

Pekat Group Berhad

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

Bright Start to the Year

KEY INVESTMENT HIGHLIGHTS

- **Core net profit of RM3.7m in 1QFY24; within estimates at 21.3% of full year projections**
- **Solar division was main revenue generator for the quarter at RM36.7m, driven by stronger C&I rooftop solar projects**
- **Outstanding order book at RM180m; potentially add RM200m from CGPP EPCC jobs**
- **Maintain BUY with an unchanged TP of RM0.88**

Within expectations. Pekat Group Berhad's (Pekat) core net profit grew +16.3%yoy to RM3.7m in 1QFY24, on the back of a stronger revenue that came in +23.1%yoy to RM57.6m, attributable to improved performances from all its business divisions, especially solar. The results were within our expectations, making up 21.3% of full-year estimates.


Stronger rooftop solar jobs. Pekat's solar division generated a revenue of RM36.7m (+23.2%yoy), led by more execution commercial and industrial rooftop solar projects. The earthing and lightning protection division recorded a revenue of RM9.0m (+7.2%yoy) while the trading division generated RM12.0m (+38.0%), the latter driven by higher sales of surge protection devices.

Healthy order book. Pekat's outstanding order book stands at c.RM180m, comprising mainly rooftop solar projects. The group is also aiming to secure about RM200m worth of Corporate Green Power Programme (CGPP) related EPCC projects, of which we expect announcements are around the corner. Recall that all solar power plants under the CGPP have to be completed no later than 2025, unless otherwise approved by the Energy Commission. Recall that Pekat had also secured its own CGPP quota of 29.99MWac last year. Its plant will be built in Tronoh, Perak. Future order book replenishment prospects will come from LSS5-related EPCC jobs. The program was launched for bidding last month.

Upcoming acquisition. Pekat is in the midst of acquiring a stake in EPE Switchgear (M) Sdn Bhd, a switchgear manufacturer based in Nilai. We reiterate our view that this will synergise well with Pekat's business as products manufactured by EPE such as switchgears and distribution transformers are crucial components of solar photovoltaic (PV) systems.

Earnings estimates. We keep our earnings estimates unchanged.

Target price. We maintain our **TP** at **RM0.88** by pegging its FY25F EPS of 3.5 sen to a forward PER of 25x, a slight discount to its larger peers.

Maintain BUY. We reiterate our **BUY** recommendation on Pekat, given its consistent performance, and bright prospects with favourable policies such as the CGPP, National Energy Transition Roadmap (NETR) and the LSS5. Pekat is also in a net cash position of RM23.8m, which remains accommodative to fund further growth and investments. 

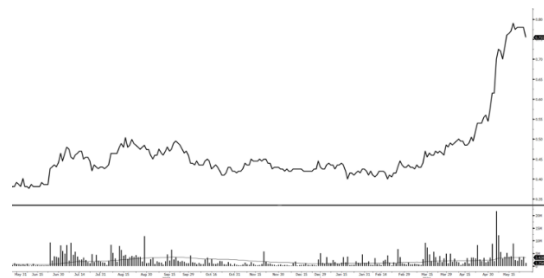
Maintain BUY

Unchanged Target Price: RM0.88

RETURN STATISTICS

Price @ 28 th May 2024 (RM)	0.76
Expected share price return (%)	+15.8
Expected dividend yield (%)	0.0
Expected total return (%)	+15.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	36.0	32.7
3 months	55.7	66.2
12 months	96.1	70.4

INVESTMENT STATISTICS

FYE Dec (RM'm)	2024E	2025F	2026F
Revenue	234.4	295.4	310.2
Operating Profit	23.7	30.7	32.3
Profit Before Tax	23.2	29.3	31.0
Core Net Profit	17.4	22.5	23.9
Core EPS (sen)	2.7	3.5	3.7
PER (x)	32.6	25.3	23.8
DPS (sen)	0	0	0
Dividend Yield (%)	0	0	0

KEY STATISTICS

FBM KLCI	1,615.82
Issue shares (m)	664.97
Estimated free float (%)	31.47
Market Capitalisation (RM'm)	486.95
52-wk price range	RM0.38-RM0.80
3-mth average daily volume (m)	3.47
3-mth average daily value (RM'm)	2.03
Top Shareholders (%)	
Chin Soo Mau	34.90
Tai Yee Chee	10.35
Wee Chek Aik	8.63

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PEKATI GROUP BERHAD: 1QFY24 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results				
Income Statement	1QFY24	4QFY23	1QFY23	QoQ	YoY
Revenue	57.6	58.4	46.8	-1.4%	23.1%
Cost of sales	(42.8)	(43.8)	(34.8)	-2.2%	23.2%
Gross profit	14.8	14.6	12.0	1.1%	22.9%
Operating profit	5.8	5.0	4.4	14.8%	32.3%
Finance cost	(0.1)	(0.2)	0.4	-29.9%	-130.6%
Profit/(loss) from associates	(0.1)	0.3	(0.2)	-130.4%	-39.4%
Profit before tax	5.7	5.3	4.3	6.4%	31.0%
Tax	(1.9)	(1.8)	1.1	0.9%	-266.2%
Reported net profit	3.8	3.5	3.2	8.4%	19.7%
Core net profit	3.7	3.4	3.2	8.0%	16.3%

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	179.2	227.6	234.4	295.4	310.2
Cost of sales	(134.1)	(173.8)	(73.5)	(215.6)	(226.4)
Gross profit	45.1	53.8	61.0	79.8	83.7
Administrative expenses	(30.2)	(34.7)	(38.5)	(48.4)	(50.9)
Share of profit in associates	(0.0)	0.5	0.7	0.8	0.8
Profit before tax	14.4	18.4	23.2	29.3	31.0
Tax	(4.4)	(4.7)	(5.9)	(6.9)	(7.1)
Reported net profit	10.0	13.7	17.4	22.5	23.9
Core net profit	10.0	13.2	17.4	22.5	23.9

Balance Sheet (RM'm)	2022A	2023A	2024E	2024E	2025F
Fixed assets	23.3	23.4	32.8	26.1	27.4
Intangible assets	0.3	183.0	0.2	0.2	0.2
Non-current assets	35.1	36.3	45.7	39.0	40.3
Cash	14.1	18.9	26.6	27.4	28.0
Trade debtors	40.9	47.9	35.6	37.5	55.8
Current assets	154.5	142.0	159.8	193.7	224.7
Trade creditors	9.2	12.3	10.8	16.0	24.9
Short-term debt	19.5	1.0	2.0	2.0	2.0
Current liabilities	55.8	38.0	37.6	42.8	51.7
Long-term debt	1.6	0.6	11.0	10.5	10.0
Non-current liabilities	4.3	3.4	13.8	13.3	12.8
Share capital	93.5	93.5	93.5	93.5	93.5
Retained earnings	86.0	93.1	110.5	133.0	156.9
Equity	129.5	136.7	154.1	176.6	200.5

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	14.4	18.4	23.2	29.3	31.0
Depreciation & amortisation	1.5	1.8	1.6	1.7	1.7
Changes in working capital	-29.0	5.7	-5.1	-8.4	1.0
Operating cash flow	-19.3	26.2	20.0	22.9	34.0
Capital expenditure	-3.2	-0.7	-2.0	-2.0	-1.0
Investing cash flow	14.3	-0.6	-1.9	-1.9	-0.9
Debt raised/(repaid)	-2.1	-1.6	-1.1	-0.8	0.2
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	-6.4	-	-	-
Financing cash flow	-9.1	-16.3	-16.8	-17.1	-18.1
Net cash flow	-14.1	4.7	1.3	3.9	15.1
Beginning cash flow	28.2	14.2	18.9	20.2	24.1
Ending cash flow	14.1	18.9	20.2	24.1	39.2

Profitability Margins	2022A	2023A	2024E	2024E	2025F
Gross profit margin	25.2%	23.6%	26.0%	27.0%	27.0%
Operating profit margin	8.8%	8.3%	10.1%	10.4%	10.4%
PBT margin	8.1%	8.1%	9.9%	9.9%	10.0%
PAT margin	5.6%	6.0%	7.4%	7.6%	7.7%
Core PAT margin	5.6%	6.0%	7.4%	7.6%	7.7%
PER (x)	29.6	20.2	32.6	25.3	23.8

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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