



AmInvestment Bank

Company report

KUMPULAN POWERNET

(KPB MK EQUITY, KPOW.KL)

7 Dec 2020

Going big on solar

BUY

(Maintained)

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Rationale for report: Company update

| | |
|------------------|---------------|
| Price | RM5.01 |
| Fair Value | RM5.97 |
| 52-week High/Low | RM5.19/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) | 44.3 | 18.1 | 12.6 | 8.1 |
| EV/EBITDA (x) | 25.7 | 4.9 | 3.5 | 2.2 |
| 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) | 566.5 |
| Book Value (RM/share) | 0.95 |
| P/BV (x) | 5.3 |
| 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) | 6.6 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|------|-------|-------|
| Absolute (%) | 55.6 | 151.8 | 231.8 |
| Relative (%) | 45.5 | 141.6 | 220.9 |



Investment Highlights

- We maintain our BUY recommendation and forecasts, keeping our fair value at RM5.97/share for Kumpulan Powernet (KPower) based on 15x FY22F 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.

- We came away from KPower's analyst briefing feeling upbeat. The key highlights are as follows:

- We understand that the winners for the 1 gigawatt 4th cycle of the large-scale solar (LSS4) project is likely to be announced before the year is out. KPower has participated in the tender for 50MW, which could also involve asset ownership, in addition to engineering, procurement, construction and commissioning (EPCC) packages.

We believe KPower is giving Samaiden, Solarvest, Cypark Resources and Megafirst Corporation a run for their money, a handful of listed companies that have proven capability and track record in carrying out EPCC solar projects. We gather there is a possibility that new entrants could also emerge winners for the LSS4 work packages. If this happens, KPower may reach out to them to set up JVs to carry out the work packages. KPower could be targeting another 50–100MW under this JV model.

- KPower reiterated its guidance for RM2.0bil job wins in FY21F vs. our more conservative assumption of RM1.4bil annually in FY21–23F. YTD in FY21F, KPower has secured new jobs worth RM247.3mil. At present, its outstanding construction order book stands at RM1.3bil (Exhibit 1).
- KPower has identified solar EPCC as one of its key growth areas (partly also due to the generally low executive risk for solar EPCC projects). It clarified that it is still in talks with Taiwanese-based Global Microgrid Technologies (GMGT) with regards to a NT\$3.0bil (RM432mil) solar project in Taiwan, as against news reports suggesting that it has won the project.

- 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 RM1.3bil 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 (of which winners could be announced within weeks).
- At about 12x FY21 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 |
| Gross Total | | 1,424.1 |
| Amount Recognised (Estimate) | | -105.0 |
| Total Outstanding Orderbook | | 1,319.1 |

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

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