



Company report

Jeremie Yap
jeremie-yap@ambankgroup.com
+603-2036 2304

KUMPULAN POWERNET

RENEWABLE ENERGY

(KPB MK EQUITY, KPOW.KL)

4 Nov 2020

Green power to the fore

BUY

(Initiation)

Rationale for report: Initiation

Price RM3.40
Fair Value RM4.16
52-week High/Low RM3.64/RM0.85

Key Changes

Fair value **Initiation**
EPS **Initiation**

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)	-	31.1	43.0	47.2
DPS (sen)	-	2.3	5.5	8.0
PE (x)	28.9	11.8	8.2	5.3
EV/EBITDA (x)	15.1	3.0	2.2	1.4
Div yield (%)	-	0.7	1.7	2.4
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)	369.8
Book Value (RM/share)	0.95
P/BV (x)	3.4
ROE (%)	19.6
Net Gearing (%)	-
Major Shareholders	Datuk Mohd Abdul Karim (33.3%) Grand Deal Vision Sdn Bhd (14.9%) Lim Kuan Gin (2.6%)
Free Float	-
Avg Daily Value (RM mil)	6.3

Price performance	3mth	6mth	12mth
Absolute (%)	25.8	101.9	163.7
Relative (%)	37.5	93.8	186.5



Investment Highlights

- We initiate coverage on Kumpulan Powernet (KPower) with a BUY call and a fair value of RM4.16/share based on 15x FY21F EPS. This is at a discount to an 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 145.1% and 43.7% in FY21 and FY22F respectively based on our projections.
- Following a corporate exercise in June 2019 that ushered in new shareholders, management team and business direction, KPower has transformed itself into a builder of green utilities, with its primary focus on the provision of engineering, procurement, construction and commissioning (EPCC) and project management for renewable energy power plants including hydro, solar etc. in Southeast Asia, Central Asia, Europe and the Middle East.
- The investment merits of KPower are:
 1. The bright prospects of renewable energy. According to the International Renewable Energy Agency, demand for energy in Asean is set to increase by 50% between 2019 and 2025. Also, during the same period, the dependence on renewable energy is projected to rise to 23% from 16%, underpinned by the global trends towards clean and sustainable energy and carbon neutrality to combat climate change. This augurs well for KPower which builds green utilities such as hydro, solar, biomass, power plants.
 2. KPower is set to ride the green wave by virtue of its RM1.2bil order backlog on green utility projects, coupled with a tender book of RM3.2bil. Based on our assumption on job wins of RM1.4bil annually in FY21–23F (which is a tad more conservative than the company's guidance for RM2bil annually), a net profit CAGR of 76% in FY20–23F is within reach.
 3. KPower is a strong contender for EPCC packages under the 1 gigawatt 4th cycle of the large scale solar (LSS4) project, a brain child of the Ministry of Energy and Natural Resources. We understand that KPower has submitted tenders for at least 50MW, and could involve asset ownership in addition to EPCC.
- At about 12x forward earnings, we believe this homegrown renewable energy player has a compelling investment case given its involvement in the sector at the right time.

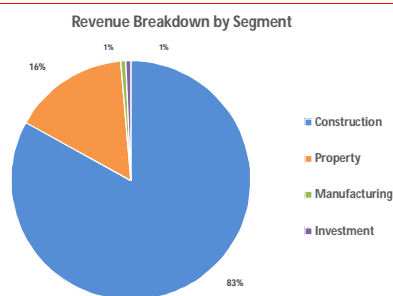
COMPANY BACKGROUND

Kumpulan Powernet (KPower) started off as a manufacturer of warp-knitted fabrics from synthetic yarns for the lingerie industry in the 1970s. In 2016, KPower further expanded into property development through the acquisition of the rights to develop a six-storey commercial development comprising 6 units of commercial shoplots in Sentul, Kuala Lumpur.

In June 2019, Datuk Mohd Abdul Karim Abdullah, the founder of Serba Dinamik Holdings Bhd and Grand Deal Vision Sdn Bhd, acquired a majority stake in KPower. Abdul Karim and his partners, together with a team of dynamic professionals, aim to transform KPower into a group that specializes in the provision of engineering, procurement, construction and commissioning (EPCC) and project management of renewable energy power plants – i.e. hydro, solar, biomass, geothermal etc. in Southeast Asia and the Middle East.

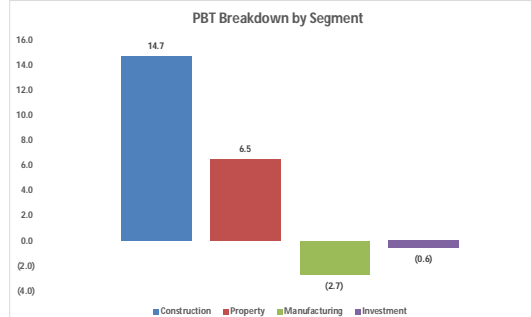
KPower currently has two main business segments, namely property development and design/construction for renewable energy power plants. In FY20, the revenue split was 83% construction and 16% property (shown in Exhibit 1) while the PBT split was RM14.7mil and RM6.5mil respectively – with 2 loss-making legacy divisions (manufacturing and property investments) which were small and insignificant (Exhibit 2).

EXHIBIT 1: REVENUE BREAKDOWN FOR FY20



Source: AmlInvestment Bank Bhd, Company

EXHIBIT 2: PBT BREAKDOWN FOR FY20



Source: AmlInvestment Bank Bhd, Company

KEY MANAGEMENT TEAM

Deputy chairman/group managing director Mustakim Mat Nun

Mustakim is currently the group managing director and deputy chairman of the company. He has more than 23 years of experience in finance, including corporate exercises such as raising debt and equity (Islamic and conventional), mergers and acquisitions, project financing, corporate restructuring and private finance initiatives. He holds a bachelor's degree in Accounting and Finance from the London South Bank University. Mustakim specialises in hydro and thermal power plant projects in advisory and fund-raising capacities, both domestic and overseas. He is also involved in water and waste-related projects in Malaysia.

Group chief financial officer Amirul Afif Abd Aziz

Amirul was appointed group CFO on 29 August 2019. He has over 20 years of experience in corporate and investment banking, Islamic finance, privatisation of projects, structured financing, corporate fund-raising, group restructuring, project financing and mergers & acquisitions. Amirul holds a bachelor's degree in Commerce and Management (Accounting) and a postgraduate diploma in Commerce and Management from Lincoln University, New Zealand.

Head of corporate finance and investor relations Muhammad Syukri Sulaiman

Syukri was appointed head of corporate finance and investor relations of the company on 5 July 2019. He has been involved in the capital market, fixed income, equity, funding, bond rating, fund management, corporate restructuring, advisory and audit work. He has over 15 years of experience being involved in large infrastructure projects, including independent power producers and toll roads, multinational manufacturing companies, listed and non-listed entities as well as financial institutions. Syukri holds a bachelor's degree in Commerce and Management (Accounting) and a postgraduate diploma in Commerce and Management from Lincoln University, New Zealand.

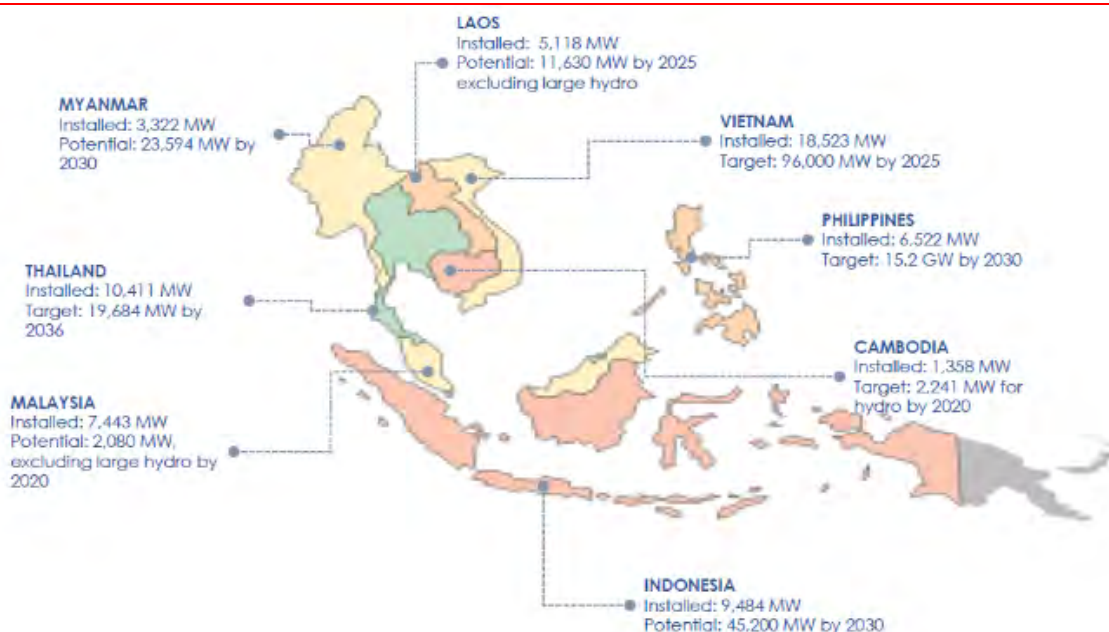
KEY INVESTMENT MERITS

□ *KPower to ride on growing energy demand in Asean; and increasing dependence on renewable energy*

According to the International Renewable Energy Agency (IRENA), the overall energy demand in Asean is expected to grow by almost 50%, and aims to secure 23% (from 15% in 2019 – where about 7% came from hydropower) of the total energy demand from modern, sustainable, renewable energy sources by 2025 led by hydro, wind and solar power. This is underpinned by the global trend of moving towards the usage of clean and feasible energy from the ever-depleting and unsustainable use of fossil fuels to combat climate change, reduce overall pollution/greenhouse gases and to achieve carbon neutrality.

In Exhibit 3 below, we have gathered the untapped opportunities in Southeast Asia's energy sector. The total current installed energy capacity is 62.2K MW, with an additional potential of about 215.6K MW throughout the decade till 2030. As a design, consulting and EPCC player in the renewable energy and utilities sector, we see KPower as a major beneficiary of the growing energy demand and increasing dependence of renewable energy in Asean.

EXHIBIT 3: OPPORTUNITIES IN ENERGY SECTOR IN ASIA

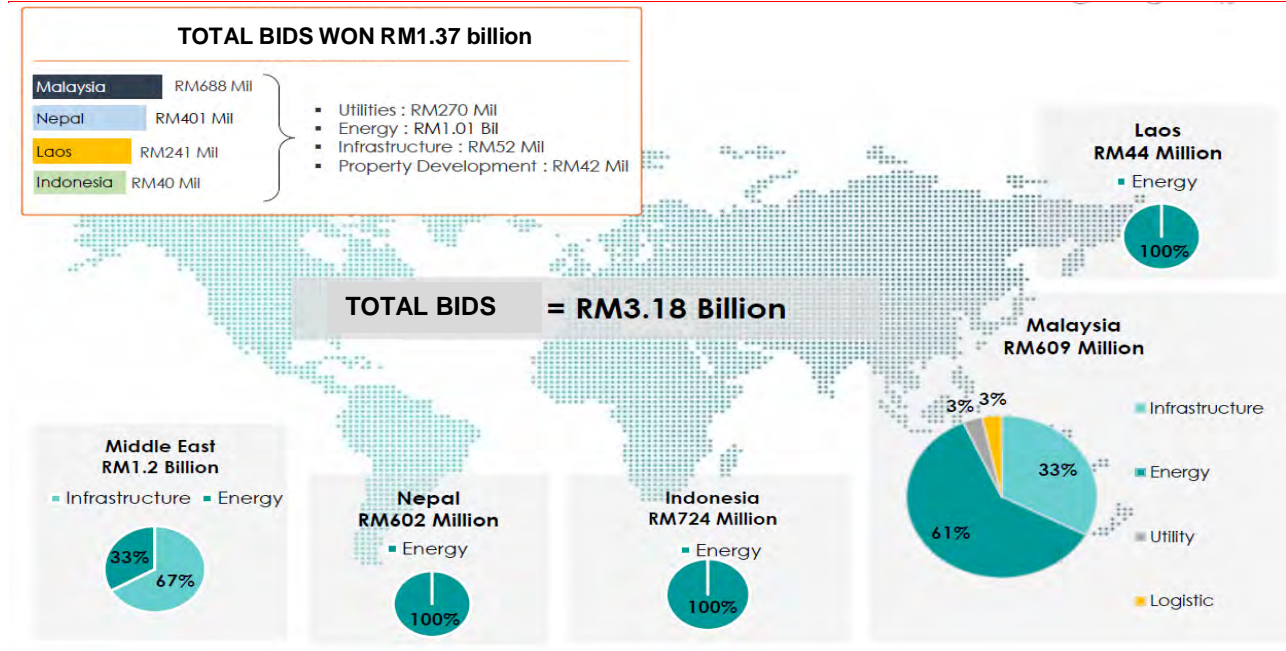


Source: AmInvestment Bank Bhd, Renewable Energy Institute, International Renewable Energy Agency, ASEAN Centre for Energy, Kumpulan Powernet

□ *Impressive earnings growth underpinned by KPower's aggressive tender activities*

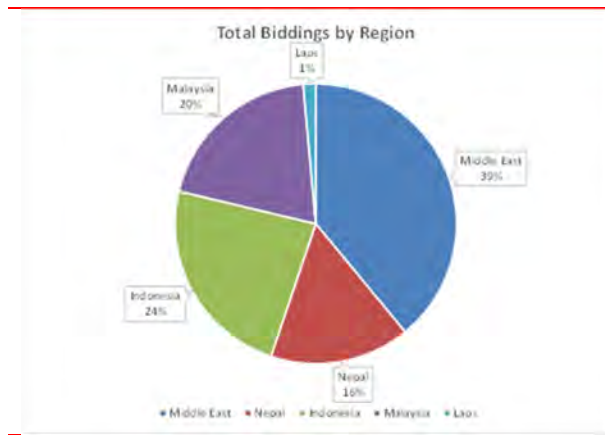
We are projecting KPower FY21–23F net profit to grow by 145%, 44% and 55% respectively, representing a FY20–23F CAGR of 76%. This will be underpinned by its aggressive total tender bids of RM3.18bil (Exhibits 4 and 5), and its current outstanding order book of RM1.2bil – a majority of which was secured in FY20 (Exhibit 6). Our estimates are based on a discounted assumption of an annual order book job wins of RM1.4bil annually in FY21–23F with a progressive S-curve billing over 4 years.

EXHIBIT 4: KPOWER'S CURRENT TOTAL BIDS



Source: AmInvestment Bank Bhd, Kumpulan Powernet

EXHIBIT 5: TOTAL BIDS BY REGION



Source: AmInvestment Bank Bhd, Company

EXHIBIT 6: 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
22 MW hydropower plant, Nepal	Nepal Electricity Authority	192.7
Gross Total		1,369.5
Amount Recognised (Estimate)		-105.0
Total Outstanding Orderbook		1,264.5

Source: AmInvestment Bank Bhd, Kumpulan Powernet

EXHIBIT 7: DETAILS ON KEY CONTRACTS

Project Description	Contract Value (RMmil)	More Information
<i>Projects in Laos</i>		
1) Hydropower Plant in Nam Samoy, Lao PDR The design, supply, construction, commissioning and completion of an 8MW small hydropower plant at Nam Samoy, Lao PDR.	65.9	We gathered that the projects are awarded by Électricité du Laos, which is the national utility company of Laos. Électricité du Laos is a listed entity in the Lao Securities Exchange (LSX) and has a total turnover of RM3.2bil and profits of RM225.1mil in its FY18. On 1st July 2020, Laos announced that it will be going ahead with the 1,400-MW Luang Prabang hydropower project - which will be Laos' third and largest dam on the Mekong River.
2) Hydropower Plant in Nam Taep, Lao PDR The supply, construction, commissioning and completion of civil works in relation to the development of Hydropower Energy Generating Facilities in Houaphan Province, Lao PDR.	174.5	
<i>Projects in Nepal</i>		
1) Hydropower Plant in Solukumbhu, Nepal The engineering, design, procurement, construction, commissioning and completion of a 22.9MW hydropower plant in Solukhumbhu, Nepal.	208.1	We gathered that the projects are awarded by the Nepal Electricity Authority (NEA), which is the national utility company of Nepal. NEA is looking to go for listing on the Nepal Stock Exchange next year and it will be the largest ever IPO issued by a Nepali company. In FY19, the NEA booked profits of NPR7.2bil (equivalent to RM251.1mil).
2) Hydropower Plant in Solukhumbhu, Nepal The engineering, procurement, construction, commissioning and completion of 22MW hydropower project in Solukhumbhu District, Nepal.	192.7	

Source: AmInvestment Bank Bhd, Kumpulan Powernet

❑ Beneficiary of large scale solar scheme

Malaysia has opened competitive bidding for the fourth cycle of the large scale solar (LSS4) projects for one gigawatt (1GW) of solar plants in late May 2020. The 1GW tender is expected to be worth about RM4.0bil and is targeted towards local players. According to the Ministry of Energy and Natural Resources, only fully-owned local companies, or companies listed on Bursa Malaysia with a minimum of 75% of local shareholding are qualified to bid. The government's plan is for the project development to begin before the end of 2020 to ensure that the projects can be commissioned by end-2023, with a term of 21 years for each LSS plant.

Each project developer will be able to bid for up to 50MW, which is half of the maximum bidding capacity allowed in the previous tender rounds. Each developer can submit only three bids. We understand that KPower has submitted tender proposals worth 50MW for the LSS4 – and is looking for a potential asset ownership along with the project.

OTHER SEGMENTAL BREAKDOWN

□ Textile manufacturing

We note that this is the group's legacy business. KPower started as a manufacturer of warp-knitted fabrics from synthetic yarns for the lingerie industry back in the 1970s. KPower then expanded its operations to include warp-knitted fabrics for the clothing, automotive, household, footwear and industrial segments.

However, we note that this segment has been loss-making for more than 5 years with a loss before tax of RM2.7mil in FY18 and FY19 each. The group has attributed the losses to two main reasons: i) low selling prices which were way below breakeven; and ii) tepid demand for its products globally.

The Ministry of Health has approached KPower and proposed that the group manufacture personal protective equipment (PPE) due to the overwhelming demand and lack of supply in the domestic market amidst the global Covid-19 pandemic. The group said it is still studying the feasibility of the business. Going forward, due to plant and operational enhancements by KPower's new management team, we are expecting this division to break even at best for FY21 onwards.

EXHIBIT 8: TEXTILE MANUFACTURING PLANT (1)



Source: AmInvestment Bank Bhd, Company

EXHIBIT 9: TEXTILE MANUFACTURING PLANT (2)



Source: AmInvestment Bank Bhd, Company

□ Property development

In 2016, KPower acquired the rights from SSF Home Builder Sdn Bhd to jointly develop a commercial project in Sentul, Kuala Lumpur. The development comprises two units of six storey shop offices and four units of five storey shop offices on a parcel of commercial development land owned by Yayasan Bekas Wakil Rakyat (Mubarak) Malaysia (Exhibit 10). The total GDV for the project is RM40.7mil and has reached about 70% completion as of end-June 2020.

We estimate the total unbilled sales as at end-June 2020 to be at about RM13.0mil. We forecast a PAT contribution of about RM5.0mil for FY21F from this division, with no more recurring profits in FY22F onwards.

EXHIBIT 10: KPOWER'S PROPERTY DEVELOPMENT

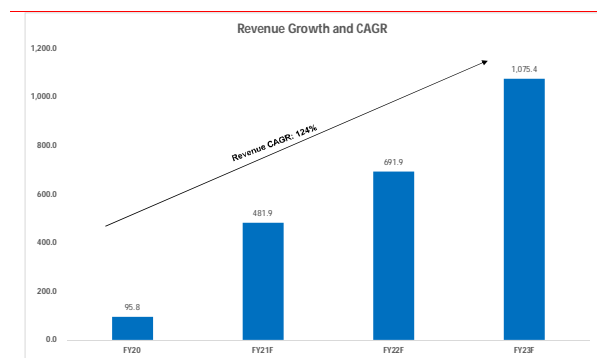


Source: AmInvestment Bank Bhd, Company

FINANCIAL PERFORMANCE

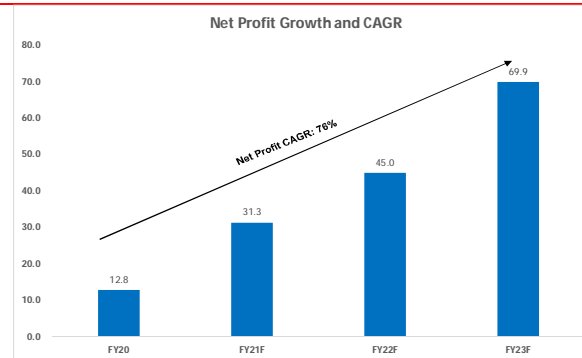
KPower turned to the black in FY19 after eight consecutive years of losses, with a net profit of RM0.5mil (vs. losses of RM5.0mil in FY18). We expect KPower to show outstanding growth in both revenue and profit, with FY20–22 CAGR rates of 124% and 76% respectively, on a conservative basis.

EXHIBIT 11: REVENUE GROWTH AND CAGR



Source: AmInvestment Bank Bhd, Company

EXHIBIT 12: NET PROFIT GROWTH AND CAGR



Source: AmInvestment Bank Bhd, Company

We are projecting KPower FY21–23F net profit to grow by 145%, 44% and 55% to RM31mil, RM45mil and RM70mil respectively. KPower has secured job wins totalling RM1.2bil in FY20 and with the management's vast past experience of 15–20 years in the industry, we believe that the group will be able to secure more contracts in the future. We forecast an annual job wins of RM1.4bil for FY21–23F, at a discount to management's target and guidance of RM2.0bil.

We gather that KPower's net margins are significantly higher than typical contractors' and this is because the group is also involved in consulting and design of the entire project plant as well (including major parts such as the turbine and engines).

VALUATION

We value KPower at RM4.16/share based on 15x FY21F EPS. This is at a discount to an 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 145.1% and 43.7% in FY21 and FY22F respectively based on our projections.

EXHIBIT 13: PEER COMPARISON TABLE

	Recomm.	Price (RM)	FV (RM)	Upside (%)	Mkt Cap (RMmil)	FYE	EPS (sen)		EPS growth (%)		P/E (x)		NDPS* (sen)	Div Yield* (%)
							FY20/21F	FY21/22F	FY20/21F	FY21/22F	FY20/21F	FY21/22F		
Kumpulan Powernet	BUY	3.18	4.16	30.8	359.6	Jun	27.7	39.8	145.1	43.7	11.5	8.0	5.5	1.7
Consensus Estimates														
Mega First	N.A.	6.83	N.A.	N.A.	3,360.0	Dec	68.3	71.0	82.6	4.0	10.0	9.6	30.0	4.4
HSS Engineering	N.A.	0.39	N.A.	N.A.	195.9	Dec	1.9	3.1	763.6	63.2	20.5	12.6	0.0	0.0
Cypark Resources	N.A.	0.80	N.A.	N.A.	384.2	Oct	16.0	19.0	-19.2	18.8	5.0	4.2	4.0	5.0
Samaiden	N.A.	0.58	N.A.	N.A.	120.8	Jun	4.0	4.0	-9.8	16.2	14.5	14.5	0.0	0.0
Solarvest	N.A.	1.16	N.A.	N.A.	457.0	Mar	6.0	9.0	-4.8	50.0	19.3	12.9	0.0	0.0
NextEra Energy	N.A.	305.29	N.A.	N.A.	598,061.4	Dec	955.3	1056.3	9.5	10.6	32.0	28.9	692.2	2.3
Vestas Wind Systems	N.A.	706.56	N.A.	N.A.	137,332.8	Dec	1540.8	2414.4	-9.8	56.7	45.9	29.3	666.2	0.9
Weighted Average									119.7	32.9	19.8	15.0		

Source: Bloomberg, AmInvestment Bank Bhd.

EXHIBIT 14: 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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