



AmInvestment Bank

Company report

KPOWER

(KPB MK EQUITY, KPOW.KL)

15 Mar 2021

Bags 50MW LSS4 solar project

HOLD

(Maintained)

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Rationale for report: Company update

Price	RM2.22
Fair Value	RM2.31
52-week High/Low	RM2.91/RM0.21

Key Changes

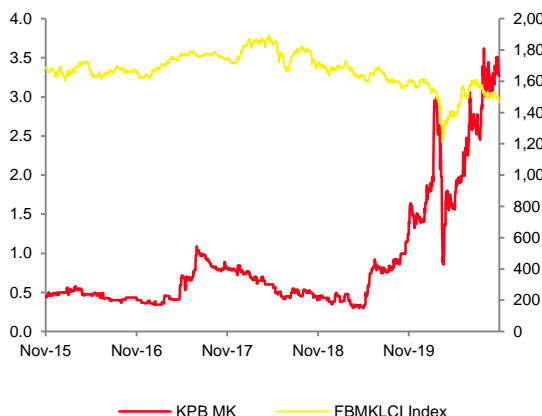
Fair value	↔
EPS	↔

YE to Jun	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	95.8	481.9	691.9	1,075.4
Core net profit (RM mil)	12.8	31.3	45.0	69.9
FD Core EPS (sen)	2.8	6.4	8.7	12.8
FD Core EPS growth (%)	342.9	128.0	35.1	47.5
Consensus Net Profit (RM mil)	-	32.8	50.8	62.6
DPS (sen)	0.6	1.4	2.0	3.1
PE (x)	78.5	34.4	25.5	17.3
EV/EBITDA (x)	49.1	9.1	6.4	4.2
Div yield (%)	0.3	0.7	1.0	1.5
ROE (%)	19.6	26.5	30.2	35.9
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	452.3
Market Cap (RM mil)	1,004.2
Book Value (RM/share)	0.24
P/BV (x)	9.3
ROE (%)	19.6
Net Gearing (%)	-
Major Shareholders	Mohd Abdul Karim (33.3%) Grand Deal Vision Sdn Bhd (14.9%) Lim Kuan Gin (2.6%)
Free Float	-
Avg Daily Value (RM mil)	29.5

Price performance	3mth	6mth	12mth
Absolute (%)	60.6	184.6	348.5
Relative (%)	66.4	169.7	273.3



Investment Highlights

- We maintain our HOLD call, forecasts and fair value (FV) of RM2.31 based on 18x FY23F EPS. This is at a discount to the average forward 20x PE of leading renewable energy players globally to reflect: (1) KPower being a relatively new player in this space; and (2) its relatively small market value. There is no adjustment to our FV for ESG based on our 3-star rating.
- KPower, via a JV with land owner Perbadanan Kemajuan Negeri Pahang (we understand at a 95:5 equity structure), has been awarded by the Energy Commission a 50MW package under the fourth cycle of the large-scale solar programme (LSS4). The plant will have a concession period of 21 years. Other winners under the same programme include Solarvest, Advancecon, Ranhill, Uzma and JAKS.
- We are mildly positive on the latest development. KPower gets two bites on the same cherry, namely:
 1. an EPCC contract estimated to be worth RM160mil, boosting its FY21F YTD job wins to about RM700mil (vs. our full-year assumption of RM1.4bil and the company's full-year guidance for RM2bil) and its outstanding EPCC orderbook to RM1.7bil; and
 2. a valuation enhancement of about RM11mil or 2-3sen/share by discounting the project's cash flows at 7% (which is consistent with our discount rates for power utilities Tenaga and Malakoff of 7% to 7.5%). Other assumptions include a project cost of RM160mil, a project return of 7.5%, a concession period of 21 years, a project funding structure of 80:20 in terms of debt-to-equity ratio, cost of debt of 5% and a tax rate of 24%.
- We maintain our FV as the valuation enhancement is insignificant.
- We continue to like KPower for: (1) the bright prospects of renewable energy, underpinned by the global trends towards clean and sustainable energy and carbon neutrality to combat climate change; and (2) its strong earnings visibility and growth potential underpinned by its RM1.7bil order backlog on green utility projects, coupled with a massive tender book of RM3.9bil.
- However, at current valuations of 17x FY23F earnings, we believe its upside is capped.

EXHIBIT 1: OUTSTANDING ORDER BOOK

Job description	End Client	Contract Value (RMmil)
Construction and Upgrading works of Sewerage facilities in KL	Malaysian Government	254.3
8MW hydropower plant, Nam Samoy, Laos	Électricité du Laos (National Utility Company of Laos)	65.9
5 hydropower plants with total capacity of 32.47MW, Perak	Tenaga Nasional Berhad	354.0
22.9MW hydropower plant, Solukhumbhu, Nepal	Nepal Electricity Authority	208.1
30MW hydropower plant, Laos	Électricité du Laos (National Utility Company of Laos)	174.5
Mixture of different projects located in Malaysia and others	Various	120.0
22MW hydropower plant, Nepal	Nepal Electricity Authority	192.7
3.1MW mini hydropower plant in Sumatera, Indonesia	PT Perusahaan Listrik Negara	29.7
2.6MW mini hydropower plant in Sumatera, Indonesia	PT Perusahaan Listrik Negara	24.9
27.3MW mini hydropower plant in Perak, Malaysia	Tenaga Nasional Berhad	296.0
50.0MW LSS4 project	Malaysian Government	160.2
Gross Total		1,880.4
Amount Recognised (Estimate)		-165.0
Total Outstanding Orderbook		1,715.4

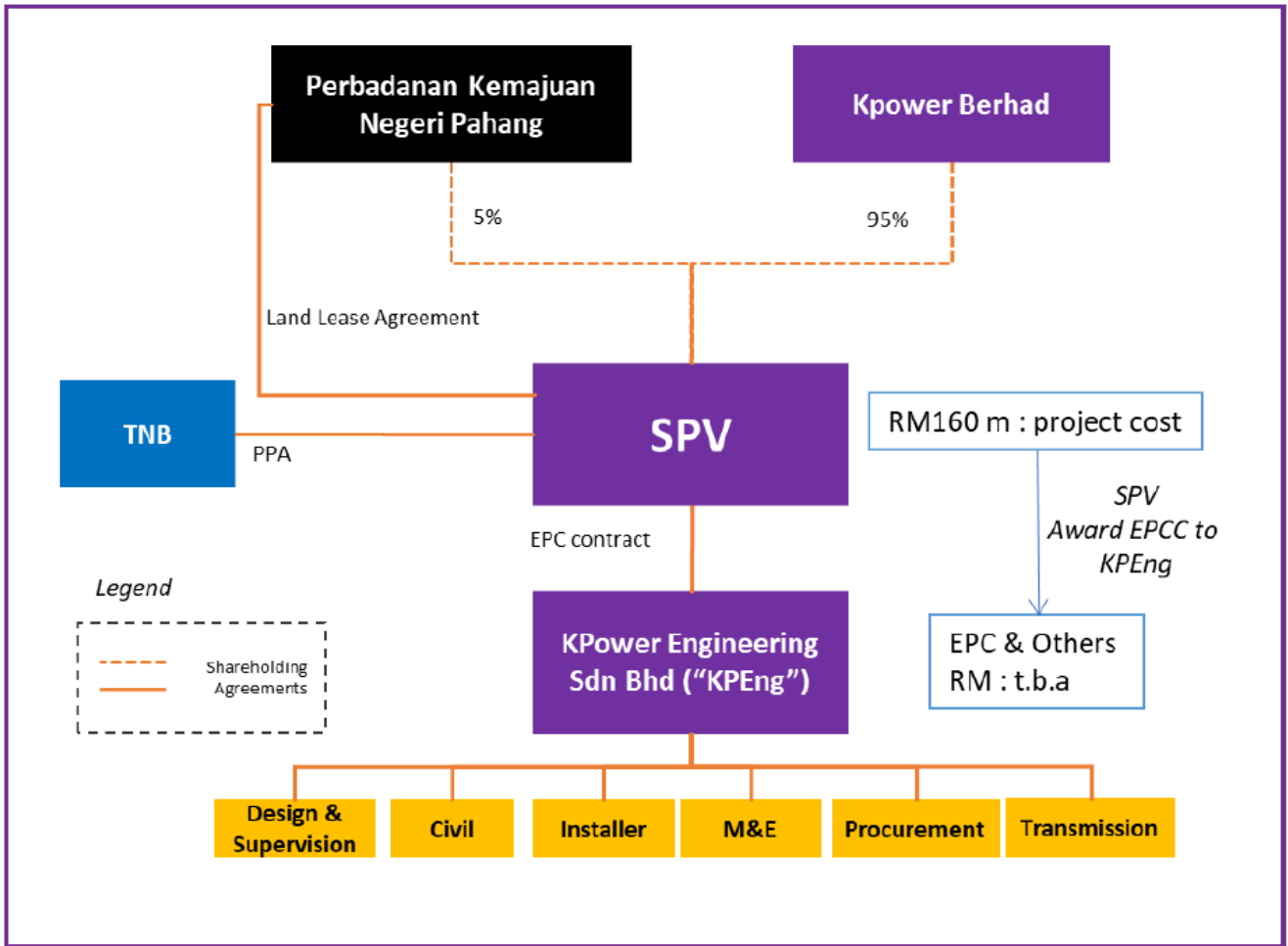
Source: KPower, AmInvestment Bank

EXHIBIT 2: ESG RATING

Overall	★	★	★		
Zero-carbon initiatives	★	★			
Work site safety	★	★	★		
Worker welfare	★	★	★		
Corporate social responsibility	★	★	★		
Pollution control	★	★			
Supply chain auditing	★	★	★		
Corruption-free pledge	★	★			
Accessibility & transparency	★	★	★	★	★

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 3: DETAILS ON THE LSS4 PROJECT STRUCTURE



Source: KPower

EXHIBIT 2: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	13.2	95.8	481.9	691.9	1,075.4
EBITDA	4.3	18.7	104.1	152.2	236.1
Depreciation/Amortisation	(3.2)	(0.6)	(5.0)	(10.0)	(15.0)
Operating income (EBIT)	1.2	18.0	99.1	142.2	221.1
Other income & associates	(0.6)	-	-	-	-
Net interest	(0.2)	(0.1)	(2.3)	(4.6)	(6.8)
Exceptional items	-	-	-	-	-
Pretax profit	0.9	17.9	41.2	59.2	92.0
Taxation	(0.5)	(5.1)	(9.9)	(14.2)	(22.1)
Minorities/pref dividends	-	-	-	-	-
Net profit	0.5	12.8	31.3	45.0	69.9
Core net profit	0.5	12.8	31.3	45.0	69.9
Balance Sheet (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	12.8	12.3	57.3	97.3	132.3
Intangible assets	-	-	-	-	-
Other long-term assets	8.1	8.1	8.1	8.1	8.1
Total non-current assets	20.9	20.4	65.4	105.4	140.4
Cash & equivalent	1.5	89.8	100.4	115.5	160.1
Stock	8.9	4.8	19.6	28.1	43.7
Trade debtors	9.8	52.2	213.9	307.1	477.3
Other current assets	-	-	-	-	-
Total current assets	20.2	146.8	333.8	450.6	681.0
Trade creditors	12.6	46.1	188.8	271.1	421.4
Short-term borrowings	1.0	0.6	23.1	45.6	68.1
Other current liabilities	0.5	13.0	38.5	34.8	53.9
Total current liabilities	14.0	59.6	250.4	351.4	543.4
Long-term borrowings	2.3	1.4	23.9	46.4	68.9
Other long-term liabilities	0.6	0.3	0.3	0.3	0.3
Total long-term liabilities	2.9	1.7	24.2	46.7	69.2
Shareholders' funds	24.5	105.9	131.0	167.0	222.9
Minority interests	(0.4)	-	-	-	-
BV/share (RM)	0.35	0.24	0.33	0.45	0.61
Cash Flow (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	0.9	17.9	41.2	59.2	92.0
Depreciation/Amortisation	3.2	0.6	5.0	10.0	15.0
Net change in working capital	(7.8)	(5.2)	(19.4)	(35.5)	(36.5)
Others	2.2	0.7	2.3	4.6	6.8
Cash flow from operations	(1.4)	14.0	29.1	38.3	77.3
Capital expenditure	-	-	-	-	-
Net investments & sale of fixed assets	(0.3)	(0.2)	(50.0)	(50.0)	(50.0)
Others	-	-	-	-	-
Cash flow from investing	(0.3)	(0.2)	(50.0)	(50.0)	(50.0)
Debt raised/(repaid)	-	10.0	-	-	-
Equity raised/(repaid)	-	68.7	-	-	-
Dividends paid	-	-	(2.6)	(6.3)	(9.0)
Others	(1.1)	(0.9)	42.7	40.4	38.2
Cash flow from financing	(1.1)	-	40.1	34.1	29.2
Net cash flow	(2.8)	-	19.2	22.4	56.4
Net cash/(debt) b/f	4.5	1.5	87.2	100.4	115.5
Net cash/(debt) c/f	1.7	-	106.4	122.8	171.9
Key Ratios (YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	130.9	625.1	402.8	43.6	55.4
EBITDA growth (%)	(218.8)	329.0	457.7	46.3	55.1
Pretax margin (%)	7.1	18.7	8.6	8.6	8.6
Net profit margin (%)	3.7	13.3	6.5	6.5	6.5
Interest cover (x)	5.4	171.5	42.2	30.9	32.3
Effective tax rate (%)	48.8	28.6	24.0	24.0	24.0
Dividend payout (%)	-	20.0	20.0	20.0	20.0
Debtors turnover (days)	147	118	101	137	133
Stock turnover (days)	245	26	9	13	12
Creditors turnover (days)	279	112	89	121	118

Source: Company, AmlInvestment Bank Bhd estimates

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