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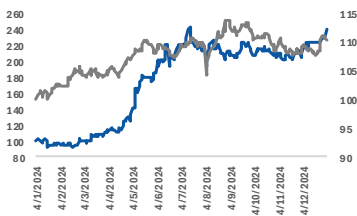
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<b>Recommendation:</b>	<b>HOLD</b>
Current Price:	RM 1.07
Previous Target Price:	RM 1.17
Target Price:	↔ RM 1.17
Capital Upside/ Downside:	9.3%
Dividend Yield (%):	2.0%
<b>Total Upside/ Downside:</b>	<b>11.3%</b>

<b>Stock information</b>	
Board	ACE
Sector	Industrial
Bursa/ Bloomberg Code	0233 / PEKATMK
Syariah Compliant	Yes
ESGRating	★★★
Shares issued (m)	645.0
Market Cap (RM' m)	690.1
52-Week Price Range (RM)	1.12-0.4
Beta (x)	1.0
Free float (%)	33.8
3M Average Volume (m)	0.7
3M Average Value (RM' m)	0.7

<b>Top 3 Shareholders</b>		<b>(%)</b>
Chin Soo Mau		34.9
Tai Yee Chee		8.8
Wee Chek Aik		7.9

**Share Price Performance**



	1M	3M	12M
Absolute (%)	10.3	14.4	157.8
Relative (%)	12.0	20.2	144.6

# Pekat Group Berhad

## Site visit to EPE Switchgear

### Executive Summary

- We recently visited PEKAT's EPE Switchgear facility in Nilai, a specialist in manufacturing MV switchgear products. The facility is currently operating at 70% utilisation.
- Demand for switchgear remains strong, driven by ongoing grid upgrades and riding onto the 8-10 year replacement cycle. Currently, EPE holds an unbilled order book of c.RM180m and a tender book >RM500m, with a historical win rate of 20%.
- Following the recent share price rally, our recommendation has been revised to HOLD with an unchanged target price of RM1.17, based on a sum-of-parts (SOP) valuation, and appraised with a three-star ESG rating.

**EPE Switchgear.** We recently visited PEKAT's EPE Switchgear facility in Nilai, Negeri Sembilan. EPE is a leading manufacturer of switchgear products, specialising in Air-Insulated Switchgear (AIS), Gas-Insulated Switchgear (GIS), Ring Main Units (RMU), Remote Control Boxes (RCB), Load Break Switches (LBS), Feeder Pillars, Compact Substations, and Mobile Substations (refer to Figure 2), catering to the MV segment (1-44kV). The facility spans 145,500 sqf and boasts an annual production capacity of approximately 2,000 switchgear panels. Currently, EPE operates at 70% utilisation on a single shift. Note that, EPE is able to double its production volume with existing resources, but space constraints remain a challenge. In addition to manufacturing, EPE offers operation and maintenance services, as most of their equipment is designed for a 25-year lifespan. Regarding revenue mix, TNB, Sarawak Energy, and Sabah Electricity contribute up to 70%, the private sector accounts for 20%, and the remaining revenue comes from export markets such as Qatar, Oman, Australia, and Germany.

**Our Take.** We remain optimistic over EPE's prospects, driven by the ongoing grid infrastructure upgrade and replacement cycles that occur every 8-10 years. Under RP4, the allowed capex has increased to RM26.6m, from RM20.6m in RP3. Historically, 30% of that capex has been allocated towards maintenance capex, with around 40% directed towards energy transition initiatives. The increase is reflected in TNB's latest tender cycle, where switchgear demand has nearly doubled. Given the high barriers to entry, with only 5-7 players in the market, we believe EPE is well-positioned in this field, supported by over 50 years of experience and a proven track record of execution. To stay ahead of the replacement cycle, EPE has partnered with TNB to innovate the Feeder Pillar, incorporating a smart monitoring system designed for both new developments and replacements in urban areas. The addressable market is estimated at 8-10k units annually. As of date, EPE holds an unbilled order book of c.RM180m, providing visibility for FY25-FY26F, and a tender book of up to RM500m, with historical win rates of about 20%.

**Earnings revision.** No change to our earnings forecasts.

**Valuation & Recommendation.** Following the recent share price rally, our recommendation has been revised to **HOLD**, with an unchanged target price of **RM1.17**, based based on a Sum-of-Parts (SOP) valuation and appraised with three-star ESG rating. 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.

**Risk.** Heavy reliance on government initiatives. Inability to secure new contracts. Spike in raw material costs such as copper and steel.

**Figure 1: EPE's Plant Overview**



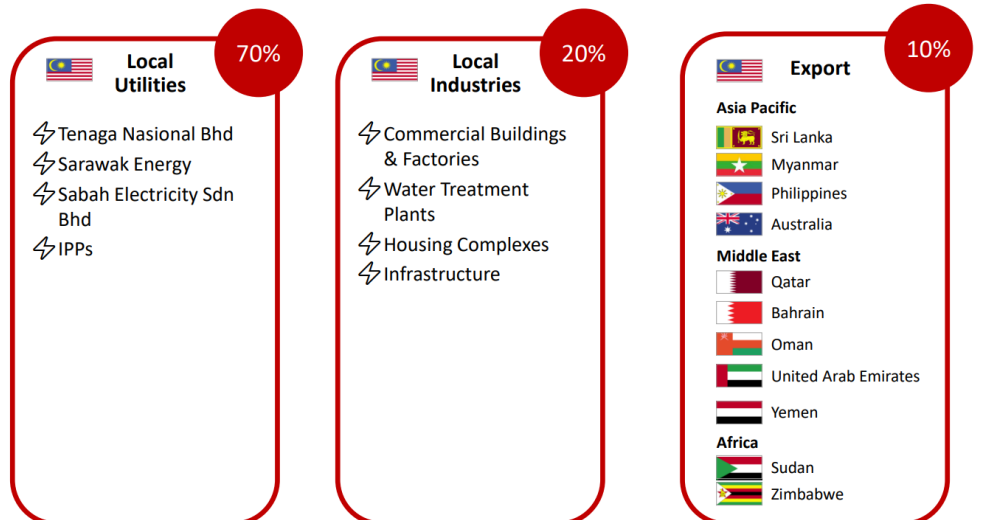
Source: Company

**Figure 2: EPE's product range**



Source: Company

**Figure 3: EPE's revenue mix**



Source: Company

## 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>280.6</b>	<b>462.5</b>
<b>Gross Profit</b>	<b>45.5</b>	<b>44.8</b>	<b>53.5</b>	<b>77.8</b>	<b>142.2</b>
<b>EBITDA</b>	<b>18.4</b>	<b>17.4</b>	<b>20.3</b>	<b>34.4</b>	<b>70.0</b>
Depreciation & Amortisation	-0.8	-1.5	-1.7	-2.8	-11.5
<b>EBIT</b>	<b>17.6</b>	<b>15.8</b>	<b>18.7</b>	<b>31.6</b>	<b>58.5</b>
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
<b>Pre-tax Profit</b>	<b>17.4</b>	<b>14.4</b>	<b>18.1</b>	<b>30.7</b>	<b>50.9</b>
Tax	-4.8	-4.4	-4.4	-12.3	-13.1
<b>Profit After Tax</b>	<b>12.6</b>	<b>10.0</b>	<b>13.8</b>	<b>18.4</b>	<b>37.8</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>16.8</b>	<b>28.7</b>
Exceptionals	0.1	-0.9	0.5	0.5	0.0
<b>Core Net Profit</b>	<b>12.8</b>	<b>9.1</b>	<b>14.3</b>	<b>17.3</b>	<b>28.7</b>

### Key Ratios

FYE Sep	FY21	FY22	FY23	FY24F	FY25F
EPS (sen)	2.0	1.4	2.2	2.7	4.4
P/E (x)	54.1	75.7	48.3	39.9	24.1
P/B (x)	5.8	5.3	5.0	5.4	3.8
EV/EBITDA (x)	38.4	40.2	35.2	18.6	9.8
DPS (sen)	0.0	0.0	1.0	1.2	2.1
Dividend Yield (%)	0.0%	0.0%	0.9%	1.1%	2.0%
EBITDA margin (%)	10.3%	9.7%	8.9%	12.3%	15.1%
EBIT margin (%)	9.8%	8.8%	8.2%	11.3%	12.6%
PBT margin (%)	9.8%	8.1%	8.0%	10.9%	11.0%
PAT margin (%)	7.1%	5.6%	6.0%	6.6%	8.2%
NP margin (%)	7.1%	5.6%	6.0%	6.0%	6.2%
CNP margin (%)	7.1%	5.1%	6.3%	6.2%	6.2%
ROE (%)	10.7%	7.0%	10.4%	13.5%	16.0%
ROA (%)	6.4%	4.8%	7.8%	5.2%	7.0%
Gearing (%)	23.2%	16.2%	1.2%	75.8%	58.2%
Net gearing (%)	Net Cash	Net Cash	Net Cash	40.3%	10.2%

Valuations	Equity Value (RM' m)	Valuation method
EPCC	458.4	30x FY25F PER
ELP	59.9	15x FY25F PER
Trading	46.8	15x FY25F PER
EPE	156.9	15x FY25F PER
Solar assets	29.3	WACC = 5.8%
Cash proceeds from exercise of warrants/ESOS	0.0	
SOP Value	751.3	
Enlarged share base (m share)	645.0	
<b>Fair Value (RM)</b>	<b>1.17</b>	
ESG premium/discount	0.0%	
<b>Implied Fair Value (RM)</b>	<b>1.17</b>	

Source: Company, Apex Securities

### Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Cash	42.9	29.1	27.0	45.5	86.1
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
<b>Total Current Assets</b>	<b>170.5</b>	<b>154.5</b>	<b>146.1</b>	<b>206.8</b>	<b>278.3</b>
Fixed Assets	20.8	23.3	23.4	111.4	118.5
Intangibles	0.4	0.3	0.2	0.2	0.2
Other non-current assets	8.7	11.5	12.7	12.8	12.9
<b>Total Non-Current Assets</b>	<b>30.0</b>	<b>35.1</b>	<b>36.3</b>	<b>124.3</b>	<b>131.6</b>
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
<b>Total Current Liabilities</b>	<b>77.4</b>	<b>55.8</b>	<b>42.1</b>	<b>122.2</b>	<b>143.8</b>
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
<b>Total Non-Current Liabilities</b>	<b>3.6</b>	<b>4.3</b>	<b>3.5</b>	<b>80.8</b>	<b>86.6</b>
Shareholder's equity	119.4	129.4	136.7	126.4	168.6
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>128.2</b>	<b>179.5</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>30.7</b>	<b>50.9</b>
Depreciation & amortisation	1.0	1.7	1.8	2.8	11.5
Changes in working capital	10.4	31.2	-11.2	-19.3	10.7
Others	-25.6	-66.2	17.9	27.6	-26.7
<b>Operating cash flow</b>	<b>3.2</b>	<b>-18.9</b>	<b>26.6</b>	<b>41.7</b>	<b>46.5</b>
Net capex	-0.9	-1.6	-0.7	-42.7	-18.7
Others	-26.1	16.5	0.0	-59.4	0.2
<b>Investing cash flow</b>	<b>-26.9</b>	<b>14.9</b>	<b>-0.7</b>	<b>-102.1</b>	<b>-18.5</b>
Dividends paid	0.0	0.0	-6.4	7.9	13.5
Others	36.9	-10.0	-9.7	71.0	-0.9
<b>Financing cash flow</b>	<b>36.9</b>	<b>-10.0</b>	<b>-16.2</b>	<b>78.8</b>	<b>12.6</b>
<b>Net cash flow</b>	<b>13.1</b>	<b>-14.0</b>	<b>9.7</b>	<b>18.5</b>	<b>40.6</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	42.4
<b>Ending cash</b>	<b>28.2</b>	<b>14.2</b>	<b>23.9</b>	<b>42.4</b>	<b>83.0</b>

## ESG Matrix Framework:

### Environment

Parameters	Rating	Comments
Climate	★★★	Reduced indirect annual carbon dioxide emissions by 29.2%, avoiding 155,822 tonnes through completed solar PV systems for customers.
Waste & Effluent	★★★	Implemented the 3R (Reduce, Reuse, Recycle) initiative, using reusable containers and recyclable bags.
Energy	★★★	Reduced energy consumption by 0.6% in FY23 through energy-saving measures like LED lighting and motion sensors.
Water	★★★	Reduced water consumption by 67.18%, from 13,213 m <sup>3</sup> in the previous year to 4,337 m <sup>3</sup> .
Compliance	★★★	The Group complies with all local and international environmental regulations.

### Social

Diversity	★★	Female representation at 29% in the workforce and 29.2% at the management level, slightly below the MCGG's recommended 30% female directors on the Board.
Human Rights	★★★	Enforces strict policies against human trafficking, forced labor, and child labor.
Occupational Safety and Health	★★★	245 employees trained in 2023 to enhance workforce competence. No fatalities, with a reduction in the total recordable incident rate (TRIR) to 0, from 1 case last year.
Labour Practices	★★★	Adheres to all relevant labor laws.

### Governance

CSR Strategy	★★★	Actively engaged with communities, contributing RM75,000 to various initiatives.
Management	★★★	Among the board members, 33% (2 out of 6) were female, while 67% (4 out of 6) were independent directors.
Stakeholders	★★★	Regularly organizes corporate events and holds an annual general meeting (AGM) for investors.

Overall ESG Scoring: ★★★

### Recommendation Framework:

**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

### 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.

### ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.