

15 March 2021

Utilities | Utilities

KPower (KPB MK)

Buy (Maintained)

LSS4 Is In! Reiterate BUY

Target Price (Return): MYR3.12 (+41%)
Price: MYR2.22
Market Cap: USD244m
Avg Daily Turnover (MYR/USD) 27.3m/6.73m

- **Reiterate BUY, MYR3.12 TP, 41% upside and c.1% FY21 (Jun) yield.** We are positive on KPower's 50MW large-scale solar power plant (LSS4) win, which could generate MYR4-5m in recurring net profit pa for the next 21 years, from Sep 2023. It will execute a portion of EPC works in-house, and other works will be sub-contracted out. We believe KPower could raise funds to finance its estimated equity outlay of MYR32m for this project.

Analyst

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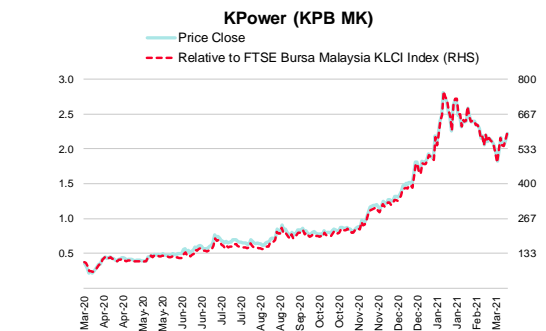


- **Shortlisted under LSS4 for 50MW capacity.** Last Friday, the Energy Commission announced the shortlisted bidders for the fourth cycle of large scale solar photovoltaic plants in Peninsular Malaysia. A total 823.06MW out of the offered 1000MW has been awarded to 30 players. Together with Perbadanan Kemajuan Negeri Pahang (PKNP), a state-owned agency, KPower emerged as one of the 10 shortlisted bidders under Package P2 (30-50MW) for 50MW capacity. We understand that KPower will have a 95% stake in the project, while PKNP will own the remaining 5%.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	22.8	(7.1)	60.5	184.6	322.9
Relative	23.5	(8.1)	64.6	177.2	309.1
52-wk Price low/high (MYR)				0.21	– 2.80

- **Establishing a recurring income base.** We are upbeat on the win, which will strengthen its venture into solar energy while generating stable recurring income for the next 20 years. The site will be located on 180 acres of land in Mukim Bebar, Pekan Pahang, in which a land lease agreement is to be established with PKNP. KPower will execute a portion of EPC works, and the remainder will be sub-contracted. The awarded tariff is 17.91 sen/kWh, which is at the lower end of the shortlisted bids' range of 17.68-19.70 sen/kWh. The total project cost is estimated at MYR160m, and 80% of it will be funded by borrowings. The project IRR could be at 7.5%.



Source: Bloomberg

- **We maintain our FY21-23F earnings** as the plant is targeted to commence operations by Sep 2023. We estimate it to generate recurring average profit of about MYR4-5m pa (7-8% of our FY22F earnings).

Overall ESG Score: 3.1 (out of 4)

E: Good

KPower's orderbook mainly consists of engineering, procurement, construction and commissioning works on mini hydropower plants. It aims to widen product offerings in renewable energy to include wind, solar, and biomass. We expect earnings from renewable energy to increase, with its venture into solar business via solar photovoltaic installation.

- **Still a BUY.** Our unchanged TP of MYR3.12 is pegged to an unchanged 25x FY22F P/E. We believe KPower may raise funds to finance its estimated equity outlay of MYR32m for this project, which is equivalent to 3% of its current market cap. Assuming a cash call to enlarge its share base by 10%, at a 10% discount to its last traded price, KPower could raise up to MYR90m. With that, our TP could be diluted to MYR2.84 if we assume zero incremental earnings. All in, we remain upbeat on the company, as it offers strong earnings growth – premised on its solid orderbook and handsome ROE. KPower's recent venture into solar photovoltaic installation will further strengthen growth prospects, as it would ride on the wave of interest in renewable energy in Malaysia – if it is able to establish a track record.

S: Good

KPower actively engages with the community, and is involved in efforts like donating resources to the Orang Asli community and a special needs school in Penang. It provides benefits for employees, and is implementing measures (eg establishing a sports club) to further improve employee relations. The company could improve its score by providing more information with regards to health and safety.

- **Downside risks** to our call are a lower-than-expected orderbook replenishment rate, and project cost overruns

G: Excellent

KPower's board is made up of independent and non-independent directors. Female directors are represented, and board members have extensive skills and experience. The company does provide timely and reliable information to shareholders, ensuring a high level of transparency.

Forecasts and Valuation	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total turnover (MYRm)	13	96	347	559	634
Recurring net profit (MYRm)	0	13	34	57	61
Recurring net profit growth (%)	-	2,532.5	168.4	64.5	8.4
Recurring P/E (x)	2,066.20	78.49	29.24	17.77	16.39
P/B (x)	40.9	9.5	7.5	5.6	4.4
P/CF (x)	na	94.83	na	22.43	12.22
Dividend Yield (%)	na	0.3	0.7	1.1	1.2
EV/EBITDA (x)	237.84	48.79	16.37	10.05	8.78
Return on average equity (%)	2.0	19.6	28.7	36.2	30.2
Net debt to equity (%)	7.5	net cash	10.5	33.7	30.7

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Malaysia	Recurring EPS	0.00	0.03	0.08	0.12	0.14
Utilities	DPS	-	0.01	0.02	0.02	0.03
KPower	BVPS	0.05	0.23	0.29	0.39	0.50
KPB MK	Return on average equity (%)	2.0	19.6	28.7	36.2	30.2
Buy						
	Valuation metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Valuation basis	Recurring P/E (x)	2,066.20	78.49	29.24	17.77	16.39
P/E	P/B (x)	40.9	9.5	7.5	5.6	4.4
	FCF Yield (%)	(0.2)	1.0	(8.5)	(3.5)	0.2
Key drivers	Dividend Yield (%)	-	0.3	0.7	1.1	1.2
i. Higher contract wins;	EV/EBITDA (x)	237.84	48.79	16.37	10.05	8.78
ii. Better-than-expected margins.	EV/EBIT (x)	863.63	51.01	21.09	13.18	12.08
	Income statement (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Key risks	Total turnover	13.2	95.8	346.8	558.5	633.9
i. Lower-than-expected orderbook replenishment;	Gross profit	4.6	27.9	59.0	93.8	106.5
ii. Project cost overruns.	EBITDA	4.2	18.8	61.8	105.3	121.8
	Depreciation and amortisation	(3.0)	(0.8)	(13.8)	(25.0)	(33.2)
Company Profile	Operating profit	1.2	18.0	47.9	80.3	88.6
KPower began as a manufacturer. Today, it is also	Net interest	(0.2)	(0.1)	(2.2)	(4.7)	(6.5)
involved in property development and real estate	Pre-tax profit	0.9	17.9	45.8	75.6	82.0
investments. The company is now positioned to venture	Taxation	(0.5)	(5.1)	(11.0)	(18.2)	(19.7)
into energy, utilities, infrastructure and logistics.	Reported net profit	0.5	12.8	34.3	56.5	61.3
	Recurring net profit	0.5	12.8	34.3	56.5	61.3
	Cash flow (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Change in working capital	(3.97)	(4.54)	(53.63)	(37.71)	(13.43)
	Cash flow from operations	(1.60)	10.59	(4.99)	44.78	82.16
	Capex	(0.27)	(0.17)	(80.00)	(80.00)	(80.00)
	Cash flow from investing activities	(0.27)	(0.18)	(80.00)	(80.00)	(80.00)
	Dividends paid	0.00	0.00	(6.87)	(11.30)	(12.25)
	Cash flow from financing activities	(1.11)	77.82	64.34	78.97	64.80
	Cash at beginning of period	4.49	1.51	89.79	69.14	112.88
	Net change in cash	(2.98)	88.23	(20.65)	43.74	66.96
	Ending balance cash	1.51	89.79	69.14	112.88	179.84
	Balance sheet (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Total cash and equivalents	1.5	89.8	69.1	112.9	179.8
	Tangible fixed assets	12.8	12.3	78.4	133.5	180.2
	Total investments	8.1	7.6	7.6	7.6	7.6
	Total assets	41.1	167.2	315.3	509.7	657.5
	Short-term debt	1.0	10.6	16.6	34.7	50.1
	Total long-term debt	2.3	1.4	66.6	138.8	200.4
	Total liabilities	16.9	61.3	181.4	329.7	427.4
	Total equity	24.1	105.9	133.8	180.0	230.1
	Total liabilities & equity	41.1	167.2	315.3	509.7	657.5
	Key metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Revenue growth (%)	130.9	625.1	261.8	61.1	13.5
	Recurrent EPS growth (%)	0.0	2532.5	168.4	64.5	8.4
	Gross margin (%)	34.9	29.1	17.0	16.8	16.8
	Operating EBITDA margin (%)	31.7	19.6	17.8	18.9	19.2
	Net profit margin (%)	3.7	13.3	9.9	10.1	9.7
	Dividend payout ratio (%)	0.0	20.0	20.0	20.0	20.0
	Capex/sales (%)	2.1	0.2	23.1	14.3	12.6
	Interest cover (x)	5.37	171.53	22.19	17.19	13.57

Source: Company data, RHB

Recommendation Chart



Date	Recommendation	Target Price	Price
2021-01-29	Buy	3.12	2.48
2021-01-06	Buy	2.23	1.90
2020-12-09	Buy	1.62	1.31
2020-11-19	Buy	1.43	1.19
2020-10-21	Buy	1.03	0.87
2020-08-27	Buy	1.01	0.85
2020-08-23	Buy	0.94	0.71
2020-06-23	Buy	0.87	0.62

Source: RHB, Bloomberg

Source: RHB, Bloomberg

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Analyst	Company
-	-

(2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.



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