

Powerwell Holdings Berhad

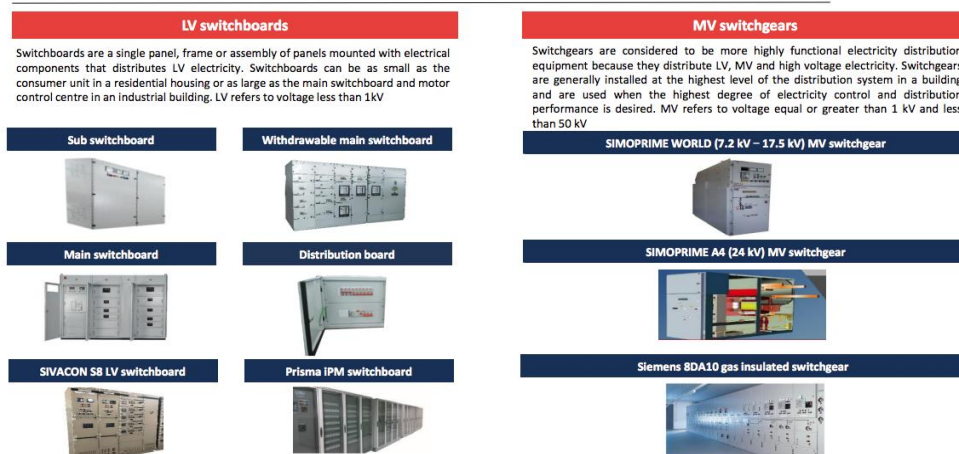
Well Powered In The Power Distribution Industry

- Powerwell has more than 38 years of experience in power distribution business and has strong business relationship with Siemens and Schneider. They could benefit from the booming data center, utilities (RE) and infrastructure projects.
- We believe their orderbook of c.RM70m and tenderbook of more than RM280m could sustain them for 1-2 years. Also, the net cash and dividend payout recently will be attractive for long term investors.
- We project its core PATMI to grow by +12-139% from RM6.7m in FY23 to RM16.1-18.0m in FY24-25f. Meanwhile, we pegged its FY25f core EPS of 3.1 sen to 18.0x P/E (c.25% discount from KL Industrial Production Index 10Y P/E of 24.1x), leading to a fair value of RM0.56.

Company background

- Established in 2001, Powerwell is involved in the design, manufacture and trading of low voltage (LV) and Medium Voltage (MV) electricity distribution products such as switchboards, switchgears and other products. These products are resupplied to main contractors, mechanical and electrical contractors, and EPCC companies for residential, commercial and industrial buildings, social amenities and infrastructure developments across various sectors.

Fig #1 Powerwell's products



Company

- **More than 38 years of experience with global presence.** Powerwell has supplied its products and services to various projects in Malaysia, including MRT (Sg Buloh-Kajang), government and private projects as well as having presence in the global arena including Bangladesh and Indonesia. Also, Powerwell intend to expand its business into Australia and Myanmar, either in the form of setting up a business unit in the country or a JV mode with local partners.
- Powerwell has always been bidding for projects within RM100m, where most of the projects are focusing on infrastructure and commercial buildings. Later stage, Powerwell seized the opportunity to venture into data centre, industrial building projects that relates to the semiconductor, electronics, pharmaceuticals industries and many others.

Non-rated

Loui Low
louilow@msec.com.my
(603) 2201 2100

Non-Rated

Share price	RM0.405
Fair Value	RM0.56
Previous TP	-
Capital upside	38.0%
Dividend return	5.4%
Total return	43.4%

Company profile

Powerwell is involved in the design, manufacture and trading of low voltage (LV) and Medium Voltage (MV) electricity distribution products such as switchboards, switchgears and other products.

Stock information

Bursa Code	0217
Bloomberg ticker	PWRWELL MK
Listing market	MAIN
Share issued (m)	580.6
Market Cap (m)	235.1
52W High/Low	0.415/0.17
Est. Free float (%)	23.8
Beta (x)	0.4
3-mth avg vol ('000)	12352.4
Shariah compliant	Yes

Major shareholders

PW Synergy Sdn Bhd	51.0
Tham Wai Kien	3.7
Wong Yen Yoke	3.5

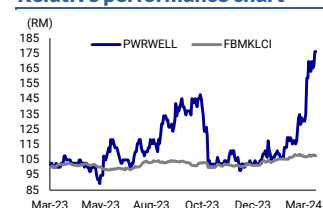
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	50.0	68.8	113.2
Relative	51.0	60.0	93.4

Earnings snapshot

FYE (Dec)	FY23	FY24f	FY25f
PATMI (m)	6.7	16.1	18.0
EPS (sen)	1.2	2.8	3.1
P/E (x)	35.1	14.6	13.0

Relative performance chart



JOIN OUR OFFICIAL TELEGRAM
TO GET THE LATEST MARKET UPDATES

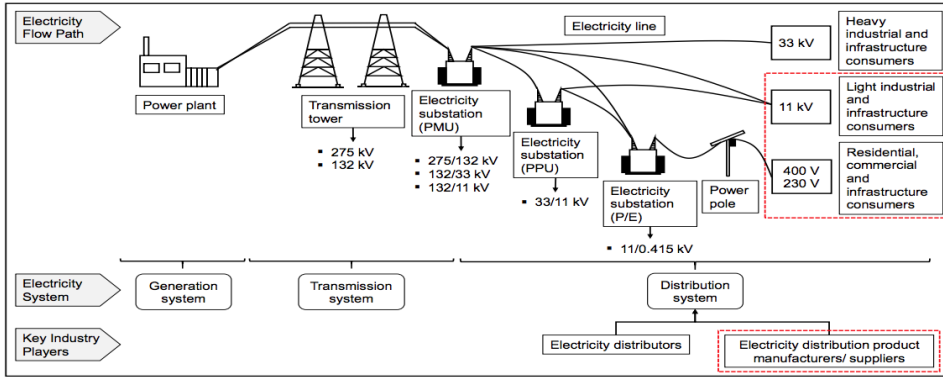
M+Online
Equipping Traders For The Win

Global
Winning The World

Wednesday, 20 Mar, 2024

- Since 2022, Powerwell has been targeting to diversify into renewable energy (RE) as the Group noticed the growth of RE is key within Southeast Asia and the demand for electricity in the region is expected to be double the global average going forward. After the pandemic, Powerwell has captured some of the opportunities within the data centres and microchip factories segments.

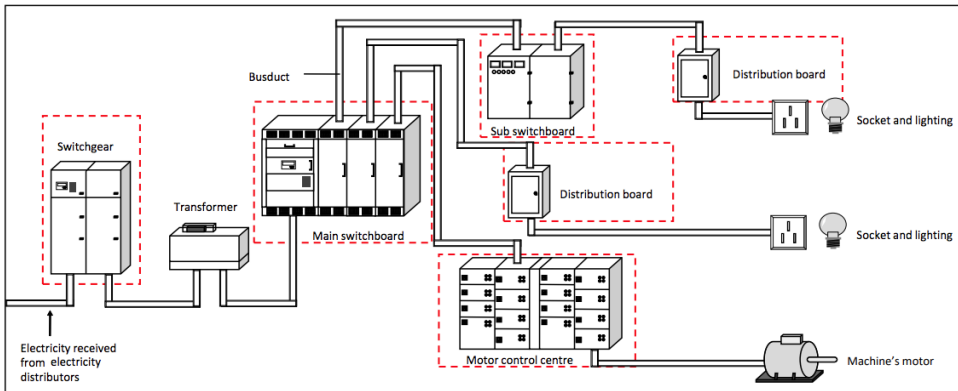
Fig #2 Electricity Transmission & Distribution System



Notes:
 (1) [Red dashed box] Denotes segment where our Group's products are utilised in and our role in the electricity distribution system.
 (2) kV refers to kilovolts; V refers to volts
 (3) Voltage less than 1 kV are categorised as low voltage; voltage equal or greater than 1 kV and less than 50 kV are categorised as medium voltage

Source: Company

Fig #3 Typical electricity distribution system



Notes:
 (1) [Red dashed box] Denotes the types of products that Powerwell manufactures.

Source: Company

Industry Outlook

- **Bangladesh...** The garment industry in Bangladesh plays a pivotal role in the country's economy, as it is one of the world's largest garment exporters with the ready-made garment (RMG) sector accounting for 84% of the country's exports. Over the years, the RMG sector has achieved more than doubled from USD14.6bn in 2011 to USD33.1bn in 2019, achieving a CAGR of 7.1%. The RMG sector aims to reduce its greenhouse gas (GHG) emissions by 30% by 2030, the rooftop solar plants will be a viable option.
- **...with its ambitious RE goals.** Bangladesh plans to generate 4.1k MW of clean energy by 2030, where solar will be contributing 2.3kMW, 1kMW from hydropower and c.0.6MW from wind power. In 2021, the solar energy generation is less than 1%, which we believe there will be strong growth ahead towards 2030. In December alone, the Bangladeshi authorities approved 630 MW of PV projects. And for 2023, solar projects approvals hit 2.1GW.



JOIN OUR OFFICIAL TELEGRAM
TO GET THE LATEST MARKET UPDATES

M+Online
Equipping Traders For The Win

Global
Winning The World

Wednesday, 20 Mar, 2024

Fig #4 Notable solar farms and future solar projects in Bangladesh

Location	Generation Capacity	Project Status
Gangachara, Rangpur	30 MW	Ongoing
Dharmapasha, Sunamganj	32 MW	Ongoing
Gauripur, Mymensingh	50 MW	Ongoing
Chuadanga	50 MW	Future
Netrokona	50 MW	Future
Mongla, Bagerhat	100 MW	Ongoing
Feni	100 MW	Future
Narsingdi	120 MW	Future
Sundarganj, Gaibandha	200 MW	Ongoing

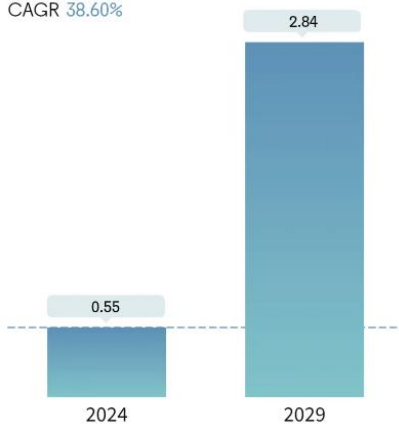
Source: Renewable Energy.gov

Fig #5 Bangladesh Solar Energy Market Statistics and Projections

Bangladesh Solar Energy Market

Market Size in Gigawatt

CAGR 38.60%



Source: Mordor Intelligence

Source: Mordor Intelligence

Study Period	2020 - 2029
Base Year For Estimation	2023
Market Volume (2024)	0.55 gigawatt
Market Volume (2029)	2.84 gigawatt
CAGR (2024 - 2029)	38.60 %
Market Concentration	Medium

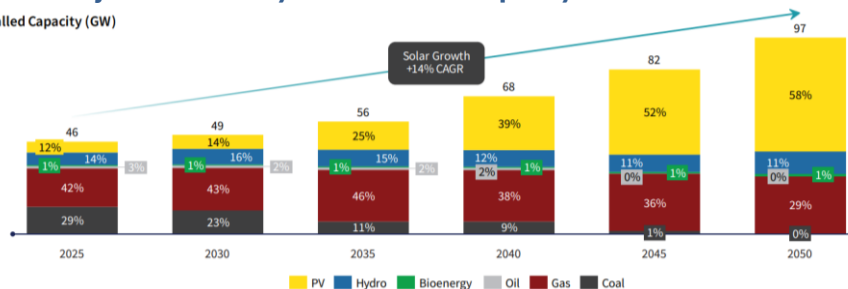


*Disclaimer: Major Players sorted in no particular order

- National Energy Transition Roadmap (NETR).** Malaysia has taken significant steps to transition towards a more sustainable energy landscape and aspires to achieve net zero emissions by 2050. In Aug-2023, energy generated by the solar energy has surged to 2.657kMW. In NETR, Malaysia has revised its RE target from 40% in 2040 to 70% (58% solar) by 2050. Meanwhile, in Jan-2024, the fifth large-scale solar (LSS) programme of a quota of up to 2GW will be up for bids.

Fig #6 Projected Power System Installed Capacity Mix 2050

Installed Capacity (GW)



Source: NETR Malaysia

- Data center opportunities.** Aside from global growth, Malaysia is experiencing significant growth in this area and it will continue to show even better growth opportunities after the recent YTL-Nvidia collaborations in Johor recently. The rising adoption of cloud-based services and the Internet of Things (IoT) will be the key driver and contributing to the robust growth in data centers. According to Knight



JOIN OUR OFFICIAL TELEGRAM
TO GET THE LATEST MARKET UPDATES

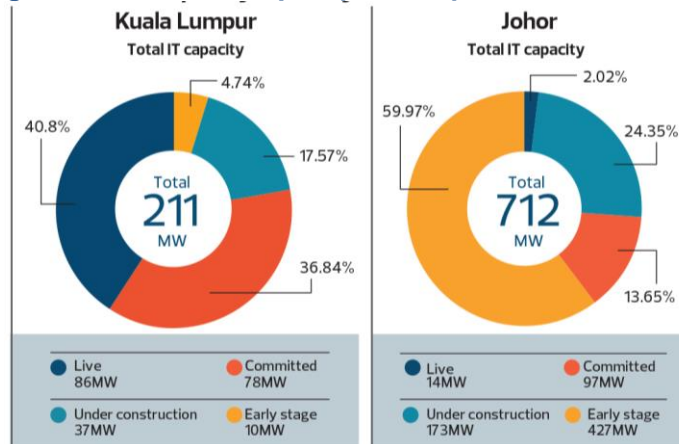
M+Online
Equipping Traders For The Win

Global
Winning The World

Wednesday, 20 Mar, 2024

Frank, Singapore's constraints will be benefiting Malaysia, which offers cost-effective infrastructure data center investments due to its (i) low electricity tariffs, (ii) abundance of land area at lower price range (c.80% cheaper), and (iii) lower construction and building material costs (c.30-40% lower).

Fig #7 Data Centre Capacity In Malaysia



Source: Knight Frank, The Edge

- Railway infrastructure...** Powerwell's products offerings are paramount in the infrastructure and utilities sectors. With the revival of KL-SG HSR, as well as the ongoing RTS link in Johor, we believe the strong track record from Powerwell will land them with other jobs going forward. Do note that, Penang LRT project will be awaiting approval and it will be tabled in the Cabinet soon. We opine that Powerwell will be tendering as they are well equipped with knowledge and track records in the in the past LRT and MRT projects.
- ...and Utilities sectors.** With the slowdown in shopping malls in Malaysia, there will be growth in the Utilities sector such as the water and sewerage segments where Powerwell could have an edge.

Investment Merits

- Strong business relationship with Siemens and Schneider.** Besides manufacturing its own brand "Powerwell", it does third-party brand manufacturing for Siemens (LV switchboards and MV switch gears), a leading supplier of systems for power generation and transmission, and Schneider Malaysia (LV switchboards), the Malaysian arm to Germany conglomerate Schneider Electric that specializes in electrical equipment.
- Decent orderbook for 1-2 years.** YTD, their orderbook is c.RM70m, with a tenderbook of more than c.RM280m. Also, according to the management approximately 80% is data center, 10-15% is manufacturing while the rest is from infrastructure projects.
- Healthy balance sheet.** As at 3Q24, Powerwell's net cash stood at RM63.8m, translating to net cash per share of 11.0 sen (c.27% of share price).
- Dividends.** Since listing in year 2020, Powerwell has started paying dividends in FY24 (twice). Also, we noticed the latest dividend is 2nd interim, which mean there will be a final dividend to be declared down the road that may translate to a dividend yield of more than 5% and decently attractive for long term investors.



JOIN OUR OFFICIAL TELEGRAM
TO GET THE LATEST MARKET UPDATES

M⁺Online
Equipping Traders For The Win

Global
Winning The World

Wednesday, 20 Mar, 2024

Fig #8 Dividends announced in FY24

Date announced	Financial Year	Ex-date	Entitlement Type	Dividend (sen)
29/8/2023	31/3/2024	13/9/2023	1st Interim Dividend	0.6
22/2/2024	31/3/2024	27/3/2024	2nd Interim Dividend	1.4

Source: Bursa Malaysia

- **Eligibility for Main Market transfer.** Based on the current earnings trends, we believe Powerwell's will be surpassing the threshold for the transfer to main market listing requirement and this is likely to be the next catalyst moving forward.
- **One-stop solutions.** Powerwell intends to provide high-voltage products, besides the low and mid voltage products to provide a one-stop solutions service for contractors.

Financials

- **Negative earnings during FY22...** Powerwell's results were impacted largely due to the negative factors since Covid-19 environment such as supply chain imbalances, labor, raw material shortages which has caused the raw material costs to increase. Also, this led to order backlogs and even project hold-ups or cancellations. Revenue has declined 25% to RM80.9m in FY22 from RM107.9m in FY21. Also, the negative factors had contributed to negative LATMI of -RM4.2m.
- **...but recovered in FY23.** However, in FY23, revenue recovered strongly to RM159.1m, while the core PATMI stood at RM6.7m for FY23 as compared to RM4.2m in FY22.
- **Surged in 9M24 core PATMI due to higher margins projects.** In the latest 3QFY24, Powerwell's net income soared to RM9.6m (+480% QoQ), and 9MFY24 rose to RM13.3m (+230% YoY), attributed to higher gross profit margin released from key projects, specifically in the data centers, solar power plant project and semiconductor plant project.
- **Decent growth of FY24-25f earnings.** We project Powerwell's core PATMI to grow by 139% and 12% to RM16.1m and RM18.0m for FY24-25f, underpinned by their orderbook of c.RM70m and tenderbook of c.RM280m, while we project its net margins to be above 9.0% as compared to 4.2% in FY23.

Fig #9 Financial highlights

Financial Highlights				
FYE Dec (RM m)	FY22	FY23	FY24f	FY25f
Revenue	80.9	159.1	171.8	189.0
EBITDA	(0.2)	12.2	24.7	27.1
PATMI - Core	(4.2)	6.7	16.1	18.0
PATMI - Reported	(3.0)	6.8	16.1	18.0
Revenue growth (%)	-	97%	8%	10%
Core PATMI growth (%)	-	NM	139%	12%
Core EPS (sen)	(0.7)	1.2	2.8	3.1
P/E (x)	NM	35.1	14.6	13.0
DPS (sen)	-	-	1.9	2.2
Dividend yield (%)	-	-	4.8%	5.4%
P/B (x)	3.4	3.1	2.9	2.7
ROE (%)	-6%	9%	20%	21%
Net Gearing (%)	CASH	CASH	CASH	CASH

Source: Malacca Securities Research



JOIN OUR OFFICIAL TELEGRAM
TO GET THE LATEST MARKET UPDATES

M+Online
Equipping Traders For The Win

M+Global
Winning The World

Wednesday, 20 Mar, 2024

Valuation

- **Fair value of RM0.56.** Based on the current price of RM0.405, Powerwell is priced at FY24-25f of 14.6x and 13.0x, respectively. We opine that Powerwell's valuation can be justified based on FY25f core EPS of 3.1 sen pegged to a P/E multiple of 18.0x, leading to a fair value of RM0.56. The P/E multiple of 18.0x is a c.25% discount of towards the KL Industrial Production Index 10Y average of 24.1x, given the smaller market capitalization of Powerwell.

Fig #10 Peers comparison

Metric	Valuation Metric Bands						12M Fwd Implied Price @		
	Current	10Y Avg	Band (x)	Avg+x	Avg-x	Est (MYR)	10Y Avg	Avg+x	Avg-x
Current Price							177.35	177.35	177.35
LTM P/E	NaN	24.1x	11.5	35.6x	12.6x	--	--	--	--
LTM P/BV	1.3x	1.5x	0.2	1.7x	1.3x	--	--	--	--
LTM P/CF	13.1x	14.1x	3.1	17.2x	11.0x	--	--	--	--
LTM P/S	1.2x	1.3x	0.2	1.5x	1.1x	--	--	--	--

Source: Bloomberg

Potential risks

- **Slower-than-expected construction projects being awarded.** Powerwell's revenue is highly correlated with the construction sector. Hence, should any economic downturn or political uncertainty would contribute to slower infrastructure development, translating to softer demand for electrical works.
- **Forex fluctuation risks.** Purchases of the components from overseas suppliers will be denominated in USD.

Disclaimer

Research analyst(s) of MSSB whom produced this report hereby certifies that the views expressed in this report accurately reflect his/her personal opinions about all of the subject corporation(s) and securities in this report. He/She does not carry out, whether for himself/herself or on behalf of MSSB or any other persons did not receive and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. As of the report date, the analyst whom prepared this report does not have any interest in the following securities covered in this report, unless otherwise stated.

As of **Wednesday, 20 Mar, 2024**, the analyst(s), Loui Low Ley Yee, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned



JOIN OUR OFFICIAL TELEGRAM
TO GET THE LATEST MARKET UPDATES

M+Online
Equipping Traders For The Win

M+Global
Winning The World