

**Tan Sue Wen**

(603) 7890 8888 (ext 2095)

[suewen.tan@apexsecurities.com.my](mailto:suewen.tan@apexsecurities.com.my)

**Recommendation:** **BUY**

**Current Price:** **RM 0.975**

**Previous Target Price:** **RM 1.14**

**Target Price:** **RM 1.20** ↑

**Upside/Downside:** **23.1%**

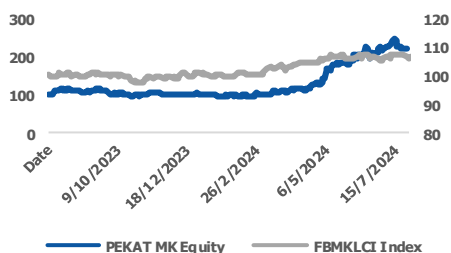
**Stock information**

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)	628.8
52-Week Price Range (RM)	0.395-1.06
Beta (x)	1.0
Free float (%)	31.8
3M Average Volume (m)	3.9
3M Average Value (RM' m)	3.2

**Top 3 Shareholders (%)**

Chin Soo Mau	34.9
Tai Yee Chee	10.4
Wee Chek Aik	8.3

**Share Price Performance**



	1M	3M	12M
Absolute (%)	1.6	78.9	121.6
Relative (%)	-0.1	73.6	98.0

## Pekat Group Berhad

### Marking footprint into power systems segment

#### Summary

- Pekat entered into a SPA to acquire 60.0% stake in EPE Switchgear, marking its entry into the power systems division.
- EPE Switchgear is one of the key players indirectly benefiting from the growing DC trend.
- We reiterate our BUY recommendation with an upgraded target price of RM1.20 by pegging by sum-of-parts (SOP) valuation.

#### Company Update

- **Acquisition details.** Pekat entered into a Sales and Purchase Agreement (SPA) with Apex Power Industry to acquire a 60.0% stake in EPE Switchgear. The acquisition comes with an Aggregated Profit Guarantee of RM48.0m over three financial years, targeted to record RM16.0m/annum. The acquisition, valued at RM96.0m, will be funded via c.RM65.0m through external borrowings, with the remainder sourced internally. We deem the acquisition price tag fair, based on a BV of 0.92x, with EPE reporting a three-year CAGR of 24.0% in net profit, reaching RM14.8m in FY23. The acquisition is expected to be completed by the end of Nov 2024, on the back of the 90-day SSA condition.
- **EPE Switchgear.** EPE Switchgear is one of Malaysia's largest manufacturers of medium voltage (MV) electrical switchgear, commanding c.30.0% market share. EPE has a well-established customers portfolio including local and overseas clients, notably appointed as one of the handful vendors of MV switchgear and transformers by TNB. Based on 7MFY24, EPE generated RM14.9m in PAT and enjoys a margin of 15.9%.
- **Power distribution equipment landscape.** To achieve the nation's goal of 70.0% renewable energy capacity by 2050 under the Net Energy Transition Roadmap (NETR), Malaysia is required to invest RM420.0bn from 2023 to 2050 to upgrade its grid infrastructure. Of this amount, 52.4% will be allocated for distribution, 28.6% for transmission, and the rest for battery energy storage systems. TNB has announced plans to invest an additional RM35.0bn between 2025 and 2030 to future-proof the power grid, on top of RM54.0bn allocated for other grid investments over the same period. This brings TNB's total investment in Malaysia's national grid to RM90.0bn over five years. Capital expenditure in the power grid will create a significant demand for power distribution equipment, directly benefiting the demand for switchgear from EPE Switchgear.
- **DCs Landscape.** Data Centers (DCs) industry growth is expected to be robust, projected at six-year CAGR of 14.0%, reaching US\$3.97bn by 2029. Future growth will be supported by (i) Malaysia's central location within ASEAN, (ii) strong fibre connectivity, and (iii) affordable land prices compared to neighbouring Singapore. Major FDIs from global tech giants, including Microsoft (RM10.0bn), Google (RM9.0bn), and ByteDance (proposed RM10.0bn), with further DC investments likely to be phased in over the coming years are expected to drive demand.

- **DC cost breakdown.** Based on channel checks, cost of constructing a DC in Malaysia is broken down by c.45.0% to power systems, 30.0% to cooling systems, and the remaining portion to other components. This allocation can vary depending onto the number of racks installed; more racks increase the proportion for other components and vice versa. Among power systems, UPS and generators account for about half of the expenditure, while c.25.0% is dedicated to switchgear. The number of switchgear units required depends on the designed power density — higher power density requires more switchgear.
- **Our views.** We opine that EPE Switchgear is well positioned (i) being one of the handful of vendors and manufacturers appointed by TNB, (ii) having a solid track record with over five decades of market presence, (iii) maintaining high-standard quality backed by various government registrations and certifications, and (iv) capability to undertake and complete projects in a timely manner in order to capitalise onto the upgrading grid trend and DCs, which indirectly creates a sustainable demand for MV switchgear.
- **Valuation.** We are revising our FY24F/FY25F earnings projections taking into account of the acquisition details. We trimmed our FY24F core net profit forecast by 7.2% to RM19.4m, as the acquisition took longer-than-anticipated for completion. We expect the full contribution to be reflected in FY25F, bringing the Group's revenue to a new high, surpassing RM500.0m, while core net profit is forecasted at RM29.0m.
- We believe valuations at current price is still undemanding. We reiterate our **BUY** recommendation on Pekat with a revised target price from RM1.14 to RM1.20, based on a sum-of-parts (SOP) valuation.
- We favour Pekat for its i) synergistic business model with the ELP and Trading segments consistently delivering topline of c.RM30.0m each, ii) attractive in-house solar financing business, catering to residential and C&I solar adoption, iii) lucrative margins from the EPE, benefiting from long-term grid upgrades and DCs trends iv) consistently maintaining order book at RM200.0m level, with an emphasis on fast-track projects, v) strong fundamentals equipped with healthy balance sheet post-acquisition of EPE as we project net gearing to stay below 0.6x, and vi) long-term RE industry growth potential from the rollout of NETR.
- **Risks.** (i) Acquisition taking-longer-than-expected, (ii) failing to fulfil the conditions of the SSA (iii) reversal of solar module prices and (iv) intense market competition.

**Financial Highlights**
**Income Statement**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
<b>Revenue</b>	<b>178.5</b>	<b>179.2</b>	<b>227.5</b>	<b>302.7</b>	<b>503.4</b>
<b>Gross Profit</b>	<b>45.5</b>	<b>44.8</b>	<b>53.5</b>	<b>75.1</b>	<b>132.9</b>
<b>EBITDA</b>	<b>18.4</b>	<b>17.4</b>	<b>20.3</b>	<b>36.4</b>	<b>74.9</b>
Depreciation & Amortisation	-0.8	-1.5	-1.7	-5.9	-17.6
<b>EBIT</b>	<b>17.6</b>	<b>15.8</b>	<b>18.7</b>	<b>30.4</b>	<b>57.3</b>
Net Finance Income/ (Cost)	-0.6	-1.4	-1.1	-2.6	-7.0
Associates & JV	0.5	0.0	0.6	0.6	0.6
<b>Pre-tax Profit</b>	<b>17.4</b>	<b>14.4</b>	<b>18.1</b>	<b>28.4</b>	<b>50.9</b>
Tax	-4.8	-4.4	-4.4	-6.8	-12.2
<b>Profit After Tax</b>	<b>12.6</b>	<b>10.0</b>	<b>13.8</b>	<b>21.6</b>	<b>38.7</b>
Minority Interest	0.0	0.0	0.0	1.6	9.2
<b>Net Profit</b>	<b>12.7</b>	<b>10.0</b>	<b>13.7</b>	<b>19.9</b>	<b>29.5</b>
Exceptionals	0.1	-0.9	-0.6	-0.6	-0.6
<b>Core Net Profit</b>	<b>12.8</b>	<b>9.1</b>	<b>13.2</b>	<b>19.4</b>	<b>29.0</b>

**Key Ratios**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	10.3%	9.7%	8.9%	12.0%	14.9%
EBIT margin	9.8%	8.8%	8.2%	10.0%	11.4%
PBT margin	9.8%	8.1%	8.0%	9.4%	10.1%
PAT margin	7.1%	5.6%	6.0%	7.1%	7.7%
NP margin	7.1%	5.6%	6.0%	6.6%	5.9%
Core NP margin	7.1%	5.1%	5.8%	6.4%	5.8%
Dividend yield	0.0%	0.0%	1.0%	1.5%	2.2%
ROE	10.6%	7.8%	10.0%	17.5%	21.3%
ROA	6.3%	5.3%	7.5%	6.2%	7.8%
Net gearing	Net Cash	Net Cash	Net Cash	56.1%	38.1%

**Valuation**

Sum of Parts (SOP)	Equity Value (RM' m)	Valuation method
EPCC	469.8	30x FY25F PER
ELP	61.2	15x FY25F PER
Trading	47.8	15x FY25F PER
Power Distribution	160.4	15x FY25F PER
Solar assets	29.3	WACC = 5.8%
Proceeds from exercise of warrants/ESOS	0.0	
SOP Value	768.5	
Enlarged share base (m share)	645.0	
<b>Fair Value (RM)</b>	<b>1.20</b>	

Source: Company, Apex Securities

**Balance Sheet**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	42.9	29.1	27.0	34.3	53.8
Receivables	35.4	47.9	55.0	85.1	95.3
Inventories	34.3	25.6	24.9	40.2	44.2
Other current assets	57.9	51.9	39.2	39.4	61.0
<b>Total Current Assets</b>	<b>170.5</b>	<b>154.5</b>	<b>146.1</b>	<b>199.0</b>	<b>254.2</b>
PPE	20.8	23.3	23.4	108.2	109.3
Other non-current assets	9.2	11.8	12.8	12.9	13.1
<b>Total Non-current assets</b>	<b>30.0</b>	<b>35.1</b>	<b>36.3</b>	<b>121.1</b>	<b>122.4</b>
Short-term Debt	25.3	19.4	1.0	19.7	21.3
Payables	39.7	14.5	27.0	85.1	95.3
Other Current Liabilities	12.4	21.9	14.1	19.7	32.6
<b>Total Current Liabilities</b>	<b>77.4</b>	<b>55.8</b>	<b>42.1</b>	<b>124.4</b>	<b>149.2</b>
Long-term Debt	2.5	1.6	0.6	78.6	85.4
Other non-current liabilities	1.2	2.7	2.9	3.0	3.1
<b>Total Non-current Liabilities</b>	<b>3.6</b>	<b>4.3</b>	<b>3.5</b>	<b>81.6</b>	<b>88.5</b>
Shareholder's equity	119.4	129.4	136.7	112.3	128.0
Minority interest	0.1	0.1	0.1	1.8	10.9
<b>Total Equity</b>	<b>119.4</b>	<b>129.5</b>	<b>136.8</b>	<b>114.1</b>	<b>138.9</b>

**Cash Flow**

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
<b>Pre-tax profit</b>	<b>17.4</b>	<b>14.4</b>	<b>18.1</b>	<b>28.4</b>	<b>50.9</b>
Depreciation	0.2	0.2	0.2	0.0	0.0
Changes in working capital	-10.4	-31.2	11.2	18.0	-12.6
Others	-4.0	-2.3	-3.0	1.2	11.9
<b>Operating cash flow</b>	<b>3.2</b>	<b>-18.9</b>	<b>26.6</b>	<b>47.6</b>	<b>50.1</b>
Net capex	-0.8	-1.6	-0.7	-42.7	-18.7
Others	-26.2	16.5	0.0	-58.4	0.5
<b>Investing cash flow</b>	<b>-26.9</b>	<b>14.9</b>	<b>-0.7</b>	<b>-101.1</b>	<b>-18.2</b>
Dividends paid	0.0	0.0	-6.4	-9.4	-13.9
Others	36.9	-10.0	-9.7	70.2	1.4
<b>Financing cash flow</b>	<b>36.9</b>	<b>-10.0</b>	<b>-16.2</b>	<b>60.8</b>	<b>-12.5</b>
<b>Net cash flow</b>	<b>13.1</b>	<b>-14.0</b>	<b>9.7</b>	<b>7.3</b>	<b>19.4</b>
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	31.3
<b>Ending cash</b>	<b>28.2</b>	<b>14.2</b>	<b>23.9</b>	<b>31.3</b>	<b>50.7</b>

**APEX SECURITIES BERHAD – CONTACT LIST**

<b>APEX SECURITIES BHD</b>	<b>DEALING TEAM</b>	<b>RESEARCH TEAM</b>
<p><b>Head Office:</b> 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p> <p><b>Petaling Jaya Office:</b> 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7620 1118</p>	<p><b>Head Office:</b> Kong Ming Ming (ext 2002) Lee Chen Ming (ext 2029) Shirley Chang (ext 2026) Ahmad Mujib (ext 2028) Azfar Bin Abdul Aziz (ext 2031) Aizzat Bin Mohd Daud (ext 2030)</p> <p><b>Institutional Dealing Team:</b></p> <p><b>PJ Office:</b> General Line: (603) 7620 1118</p>	<p><b>Head Office:</b> Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069) Chelsea Chew (ext 2070) Tan Sue Wen (ext 2095)</p>

**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**

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of Apex Securities Berhad and are subject to change without notice. Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

All analyst(s) names appear in the front page, whom prepared this report, does not have any interest in the following securities covered in this report.

Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against Apex Securities Berhad. Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of Apex Securities Berhad.