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Recommendation:	BUY
Current Price:	RM 1.35
Previous Target Price:	RM 1.43
Target Price:	RM 1.55 ↑
Capital Upside/Downside:	14.8%
Dividend Yield (%):	1.6%
Total Upside/Downside:	16.5%

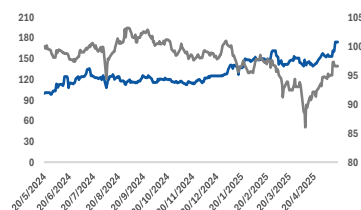
Stock information

Board	ACE
Sector	Renewable Energy
Bursa / Bloomberg Code	0233 / PEKAT MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	645.0
Market Cap (RM' m)	870.7
52-Week Price Range (RM)	1.35-0.745
Beta (x)	0.9
Free float (%)	34.0
3M Average Volume (m)	1.0
3M Average Value (RM' m)	1.1

Top 3 Shareholders

	(%)
Chin Soo Mau	34.9
Tai Yee Chee	8.8
Wee Chek Aik	7.6

Share Price Performance



	1M	3M	12M
Absolute (%)	25.0	19.5	70.9
Relative (%)	19.2	20.2	75.8

Earnings Summary	FY24	FY25F	FY26F
Revenue (RM'm)	287.0	540.2	697.8
PATAMI (RM'm)	22.0	38.2	47.8
CNP (RM'm)	23.1	38.2	47.8
EPS - core (sen)	3.6	5.9	7.4
P/E (x)	37.8	22.8	18.2

Pekati Group Berhad

Secures RM135.2m TNB Contract

- **Pekati's 60%-owned EPE Switchgear secured a RM135.2m LOA from TNB for 33kV/11kV GIS supply, installation, testing, and commissioning, starting 9 May 2025 for two years, with a 30% additional value option.**
- **This is EPE's second TNB contract this year, totalling RM232.5m. Orderbook replenishment prospect is expected to sustain, driven by a ~RM350m tender book and TNB's nearly doubled switchgear tender value.**
- **We have raised earnings forecasts by 14.4%/11.7% for FY25F/FY26F, after revising a higher orderbook replenishment for EPE.**
- **Following the earnings revision, we maintain a BUY rating with a higher target price of RM1.55 (from RM1.43), based on a sum-of-parts (SOP) valuation, and appraised with a three-star ESG rating.**

Secures RM135.2m TNB Contract. Pekati, via its 60%-owned subsidiary EPE Switchgear, has secured a RM135.2m LOA from TNB for the supply, installation, testing, and commissioning of 33kV and 11kV gas-insulated switchgear (GIS) for TNB's distribution network. This contract is effective from 9 May 2025 for a duration of two years and includes an option for up to 30% additional value (~RM40.6m).

Our Take. This is a positive development for Pekati, as it supports the Group's earnings growth through FY26F. Assuming the 30% optional value is exercised and a 25% GP margin, the contract could yield an average annual GP of ~RM22m, accounting for ~13.7% of our forecasted Group FY25F GP. We believe the option is likely to be exercised, driven by the energy transition agenda under NETR and TNB's substantial RM42.9bn capex for grid upgrades under RP4, as switchgear systems are critical for integrating RE loads while maintaining grid reliability. Following recent contract wins, Pekati's unbilled orderbook is estimated at ~RM726.2m, equivalent to 2.5x FY24 revenue, ensuring earnings visibility for 2-3 years.

Outlook. This marks EPE's second TNB contract this year, totalling RM232.5m (excluding the 30% optional value). We expect order replenishment momentum to sustain, driven by ~RM350m tender book and TNB's nearly doubled tender value for switchgear, reflecting robust grid upgrade demand. As a key TNB vendor with a five-decade track record, EPE is well-positioned to capture additional contracts, supporting Pekati's growth trajectory.

Earnings revision. In light of strong demand in the switchgear segment, we have raised our orderbook assumption for EPE Switchgear to RM400m/RM450m (from RM250m/RM350m) for FY25F/FY26F respectively. Consequently, we have revised our earnings forecasts upward by 14.4%/11.7% for FY25F/FY26F respectively.

Valuation & Recommendation. Following the earnings revision, we maintain our **BUY** rating with a higher TP of **RM1.55** (from RM1.43), based on a SOP valuation and assigned a three-star ESG rating. We remain in favor of Pekati for its **synergistic business model, strong margins in the EPE segment, and sustainable order book.** We also noted that Pekati's strong historical financial results qualify the Group for the transfer to the Main Board of Bursa Malaysia.

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

Company Update

Monday, 19 May, 2025

Financial Highlights

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Revenue	179.2	227.5	287.0	540.2	697.8
Gross Profit	44.8	53.5	81.9	160.7	205.3
EBITDA	17.4	20.3	38.6	87.3	103.4
Depreciation & Amortisation	-1.5	-1.7	-2.2	-15.6	-17.2
EBIT	15.8	18.7	36.5	71.7	86.2
Net Finance Income/ (Cost)	-1.4	-1.1	-0.9	-4.9	-3.2
Associates & JV	0.0	0.6	-0.8	0.4	0.4
Pre-tax Profit	14.4	18.1	34.7	67.3	83.4
Tax	-4.4	-4.4	-12.0	-18.3	-23.2
Profit After Tax	10.0	13.8	22.7	49.0	60.2
Minority Interest	0.0	0.0	0.7	10.8	12.5
Net Profit	10.0	13.7	22.0	38.2	47.8
Exceptionals	-0.9	0.9	-1.1	0.0	0.0
Core Net Profit	10.9	12.8	23.1	38.2	47.8

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
EPS (sen)	1.7	2.0	3.6	5.9	7.4
P/E (x)	79.7	67.8	37.8	22.8	18.2
P/B (x)	6.7	6.4	4.5	3.7	3.1
EV/EBITDA (x)	50.6	44.1	22.5	10.7	9.4
DPS (sen)	0.0	1.0	0.0	1.8	2.2
Dividend Yield (%)	0.0%	0.7%	0.0%	1.3%	1.6%
EBITDA margin (%)	9.7%	8.9%	13.5%	16.2%	14.8%
EBIT margin (%)	8.8%	8.2%	12.7%	13.3%	12.4%
PBT margin (%)	8.1%	8.0%	12.1%	12.5%	12.0%
PAT margin (%)	5.6%	6.0%	7.9%	9.1%	8.6%
NP margin (%)	5.6%	6.0%	7.7%	7.1%	6.8%
CNP margin (%)	6.1%	5.6%	8.0%	7.1%	6.8%
ROE (%)	8.4%	9.4%	11.8%	16.4%	17.1%
ROA (%)	5.8%	7.0%	5.3%	7.7%	8.5%
Gearing (%)	16.2%	1.2%	38.2%	29.2%	17.0%
Net gearing (%)	Net Cash	Net Cash	19.2%	Net Cash	Net Cash

Valuations	Equity Value (RM' m)	Valuation method
EPCC	591.9	30x FY26F PER
ELP	74.2	15x FY26F PER
Trading	64.1	15x FY26F PER
EPE	249.4	15x FY26F PER
Solar assets	14.4	Ke = 13.8%
SOP Value	994.0	
Enlarged share base (m share)	645.0	
Fair Value (RM)	1.55	
ESG premium/discount	0.0%	
Implied Fair Value (RM)	1.55	

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Cash	29.1	27.0	37.3	82.5	90.1
Receivables	47.9	55.0	110.3	123.6	139.6
Inventories	25.6	24.9	94.6	104.0	119.6
Other current assets	51.9	39.2	62.8	56.7	77.7
Total Current Assets	154.5	146.1	305.0	366.8	427.0
Fixed Assets	23.3	23.4	68.9	72.1	74.9
Intangibles	0.3	0.2	46.9	46.9	46.9
Other non-current assets	11.5	12.7	12.4	12.5	12.6
Total Non-Current Assets	35.1	36.3	128.2	131.5	134.4
Short-term debt	19.4	1.0	36.9	34.0	23.7
Payables	14.5	27.0	96.1	123.6	139.6
Other current liabilities	21.9	14.1	45.1	51.0	72.1
Total Current Liabilities	55.8	42.1	178.1	208.6	235.3
Long-term debt	1.6	0.6	37.8	34.0	23.7
Other non-current liabilities	2.7	2.9	22.0	22.8	23.6
Total Non-Current Liabilities	4.3	3.5	59.8	56.8	47.3
Shareholder's equity	129.4	136.7	158.7	185.4	218.8
Minority interest	0.1	0.1	36.7	47.5	60.0
Total Equity	129.5	##	195.3	232.9	278.8

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24	FY25F	FY26F
Pre-tax profit	14.4	18.1	34.7	67.3	83.4
Depreciation & amortisation	1.5	1.7	2.2	15.6	17.2
Changes in working capital	31.2	-11.2	12.2	-16.9	15.6
Others	-66.1	18.0	-33.1	20.3	-51.3
Operating cash flow	-18.9	26.6	15.9	86.2	64.9
Capex	-1.6	-0.7	-6.9	-18.7	-20.0
Others	16.5	0.0	-69.4	0.4	0.4
Investing cash flow	14.9	-0.7	-76.3	-18.3	-19.6
Dividends paid	0.0	-6.4	0.0	-11.4	-14.3
Others	-10.0	-9.7	70.8	-11.2	-23.5
Financing cash flow	-10.0	-16.2	70.8	-22.6	-37.8
Net cash flow	-14.0	9.7	10.4	45.3	7.5
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	28.2	14.2	23.9	34.3	79.6
Ending cash	14.2	23.9	34.3	79.6	87.2

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★★	Reduced indirect annual carbon dioxide emissions by 27.9% compared to the previous year, avoiding 199,319 tonnes through completed solar photovoltaic (PV) systems for customers.
Waste & Effluent	★★★★	Implemented the 3R (Reduce, Reuse, Recycle) initiative, promoting the use of reusable containers and recyclable bags.
Energy	★★★★	Energy consumption increased by 21.6% in FY2024 due to business expansion, but electricity consumption per employee decreased by 3.6% to 1,031 kWh per employee, remaining within an acceptable range.
Water	★★★★	Reduced water consumption by 0.7%, from 4,337 m ³ in the previous year to 4,305 m ³ .
Compliance	★★★★	The Group fully complies with all local and international environmental regulations.

Social

Diversity	★★★★	Achieved 31% female representation in the workforce and 33.3% at the management level, surpassing the Malaysian Code on Corporate Governance (MCCG) recommendation of 30% female directors on the Board.
Human Rights	★★★★	Enforces strict policies prohibiting human trafficking, forced labor, and child labor.
Occupational Safety and Health	★★★	Trained 60 employees in 2023 to enhance workforce competence, compared to 160 in the previous year. Recorded no fatalities, with a total recordable incident rate (TRIR) of 0.
Labour Practices	★★★★	Adheres to all relevant labor laws.

Governance

CSR Strategy	★★★★	Actively engaged with communities, contributing RM30,000 to various initiatives.
Management	★★★★	Maintained a Board composition with 33.3% (2 out of 6) female directors and 67% (4 out of 6) independent directors.
Stakeholders	★★★★	Regularly organizes corporate events and conducts 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.