

KUMPULAN POWERNET

(KPB MK EQUITY, KPOW.KL)

13 Nov 2020



Company report

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Rationale for report: Company update

BUY

(Maintained)

Price	RM4.33
Fair Value	RM5.06
52-week High/Low	RM4.17/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 (%)	1,671.6	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)	36.2	14.8	10.3	6.6
EV/EBITDA (x)	20.1	3.9	2.8	1.8
Div yield (%)	-	0.6	1.4	1.9
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)	462.5
Book Value (RM/share)	0.95
P/BV (x)	4.3
ROE (%)	19.6
Net Gearing (%)	-

Major Shareholders	Datuk Mohd Abdul Karim Abdullah (33.3%)
	Grand Deal Vision Sdn Bhd (14.9%)
	Lim Kuan Gin (2.6%)

Free Float	-
Avg Daily Value (RM mil)	6.5

Price performance	3mth	6mth	12mth
Absolute (%)	61.7	116.4	154.0
Relative (%)	58.2	87.7	157.1



Investment Highlights

- We maintain our BUY recommendation and forecasts, but increase our fair value by 22% to RM5.06/share (from RM4.16/share previously) for Kumpulan Powernet (KPower) based on 15x CY21F EPS (from FY21F 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 145.1% and 43.7% in FY21 and FY22F respectively based on our projections.
- KPower has proposed a 4-for-1 share split and a 1-for-3 (after the share split entitlement date) free warrant issue with an indicative exercise price of RM2.50 per warrant. For illustration purposes, an investor who owns 3,000 KPower shares prior to the ex-date shall end up with 12,000 KPower shares plus 4,000 free warrants after the ex-date. Ex-all, our fair value for KPower shall adjust down to RM1.10. This is assuming full conversion of warrants and the interest income (at 2% p.a.) earned from the proceeds.
- We maintain our annual job wins assumption of RM1.4bil for FY21–23F (which is a tad more conservative against KPower's guidance of RM2bil for FY21F).
- 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.
- At about 13x CY21 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 Order book		1,319.1

Source: AmInvestment Bank Bhd, Kumpulan Powernet

EXHIBIT 2: 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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