

## Pekat Group Berhad

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

### A Stronger Year Ahead

#### KEY INVESTMENT HIGHLIGHTS

- **Core net profit of RM13.2m in FY23; above estimates by 10%**
- **Solar division was main revenue generator for the quarter at RM156.3m, driven by stronger rooftop projects**
- **Outstanding order book at RM185m; CGPP projects expected to add RM200m**
- **Maintain BUY with an upgrade TP of RM0.68**


**Strong quarter.** Pekat Group Berhad (Pekat) ended FY23 on a strong note, recording a +27.0% higher revenue at RM227.6m while its core net profit came in +32.3% higher at RM13.2m, attributable to the execution of more projects by its solar division. This was slightly above our expectations, exceeding our estimates by +10.0%.

**Stronger rooftop solar jobs.** Pekat's solar division revenue for FY23 surged +44.2% to RM156.3m, representing 68.7% of the group's revenue. This was contributed by the increased higher execution of commercial and industrial (C&I) and residential rooftop solar projects. Meanwhile, revenue from the earthing and lightning protection business declined slightly by -1.4% to RM33.3m while the trading division's revenue grew +2.5% to RM38.0m.

**Order book remains strong.** Pekat's outstanding order book stands at RM185m, comprising mainly rooftop solar projects. The group is also aiming to secure about RM200m worth of Corporate Green Power Programme (CGPP) related EPCC projects. We expect Pekat to be able to benefit from the upcoming 2GW LSS5 that will be opened for bidding in Apr-24, in terms of large-scale job replenishments.

**Earnings estimates.** We are revising our earnings estimates by FY24/FY25 by +16.7%/33.2% to RM17.4m/RM21.2m respectively in light of the better performance and a strong pipeline of jobs that would contribute positively to Pekat.

**Target price.** We upgrade our **target price** for **Pekat** to **RM0.68** from **RM0.63** by pegging a forward PER of 25x to its FY24F EPS of 2.7 sen.

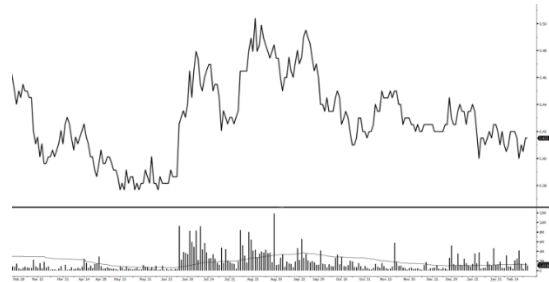
**Maintain BUY.** We reiterate our **BUY** recommendation on Pekat, given its continuous robust performance, coupled with favourable government policies such as the CGPP, the upcoming LSS5 and National Energy Transition Roadmap (NETR) that will benefit renewable energy companies, especially solar players. Pekat is also in a net cash position of about RM24.8m, which remains accommodative to fund further growth and investments. 

**Maintain BUY**
**Revised Target Price: RM0.68**
*(Previously RM0.63)*

#### RETURN STATISTICS

Price @ 23 <sup>rd</sup> Feb 2024 (RM)	0.415
Expected share price return (%)	+63.9
Expected dividend yield (%)	+0.0
Expected total return (%)	+63.9

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.0	-2.8
3 months	-3.5	-11.5
12 months	-13.5	-18.7

#### INVESTMENT STATISTICS

FYE Dec (RM'm)	2023A	2024E	2025F
Revenue	227.6	234.4	246.2
Operating Profit	18.9	23.7	27.6
Profit Before Tax	18.4	23.2	26.9
Core Net Profit	13,237	17385	21176
Core EPS (sen)	2.1	2.7	3.3
PER (x)	20.2	15.4	12.6
DPS (sen)	0	0	1
Dividend Yield (%)	0	0	7.4

#### KEY STATISTICS

FBM KLCI	1,549.11
Issue shares (m)	644.97
Estimated free float (%)	31.44
Market Capitalisation (RM'm)	267.66
52-wk price range	RM0.37-RM0.52
3-mth average daily volume (m)	1.28
3-mth average daily value (RM'm)	0.54
Top Shareholders (%)	
Chin Soo Mau	34.90
Tai Yee Chee	10.35
Wee Chek Aik	8.63

**Analyst**
**Royce Tan Seng Hooi**  
 royce.tan@midf.com.my  
 03-2173 8461

**PEKAT GROUP BERHAD: 4QFY23 RESULTS SUMMARY**

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	4QFY23	3QFY23	4QFY22	QoQ	YoY	FY23	FY22	YoY
Revenue	58.4	62.9	45.0	-7%	29.8%	227.6	179.2	27.0%
Cost of sales	(43.8)	(48.7)	(33.3)	-10%	31.6%	(173.8)	(134.1)	30%
Gross profit	14.6	14.2	11.7	3%	24.6%	53.8	45.1	19%
Operating profit	5.0	4.3	3.4	17%	45.8%	18.9	15.8	19%
Finance cost	(0.2)	(0.5)	(0.2)	-70%	-21.0%	(0.9)	(1.8)	-51%
Profit/(loss) from associates	0.3	0.2	(0.0)	69%	<-100%	0.3	(0.0)	<-100%
Profit before tax	5.3	4.0	3.4	32%	57.8%	18.4	14.4	27%
Tax	(1.8)	(0.5)	(1.0)	>+100%	90.1%	(2.4)	(4.4)	-45%
Reported net profit	3.5	3.6	2.3	-2%	50.5%	13.7	10.0	36.3%
Core net profit	3.4	3.4	2.5	1%	39.1%	13.2	10.0	32.3%

**FINANCIAL SUMMARY**

Income Statement (RM'm)	2021A	2022A	2023A	2024E	2025F
Revenue	178.5	179.2	227.6	234.4	246.2
Cost of sales	(133.0)	(134.1)	(173.8)	(173.5)	(179.7)
Gross profit	45.5	45.1	53.8	61.0	66.5
Administrative expenses	(28.3)	(30.2)	(34.7)	(38.5)	(39.8)
Share of profit in associates	0.5	(0.0)	0.5	0.7	0.8
Profit before tax	17.4	14.4	18.4	23.2	26.9
Tax	(4.8)	(4.4)	(4.7)	(5.9)	(5.7)
Reported net profit	12.6	10.0	13.7	17.4	21.2
Core net profit	12.6	10.0	13.2	17.4	21.2

<b>Balance Sheet (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>
Fixed assets	20.8	23.3	23.4	24.6	25.8
Intangible assets	0.4	0.3	183.0	0.3	0.3
<b>Non-current assets</b>	<b>30.0</b>	<b>35.1</b>	<b>36.3</b>	<b>37.5</b>	<b>38.7</b>
Cash	28.2	14.1	18.9	22.4	23.5
Trade debtors	33.1	40.9	47.9	35.6	37.5
<b>Current assets</b>	<b>170.5</b>	<b>154.5</b>	<b>142.0</b>	<b>133.2</b>	<b>136.2</b>
Trade creditors	34.8	9.2	12.3	10.8	9.7
Short-term debt	25.3	19.5	1.0	12.5	10.0
<b>Current liabilities</b>	<b>77.4</b>	<b>55.8</b>	<b>38.0</b>	<b>10.9</b>	<b>-0.8</b>
Long-term debt	2.5	1.6	0.6	0.5	0.5
<b>Non-current liabilities</b>	<b>3.6</b>	<b>4.3</b>	<b>3.4</b>	<b>3.3</b>	<b>3.3</b>
Share capital	93.5	93.5	93.5	93.5	93.5
Retained earnings	75.9	86.0	93.1	112.9	128.8
<b>Equity</b>	<b>119.4</b>	<b>129.5</b>	<b>136.7</b>	<b>156.5</b>	<b>172.4</b>

<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>
PBT	17.4	14.4	18.4	22.2	22.9
Depreciation & amortisation	0.8	1.5	1.8	1.6	1.7
Changes in working capital	-10.1	-29.0	5.7	-5.1	-2.1
<b>Operating cash flow</b>	<b>3.2</b>	<b>-19.3</b>	<b>26.2</b>	<b>19.0</b>	<b>22.9</b>
Capital expenditure	-6.8	-3.2	-0.7	-2.0	-2.0
<b>Investing cash flow</b>	<b>-26.9</b>	<b>14.3</b>	<b>-0.6</b>	<b>-1.9</b>	<b>-1.9</b>
Debt raised/(repaid)	-9.3	-2.1	-1.6	-1.1	-0.8
Equity raised/(repaid)	42.9	-	-	-	-
Dividends paid	-	-	-6.4	-	-3.2
<b>Financing cash flow</b>	<b>36.9</b>	<b>-9.1</b>	<b>-16.3</b>	<b>-16.8</b>	<b>-17.1</b>
<b>Net cash flow</b>	<b>13.1</b>	<b>-14.1</b>	<b>4.7</b>	<b>0.3</b>	<b>3.9</b>
<b>Beginning cash flow</b>	<b>15.1</b>	<b>28.2</b>	<b>14.2</b>	<b>18.9</b>	<b>19.2</b>
<b>Ending cash flow</b>	<b>28.2</b>	<b>14.1</b>	<b>18.9</b>	<b>19.2</b>	<b>23.1</b>

<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>
Gross profit margin	25.5%	25.2%	23.6%	26.0%	27.0%
Operating profit margin	9.8%	8.8%	8.3%	9.0%	9.4%
PBT margin	9.8%	8.1%	8.1%	10.8%	9.0%
PAT margin	7.1%	5.6%	6.0%	7.5%	6.4%
Core PAT margin	7.1%	5.6%	6.0%	7.5%	6.4%
PER (x)	34.9	29.6	20.2	15.4	12.6

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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