

30 June 2020

Energy & Utilities | EPCC Services

Kumpulan Powernet (KPB MK)

Buy (Maintained)

Second Contract Win In Laos; Reiterate BUY

Target Price (Return): MYR3.46 (+54%)
 Price: MYR2.25
 Market Cap: USD43.9m
 Avg Daily Turnover (MYR/USD) 3.34m/0.78m

- **Reiterate BUY and TP of MYR3.46, 54% upside with c.2% FY21 (Jun) yield.** We are positive on Kumpulan Powernet's USD47m hydropower facilities civil works contract win in Laos. This shows that it is on track to expand its orderbook. This also marks its second win in Laos, and we see more potential from the region should the company deliver the project in a timely manner.

- **USD47m hydropower facilities civil works job.** KPOWER announced that it has received and accepted a letter of award from Zhenghong Building Road & Bridge Construction Co Ltd to undertake, amongst others, the design, supply, construction, commissioning and completion of civil works in relation to the development of 3x5 MW Nam Taep 1 and 3x5 MW Nam Taep 2 Hydropower Energy Generating Facilities at Ban Nam Taep and Ban Nam Nameuang, Xam Tai District in Laos' Houaphan province. Both parties will enter into a definitive agreement within 60 business days, from the date of the award. The contract price is a fixed lump sum of USD47m (MYR175m), with a contract duration of 24 months.

- **Second win in Laos.** This marks the second contract win in Laos from the same party. Recall that KPOWER scored a MYR6m engineering, procurement, construction and commissioning job for a 8MW small hydropower plant, in early February. This job, progressing well, is 20-25% completed – despite seeing some work delays in 4QFY20 due to the COVID-19 pandemic. We believe these overseas projects tend to fetch lower gross margins of 15-18%, compared to domestic projects. Should KPOWER deliver the project in time, it could win further contracts in Laos in the future.

- **Forecasts.** Including total wins of MYR175m, this lifts its YTD wins to MYR1.18bn, and orderbook to MYR1bn. Although this already exceeds our FY20F replenishment of MYR1bn, we are keeping our earnings estimates intact, as earnings from this project will largely be recognised from FY21 onwards. We deem this as within our FY21F orderbook replenishment assumption of MYR1bn.

- **Still BUY.** Our TP remains at MYR3.46, pegged to 14x FY21F P/E. We are upbeat on this stock, as it offers an exponential earnings CAGR of 149%, a potential doubling of its orderbook by end-FY21, superior ROEs, and has an undemanding valuation of 9.1x.

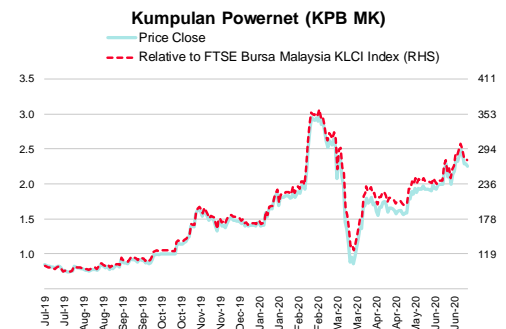
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	56.3	13.6	64.2	59.6	177.8
Relative	62.2	12.2	52.9	66.8	188.4
52-wk Price low/high (MYR)				0.75	– 2.99



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (MYRm)	6	13	92	291	397
Recurring net profit (MYRm)	(5)	3	9	28	39
Recurring net profit growth (%)	-	-	276.7	196.7	38.4
Recurring P/E (x)	na	101.73	27.00	9.10	6.58
P/B (x)	10.6	10.4	5.0	2.0	1.6
P/CF (x)	na	na	na	25.16	7.95
Dividend Yield (%)	na	na	0.7	2.2	3.0
EV/EBITDA (x)	na	59.07	14.28	4.47	3.24
Return on average equity (%)	(21.1)	2.0	24.9	31.1	26.9
Net debt to equity (%)	net cash	7.5	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.

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Financial Exhibits

Asia	Financial summary (MYR)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Malaysia	Recurring EPS	(0.04)	0.02	0.08	0.25	0.34
Utilities	DPS	-	-	0.02	0.05	0.07
Kumpulan Powernet	BVPS	0.21	0.22	0.45	1.14	1.41
KPB MK	Return on average equity (%)	(21.1)	2.0	24.9	31.1	26.9
Buy						
	Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Valuation basis	Recurring P/E (x)	na	101.73	27.00	9.10	6.58
P/E	P/B (x)	10.6	10.4	5.0	2.0	1.6
	FCF Yield (%)	(3.6)	(0.7)	(2.2)	(7.8)	0.8
Key drivers	Dividend Yield (%)	-	-	0.7	2.2	3.0
i. Increase in contract wins;	EV/EBITDA (x)	na	59.07	14.28	4.47	3.24
ii. Better-than-expected margins.	EV/EBIT (x)	na	214.50	18.02	5.32	3.88
	Income statement (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Key risks	Total turnover	5.73	13.22	91.62	291.07	397.36
i. Lower-than-expected orderbook replenishment	Gross profit	(1.22)	4.61	21.99	49.48	67.55
ii. Project cost overruns.	EBITDA	(3.82)	4.19	16.54	46.22	65.52
	Depreciation and amortisation	(0.99)	(3.04)	(3.43)	(7.41)	(10.80)
Company Profile	Operating profit	(4.81)	1.16	13.11	38.81	54.72
KPOWER began as a manufacturer. Since its inception, however, it has successfully diversified to property development and real estate investments. The company is now positioned to venture into energy, utilities, infrastructure and logistics segments.	Net interest	(0.19)	(0.22)	(0.71)	(2.02)	(3.81)
	Pre-tax profit	(5.00)	0.94	12.40	36.78	50.90
	Taxation	0.02	(0.46)	(2.98)	(8.83)	(12.22)
	Reported net profit	(4.98)	0.49	9.42	27.95	38.69
	Recurring net profit	(4.54)	2.50	9.42	27.95	38.69
	Cash flow (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Change in working capital	0.0	(4.0)	(16.5)	(25.3)	(17.5)
	Cash flow from operations	(9.0)	(1.6)	(3.7)	10.1	32.0
	Capex	(0.0)	(0.3)	(2.0)	(30.0)	(30.0)
	Cash flow from investing activities	0.2	(0.3)	(2.0)	(30.0)	(30.0)
	Dividends paid	0.0	0.0	(1.9)	(5.6)	(7.7)
	Cash flow from financing activities	12.6	(1.1)	28.1	75.7	28.0
	Cash at beginning of period	0.7	4.5	1.5	24.0	79.8
	Net change in cash	3.7	(3.0)	22.5	55.8	30.0
	Ending balance cash	4.5	1.5	24.0	79.8	109.9
	Balance sheet (MYRm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Total cash and equivalents	4.5	1.5	24.0	79.8	109.9
	Tangible fixed assets	13.5	12.8	11.3	33.9	53.1
	Total investments	8.3	8.1	8.1	8.1	8.1
	Total assets	36.0	41.1	88.6	241.5	334.4
	Short-term debt	1.3	1.0	2.9	8.1	15.3
	Total long-term debt	2.9	2.3	11.4	32.4	61.0
	Total liabilities	12.3	16.9	37.9	113.3	175.3
	Total equity	23.6	24.1	50.7	128.2	159.1
	Total liabilities & equity	36.0	41.1	88.6	241.5	334.4
	Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Revenue growth (%)	0.0	130.9	593.2	217.7	36.5
	Gross margin (%)	(21.3)	34.9	24.0	17.0	17.0
	Operating EBITDA margin (%)	(66.7)	31.7	18.1	15.9	16.5
	Net profit margin (%)	(87.0)	3.7	10.3	9.6	9.7
	Dividend payout ratio (%)	0.0	0.0	20.0	20.0	20.0
	Capex/sales (%)	0.4	2.1	2.2	10.3	7.5
	Interest cover (x)	(24.9)	5.4	18.3	19.2	14.4

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-06-23	Buy	3.46	2.48

Source: RHB, Bloomberg

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