

31 May 2024

Solarvest Holdings

Outlook as Bright as the Sun

By Nigel Ng | nigel@kenanga.com.my

SLVEST's FY24 results met expectations. Its FY24 core net profit jumped 64% YoY driven by strong deliveries of solar EPCC jobs, low solar panel cost and sale of electricity. We expect a strong job flow in coming months from the Corporate Green Power Programme (CGPP) and a new quota of 400MW under the Net Energy Metering (NEM) initiative. We maintain our forecasts, TP of RM1.91 and OUTPERFORM call.

Its FY24 core net profit met expectations.

YoY, its FY24 revenue jumped 35% on improved performance across the board, driven by: (i) the completion of EPCC jobs (+26%) under LSS4, (ii) sale of electricity (+530%) from its three LSS4 plants with a total installed capacity of 67.3MWp, and (iii) higher O&M activities (+47%). Its core net profit grew by a steeper 64% mainly driven by strong profits from electricity sales and low solar panel cost.

QoQ, its 4QFY24 revenue fell 14% as LSS4 projects were at the tail end. Its core net profit fell by a steeper 27% due to higher administrative expenses which offset lower solar panel cost and a better product mix skewed more towards high-margin rooftop projects vs. low-margin LSS jobs.

New wave of solar EPCC jobs. We understand that SLVEST's outstanding order book of RM242m fell 56% YoY having completed the LSS4 projects. However, we foresee a strong job flow over the immediate term driven by the 800MW CGPP with an end-2025 completion deadline and an additional 500MW quota under the NEM initiative. Its earnings growth will be driven by the full-year contribution from its 67.3MWp of solar power plants under LSS4 and incomes to the tune of RM38m annually from projects with a combined capacity of 109MWp from multiple corporate power purchase agreements (PPA) under its Powervest solar project financing scheme. Recall, Powervest has a hurdle internal rate of return (IRR) of at least 12% for these projects vs. a typical 8% IRR for LSS projects.

Outlook. The prospects of the solar energy sector are well supported by the National Energy Transition Roadmap (NETR) which sets an ambitious target of RE to make up 70% of total power generation capacity by 2050. In line with the roadmap, the Energy Commission is embarking on LSS5 with a quota of 2GW and a developer is now allowed to bid for up to 500MW (vs. only 50MW previously). Given its experience in LSS4, SLVEST is poised to garner a slice of action in this new initiative by the Energy Commission. We estimate that LSS5 will generate some RM5b worth of works for solar EPCC players, which will keep the sector busy until 2027.

There is also an additional quota of 400MW (residential: 100MW; commercial: 300MW) from Feb to Dec 2024 under the Net Energy Metering (NEM) initiative, coupled with the Solar For Rakyat Incentive Scheme (solaRIS) (using the additional 100W NEM quota for the residential segment) where participants will be offered rebates ranging from RM1,000/kWac up to RM4,000.

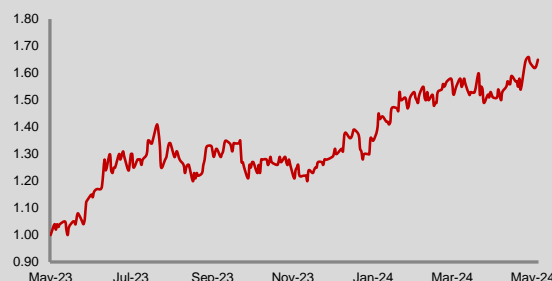
Recall, businesses in general, driven by commercial reasons (i.e. to save cost) and ESG considerations, have voluntarily invested in solar energy generation assets following the recent hikes in electricity tariffs.

Forecasts. We maintain our FY25F forecasts and introduce our FY26F numbers.

OUTPERFORM ↔

Price : **RM1.65**
Target Price : **RM1.91** ↔

Share Price Performance



KLCI	1,604.26
YTD KLCI chg	10.3%
YTD stock price chg	26.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SOLAR MK EQUITY
Market Cap (RM m)	1,142.6
Shares Outstanding	692.5
52-week range (H)	1.68
52-week range (L)	0.99
3-mth avg. daily vol.	2,785,086
Free Float	45%
Beta	1.1

Major Shareholders

Atlantic Blue Holdings Sdn Bhd	22.0%
Lim Chin Siu	9.0%
Tan Chyi Boon	8.4%

Summary Earnings Table

FYE Mar (RM m)	2024A	2025F	2026F
Turnover	492.6	543.4	726.2
EBIT	54.7	75.0	96.5
PBT	46.7	67.7	84.9
Net Profit	33.6	52.5	65.2
Core PATAMI	32.3	52.5	65.2
Consensus (NP)	-	45.7	56.9
Earnings Revision	-	-	-
Core EPS (sen)	4.8	7.4	9.2
Core EPS Growth (%)	63.6	62.7	24.3
NDPS (sen)	0.0	0.0	0.0
NTA per Share (RM)	0.4	0.4	0.5
PER (x)	34.3	22.3	18.0
PBV (x)	4.7	3.9	3.0
Net Gearing (x)	0.4	0.3	(0.0)
Net Div. Yield (%)	0.0	0.0	0.0

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Valuations. We maintain our TP of RM1.91 based on SoP valuation, ascribing 30x FY26F PER for its EPCC segment (in-line with the average historical 1-year forward PER of the solar EPCC sector) and DCF at a discount rate of 5.5% to 5.6% for its LSS4, CGPP, and Powervest assets (see Exhibit 1). Note that our TP reflects a 5% premium given a 4-star ESG as appraised by us (see Page 5).

Investment thesis. We like SLVEST for: (i) the bright outlook of the RE market in Malaysia, underpinned by the government's strong commitment towards RE, the export potential of RE and the increased commercial viability of solar power projects on falling solar panel prices, (ii) its strong market position, execution track record, clientele and value proposition of its PV system financing programme, and (iii) its strong earnings visibility backed by a sizeable outstanding order and tender books, and recurring incomes from a growing portfolio of solar assets. Maintain **OUTPERFORM**.

Risks to our call include: (i) the government dials back on RE policy, (ii) influx of new players in the EPCC space, intensifying competition, and (iii) escalation in solar panel prices and other project costs.

Results Highlights

FYE Mar (RM m)	4Q24	3Q24	QoQ	4Q23	YoY	FY24	FY23	YoY
Revenue	96.9	112.4	-14%	113.2	-14%	492.6	365.5	35%
COGS	-67.4	-84.5	-20%	-93.0	-27%	-394.1	-300.5	31%
GP	29.5	27.9	6%	20.2	46%	98.5	65.0	52%
Other Income	0.8	1.3	-38%	0.5	70%	2.7	1.7	57%
Admin expenses	-14.5	-10.8	35%	-11.5	26%	-43.9	-33.3	32%
Selling and distribution expenses	-0.7	-1.3	-48%	-0.4	84%	-2.6	-1.7	54%
EBIT	15.1	17.2	-12%	8.9	71%	54.7	31.8	72%
Finance costs	-2.7	-2.0	33%	-1.2	117%	-7.9	-4.1	95%
Share of profit of an associate	-0.1	0.0	61%	0.0	-773%	0.0	0.0	-180%
PBT	12.4	15.2	-18%	7.6	62%	46.7	27.7	68%
Tax	-3.6	-4.1	-12%	-2.2	65%	-13.1	-7.5	74%
Non-controlling Interests	1.0	0.4	143%	0.2	368%	1.3	0.5	173%
Net Profit	8.8	11.1	-21%	5.4	61%	33.6	20.2	66%
Core Net Profit	7.7	10.7	-27%	5.2	48%	32.3	19.7	64%
GP Margin	30%	25%		18%		20%	18%	
Operating Margin	16%	15%		8%		11%	9%	
PBT Margin	13%	13%		7%		9%	8%	
Net Margin	9%	10%		5%		7%	6%	
Core Net Margin	8%	9%		5%		7%	5%	
Effective Tax Rate	29%	27%		29%		28%	27%	

Source: Company, Kenanga Research

Segmental Breakdown

External Revenue (RM m)	4Q24	3Q24	QoQ	4Q23	YoY	FY24	FY23	YoY
Investment Holding	0.0	0.0	N.A.	0.0	-100%	0.0	0.0	N.A.
EPCC	68.6	104.1	-34%	108.7	-37%	449.7	355.7	26%
O&M	1.7	2.4	-30%	1.3	25%	6.9	4.7	47%
Sale of Electricity	6.1	3.4	78%	0.7	753%	12.0	1.9	530%
Others	20.6	2.5	734%	2.5	739%	24.0	3.2	642%
Total Revenue	96.9	112.4	-14%	113.2	-14%	492.6	365.5	35%
PBT Segmentation								
Investment Holding	-0.3	-0.5	-52%	-0.5	-43%	-2.0	-1.4	44%
EPCC	8.6	13.5	-36%	7.1	22%	39.8	26.0	53%
O&M	0.7	0.6	25%	0.5	44%	2.2	1.8	21%
Sale of Electricity	1.8	0.2	841%	0.5	266%	3.7	1.3	183%
Others	6.2	1.4	331%	1.0	541%	7.8	1.0	679%
Elimination	-4.7	0.0	N.A.	-0.9	401%	-4.7	-1.0	371%
Total PBT	12.4	15.2	-18%	7.6	62%	46.7	27.7	68%

Source: Company, Kenanga Research

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Exhibit 1: Sum-of-Parts (SoP) Valuation

Business/Asset	Value (RM m)	Basis
EPCC	1,250.1	30x FY26F PER
LSS4	61.9	DCF with a discount rate of 5.5%
CGPP	38.3	DCF with a discount rate of 5.6%
Powervest	135.6	DCF with a discount rate of 5.6%
Asset Valuation	1,486.0	
Proceeds from exercise of warrants/ESOS	205.0	158.5m outstanding warrants @ RM1.00 and 58.7m outstanding ESOS @ weighted average price of RM0.79
	1,691.0	
Enlarged share base (m shares)	927.7	Including 158.5m shares from warrant exercise, 58.7m shares from ESOS exercise and 40.2m new shares from the latest private placement
Fully-diluted TP before ESG (RM/share)	1.82	
ESG premium (RM/share)	0.09	5% based on a 4-star rating
TP after ESG (RM/share)	1.91	

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAS MALAYSIA BHD	MP	3.49	3.59	2.9%	4,481.2	Y	12/2024	28.4	27.5	-4.9%	-3.0%	12.3	12.7	3.1	25.8%	22.7	6.5%
MALAKOFF CORP BHD	MP	0.725	0.680	-6.2%	3,543.0	Y	12/2024	4.7	5.8	-71.9%	24.1%	15.4	12.4	0.8	5.2%	3.8	5.2%
PETRONAS GAS BHD	MP	18.20	17.87	-1.8%	36,012.9	Y	12/2024	98.4	100.7	5.2%	2.4%	18.5	18.1	2.6	14.2%	72.0	4.0%
SAMAIDEN GROUP BHD	MP	1.35	1.51	11.9%	564.4	Y	06/2024	3.5	5.3	26.4%	51.9%	38.8	25.5	5.4	14.9%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.65	1.91	15.8%	1,142.6	Y	03/2025	6.8	8.5	62.5%	24.2%	24.1	19.4	4.2	19.5%	0.0	0.0%
TENAGA NASIONAL BHD	MP	13.18	11.50	-12.7%	76,277.0	Y	12/2024	73.7	79.5	37.4%	7.9%	17.9	16.6	1.2	7.0%	36.5	2.8%
YTL POWER INTERNATIONAL BHD	MP	5.07	5.22	3.0%	41,280.8	N	06/2024	39.1	37.7	61.6%	-3.5%	13.0	13.4	2.2	18.1%	6.0	1.2%
Sector Aggregate					163,302.0					54.5%	3.3%	16.3	15.8	2.8	15.0%		2.8%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★	★	★	★
	Community Investment	★	★	★	★
	Workers Safety & Wellbeing	★	★	★	★
	Corporate Governance	★	★	★	
	Anti-Corruption Policy	★	★	★	
	Emissions Management	★	★	★	
SPECIFIC	Transition to Renewables	★	★	★	★
	Reliable Energy & Fair Tariff	★	★	★	★
	Effluent/Waste Management	★	★	★	
	Ethical Practices	★	★	★	★
	Supply Chain Management	★	★	★	
	Customer Satisfaction	★	★	★	★
OVERALL		★	★	★	★

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

