

## Softening Cost Pressures Ahead

### Solarvest

#### Results Update

<b>Current Price</b>	<b>RM 0.75</b>
<b>Target Price</b>	<b>RM 0.90</b>
<b>Consensus Price</b>	<b>RM 0.87</b>

#### Stock Return Information

KLCI	1,476.96
Expected share price return (%)	20.0
Expected dividend return (%)	0.0
Expected total return (%)	20.0

#### Key Statistics

Shariah Compliant	YES
Bloomberg Ticker	SOLAR MK
Masa Ticker / Stock Code	SLVEST/0215
Shares Issued (m)	682
Market Capitalisation (RM'm)	498
52 Week Hi/Lo Price (RM)	1.30/0.60
Avg Trading Volume (3-mth)	1,456,650
Est Free Float (%)	41.1
YTD Returns (%)	-39.9
Beta (x)	0.94

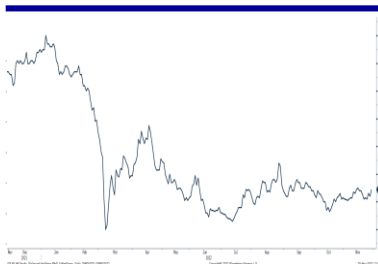
#### Share Price Performance (%)

Price change	Absolute	Relative
1 mth	4.93	2.88
3 mth	-1.97	-0.42
12 mth	-36.32	-33.99

#### Major Shareholders (%)

Alantic Blue	22.9
Divine Inventions	19.3
Lim Chin Siu	6.3

#### 1-Year Share Price Performance



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We reiterate our **BUY** recommendation on Solarvest with an unchanged TP of RM0.90, derived from our sum-of-parts valuation. Solarvest is in the midst of expanding its revenue stream by aiming to secure 30% of its future EBIT from recurring income through organic asset ownership and M&As. In addition, the group intends to expand its job scope beyond EPCC work via vertical expansion into the renewable energy ecosystem solutions. We like the company for its: (1) firm earnings growth prospects that are underpinned by a growing orderbook, (2) recurring income from solar assets, (3) solidifying and building new customer base though its one-stop solutions services.

**Within expectation** Solarvest's 6MFY23 PATAMI of RM10.7m came in within expectation, after excluding unrealised foreign exchange losses of RM1.43m. The net earnings made up to 47% of our estimate. Going forward, earnings will catch up, where upcoming projects will reflect better margin on the back of softer solar panel prices. YTD, PATAMI came in 688% higher, backed by higher project progression after the removal of the MCO in November 2021.

**Y-o-Y:** 2QFY23 PATAMI rose 388% Y-o-Y on the back of the resumption of construction activities as the country ended its pandemic lockdown. Both EPCC and operations and maintenance segments contributed to the earnings growth.

**Q-o-Q:** 2QFY23 PATAMI increased by 17.1% Q-o-Q due to higher solar projects completion rate.

**Outlook:** In the near term, we expect construction activities to ramp-up progressively in the coming quarters. Solarvest's earnings growth is supported by its orderbook of RM662m (1.5x orderbook-to-book ratio against our FY23 revenue estimate) and robust tender book in the private large-scale power plants, residential, commercial & industrial projects. Furthermore, the solar farms in Manjung Perak (25MW) and Kuala Selangor Selangor (13MW) are expected to commence in March 2023 that may lift Solarvest's FY24 earnings by RM8.1m. Solarvest's current unbilled orderbook sits at RM662m.

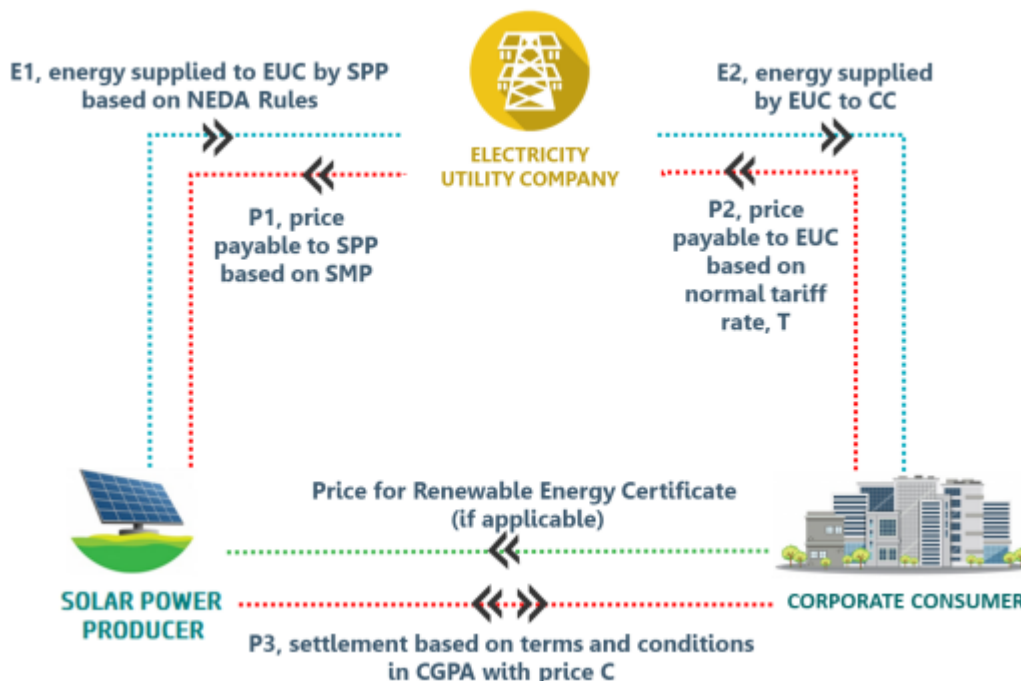
**Table 1: Historical Earnings and Forecasts**

FYE Mar (RM m)	FY20	FY21	FY22	FY23(F)	FY24(F)
Revenue	253.4	224.3	177.8	436.5	464.5
EBITDA	18.8	19.8	11.3	24.4	38.4
EBITDA Margin (%)	7.4	8.8	6.4	5.6	8.3
PAT	16.3	16.4	7.4	23.0	29.1
PATAMI	16.0	16.1	6.9	22.7	28.9
PATAMI Margin (%)	6.3	7.2	3.9	5.2	6.2
EPS (sen)	2.4	2.4	1.0	3.4	4.3
Earnings Growth (%)	43.7	1.0	(57.2)	228.7	27.2
PER (x)	30.3	30.0	70.1	21.3	16.8
DPS (sen)	NA	0.7	NA	NA	NA
Dividend Yield (%)	NA	0.9	NA	NA	NA
ROE (%)	19.7	12.2	4.4	12.7	13.9
Net Gearing Ratio	NETCASH	NETCASH	NETCASH	NETCASH	0.1
Price/Book (x)	6.0	3.7	3.1	2.7	2.3

Source: Inter-Pacific Research

**600MW quota:** Solarvest will be contending for the 600mw PV asset quota to be released under the Corporate Green Power Programme (application starting from 7/11/2022 until 6/2/2023), or also known as virtual power purchase agreements. The revised energy program bodes well for Solarvest where smaller and customise projects provide better margins than LSS projects. Furthermore, the lower prices of solar related materials will help improve the IRR of its asset owned LSS4 plants and future EPCC projects.

**Illustration 1: Power flow and financial transaction**



Source: Inter-Pacific

**Criteria for participation in the Corporate Green Power Programme as determined by the energy commission are as below:-**

- have export capacity from 5MW to 30MW.
- be a new project. Existing solar power plant is ineligible
- comply with the legal or regulatory requirements of other authorities having jurisdictions on the development and operation of the solar power plant as well as the technical requirements of the Electricity Utility Company.
- enhance the use of solar energy, reduce the intermittency effect of solar PV generation on the supply system and better energy management.
- solar power plants with battery energy storage system installed are likely to stand a higher chance to be selected, provided that the storage system is able to support at least 1 hour of full export capacity

**Risk:** Risk to earnings upside are project delays due to component shortages or lack of labor workers by their contractors and increase in realised foreign exchange losses.

**Table 2: Quarterly Income Statement and Comparison**

FYE Mar (RM m)	2QFY23	2QFY22	YoY chg (%)	1QFY23	QoQ chg (%)	6MFY23	6MFY22	YTD chg (%)
Revenue	98.2	30.2	224.8	52.7	86.4	150.8	53.0	184.7
Gross Profit	15.5	6.2	149.2	12.9	20.1	28.4	11.9	138.4
GP Margin (%)	15.8	20.6	(23.3)	24.5	(35.6)	18.9	22.5	(16.3)
EBITDA	9.4	2.5	275.1	7.2	30.2	16.6	4.2	298.1
EBITDA Margin (%)	9.5	8.3	15.5	13.7	(30.2)	11.0	7.8	39.8
PBT	7.3	1.4	412.8	5.7	28.5	13.1	2.0	551.5
Tax Expenses	(1.4)	(0.4)	250.9	(2.0)	(30.6)	(3.7)	(0.7)	415.3
PATAMI	5.0	1.0	388.2	4.3	17.1	9.3	1.2	688.3
PATAMI Margin (%)	5.1	3.4	50.3	8.1	(37.2)	6.2	2.2	176.9
EPS (sen)	0.8	0.2	388.2	0.6	17.1	1.4	0.2	688.3

**Table 3: Sum of the parts valuation**

Sum of parts		RM m	RM(sen)
EPCC	FY23 PER-18x	363.0	0.54
Solar assets	DCF WACC=6.76%	254.3	0.36
TP			0.90
No. of shares (mil)			667.5

Source: Inter-Pacific

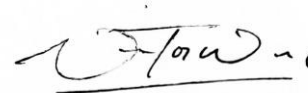
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Signed



Victor Wan Kum Seng  
Head of Research  
Inter-Pacific Research Sdn Bhd

## Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
TRADING BUY	Total return is expected to exceed 10% in the next 3 months
NEUTRAL	Total return is expected to be between -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months
TRADING SELL	Total return is expected to be below -10% in the next 3 months
NOT RATED	The stock is not within regular research coverage

## Abbreviation

Abbreviation	Definition	Abbreviation	Definition
PER	Price Earnings Ratio	CAGR	Compounded Annual Growth Rate
PEG	PER to Growth	CAPEX	Capital Expenditure
EPS	Earnings per Share	DPS	Dividend per Share
FYE	Financial Year End	ROA	Return on Asset
FY	Financial Year	ROE	Return on Equity
CY	Calendar Year	PBT	Profit Before Tax
MoM	Month-on-Month	PAT	Profit After Tax
QoQ	Quarter-on-Quarter	EV	Enterprise Value
YoY	Year-on-Year	EBIT	Earnings Before Interest And Tax
YTD	Year-to-Date	EBITDA	EBIT Depreciation & Amortisation
p.a.	Per Annum	WACC	Weighted Average Cost of Capital
DCF	Discounted Cash Flow	NTA	Net Tangible Asset
FCF	Free Cash Flow	BV	Book Value
NAV	Net Asset Value		

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