

Engineering the Future with Innovative Solutions

KAWAN RENERGY BERHAD

Fair Value: RM0.48 (+60%)

Company Description

Kawan Renergy Berhad (“KENERGY”) is principally involved in the design, fabrication, installation and/or commissioning solutions of industrial process equipment, process plant, renewable energy and co-generation plant. The Group is also an independent power producer (“IPP”) involved in power generation and sale of electricity.

Investment Highlight

- **Strong order book visibility:** As of the last practical date (“LPD”), KENERGY has successfully secured an unbilled order book worth RM72.9 million (“mn”), of which RM51.9mn will be recognized in FYE24F. The Group also has a tender book value of RM81.6mn and is engaged in direct negotiation with clients for four new projects – which collectively valued at RM113mn. KENERGY is expected to secure at least 20% of jobs from open tender and 50% of jobs from direct negotiation in FYE24F-FYE25F, based on the historical performance guidance.
- **Ample room for growth:** In 2023, the industrial process equipment industry size in Malaysia was recorded at RM23.50 billion (“bn”), while the Group only captured a market share of 0.42% in the industrial process equipment industry. Driven by its specialized custom solutions and more multinational companies continue to expand their presence in Malaysia, KENERGY will benefit from this development to accelerate its market share in coming years.
- **Steady margin:** The Group has achieved average gross margin of 15.3%-24.4% over the past few years. This steady growth demonstrates strong management’s capability in managing cost, which leads to positive expectation of above 20% margin for FYE24F-FYE26F.
- **Government tax incentive for green technology:** Based on 2024 budget, the incentive period for biogas-related qualifying activities under the Green Investment Tax Allowance (“GITA”) project is proposed to be 5 years – with a GITA of 100%, and 70% of statutory income to be set off. This places the Group in good position in line with its future approach in continuing to develop its renewable energy business.

Valuation / Recommendation

We derive a fair value of RM0.48 based on 15x multiple to its FYE2025F EPS of 3.20sen. The Initial Public Offering (“IPO”) aims to raise approximately RM33.0mn from the issuance of 110.00mn new shares. A total of 69.7% of proceeds will be utilised for capital expenditure and general working capital, 18.2% is allocated for repayment of bank borrowings, while the remaining 12.1% of the proceeds will be utilised for listing expenses.

As of FYE2023, the Group’s current ratio is above 1x at 1.8x reflecting a strong capacity to repay its current liabilities. In terms of funding ability, KENERGY shows healthy ability, given the low gearing ratio below 1x at 0.2x. Combined with the rising demand for oleochemicals and the increasing adherence to ESG-compliant standards for companies, we foresee a long-term upward trajectory for the group’s performance.

Source: Company Prospectus, Eco Asia Research Estimates

IPO TIMELINE

Opening Date	29 Apr 2024
Closing Date	14 May 2024
Listing Date	29 May 2024

IPO Price (RM)	0.30
Expected Return	60.00%
Market/ Sector	Industrial Product & Services
Bursa Code	0307

IPO Details	Shares(mn)
Offer for Sale	34.50
Public Issue	110.00
Enlarged share	550.00
	RM(mn)
Market Cap	165.00
Shariah Compliant	Yes

Major Shareholders	Shares(mn)	(%)
Lim Thou Lai	387.90	70.50
Heng Siew Aun	11.00	2.00
Chong Hon Choong	6.44	1.20

Utilisation of IPO Proceeds	RM(mn)	(%)
Working Capital	15.00	45.45
Investment into a new 2MW power plant	5.00	15.15
Improvement of Bercham Plant output	2.50	7.58
Purchase of additional machineries	0.50	1.52
Repayment of bank borrowings	6.00	18.18
Estimated listing expenses	4.00	12.12
Total	33.00	100.00

Allocation	Shares(mn)	(%)
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Public Issue

Malaysian Public via balloting process:		
• Public investors	13.75	2.50
• Bumiputera public investors	13.75	2.50
Eligible Parties	19.25	3.50
Placement to MITI approved Bumiputera invest	63.25	11.50
Subtotal	110.00	20.00

Offer for sale

Bumiputera investors approved by MITI	5.50	1.00
Other institutional and selected investors	29.00	5.27
Subtotal	34.50	6.27
Total	144.50	26.27

Total enlarged share capital upon listing 550.00

Source: Company Prospectus

Key Financial Summary

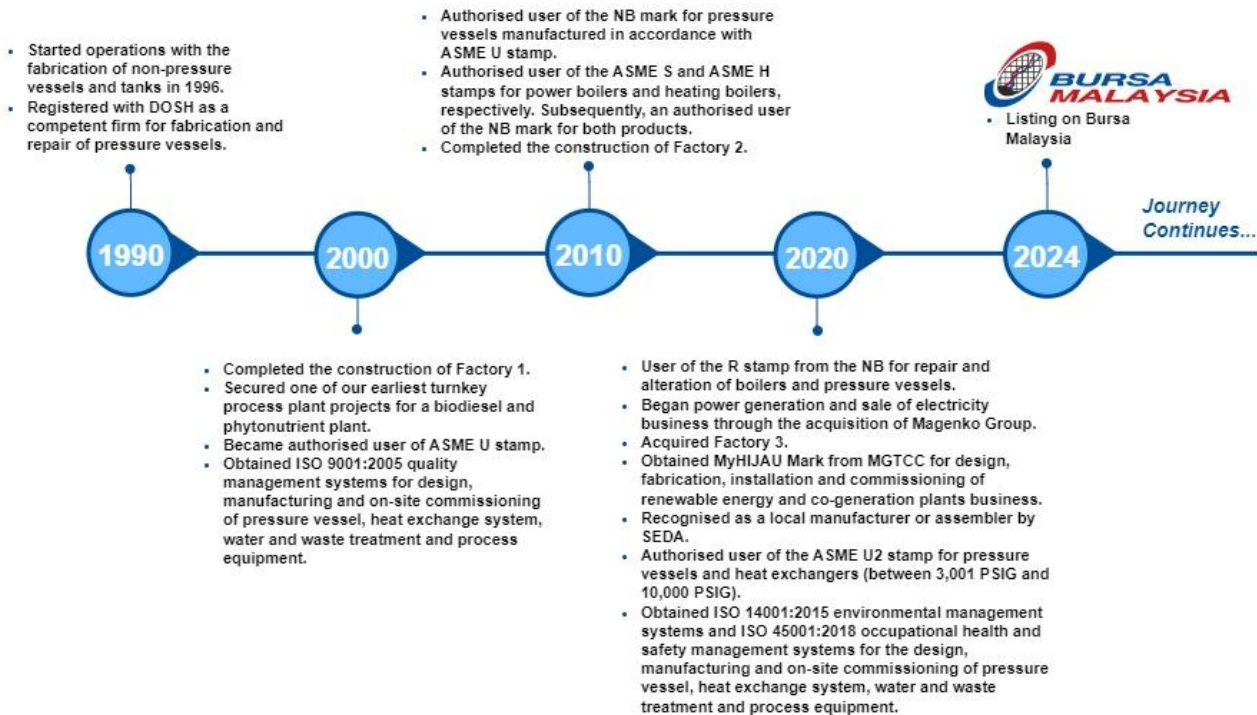
FYE Oct (RMmn)	2022A	2023A	2024F	2025F	2026F
Revenue	139.18	98.38	113.22	130.36	150.14
Gross Profit	21.52	24.00	27.62	31.80	36.62
Pre-tax Profit	18.57	18.92	21.77	25.07	28.87
Core Net Profit	14.23	13.30	15.31	17.63	20.30
Core EPS (Sen)	2.59	2.42	2.78	3.20	3.69
P/E (x)	11.60	12.40	10.78	9.36	8.13
DPS (Sen)	0.55	2.36	1.14	1.45	1.89
Dividend Yield (%)	1.82	7.88	3.79	4.84	6.30

Source: Company Prospectus, Eco Asia Research Estimates
EPS, P/E and DPS from 2022A to 2023A (pre-IPO) are on pro-forma basis for comparative purposes only.

Company Background

Kawan Renergy Berhad’s journey begin with Kawan Engineering Sdn. Bhd. (formerly known as Kawan Dynamic Engineering Sdn. Bhd.), which was incorporated in year 1996. It has evolved from a general fabricator to a technology driven equipment maker, Process Plant Builders, and a reliable engineering partner. The Group is also a licensed fabricator by Department of Safety and Health (“DOSH”) Malaysia in the areas of construct and repair of heating boilers, unfired pressure vessels and heat exchangers. In addition, KENERGY also a licensed contractor Liquefied petroleum gas and Liquefied natural gas piping, accredited by DOSH. It is currently operating 3 factories with total built-up area of 166,392 sq ft in Ipoh.

Key Milestones



Note:

- DOSH – Department of Occupational Safety and Health
- ASME - American Society of Mechanical Engineers
- ISO – International Organization for Standardization
- NB – National Board of Boiler & Pressure Vessel Inspectors
- MGTC - Malaysian Green Technology and Climate Change Corporation
- SEDA - Sustainable Energy Development Authority Malaysia

Source: Company Prospectus

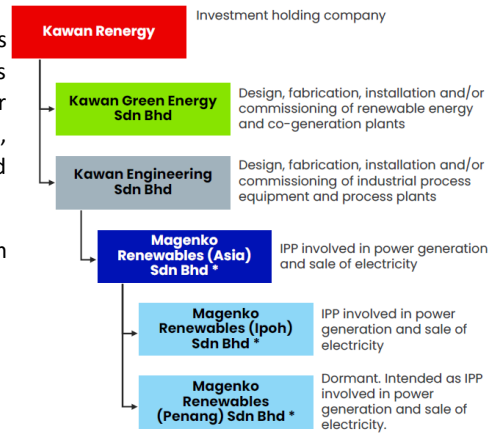
Product Portfolio

KENERGY is involved in the following principal activities:

Design, fabrication, installation and/ or commissioning solutions: The business segment can be divided into 3 categories: (i) Industrial process equipment, (ii) Process plant and, (iii) Renewable energy & co-generation plants. During the latest FY under review, industrial process equipment segment contributes 49% of the total revenue, while process plant and renewable energy & co-generation plants contribute 28% and 22% to the group revenue respectively.

Sale of electricity from power generation: The sale of electricity constitutes <1% from the total FY2023 revenue following the acquisition of Magneko Group in August 2022.

	Our principal activities	Other business activity
	Design, fabrication, installation and/or commissioning solutions	Power generation and sale of electricity
Our engineering solutions	Industrial process equipment: <ul style="list-style-type: none"> • Heat exchangers • Pressure vessels • Boilers and heaters Process plants: <ul style="list-style-type: none"> • Food processing • Oleochemical and chemical processing • Waste recovery Renewable energy and co-generation plants: <ul style="list-style-type: none"> • Co-generation and tri-generation • Biomass • Combined cycle • Biogas / landfill • Waste incineration • Organic rankine cycle 	<ul style="list-style-type: none"> • Sale of electricity to the distribution licensee
Our product application	Examples of applicable industries: <ul style="list-style-type: none"> • Food processing • Oleochemical and chemical processing • Oil and gas • Waste recovery • Power plant 	<ul style="list-style-type: none"> • Not applicable



Note: Wholly-owned unless stated otherwise.
* Collectively known as Magenko Group.

1 INDUSTRIAL PROCESS EQUIPMENT





2 PROCESS PLANT





3 RENEWABLE ENERGY ("RE") AND CO-GENERATION PLANT







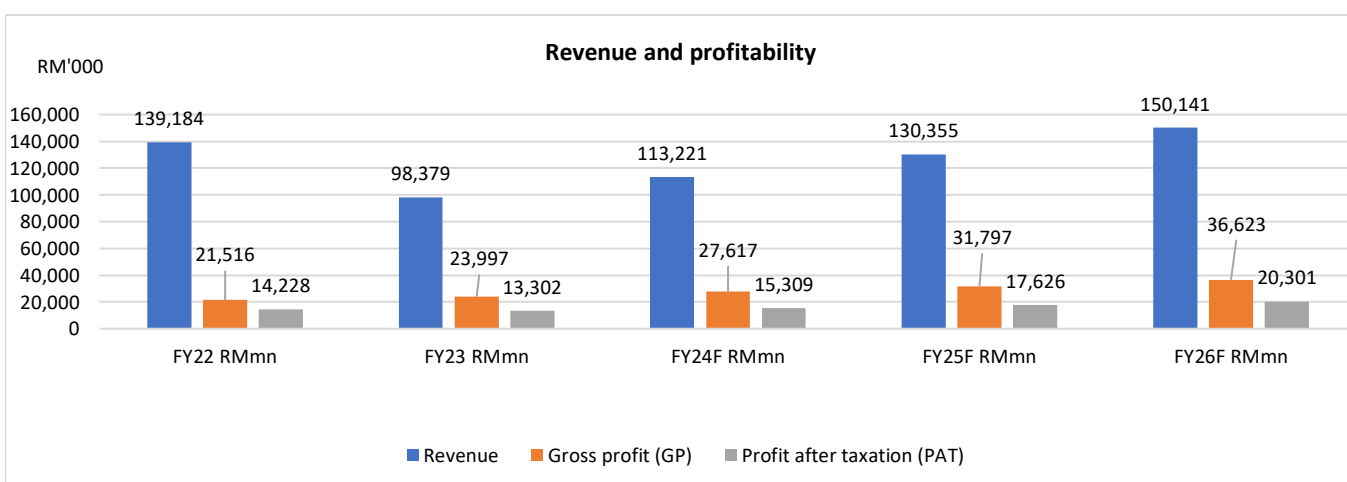
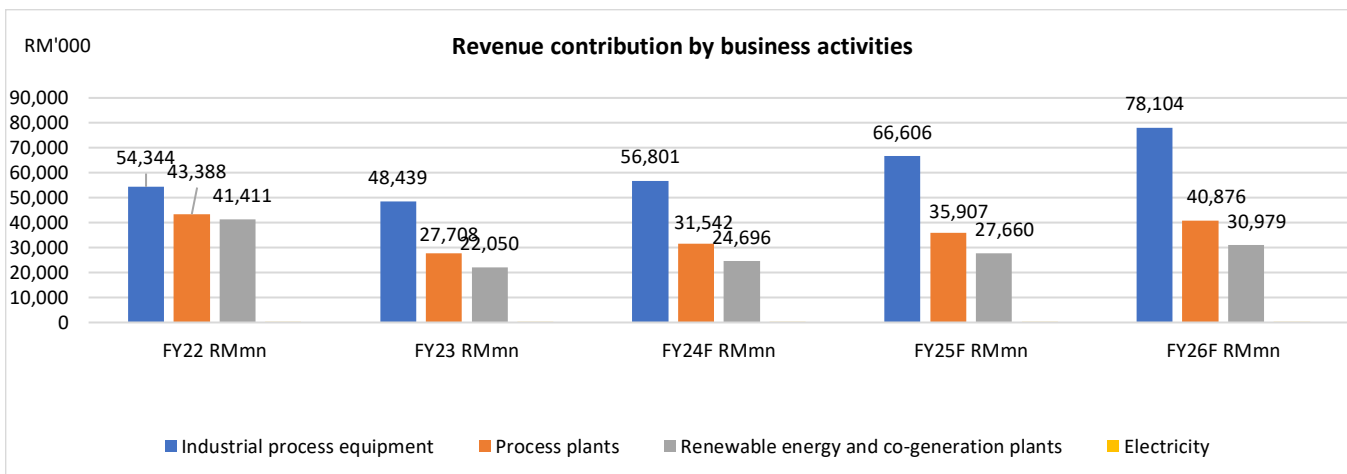

Examples of applicable industries:-

✓ Food processing	✓ Oil and gas	✓ Power plant
✓ Oleochemical / Chemical processing	✓ Waste recovery	

Source: Company Prospectus

Revenue and Profitability

The Group's revenue from FYE 2020 to FYE 2023 was mainly derived from industrial process equipment segment, which contributed 49% of total revenue as in FYE2023. Revenue contribution by business activities as well as revenue and profitability from FYE2022 to FYE2023, FYE2024F, FYE2025F and FYE2026F are presented as below:



Source: Company Prospectus / Eco Asia Research Estimates

Future Plans

In order to achieve sustainable growth, KENERGY will implement the following business strategies over the 24-month from the date of its listing:

- **Improve the output of Bercham Plant:** Intend to allocate RM2.50mn, or 7.6% of IPO proceeds for the installation of the anerobic digestion system. This expects to increase the generation of electricity per day to 24MWh as compared to current 1.5MWh per day.
- **Construct a new 2MW Biomass Power Plant:** Intend to allocate RM15.0mn, representing 45.5% of IPO proceeds – for construction of new biomass power plant to grow power generation and sale of electricity business segment.
- **Purchase additional machinery:** Intend to allocate RM0.5mn, representing 1.5% of IPO proceeds – to install fibre laser cutting machine so that it can improve the Group production process.

Strategic Competitive Advantages and Strengths

Proven track record in the industrial process equipment industry: The Group has an established history of 28 years in the provision of design, fabrication, installation and/or commissioning solutions. Over the years, they completed numerous industrial process equipment and process plants projects as well as renewable energy and co-generation for various industries.

Technical capabilities to customise engineering solutions for customers: Through track record and experience in the provision of design, fabrication, installation and/or commissioning solutions, KENERGY is able to understand different customer's industrial process requirements which differ in terms of design, layouts, processes, application and materials required and hence, propose suitable process plants for their customers.

Offer engineering solutions for a wide range of industries: The Group offers engineering solutions for a wide range of industries such as food processing (e.g. food emulsifier production as well as edible oil and palm phytonutrient extraction), oleochemical and chemical processing (e.g. palm biodiesel, biolubricants, fatty acids and industrial esters), oil and gas (e.g. oil and gas refinery), waste recovery, power plant (e.g. co-generation and power generation) and utilities.

Ability of product quality to meet internationally recognised standards: To create customer satisfaction, maximise customer loyalty and minimise reputational risks. As such, KENERGY has put in place quality control procedures, as well as an established quality management system that comply with international standards such as the ASME U, U2, H and S Stamp Certification Marks, R Symbol, NB Mark. In addition, the ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018, as attested by the respective certifications awarded to the Group.

Key Risks

Reliant on certain licences, permits and approvals, as well as quality and safety accreditations: Some of these licences, permits, approvals, and quality and safety accreditations are subject to periodic inspections, renewals, changes and/or fulfilment of certain conditions imposed by the relevant authorities, particularly DOSH with respect to the fabrication and repair of pressure vessels and steam boilers. Business operations may be suspended, revoked or negatively impacted if some of the licenses are unable to renew.

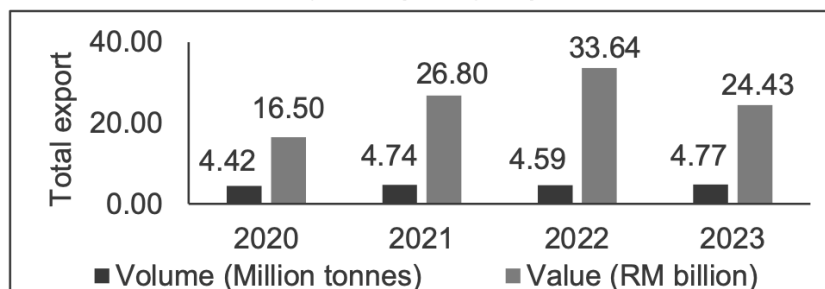
Rely on the availability of skilled workers for our fabrication activities: The Group ability to retain and to attract competent and skilled workers is crucial for continued success, future business growth and expansion. Any loss of skilled workers and inability to find suitable replacements in a timely manner and at competitive salary rates may cause disruptions to Group's deliverables which may consequently affect its revenue recognition.

Expose to fluctuations in raw material prices: The prices of certain raw materials such as steel plates and steel tubes are subject to price fluctuations as a result of, amongst others, global demand and supply conditions, any material increase in the prices of the abovementioned raw materials may result in substantial increase in our cost of sales, and in turn, affecting our financial performance should we fail to pass the increase in cost to our customers.

Industry Outlook

Increasing demand in oleochemical: The demand of oleochemical increase significantly over the years due to shift in trend towards sustainable chemicals. The total export value of oleochemical in Malaysia increase from RM16.5bn in 2020 to RM33.65bn in 2022 at a compound annual growth rate ("CAGR") of 42.79%. According to SkyQuest, the global oleochemical market size is poised to grow from USD 35.43bn in 2023 to USD 54.43bn by 2031, growing at a CAGR of 6.3% in the forecast period. This will in turn pose increasing demand for industrial process equipment for the production of oleochemical, which bodes well for the company.

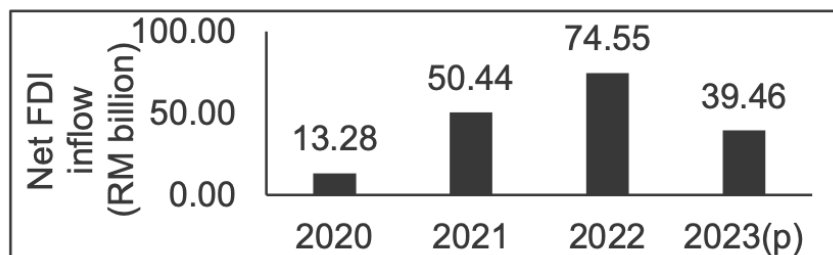
Oleochemical industry size (Malaysia), 2020 – 2023



Source: Company Prospectus

Growth in foreign direct investments ("FDI") into Malaysia: Net FDI inflow in Malaysia grew from RM13.28bn in 2020 to RM74.55bn in 2022. With the New Industrial Master Plan 2023 ("NIMP 2023") announced last year, it is expected that the Malaysia Investment Development Authority ("MIDA") and other related investment authorities will ramp up their promotional activities to encourage more FDI into Malaysia. As more firms and facilities are set up in Malaysia, industrial process equipment will be required to support the operations of the new firms which will further drive the demand.

Net FDI inflow (Malaysia), 2020 – 2023(p)



Source: Company Prospectus

DEFINITION OF RATINGS

Eco Asia Investment Advice uses the following rating system:

STOCK RECOMMENDATION

BUY Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.

TRADING BUY Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.

HOLD Share price may fall within the range of +/- 10% over the next 12 months

TAKE PROFIT Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.

TRADING SELL Share price may fall by more than 15% in the next 3 months.

SELL Share price may fall by more than 10% over the next 12 months.

NOT RATED Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months

NEUTRAL The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months

UNDERWEIGHT The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

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