

Tan Sue Wen

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Recommendation:	BUY
Current Price:	RM 0.930
Previous Target Price:	RM 1.20
Target Price:	↓ RM 1.17
Upside/Downside:	25.8%

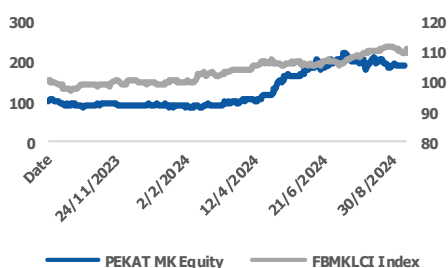
Stock information

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)	599.8
52-Week Price Range (RM)	0.4-1.06
Beta (x)	1.1
Free float (%)	32.4
3M Average Volume (m)	0.6
3M Average Value (RM' m)	0.5

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 (%)	3.9	6.9	116.3
Relative (%)	5.1	10.6	95.8

Pekat Group Berhad

Below expectations

Summary

- Pekat's 3QFY24 core net profit (CNP) dropped by 42.8% yoy and 10.7% qoq to RM2.9m, bringing 9MFY24 CNP to RM11.8m, which came below our expectations and consensus estimates at 56.5% and 65.6%, respectively.
- Key deviation was mainly due to the hike in administrative costs and increase in effective tax rate.
- After adjusting our earnings forecast to account for the higher administrative expenses and higher effective tax rate, we maintain a BUY recommendation with a lower target price (TP) of RM1.17, based on a sum-of-parts (SOP) valuation.

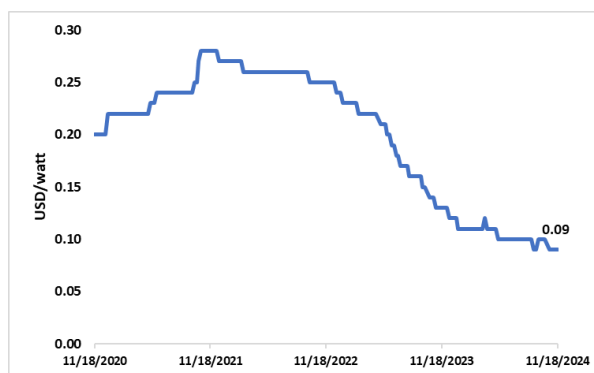
Results Review

- **Missed expectations.** Pekat's 9MFY24 core net profit (CNP) came in at RM14.8m, which is 56.5% of our full-year estimate and 65.6% of the consensus forecast.
- **QoQ.** 3QFY24 CNP after adjusting for a one-off RM3.2m gain from the disposal of PPE, dropped by -42.8% to RM2.9m, despite a strong 46.1% increase in revenue to RM82.6m. The weaker bottom line was mainly due to a sharp 72.6% jump in administrative costs and an increase in effective tax rate, driven by non-deductible expenses (ESOS expenses and EPE Switchgear acquisition-related expenses). Improved top line was thanks to higher project execution in the Solar segment (+64.0%), steady growth in the ELP segment (+4.2%), and increased sales orders in the Trading segment (+36.9%).
- **YoY.** CNP dropped by -10.7% to RM2.9m, largely due to the factors mentioned earlier. Core net profit margin declined to 3.5%, compared to 5.2% in the same quarter last year.
- **Outlook.** We understand that Pekat is more of a margin-preserving player, focusing on rooftop projects rather than large-scale solar farms. With the shortlisted winners for the 2GW LSS5 projects expected to be announced in near future, we believe Pekat stands to benefit, but in a measureable manner, given its focused strategy. Coupled with the ongoing deflation in solar module prices (see chart below), the additional 400MW quota allocated under the NEM scheme, the extension of the GITA, and solar rebates ranging from RM1,000/kWac to RM4,000/kWac, these factors should further spur interest in solar investments and position Pekat for solid growth over the long run. Separately, we anticipate the finalisation of the SPA with Apex Power Industry to acquire a 60% stake in EPE Switchgear by Dec 24, as the Group nears the completion of the deal.
- As of 30 Sep 24, Pekat's outstanding orderbook stands at RM360.0m (equivalent to 1.6x FY23 revenue), with more than half deriving from solar projects, including recently secured RM115.0m CGPP project.

- **Earnings revision.** We have revised our FY24F/FY25F CNP downward by -11.5%/-1.1%, as we factor in higher administrative expenses and higher effective tax rate specifically for FY24F.
- **Valuation.** Following the revised forecast, we maintain our **BUY** recommendation for Pekat, with a lower TP of RM1.17, based on a Sum-of-Parts (SOP) valuation. We remain in favor of Pekat for its **synergistic business model, strong margins in the EPE segment, and sustainable order book.** We also noted that Pekat's strong historical financial results qualify the Group for the transfer to the Main Board of Bursa Malaysia.
- **Risks.** EPE acquisition taking longer than expected. Escalation in solar module costs. Heavy reliance on government initiatives. Intense market competition.







Solar module price trend

As of 18 Nov 2024, solar module prices experienced a further decline, dropping to USD 0.09/watt from USD 0.10/watt in the previous month.







Source: Bloomberg, Apex Securities

Figure 1: Results Comparison

FYE Dec (RM m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY24	9MFY23	YoY (%)	5 Quarters Trend	Comments
Revenue	82.6	62.9	31.4	56.6	46.1	196.8	169.2	16.4		Revenue up driven by growth across all segments
EBITDA	8.8	3.8	127.5	6.7	31.2	20.7	12.6	64.7		
Pre-tax profit	9.6	4.0	137.1	6.6	45.4	21.8	13.1	66.8		
Net profit	6.3	3.6	76.0	4.7	34.8	14.7	10.2	43.9		
Core net profit	2.9	3.3	(10.7)	5.1	(42.8)	11.8	9.5	24.2		
Core EPS (sen)	0.5	0.5	(10.7)	0.8	(42.8)	1.8	1.5	24.2		
EBITDA margin (%)	10.6	6.1		11.8		10.5	7.4			
PBT margin (%)	11.6	6.4		11.6		11.1	7.7			Core margin declined due to sharp jump in administrative costs and a spike in the tax rate
Core PATMI margin (%)	3.5	5.2		9.0		6.0	5.6			

Source: Company, Apex Securities

Figure 2: Revenue Breakdown

FYE Dec (RM m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY24	9MFY23	YoY (%)	5 Quarters Trend	Comments
Revenue Breakdown										
EPCC	54.4	45.0	20.9	33.2	64.0	124.2	117.5	5.7		Higher project execution rates in solar and ELP, and higher sales orders in Trading
ELP	12.0	8.4	43.7	11.6	4.2	32.6	24.7	32.3		
Trading	16.2	9.5	70.1	11.9	36.9	40.0	27.0	48.3		
Total	82.6	62.9	31.4	56.6	46.1	196.8	169.2	16.4		

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	178.5	179.2	227.5	280.6	462.4
Gross Profit	45.5	44.8	53.5	78.8	142.2
EBITDA	18.4	17.4	20.3	35.4	70.0
Depreciation & Amortisation	-0.8	-1.5	-1.7	-2.8	-11.5
EBIT	17.6	15.8	18.7	32.6	58.5
Net Finance Income/ (Cost)	-0.6	-1.4	-1.1	-0.4	-7.8
Associates & JV	0.5	0.0	0.6	-0.5	0.2
Pre-tax Profit	17.4	14.4	18.1	31.7	50.9
Tax	-4.8	-4.4	-4.4	-12.7	-13.1
Profit After Tax	12.6	10.0	13.8	19.0	37.8
Minority Interest	0.0	0.0	0.0	1.6	9.2
Net Profit	12.7	10.0	13.7	17.4	28.7
Exceptionals	0.1	-0.9	0.5	0.0	0.0
Core Net Profit	12.8	9.1	14.3	17.4	28.7

Key Ratios

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
P/E (x)	35.7	93.6	32.3	32.1	16.1
EBITDA margin	10.3%	9.7%	8.9%	12.6%	15.1%
EBIT margin	9.8%	8.8%	8.2%	11.6%	12.6%
PBT margin	9.8%	8.1%	8.0%	11.3%	11.0%
PAT margin	7.1%	5.6%	6.0%	6.8%	8.2%
NP margin	7.1%	5.6%	6.0%	6.2%	6.2%
Core NP margin	7.1%	5.1%	6.3%	6.2%	6.2%
Dividend yield	0.0%	0.0%	1.1%	1.3%	2.2%
ROE	10.6%	7.8%	10.0%	15.4%	20.9%
ROA	6.3%	5.3%	7.5%	5.5%	7.8%
Net gearing	Net Cash	Net Cash	Net Cash	59.6%	44.3%

Valuation

Sum of Parts (SOP)	Equity Value (RM' m)	Valuation method
EPCC	458.0	30x FY25F PER
ELP	59.9	15x FY25F PER
Trading	46.8	15x FY25F PER
EPE	157.0	15x FY25F PER
Solar assets	29.3	WACC = 5.8%
Proceeds from exercise of warrants/ESOS	0.0	
SOP Value	751.0	
Enlarged share base (m share)	645.0	
Fair Value (RM)	1.17	

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	42.9	29.1	27.0	30.0	43.7
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	36.1	52.8
Total Current Assets	170.5	154.5	146.1	191.4	235.9
PPE	20.8	23.3	23.4	111.4	118.5
Other non-current assets	9.2	11.8	12.8	12.9	13.1
Total Non-current assets	30.0	35.1	36.3	124.3	131.6
Short-term Debt	25.3	19.4	1.0	19.4	20.9
Payables	39.7	14.5	27.0	85.1	95.3
Other Current Liabilities	12.4	21.9	14.1	17.7	27.7
Total Current Liabilities	77.4	55.8	42.1	122.2	143.8
Long-term Debt	2.5	1.6	0.6	77.8	83.5
Other non-current liabilities	1.2	2.7	2.9	3.0	3.1
Total Non-current Liabilities	3.6	4.3	3.5	80.8	86.6
Shareholder's equity	119.4	129.4	136.7	111.0	126.2
Minority interest	0.1	0.1	0.1	1.8	10.9
Total Equity	119.4	129.5	136.8	112.7	137.1

Cash Flow

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Pre-tax profit	17.4	14.4	18.1	31.7	50.9
Depreciation	0.8	1.5	1.7	2.8	11.5
Changes in working capital	-10.4	-31.2	11.2	19.3	-10.7
Others	-4.6	-3.7	-4.5	-11.5	-5.3
Operating cash flow	3.2	-18.9	26.6	42.3	46.5
Net capex	-0.8	-1.6	-0.7	-42.7	-18.7
Others	-26.2	16.5	0.0	-59.4	0.2
Investing cash flow	-26.9	14.9	-0.7	-102.1	-18.5
Dividends paid	0.0	0.0	-6.4	-8.2	-13.5
Others	36.9	-10.0	-9.7	71.0	-0.9
Financing cash flow	36.9	-10.0	-16.2	62.8	-14.4
Net cash flow	13.1	-14.0	9.7	3.0	13.7
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	26.9
Ending cash	28.2	14.2	23.9	26.9	40.6

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.

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