Pekat Group Berhad

(0233 | PEKAT MK) ACE | Industrial Products & Services

Brighter Quarters to Come

***Maintain* BUY**

***Unchanged* Target Price: RM1.32**

KEY INVESTMENT HIGHLIGHTS

- **Core net profit of RM10.7m in 9MFY24; below estimates at 61.5% of full year projections**
- **Solar division revenue grew +20.9%yoy in 2QFY24 to RM54.4m, driven by stronger rooftop projects**
- **Outstanding order book at a high of RM475ml strong earnings visibility up to FY25**
- **Maintain BUY with an unchanged TP of RM1.32**

Below expectations. Pekat Group Berhad's (Pekat) core net profit declined -28.1%yoy to RM2.4m in 3QFY24, after stripping off RM3.2m of gains on disposal of property. We believe this was from the disposal of vacant industrial land in Shah Alam for RM21m that the group announced in Mar-24. The cumulative 9MFY24 core net profit rose +9.0%yoy to RM10.7m, making up 61.5% of ours and 60.0% of consensus' full year estimates, which are below expectations.

Rooftop projects lead to topline growth. Solar PV led the revenue growth during the quarter, accelerating +20.9%yoy to RM54.4m, driven by stronger rooftop project executions across commercial and industrial (C&I) and residential segments. Revenue from earthing and lightning protection (ELP) surged +43.7%yoy to RM12.0m on the back of stronger order book coming from data centre projects while the trading division recorded a +70.1%yoy increase to RM16.2m coming from higher sales volume.

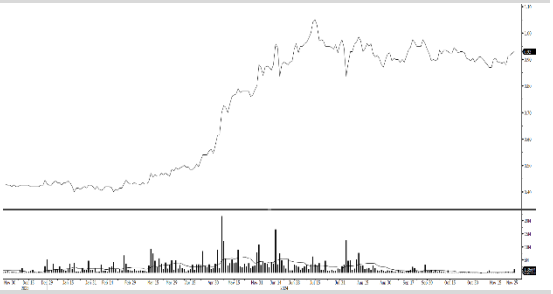
Healthy order book. Pekat's outstanding order book stands at c.RM475m, comprising RM240m of rooftop solar projects and RM120 of ELP projects and a recently secured RM115m solar farm for a Corporate Green Power Programme (CGPP) producer. These are expected to deliver strong earnings visibility for the group up to FY25. Management is also optimistic about securing EPCC projects for the recently announced 2GW LSS5. The growth of data centre developments also underpins its prospects of securing more jobs through its ELP division.

Upcoming acquisition. Pekat is in the midst of acquiring a 60% stake in Apex Power Sdn Bhd for RM96.0m, which will then give it control over EPE Switchgear (M) Sdn Bhd. We reiterate our view that this will synergise well with Pekat's business as products manufactured by EPE such as switchgears and distribution transformers are crucial components of solar photovoltaic (PV) systems. There is a profit guarantee for three financial years by Apex Power that its consolidated profit after tax (PAT) will not be less than RM48m collectively, or at least RM16m annually for FY24-FY26 ending 30th September.

Earnings estimates. We keep our earnings estimates unchanged as we expect Pekat's stellar order book to deliver stronger performance in the fourth quarter as the projects' progress accelerate.

RETURN STATISTICS	
Price @ 28th Nov 2024 (RM)	0.93
Expected share price return (%)	+41.9
Expected dividend yield (%)	0.00
Expected total return (%)	**+41.9**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.3	4.2
3 months	-1.1	10.8
12 months	116.3	96.0

INVESTMENT STATISTICS

FYE Dec (RM'm)	2024E	2025F	2026F
Revenue	234.4	395.4	415.2
Operating Profit	23.7	42.7	44.8
Profit Before Tax	23.2	40.6	42.9
Core Net Profit	17.4	31.4	33.3
Core EPS (sen)	2.7	4.7	5.0
PER (x)	34.4	19.8	18.6
DPS (sen)	0	0	0
Dividend Yield (%)	0	0	0

KEY STATISTICS	
FBM KLCI	1,597.49
Issue shares (m)	664.97
Estimated free float (%)	32.42
Market Capitalisation (RM'm)	599.82
52-wk price range	RM0.40-RM1.06
3-mth average daily volume (m)	0.56
3-mth average daily value (RM'm)	0.51
Top Shareholders (%)	
Chin Soo Mau	34.90
Tai Yee Chee	9.73
Wee Chek Aik	8.30

Analyst
Royce Tan Seng Hooi
royce.tan@midf.com.my
03-2173 8461

Target price. We also maintain our **TP** at **RM1.32**, pegging its FY25F EPS of 4.7 sen to a forward PER of 28x, based on its three-year historical mean.

Maintain BUY. We reiterate our **BUY** recommendation on Pekat as prospects remain bright moving forward, backed by a strong order book of rooftop solar and CGPP projects and stronger ELP projects coming from data centres. The nature of its business also remains promising with policies such as the National Energy Transition Roadmap (NETR) and the upcoming LSS5. We are also optimistic about the group's proposed acquisition of EPE Switchgear, allowing it to expand its business into power distribution equipment and to tap into new foreign markets, which is expected to strengthen its bottom line significantly starting FY25. Pekat is in a net cash position of RM46.3m.

PEKAT GROUP BERHAD: 3QFY24 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**3QFY24**	**2QFY24**	**3QFY23**	**QoQ**	**YoY**	**9MFY24**	**9MFY23**	**YoY**
Revenue	82.6	56.6	62.9	**46.1%**	**31.4%**	196.8	169.2	**16.4%**
Cost of sales	(58.7)	(39.8)	(48.7)	**47.3%**	**20.4%**	(141.3)	(130.1)	**9%**
Gross profit	24.0	16.7	14.2	**43.2%**	**69.4%**	55.5	39.1	**42%**
Operating profit	9.7	7.1	4.3	**36.2%**	**125.3%**	22.5	13.9	**62%**
Finance cost	(0.3)	(0.2)	(0.5)	**101.8%**	**-34.3%**	(0.6)	(0.7)	**-15%**
Profit/(loss) from associates	0.1	(0.6)	0.2	**-115.1%**	**-54.1%**	(0.6)	0.0	**-3631%**
Profit before tax	9.6	6.6	4.0	**45.4%**	**137.1%**	21.8	13.1	**67%**
Tax	(3.3)	(1.9)	(0.5)	**71.2%**	**605.6%**	(7.0)	(0.6)	**1085%**
Reported net profit	6.3	4.6	3.6	**34.7%**	**75.5%**	14.7	10.2	**44%**
Core net profit	2.4	4.6	3.4	**-47.1%**	**-28.1%**	10.7	9.8	**9%**

FINANCIAL SUMMARY

Income Statement (RM'm)	**2022A**	**2023A**	**2024E**	**2025F**	**2026F**
Revenue	179.2	227.6	234.4	395.4	415.2
Cost of sales	(134.1)	(173.8)	(73.5)	(288.6)	(303.1)
Gross profit	45.1	53.8	61.0	106.8	112.1
Administrative expenses	(30.2)	(34.7)	(38.5)	(63.3)	(66.4)
Share of profit in associates	(0.0)	0.5	0.7	0.8	0.8
Profit before tax	14.4	18.4	23.2	40.6	42.9
Tax	(4.4)	(4.7)	(5.9)	(9.2)	(9.5)
Reported net profit	10.0	13.7	17.4	31.4	33.3
Core net profit	10.0	13.2	17.4	31.4	33.3

Balance Sheet (RM'm)	**2022A**	**2023A**	**2024E**	**2024E**	**2025F**
Fixed assets	23.3	23.4	32.8	26.1	27.4
Intangible assets	0.3	183.0	0.2	0.2	0.2
Non-current assets	**35.1**	**36.3**	**45.7**	**39.0**	**40.3**
Cash	14.1	18.9	26.6	27.4	28.0
Trade debtors	40.9	47.9	35.6	37.5	55.8
Current assets	**154.5**	**142.0**	**159.8**	**193.7**	**224.7**
Trade creditors	9.2	12.3	10.8	16.0	24.9
Short-term debt	19.5	1.0	2.0	2.0	2.0
Current liabilities	**55.8**	**38.0**	**37.6**	**42.8**	**51.7**
Long-term debt	1.6	0.6	11.0	10.5	10.0
Non-current liabilities	**4.3**	**3.4**	**13.8**	**13.3**	**12.8**
Share capital	93.5	93.5	93.5	93.5	93.5
Retained earnings	86.0	93.1	110.5	133.0	156.9
Equity	**129.5**	**136.7**	**154.1**	**176.6**	**200.5**

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	14.4	18.4	23.2	29.3	31.0
Depreciation & amortisation	1.5	1.8	1.6	1.7	1.7
Changes in working capital	-29.0	5.7	-5.1	-8.4	1.0
Operating cash flow	**-19.3**	**26.2**	**20.0**	**22.9**	**34.0**
Capital expenditure	-3.2	-0.7	-2.0	-2.0	-1.0
Investing cash flow	**14.3**	**-0.6**	**-1.9**	**-1.9**	**-0.9**
Debt raised/(repaid)	-2.1	-1.6	-1.1	-0.8	0.2
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	-6.4	-	-	-
Financing cash flow	**-9.1**	**-16.3**	**-16.8**	**-17.1**	**-18.1**
Net cash flow	**-14.1**	**4.7**	**1.3**	**3.9**	**15.1**
Beginning cash flow	**28.2**	**14.2**	**18.9**	**20.2**	**24.1**
Ending cash flow	**14.1**	**18.9**	**20.2**	**24.1**	**39.2**

Profitability Margins	2022A	2023A	2024E	2024E	2025F
Gross profit margin	25.2%	23.6%	26.0%	27.0%	27.0%
Operating profit margin	8.8%	8.3%	10.1%	10.4%	10.4%
PBT margin	8.1%	8.1%	9.9%	9.9%	10.0%
PAT margin	5.6%	6.0%	7.4%	7.6%	7.7%
Core PAT margin	5.6%	6.0%	7.4%	7.6%	7.7%
PER (x)	29.6	20.2	34.4	19.8	18.6

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology