

Pekat Group Berhad

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

Seeking New Synergies

KEY INVESTMENT HIGHLIGHTS

- **Planning to acquire switchgear manufacturer EPE Switchgear; MoU inked for exclusive negotiation until Jun-24**
- **Business synergises well with Pekat; products are crucial components for solar PV systems**
- **Outstanding order book at RM180m; potentially add RM200m from CGPP EPCC jobs**
- **Maintain BUY with an upgraded TP of RM0.88**

Acquisition in the making. Solar EPCC player Pekat Group Berhad (Pekat) is planning to acquire a stake in EPE Switchgear (M) Sdn Bhd, a switchgear manufacturer based in Nilai. Pekat Teknologi Sdn Bhd, a wholly owned subsidiary of Pekat, inked a memorandum of understanding (MoU) with EPE's sole shareholder Apex Power Industry Sdn Bhd yesterday to negotiate exclusively on the potential acquisition until 30th June 2024, or a mutually agreed later date.

Synergises well with Pekat. The stake that Pekat plans to acquire, and the purchase consideration will be determined later pending negotiations and a due diligence review. We view the proposed acquisition as one that will synergise well with Pekat's business as products manufactured by EPE such as switchgears and distribution transformers are crucial components in the solar photovoltaic (PV) systems offered by those in the EPCC space such as Pekat. We believe the acquisition will position Pekat favourably to ride on the expected improvement in demand over the long term that will be catalysed by the growing solar industry that is backed by conducive government policies and the substantial capex for projects involving energy transition, especially on the upgrading of grid infrastructure.

Order books remain strong. Pekat's outstanding order book stands at c.RM180m, comprising mainly rooftop solar projects. It is also aiming to secure about RM200m worth of Corporate Green Power Programme (CGPP) related EPCC projects, of which we expect announcements to be 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.

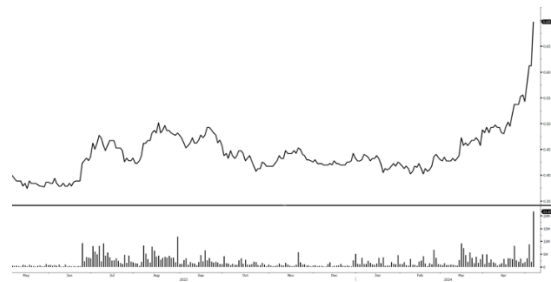
Earnings preview. Pekat is expected to release its 1QFY24 results on 28 May 2024, and we believe the performance will likely be on par with 4QFY23 when the group reported a quarterly revenue of RM58.4m and a core net profit of RM3.4m. We have projected a FY24 revenue of RM234.4m and a core net profit of RM17.4m, which will mainly be driven by commercial and industrial (C&I) and residential rooftop solar jobs. Meanwhile, we revised our FY25F earnings estimates slightly higher by +6.0% to RM22.5m on the back of management's more optimistic outlook on rooftop solar.

Maintain BUY
Revised Target Price: RM0.88
(Previously RM0.68)

RETURN STATISTICS

Price @ 7 th May 2024 (RM)	0.70
Expected share price return (%)	+25.7
Expected dividend yield (%)	+0.0
Expected total return (%)	+25.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	41.4	37.0
3 months	44.3	60.9
12 months	70.7	52.2

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	1,605.68
Issue shares (m)	644.97
Estimated free float (%)	31.47
Market Capitalisation (RM'm)	451.48
52-wk price range	RM0.37 - RM0.70
3-mth average daily volume (m)	2.54
3-mth average daily value	1.22
Top Shareholders (%)	
Chin Soo Mau	34.90
Tai Yee Chee	10.35
Wee Chek Aik	8.63

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Data centre opportunities. While Pekat has yet to be involved in the provision of solar PV solution for data centres, it is a direction that the management is looking forward to. It is no stranger to data centre-related jobs, having worked on earthing and lightning protection (ELP) solutions for data centres by Bridge and Keppel. It is currently constructing the ELP systems for facilities by Yondr and AirTrunk. Management is positive on prospects, backed by the mushrooming of data centres.

Target price. We are upgrading our **target price** for **Pekat** to **RM0.88** from **RM0.68** by rolling forward our valuation base year to FY25, pegging its EPS of 3.5 sen to a forward PER of 25x, a slight discount to its larger peers.

Maintain BUY. Pekat's share price has gained much traction, rising +62.8% year-to-date to a two-year high of 70 sen as of yesterday. Since Apr-24, we observed strong net buying activities by foreign investors and local institutions, purchasing RM9.0m and RM6.1m net, respectively. We believe some further upside is justifiable for Pekat and the solar EPCC subsector, being the beneficiaries of the government's renewable energy initiatives. We estimate Pekat's net cash position to be RM26.1m, which remains accommodative to fund further growth and investments. It is also in the process of disposing of its vacant industrial land in Shah Alam, which will further add about RM19.6m to its coffers. All factors considered; we maintain our **BUY** recommendation on **Pekat**. 

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