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Power Sector

Overweight (↔)

A Year of Execution

We expect 2025 to be a year of strong execution, with global cloud providers committing to a robust pipeline of new data centre projects totalling 1,311MW, compared to just 505MW of live capacity as of Dec-2024. Although macro uncertainties may cause a near-term slowdown in the data centre growth, we remain optimistic about its long-term outlook. Any slowdown is likely a minor hiccup rather than a structural shift. That said, we have adjusted our PE multiples for power ancillary players downward to reflect a more conservative base-case scenario, underpinned by more moderate expectations for electricity demand growth. The recent weakness in share prices of power ancillary players presents an attractive buying opportunity for investors. Maintain OVERWEIGHT rating on the sector, with top picks being CBHB (TP: RM0.45), UUE (TP: RM0.83), PEKAT (TP: RM1.43), and SCGBHD (TP: RM1.42).

Accelerating electricity demand through RP4. Electricity demand in Peninsular Malaysia is accelerating, now matching GDP growth due to the expansion of data centres (DCs) and AI infrastructure. Strong commitments from cloud service providers, including Amazon Web Services, Tencent Cloud, Google Cloud, and others across the Asia-Pacific region have supported DC expansion and, in turn electricity demand growth.

A year of execution. 2025 is expected to be a year of execution, as global cloud providers have committed to a strong pipeline of new DC projects totalling 1,313MW, significantly higher than the 505MW of live capacity as of Dec-2024, 12 projects in peninsular Malaysia with a combined maximum demand of 2.2GW that have signed electricity supply agreements (ESAs) but are yet to be delivered. Based on our back-of-the-envelope calculations, this requires approximately 12 to 13 new 275kV/33kV substations. The actual amount is likely higher at 15-18, taking into account redundancy and reliability requirements typically demanded by DC operators.

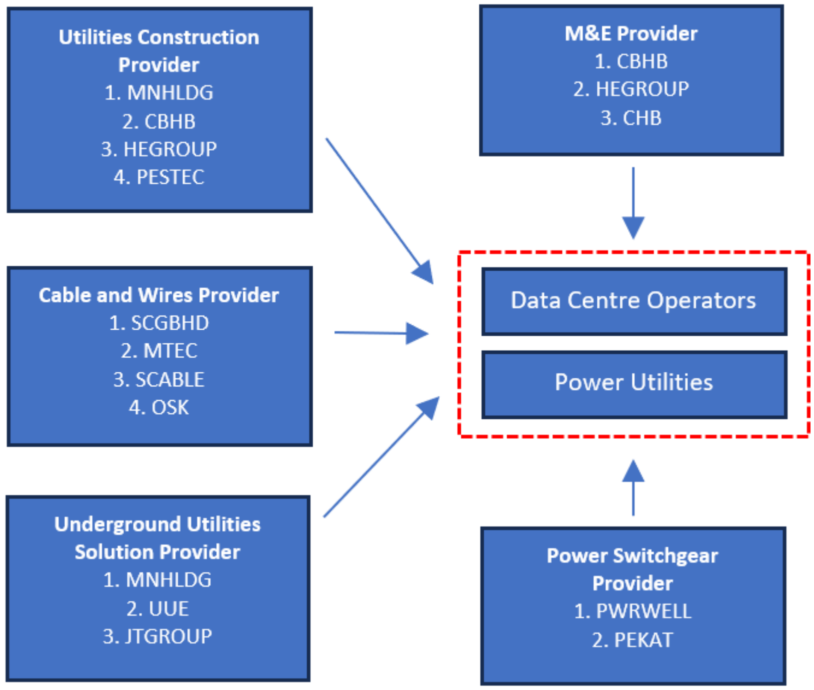
Capex growth to benefit M&E players. In Regulatory Period 4 (RP4), the allowed capex has increased by 108% to RM42.8bn, comprising RM26.6bn in base capex and RM16.3bn in contingent capex. Of this, base capex includes only DC projects with signed ESAs. Given the substantial number of DC projects yet to commit to an ESA, TNB anticipates that 60%–70% of the contingent capex will be triggered. The surge in RP4 capex is poised to benefit electrical contractors, mechanical and electrical (M&E) service providers, underground utility solution providers, and electricity distribution equipment manufacturers over the near to medium term.

Data centre investments only expected to go through a minor hiccup. Concerns of DC growth have surfaced since early this year, driven by the AI Diffusion Framework and the rollout of Deepseek. These concerns have been further compounded by tariff uncertainties in the US, prompting several DC operators to pause or delay investments pending greater policy clarity. Nonetheless, we believe the current slowdown in DC investments reflects a temporary headwind rather than a structural shift. For instance, while AWS has paused or restructured some international projects, it has reaffirmed a RM29.2bn commitment to Malaysia through 2038. Furthermore, NVIDIA's continued ramp-up of H100 and B100 GPU production signals sustained hyperscaler demand.

Maintain Overweight. While we acknowledge a potential slowdown in the data centre growth due to macroeconomic uncertainties, we remain positive about the longer-term outlook. In response to shifting market sentiment, we have lowered the price-to-earnings multiples in our valuation of power ancillary players, reflecting a more conservative base-case scenario with more moderate electricity demand growth. The recent weakness in share prices of power ancillary players presents an attractive buying opportunity for investors. Maintain **OVERWEIGHT** stance on the sector. **Our top small-to-mid-cap BUY recommendations include CBHB (TP: RM0.45), UUE (TP: RM0.83), PEKAT (TP: RM1.43) and SCGBHD (TP: RM1.42).**

KDN PP13226/06/2024 (035469)

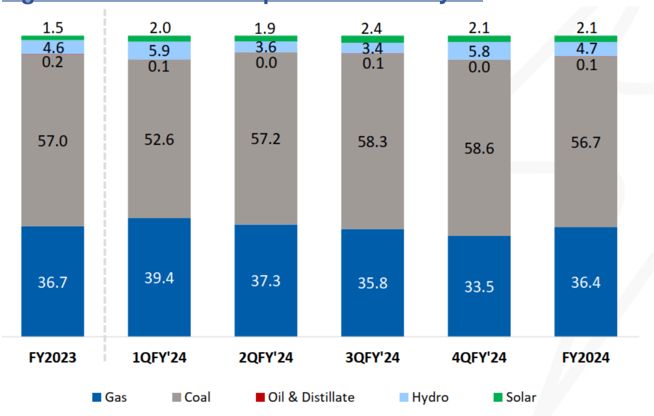
Fig 1: Categories of power ancillary players supporting grid infrastructure



Source: Apex Securities

Power generation capacity. In Peninsular Malaysia, with an installed capacity of 27.7GW as of 30 September 2024, the reserve margin stands at 38.0%, which is considered healthy and is slightly higher than the optimal range of 20%–35% recommended by the International Energy Agency (IEA). Electricity capacity is shared between independent power producers (IPPs) and the power generation arm of Tenaga Nasional Berhad (TNB). TNB holds c.50% of the generation market share, with the remaining share contributed by IPPs, NEDA participants, LSS developers, and others. In terms of the generation mix, coal remains the dominant fuel source in 2024, contributing 56.7%, followed by gas at 36.4%, hydroelectricity at 4.7%, solar at 2.1%, and others at 0.1%.

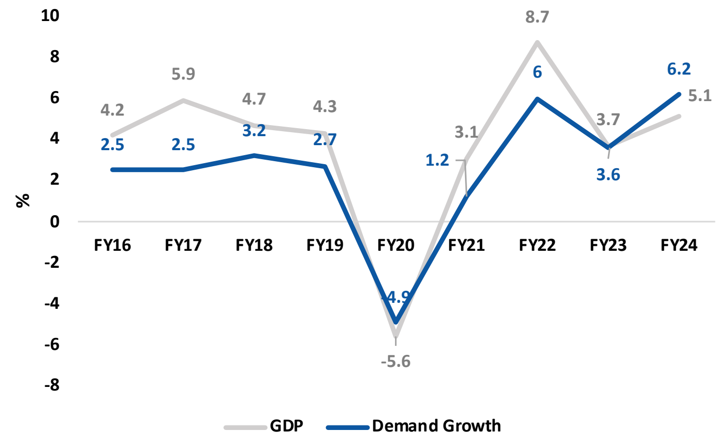
Fig 2: Generation mix in peninsular Malaysia



Source: TNB

Growing electricity demand. Peninsular Malaysia's electricity demand has seen a steady increase, with an 8-year CAGR of 2.4%. Prior to 2023, electricity demand growth lagged GDP growth due to energy efficiency gains and a shift towards a service-oriented economy. However, since 2023, this gap has closed, with electricity growth now matching or even exceeding GDP growth, driven primarily by the rapid expansion of DCs. In response to this structural demand shift, TNB has revised its electricity demand growth forecast to 3.5%–4.5% for 2025, approaching the national GDP growth forecast of 4.5%-5.5%.

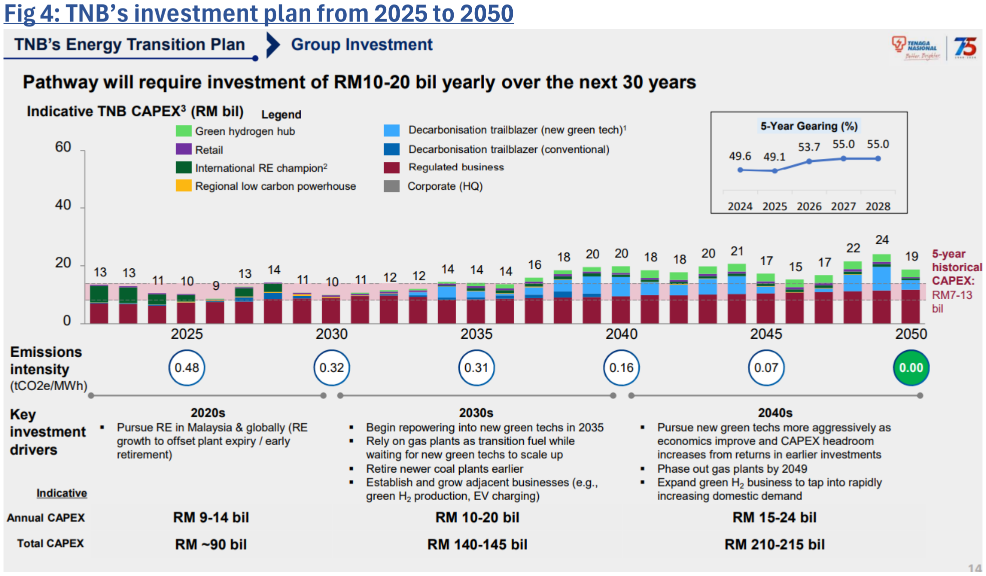
Fig 3: Peninsular Malaysia's electricity demand growth matching GDP growth since 2023



Source: TNB, Apex Securities

Grid investment to nearly double in 2025-2030. In Peninsular Malaysia, TNB is not only a power generator but also the effective monopoly owner and operator of the transmission and distribution (T&D) network. To support the nation's energy transition agenda, TNB plans to allocate RM35bn towards transition-related grid infrastructure from 2025 to 2030, in addition to its RM54bn non-energy transition allocation for the grid during the same period. This brings the total investment in Malaysia's grid to nearly RM90bn over the five years, almost double the RM46bn allocated by the Group for the 2018–2024 period, which included RM40bn for non-energy transition and RM6bn for energy transition.

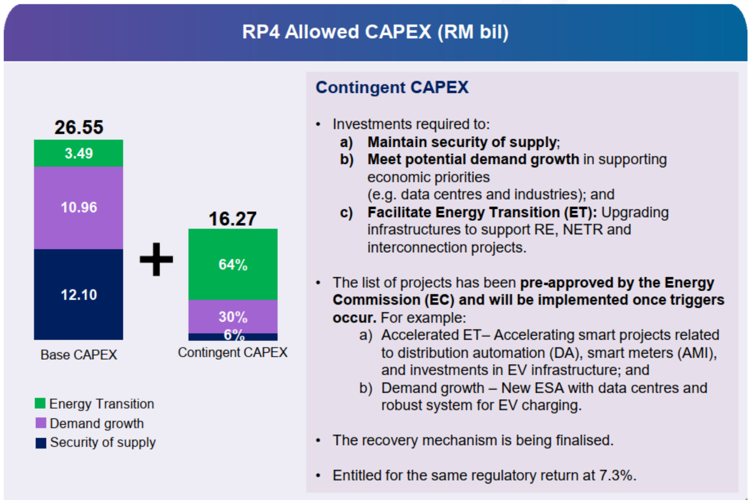
Fig 4: TNB's investment plan from 2025 to 2050



Source: TNB

Strong commitment to ET and demand growth. In RP4, TNB's capex has significantly increased to RM42.8bn, comprising RM26.6bn in base capex and RM16.3bn in contingent capex. This represents an average annual capex of RM14.3bn, which is 108% higher than the approved capex in RP3. As shown in Figure 5, 64% of the contingent capex is allocated to energy transition initiatives (such as distribution automation, smart metres, and EV infrastructure), 30% is designated for potential demand growth (including DCs and EV charging), while the remaining 6% is earmarked for ensuring security of supply.

Fig 5: Breakdown of RP4 capex

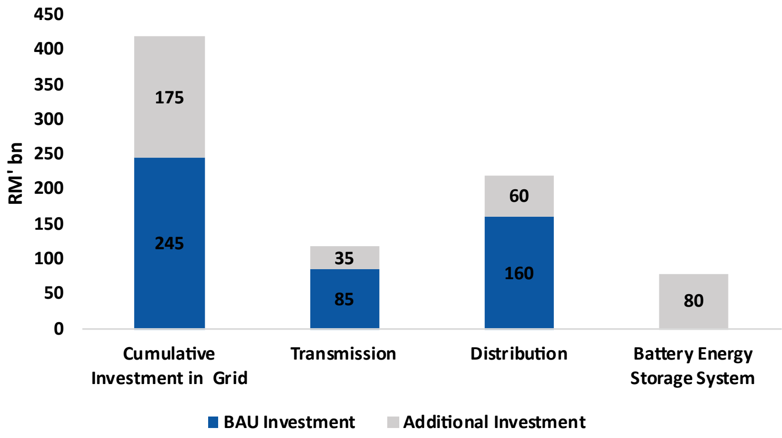


Source: TNB

Contingent CAPEX. Contingent capex refers to projects that are dependent upon specific trigger conditions. For example, reaching 90% of the forecasted smart meter or distribution automation installations could activate the deployment of contingent capex. These triggers may be executed automatically or require formal regulatory approval once the conditions are met. TNB is confident in securing 60%–70% of the contingent capex during RP4 (2025-2027).

We project that the majority of the contingent capex will be directed toward distribution infrastructure, consistent with the National Energy Transition Roadmap (NETR), which estimates that 50% of total grid upgrade investments will be allocated to the distribution segment. This presents significant upside in tender opportunities for players in the M&E sector, encompassing a wide range of services such as system design, power cabling, power installation, liquid cooling systems, clean room facilities, uninterruptible power supply (UPS) systems, backup power, building automation, server cabinets, and integrated security systems.

Fig 6: NETR's projected cumulative grid investment 2023-2050



Source: NETR, Apex Securities

Overview of electricity industry in Malaysia. The electricity industry consists of three key components: (i) **generation**, which produces electricity through power plants; (ii) **transmission**, which transports electricity at high-voltage (HV) over long distances from power plants to demand centres; and (iii) **distribution**, which delivers electricity at lower voltages directly to end users, such as households, businesses and industries.

Transmission. In Peninsular Malaysia, electricity is transmitted through a HV grid comprising 500kV, 275kV, and 132kV. According to 2024 annual report, the TNB transmission grid spans 29,518.9km. The transmission network includes 543 substations.

Distribution. Distribution system delivers electricity at lower voltage grid comprising 33kV, 11kV, 6.6kV, and 0.4kV. 99,374 substations are part of the distribution network.

Global evidence suggests that accommodating 50-70% renewable energy (RE) generation capacity would require expanding existing transmission capacity by 1.5 to 2 times. Meanwhile, distribution substations may need to grow by 30-50% to manage bidirectional power flows from intermittent renewable sources.

Data centre (DC). Since 2021, Malaysia has attracted ~RM90bn in DC investments from major global cloud service providers, including AirTrunk, Amazon, Bridge, Microsoft, GDS, Yondr Group, Google, K2, Keppel, and Equinix. This influx is driven by four key factors: (i) Malaysia's strategic location in the heart of ASEAN, (ii) robust fibre connectivity, (iii) more affordable land prices compared to Singapore, and (iv) favourable government policies.

Fig 7: Estimated and committed global data centre capex by hyperscalers

Hyperscalers	Data centre capex ($bn)		
	2023	2024	2025
AWS	25	75	104
Microsoft	37	56	80
Google Cloud	38	48	75
Meta Platforms	28	38	65
Oracle	6	7	8
Others	126	232	259
Total	**260**	**455**	**590**

Source: Various

Johor rising as a key DC hub. Malaysia's DC industry is primarily concentrated in Johor and Klang Valley, hosting c.60 facilities. Johor is rapidly emerging as a key DC hub due to its large availability of land for development and proximity to Singapore. According to a March 2024 DC Byte report, Johor's total IT capacity is nearly 1,600 MW, with about 20% operational and 80% committed or in early planning stages. The report states that Bridge DC leads in live IT capacity with a 69% market share, followed by GDS Holdings at 23%.

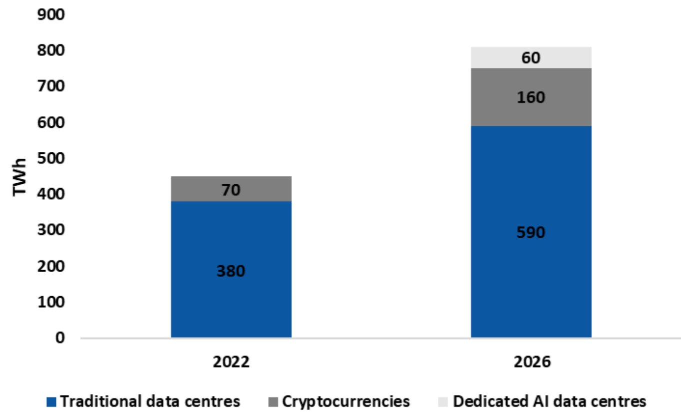
Fig 8: DC map in Malaysia

Source: Baxtel

DCs are significant energy consumers, operating 24/7 with high redundancy to ensure uninterrupted service availability. A 100MW DC can generate enough power to supply c.80,000 homes. IEA estimates that about 40% of a DC's energy is used for computing, 40% for cooling, and the remaining 20% for other processes.

AI hungry for power. The rising demand for DCs is driven by the growing adoption of AI technologies, including machine learning, deep learning, natural language processing, and large language models. Training AI models and processing large-scale data require significant computational power, increasing energy consumption. For example, OpenAI's ChatGPT consumes 2.9Wh/request, and with 9bn daily searches, this adds up to nearly 10TWh of additional electricity annually, equivalent to about 1GW of capacity or 3.9% of Peninsular Malaysia's installed capacity. IEA projects that global AI industry energy consumption will surge from 7.3TWh in 2023 to 73TWh by 2026, representing a tenfold increase.

Fig 9: Expected electricity demand from DCs globally from 2022 to 2026F



Source: IEA, Apex Securities

Malaysia Remains DC Investment Hotspot. Despite concerns over (i) US AI chip export restrictions, (ii) US import tariffs, and (iii) the rise of China's AI start-up DeepSeek with its open-sourced R1 model allegedly trained using fewer and less advanced chips, there are no signs of delays in Malaysia's DC investments. The combined capex for AI infrastructure by Microsoft, Google, Amazon, and Meta globally is projected to reach USD320bn, nearly doubling the USD151bn spent in 2023. Hyperscalers (Amazon, Google, Microsoft, and Oracle) have committed over USD44bn in the coming years, with more than half allocated to Malaysia. This is driven by Malaysia's strategic location at the convergence of multiple submarine cables, along with affordable land, water, and electricity, making it an attractive alternative to Singapore for DC investments.

Malaysia's AI transition. Malaysia government has committed USD250m over 10 years in a strategic partnership with ARM Holdings to access advanced chip design blueprints and training, enhancing local integrated circuit (IC) design capabilities and reducing reliance on foreign players. The partnership includes a training program to develop 10,000 IC design engineers, granting selected Malaysian companies access to ARM's cutting-edge technology and intellectual property, such as Compute Subsystem (CSS) and ARM Flexible Access (AFA), while supporting semiconductor product localisation and technology transfer. This move reinforces Malaysia's commitment to AI development. Despite potential near-term headwind from shifts in US AI chip policies and tariff uncertainties, Malaysia's abundant resources, balanced diplomatic approach, and ongoing commitment will ensure its competitiveness as an emerging DC hub and a key player in the global AI race.

Strong tailwinds for M&E sector. In 2025, Malaysia expects strong execution of DC projects, driven by committed investments from global cloud providers like Google, Microsoft, ByteDance, Amazon Web Services, and Oracle. The pipeline of new projects totals 1,313MW, compared to 505MW of live IT capacity as of Dec-2024 (refer to Fig 10). These 1,313MW reflect committed projects with secured land, though construction is still in the pre-development stage. We expect a surge in open tenders for M&E equipment and services, including building contractors, connectivity providers, and system integrators. This will drive robust order book growth and earnings visibility for players in the sector.

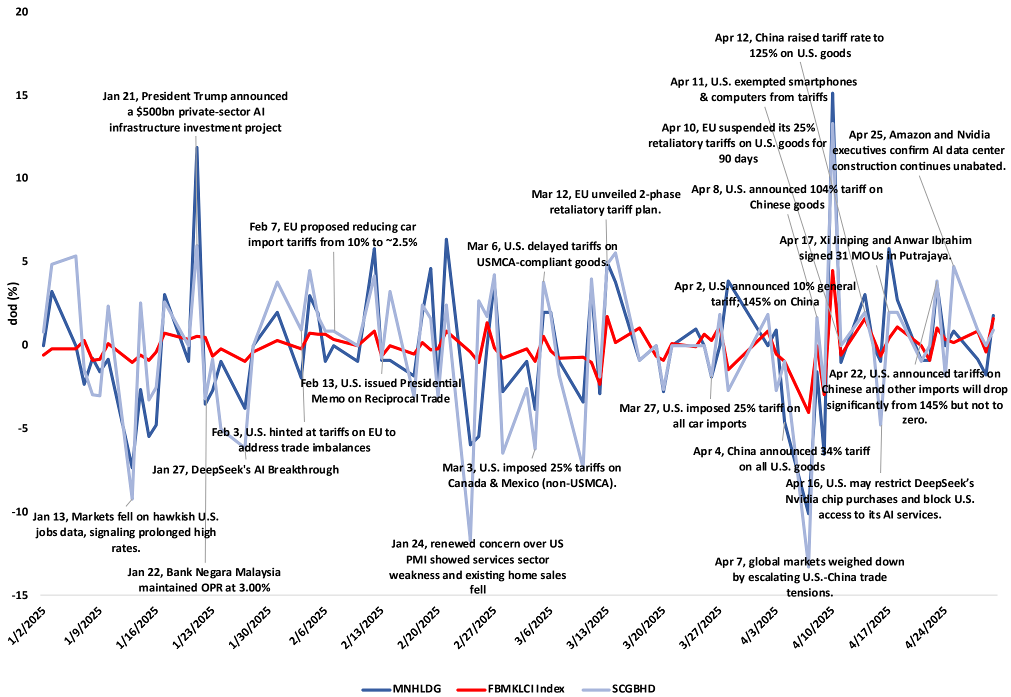
Fig 10: DC's IT capacity in Malaysia

Region / State	Existing Supply		Under Construction & Committed	
	No. of Data Centres	Estimated IT Capacity (MW)	No. of Data Centres	Estimated IT Capacity (MW)
Johor	12	397	28	899
Klang Valley	37	107	28	379
Penang	3	0	0	0
Sarawak	2	1	2	18
Negeri Sembilan	0	0	2	16
Kedah	0	0	1	2
Total	**54**	**505**	**61**	**1313**

Source: Knight Frank Malaysia, Apex Securities

In our view, **MNHLDG (NR)** and **SCGBHD (TP: RM1.42)** represent direct proxies for AI developments and major global economic events. The chart below shows both stocks experiencing sharp share price fluctuations around key international events, including AI infrastructure announcements, trade policy shifts, and rising geopolitical tensions.

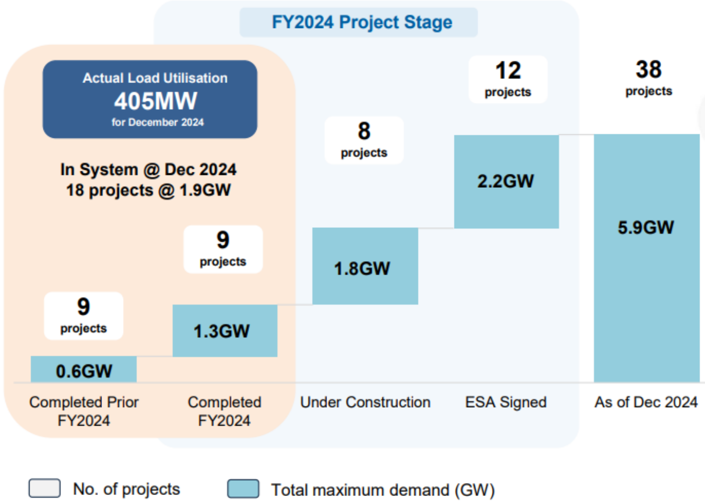
Fig 11: MNHLDG and SCGBHD experienced sharp share price fluctuations in response to key international events, including AI infrastructure announcements, trade policy shifts, and escalating geopolitical tensions.



Source: Various

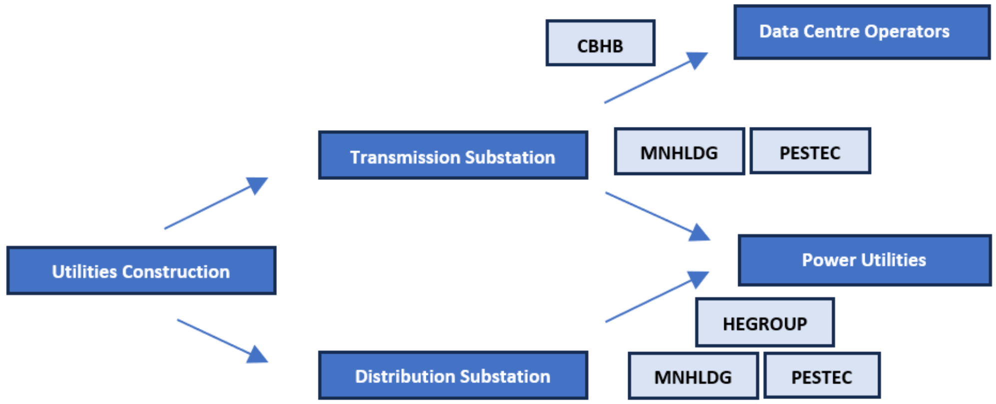
More ESAs, more substations. Based on TNB's latest analyst briefing, 12 projects with a combined maximum demand of 2.2GW have signed ESAs but are awaiting delivery. Assuming each 180MW capacity requires a new 275kV/33kV substation, estimated 12 to 13 new substations will be needed. The actual amount is likely higher at 15-18, taking into account redundancy and reliability requirements typically demanded by DC operators. Given their high technical specifications and complexity, particularly for DCs requiring uninterrupted, redundant power supply, each HV substation could have a contract value of above RM100m. As mentioned above, the RP4 base capex includes the 12 signed ESA projects, suggesting that construction works for the committed 2.2GW capacity will proceed as planned.

Fig 12: TNB's data centre projects as of December 2024



Source: TNB

Fig 13: Publicly listed utilities construction players

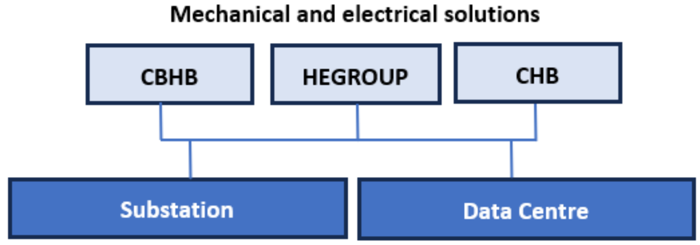


Source: Apex Securities
Note that CBHB is qualified to tender for power utility substation works but now primarily serves the private sector. HE Group also undertakes HV substation projects, though the majority of its completed works involve distribution substations.

Electrical contractors. We expect electrical contractors to benefit significantly from this development. In the listed space, potential beneficiaries include **CBHB (TP: RM0.45), MNHLDG (NR)**, **JTGROUP (NR)**, **PESTEC (NR)**, and **HEGROUP (NR)**, all of which have proven capabilities in executing complex HV substation projects. DC operators typically prefer to retain existing contractors or experienced firms due to the critical nature of their facilities. In this regard, **MNHLDG** and **CBHB** stand out, as both have extensive experience delivering specialised HV substations tailored specifically to DC needs. **CBHB** has 60% revenue exposure to DC HV substation projects and a proven track record of over RM600m in total substation contracts, positioning it well to capitalise on the accelerating DC infrastructure rollout.

From the perspective of national utility, we believe demand for distribution substations will be strong in the medium term, as the 12 projects signed under ESAs are included in the planned capex under RP4. On top of that, TNB is confident that 60-70% of contingent capex will be triggered, further increasing the need for distribution substations. This will unlock additional opportunities for the contractors mentioned above, all of which are G7-certified by TNB, hence ensuring a robust outlook in the foreseeable future.

Fig 14: Publicly listed M&E solutions player



Source: Apex Securities

Mechanical and Electrical (M&E) system solution. With the rise in substation projects, we see a spillover in demand for M&E systems. M&E typically covers ACMV systems, fire protection, plumbing and sanitary systems, as well as renewable energy components. These scopes are often bundled within turnkey contracts awarded to integrated contractors, which should benefit **CBHB (TP: RM0.45)** and **HEGROUP (NR)**, given their capabilities as one-stop solution providers for substation projects. We also believe this trend will benefit **CHB (NR)**, a specialist in M&E solutions with a strong track record in designing and delivering high-efficiency M&E infrastructure for DCs.

Scenario analysis (CBH). Under our FY25F assumptions, every RM20m increase in order book replenishment could increase CBH's earnings by c.RM3m, based on a profit margin of 14%. This translates to 5% increase in earnings compared to baseline expectations of RM53m. Conversely, a shortfall in replenishment of the same magnitude would result in a similar degree of earnings downside.

Scenario 1: Hyperscalers pull back or postpone projects. If hyperscalers pull back due to macroeconomic uncertainties, earnings could plunge by 17% to RM44m in our worst-case scenario, assuming an order book replenishment assumption of RM340m and compressed profit margin of 13%.

Scenario 2: Tariff resolution. Once we have greater policy clarity on tariffs, hyperscalers are likely to resume acceleration of DC projects. For CBH, this could push order book replenishment higher. At best case scenario, earnings could surge by 46% to RM78m, with order book replenishment assumption of RM500m and expanded profit margin of 15.5%.

Although DC operators may face a near-term slowdown, we believe that this is a temporary headwind rather than a structural shift. CBH may experience a short-term earnings impact but is unlikely to face long-term damage, supported by Malaysia's appeal as a data centre hub with its affordable land, low electricity costs, and favourable policies.

Fig 15: CBHB's FY25F earnings sensitivity analysis

		Profit margin (%)					
	53	13.0%	13.5%	14.0%	14.5%	15.0%	15.5%
Order replenishment FY25F (RM'm)	340	44	46	48	49	51	53
	360	47	49	50	52	54	56
	379	49	51	**53**	55	57	59
	400	52	54	56	58	60	62
	420	55	57	59	61	63	65
	440	57	59	62	64	66	68
	460	60	62	64	67	69	71
	480	62	65	67	70	72	74
	500	65	68	70	73	75	78

Source: Apex Securities

Fig 16: CBHB's FY25F earnings changes in % from base case assumption

		Profit margin (%)					
	0%	13.0%	13.5%	14.0%	14.5%	15.0%	15.5%
Order replenishment FY25F (RM'm)	340	-17%	-13%	-10%	-7%	-4%	-1%
	360	-12%	-8%	-5%	-2%	2%	5%
	379	-7%	-4%	**0%**	4%	7%	11%
	400	-2%	2%	6%	9%	13%	17%
	420	3%	7%	11%	15%	19%	23%
	440	8%	12%	16%	20%	24%	29%
	460	13%	17%	21%	26%	30%	34%
	480	18%	22%	27%	31%	36%	40%
	500	23%	27%	32%	37%	41%	46%

Source: Apex Securities

Fig 17: CBHB's FY26F earnings sensitivity analysis

		Profit margin (%)					
	60	13.0%	13.5%	14.0%	14.5%	15.0%	15.5%
Order replenishment FY26F (RM'm)	380	37	38	39	40	41	42
	400	46	47	49	50	51	52
	422	57	58	**59**	61	62	63
	440	65	67	68	69	71	72
	460	75	76	78	79	80	82
	480	84	86	87	89	90	92
	500	94	96	97	99	100	102
	520	104	105	107	108	110	111
	540	113	115	116	118	120	121

Source: Apex Securities

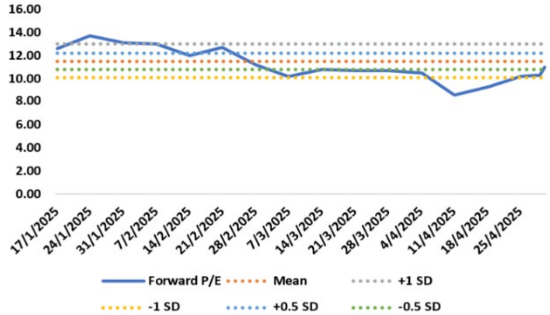
Fig 18: CBHB's FY26F earnings changes in % from base case assumption

		Profit margin (%)					
	0%	13.0%	13.5%	14.0%	14.5%	15.0%	15.5%
Order replenishment FY26F (RM'm)	380	-38%	-37%	-35%	-33%	-31%	-29%
	400	-22%	-20%	-18%	-16%	-14%	-12%
	422	-5%	-3%	**0%**	2%	4%	6%
	440	10%	12%	14%	16%	19%	21%
	460	26%	28%	30%	33%	35%	37%
	480	42%	44%	47%	49%	52%	54%
	500	58%	61%	63%	66%	68%	71%
	520	74%	77%	79%	82%	85%	87%
	540	90%	93%	96%	98%	101%	104%

Source: Apex Securities

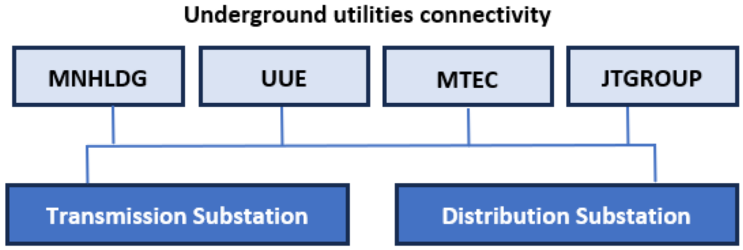
As shown in Figure 19 below, CBHB's forward PE multiple has fallen to around 0.5 standard deviation (SD) below its mean since IPO. We believe this is an attractive buying opportunity considering the undemanding valuation. However, acknowledging ongoing market turbulence and weaker sentiment towards DC-related stocks, we believe the sector may no longer sustain its previous premium PER of 18x. Accordingly, we have revised our valuation multiple to a more conservative 15x PER to better reflect prevailing market conditions. Our TP has been revised to **RM0.45** from RM0.54, based on a 15x FY25F PER applied to EPS of 3.0 sen, in line with peer valuations.

Fig 19: CBHB's forward PE multiple chart



Source: Apex Securities

Fig 20: Publicly listed underground utilities player



Source: Apex Securities
Note that most of the connectivity now refers to 11–33kV, which falls under distribution substations.

Underground utilities solutions. The construction of new utility infrastructure will naturally drive higher demand for underground utilities construction, encompassing open-cut trenching, micro-trenching, horizontal directional drilling (HDD) for cable laying, jointing, milling, and paving works. Among these, HDD is the preferred method because (i) pipelines can be laid underground without breaking the surface or with minimal excavation, (ii) it can be performed at any time of day, thus requiring a shorter completion time, and (iii) it is cost-effective compared to other methods.

Engineering companies typically engage HDD service providers to erect electricity substations on their premises or to lay pipelines and cables to draw power from the National Grid. We expect HDD solution providers such as **MNHLDG (NR)**, **UUE (TP: RM0.83)**, **MTEC (NR)**, and **JTGROUP (NR)** to benefit from the spillover effect of TNB's higher capex, alongside ongoing construction activity from DCs. Notably, **UUE** stands out, benefiting from over 10 years of strong business relationships with key main contractors. Furthermore, the Group's in-house production of high-density polyethylene (HDPE) pipes, a key component in underground utility projects, positions it well to capitalise on the growing demand for HDD solutions.

Scenario analysis (UUE). Under our FY26F assumptions, every RM20m increase in order book replenishment could increase UUE's earnings by c.13%, based on a profit margin of 13.6%. Conversely, a shortfall in replenishment of the same magnitude would result in a similar degree of earnings downside.

Scenario 1: Hyperscalers pull back or postpone projects. If hyperscalers pull back due to macroeconomic uncertainties, some of TNB's contingent capex may not be triggered as demand from DCs declines. Earnings could plunge by 35% to RM13m in our worst-case scenario compared with our forecast of RM20m, assuming an order book replenishment assumption of RM120m and compressed profit margin of 12%.

Scenario 2: Tariff resolution. Once we have greater policy clarity on tariffs, hyperscalers are likely to resume acceleration of DC projects. TNB's contingent capex is more likely to be triggered to meet higher electricity demand from DC operators, boosting order book replenishment for the year. At best case scenario, earnings could surge by 110% to RM42m, with order book replenishment assumption of RM280m and expanded profit margin of 16.6%. The earnings growth may also be contributed directly by the demand from DC operators.

More than half of UUE's revenue has been derived from TNB-related contracts. As a result, its earnings are sensitive to TNB's capex cycle. Once the contingent capex is triggered, UUE can leverage its exclusive subcontractor relationships with two of the top utility contractors in the market. This strategic positioning enhances UUE's ability to secure TNB's project flows, which are expected to continue contributing meaningfully to the Group's order book going forward.

Fig 21: UUE's FY25F earnings sensitivity analysis

	Profit margin (%)						
	16	12.2%	12.7%	13.2%	13.7%	14.2%	14.7%
Order replenishment FY25F (RM'm)	100	11	11	12	12	13	13
	120	13	14	14	15	15	16
	136	15	16	**16**	17	17	18
	160	18	18	19	20	20	21
	180	20	21	21	22	23	24
	200	22	23	24	25	26	26
	220	24	25	26	27	28	29
	240	26	27	29	30	31	32
	260	29	30	31	32	33	34

Source: Apex Securities

Fig 22: UUE's FY25F earnings changes in % from base case assumption

	Profit margin (%)						
	0%	12.2%	12.7%	13.2%	13.7%	14.2%	14.7%
Order replenishment FY25F (RM'm)	100	-32%	-29%	-26%	-23%	-21%	-18%
	120	-18%	-15%	-11%	-8%	-5%	-1%
	136	-7%	-3%	**0%**	4%	8%	12%
	160	9%	14%	18%	23%	27%	31%
	180	23%	28%	33%	38%	43%	48%
	200	36%	42%	48%	53%	59%	64%
	220	50%	56%	62%	68%	75%	81%
	240	64%	70%	77%	84%	91%	97%
	260	77%	85%	92%	99%	106%	114%

Source: Apex Securities

Fig 23: UUE's FY26F earnings sensitivity analysis

	Profit margin (%)						
	20	12.0%	13.0%	13.6%	14.6%	15.6%	16.6%
Order replenishment FY26F (RM'm)	120	13	14	15	16	17	18
	140	15	16	17	18	20	21
	163	18	19	**20**	21	23	24
	180	19	21	22	24	25	27
	200	22	23	24	26	28	30
	220	24	26	27	29	31	33
	240	26	28	29	32	34	36
	260	28	30	32	34	37	39
	280	30	33	34	37	39	42

Source: Apex Securities

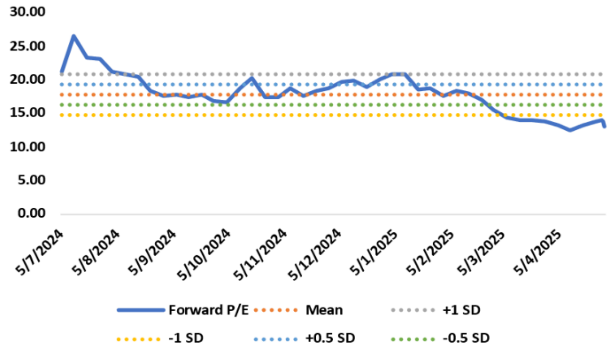
Fig 24: UUE's FY26F earnings changes in % from base case assumption

	Profit margin (%)						
	0%	12.0%	13.0%	13.6%	14.6%	15.6%	16.6%
Order replenishment FY26F (RM'm)	120	-35%	-30%	-26%	-21%	-16%	-10%
	140	-24%	-18%	-14%	-8%	-2%	5%
	163	-12%	-4%	**0%**	7%	15%	22%
	180	-3%	6%	10%	18%	27%	35%
	200	8%	17%	23%	32%	41%	50%
	220	19%	29%	35%	45%	55%	65%
	240	30%	41%	47%	58%	69%	80%
	260	41%	52%	59%	71%	83%	95%
	280	52%	64%	72%	84%	97%	110%

Source: Apex Securities

UUE's forward PER is currently below 15x, more than 1 SD below its mean since IPO last year (refer to Fig. 25). Although most of UUE's earnings are derived from TNB's contracts, its share price performance has been influenced by broader market sentiment towards DC-related stocks. Since we have lowered our PE multiple during the previous quarterly review, we maintain our existing valuation parameters. TP is maintained at **RM0.83**, based on a 15x PER applied to FY27F EPS of 5.5 sen.

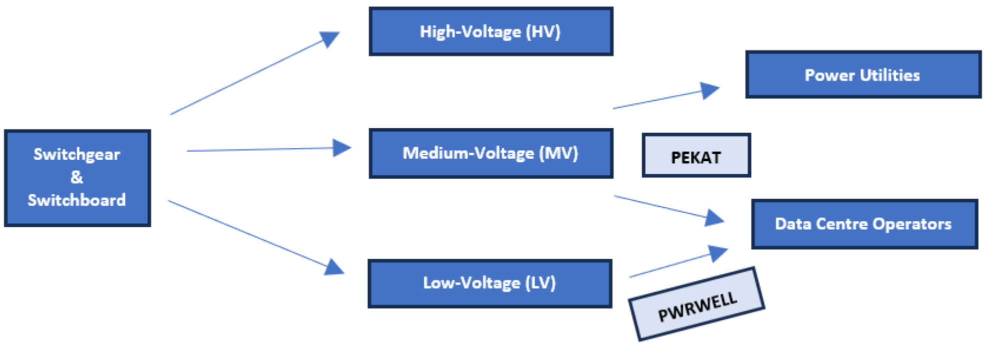
Fig 25: UUE's forward PE multiple chart



Source: Apex Securities

Electricity distribution equipment. We believe manufacturers and suppliers of electricity distribution equipment will be key beneficiaries of greater RP4 capex. The distribution equipment receives electricity from transmission network and distributes it downstream before it reaches end-users. This equipment includes circuit breakers, fuses, switches, control and protection relays, lightning arresters, copper busbars, busducts, transformers, DC power supplies, variable frequency drives, plugs, sockets, cables, and bases.

Fig 26: Switchgear and switchboard mapping



Source: Apex Securities
Note that the majority of PWRWELLl's supply is directed toward DCs, though they also provide services to power utility companies.

Switchgear and switchboard. Switchgears and switchboards are key components in electrical infrastructure, critical for reliable power distribution, equipment protection, and safety. Assuming 70% of base capex is allocated to Transmission and Distribution system, and conservatively estimating that 10% of this is allocated to switchgears, this translates to c.RM1.9bn in orders during RP4. Recent tenders also indicate that government procurement for such equipment has doubled compared to the previous cycle, reflecting strong market growth.

From the private sectors' perspective, c.45% of total costs for DCs relates to power systems, with another 30% for cooling systems, and the remainder for other systems. Within power-related costs, c.50% is allocated to UPS and generators, while c.25% is allocated to switchgears and switchboards. Assuming a conservative construction cost of RM20m/MW and 700MW of new DC capacity coming online annually, this would translate to c.RM1.5bn/year in potential market opportunities.

In this scenario, **PEKAT (TP: RM1.43)** stands as a clear beneficiary, primarily through its recent strategic acquisition of EPE, a specialist in manufacturing Medium Voltage (MV) switchgears and switchboards. EPE generates c.70% of its revenue from national utility companies and holds a 30% market share with TNB. Meanwhile, we also see growth opportunities for **PWRWELL (NR)** that is involved in Low Voltage (LV) switchgears and switchboards.

Scenario analysis (PEKAT). Under our FY25F assumptions, every RM20m increase in order book replenishment could increase PEKAT's earnings by c.5%, assuming a profit margin of 6.8%. Conversely, a shortfall in replenishment of the same magnitude would result in a similar degree of earnings downside.

Scenario 1: Hyperscalers pull back or postpone projects. If hyperscalers pull back DC investments due to macroeconomic uncertainties, some of TNB's contingent capex may not be triggered as demand from DCs reduces. Compared with our forecast of RM23m, earnings could plunge by 24% to RM18m in our worst-case scenario, assuming an order book replenishment assumption of RM340m and compressed profit margin of 5.8%.

Scenario 2: Tariff resolution. Once we have greater policy clarity on tariffs, hyperscalers are likely to resume acceleration of DC projects. TNB's contingent capex is more likely to be triggered to meet higher electricity demand, resulting in increased deployment of MV switchgears. At best case scenario, earnings could surge by 61% to RM37m, with order book replenishment assumption of RM500m and expanded profit margin of 8.3%. The earnings growth may also be contributed by the private sector, which also requires MV switchgear for its own substations.

EPE's heavy exposure (~70% of revenue) to utility clients, primarily TNB, positions it as a direct proxy for utility capex cycles. While RP4's allowed capex provides a baseline demand, contingent capex provides an upside catalyst for the MV switchgear segment. Given the high barriers to entry and the oligopoly nature of the industry (with only 5 – 7 key players), EPE is well-positioned to capitalise on rising demand, underpinned by its proven track record, established market presence, and more than 50 years of industry experience.

Fig 27: PEKAT's FY25F earnings sensitivity analysis

		Profit margin (%)					
	23	5.8%	6.3%	6.8%	7.3%	7.8%	8.3%
Order replenishment FY25F (RM'm)	340	18	19	21	22	24	25
	360	19	20	22	24	25	27
	380	20	22	**23**	25	27	28
	400	21	23	24	26	28	30
	420	22	24	26	28	29	31
	440	23	25	27	29	31	33
	460	24	26	28	30	32	34
	480	25	27	29	32	34	36
	500	26	28	31	33	35	37

Source: Apex Securities

Fig 28: PEKAT's FY25F earnings changes in % from base case assumption

		Profit margin (%)					
	0%	5.8%	6.3%	6.8%	7.3%	7.8%	8.3%
Order replenishment FY25F (RM'm)	340	-24%	-17%	-11%	-4%	3%	9%
	360	-19%	-12%	-5%	2%	9%	16%
	380	-15%	-7%	**0%**	7%	15%	22%
	400	-10%	-2%	5%	13%	21%	28%
	420	-6%	2%	11%	19%	27%	35%
	440	-1%	7%	16%	24%	33%	41%
	460	3%	12%	21%	30%	39%	48%
	480	8%	17%	26%	36%	45%	54%
	500	12%	22%	32%	41%	51%	61%

Source: Apex Securities

Fig 29: PEKAT's FY26F earnings sensitivity analysis

Order replenishment FY26F (RM'm)	Profit margin (%)					
24	5.7%	6.2%	6.7%	7.2%	7.7%	8.2%
360	18	20	22	23	25	27
380	19	21	23	25	26	28
400	21	22	**24**	26	28	30
420	22	23	25	27	29	31
440	23	25	27	29	30	32
460	24	26	28	30	32	34
480	25	27	29	31	33	35
500	26	28	30	32	35	37
520	27	29	31	34	36	38

Source: Apex Securities

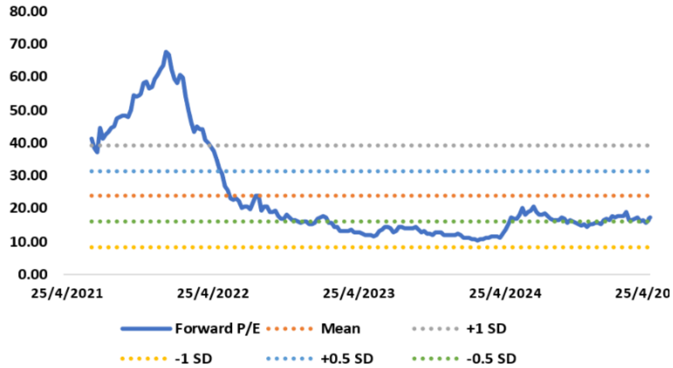
Fig 30: PEKAT's FY26F earnings changes in % from base case assumption

Order replenishment FY26F (RM'm)	Profit margin (%)					
0%	5.7%	6.2%	6.7%	7.2%	7.7%	8.2%
360	-23%	-17%	-10%	-3%	3%	10%
380	-19%	-12%	-5%	2%	9%	16%
400	-15%	-7%	**0%**	7%	15%	22%
420	-11%	-3%	5%	13%	21%	29%
440	-6%	2%	10%	18%	26%	35%
460	-2%	6%	15%	24%	32%	41%
480	2%	11%	20%	29%	38%	47%
500	6%	16%	25%	34%	44%	53%
520	11%	20%	30%	40%	49%	59%

Source: Apex Securities

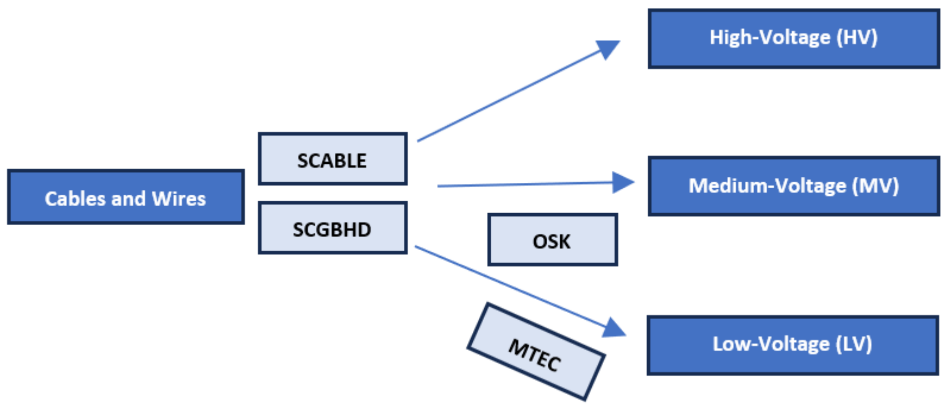
PEKAT's current valuation is attractive, with its forward PER below 18x, compared to RE EPCC peers trading at c.25x. We adopt an SOP valuation approach for PEKAT, assigning a 15x PER to its EPE switchgear segment. We view this as reasonable, given EPE's position as one of the few manufacturers and approved vendors for TNB in the MV switchgear segment. Accordingly, we maintain our target price at **RM1.43**, based on SOP valuation.

Fig 31: PEKAT's forward PE multiple chart



Source: Apex Securities

Fig 32: Publicly listed cables and wires manufacturers



Source: Apex Securities

Cables and wires. Cable manufacturers are poised to benefit significantly from TNB's grid upgrade cycles. In the HV segment, driven by rising power demands from DCs, the government has recently increased cable specifications from 800mm^2 to 1600mm^2 cross-linked polyethylene (XLPE) insulated cables. Currently, only two listed Malaysian companies can manufacture these cables, namely **SCGBHD (TP: RM1.42)** and **SCABLE (NR)**. Given **SCABLE**'s financial difficulties, **SCGBHD** is the sole listed beneficiary, with its certification for the 1600mm^2 cables expected by the 3QCY25. Furthermore, we expect TNB to allocate transmission capex towards upgrading older bare-conductor cables and constructing additional overhead transmission lines to accommodate for higher electricity loads. Besides these cable manufacturers, **MTEC (NR)** could also stand to benefit, given its track record of supplying bare-conductor cables to TNB for shorter-distance installations.

From the perspective of national utilities, demand within the MV and LV cable segments is expected to remain robust, driven by increased requirements for control systems within the distribution infrastructure. Recent doubling of overall contract size from RM1bn to RM2bn reflects TNB's increased capex commitment to grid upgrading initiatives, hence boosting growth prospects of TNB-qualified cable suppliers, including **SCGBHD (TP: RM1.42)**, **SCABLE (NR)**, **OSK (NR)**, and **MTEC (NR)**.

Among the listed companies, **SCGBHD (TP: RM1.42)** commands c.20% market share under the TNB 1+1 contract cycle. SCGBHD's capacity expansion of 5,000 km/year by FY25 is progressing as scheduled, expected to bringing the total installed capacity to 51,980 km/year (+10.6%) by year end. Ongoing construction at Lots 20, 21, 22, 28, and 29 is projected to further increase capacity by c.20% to c.60,000 km/year over the next two years, positioning SCGBHD well to capture the rising demand for LV and MV cables. Meanwhile, we also expect **MTEC (NR)** to benefit significantly upon securing its MV Sijil Boleh Pakai certification from TNB, expected by June 2025, hence allowing the Group to tap into the rising LV and MV cables demand.

Scenario analysis (SCGBHD). Under our FY25F assumptions, every RM20m increase in order book replenishment could increase SCGBHD's earnings by c.6%, assuming a profit margin of 5.6%. Conversely, a shortfall in replenishment of the same magnitude would result in a similar degree of earnings downside.

Scenario 1: Hyperscalers pull back or postpone projects. If hyperscalers pull back DC investments due to macroeconomic uncertainties, some of TNB's contingent capex may not be triggered as demand from DCs drops. This would directly lower the demand for power cables and wires typically installed in new substations and DC infrastructure. Compared with our forecast of RM78m, earnings could plunge by 31% to RM54m in our worst-case scenario, assuming an order book replenishment assumption of RM1,300m and compressed profit margin of 4.6%. The earnings impact reflects volume contraction and likely margin compression due to underutilised production capacity and a less favourable product mix.

Scenario 2: Tariff resolution. Once we have greater policy clarity on tariffs, hyperscalers are likely to resume acceleration of DC projects. TNB's contingent capex is more likely to be triggered to meet higher electricity demand, stimulating additional demand for power cables and wires across both utility and private-sector DC projects. At best case scenario, earnings could surge by 72% to RM134m, with order book replenishment assumption of RM2,100m and expanded profit margin of 7.1%. This improvement is expected to be driven by economies of scale and margin expansion through a more favourable product mix.

SCGBHD derives an estimated 25%–35% of its revenue from long-term contracts with TNB, including recurring orders tied to national grid upgrades. The activation of contingent capex provides a potential upside to order book. Given its capability to produce cables for both transmission and distribution networks, combined with industry consolidation following the exit of financially distressed competitors, we believe SCGBHD is well-positioned to sustain a robust order book replenishment in the coming years.

Fig 33: SCGBHD's FY25F earnings sensitivity analysis

		Profit margin (%)					
	78	4.6%	5.1%	5.6%	6.1%	6.6%	7.1%
Order replenishment FY25F (RM'm)	1300	54	60	66	71	77	83
	1400	58	64	71	77	83	89
	1546	64	71	**78**	85	92	99
	1600	66	73	81	88	95	102
	1700	70	78	86	93	101	109
	1800	75	83	91	99	107	115
	1900	79	87	96	104	113	121
	2000	83	92	101	110	119	128
	2100	87	96	106	115	125	134

Source: Apex Securities

Fig 34: SCGBHD's FY25F earnings changes in % from base case assumption

		Profit margin (%)					
	0%	4.6%	5.1%	5.6%	6.1%	6.6%	7.1%
Order replenishment FY25F (RM'm)	1300	-31%	-23%	-16%	-8%	-1%	7%
	1400	-26%	-18%	-9%	-1%	7%	15%
	1546	-18%	-9%	**0%**	9%	18%	27%
	1600	-15%	-6%	3%	13%	22%	31%
	1700	-10%	0%	10%	20%	30%	39%
	1800	-4%	6%	16%	27%	37%	48%
	1900	1%	12%	23%	34%	45%	56%
	2000	6%	18%	29%	41%	52%	64%
	2100	12%	24%	36%	48%	60%	72%

Source: Apex Securities

Fig 35: SCGBHD's FY26F earnings sensitivity analysis

		Profit margin (%)					
	105	4.6%	5.1%	5.6%	6.1%	6.6%	7.1%
Order replenishment FY26F (RM'm)	1800	75	83	91	99	107	115
	1900	79	87	96	104	113	121
	2074	86	95	**105**	114	123	133
	2100	87	96	106	115	125	134
	2200	91	101	111	121	131	141
	2300	95	106	116	126	137	147
	2400	99	110	121	132	143	153
	2500	104	115	126	137	149	160
	2600	108	119	131	143	154	166

Source: Apex Securities

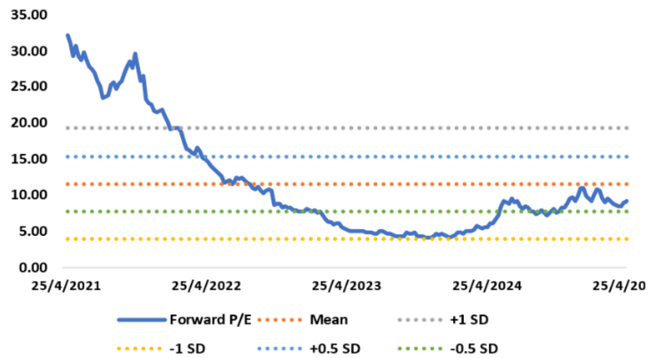
Fig 36: SCGBHD's earnings changes in % from base case assumption

Order replenishment FY26F (RM'm)	Profit margin (%) 0%	4.6%	5.1%	5.6%	6.1%	6.6%	7.1%
	1800	-29%	-21%	-13%	-5%	2%	10%
	1900	-25%	-17%	-8%	0%	8%	16%
	2074	-18%	-9%	**0%**	9%	18%	27%
	2100	-17%	-8%	1%	10%	19%	28%
	2200	-13%	-3%	6%	16%	25%	34%
	2300	-9%	1%	11%	21%	31%	41%
	2400	-5%	5%	16%	26%	36%	47%
	2500	-1%	10%	21%	31%	42%	53%
	2600	3%	14%	25%	37%	48%	59%

Source: Apex Securities

As illustrated in the chart below, SCGBHD is currently trading at forward PER of below 10x, close to 0.5 SD below its 5-year historical mean. We take this opportunity to lower our PE multiple to a more conservative 15x. Accordingly, our target price is revised to **RM1.42** from RM1.71, based on a 15x PER applied to FY25F EPS of 9.5 sen. Still, we are optimistic on SCGBHD's growth prospects, underpinned by strong order book replenishment and high-value contract wins secured under the latest TNB contract cycle.

Fig 37: SCGBHD's forward PE multiple chart



Source: Apex Securities

Fig 38: Peers' comparison

Company	FYE	Market Cap (RM m)	Rec.	Price (RM) ^	TP (RM)	Potental Upside	P/E (x) CY25	P/E (x) CY26	Div Yield (%) CY25	Div Yield (%) CY26	ESG Rating
Utility Company											
Tenaga Nasional Bhd	Dec	80,792	Buy	13.86	16.04	15.7%	19.1	18.6	3.4	3.5	★★★
Electrical contractors											
CBH Engineering Holding Bhd	Dec	564.3	Buy	0.30	0.45	50.0%	11.6	10.0	0.0	0.0	★★★
*MN Holdings Bhd	Jun	640.5	N/A	1.14	1.71	50.0%	11.6	10.3	0.2	0.2	N/A
*HE Group Bhd	Dec	112.2	N/A	0.26	0.44	69.2%	9.3	5.7	2.0	3.5	N/A
Average							**10.8**	**8.6**	**0.7**	**1.2**	
M&E											
CBH Engineering Holding Bhd	Dec	564.3	Buy	0.3	0.45	50.0%	11.6	10.0	0	0	★★★
*Critical Holdings Bhd	Jun	258.4	N/A	0.70	1.65	135.7%	8.0	7.3	3.3	3.6	N/A
*HE Group Bhd	Dec	112.2	N/A	0.26	0.44	69.2%	9.4	5.8	2.0	3.5	N/A
Average							**9.7**	**7.7**	**1.8**	**2.4**	
Underground Utilities											
UUE Holdings Bhd	Feb	377.1	Buy	0.62	0.83	33.9%	12.5	8.9	1.1	1.9	★★★
PEKAT Group Bhd	Dec	786.9	Buy	1.22	1.43	17.2%	23.6	18.4	0.8	0.6	★★★
*MN Holdings Bhd	Jun	640.5	N/A	1.14	1.71	50.0%	11.6	10.3	0.2	0.2	N/A
Average							**15.9**	**12.5**	**0.7**	**0.9**	
Cables and Wires											
Southern Cable Group Bhd	Dec	1038.2	Buy	1.12	1.42	26.8%	13.0	11.8	1.3	1.5	★★★
*OSK Holdings Bhd	Dec	3608.7	N/A	1.70	2.88	69.4%	6.3	6.3	4.6	4.9	N/A
Average							**9.6**	**9.0**	**2.9**	**3.2**	

** Based on Bloomberg consensus*

Source: Company, Apex Securities

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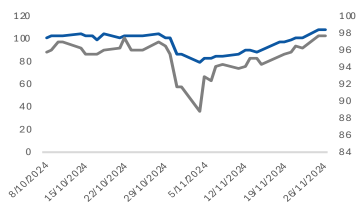
Recommendation:		BUY
Current Price:		RM 0.30
Previous Target Price:		RM 0.54
Target Price:	↓	RM 0.45
Capital Upside/Downside:		50.0%
Dividend Yield (%):		0.0%
Total Upside/Downside:		**50.0%**

Stock information	
Board	ACE
Sector	Industrial
Bursa / Bloomberg Code	0339 / CBHB MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	1,880.9
Market Cap (RM' m)	564.3
52-Week Price Range (RM)	0.38-0.215
Beta (x)	N/A
Free float (%)	26.7
3M Average Volume (m)	N/A
3M Average Value (RM' m)	N/A

Top 3 Shareholders	(%)
Quay Holdings Sdn Bhd	72.8

Share Price Performance



	1M	3M	12M
Absolute (%)	5.3	N/A	N/A
Relative (%)	4.3	N/A	N/A

CBH Engineering Holding Berhad

Long-Term Fundamentals Remain Intact

Executive Summary

- **Recent US policy shifts under the Trump administration, notably potential semiconductor tariffs and chip export controls, alongside hyperscaler pullbacks, have raised concerns about a near-term slowdown in data centre (DC) growth.**
- **We understand CBHB is naturally sensitive to DC development trends, which may temporarily moderate order inflows and earnings momentum. However, we view this as a short-term headwind rather than a structural shift. The long-term structural outlook remains robust, supported by sustained hyperscaler investment commitments, Malaysia's 1,313MW DC project pipeline, and 2.2GW in signed electricity supply agreements (ESAs), highlighting continued robust demand for substations over the long run.**
- **Following our sector rerating, we maintain our BUY recommendation for CBHB, with a revised target price of RM0.45 (from RM0.54), based on a 15x PER applied to FY26F fully diluted EPS of 3.0 sen, supported by a three-star ESG rating.**

Will data centre growth (DC) slow down? Recent concerns over potential slowdown in DC growth have surfaced due to US policy shifts under the Trump administration, including potential semiconductor tariffs and chip export controls, as well as pullbacks by major hyperscalers. CBHB with c.80% of its earnings from HV substation projects for hyperscaler clients, is sensitive to these near-term uncertainties, which may temporarily moderate order inflows and earnings momentum. However, the long-term outlook remains robust, driven by hyperscaler commitments such as AWS's RM29.2bn investment in Malaysia through 2038 and expansions by Tencent Cloud, Huawei Cloud, Google Cloud, and Alibaba Cloud across APAC. Domestically, Malaysia's 1,313MW DC project pipeline and 2.2GW of signed electricity supply agreements (ESAs) further signal strong infrastructure buildout. We remain constructive on the sector's long-term fundamentals, with CBHB well-positioned to benefit from continued investment in digital infrastructure.

Outlook. The DC sector may face a near-term slowdown due to uncertainties from Trump administration policies, particularly around GPU availability and operating cost volatility, prompting some operators to pause or delay projects. Industry insights suggest that the pace of new contract awards for HV substations may soften temporarily, potentially impacting CBHB's near-term order replenishment. We consider this a temporary headwind rather than a structural shift. CBHB's proven execution track record and deep expertise in HV substation infrastructure position it as a preferred partner for ongoing and future deployments.

Earnings maintained. We maintain our current earnings forecasts at this stage, with adjustments to be considered should order replenishment fall short of our assumptions.

Valuation & Recommendation. Aligned with our revised sector outlook rating, we have decided to adjust CBHB's PER from 18x to 15x, reflecting a more conservative base-case scenario with more moderate growth in electricity demand and substation construction activity. Consequently, our target price is lowered to **RM0.45** (from RM0.54), and maintain our **BUY** recommendation, based on 15x FY26F EPS of 3.0 sen and a three-star ESG rating. We remain positive on CBHB, given its (i) **strategic role as a proxy for Malaysia's rising power demand**, (ii) **established track record in delivering HV substations tailored for DC operators**, and (iii) **robust supplier relationships that enable cost-efficient procurement.**

Risks. High exposure to the DC sector, inability to secure new contracts, and unexpected project delays.

Financial Highlights

Income Statement

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	**208.0**	**271.7**	**347.2**	**403.3**	**456.8**
Gross Profit	**67.3**	**73.4**	**82.4**	**97.7**	**110.7**
EBITDA	**46.1**	**55.1**	**64.5**	**75.2**	**85.2**
Depreciation & Amortisation	-0.7	-0.9	-1.4	-1.3	-1.4
EBIT	**45.5**	**54.1**	**63.1**	**73.9**	**83.8**
Net Finance Income/ (Cost)	0.5	0.7	0.7	0.7	0.7
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**46.0**	**54.8**	**63.8**	**74.6**	**84.5**
Tax	-12.9	-13.1	-15.3	-17.9	-20.3
Profit After Tax	**33.0**	**41.7**	**48.5**	**56.7**	**64.2**
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	**33.0**	**41.7**	**48.5**	**56.7**	**64.2**
Exceptionals	0.0	-2.5	0.0	0.0	0.0
Core Net Profit	**33.0**	**44.3**	**48.5**	**56.7**	**64.2**

Key Ratios

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
EPS (sen)	1.8	2.4	2.6	3.0	3.4
P/E (x)	15.4	11.5	10.5	9.0	7.9
P/B (x)	6.5	5.1	2.2	1.8	1.4
EV/EBITDA (x)	11.9	9.9	10.3	8.9	8.5
DPS (sen)	0.6	0.9	0.0	0.0	0.0
Dividend Yield (%)	2.4%	3.3%	0.0%	0.0%	0.0%
EBITDA margin (%)	22.2%	20.3%	18.6%	18.7%	18.6%
EBIT margin (%)	21.9%	19.9%	18.2%	18.3%	18.3%
PBT margin (%)	22.1%	20.2%	18.4%	18.5%	18.5%
PAT margin (%)	15.9%	15.4%	14.0%	14.1%	14.1%
NP margin (%)	15.9%	15.4%	14.0%	14.1%	14.1%
CNP margin (%)	15.9%	16.3%	14.0%	14.1%	14.1%
ROE (%)	42.1%	44.6%	21.0%	19.7%	18.2%
ROA (%)	23.1%	27.7%	14.5%	13.9%	13.2%
Gearing (%)	0.0%	0.1%	0.0%	0.0%	0.0%
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Valuations	**FY26F**
Core EPS (RM)	0.030
P/E multiple (x)	15.0
Fair Value (RM)	**0.45**
ESG premium/discount	0.0%
Implied Fair Value (RM)	**0.45**

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash	42.9	38.9	154.9	164.6	213.9
Receivables	46.6	38.7	92.7	106.9	121.1
Inventories	48.7	75.2	79.8	129.0	146.2
Other current assets	0.5	0.3	0.3	0.3	0.3
Total Current Assets	**138.7**	**153.1**	**327.7**	**400.9**	**481.4**
Fixed Assets	2.2	3.6	3.3	3.1	3.2
Intangibles	0.0	1.0	2.0	3.0	4.0
Other non-current assets	2.0	1.9	0.9	-0.1	-1.1
Total Non-Current Assets	**4.2**	**6.5**	**6.2**	**6.1**	**6.1**
Short-term debt	0.0	0.1	0.1	0.1	0.1
Payables	50.9	53.8	92.7	106.9	121.1
Other current liabilities	12.3	4.8	9.6	11.6	13.6
Total Current Liabilities	**63.2**	**58.7**	**102.4**	**118.6**	**134.8**
Long-term debt	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	1.2	1.7	0.4	0.5	0.7
Total Non-Current Liabilities	**1.2**	**1.7**	**0.4**	**0.5**	**0.7**
Shareholder's equity	78.4	99.2	231.1	287.8	352.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total Equity	**78.4**	**99.2**	**231.1**	**287.8**	**352.0**

Cash Flow

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Pre-tax profit	**46.0**	**54.8**	**63.8**	**74.6**	**84.5**
Depreciation & amortisation	0.6	0.9	1.4	1.3	1.4
Changes in working capital	-10.8	-21.6	-17.9	-48.4	-16.3
Others	0.4	-16.2	-16.0	-18.6	-21.0
Operating cash flow	**36.2**	**18.0**	**31.3**	**9.0**	**48.5**
Capex	-0.3	-1.0	-1.1	-1.2	-1.4
Others	2.9	0.5	0.8	0.8	0.9
Investing cash flow	**2.6**	**-0.6**	**-0.3**	**-0.4**	**-0.5**
Dividends paid	-12.1	-21.0	0.0	0.0	0.0
Others	-8.6	-0.6	85.1	1.1	1.2
Financing cash flow	**-20.7**	**-21.6**	**85.1**	**1.1**	**1.2**
Net cash flow	**18.0**	**-4.2**	**116.1**	**9.7**	**49.2**
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	13.6	31.6	27.4	143.5	153.2
Ending cash	**31.6**	**27.4**	**143.5**	**153.2**	**202.4**

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★★	Scope 1 and Scope 2 GHG emissions totalled 396.6m tCO_2 e in 2024, marking a 46% yoy decreased from 2023.
Waste & Effluent	★★★	3R (Reduce, Reuse, Recycle) initiative was implemented, with 3R bins placed in each office.
Energy	★★	Energy consumption increased by 66% in FY24.
Water	★★★	Reduced water consumption by 7%, from $0.48m^3$ in the previous year to $0.45m^3$.
Compliance	★★★	The Group complies with all local and international environmental regulations.

Social

Diversity	★★★	Female representation at 22% in the workforce and 57% at the management level, higher than the MCCG'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	★★★	3 employees trained in 2024 to enhance workforce competence. No fatalities.
Labour Practices	★★★	Adheres to all relevant labor laws.

Governance

CSR Strategy	★★★	Actively engaged with communities, contributing RM66.4k (+72% yoy) to various initiatives.
Management	★★★	Among the board members, 57% (4 out of 6) were female, while 36% (4 out of 11) were independent directors.
Stakeholders	★★★	Regularly organizes corporate events and holds an annual general meeting (AGM) for investors.

Overall ESG Scoring: ★★★

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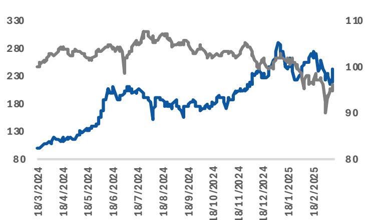
Recommendation:		BUY
Current Price:		RM 1.12
Previous Target Price:		RM 1.71
Target Price:	↓	RM 1.42
Capital Upside/Downside:		26.8%
Dividend Yield (%):		1.1%
Total Upside/Downside:		**27.9%**

Stock information	
Board	MAIN
Sector	Industrial
Bursa / Bloomberg Code	0225 / SCGBHD MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	927.0
Market Cap (RM' m)	1,038.2
52-Week Price Range (RM)	1.39-0.55
Beta (x)	1.2
Free float (%)	51.7
3M Average Volume (m)	7.9
3M Average Value (RM' m)	8.8

Top 3 Shareholders	(%)
Sino Shield Sdn Bhd	32.7
Semangat Handal Sdn Bhd	12.5
Pertubuhan Keselamatan Sosial	4.2

Share Price Performance



	1M	3M	12M
Absolute (%)	4.7	1.8	103.6
Relative (%)	3.7	2.9	108.9

Southern Cable Group Berhad

Growth remains intact

Executive Summary

- **Recent U.S. policy shifts under the Trump administration, notably potential semiconductor tariffs and chip export controls, alongside hyperscaler pullbacks, have raised concerns that a near-term slowdown in data centre (DC) growth might affect SCGBHD's growth trajectory.**
- **Despite this, SCGBHD's direct exposure to DC projects is limited (<5% of FY24 revenue), with earnings primarily driven by long-term contracts with national utilities and strong purchase orders, shielding it from near-term DC slowdown risks.**
- **SCGBHD maintains resilient operations, with total orders standing at RM1.3bn, representing 1.0x FY24 revenue, comprising 58% from long-term order books and 42% from purchase orders.**
- **In line with our revised sector outlook, we maintain our BUY recommendation for SCGBHD, with a revised target price of RM1.42 (from RM1.71), based on a 15x PER applied to FY26F fully diluted EPS of 9.5 sen, supported by a three-star ESG rating.**

Business remains resilient. Despite concerns over a potential near-term slowdown in data centre (DC) development, driven by U.S. policy shifts under the Trump administration and hyperscaler pullbacks, SCGBHD maintains robust operations, supported by a steady order flow from fast-tracked projects under Tenaga Nasional's Green Lane Pathway, accelerated substation development for solar farms, and other national infrastructure initiatives. As of FY24, SCGBHD's direct exposure to DC projects remains minimal (<5% of revenue), with earnings primarily driven by long-term contracts with national utilities and strong purchase orders. Recent TNB 1+1 contract wins, which is through RP4's base capex of RM26.6bn rather than its RM16.3bn contingent capex, insulate SCGBHD from data centre-related impacts. We believe the activation of contingent capex, targeted at supporting renewable energy (RE) and new demand growth, will act as an upside catalyst, driving further demand for power cables and wires, thereby enhancing SCGBHD's order book visibility.

Outlook. With a planned plant capacity expansion of 5,000 km/year by FY25, of which 3,000 km/year came online in 1QFY25, and the remaining 2,000 km/year is expected by 2HFY25, total capacity will increase to 51,980 km/year (+10.6%). Ongoing construction at Lots 20, 21, 22, 28, and 29 aims to boost capacity by another 20% to c.60,000 km/year within two years. Given these expansions, we believe SCGBHD is well-positioned to capture additional order demand, supported by national grid development, RE projects, the domestic construction boom, and growing traction in the US market. As of Dec 2024, total orders on hand stood at RM1.3bn, equivalent to 1.0x FY24 revenue, with 58% from long-term order books and 42% from POs.

Earnings maintained. Maintained.

Valuation & Recommendation. In line with our revised sector outlook, we have adjusted SCGBHD's PER from 18x to 15x to reflect more moderate growth in electricity demand and substation construction activity, which softens demand for power cables and wires. Consequently, we lower our target price to **RM1.42** (from RM1.71) and maintain our **BUY** recommendation, based on 15x FY26F EPS of 9.5 sen, supported by a three-star ESG rating. We remain positive on SCGBHD for its (i) role as a **proxy for Malaysia's growing power demand**, (ii) **increasing demand for HV power cables**, **and** (iii) **position as one of the few vendors supplying U.S. distributors.**

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

Financial Highlights

Income Statement

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	**1053.1**	**1347.0**	**1834.7**	**2059.4**	**2213.6**
Gross Profit	**73.9**	**135.2**	**186.0**	**211.1**	**238.2**
EBITDA	**70.4**	**120.5**	**169.6**	**184.7**	**198.2**
Depreciation & Amortisation	-22.6	-18.7	-21.7	-22.1	-22.8
EBIT	**47.7**	**101.9**	**147.9**	**162.6**	**175.4**
Net Finance Income/ (Cost)	-8.7	-9.6	-9.9	-9.7	-9.3
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**39.0**	**92.3**	**138.0**	**152.9**	**166.1**
Tax	-9.6	-20.0	-34.8	-38.5	-41.9
Profit After Tax	**29.4**	**72.3**	**103.2**	**114.3**	**124.2**
(-) Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	**29.4**	**72.3**	**103.2**	**114.3**	**124.2**
(-) Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	**29.4**	**72.3**	**103.2**	**114.3**	**124.2**

Key Ratios

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
EPS (sen)	2.5	6.0	8.6	9.5	10.4
P/E (x)	42.0	17.1	12.0	10.8	10.0
P/B (x)	3.9	3.1	2.5	2.1	1.7
EV/EBITDA (x)	16.1	9.2	7.1	6.8	6.5
DPS (sen)	0.8	0.8	1.0	1.2	1.3
Dividend Yield (%)	0.7%	0.7%	1.0%	1.2%	1.3%
EBITDA margin (%)	6.7%	8.9%	9.2%	9.0%	9.0%
EBIT margin (%)	4.5%	7.6%	8.1%	7.9%	7.9%
PBT margin (%)	3.7%	6.9%	7.5%	7.4%	7.5%
PAT margin (%)	2.8%	5.4%	5.6%	5.6%	5.6%
NP margin (%)	2.8%	5.4%	5.6%	5.6%	5.6%
CNP margin (%)	2.8%	5.4%	5.6%	5.6%	5.6%
ROE (%)	9.3%	18.0%	20.8%	19.1%	17.4%
ROA (%)	4.9%	10.0%	11.9%	11.8%	11.6%
Gearing (%)	62.1%	53.7%	39.8%	29.5%	21.7%
Net gearing (%)	31.7%	33.1%	6.0%	Net Cash	Net Cash

Valuations	FY26F
Core EPS (RM)	0.095
P/E multiple (x)	15.0
Fair Value (RM)	**1.42**
ESG premium/discount	0.0%
Implied Fair Value (RM)	**1.42**

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash	96.0	82.7	167.4	192.2	201.0
Receivables	264.9	315.3	378.3	454.0	544.8
Inventories	144.1	183.7	185.6	187.4	189.3
Other current assets	1.0	1.2	1.2	1.2	1.2
Total Current Assets	**506.0**	**582.9**	**732.5**	**834.8**	**936.3**
Fixed Assets	54.6	81.9	77.5	79.6	82.9
Intangibles	44.4	55.8	53.5	51.3	49.2
Other non-current assets	0.5	0.5	0.5	0.5	0.5
Total Non-Current Assets	**99.6**	**138.3**	**131.6**	**131.5**	**132.6**
Short-term debt	186.1	209.5	187.5	167.9	146.9
Payables	82.8	89.8	156.6	175.6	187.7
Other current liabilities	4.3	4.1	4.1	4.1	4.1
Total Current Liabilities	**273.1**	**303.4**	**348.2**	**347.6**	**338.7**
Long-term debt	9.6	6.2	9.9	8.8	7.7
Other non-current liabilities	7.8	9.8	9.8	9.8	9.8
Total Non-Current Liabilities	**17.4**	**16.0**	**19.7**	**18.7**	**17.6**
Shareholder's equity	315.0	401.8	496.2	600.0	712.7
Minority interest	0.0	0.0	0.0	0.0	0.0
Total Equity	**315.0**	**401.8**	**496.2**	**600.0**	**712.7**

Cash Flow

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Pre-tax profit	**39.0**	**92.3**	**138.0**	**152.9**	**166.1**
Depreciation & amortisation	-22.6	-18.7	-21.7	-22.1	-22.8
Changes in working capital	65.0	-83.3	2.0	-58.6	-80.6
Others	41.6	21.0	18.4	15.4	13.1
Operating cash flow	**123.0**	**11.3**	**136.7**	**87.6**	**75.7**
Capex	-9.0	-49.2	-15.0	-22.0	-24.0
Others	0.3	0.0	0.0	0.0	0.0
Investing cash flow	**-8.8**	**-49.2**	**-15.0**	**-22.0**	**-24.0**
Dividends paid	-2.2	-13.1	-8.8	-10.6	-11.4
Others	-37.8	37.7	-28.2	-30.3	-31.4
Financing cash flow	**-40.1**	**24.6**	**-37.0**	**-40.9**	**-42.9**
Net cash flow	**74.1**	**-13.3**	**84.7**	**24.7**	**8.9**
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	21.8	96.0	82.7	167.4	192.1
Ending cash	**96.0**	**82.7**	**167.4**	**192.1**	**201.0**

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★	Despite a 25% increase in cable production, Scope 2 emissions rose by only 7%, primarily due to the installation of rooftop solar panels
Waste & Effluent	★★★	Repurposing waste materials in cables and implementing scheduled waste management according to the Environmental Quality Regulations 2005
Energy	★★★	Solar power usage increased to 18.8% of total energy consumption in 2023, up from 7.4% in 2022
Water	★★★	Using alternate water sources, collecting and reusing water from production
Compliance	★★★	Adhere to regulatory reporting

Social

Diversity	★★★	Diversity in hiring 106 new employees: 46.2% from the younger generation, 39.6% from mid-career, and the remainder from middle-aged individuals
Human Rights	★★★	There have been no human rights violations over the past three years
Occupational Safety and Health	★★★	The number of injuries declined to 32 from 34, and the Lost Time Incident Rate (LTIR) decreased to 367 from 469 between 2022 and 2023
Labour Practices	★★★	The turnover rate decreased to 4.9% from 13.6%, while training hours increased to 1,848 hours from 1,638 hours between 2022 and 2023.

Governance

CSR Strategy	★★★	Donations amounted to RM14,300 in 2023, including contributions from the families of deceased employees, temples, and volunteer efforts within the vicinity
Management	★★★	Encouraging a culture of ethical behavior and implementing a whistleblowing policy
Stakeholders	★★★	Maintained a clean record with zero substantiated complaints regarding data privacy and security

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