

Pekati Group Berhad

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

Maintain BUY

Boosted by Stronger Solar Rooftop Jobs

Unchanged Target Price: RM0.63

KEY INVESTMENT HIGHLIGHTS

- **Core net profit of RM3.4m in 3QFY23; 9MFY23 at RM9.8m, slightly above expectations at 81.7% of full year estimate**
- **Solar division was main revenue generator for the quarter at RM45.0m, driven by stronger rooftop projects**
- **CGPP agreement inked with five off takers with periods of about 21 years**
- **Maintain BUY with a TP of RM0.63**

Strong quarter. Pekati Group Berhad (Pekati) posted a core net profit of RM3.3m in 3QFY23, a +61.2%yoy growth on the back of strong rooftop solar projects. For the cumulative 9MFY23, the group's core net profit grew +30.0%yoy to RM9.8m, coming in slightly above expectations, making up 81.7% of our full-year estimate.

Stronger rooftop solar jobs. Pekati's revenue for the quarter rose +35.5%yoy to RM62.9m. The bulk of the revenue came from the solar photovoltaic (PV) division, which has risen +50.9%yoy to RM45.0m, driven mainly by increased higher execution of commercial and industrial (C&I) rooftop solar projects. Meanwhile, the remaining revenue came from earthing and lightning protection (ELP) and the trading divisions at RM8.4m (+4.8%yoy) and RM9.5m (+9.9%yoy) respectively.

Order book remains strong. We estimate that Pekati's outstanding order book remains within the RM200m range, with some RM140m to RM150m of solar projects, coming mainly from stronger growth in residential and C&I rooftop solar jobs.

Stronger prospects from CGPP. Pending updated guidance from management, we hold on to the expectations that Pekati will be involved in the Corporate Green Power Programme (CGPP) related EPCC jobs of 60MWac, which will add a further RM220m-RM250m to its order book, which includes its own 29.99MWac plant in Tronoh, Perak. For its own CGPP quota, Pekati has through its wholly owned subsidiary Pekati Solar Tronoh Sdn Bhd, entered into five agreements with:

1. CTRM Aero Composites Sdn Bhd (7.40MWac)
2. HICOM Automotive Manufacturers (Malaysia) Sdn Bhd (10.87MWac)
3. HICOM Diecastings Sdn Bhd (2.02MWac)
4. Motosikal dan Enjin Nasional Sdn Bhd (7.30MWac)
5. PHN Industry Sdn Bhd (2.40MWac)

The agreements will be for a period of about 21 years, starting from the commercial operation date of the solar plant, likely in 2025, which will then be able to bolster Pekati's recurring revenue stream.

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

RETURN STATISTICS

Price @ 17 th Nov 2023 (RM)	0.45
Expected share price return (%)	+40.0
Expected dividend yield (%)	0.0
Expected total return (%)	+40.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.4	2.1
3 months	-2.2	-10.0
12 months	0.0	-0.8

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	1,460.67
Issue shares (m)	644.97
Estimated free float (%)	31.44
Market Capitalisation (RM'm)	290.24
52-wk price range	RM0.32-RM0.56
3-mth average daily volume (m)	1.96
3-mth average daily value (RM'm)	0.92
Top Shareholders (%)	
Chin Soo Mau	34.90
Tai Yee Chee	10.35
Wee Chek Aik	8.63

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Target price. We maintain our **target price** for **Pekati** of **RM0.63** by pegging a forward PER of 25x to its FY24F EPS of 2.5 sen.

Maintain BUY. We reiterate our **BUY** recommendation on **Pekati**, given its continuous robust performance, coupled with favourable government policies such as the CGPP and National Energy Transition Roadmap (NETR) that will benefit renewable energy companies, especially solar players. Pekati is also in a net cash position of RM25.8m, which remains accommodative to fund further growth and investments.

PEKATI GROUP BERHAD: 3QFY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	3QFY23	2QFY23	3QFY22	QoQ	YoY	9MFY23	9MFY22	YoY
Income Statement								
Revenue	62.9	59.5	46.5	6%	35.3%	169.2	134.2	26.1%
Cost of sales	(48.7)	(46.5)	(35.2)	5%	38.5%	(130.1)	(100.9)	29%
Gross profit	14.2	12.9	11.3	9%	25.2%	39.1	33.3	17%
Operating profit	4.3	5.3	4.4	-18%	-2.5%	13.9	12.4	12%
Finance cost	(0.5)	(0.6)	(0.7)	-7%	-24.2%	(0.7)	(1.6)	-55%
Profit/(loss) from associates	0.2	(0.0)	(0.0)	<-100%	<-100%	0.0	0.0	78%
Profit before tax	4.0	4.7	3.8	-15%	6.1%	13.1	11.1	18%
Tax	(0.5)	(1.2)	(1.6)	-63%	-70.5%	(0.6)	(3.4)	-83%
Reported net profit	3.6	3.5	2.3	2%	58.1%	10.2	7.7	32.1%
Core net profit	3.4	3.3	2.1	3%	61.2%	9.8	7.6	30.0%

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