

23 February 2021

Utilities | Utilities

KPower (KPB MK)

Buy (Maintained)

No Signs Of Slowing Down; Keep BUY

- **Reiterate BUY and TP of MYR3.12, 52% upside.** With no surprises to its 1HFY21 (Jun) results, KPower is firmly on a growth trajectory, and on track to hit its MYR2bn orderbook by end-FY21F. It has participated in the Large Scale Solar 4 (LSS4) tenders as an asset owner – the results of which are likely to be announced in the near term.
- **Within expectations.** KPower recorded core net profit of MYR17.4m (+520% YoY) in 1HFY21. This accounted for 51% and 53% of our and Street full-year estimates – within expectations.
- **1HFY21 results review.** 2QFY21 earnings improved 14% QoQ to MYR9.3m on increased PBT contributions from construction-related activities (+16%) backed by higher project billings. 1HFY21 earnings improved exponentially YoY (+5.2x) from a minimal profit of MYR2.8m in 1HFY20 – largely on higher project billings from existing contracts that include preliminary works at new construction projects in Laos and Nepal.
- **Orderbook target of MYR2bn by end-FY21 on track.** KPower's orderbook stood at MYR1.6bn as at mid-February, and it has secured MYR615m worth of contracts YTD. We believe it is still on track to hit the MYR2bn target by end-FY21. The manufacturing segment has been reclassified into the healthcare and technology segment following the acquisition of a 70% stake in Granulab. This segment is expected to improve as the company starts to deliver medical supply-related jobs in Indonesia. Its only commercial project in Sentul, Kuala Lumpur – with a GDV of MYR41m – is estimated at 80% completion as at end Dec 2020. The estimated unbilled sales of MYR8m will be recognised largely in 2HFY21F or up to early FY22F due to disruption caused by MCO.
- **Still BUY.** We maintain our earnings estimates, while keeping our TP at MYR3.12 pegged to 25x FY22F P/E. Our P/E is still at a discount to that of solar power-related stocks, which currently trade at >30x P/E. Note that we have yet to account for the higher share base from the conversion of free warrants issued recently – a 5-year tenure, with the exercise price fixed at MYR2.50. All in, we remain upbeat on the company, as it offers strong earnings growth – premised on the solid orderbook, as well as its handsome ROEs. The recent venture into solar photovoltaic installation will further strengthen its growth prospects, riding on the wave of interest in renewable energy in Malaysia – if it is able to establish a track record.
- **Downside risks:** Weaker-than-expected project billings, and weaker-than-expected margins.

Target Price (Return):	MYR3.12 (+52%)
Price:	MYR2.05
Market Cap:	USD229m
Avg Daily Turnover (MYR/USD)	24.9m/6.18m

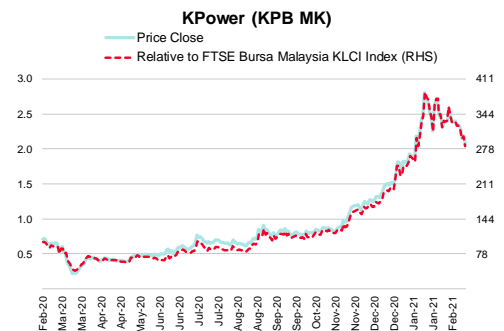
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	13.4	(16.3)	71.1	187.5	174.1
Relative	16.9	(14.6)	72.6	187.9	171.5
52-wk Price low/high (MYR)	0.21 – 2.80				



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: Good

KPower's orderbook mainly consists of EPCC of mini hydro plants. It aims to widen product offering in renewable energy to include wind, solar, and biomass. We expect its earnings from renewable energy to increase going forward with its venture into solar business via solar photovoltaic installation.

S: Good

KPower actively engages in the community, and is involved in efforts such as making donations to the Orang Asli community and 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.

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.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

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)	1,907.98	72.48	27.00	16.41	15.14
P/B (x)	37.8	8.8	7.0	5.2	4.1
P/CF (x)	na	87.57	36.35	17.14	13.04
Dividend Yield (%)	na	0.3	0.7	1.2	1.3
EV/EBITDA (x)	219.50	44.71	15.73	9.21	7.94
Return on average equity (%)	2.0	19.6	28.7	36.2	30.2
Net debt to equity (%)	7.5	net cash	net cash	net cash	net cash

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)	1,907.98	72.48	27.00	16.41	15.14
P/E	P/B (x)	37.8	8.8	7.0	5.2	4.1
	FCF Yield (%)	(0.2)	1.1	(0.5)	2.6	4.4
Key drivers	Dividend Yield (%)	-	0.3	0.7	1.2	1.3
i. Higher contract win;	EV/EBITDA (x)	219.50	44.71	15.73	9.21	7.94
ii. Better-than-expected margins.	EV/EBIT (x)	797.05	46.74	17.81	10.48	9.19
	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 overrun.	EBITDA	4.2	18.8	54.3	91.4	102.5
	Depreciation and amortisation	(3.0)	(0.8)	(6.3)	(11.1)	(13.9)
Company Profile	Operating profit	1.2	18.0	47.9	80.3	88.6
KPower began as a manufacturer. Today, it is also involved in property development and real estate investments. The company is now positioned to venture into energy, utilities, infrastructure and logistics.	Net interest	(0.2)	(0.1)	(2.2)	(4.7)	(6.5)
	Pre-tax profit	0.9	17.9	45.8	75.6	82.0
	Taxation	(0.5)	(5.1)	(11.0)	(18.2)	(19.7)
	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)	(15.62)	(14.50)	(5.17)
	Cash flow from operations	(1.60)	10.59	25.51	54.10	71.13
	Capex	(0.27)	(0.17)	(30.00)	(30.00)	(30.00)
	Cash flow from investing activities	(0.27)	(0.18)	(30.00)	(30.00)	(30.00)
	Dividends paid	0.00	0.00	(6.87)	(11.30)	(12.25)
	Cash flow from financing activities	(1.11)	77.82	24.34	38.97	24.80
	Cash at beginning of period	4.49	1.51	89.79	109.64	172.71
	Net change in cash	(2.98)	88.23	19.86	63.07	65.93
	Ending balance cash	1.51	89.79	109.64	172.71	238.65
	Balance sheet (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Total cash and equivalents	1.5	89.8	109.6	172.7	238.6
	Tangible fixed assets	12.8	12.3	35.9	54.8	70.9
	Total investments	8.1	7.6	7.6	7.6	7.6
	Total assets	41.1	167.2	265.8	414.4	520.2
	Short-term debt	1.0	10.6	8.6	18.7	26.1
	Total long-term debt	2.3	1.4	34.6	74.8	104.4
	Total liabilities	16.9	61.3	131.9	234.4	290.1
	Total equity	24.1	105.9	133.8	180.0	230.1
	Total liabilities & equity	41.1	167.2	265.8	414.4	520.2
	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	15.7	16.4	16.2
	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	8.7	5.4	4.7
	Interest cover (x)	5.37	171.53	22.19	17.19	13.57

Source: Company data, RHB

Figure 1: 1HFY21 results review

FYE Jun (MYRm)	2QFY20	1QFY21	2QFY21	QoQ (%)	YoY (%)	1HFY20	1HFY21	YoY (%)	Comments
Revenue	13.6	57.1	90.1	57.8	560.5	24.8	147.1	493.3	Higher project billings
EBITDA	2.7	11.2	12.9	14.8	381.6	4.4	24.1	443.4	
<i>EBITDA margin (%)</i>	19.7	19.7	14.3			17.9	16.4		
Depreciation	-0.2	-0.2	-0.2	-2.4	-25.1	-0.4	-0.3	-22.1	
EBIT	2.5	11.1	12.7	15.1	417.8	4.0	23.8	492.8	
<i>EBIT margin (%)</i>	18.0	19.4	14.1			16.2	16.2		
Interest expense	0.0	0.0	-0.1	472.0	308.6	-0.1	-0.2	150.7	
EI/Others	0.0	0.0	0.0	na	na	0.0	0.0	na	
Pre-tax profit	2.4	11.0	12.6	14.0	419.4	4.0	23.6	498.6	
Tax	-0.6	-2.9	-3.3	15.2	485.1	-1.1	-6.3	444.2	
<i>Effective tax rate (%)</i>	23.6	26.3	26.6			29.1	26.4		
Minority interests	0.0	0.0	0.0	-133.3	-116.7	0.0	0.0	-66.7	
Net profit	1.9	8.1	9.3	13.6	397.4	2.8	17.4	519.6	
Core profit	1.9	8.1	9.3	13.6	397.4	2.8	17.4	519.6	
<i>Net margin (%)</i>	13.6	14.3	10.3			11.3	11.8		

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

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

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