

## Pekati Group Berhad

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

### Brighter Progress in 2H24

#### KEY INVESTMENT HIGHLIGHTS

- **Core net profit of RM8.3m in 1HFY24; within estimates at 47.7% of full year projections**
- **Solar division sees -22.5% drop in revenue in 2QFY24 but offset by higher ELP and trading revenue**
- **Outstanding order book at RM207m; potentially to grow to RM320m by year end**
- **Maintain BUY with an unchanged TP of RM1.32**

**Within expectations.** Pekati Group Berhad's (Pekati) core net profit grew +40.3%yoy to RM4.6m in 2QFY24, lifting its cumulative 1HFY24 core net profit to RM8.3m, an increase of +28.5%yoy. This came in within expectations, making up 47.7% of ours and 46.6% of the consensus' full-year estimates. Revenue during the quarter came in lower by -4.9%yoy to RM56.6m due to delays in some solar projects but higher margin earthing and lightning protection (ELP) jobs negated the impact to the bottom line.

**C&I solar projects to pick up pace.** Solar PV, the main revenue driver of the group, saw a -22.5% decline in revenue to RM33.2m, partly due to project execution delays that mainly affected its commercial and industrial (C&I) customer segment. We expect these projects to pick up pace in 2HCY24. Revenue from ELP surged +47.1% to RM11.6m while Pekati's trading division generated a revenue of RM11.9m, a +34.8%yoy growth. These were driven by higher project execution rates and higher fulfilled sales orders.

**Healthy order book.** Pekati's outstanding order book stands at c.RM206.8m, comprising mainly rooftop solar projects. We expect this to grow to about RM320m by 4QCY24 when it secures its Corporate Green Power Programme (CGPP) related EPCC jobs. Recall that all solar power plants under the CGPP have to be completed no later than 2025, unless otherwise approved by the Energy Future order book replenishment prospects will come from LSS5-related EPCC jobs. Its latest job win was a RM21.8m ELP systems job for a hyperscale data centre at the Elmina Business Park.

**Upcoming acquisition.** Pekati is in the midst of acquiring a 60% stake in Apex Power Sdn Bhd for RM96.0m, which will then give it control over EPE Switchgear (M) Sdn Bhd, a switchgear manufacturer based in Nilai. We reiterate our view that this will synergise well with Pekati's business as products manufactured by EPE such as switchgears and distribution transformers are crucial components of solar photovoltaic (PV) systems. There is a profit guarantee for three financial years by Apex Power that its consolidated profit after tax (PAT) will not be less than RM48m collectively, or at least RM16m annually for FY24-FY26 ending 30<sup>th</sup> September.

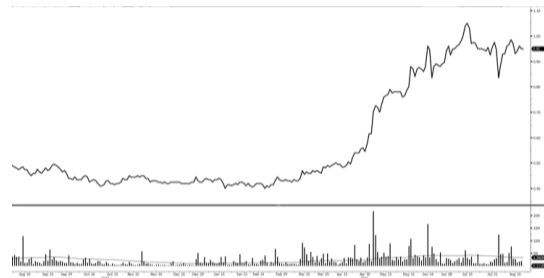
**Earnings estimates.** We keep our earnings estimates unchanged.

**Maintain BUY**
**Unchanged Target Price: RM1.32**

#### RETURN STATISTICS

Price @ 21 <sup>st</sup> Aug 2024 (RM)	0.96
Expected share price return (%)	+37.5
Expected dividend yield (%)	0.0
Expected total return (%)	+37.5

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.1	-2.3
3 months	1.1	20.5
12 months	86.3	64.8

#### 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)	35.6	27.4	25.9
DPS (sen)	0	0	0
Dividend Yield (%)	0	0	0

#### KEY STATISTICS

FBM KLCI	1,635.32
Issue shares (m)	664.97
Estimated free float (%)	31.80
Market Capitalisation (RM'm)	612.72
52-wk price range	RM0.39-RM1.06
3-mth average daily volume (m)	3.38
3-mth average daily value (RM'm)	3.06
Top Shareholders (%)	
Chin Soo Mau	34.90
Tai Yee Chee	10.35
Wee Chek Aik	8.30

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**Target price.** We also maintain our **TP** at **RM1.32**, pegging its FY25F EPS of 4.7 sen to a forward PER of 28x, based on its three-year historical mean.

**Maintain BUY.** We reiterate our **BUY** recommendation on Pekat, given its consistent quarterly performance, and bright prospects with favourable policies such as the CGPP, National Energy Transition Roadmap (NETR) and the LSS5. We are optimistic about the group's proposed acquisition of 60% of Apex Power, which will give it control over EPE Switchgear, allowing it to expand its business into power distribution equipment and to tap into new foreign markets, which is expected to strengthen its bottom line significantly starting FY25. 

## PEKAT GROUP BERHAD: 2QFY24 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	2QFY24	1QFY24	2QFY23	QoQ	YoY	1HFY24	1HFY23	YoY
Revenue	56.6	57.6	59.5	-1.9%	-4.9%	114.2	106.3	7.5%
Cost of sales	(39.8)	(42.8)	(46.5)	-7.0%	-14.4%	(82.7)	(81.3)	2%
Gross profit	16.7	14.8	12.9	13.1%	29.5%	31.5	25.0	26%
Operating profit	7.1	5.8	5.3	23.4%	34.9%	12.9	9.6	34%
Finance cost	(0.2)	(0.1)	(0.6)	56.5%	-69.7%	(0.3)	(0.2)	36%
Profit/(loss) from associates	(0.6)	(0.1)	(0.0)	>+100%	>+100%	(0.6)	(0.2)	>+100%
Profit before tax	6.6	5.7	4.7	16.2%	39.4%	12.2	9.0	35%
Tax	(1.9)	(1.9)	(1.2)	3.6%	54.1%	(3.8)	(0.1)	>+100%
Reported net profit	4.6	3.8	3.5	22.6%	33.4%	8.4	6.6	26.9%
Core net profit	4.6	3.7	3.3	24.1%	40.3%	8.3	6.4	28.5%

## 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
<b>Non-current assets</b>	<b>35.1</b>	<b>36.3</b>	<b>45.7</b>	<b>39.0</b>	<b>40.3</b>
Cash	14.1	18.9	26.6	27.4	28.0
Trade debtors	40.9	47.9	35.6	37.5	55.8
<b>Current assets</b>	<b>154.5</b>	<b>142.0</b>	<b>159.8</b>	<b>193.7</b>	<b>224.7</b>
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
<b>Current liabilities</b>	<b>55.8</b>	<b>38.0</b>	<b>37.6</b>	<b>42.8</b>	<b>51.7</b>
Long-term debt	1.6	0.6	11.0	10.5	10.0
<b>Non-current liabilities</b>	<b>4.3</b>	<b>3.4</b>	<b>13.8</b>	<b>13.3</b>	<b>12.8</b>
Share capital	93.5	93.5	93.5	93.5	93.5
Retained earnings	86.0	93.1	110.5	133.0	156.9
<b>Equity</b>	<b>129.5</b>	<b>136.7</b>	<b>154.1</b>	<b>176.6</b>	<b>200.5</b>

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025F</b>	<b>2026F</b>
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
<b>Operating cash flow</b>	<b>-19.3</b>	<b>26.2</b>	<b>20.0</b>	<b>22.9</b>	<b>34.0</b>
Capital expenditure	-3.2	-0.7	-2.0	-2.0	-1.0
<b>Investing cash flow</b>	<b>14.3</b>	<b>-0.6</b>	<b>-1.9</b>	<b>-1.9</b>	<b>-0.9</b>
Debt raised/(repaid)	-2.1	-1.6	-1.1	-0.8	0.2
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	-6.4	-	-	-
<b>Financing cash flow</b>	<b>-9.1</b>	<b>-16.3</b>	<b>-16.8</b>	<b>-17.1</b>	<b>-18.1</b>
<b>Net cash flow</b>	<b>-14.1</b>	<b>4.7</b>	<b>1.3</b>	<b>3.9</b>	<b>15.1</b>
<b>Beginning cash flow</b>	<b>28.2</b>	<b>14.2</b>	<b>18.9</b>	<b>20.2</b>	<b>24.1</b>
<b>Ending cash flow</b>	<b>14.1</b>	<b>18.9</b>	<b>20.2</b>	<b>24.1</b>	<b>39.2</b>

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2024E</b>	<b>2025F</b>
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