems as per the Energy Commission's requirements.

PEKAT GROUP BERHAD: 2QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	2QFY23	1QFY23	2QFY22	QoQ	YoY	1H FY23	1H FY22	YoY
Revenue	59.5	46.8	42.2	27%	40.8%	106.3	87.7	21.2%
Cost of sales	(46.5)	(34.8)	(33.3)	34%	39.6%	(81.3)	(65.7)	24%
Gross profit	12.9	12.0	8.9	7%	45.4%	25.0	22.0	13%
Operating profit	5.3	4.4	1.8	21%	>+100%	9.6	8.0	20%
Finance cost	(0.6)	0.4	(0.5)	<-100%	4.3%	(0.2)	(0.9)	-78%
Profit/(loss) from associates	(0.0)	(0.2)	0.1	-92%	<-100%	(0.2)	0.0	<-100%
Profit before tax	4.7	4.3	1.5	9%	223.5%	9.0	7.3	24%
Tax	(1.2)	1.1	(0.4)	<-100%	>+100%	(0.1)	(1.9)	-93%
Reported net profit	3.5	3.2	1.1	10%	>+100%	6.6	5.5	21.4%
Core net profit	3.3	3.2	1.0	3%	>+100%	6.4	5.5	18.1%

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	178.5	179.2	184.6	190.1	199.6
Cost of sales	(133.0)	(134.1)	(134.8)	(138.8)	(145.7)
Gross profit	45.5	45.1	49.8	51.3	53.9
Administrative expenses	(28.3)	(30.2)	(30.3)	(31.2)	(33.0)
Share of profit in associates	0.5	(0.0)	0.5	0.7	0.8
Profit before tax	17.4	14.4	20.0	20.6	21.6
Tax	(4.8)	(4.4)	(5.5)	(5.7)	(5.6)
Reported net profit	12.6	10.0	12.0	14.9	15.9
Core net profit	12.6	10.0	12.0	14.9	15.9

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	20.8	23.3	23.9	24.6	25.8
Intangible assets	0.4	0.3	0.3	0.3	0.3
Non-current assets	30.0	35.1	35.7	36.4	37.6
Cash	28.2	14.1	21.8	22.4	23.5
Trade debtors	33.1	40.9	34.5	35.6	37.5
Current assets	170.5	154.5	155.8	157.5	160.5
Trade creditors	34.8	9.2	13.5	10.8	9.7
Short-term debt	25.3	19.5	15.6	12.5	10.0
Current liabilities	77.4	55.8	46.6	34.3	22.6
Long-term debt	2.5	1.6	0.7	0.5	0.5
Non-current liabilities	3.6	4.3	3.4	3.2	3.2
Share capital	93.5	93.5	93.5	93.5	93.5
Retained earnings	75.9	86.0	98.0	112.9	128.8
Equity	119.4	129.5	141.5	156.4	172.3

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	17.4	14.4	20.0	20.6	21.6
Depreciation & amortisation	0.8	1.5	1.6	1.6	1.7
Changes in working capital	-10.1	-29.0	-39.7	-36.0	-32.9
Operating cash flow	3.2	-19.3	-2.9	1.4	5.6
Capital expenditure	-6.8	-3.2	-3.0	-2.0	-2.0
Investing cash flow	-26.9	14.3	14.5	15.5	15.5
Debt raised/(repaid)	-9.3	-2.1	-1.6	-1.1	-0.8
Equity raised/(repaid)	42.9	-	-	-	-
Dividends paid	-	-	-	-	-
Financing cash flow	36.9	-9.1	-9.6	-10.1	-10.4
Net cash flow	13.1	-14.1	2.0	6.8	10.7
Beginning cash flow	15.1	28.2	14.1	16.1	22.9
Ending cash flow	28.2	14.1	16.1	22.9	33.5

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Gross profit margin	25.5%	25.2%	27.0%	27.0%	27.0%
Operating profit margin	9.8%	8.8%	11.0%	11.0%	11.0%
PBT margin	9.8%	8.1%	10.8%	10.8%	10.8%
PAT margin	7.1%	5.6%	6.5%	7.8%	8.0%
Core PAT margin	7.1%	5.6%	6.5%	7.8%	8.0%
PER (x)	34.9	29.6	30.6	25.0	23.1

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology