

Pekat Group Berhad

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

It's About to Get Brighter

KEY INVESTMENT HIGHLIGHTS

- **Installs rooftop solar systems for an average of 15 houses a day**
- **Targetting c.RM150m of EPCC contracts from for two CGPP solar farms; 29.99MW and 10MW**
- **Data centre projects to drive ELP business over the medium term; 10 ELP projects in hand currently**
- **Maintain BUY with an unchanged TP of RM1.32**

Updates from management meeting. We came away from a group meeting with Pekat Group Bhd's managing director Mr Chin Soo Mau last week, remaining convinced on the group's prospects moving forward as it rides on the growth in rooftop projects, the Corporate Green Power Programme (CGPP) the rising demand for earthing and lightning protection (ELP) jobs with the mushrooming of data centres and its upcoming acquisition of a switchgear manufacturer.

Strong residential rooftop solar demand. Management guided that they are able to install rooftop solar systems for 15 houses on average daily, the process of which takes about six hours per house and prices range from approximately RM20,000 to RM40,000 for each house. Close to half of Pekat's revenue of RM56.6m for 2QFY24 was contributed by residential rooftop solar jobs. Management expects this segment to gradually grow and continue being among the main revenue contributors in the coming years.

CGPP EPCC contracts to start flowing in. Pekat is optimistic about some favourable news over the next fortnight on the award of CGPP related projects. It expects to secure the EPCC works for a 29.99MW solar farm of about RM110m and another 10MW solar form for RM38m. Recall that all solar power plants under the CGPP have to be completed no later than 2025, unless otherwise approved by the Energy Commission. Pekat had also secured its own CGPP quota of 29.99MW last year. Its plant will be built in Tronoh, Perak.

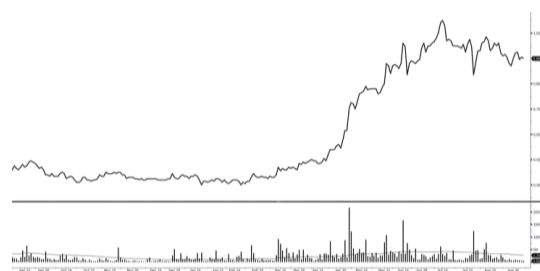
DC projects to drive ELP over medium term. The ELP segment usually generates about RM30m of revenue over the years, but this is expected to grow by 50% to 80% in FY25 and FY26, thanks to the mushrooming data centre projects. Just a month ago, Pekat won a RM21.8m ELP project from Gamuda Engineering Sdn Bhd for a hyperscale data centre where the latter is being built at the Elmina Business Park. Apart from this, the group is working on ELP systems for nine other data centres, scattered across Cyberjaya and Johor, and is bidding for more. Management expects stronger revenue and earnings from its ELP division soon but guided that it should normalise after data centre projects have peaked, potentially in the next three to five years. Back in 2022, the division recorded a revenue of RM33.8m and was almost unchanged in 2023 at RM33.3m. As at 1HFY24, the ELP division has already produced a revenue of RM20.6m. Before venturing into solar in

Maintain BUY
Unchanged Target Price: RM1.32

RETURN STATISTICS

Price @ 6 th Sep 2024 (RM)	0.90
Expected share price return (%)	+46.7
Expected dividend yield (%)	0.0
Expected total return (%)	+46.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.7	-3.1
3 months	-4.3	4.7
12 months	95.7	72.9

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)	33.3	19.1	18.0
DPS (sen)	0	0	0
Dividend Yield (%)	0	0	0

KEY STATISTICS

FBM KLCI	1,653.12
Issue shares (m)	664.97
Estimated free float (%)	31.80
Market Capitalisation (RM'm)	593.37
52-wk price range	RM0.39-RM1.06
3-mth average daily volume (m)	3.20
3-mth average daily value (RM'm)	2.94
Top Shareholders (%)	
Chin Soo Mau	34.90
Tai Yee Chee	10.35
Wee Chek Aik	8.30

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2008, Pekat was established in 1999 as a specialist in lightning protection systems, earthing systems, surge protection systems.

Acquisition of EPE Switchgear. As reported previously, Pekat is in the midst of acquiring a 60% stake in Nilai-based switchgear manufacturer EPE Switchgear Sdn Bhd, through the acquisition of a 60% stake in Apex Power Industry Sdn Bhd, the sole shareholder of EPE Switchgear. 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. Management is positive on the proposed acquisition on the back of stronger expected demand for switchgears. EPE Switchgear is in the medium voltage segment where it is among the top three manufacturers. We concur with management's view, considering that switchgears are crucial components for connections to and from the grid, which will be required by solar farms, hydro dams, data centres and factories. The proposed acquisition is expected to be completed by the end of this year. The purchase price of RM96m indicates a PE multiple of 10.8x FY23 PAT.

Healthy order book. Pekat's outstanding order book stands at RM206.8m, comprising mainly rooftop solar projects. We expect this to grow to about RM320m soon with the CGPP EPCC contracts. It may potentially surpass that figure with more ELP project wins for data centre developments.

Earnings estimates. We maintain our earnings estimates.

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 as prospects remain bright moving forward, backed by the growth in rooftop solar projects, the upcoming CGPP EPCC projects and stronger ELP job flows in line with the mushrooming of data centres. The nature of its business also remains promising with policies such as the National Energy Transition Roadmap (NETR) and the upcoming LSS5. We are also optimistic about the group's proposed acquisition of 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. 

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	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	33.3	19.1	18.0

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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