

Tan Sue Wen

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Recommendation:	BUY
Current Price:	RM 0.960
Previous Target Price:	RM 1.20
Target Price:	↔ RM 1.20
Upside/Downside:	25.0%

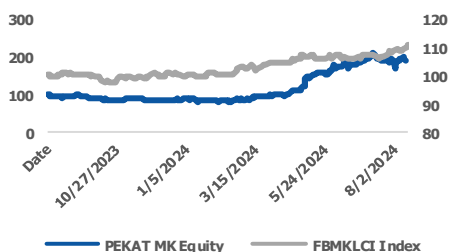
Stock information

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)	619.2
52-Week Price Range (RM)	0.395-1.06
Beta (x)	0.9
Free float (%)	31.8
3M Average Volume (m)	3.4
3M Average Value (RM' m)	3.1

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 (%)	-1.0	23.1	88.2
Relative (%)	-1.8	22.1	67.1

Pekato Group Berhad

Record breaking quarter

Summary

- **PEKAT's 2QFY24 core net profit climbed 27.3% yoy and 22.9% qoq to RM4.7m, resulting in 1HFY24 core net profit at RM10.3m came within our expectations, accounting for 53% of our full-year forecast.**
- **We expect earnings to improve in the subsequent quarters, driven by higher recognition of CGPP projects, while orderbook is set for further expand from CGPP, LSS5, NEM and CRESS programs.**
- **We kept our earnings forecast unchanged and we reiterate our BUY recommendation with an upgraded target price of RM1.20 by pegging by sum-of-parts (SOP) valuation.**







Results Review

- **Results review.** In 2QFY24, the Group achieved a single quarter record breaking quarterly net profit of RM4.7m (+27.3% yoy and +22.9% qoq), thanks to better margins in the ELP and Trading divisions. Revenue for the quarter registered at RM56.6m, decreased by -4.9% yoy and -1.9% qoq, primarily due to project execution delays in the Solar division.
- **Within expectations.** 1HFY24 core earnings came in within expectations, accounting for 53.0% and 57.6% of our and consensus' full year estimates respectively. We believe subsequent quarters earnings will see further improvement from solar division mainly attributed by CGPP projects.
- **Operations Highlights.** In 2QFY24, Solar segment's revenue declined -22.5% yoy and -9.6% qoq to RM33.2m, mainly due to project execution delays in the commercial and industrial customer segments. The weakness was partly cushioned by stronger revenue from the ELP (+47.1% yoy, +28.1% qoq) and Trading segments (+34.8% yoy, -0.8% qoq). Despite the lower revenue, the Group's core net profit improved and the core net profit margin expanded to 8.2%, from 6.6% in the previous quarter, driven by better margins in the ELP divisions.
- **Solar Landscape.** The prospects for the RE sector remain bright, supported by the government's consistent rollout of 2.2GW of RE capacity per annum to achieve a 70% RE share by 2050. The recently introduced CRESS framework is expected to benefit EPCC players by attracting more interest in solar projects driven by ESG goals. Meanwhile, with solar panel prices hitting a historic low of USD0.10/watt due to oversupply; leaving EPCC players to benefit from cheaper sourcing.
- **Power Landscape.** Malaysia is set to invest RM420.0bn in grid infrastructure to achieve a 70% RE capacity by 2050 under the NETR. More than half of the investment will channel towards distribution, with c.20% earmarked for MV switchgear, which potentially generates a RM44.0bn market opportunity for Pekat. This aligns with TNB's plans to increase Capex by RM1-2bn, in addition to the targeted RM90.0bn, to support energy transition initiatives and system upgrades. The booming data center sector, with 74 supply applications totaling over 11GW in demand (equivalent to 40.6% of Peninsular Malaysia's installed capacity), further

highlights the need for robust power distribution infrastructure, positioning Pekat for a favorable business outlook.

- **Outlook** Pekat's outstanding order book stands at RM217.1m is set to expand, mainly by the 800MW CGPP tender, where we reckon the Group could secure up to RM200.0m in EPCC contracts. Separately, the new introducing of CRESS, 2GW LSS5 and additional 450.0MW NEM quota, cements future orderbook replenishment outlook, potentially keeping Pekat busy until 2028. With the strong financial standings recorded over the years, we also note that Pekat is eligible to transfer to the Main Board of Bursa Malaysia.
- **Valuation.** With the reported earnings coming within expectations, we kept our earnings forecast unchanged and reiterate our **BUY** recommendation with an unchanged TP of RM1.20, based on a sum-of-parts valuation. We favor Pekat for its synergistic business model, attractive in-house solar financing, strong margins in the EPE segment, and sustainable order book. Pekat is well-positioned to benefit from long-term NETR trends, potentially generating strong earnings visibility in the foreseeable future, leveraging by arm of EPE division.
- **Risk.** (i) EPE acquisition taking-longer-than-expected, (ii) reversal of solar module prices and, (iii) CGPP project recognition was slower than anticipated and (iv) intense market competition

Figure 1: Results Comparison

FYE Dec (RM m)	2QFY24	2QFY23	YoY (%)	4QFY23	QoQ (%)	6MFY24	6MFY23	YoY (%)	5 Quarters Trend	Comments
Revenue	56.6	59.5	(4.9)	57.6	(1.9)	114.2	106.3	7.5		Lower revenue recognition in the Solar division.
EBITDA	6.7	4.8	39.7	5.3	25.3	12.0	8.7	37.7		
Pre-tax profit	6.6	4.7	39.4	5.7	16.2	12.2	9.0	35.4		
Net profit	4.7	3.5	34.2	3.8	22.4	8.5	6.7	26.8		Better GP margin in the ELP division.
Core net profit	4.7	3.7	27.3	3.8	22.9	10.3	6.7	52.8		
Core EPS (sen)	1.1	0.9	27.3	0.9	22.9	2.5	1.6	52.8		
EBITDA margin (%)	11.8	8.0		9.2		10.5	8.2			
PBT margin (%)	11.6	7.9		9.8		10.7	8.5			
Core PATM margin (%)	8.2	6.2		6.6		9.0	6.3			

Source: Company, Apex Securities

Financial Highlights
Income Statement

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

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	612	15x FY25F PER
Trading	47.8	15x FY25F PER
EPE	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	
Fair Value (RM)	1.20	

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
Total Current Assets	170.5	154.5	146.1	199.0	254.2
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
Total Non-current assets	30.0	35.1	36.3	121.1	122.4
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
Total Current Liabilities	77.4	55.8	42.1	124.4	149.2
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
Total Non-current Liabilities	3.6	4.3	3.5	81.6	88.5
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
Total Equity	119.4	129.5	136.8	114.1	138.9

Cash Flow

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Pre-tax profit	17.4	14.4	18.1	28.4	50.9
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
Operating cash flow	3.2	-18.9	26.6	47.6	50.1
Net capex	-0.8	-1.6	-0.7	-42.7	-18.7
Others	-26.2	16.5	0.0	-58.4	0.5
Investing cash flow	-26.9	14.9	-0.7	-101.1	-18.2
Dividends paid	0.0	0.0	-6.4	-9.4	-13.9
Others	36.9	-10.0	-9.7	70.2	1.4
Financing cash flow	36.9	-10.0	-16.2	60.8	-12.5
Net cash flow	13.1	-14.0	9.7	7.3	19.4
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
Ending cash	28.2	14.2	23.9	31.3	50.7

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
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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.

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