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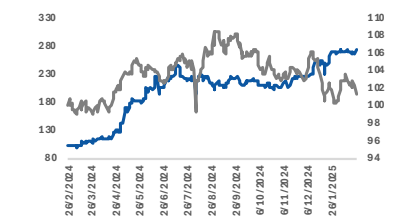
<b>Recommendation:</b>	<b>BUY</b>
Current Price:	RM 1.17
Previous Target Price:	RM 1.17
Target Price:	RM 1.43 <span style="color: green;">↑</span>
Capital Upside/Downside:	22.2%
Dividend Yield (%):	1.7%
<b>Total Upside/Downside:</b>	<b>23.9%</b>

**Stock information**

Board	ACE
Sector	Industrial
Bursa / Bloomberg Code	0233 / PEKAT MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	645.0
Market Cap (RM' m)	754.6
52-Week Price Range (RM)	1.2-0.42
Beta (x)	1.0
Free float (%)	33.8
3M Average Volume (m)	1.2
3M Average Value (RM' m)	1.3

**Top 3 Shareholders**

	(%)
Chin Soo Mau	34.9
Tai Yee Chee	8.8
Wee Chek Aik	7.9

**Share Price Performance**

	1M	3M	12M
Absolute (%)	0.9	27.9	181.9
Relative (%)	1.2	30.7	178.3

# Pekati Group Berhad

## Exceed Expectations, Secures New Contract Win from TNB

### Executive Summary

- **Pekati's 4QFY24 core net profit (CNP) surged by 235.8% qoq and 182.8% yoy to RM9.6m, bringing FY24 CNP to RM21.3m, which came above our and consensus estimates at 123.3% and 118.1%, respectively. The outperformance was largely due to lower-than-expected operating cost (admin cost).**
- **Prospects remain bright, supported by clear RE initiatives rolled out and newly acquired business, which comes with a profit guarantee of RM9.6m/annum over the next three years, set to drive the Group's growth trajectory. Currently holds an outstanding orderbook of RM590.9m, including new contract wins of RM97.3m from TNB.**
- **Post-rolling over our valuation base year to FY26F, we upgrade PEKAT to BUY with higher target price of RM1.43, based on a Sum-of-Parts (SOP) valuation and appraised with three-star ESG rating.**

**Above expectations.** Pekati recorded core net profit of RM9.6m in 4QFY24 (+235.8% qoq, +182.8% yoy), bringing the FY24 total to RM21.3m (+63.1% yoy). The result exceeded both our and consensus expectations, making up 123.3% and 118.1% of full-year forecasts respectively. The outperformance was largely due to lower-than-expected operating cost (admin cost). 4QFY24 CNP was adjusted for EIs of RM2.3m, mainly comprising bad debt adjustment (RM0.4m), reversal of impairment (RM1.4m), forex loss (RM0.6m) and others (RM0.2).

**QoQ.** Core net profit grew 235.8%, largely due to i) reduction of administrative cost (-22.2%), ii) cost savings from lower solar modules costs (-11% qoq to 0.09 sen/w as of Dec 2024), iii) higher project execution from ELP solutions, driven by data-center-related projects, (+21.8% in revenue), and iv) a new contribution from the recently acquired power distribution division (+RM9.9m in revenue). CNP up 6.7%-pts to 10.2%, which we reckon is mainly due to higher contribution from better margin ELP and EPE Switchgear businesses.

**YoY.** FY24 CNP increased by 182.8%, mainly attributed to improvements across all business segments and the factors mentioned earlier. CNP margin improved by 4.4-pts to 10.2%.

**Contract win.** EPE Switchgear has secured a contract worth RM97.3m from TNB for the supply and delivery of 11kV of single busbar circuit breakers for TNB's distribution network. The contract period is two years and is effective from 25 Feb 2025, with an option for a 30% add-on based on the contract value. Assuming the contracts exercise of the 30% option, coupled with a double-digit GP margin, this could translate into an average annual GP of RM15.8m, representing 10.8% of our forecasted Group FY25 gross profit.

**Outlook.** Solar prospects remain bright due to the clear RE initiatives rolled out to accelerate the nation's RE ambitions. These include an additional 800MW quota for NEM3.0, a 400MW BESS programme, SELCO, 2GW of LSS5, 2GW of LSS5+, and plans to introduce a new cycle of LSS6. We believe these factors present strong potential for EPCC job flow, contributing to Pekati's growth trajectory with a strong focus on the solar field. Separately, we are also optimistic about the newly acquired EPE Switchgear, which is set to benefit from the upgrade and replacement cycles from TNB that occur every 8-10 years. With more than 50 years of active experience in the market, and as one of the handful of vendors for national utilities, we expect the Group to continue securing consistent job flow from TNB. Note that deal includes a profit guarantee of RM9.6m/annum, which is expected positively contribute to the Group's bottom line c.30% of FY25F CNP. Currently, the business holds a tender book of c.RM400m.

After incorporating the new contract win, Pekati's outstanding orderbook stands at RM590.9m (44% from solar, 40% from EPE, 15% from ELP, and the remainder from trading), which is equivalent to 2.0x FY24 revenue.

**Earnings revision.** We have fine-tuned our earnings forecast for FY25, mainly accounting for: i) higher project billings from CGPP projects, and ii) higher contributions from solar business, driven by the strong roll-out of recent RE initiatives. We also introduce our FY26F core net profit at RM42.6m. The new contract win is in line with our expectations, and we have made no changes to the EPE Switchgear business.

**Valuation & Recommendation.** Post-rolling over our valuation base year to FY26F, we upgrade PEKAT to **BUY** (from hold) with higher target price of **RM1.43** (previously RM1.17), 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**. Noted that Pekat's strong historical financial results qualify the Group for the transfer to the Main Board of Bursa Malaysia.

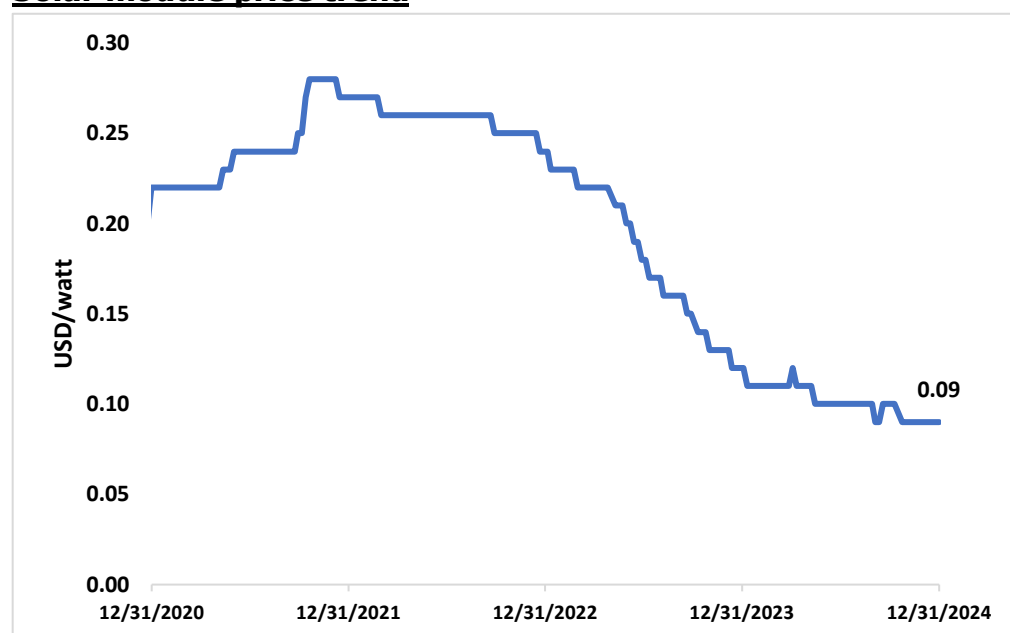
**Risk.** Heavy reliance on government initiatives. Inability to secure new contracts. Spike in raw material costs such as copper and steel.

## Earnings Summary

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Revenue	179.2	227.5	291.1	489.7	636.8
EBITDA	17.4	20.3	38.6	71.5	87.7
Pre-tax profit	14.4	18.1	34.6	55.7	72.6
Net profit	10.0	13.7	22.0	33.3	42.6
Core net profit	10.9	14.4	21.3	33.3	42.6
Core EPS (sen)	1.7	2.2	3.3	5.2	6.6
P/E (x)	69.0	52.6	35.4	22.7	17.7
P/B (x)	5.8	5.5	3.9	3.3	2.8
EV/EBITDA (x)	43.9	38.4	19.6	11.2	9.5
Dividend Yield (%)	0.0%	0.9%	0.0%	1.3%	1.7%
Net Gearing (%)	Net Cash	Net Cash	18.7%	Net Cash	Net Cash

Source: Company, Apex Securities

## Solar module price trend



Source: Bloomberg, Apex Securities

# Results Note

Wednesday, 26 Feb, 2025

## Results Comparison

FYE Dec (RM m)	4QFY24	4QFY23	yoy (%)	3QFY24	qoq (%)	12MFY24	12MFY23	yoy (%)	Comments
Revenue	94.3	58.3	61.7	82.6	14.1	291.1	227.5	28.0	
EBITDA	14.2	6.7	113.1	10.6	34.4	38.6	21.9	76.0	
Pre-tax profit	12.8	5.3	140.4	9.6	33.7	34.6	18.4	88.1	
Net profit	8.0	3.5	130.6	6.3	28.0	22.8	13.7	65.9	
Core net profit	9.6	3.4	182.8	2.9	235.8	21.3	12.9	65.2	
Core EPS (sen)	1.5	0.5	182.8	0.4	235.8	3.3	2.0	65.2	
EBITDA margin (%)	15.1	11.5		12.8		13.3	9.6		
PBT margin (%)	13.6	9.1		11.6		11.9	8.1		
Core PATMI margin (%)	10.2	5.8		3.5		7.3	5.7		

Source: Company, Apex Securities

## Segmental Breakdown

FYE Dec (RM m)	4QFY24	4QFY23	yoy (%)	3QFY24	qoq (%)	12MFY24	12MFY23	yoy (%)	Comments
<b>Revenue</b>									
EPCC	54.6	38.6	41.4	54.4	0.5	178.8	156.2	14.5	
ELP	14.7	8.6	70.0	12.0	21.8	47.3	33.3	42.1	Higher project
Trading	15.1	11.0	36.9	16.2	(7.0)	55.1	38.0	45.0	execution from DCs
Power	9.9	-	nm	-	nm	9.9	-	nm	
<b>Total</b>	<b>94.3</b>	<b>58.3</b>	<b>61.7</b>	<b>82.6</b>	<b>14.1</b>	<b>291.1</b>	<b>227.5</b>	<b>28.0</b>	

Source: Company, Apex Securities

# Results Note

Wednesday, 26 Feb, 2025

## Financial Highlights

### Income Statement

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Revenue	179.2	227.5	291.1	489.7	636.8
Gross Profit	44.8	53.5	84.3	146.1	191.7
EBITDA	17.4	20.3	38.6	71.5	87.7
Depreciation & Amortisation	-1.5	-1.7	-2.6	-11.3	-12.2
EBIT	15.8	18.7	36.0	60.3	75.5
Net Finance Income/ (Cost)	-1.4	-1.1	-0.8	-4.8	-3.3
Associates & JV	0.0	0.6	-0.6	0.3	0.3
Pre-tax Profit	14.4	18.1	34.6	55.7	72.6
Tax	-4.4	-4.4	-11.8	-15.0	-20.1
Profit After Tax	10.0	13.8	22.8	40.8	52.5
Minority Interest	0.0	0.0	0.7	7.5	9.9
Net Profit	10.0	13.7	22.0	33.3	42.6
Exceptionals	-0.9	-0.6	0.7	0.0	0.0
Core Net Profit	10.9	14.4	21.3	33.3	42.6

### Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
EPS (sen)	1.7	2.2	3.3	5.2	6.6
P/E (x)	69.0	52.6	35.4	22.7	17.7
P/B (x)	5.8	5.5	3.9	3.3	2.8
EV/EBITDA (x)	43.9	38.4	19.6	11.2	9.5
DPS (sen)	0.0	1.0	0.0	1.5	2.0
Dividend Yield (%)	0.0%	0.9%	0.0%	1.3%	1.7%
EBITDA margin (%)	9.7%	8.9%	13.3%	14.6%	13.8%
EBIT margin (%)	8.8%	8.2%	12.4%	12.3%	11.9%
PBT margin (%)	8.1%	8.0%	11.9%	11.4%	11.4%
PAT margin (%)	5.6%	6.0%	7.8%	8.3%	8.2%
NP margin (%)	5.6%	6.0%	7.6%	6.8%	6.7%
CNP margin (%)	6.1%	6.3%	7.3%	6.8%	6.7%
ROE (%)	8.4%	10.5%	10.9%	14.7%	16.0%
ROA (%)	5.8%	7.9%	5.1%	6.8%	7.8%
Gearing (%)	16.2%	1.2%	38.2%	30.1%	18.2%
Net gearing (%)	Net Cash	Net Cash	18.7%	Net Cash	Net Cash

Valuations	Equity Value (RM' m)	Valuation method
EPCC	583.9	30x FY26F PER
ELP	71.1	15x FY26F PER
Trading	68.2	15x FY26F PER
EPE	182.8	15x FY26F PER
Solar assets	14.4	Ke = 13.8%
Cash proceeds from exercise of warrants/ESOS	0.0	
SOP Value	920.5	
Enlarged share base (m share)	645.0	
Fair Value (RM)	1.43	
ESG premium/discount	0.0%	
Implied Fair Value (RM)	1.43	

Source: Company, Apex Securities

### Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Cash	29.1	27.0	38.2	71.0	68.6
Receivables	47.9	55.0	106.5	119.3	134.8
Inventories	25.6	24.9	94.1	103.5	119.1
Other current assets	51.9	39.2	50.9	60.3	81.3
Total Current Assets	154.5	146.1	289.7	354.1	403.7
Fixed Assets	23.3	23.4	67.5	75.0	82.8
Intangibles	0.3	0.2	4.8	4.8	4.8
Other non-current assets	11.5	12.7	56.6	56.7	56.8
Total Non-Current Assets	35.1	36.3	129.0	136.5	144.5
Short-term debt	19.4	1.0	38.1	34.0	24.3
Payables	14.5	27.0	81.8	119.3	134.8
Other current liabilities	21.9	14.1	44.7	54.2	75.3
Total Current Liabilities	55.8	42.1	164.5	207.5	234.3
Long-term debt	1.6	0.6	36.6	34.0	24.3
Other non-current liabilities	2.7	2.9	22.1	22.9	23.8
Total Non-Current Liabilities	4.3	3.5	58.7	56.9	48.0
Shareholder's equity	129.4	136.7	158.7	182.0	211.8
Minority interest	0.1	0.1	36.7	44.2	54.1
Total Equity	129.5	136.8	195.4	226.2	265.9

### Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Pre-tax profit	14.4	18.1	34.6	55.7	72.6
Depreciation & amortisation	1.7	1.8	2.3	11.3	12.2
Changes in working capital	31.2	-11.2	12.8	-15.5	15.5
Others	-66.2	17.9	-34.5	20.8	-47.9
Operating cash flow	-18.9	26.6	15.1	72.3	52.4
Capex	-1.6	-0.7	-6.8	-18.7	-20.0
Others	16.5	0.0	-70.1	0.3	0.3
Investing cash flow	14.9	-0.7	-76.9	-18.4	-19.7
Dividends paid	0.0	-6.4	0.0	-10.0	-12.8
Others	-10.0	-9.7	72.1	-11.2	-22.3
Financing cash flow	-10.0	-16.2	72.1	-21.2	-35.1
Net cash flow	-14.0	9.7	10.4	32.8	-2.4
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	1.0	2.0	3.0	4.0
Beginning cash	28.2	14.2	23.9	34.3	67.1
Ending cash	14.2	24.9	36.3	70.1	68.7

## 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.