



Company report

KPOWER

(KPB MK EQUITY, KPOW.KL)

23 Feb 2021

1HFY21 core net profit jumps fivefold YoY

HOLD

(Maintained)

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Rationale for report: Company results

Price	RM2.05
Fair Value	RM2.31
52-week High/Low	RM2.91/RM0.21

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)	2.8	6.4	8.7	12.8
FD Core EPS growth (%)	-	128.0	35.1	47.5
Consensus Net Profit (RM mil)	-	32.8	50.8	62.6
DPS (sen)	0.6	1.4	2.0	3.1
PE (x)	72.5	31.8	23.5	16.0
EV/EBITDA (x)	45.0	8.4	5.9	3.8
Div yield (%)	0.3	0.7	1.0	1.5
ROE (%)	19.6	26.5	30.2	35.9
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	452.3
Market Cap (RM mil)	927.3
Book Value (RM/share)	0.24
P/BV (x)	8.6
ROE (%)	19.6
Net Gearing (%)	-

Major Shareholders	Mohd Abdul Karim (33.3%) Grand Deal Vision Sdn Bhd (14.9%) Lim Kuan Gin (2.6%)
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Free Float	-
Avg Daily Value (RM mil)	26.3

Price performance	3mth	6mth	12mth
Absolute (%)	71.2	187.7	174.2
Relative (%)	73.7	188.9	167.4



Investment Highlights

- We maintain our forecasts but reduce our fair value (FV) by 10% to RM2.31 (from RM2.57 previously) based on 18x FY23F EPS (from 20x previously), which is now at a 10% discount to the 20x forward PE of leading renewable energy players globally. This is to reflect close to a 30% loss in its market capitalisation from a peak of RM1.3bil on 18 Jan 2021 to RM927mil currently, making it less attractive to certain large institutional investors. Maintain HOLD.
- KPower's 1HFY21 net profit came in within expectations at 56% and 53% of our full-year forecast and the full-year consensus estimates respectively.
- Its 1HFY21 core net profit jumped more than fivefold, driven largely by progress billings from construction jobs secured mostly in FY20, we believe particularly, a sewerage project in Kuala Lumpur (RM254.3mil), an 8MW hydropower plant project in Laos (RM65.9mil) and a 32.5MW hydropower plant project in Perak (RM354.0mil).
- Meanwhile, YTD for FY21F (June), KPower has secured jobs worth a total of RM543.3mil (vs. our assumption for job wins of RM1.4bil annually in FY21–23F, which is slightly more conservative than KPower's guidance of RM2.0bil in FY21F). At present, its outstanding construction order book stands at RM1.6bil (Exhibit 2).
- 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.
- However, at current valuations of 16x FY23F earnings, we believe its upside is capped.

EXHIBIT 1: RESULTS SUMMARY

YE June	1Q FY21	2Q FY21	QoQ	1H FY20	1H FY21	YoY
Revenue	57.1	90.1	58%	24.8	147.1	493%
Construction	52.8	85.8	62%	15.4	138.6	799%
Property	4.1	4.0	-3%	8.9	8.1	-9%
Manufacturing	0.1	0.3	133%	0.2	0.5	196%
Investment	0.0	(0.0)	-200%	0.4	0.0	-100%
PBT	11.0	12.6	14%	4.0	23.6	499%
Construction	10.1	11.7	16%	1.7	21.8	1154%
Property	1.4	1.3	-10%	3.6	2.7	-23%
Manufacturing	(0.4)	(0.5)	40%	(1.3)	(0.9)	-34%
Investment	(0.1)	0.1	-195%	(0.0)	(0.0)	-82%
Taxation	(2.9)	(3.3)	15%	(1.1)	(6.3)	444%
Profit After Tax (PAT)	8.1	9.3	14%	2.8	17.5	523%
Minority Interest	(0.0)	0.0	-133%	(0.0)	(0.0)	-67%
Net Profit	8.1	9.3	14%	2.8	17.5	522%
Core Net Profit	8.1	9.3	14%	2.8	17.5	522%
Core EPS (sen)	10.3	11.8	14%	3.7	22.0	498%
PBT margin	19%	14%		16%	16%	
Net Profit margin	14%	10%		11%	12%	
Core Net Profit margin	14%	10%		11%	12%	
Tax Rate	26%	27%		29%	26%	

Source: AmInvestment Bank Bhd, KPower Berhad

EXHIBIT 2: 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)		-165.0
Total Outstanding Orderbook		1,555.1

Source: ers.my

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	100.4	115.5	160.1
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	333.8	450.6	681.0
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	0.24	0.33	0.45	0.61
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)	-	40.1	34.1	29.2
Net cash flow	(2.8)	-	19.2	22.4	56.4
Net cash/(debt) b/f	4.5	1.5	87.2	100.4	115.5
Net cash/(debt) c/f	1.7	-	106.4	122.8	171.9
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 (%)	-	20.0	20.0	20.0	20.0
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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