Kawan Renergy

Order Wins Need to Catch Up

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MARKET PERFORM ↓

Price :	**RM0.36**
Target Price :	**RM0.38 ↓**

KENERGY's 3QFY26 results missed our expectations, with CNP of RM2.0m bringing 9MFY26 CNP to RM8.9m, accounting for 34%/55% of our/consensus forecasts. While CNP recovered 177% QoQ as cost overruns on its Sabah power plant project eased and project mix improved, earnings remained significantly weaker YoY due to the Sabah cost overruns, elevated transportation, labour and material costs, and additional SST costs absorbed by the Group. Order replenishment remained slower than expected, with YTD wins of RM72m, resulting in an outstanding order book of RM92m. We cut our FY26F-FY27F order book assumptions to RM105m/RM165m and lowered margin assumptions across all segments, resulting in earnings cuts of 35%/9%, respectively. We also lowered our target PER to 9x from 12x to reflect slower order replenishment. Consequently, our TP is lowered to RM0.38 (from RM0.57), based on 9x FY27F EPS. Downgrade to NEUTRAL. An improvement in order replenishment will be re-rating catalyst.

Missed Expectations. After adjusting for RM0.2m exceptional items, 3QFY26 core net profit (CNP) came in at RM2.0m, bringing 9MFY26 CNP to RM8.9m. This accounted for 34% of our full-year forecast and 55% of consensus, below expectations. The earnings shortfall was mainly due to cost overruns on a power plant project in Sabah, elevated transportation, labour and material costs, and additional SST costs absorbed by the Group.

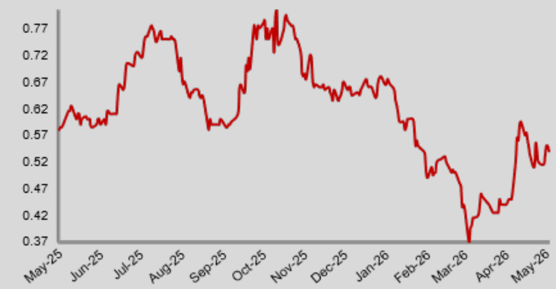
QoQ. CNP increased 177% to RM2.0m despite revenue remaining relatively stable at RM47m (+1%). The stronger earnings were mainly driven by: (i) easing cost overruns on the Sabah power plant project as additional works progressed towards completion, and (ii) a more favourable project mix, with higher contributions from higher-margin industrial process equipment and RE and co-generation projects. Consequently, GP margin improved to 8.1 ppts to 13.6%, while CNP margin expanded 2.8 ppts to 4.4%.

YoY. CNP decreased 73% to RM2.0m despite a 33% increase in revenue to RM47m, mainly due to: (i) cost overruns on the Sabah power plant project arising from additional scope of works and higher manpower deployment to mitigate project delays, (ii) elevated transportation, labour and material costs amid higher freight, fuel and wage costs, and (iii) additional SST costs absorbed by the Group following the expansion of the SST scope in September 2025. Consequently, GP margin contracted 20.9 ppts to 13.6%, while CNP margin fell 18.0 ppts to 4.4%.

Outlook. We expect earnings recovery to continue into 4QFY26 as cost overruns on the Sabah power plant project ease further, with the additional works progressing towards completion. The Group's current order book stands at RM92m. Meanwhile, management remains in discussions with the main contractor on the recoverability of additional costs incurred on the Sabah project, which could provide further earnings upside if successfully recovered.

Forecasts. Post-earnings, we cut our FY26F-FY27F order book assumptions to RM105m/RM165m (from RM135m/RM170m), respectively, to reflect slower-than-expected order replenishment, with YTD wins amounting to only RM72m. We also lower our margin assumptions across all segments to account for elevated project costs, including higher transportation, labour and material costs, as well as

Share Price Performance



KLCI	1,671.62
YTD KLCI chg	-0.5%
YTD stock price chg	-45.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	KENERGY MK Equity
Market Cap (RM m)	200.8
Shares Outstanding	550.0
52-week range (H)	0.81
52-week range (L)	0.35
3-mth avg. daily vol.	768,861
Free Float	22%
Beta	1.19

Major Shareholders

Lim Thou Lai	66.2%
Urusharta Jamaah Sdn	6.1%
Heng Siew Aun	2.0%

Summary Earnings Table

FYE Oct (RM m)	2025A	2026F	2027F
Turnover	135.8	165.7	186.5
Operating Profit	29.6	15.7	28.6
Profit Before Tax	30.7	16.0	30.9
Net Profit	**22.3**	**12.1**	**23.5**
Core Net Profit	**23.5**	**12.1**	**23.5**
Consensus (NP)		16.2	23.2
Earnings Revision		-34.7%	-9.4%
Core EPS (sen)	4.3	2.2	4.3
Core EPS Growth (%)	30.4	-48.3	93.2
NDPS (sen)	1.3	0.6	1.2
NTA per Share (RM)	0.2	0.2	0.3
PER (x)	8.4	16.3	8.4
PBV (x)	0.6	0.6	0.8
Net Gearing (x)	(0.3)	(0.3)	(0.4)
Net Div. Yield (%)	3.5	1.8	3.5

additional SST costs absorbed by the Group. Consequently, we cut our FY26F-FY27F earnings forecasts by 35% and 9%, respectively.

Valuation. We lower our target PER to 9x from 12x to reflect slower-than-expected order replenishment, in line with its forward PER of 8.8x. Consequently, we lower our **TP** to **RM0.38** (from RM0.57), based on 9x FY27F EPS. Downgrade to **NEUTRAL**.

Risks to our call include: (i) key-man risk, (ii) order book replenishment risk, (iii) margin compression risk, and (iv) project execution and delay risk.

Results Highlights

FYE Mar (RM m)	3Q26	2Q26	QoQ	3Q25	YoY	9M26	9M25	YoY
Revenue	46.5	45.9	1%	35.1	33%	136.7	95.3	43%
Cost of sales	-40.1	-43.3	-7%	-23.0	75%	-118.9	-68.2	74%
Gross Profit	**6.3**	**2.5**	**151%**	**12.1**	**-48%**	**17.8**	**27.2**	**-35%**
Other income	0.2	0.1	159%	0.2	-1%	1.3	1.1	17%
Administrative expenses	-2.6	-2.0	30%	-2.2	19%	-7.3	-6.1	19%
Others	0.0	-0.1	-99%	-0.2	-100%	-0.5	-0.3	98%
Operating Profit	**3.9**	**0.5**	**722%**	**9.8**	**-60%**	**11.2**	**21.9**	**-49%**
Finance Income	0.2	0.2	-224%	0.3	-190%	0.7	1.0	-157%
Finance costs	-0.3	-0.2	N.A.	-0.1	N.A.	-0.6	-0.1	N.A.
Profit before tax	**3.9**	**0.5**	**660%**	**10.1**	**-62%**	**11.3**	**22.8**	**-50%**
Tax expense	-2.3	-0.3	610%	-3.0	-21%	-4.4	-6.0	-26%
Non-controlling Interests	-0.2	-0.3	-29%	-0.4	-53%	-1.0	-0.5	87%
Net Profit	**1.5**	**0.2**	**753%**	**7.1**	**-79%**	**6.9**	**16.8**	**-59%**
Core Net Profit	**2.0**	**0.7**	**177%**	**8.0**	**-75%**	**8.9**	**18.3**	**-52%**
GP Margin	14%	5%		34%		13%	28%	
Operating Margin	8%	1%		28%		8%	23%	
PBT Margin	8%	1%		29%		8%	24%	
Net Margin	3%	0%		20%		5%	18%	
Core Net Margin	4%	2%		23%		6%	19%	
Effective tax rate	61%	65%		30%		39%	26%	

Source: Company, Kenanga Research

Segmental Breakdown

External Revenue	3Q26	2Q26	QoQ	3Q25	YoY	9M26	9M25	YoY
Industrial process equipment	19.4	13.3	46%	18.9	3%	49.2	49.1	0%
Industrial process plants	8.0	6.2	30%	6.8	18%	19.6	29.0	-32%
Renewable energy and co-generation plants	18.5	25.5	-27%	8.0	130%	66.0	15.6	324%
Others	0.6	0.8	-33%	1.3	-55%	1.8	1.6	15%
Total Revenue	**46.5**	**45.9**	**1%**	**35.1**	**33%**	**136.7**	**95.3**	**43%**

Source: Company, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen) 1-Yr. Fwd.	Core EPS (sen) 2-Yr. Fwd.	Core EPS Growth 1-Yr. Fwd.	Core EPS Growth 2-Yr. Fwd.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) 1-Yr. Fwd.	ROE 1-Yr. Fwd.	Net. Div. (sen) 1-Yr. Fwd.	Net Div Yld 1-Yr. Fwd.
Stocks Under Coverage																	
CHEEDING HOLDINGS BHD	OP	0.600	0.780	30.0%	478.4	Y	03/2027	5.0	5.3	0.0%	5.0%	12.0	11.4	2.7	25.5%	1.0	1.7%
KEEMING GROUP BHD	OP	2.59	2.00	-22.8%	841.8	Y	03/2027	9.8	12.9	39.1%	31.3%	26.3	20.0	7.7	37.6%	0.0	0.0%
KAWAN RENERGY BHD	OP	0.365	0.380	4.1%	200.8	Y	10/2026	2.2	4.3	-45.7%	94.2%	16.6	8.5	1.6	10.1%	0.6	1.6%
KJTS GROUP BHD	OP	1.04	1.60	53.8%	718.3	Y	12/2026	4.3	5.6	65.4%	29.6%	24.2	18.7	2.8	14.3%	0.0	0.0%
PEKAT GROUP BHD	OP	2.82	2.10	-25.5%	2,000.8	Y	12/2026	9.0	11.3	28.9%	25.9%	31.4	24.9	4.9	19.2%	1.3	0.5%
SAMAIDEN GROUP BHD	OP	2.86	2.90	1.4%	1,600.2	Y	06/2027	10.4	13.4	21.3%	29.0%	27.5	21.3	3.8	15.2%	3.0	1.0%
SOLARVEST HOLDINGS BHD	OP	4.06	3.76	-7.4%	3,972.1	Y	03/2027	15.5	19.2	45.1%	23.5%	26.2	21.2	8.0	34.1%	0.0	0.0%
SWIFT ENERGY TECHNOLOGY BHD	OP	0.240	0.470	95.8%	240.2	Y	09/2026	1.3	2.0	-29.3%	53.8%	18.5	12.0	3.0	19.1%	0.0	0.0%
SECTOR AGGREGATE					**182,941.8**					**4.3%**	**8.3%**	**18.8**	**17.3**	**3.5**	**18.0%**		**1.7%**

Source: Kenanga Research

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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