

KUMPULAN POWERNET

(KPB MK EQUITY, KPOW.KL)

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A new chapter taking shape

BUY

(Maintained)

Company report

Jeremie Yap

jeremie-yap@ambankgroup.com

+603-2036 2304

Rationale for report: Company results

Price RM4.88
Fair Value RM5.97
 52-week High/Low RM5.15/RM0.85

Key Changes

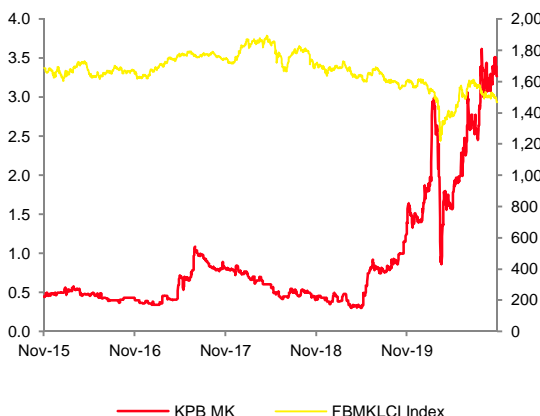
Fair value 
 EPS 

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)	42.8	17.5	12.2	7.8
EV/EBITDA (x)	24.6	4.7	3.4	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)	547.3
Book Value (RM/share)	0.95
P/BV (x)	5.1
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)	7.5

Price performance	3mth	6mth	12mth
Absolute (%)	48.0	144.4	245.7
Relative (%)	44.5	130.5	245.5



Investment Highlights

- We maintain BUY and our forecasts for Kumpulan Powernet (KPower), but increase our fair value (FV) to RM5.97 (from RM5.06) as we roll forward our valuation to 15x FY22F EPS (from 15x CY21F EPS previously). 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% in FY21F and >40% in FY22F based on our projections.
- KPower's 1QFY21 core net profit of RM8.1mil came in within expectations at 26% of ours and consensus full-year estimates respectively.
- Its 1QFY21 core net profit jumped to RM8.1mil from less than RM1mil a year ago driven largely by progress billings from construction jobs secured mostly in FY20, we believe particularly, the RM254.3mil sewerage project in Kuala Lumpur, RM65.9mil 8MW hydropower plant project in Laos and RM354.0mil 32.5MW hydropower plant project in Perak, Malaysia.
- Meanwhile, YTD in FY21F, KPower has secured new jobs worth a total of RM247.3mil (vs. our assumption for job wins of RM1.4bil annually in FY21–23F, which is slightly more conservative than KPower's guidance for RM2bil in FY21F). At present, its outstanding construction order book stands at RM1.3bil (Exhibit 1).
- 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: RESULTS SUMMARY

YE June	4Q FY20	1Q FY21	QoQ	3M FY20	3M FY21	YoY
Revenue	39.4	57.1	45%	11.2	57.1	411%
Construction	37.9	52.8	39%	5.1	52.8	943%
Property	0.8	4.1	400%	6.6	4.1	-38%
Manufacturing	0.4	0.1	-67%	0.1	0.1	52%
Investment	0.2	0.0	-89%	0.2	0.0	-89%
PBT	10.1	11.0	9%	1.5	11.0	625%
Construction	10.6	10.1	-5%	(0.0)	10.1	nm
Property	0.8	1.4	79%	2.2	1.4	-34%
Manufacturing	(0.9)	(0.4)	-58%	(0.7)	(0.4)	-47%
Investment	(0.4)	(0.1)	-73%	0.0	(0.1)	-643%
Taxation	(2.8)	(2.9)	4%	(0.6)	(2.9)	404%
Profit After Tax (PAT)	7.3	8.1	11%	0.9	8.1	759%
Minority Interest	(0.0)	(0.0)	-25%	0.0	(0.0)	nm
Net Profit	7.3	8.1	11%	0.9	8.1	759%
Core Net Profit	7.3	8.1	11%	0.9	8.1	759%
Core EPS (sen)	9.2	10.3	11%	1.2	10.3	726%
EBIT margin	26%	19%		14%	19%	
EBITDA margin	26%	20%		16%	20%	
PBT margin	26%	19%		14%	19%	
Net Profit margin	19%	14%		8%	14%	
Core Net Profit margin	19%	14%		8%	14%	
Tax Rate	28%	26%		38%	26%	

Source: AmInvestment Bank Bhd, Kumpulan Powernet

EXHIBIT 3: 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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