

20 November 2020

Energy & Utilities | EPCC Services

Kumpulan Powernet (KPB MK)

Buy (Maintained)

Set To Deliver Earnings; Reiterate BUY

- **Reiterate BUY, new TP of MYR5.70 from MYR4.13, 20% upside with c.2% FY22 (Jun) yield.** We believe Kumpulan Powernet is on track to deliver phenomenal earnings growth in FY21, and will double its orderbook by end-FY21F. The company, in our view, may undergo a further rerating if it can penetrate the solar industry, which fetches premium valuations.
- **1QFY21 earnings growth expectations.** Conservatively, we expect 1QFY21 core earnings to at least match 4QFY20's MYR7.3m, on the back of continuous project billings from contracts in hand, coupled with higher revenue from property development. KPOWER's only commercial project in Sentul, Kuala Lumpur – with a GDV of MYR41m – was 70%-completed as of end-September. Due to the disruption caused by the Movement Control Order, the expected completion date has been pushed back further to Jun 2021. The company's unbilled sales of MYR12m will be recognised largely in FY21.
- **Eyeing the Large Scale Solar 4 (LSS4) pie.** Together with its partner, KPOWER has put in bids as an asset owner for 50MW capacity in the LSS4 project, whereby the award could be announced by the end of this year. We estimate the capex needed for a 50MW capacity at c.MYR180m. As such, we do not discount the possibility of potential cash calls, if KPOWER is able to secure this project. At the same time, the company is also seeking for engineering, procurement, construction and commissioning job opportunities from LSS4.
- **On track to meet its end-FY21 orderbook target of MYR2bn.** KPOWER's orderbook stood at MYR1.4bn as of October, and it has secured MYR248m in contracts YTD. The company aims to grow its orderbook value to MYR2bn by end-FY21, implying a replenishment of >MYR1bn. Its current bid value stands at MYR3.2bn, of which 67% is from the energy segment, followed by infrastructure, at 32%. Both logistics and utilities jobs account for less than 1% of its total tenderbook.
- **Still BUY.** We maintain our earnings estimates, but lift our TP to MYR5.70 from MYR4.13, after rolling forward our valuation base year to FY22 (pegged to an unchanged 15x P/E). KPOWER has proposed a 4-for-1 share split and a 1-for-3 free warrants issue, after the share split adjustment. The warrants will have a 5-year tenure, with the exercise price fixed at MYR2.50. We have yet to impute the warrants into our projections, as we do not expect it to be exercisable in the near term. We are upbeat on this stock, as KPOWER offers strong earnings growth – premised on the potential doubling of its orderbook by end-FY21, as well as its superior ROEs. Downside risks to our call are a lower-than-expected orderbook replenishment rate, and project cost overruns.

Target Price (Return):	MYR5.70 (+20%)
Price:	MYR4.76
Market Cap:	USD132m
Avg Daily Turnover (MYR/USD)	7.13m/1.73m

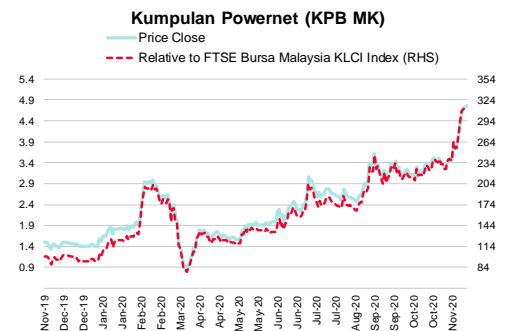
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	230.6	44.7	80.3	147.9	221.6
Relative	229.6	39.0	78.4	135.2	221.6
52-wk Price low/high (MYR)	0.86 – 4.76				



Source: Bloomberg

Forecasts and Valuation	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total turnover (MYRm)	13	96	321	444	497
Recurring net profit (MYRm)	0	13	31	43	47
Recurring net profit growth (%)	-	2,532.5	143.1	38.2	9.9
Recurring P/E (x)	1,107.56	42.07	17.31	12.52	11.39
P/B (x)	22.0	5.1	4.1	3.3	2.7
P/CF (x)	na	50.83	22.39	11.53	9.19
Dividend Yield (%)	na	0.5	1.2	1.6	1.8
EV/EBITDA (x)	126.75	24.05	9.33	6.28	5.46
Return on average equity (%)	2.0	19.6	26.3	29.0	25.7
Net debt to equity (%)	7.5	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:

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

Financial Exhibits

Asia	Financial summary (MYR)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Malaysia	Recurring EPS	0.00	0.11	0.28	0.38	0.42
Utilities	DPS	-	0.02	0.06	0.08	0.08
Kumpulan Powernet	BV/PS	0.22	0.94	1.16	1.46	1.79
KPB MK	Return on average equity (%)	2.0	19.6	26.3	29.0	25.7
Buy						
	Valuation metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Valuation basis	Recurring P/E (x)	1,107.56	42.07	17.31	12.52	11.39
P/E	P/B (x)	22.0	5.1	4.1	3.3	2.7
	FCF Yield (%)	(0.3)	1.9	(1.1)	3.1	5.3
Key drivers	Dividend Yield (%)	-	0.5	1.2	1.6	1.8
i. Higher contract wins;	EV/EBITDA (x)	126.75	24.05	9.33	6.28	5.46
ii. Better-than-expected margins.	EV/EBIT (x)	460.25	25.14	10.69	7.41	6.61
	Income statement (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Key risks	Total turnover	13.2	95.8	321.1	443.6	497.5
i. Lower-than-expected orderbook replenishment rate;	Gross profit	4.6	27.9	54.6	75.4	84.6
ii. Project cost overruns.	EBITDA	4.2	18.8	49.9	73.0	80.6
	Depreciation and amortisation	(3.0)	(0.8)	(6.3)	(11.1)	(13.9)
Company Profile	Operating profit	1.2	18.0	43.6	61.9	66.6
Kumpulan Powernet 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)	(2.0)	(4.0)	(3.0)
	Pre-tax profit	0.9	17.9	41.5	57.9	63.6
	Taxation	(0.5)	(5.1)	(10.0)	(13.9)	(15.3)
	Reported net profit	0.5	12.8	31.1	43.0	47.2
	Recurring net profit	0.5	12.8	31.1	43.0	47.2
	Cash flow (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Change in working capital	(3.97)	(4.54)	(13.86)	(8.39)	(3.69)
	Cash flow from operations	(1.60)	10.59	24.04	46.69	58.58
	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	(6.22)	(8.60)	(9.45)
	Cash flow from financing activities	(1.11)	77.82	22.67	31.33	(29.45)
	Cash at beginning of period	4.49	1.51	89.79	106.50	154.51
	Net change in cash	(2.98)	88.23	16.71	48.02	(0.86)
	Ending balance cash	1.51	89.79	106.50	154.51	153.65
	Balance sheet (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Total cash and equivalents	1.5	89.8	106.5	154.5	153.7
	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	254.5	360.0	392.2
	Short-term debt	1.0	10.6	8.2	16.2	12.2
	Total long-term debt	2.3	1.4	32.7	64.6	48.6
	Total liabilities	16.9	61.3	123.3	193.4	186.7
	Total equity	24.1	105.9	131.2	166.6	205.5
	Total liabilities & equity	41.1	167.2	254.5	360.0	392.2
	Key metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Revenue growth (%)	130.9	625.1	235.0	38.2	12.2
	Recurrent EPS growth (%)	0.0	2532.5	143.1	38.2	9.9
	Gross margin (%)	34.9	29.1	17.0	17.0	17.0
	Operating EBITDA margin (%)	31.7	19.6	15.5	16.5	16.2
	Net profit margin (%)	3.7	13.3	9.7	9.7	9.5
	Dividend payout ratio (%)	0.0	20.0	20.0	20.0	20.0
	Capex/sales (%)	2.1	0.2	9.3	6.8	6.0
	Interest cover (x)	5.37	171.53	21.31	15.32	21.92

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-10-21	Buy	4.13	3.48
2020-08-27	Buy	4.04	3.39
2020-08-23	Buy	3.77	2.85
2020-06-23	Buy	3.46	2.48

Source: RHB, Bloomberg

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