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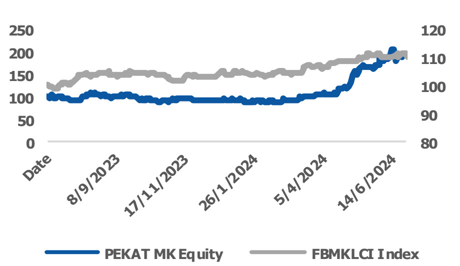
Recommendation:	**BUY**
Current Price:	**RM 0.95**
Previous Target Price:	**N/A**
Target Price:	**RM 1.14**
Upside/Downside:	**20.0%**

Stock information

Board	ACE
Sector	Industrial
Bursa / Bloomberg Code	0233 / PEKAT MK
Syariah Compliant	Yes
FTSE4Good Index	No
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	645.0
Market Cap (RM' m)	612.7
52-Week Price Range (RM)	0.395-1
Beta (x)	1.0
Free float (%)	31.5
3M Average Volume (m)	4.1
3M Average Value (RM' m)	3.0

Top 3 Shareholders	**(%)**
Chin Soo Mau	34.9
Tai Yee Chee	10.4
Wee Chek Aik	8.6

Share Price Performance



	1M	**3M**	**12M**
Absolute (%)	8.0	93.9	108.8
Relative (%)	7.9	86.3	79.8

Pekat Group Berhad

A Solar and ELP Expert

Summary

- **Pekat is poised to ride onto the renewable energy growth and is well-equipped to capitalise onto the mushrooming data centers trend.**
- **We expect Pekat's earnings to hit record highs, with core net profit reaching RM20.9m and RM31.9m in FY24F and FY25F respectively, backed by potentially strong order book replenishment from RE initiatives, ELP solutions, and factoring in contribution from acquisition of switchgear business.**
- **We initiate coverage on Pekat with a BUY recommendation and TP of RM1.14 based on SOP valuation.**

Company Background

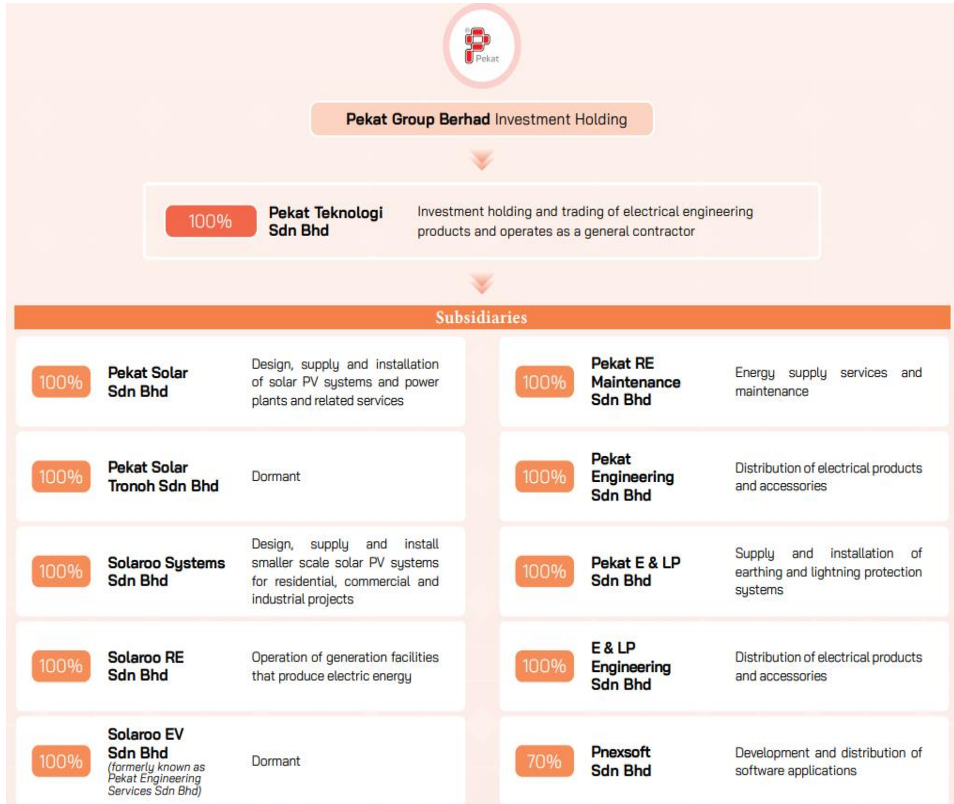
- Pekat Group Berhad (Pekat) was established on 5 August 1999 and listed on the Ace Market of Bursa Malaysia on 23 June 2021. The Group is primarily involved in three business pillars: provision of solar photovoltaic (PV) systems, provision of earthing and lightning protection (ELP) systems, and distribution of electrical products and accessories. As of 1QFY24, solar division contributed 63.6% of the total revenue, followed by trading division 20.7% and ELP division 15.7% respectively.

- Pekat started as a distributor of Furse ELP products and expanded by launching its own brand, "Pekat" in 2008. The Group also broadened its services to offer comprehensive ELP solutions for commercial and industrial (C&I) buildings, mixed developments, and infrastructure projects. With over 20 years of experience, Pekat is now recognised as a specialist subcontractor for ELP systems and remains a trusted ELP distributor.

- Pekat Solar was incorporated in 2010 and has been involved in the renewable energy (RE) industry for over 13 years. The Group provides comprehensive solar PV system solutions, including design, supply and installation, testing and commissioning, and operations and maintenance (O&M) for on-grid, off-grid, and hybrid solar PV systems, catering to both residential and commercial consumers. To date, Pekat Solar has completed over 1,700 solar projects, achieving a total installed capacity of up to 200.0MW.

- Pekat also engages in Power Purchase Agreements (PPAs) to generate long-term recurring income. The Group has two main revenue streams: asset owner of 30.0MW solar assets under the Corporate Green Power Programme (CGPP) and holds a 45.0% stake in MFP Solar Sdn Bhd that primarily engaged to undertake solar photovoltaic (PV) investment in Commercial and Industrial (C&I) rooftop solar projects in Malaysia. As of 1QFY24, the Group's associates contributed RM0.2m in profit sharing from solar electricity sales.

Corporate Structure



Source: Company

- **Management and shareholdings.** Pekat is led by co-founder and Managing Director, Mr. Chin Soo Mau, and CEO, Mr. Tai Yee Chee. Mr. Chin Soo Mau, whom possess a Higher National Diploma in Engineering from the UK and brings 30 years of experience in ELP systems and 14 years in solar PV. Mr. Tai Yee Chee holds a degree in Electrical and Electronic Engineering from the UK, has 29 years of experience in ELP systems. In regards to shareholding structure, Mr. Chin Soo Mau owns 34.9%, while Mr. Tai Yee Chee owns 10.4%.

Business Overview

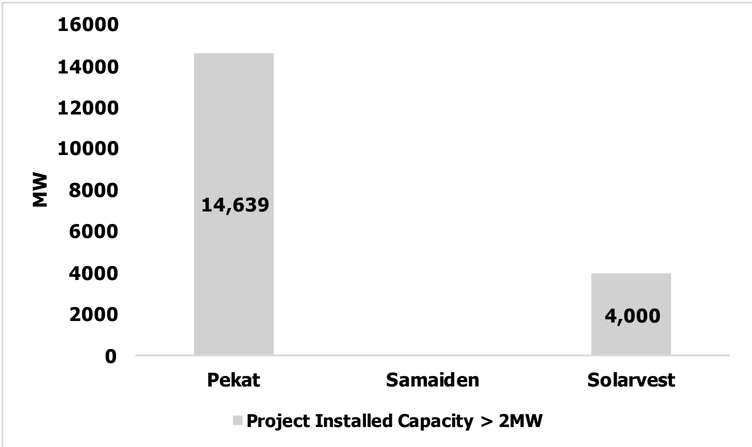
- **Business Model.** Pekat operates in three business segments: Solar, ELP, and Trading, catering to a wide array of sectors including industrial, commercial, residential, infrastructure, and community properties.

Business Segments	Explanation
Solar	Design, supply, and installing on-grid and off-grid solar PV systems and power plants, including testing, commissioning, and operations and maintenance services.
ELP	Supplying and installing ELP systems for buildings, facilities, and structures to protect from unintended electric current.
Trading	Distribution of electrical products and accessories of own brands and third-party brands. This includes ELP products and accessories, solar PV-related items, surge protection devices, and aviation warning light systems.

Source: Company, Apex Securities

- **Solar Division.** The Group offers comprehensive services, including design and engineering, procurement, construction and commissioning (EPCC), financing, project management, and maintenance for both on-grid and off-grid solar PV systems. As the first solar PV installer certified in energy management systems, Pekat has established stringent quality control processes, from procurement to after-sales service, ensuring delivery of reliable and high-quality solar energy solutions. This success has earned Pekat a strong reputation in the C&I segments, with a market share of c.10-15% over the years, resulting in consistent projects replenishment. Notably, Pekat has delivered five major projects, each with a minimum installed capacity of 2.0MW, totalling 14.0MW — the highest among its peers.

Standalone C&I projects with capacities exceeding 2MW



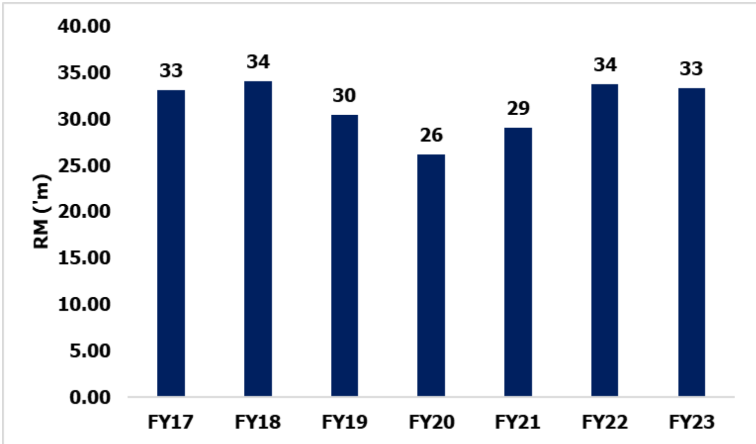
Source: Company, Apex Securities

- To foster residential solar PV adoption, Pekat offers customers flexible financing options, including SOLAR JV (Joint Venture) and SOLAR PPA (Asset Ownership & Leasing). This distinctive business model serves as a primary selling point, allowing the Group to aggressively capture market share, particularly within the residential sector. We believe these flexible financing options equips the Group with vibrant prospects, creating a competitive edge over other players. Offering these services requires (i) strong liquidity (as of 1QFY24, Pekat's gearing ratio stands at 0.1x), (ii) a solid track record (completed over 1,700 solar projects), and (iii) robust relationships with banks to facilitate refinancing (we estimate the cost of debt is below 3.5%).

- **ELP Division.** As a specialist provider of ELP solutions, Pekat covers nearly every aspect of the service, including project management, procurement, supply and installation of ELP systems, and testing and commissioning. Pekat has extensive experience in delivering high-profile projects and governmental infrastructure projects. Notably, Pekat has been deployed to deliver ELP solutions in TRX Signature Tower, Merdeka 118, MRT depot, and KLIA2, showcasing its ability to handle complex projects. Pekat also excels in providing ELP solutions for data centers (DCs), such as Bridge DCs, Keppel DCs, Yondr facilities, and AirTrunk facilities. With its early involvement in the DC market, Pekat is well-positioned to secure future opportunities in the booming DC market.

- With 23 years of proven expertise, Pekat has consistently replenished its order book, maintaining a solid revenue range of RM30.0m over the past six years. Historically, ELP projects typically required 12 to 36 months, especially for high-rise buildings. Since 2023, the Group has shifted its strategy towards fast-track projects, such as factories and C&I buildings, with timeframes of less than eight months. This approach ensures steady cash flow and provides greater flexibility in resource management, allowing allocation of manpower towards subsequent projects more efficiently.

ELP’s revenue trend



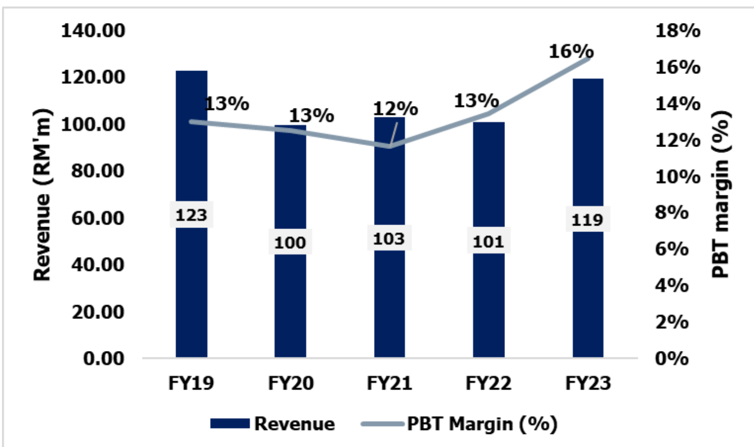
Source: Company, Apex Securities

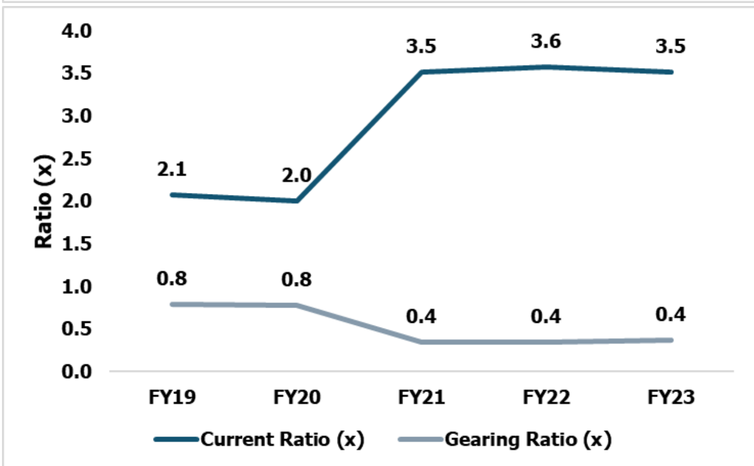
- **Trading Division.** Pekat is a well-known distributor in the industry since its inception. Current product portfolio includes ELP products and accessories, solar PV-related items, surge protection devices, and aviation warning light systems. Pekat also sells devices under own brand, primarily ELP-related products, certified by reputable professional bodies such as SIRIM, TÜV Rheinland, and Intertek, offering cost-effective yet high-quality options for its customers. To strengthen its niche, Pekat formed a subsidiary, Pnexsoft, to develop and distribute software applications. In 2023, Pekat successfully launched its own Pekat ELP Monitoring System, providing real-time surveillance of direct and indirect lightning strikes and earth resistance monitoring. These initiatives work synergistically with the Solar and ELP segments, enabling the Group to enjoy cost efficiencies by supplying quality products for internal use while maintaining stringent quality checks to uphold high standards.

- **Venture into switchgear business.** On 7 May 2024, Pekat signed a Memorandum of Understanding (MoU) with Apex Power Industry Sdn Bhd to acquire a stake in EPE Switchgear (M) Sdn Bhd. EPE Switchgear is regarded as one of Malaysia's largest manufacturers of medium voltage electrical switchgear, commanding c.30.0% market share. EPE provides a wide range of products and services for the generation, transmission and distribution sectors of the power, water supply projects, industrial construction, oil and gas sectors, and even in the solar PV systems offered by Pekat's solar division. Notably, EPE has a well-established customers portfolio including TNB, Forest City, MRT TRX, and Country Garden.

- According to Experian (subsidiary of RAM holdings), we gather EPE switchgear constantly generates revenue c.RM100.0m over the past five years, whilst PBT margins hovered above 10.0%. Balance sheet wise, EPE has a low gearing ratio of 0.4x and a current ratio of 3.5x based on FY23 data. We view the proposed acquisition favourably, allowing Pekat to penetrate into the growing trend of data centers which potentially generates strong earnings visibility over the foreseeable future.

ELP Historical Financial Performance

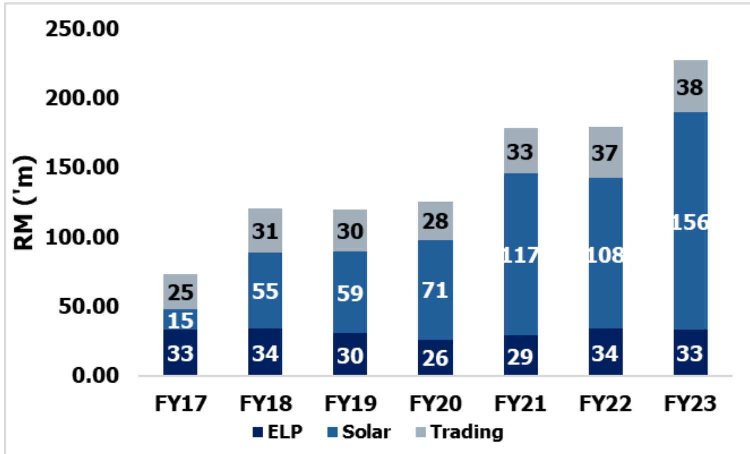




Source: Experian, Apex Securities

- **Solar division driving growth.** In 1QFY24, Solar division was the major earnings contributor, accounting to 63.6% of total revenue. This was followed by the Trading division at 20.7% and the ELP division at 15.7%. Government RE initiatives have spurred exceptional growth in the Solar division, with a six-year CAGR of 98.5% from FY17 to FY23. As of 1QFY24, the Group has an outstanding order book of RM184.0m, comprising c.RM100.0m from Solar division and the remainder from ELP solutions.

Revenue Breakdown



Source: Company, Apex Securities

- **Asset ownership.** Pekat also involved in asset ownership through two main revenue streams: (i) ownership of 30.0MW solar plants under the CGPP and (ii) 45.0% stake in MFP Solar Sdn Bhd. Pekat has secured 30.0MW of solar assets under CGPP, marking its entry into ground-mounted solar plants. We project these solar plants could generate up to RM2.3m in revenue for FY25F, assuming contribution commence in 2HFY25F. Meanwhile, profit-sharing from MFP Solar in FY23 contributed RM0.6m to Pekat's PBT. According to MFCB's 2023 Annual Report, MFP Solar has aggressively expanded its RE portfolio to 93.2MW, nearly quadrupling from the previous year. We anticipate this expansion will increase profit sharing to RM1.3m for Pekat's PBT in FY24E and FY25F, based on a 0.45x profit-sharing ratio and estimated COD.

CGPP list

Corporate Consumer	Capacity (MW)
CTRM Aero Composites S.B.	7.4
HICOM Automotive Manufacturers (M) S.B.	10.9
HICOM Diecastings S.B.	2.0
Motosikal dan Enjin Nasional S.B.	7.3
PHN Industry S.B.	2.4
Total	**30.0**

Source: Company, Apex Securities

PPAs Portfolio (MFP Solar)

No	Location/Consortium	Total Installed Capacity (MW)
	Malaysia	
	Perak	
1	Proton (Tanjung Malim)	12.1
2	CGPP (Tronoh)	46.5
	Selangor	
3	The Alice Smith Schools (Seri Kembangan)	0.3
4	Edenor Oleochemicals (Kuala Langat)	1.7
	Penang	
5	VAT Manufacturing (Batu Kawan)	5.0
6	Smith & Nephew Operations (Batu Kawan)	1.5
7	Flextronics Technology (Prai)	3.5
8	VAT Manufacturing Phase 2 (Batu Kawan)	1.3
	Johor	
9	Kee Fatt Industries (Kulai)	0.9
10	Flextronics International Management (Senai)	1.3
11	Pondersa Golf & Country Resort (Johor Bahru)	0.4
	Cluster Project	
12	Indah Water Konsortium	6.3
	Maldives	
	Cluster Project	
13	Fenaka	11.4
	Cambodia	
	Phnom Penh	
14	Oji Packaging	1.0
	Total	**93.2**

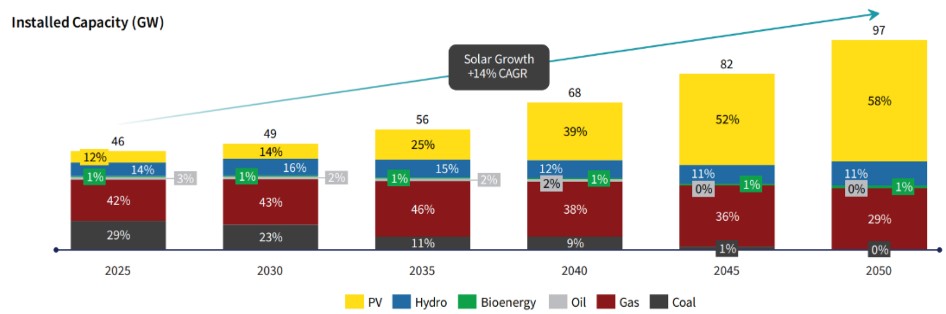
Source: Company, Apex Securities

Industry Overview

- **National Energy Transition Roadmap (NETR).** On 23 August 2024, Malaysia government launched the NETR as advancing the net-zero ambition with laying out a more aggressive 70.0% RE capacity mix target by 2050. To support this transition, six energy transition levers and ten flagship projects have been outlined, requiring an estimated total investment of approximately RM637.0bn.

  The roadmap highlighted a few key observations:
  1. No new coal plants development, leading to near-complete phase-out by 2045.
  2. Gas will serve as a transition fuel away from coal as the primary source for baseload power.
  3. 70.0% RE share by 2050 is primarily driven by solar PV with 59.0GW installed capacity.

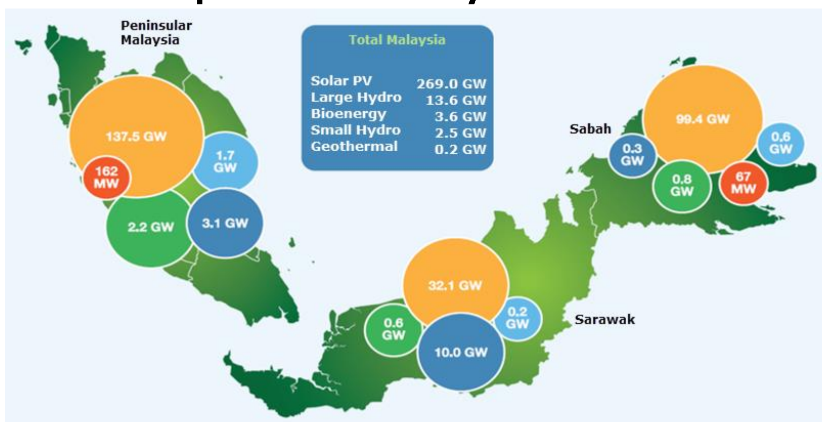
Projected power mix 2050



Source: NETR

- The RE capacity mix target by 2050 represents a significant push for energy transition, requiring the addition of over 50.0GW of RE capacity to the power system. Among the NETR RE capacity, solar is expected to play a prominent role in achieving the 2050 aspiration, with a target installed capacity of up to 59.0GW. One significant aspect highlighted in NETR is Malaysia's abundant solar PV potential, with 269.0 GW of potential resources out of a total of 290.0GW RE resources. Given Malaysia's geographical location near the equator, the country receives solar radiation at a direct 90-degree angle, resulting in dense solar radiation and high energy production per square meter. Therefore, solar energy is poised to play a crucial role in Malaysia's journey towards achieving its net-zero ambition.

RE resource potential in Malaysia



Source: SEDA

RE resource potential in Malaysia in table

Gigawatt (GW)							
Solar		Bioenergy		Location	Small Hydro	Large Hydro	Geothermal
Ground-mounted	210	Biomass	2.3	Peninsular	1.7	3.1	0.2
Rooftop	42	Biogas	0.7	Sabah	0.6	0.5	0.1
Floating	17	Solid Waste	0.5	Sarawak	0.2	10.0	0.0
Total	269	Total	3.6	Total	2.5	13.6	0.2

Source: SEDA, Apex Securities

- There are several initiatives aimed at promoting RE development, including the FiT programme, SELCO, NEM mechanism, LSS, and CGPP projects.

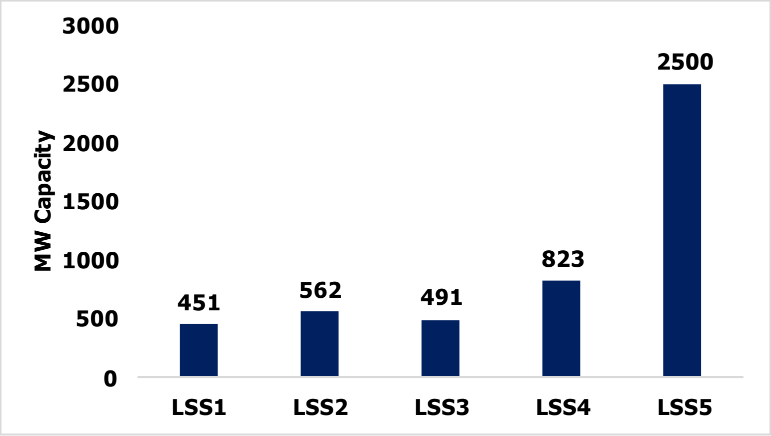
- **Feed-in Tariff (FiT).** FiT program began in 2004, allowing selected customers to export solar energy to the TNB grid and the quota has long been fulfilled for solar. FiT is being replaced by LSS auctions, NEM, and SELCO due to better cost efficiency. By 2021, SEDA had awarded FiT quotas totaling 174,672MW for biogas, biomass, and small hydro resources to 34 companies. In 2021 alone, FiT projects generated 1.35 TWh, comprising 33.0% solar PV, 12.0% biomass, 34.0% biogas, and 21.0% small hydropower.

- **Self-Consumption (SELCO).** SELCO scheme introduced in 2017 is available for solar PV system owners who intend to use the electricity generated for self-consumption purposes. Electricity generated from SELCO cannot be exported to the grid, limiting owners from securing compensation of excess energy generated. SELCO is part of the NEM program, emphasising self-consumption, with any surplus energy allowed to be exported and sold to the utility at a reduced rate. As of December 2020, 93.0MW capacity has been installed under the SELCO scheme.

- **Large-Scale Solar (LSS).** LSS is designed to accelerate the uptake of large -scale solar PV systems involved in 1-100M bidding process. LSS1 first started in 2017 with a 451.0MW allocation followed by LSS2 in 2019 with 562.0MW quota, LSS3 in 2021 with 491.0MW quota. Thereafter, LSS4 quota has scaled up to 823.0MW. On 24 April 2024, LSS program expanded further to the fifth bidding cycle with a massive 2.0GW allocation, surpassing the combined capacities of LSS1 to LSS3 (1.5GW). LSS5 is divided into four packages, allowing companies to bid based on their scale, with operations scheduled to commence in 2026. We reckon with 2.0GW allocation, this will potentially generate construction value of RM5.8bn and will keep EPCC players busy throughout 2026.

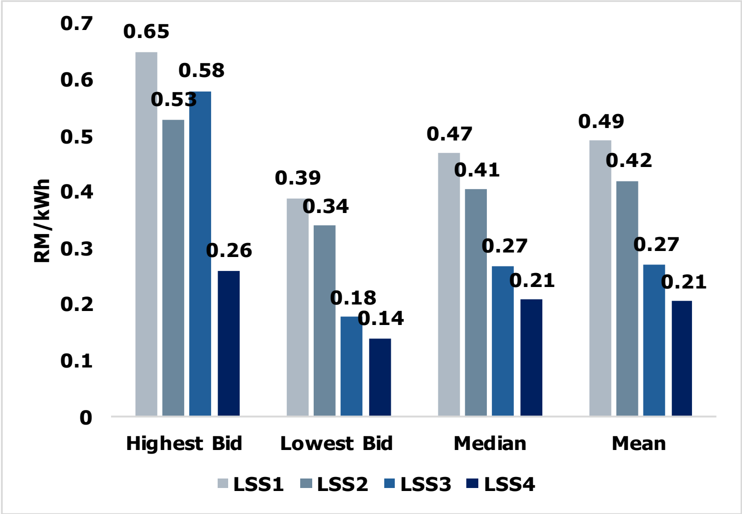
- Over the four auction cycles, there's been a consistent decline in mean, highest, lowest, and mode bids. LSS3 recorded bids at RM0.58/kWh, RM0.18/kWh, and RM0.27/kWh for mode and mean, respectively. LSS4 achieved the lowest bid cycle among all LSS cycles, with bids at -55.0%, -21.0%, -22.0%, and -24.0% change against LSS3, despite having the highest allocation quota ever with 823.0MW. We noted that decision-makers are more focused on project feasibility and viability rather than opting for the most economical option available as average mean bid of LSS3 and LSS4 is still way higher. Considering Malaysia's commitment to promoting RE affordability and attractiveness in the grid parity era, we anticipate bid rates for LSS5 will continue to decrease, potentially at c.0.17-0.20 sen/kWh.

Total quota LSS awarded



Source: EC, Apex Securities

Mean, Highest, Lowest, and Median Bids in LSS



Source: EC, Apex Securities

LSS5 Programme

Packages	Quota (MW)	Generation Capacity	Type	Eligibility
1	250	1MW to 10MW	Rooftop or Ground Solar Power Plant	Companies with at least 51% Bumiputera ownership
2	250	10MW to 30MW	Rooftop or Ground Solar Power Plant	Companies with at least 51% Bumiputera ownership
3	1000	30MW to 500MW	Rooftop or Ground Solar Power Plant	Companies with at least 51% domestically owned ownership
4	500	10MW to 500MW	Floating solar power plants	Companies with at least 51% domestically owned ownership

Source: EC, Apex Securities

- **Net Energy Metering (NEM).** The NEM program in Malaysia has evolved significantly over the years, showcasing the country's dedication to promoting RE adoption.

Summary of NEM evolution in table

NEM	Summary
1.0	• Total capacity of 500 MW • The scheme prioritized self-consumption, allowing surplus electricity to be exported and sold to the utility at a displaced cost.
2.0	• Introduced in Oct 18, allowed excess solar electricity to be compensated on a one-on-one basis, effective from early 2019. • Total capacity of 500 MW • Saw a significant increase in rooftop solar PV capacity installations, with 94 MW installed by the end of Nov 19, compared to 14 MW in NEM 1.0.
3.0	• Announced on Dec 20, split into three categories. • Total capacity of 1050 MW • NEM Rakyat: Targeted at residential customers, with 150 MW capacity. • NEM GoMEn: Aimed at lowering electricity bills of government buildings and offices, with a 100 MW quota. • NEM NOVA: Targeted at commercial and industrial consumers affected by the COVID-19 pandemic, with a 800 MW allocation.
4.0	• Announced in Jan 24, with additional 400MW quota for residential (100MW) and C&I (300MW) segments offering more opportunities for accelerating up the installed capacity. • As 1H24, NEM quota was further upsized to: residential (350MW), C&I (1100MW), and Government (100MW). Alongside this, the Solar for Rakyat Incentive Scheme (SolaRIS) was lauched, providing a rebate of RM1,000/kWac up to RM4,000, expediting the ambitious process.

Source: SEDA, Apex Securities

- **Corporate Green Power Purchase (CGPP).** CGPP agreement is a virtual power purchase arrangement designed for corporate consumers to procure solar energy from solar power producers (SPPs) virtually. A total of 32 successful applicants have secured capacity, with listed companies claiming 80.0% of the allocation, equivalent to 643.0MW out of the total 800.0MW. Some of key winners in solar EPCC projects were Solarvest (90.0MW), Sunview (60.0MW), Samaiden (43.3MW), and Pekat (30.0MW), in addition to TENAGA's 90.0MW.

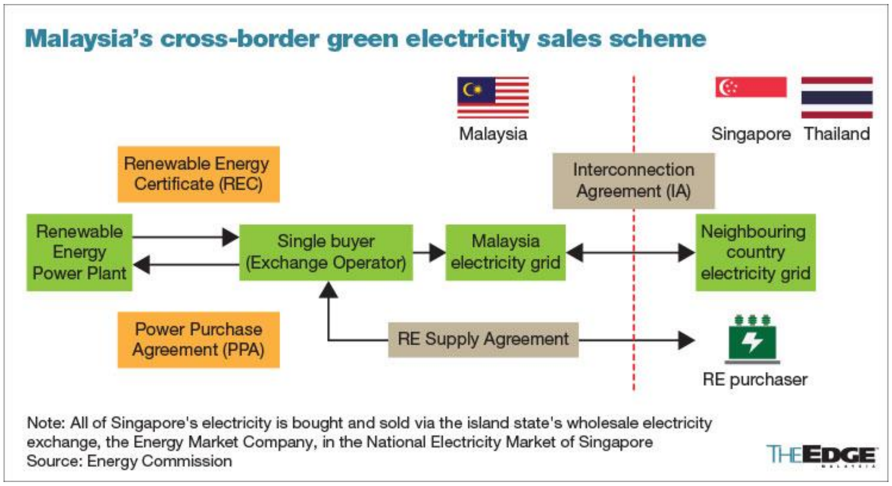
- This allocation offers significant opportunities for EPCC players to capitalise on CGPP plant constructions. We reckon total EPCC construction value for 800.0MW capacity is c.RM2.2bn, which could keep EPCC players busy until 2025. CGPP projects offers better margins due to availability for players to select own offtaker. As of April 2024, Single Marginal Price at 22.9sen/kWh, is higher than the LSS4 bids range of 18 to 20 sen/kWh for installations between 30.0MW to 50.0MW. We anticipate that construction jobs will flow to EPCC players starting from 3Q/4Q2024, aligning with the commitment to start COD by the end of 2025.

- **RE Export.** In May 2023, Malaysia lifted the export ban on renewable energy (RE), enabling cross-border RE trade to meet strong demand in Singapore. On 24 April 2024, the government launched Energy Exchange Malaysia (Enegem) with a pilot phase exporting 100.0MW of RE to neighbouring countries using existing capacity and infrastructure. The RE export tariff rate will be determined through an auction model where the highest bid is chosen.

- Regulated electricity tariff in Singapore stands at SGD0.2979/kWh before GST (equivalent to RM1.046/kWh) for 1H2024, while Malaysia's average electricity tariff for March 2024 was approximately RM0.20/kWh. Currently, local RE players will not directly benefit from the higher prices gained, as any profits from this gap will be channelled to the government's energy transition fund. To fulfil Singapore's requirement of maintaining a 75.0% load factor for electricity supply, 450MW of solar generation capacity supported by 1.5GW of battery storage is required.

- According to Datuk Seri Fadillah Yusof, the Minister of Energy Transition and Water Transformation, Enegem's energy mix in pilot phase will include at least 30.0% solar-generated power. Although hydroelectricity remains the largest RE power generation source accounting to c.20.0% in Malaysia, preference for solar energy is on the rise due to concerns about river ecology, displacement of residents, and greenhouse gas emissions from flooded forests. We believe solar energy will gradually become a key component in the energy mix and will drive further investment in cross-border RE trade, creating long-term demand for RE contractors.

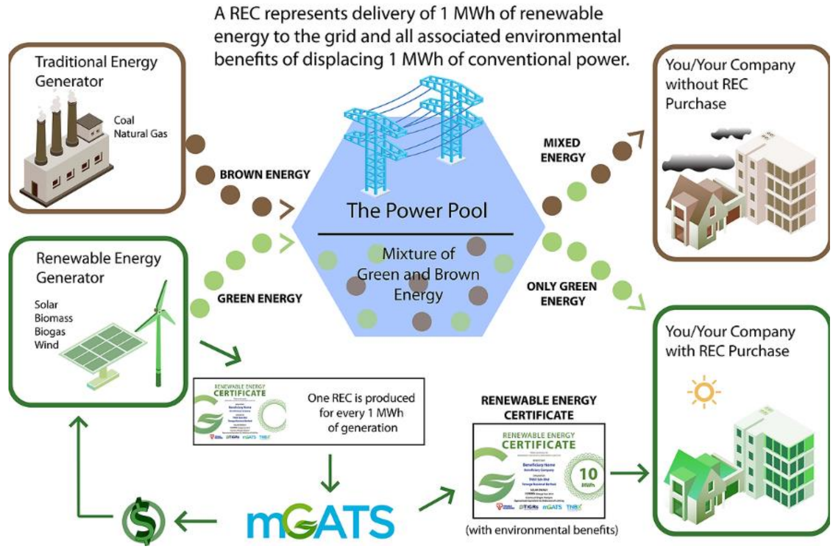
Cross-border RE trade flow



Source: The Edge

- **Renewable Energy Certificates (RECs).** RECs are market instruments representing 1.0MWh of renewable energy generated and delivered to the grid. This mechanism enables REC owners to certify that the electricity consumed is from renewable sources, aligning with best practices to reduce carbon footprints. In April 2024, the government introduced the Green Electricity Tariff (GET), offering quotas of up to 6,600GWh at rates of 10 sen/kWh for low-voltage users and 20 sen/kWh for medium and high-voltage users. Subscribers receive Malaysia RECs (mREC), and the GET is applied on top of normal tariff rates. Despite the absence of direct financial benefits, subscription levels reached up to 41.2% as of 4 July 2024, indicating strong demand from corporate consumers. In May 2024, the government launched commercial trading of RECs through the Malaysia Green Attribute Trading System operated by TENAGA. At the present stage, RECs cannot be transferred abroad, aligning with Malaysia's focus on promoting domestic RE utilisation and sustainability.

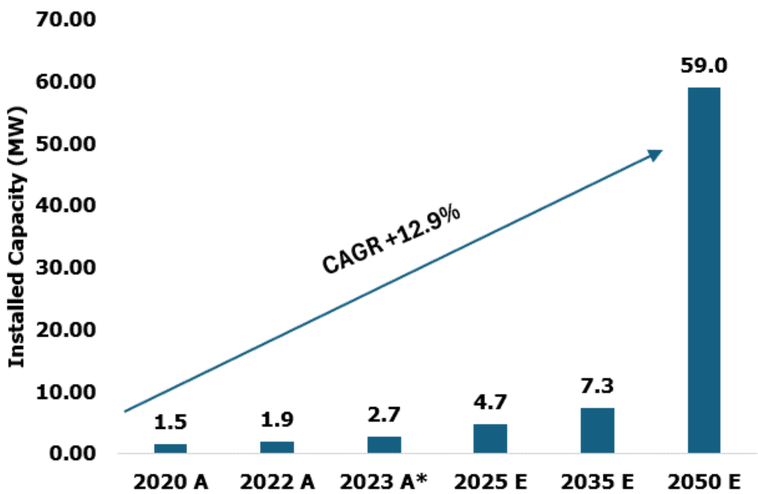
REC process flow



Source: TNBX

- **Solar power shining brighter.** Combining MyRER's goals of 2.7GW and 7.3GW with NETR's projection of 59.0GW, Malaysia's solar capacity is expected to grow by 12.9% annually from 2025. This underscores the requirement for Malaysia government to allocate at least 2.2GW/year in solar energy to support the shift towards a greener economy. We reckon the LSS programme and similar large-scale initiatives will be rolled out gradually, serving as a crucial arm to achieve nation's RE goals. The new added category of floating solar with a quota of up to 500.0MW under LSS5 further signify government's commitment to expanding solar PV deployment.

Malaysia Historical and Target Solar Installed Capacity



Source: MyRER, NETR, Apex Securities

2023 A as at Aug 2023.*

Investment Highlights

- **Trusted Solar EPCC player.** As the first solar PV installer certified in energy management systems, Pekat has established a proven track record by completing over 1,700 projects, totalling up to 200.0MW of installed capacity. Thanks to their stringent quality control measures from procurement to after-sales, Pekat remains a favored solar EPCC provider, especially in the C&I segment. For C&I alone, Pekat commands an estimated 10.0-15.0% market share in recent years and has completed five major projects with a combined capacity of 14.0MW, the highest among its peers for standalone 2.0MW projects.

- **In-house solar financing solution.** A key factor that sets Pekat apart in the solar industry is their in-house solar financing programs, Solar JV and Solar PPA. These programs provide customers with flexible financing options, allowing them to choose based on their financial capabilities. Customers can either opt for zero capital expenditure and repay Pekat through electricity sales, or enter into a joint venture mode. Currently, only one solar EPCC player, Solarvest, has adopted similar financing models. We view this as a significant value-added service that benefits Pekat, as offering these financing options requires strong liquidity (1QFY24 gearing ratio of 0.06x), a solid track record (over 1,700 completed solar projects), and robust financing relationships to facilitate refinancing (estimated cost of debt below 3.5%).

- **An ELP solution expert.** Apart from solar, Pekat is a well-known specialist subcontractor for ELP solutions, having completed over 1,000 projects in Malaysia with a 60.0% market share. Pekat's extensive experience includes government infrastructure projects like Merdeka 118, MRT depot, and KLIA2, as well as ELP solutions for data centers such as Bridge DCs, Keppel DCs, Yondr facilities, and AirTrunk facilities. With upcoming massive FDI in Malaysian DCs from companies like Microsoft (RM10.0bn), Google (RM9.0bn), and ByteDance (proposed RM10.0bn), Pekat's early involvement in the DC market is well positioned to capture future opportunities.

- **Priorities fast-track projects.** Pekat prioritise onto fast-track projects with time frames of less than eight months. In the ELP division, Pekat focuses on factories and C&I buildings rather than high-rise projects, which can take up to a year. In the Solar division, Pekat place greater emphasis onto rooftop installations over ground-mounted projects, as they require less installation time and offer better margins. These strategies enable the Group to consistently maintain an order book of c.RM200.0m and ensure steady cash reserves. As of 1QFY24, the Group has secured an order book of RM184.0m, with RM84.0m from ELP solutions and the remainder from solar projects. Up to 70.0% of these are fast-track projects.

- **Acquisition of EPE Switchgear.** Recent announcement to acquire a stake in EPE Switchgear (M) Sdn Bhd (EPE) will further enhance Pekat's future prospects. EPE is a well-established manufacturer of medium-voltage switchgear, commanding c.30.0% market share and serves notable clients such as TNB, Forest City, MRT TRX, and Country Garden. According to Experian, EPE has consistently delivered above RM100.0m in revenue over the past 5 years with PBT margins above 10.0%. We expect the acquisition to be earnings accretive over the foreseeable future, premised to i) mushrooming of data center, and ii) the usage of key components in power and RE substations, which reduces reliance on subcontractors that aligns with Pekat's core business.

- **Recurring income from RE portfolio.** Pekat derives recurring income from two sources: i) 45.0% stake in MFP Solar Sdn Bhd, a subsidiary of MFCB, and ii) ownership of 30.0MW solar plants under the Corporate Green Power Programme (CGPP). As of FY23, profit-sharing from its associate contributed RM0.6m to Pekat's PBT and is expected to ramp up, supported by MFCB's aggressive expansion of their renewable energy (RE) portfolio. In regards to solar assets under CGPP, we anticipate a contribution to kick in only in follow year, with projected revenue contribution of RM2.3m for FY25F, assuming COD by the end of 2025.

- **Potential sizeable orderbook replenishment.** Over the near term, we expect Pekat's order book replenishment to come primarily from the tender of 800.0MW CGPP, which we estimate Pekat could secure up to RM200.0m in EPCC contracts. Separately, recent RE initiatives include: i) 2.0GW of LSS5 may potentially bring EPCC job value amounting to RM5.8bn, ii) 450.0MW allocated under NEM initiatives, iii) cash rebates up to RM4,000 under the SolaRIS, and iv) extension of the Green Investment Tax Allowance (GITA) until 31 December 2026, further reinforce the RE industry outlook and is expected to keep Pekat busy until 2026.

Financial Highlights

- In 1QFY24, Pekat achieved a 31.0% yoy increase in PBT to RM5.7m, primarily due to higher revenue across all business segments: the Solar division rose by 23.2% yoy, the ELP division by 7.2% yoy, and the Trading division by 38.0% yoy. Improvement in Solar division was driven by a significant uptick in residential rooftop installations (+190.0% yoy) and the completion of a 10.0MW LSS4 power plant. Thanks to ongoing solar module price deflation, the core margin further improved from 6.5% to 6.6%. In terms of the balance sheet, Pekat operates in a healthy financial position, holding a net cash position of RM23.8m and a low gearing ratio of 0.17x. We view these efforts positively through lower finance costs and allows room to tap into external financing for future capex requirements.

- Looking forward, we project FY24F/FY25F revenue growth at 37.0%/38.0%, translating into core net profit at RM20.9m/RM31.9m. Our earnings projections are based on the following assumptions: (i) recognition from an unbilled order book of RM180.0m (RM100.0m from the Solar division, RM80.0m from the ELP division), (ii) ongoing tenders from CGPP, expected to secure approximately RM200.0m, (iii) a slice from 2.0GW quotas from LSS5, potentially yielding RM5.8bn in EPCC jobs, (iv) aggressive replenishment of the order book from residential and C&I, backed by unique financing solutions, (v) ongoing efforts to replenish order books from fast-track projects in ELP solutions, (vi) stability in new revenue stream from impending acquisition of EPE switchgear, and (vii) maiden contributions from CGPP solar assets.

Valuation & Recommendation

- We initiate coverage on Pekat Group Berhad with a **BUY** recommendation and a target price of RM1.14 based on a Sum-of-Parts (SOP) valuation. We apply a 30.0x P/E multiple to the EPCC contribution, which represents a slight discount to the 35.0x P/E assigned on Solarvest. The ELP, Trading EPE segments are pegged to 15.0x P/E multiple which is at -1.0SD to two-year historical mean average. Meanwhile, the solar assets are derived using the DCF methodology, with key assumptions WACC of 5.8%.

- We like Pekat based on i) synergy business model with the ELP and Trading segments consistently delivering c.RM30.0m each, ii) attractive in-house solar financing business, catering to residential and C&I solar adoption, iii) early involvement in the DC market, positioning well for mushrooming DC trends, iv) acquisition of the switchgear business, allowing further penetration into power sectors v) consistent maintaining order book at RM200.0m level, with an emphasis on fast-track projects, vi) strong fundamentals, holding a net cash position of RM23.8m and a low gearing ratio of 0.2x, and vii) long-term RE industry growth potential from the rollout of NETR.

Peers Comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x) FY23	P/E (x) FY24F	P/E (x) FY25F	Gross DY (%)	Revenue RM 'm	Net Income RM 'm
Pekat Group Bhd	**MAIN**	**Dec**	**0.95**	**612.7**	**32.4**	**29.4**	**19.2**	**1.1**	**238.3**	**14.3**
Samaiden Group Bhd	MAIN	Jun	1.29	539.9	51.7	59.8	42.1	0.4	215.2	13.4
Solarvest Holdings Bhd	MAIN	Mar	1.63	1134.9	55.6	32.5	22.0	N/A	492.6	32.3
Sunview Group Bhd	MAIN	Mar	0.74	381.0	37.0	54.3	47.9	N/A	465.9	9.6
Avg ex-Pekat Group Berhad					**48.1**	**48.9**	**37.3**	**0.4**	**391.3**	**18.4**

Sunview P/E multiple fotrecasts based on Bloomberg consensus expectations
Solarvest's P/E ratio for FY24 is based on actual EPS

Source: Bloomberg, Apex Securities

Key Risks

- **Fluctuation in solar module costs.** Solar PV modules and inverters are the biggest cost drivers in a solar PV project, making up about 50.0% of total cost. Should ASP of solar modules prices rise, Pekat's margins will be dampened.

- **Heavy reliance on government initiatives.** Potential policy changes, reduced subsidies or incentives, alterations in feed-in tariffs, regulatory hurdles, and market distortions may impact rollout of future RE initiates under government initiatives.

- **Intense market competition.** Low barriers to entry may attract new entrants into the industry, and thereby potentially resulting further margin erosion to existing players due to stiffer competition.

Financial Highlights

Income Statement

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	**178.5**	**179.2**	**227.5**	**311.7**	**430.1**
Gross Profit	**45.5**	**44.8**	**53.5**	**75.9**	**111.1**
EBITDA	**18.4**	**17.4**	**20.3**	**35.0**	**52.7**
Depreciation & Amortisation	-0.8	-1.5	-1.7	-5.3	-6.3
EBIT	**17.6**	**15.8**	**18.7**	**29.7**	**46.4**
Net Finance Income/ (Cost)	-0.6	-1.4	-1.1	-3.7	-5.9
Associates & JV	0.5	0.0	0.6	1.3	1.3
Pre-tax Profit	**17.4**	**14.4**	**18.1**	**27.3**	**41.8**
Tax	-4.8	-4.4	-4.4	-6.5	-10.0
Profit After Tax	**12.6**	**10.0**	**13.8**	**20.8**	**31.9**
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	**12.6**	**10.0**	**13.8**	**20.8**	**31.9**
Exceptionals	-0.4	-0.1	0.3	0.0	0.0
Core Net Profit	**12.3**	**9.9**	**14.1**	**20.9**	**31.9**

Key Ratios

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	10.3%	9.7%	8.9%	11.2%	12.3%
EBIT margin	9.8%	8.8%	8.2%	9.5%	10.8%
PBT margin	9.8%	8.1%	8.0%	8.8%	9.7%
PAT margin	7.1%	5.6%	6.0%	6.7%	7.4%
NP margin	7.1%	5.6%	6.0%	6.7%	7.4%
Core NP margin	6.9%	5.5%	6.2%	6.7%	7.4%
Dividend yield	0.0%	0.0%	1.1%	1.6%	2.4%
ROE	10.6%	7.7%	10.1%	17.8%	23.8%
ROA	6.3%	5.3%	7.5%	7.1%	8.7%
Net gearing	Net Cash	Net Cash	Net Cash	27.1%	29.9%

Valuation

Sum of Parts (SOP)	Equity Value (RM' m)	Valuation method
EPCC	463.6	30x FY25F PER
ELP	61.7	15x FY25F PER
Trading	46.7	15x FY25F PER
EPE	129.6	15x FY25F PER
Solar assets	29.3	WACC = 5.8%
Proceeds from exercise of warrants/ESOS	0.0	
SOP Value	730.9	
Enlarged share base (m share)	645.0	
Fair Value (RM)	**1.14**	

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	42.9	29.1	27.0	27.5	53.7
Receivables	35.4	47.9	55.0	93.6	104.8
Inventories	34.3	25.6	24.9	48.7	53.6
Other current assets	57.9	51.9	39.2	39.4	59.0
Total Current Assets	**170.5**	**154.5**	**146.1**	**209.2**	**271.1**
PPE	20.8	23.3	23.4	69.9	82.3
Other non-current assets	9.2	11.8	12.8	12.8	12.8
Total Non-current assets	**30.0**	**35.1**	**36.3**	**82.7**	**95.2**
Short-term Debt	25.3	19.4	1.0	11.8	18.7
Payables	39.7	14.5	27.0	93.6	104.8
Other Current Liabilities	12.4	21.9	14.1	19.7	31.4
Total Current Liabilities	**77.4**	**55.8**	**42.1**	**125.1**	**155.0**
Long-term Debt	2.5	1.6	0.6	47.3	74.9
Other non-current liabilities	1.2	2.7	2.9	2.9	2.9
Total Non-current Liabilities	**3.6**	**4.3**	**3.5**	**50.2**	**77.7**
Shareholder's equity	119.4	129.4	136.7	116.5	133.4
Minority interest	0.1	0.1	0.1	0.1	0.2
Total Equity	**119.4**	**129.5**	**136.8**	**116.7**	**133.6**

Cash Flow

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Pre-tax profit	**17.4**	**14.4**	**18.1**	**27.3**	**41.8**
Depreciation	0.2	0.2	0.2	0.0	0.0
Changes in working capital	-10.4	-31.2	11.2	9.5	-12.7
Others	-4.0	-2.3	-3.0	1.3	1.0
Operating cash flow	**3.2**	**-18.9**	**26.6**	**38.1**	**30.1**
Net capex	-0.8	-1.6	-0.7	-42.7	-18.7
Others	-26.2	16.5	0.0	-37.4	1.4
Investing cash flow	**-26.9**	**14.9**	**-0.7**	**-80.1**	**-17.4**
Dividends paid	0.0	0.0	-6.4	-9.8	-15.0
Others	36.9	-10.0	-9.7	52.3	28.4
Financing cash flow	**36.9**	**-10.0**	**-16.2**	**42.5**	**13.4**
Net cash flow	**13.1**	**-14.0**	**9.7**	**0.5**	**26.2**
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	15.1	28.2	14.2	23.9	24.4
Ending cash	**28.2**	**14.2**	**23.9**	**24.4**	**50.6**

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

SECTOR RECOMMENDATIONS
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

DISCLAIMER