



AmInvestment Bank

Company report

KUMPULAN POWERNET

(KPB MK EQUITY, KPOW.KL)

10 Dec 2020

Bags RM296mil hydropower plant job in Perak

BUY

(Maintained)

Jeremie Yap

jeremie-yap@ambankgroup.com

+603-2036 2304

Rationale for report: Company update

Price	RM5.25
Fair Value	RM5.97
52-week High/Low	RM5.40/RM0.85

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)	11.3	27.7	39.8	61.8
FD Core EPS growth (%)	-	145.1	43.6	55.4
Consensus Net Profit (RM mil)	-	31.2	44.0	58.6
DPS (sen)	-	2.3	5.5	8.0
PE (x)	46.4	18.9	13.2	8.5
EV/EBITDA (x)	27.1	5.1	3.7	2.4
Div yield (%)	-	0.5	1.1	1.6
ROE (%)	19.6	26.5	30.2	35.9
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	113.1
Market Cap (RM mil)	593.7
Book Value (RM/share)	0.95
P/BV (x)	5.5
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)	6.6

Price performance	3mth	6mth	12mth
Absolute (%)	75.0	163.8	247.7
Relative (%)	62.9	151.6	234.2



Investment Highlights

- We maintain our BUY recommendation, forecasts and fair value of RM5.97/share for Kumpulan Powernet (KPower) based on 15x FY21F 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. On the flip side, from a relatively low base, the growth potential of KPower's earnings is tremendous at >100% and >40% in FY21 and FY22F respectively based on our projections.
- KPower has secured a RM296.0mil design and engineering, procurement, construction and commissioning (EPCC) contract for a 27.3MW mini hydro power plant in Sungai Singor, Perak, with a construction period of 48 months.
- This latest contract has boosted KPower's FY21F total job wins to RM543.3mil and its outstanding design/EPCC order book to RM1.6bil (Exhibit 1).
- We maintain our annual job wins assumption of RM1.4bil for FY21–23F (which is a tad more conservative against KPower's guidance of RM2bil for FY21F).
- 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; (2) its strong earnings visibility and growth potential underpinned by its RM1.6bil order backlog on green utility projects, coupled with a massive tender book of RM3.2bil; and (3) it being a strong contender for EPCC packages under the 1 gigawatt 4th cycle of the large-scale solar (LSS4) project locally.
- At about 13.5x forward earnings, we believe this homegrown renewable energy player has a compelling investment case given its involvement in the green sector where the growth trajectory is just beginning.

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
Gross Total		1,720.1
Amount Recognised (Estimate)		-105.0
Total Outstanding Orderbook		1,615.1

Source: AmInvestment Bank Bhd, Kumpulan Powernet

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	106.7	124.5	174.1
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	340.1	459.6	695.0
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	0.95	1.37	1.89	2.58
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)	77.8	40.1	34.1	29.2
Net cash flow	(2.8)	91.6	19.2	22.4	56.4
Net cash/(debt) b/f	4.5	1.5	89.8	106.7	124.5
Net cash/(debt) c/f	1.7	93.2	109.0	129.1	180.9
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 (%)	-	-	8.2	13.9	12.9
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, AmInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmInvestment Bank Berhad (“AmInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmInvestment’s prior written consent. AmInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.