

## Pekat Group Berhad

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

### In the Growth Phase

#### KEY INVESTMENT HIGHLIGHTS

- **Solar order book expected to grow more than 20% in FY24 to RM170m-RM180m**
- **To be involved in 60MWac of CGPP jobs, expected to add another RM220m-RM250m to order book**
- **Seeking partnerships and JVs for expansion into new markets in Southeast Asia**
- **Maintain BUY with a revised TP of RM0.63**

**Good times ahead.** We remain positive after our meeting with Pekat Group Berhad's managing director Chin Soo Mau. The group is optimistic that the prospects for solar engineering, procurement construction and commissioning (EPCC) players remain bright with the government's firm policies on energy transition where solar takes the centre stage, with initiatives such as the Corporate Green Power Programme (CGPP) and the National Energy Transition Roadmap (NETR).

**Healthy order book growth expected.** Pekat's outstanding order book stands at RM200m for both solar and ELP projects. Solar projects itself comprise RM140m and the group expects its solar order book size to grow more than 20% to RM170m-RM180m in FY24, driven by stronger growth in residential and commercial and industrial (C&I) rooftop solar jobs. Note that rooftop solar jobs are usually fast-pace projects that can be completed in just a few months and Pekat is capable to consistently secure new jobs to maintain its solar order book level at RM140m or more, most of the time.

**CGPP to boost prospects.** Recall that Pekat secured a CGPP quota of 29.99MWac from the Energy Commission early last month, through its wholly-owned subsidiary Pekat Teknologi Sdn Bhd. In terms of EPCC involvement, management expects to work on a size of 60MWac, which will add a further RM220m-RM250m to its order book, yet to be finalised as the management is still in the midst of discussion on several matters. Pekat's own CGPP plant will be located in Perak, where it will undertake fixed and floating platforms and also trackers. Meanwhile, Pekat is also applying for some quota of the remaining 236.6MWac of the CGPP that has yet to be awarded.

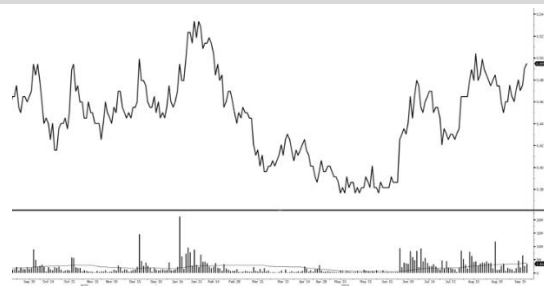
**Overseas expansion.** Like its peers in the industry, Pekat also plans to venture overseas, keeping an eye on several Southeast Asian countries. This will mainly be asset ownerships, though the group does not rule out the possibility of taking on EPCC jobs. One of Pekat's strategies to penetrate foreign markets is through seeking partnerships of JVs with Malaysian companies that already have a presence in that particular country.

**Maintain BUY**
**Revised Target Price: RM0.63**
*(previously RM0.57)*

#### RETURN STATISTICS

Price @ 20 <sup>th</sup> Sept 2023 (RM)	0.495
Expected share price return (%)	+27.3
Expected dividend yield (%)	1.6
<b>Expected total return (%)</b>	<b>+28.9</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.0	-0.1
3 months	10.0	20.3
12 months	4.2	3.9

#### INVESTMENT STATISTICS

FYE Dec (RM'm)	2023E	2024F	2025F
Revenue	193.6	212.9	223.6
Operating Profit	19.6	22.6	23.5
Profit Before Tax	19.1	22.2	22.9
Core Net Profit	13.3	15.9	16.7
Core EPS (sen)	2.1	2.5	2.6
PER (x)	24.0	20.1	19.2
DPS (sen)	1	0	1
Dividend Yield (%)	1.6	0	1.6

#### KEY STATISTICS


FBM KLCI	1,451.56
Issue shares (m)	644.97
Estimated free float (%)	31.44
Market Capitalisation (RM'm)	319.26
52-wk price range	RM0.37-RM0.56
3-mth average daily volume (m)	3.47
3-mth average daily value (RM'm)	1.64
Top Shareholders (%)	
Chin Soo Mau	34.90
Tai Yee Chee	10.35
Wee Chek Aik	8.63

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**No dividend policy...for now.** The group does not have a dividend policy yet, but it aspires to have one in the near future, likely by FY25. Pekat announced its maiden dividend of 1 sen for its 2QFY23 as management decided to reward their shareholders after achieving about RM30m in net profit since its listing in Jun-21. The management however, guided that Pekat might not declare dividends for FY24 as the group, which is still in the growth stage, would require funds for its investments into CGPP and other assets and would expect to declare dividends again in FY25.

**Earnings estimates.** We are raising our estimates for Pekat's top and bottom lines from FY23-FY25 by +4.9%-12% and +6.7%-10.8% respectively to take into account stronger performance in the solar business and slightly better margins as prices of solar modules, which make up 40% to 50% of the EPCC project cost are now at low levels.

**Target price.** We are upgrading our **TP** for Pekat to **RM0.63** (from RM0.57) as we peg a forward PER of 25x to its FY24F EPS of 2.5 sen.

**Maintain BUY.** We continue to like Pekat and the management's cautious approach in expanding the company to ensure that its growth remains sustainable over the long term. It is also the only company that has yet to take on any exercises post-listing in 2021 as its earnings are sufficient to fund its growth and investments. Pekat is in a net cash position of RM27.9m as at Jun-23. The potential growth trajectory remains strong for Pekat with the CGPP and the strong focus on solar under the NETR. All factors considered; we are maintaining our **BUY** recommendation on **Pekat**. 

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Revenue	178.5	179.2	193.6	212.9	223.6
Cost of sales	(133.0)	(134.1)	(143.2)	(156.5)	(164.3)
Gross profit	45.5	45.1	50.3	56.4	59.2
Administrative expenses	(28.3)	(30.2)	(31.8)	(34.9)	(37.0)
Share of profit in associates	0.5	(0.0)	0.5	0.7	0.8
Profit before tax	17.4	14.4	19.1	22.2	22.9
Tax	(4.8)	(4.4)	(5.8)	(6.4)	(6.3)
Reported net profit	12.6	10.0	13.3	15.9	16.7
Core net profit	12.6	10.0	13.3	15.9	16.7

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

<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
PBT	17.4	14.4	17.4	14.4	19.1
Depreciation & amortisation	0.8	1.5	0.8	1.5	1.6
Changes in working capital	-10.1	-29.0	-10.1	-29.0	-39.7
<b>Operating cash flow</b>	<b>3.2</b>	<b>-19.3</b>	<b>3.2</b>	<b>-19.3</b>	<b>-3.8</b>
Capital expenditure	-6.8	-3.2	-6.8	-3.2	-3.0
<b>Investing cash flow</b>	<b>-26.9</b>	<b>14.3</b>	<b>-26.9</b>	<b>14.3</b>	<b>14.5</b>
Debt raised/(repaid)	-9.3	-2.1	-9.3	-2.1	-1.6
Equity raised/(repaid)	42.9	-	42.9	-	-
Dividends paid	-	-	-	-	-6.4
<b>Financing cash flow</b>	<b>36.9</b>	<b>-9.1</b>	<b>36.9</b>	<b>-9.1</b>	<b>-9.6</b>
<b>Net cash flow</b>	<b>13.1</b>	<b>-14.1</b>	<b>13.1</b>	<b>-14.1</b>	<b>1.1</b>
<b>Beginning cash flow</b>	<b>15.1</b>	<b>28.2</b>	<b>15.1</b>	<b>28.2</b>	<b>14.1</b>
<b>Ending cash flow</b>	<b>28.2</b>	<b>14.1</b>	<b>28.2</b>	<b>14.1</b>	<b>15.2</b>

<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Gross profit margin	25.5%	25.2%	26.0%	26.5%	26.5%
Operating profit margin	9.8%	8.8%	10.1%	10.6%	10.5%
PBT margin	9.8%	8.1%	9.9%	10.4%	10.2%
PAT margin	7.1%	5.6%	6.9%	7.5%	7.5%
Core PAT margin	7.1%	5.6%	6.5%	7.5%	7.5%
PER (x)	34.9	29.6	24.0	20.1	19.2

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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