

Pekat Group Berhad

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

Acquiring 60% of EPE Switchgear

KEY INVESTMENT HIGHLIGHTS

- **Acquiring 60% of Apex Power for RM96m will give Pekat control over EPE Switchgear**
- **Profit guarantee of RM48m over three years, purchase price indicates reasonable 10.8x FY23 PER**
- **Allows Pekat to diversify into power distribution equipment and tap new foreign markets**
- **Maintain BUY with a revised TP of RM1.32**

Within expectations. Pekat Group Berhad (Pekat) will be acquiring a 60% stake in Nilai-based switchgear manufacturer EPE Switchgear (M) Sdn Bhd for RM96.0m. The deal will involve Pekat Teknologi Sdn Bhd a wholly-owned subsidiary of Pekat, purchasing a 60% stake in Apex Power Industry Sdn Bhd, the sole shareholder of EPE Switchgear. This will also mark Pekat's diversification into the power distribution equipment business.

Payment and funding. Pekat will be paying a 10% deposit of RM9.6m, following which the first tranche of the balance of the purchase consideration of RM57.6m (60%) will be paid upon the completion of the acquisition process subject to terms met, while the second tranche of RM28.0m (30%) will be paid as a retention sum. Pekat will fund the acquisition via internally generated funds and bank borrowings. Assuming that Pekat undertakes RM65.0m of borrowings, the group's net gearing is estimated to be at 29.3%. As at 1QFY24, Pekat is in a net cash position of RM23.8m.

Profit guarantee. 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 30th September. As at 7MFY24, Apex Power has achieved a PAT of RM12.9m. It recorded a PAT of RM14.8m (+46.6%) in FY23. With a current outstanding order book of RM204.3m, we believe the profit guarantee is achievable, and may possibly surpass its RM16m annual profit guarantee.

Justified purchase price. At a purchase price of RM96m for the 60% stake, this values the entire company at RM160m, indicating a PE multiple of 10.8x FY23 PAT, which we view as reasonable. An independent valuer appointed by Pekat ascribed a valuation range of RM149.2m to RM174.2m for Apex Power.

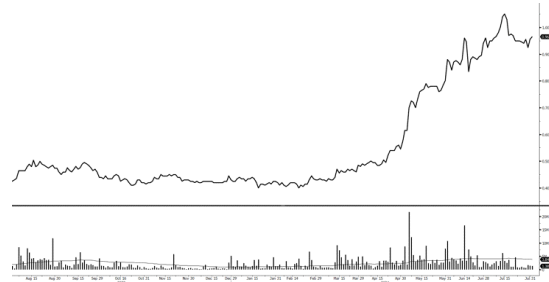
Other new shareholders. Based on Pekat's filing to the bourse yesterday, Low Kek Heng, being the sole shareholder of Apex Power, had also entered into a share sale agreement for the remaining 40% stake – Mega First Power Industries Sdn Bhd (30%), Rubber Thread Industries (M) Sdn Bhd (7%) and Mohammad Zhakri bin Mohammed Azlan (3%).

Maintain BUY
Revised Target Price: RM1.32
(Previously RM0.88)

RETURN STATISTICS

Price @ 1 st August 2024 (RM)	0.975
Expected share price return (%)	+35.4
Expected dividend yield (%)	0.00
Expected total return (%)	+35.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.5	-1.1
3 months	2.7	71.7
12 months	119.3	95.9

INVESTMENT STATISTICS

FYE Dec (RM'm)	2024E	2025F	2026F
Revenue	234.4	395.4	415.2
Operating Profit	23.7	42.7	44.8
Profit Before Tax	23.2	40.6	42.9
Core Net Profit	17.4	31.4	33.3
Core EPS (sen)	2.7	4.7	5.0
PER (x)	37.3	20.7	19.4
DPS (sen)	0	0	0
Dividend Yield (%)	0	0	0

KEY STATISTICS

FBM KLCI	1,624.25
Issue shares (m)	664.97
Estimated free float (%)	31.80
Market Capitalisation (RM'm)	622.39
52-wk price range	RM0.39-RM1.06
3-mth average daily volume (m)	3.92
3-mth average daily value (RM'm)	3.24
Top Shareholders (%)	
Chin Soo Mau	34.90
Tai Yee Chee	10.35
Wee Chek Aik	8.30

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About Apex Power/EPE Switchgear. Apex Power is an investment holding company that was incorporated in Aug'09 and commenced business in Dec'09 after acquiring EPE Switchgear, which is principally involved in manufacturing, engineering and project activities, providing a wide range of products and services to the generation, transmission and distribution sectors of the electrical power industry. Products manufactured include air-insulated switchgears, gas-insulated switchgears, ring main units, remote control units, and compact substation. With 17 years of track record, its clients are mainly those in the power utilities industry. Its products are also sold to other countries in the Asia Pacific, Middle East and Europe such as Qatar, Sri Lanka, Oman, Australia and Germany. EPE Switchgear is also planning the commercialisation of feeder pillar, a new product. Its certificate of product acceptance expired in Apr'24 and it is in the midst of applying for recertification.


Synergistic acquisition. We view the proposed acquisition as one that will synergise well with Pekati'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 Pekati. The group will also be able to leverage on the prospects of the power distribution equipment industry, which is largely driven by infrastructure development to service user industries. This includes the construction of substations and distribution networks, which directly create demand for switchgears.

Earnings preview. Pekati is expected to release its 2QFY24 results on 21st August and we believe the performance will be in line with our FY24E expectations of about RM8m-RM9m in 1HFY24. This will mainly be driven by commercial and industrial (C&I) and residential rooftop solar jobs.

Healthy order book. Pekati's outstanding order book stands at c.RM185m, comprising mainly rooftop solar projects. We expect this to grow to about RM300m 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 Commission. Recall that Pekati 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.

Earnings estimates. As the acquisition of Apex Power is expected to be completed by end-2024, we do not expect any contributions to Pekati's FY24 and that it would be insignificant if any. We, however, lift our FY25F and FY26F earnings expectations by +39.6% and +39.3% to RM31.4m and RM33.3m respectively, taking into account the contribution from Apex Power.

Target price. We upgrade our **TP** to **RM1.32** from RM0.88 previously by 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 Pekati, given its consistent 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 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. 

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	179.2	227.6	234.4	395.4	415.2
Cost of sales	(134.1)	(173.8)	(73.5)	(288.6)	(303.1)
Gross profit	45.1	53.8	61.0	106.8	112.1
Administrative expenses	(30.2)	(34.7)	(38.5)	(63.3)	(66.4)
Share of profit in associates	(0.0)	0.5	0.7	0.8	0.8
Profit before tax	14.4	18.4	23.2	40.6	42.9
Tax	(4.4)	(4.7)	(5.9)	(9.2)	(9.5)
Reported net profit	10.0	13.7	17.4	31.4	33.3
Core net profit	10.0	13.2	17.4	31.4	33.3

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	40.6	42.9
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	34.2	45.9
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	15.2	27.0
Beginning cash flow	28.2	14.2	18.9	20.2	35.4
Ending cash flow	14.1	18.9	20.2	35.4	62.4

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%	10.8%	10.8%
PBT margin	8.1%	8.1%	9.9%	10.3%	10.3%
PAT margin	5.6%	6.0%	7.4%	7.9%	8.0%
Core PAT margin	5.6%	6.0%	7.4%	7.9%	8.0%
PER (x)	29.6	20.2	37.3	20.7	19.4

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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