AUTHOR: Rachel Lau Rachellau SECTION: BUSINESS PAGE: A8 PRINTED SIZE: 202.00cmï¿½
REGION: KL MARKET: Malaysia PHOTO: Full Color ASR: MYR 3,232.00 ITEM ID: MY0064963183

07 AUG, 2025

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Borneo Post (KK), Malaysia

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KUCHING: Pekat Group Bhd's (Pekat) third contract win from Tenaga Nasional Bhd (TNB), a RM31.3 million switchgear maintenance contract, has pushed its orderbook to record highs with its 60 per cent owned EPE Switchgear (M) Sdn Bhd's (EPE) orderbook reaching RM504 million, giving the group earnings visibility for the next 18 months.

In a filing with Bursa Malaysia on Aug 4, the renewable energy (RE) player announced that two year contract secured by EPE involves maintenance, servicing and repair works of air Insulated switchgear (AIS) and gas insulated switchgear (GIS), including the supply and installation of spare parts.

Overall, analysts from Kenanga Investment Bank Bhd (Kenanga Research) view this development positively especially as they anticipate a high gross profit margin of 25 to 30 per cent from the contract.

"Maintenance, servicing and repair works typically fetching a higher margin," they explained.

Year to date (YTD), EPE's job win now sits at RM232 million and is well on track to meet Kenanga Research's FY25 job win target of RM300 million.

And with more TNB tenders within its tender pipeline, the analysts guide that they expect the group's EPE will have no issue meeting their FY25 job win forecasts.

"EPE, which is one of the top four MV switchgear suppliers to TNB, is a game changer, riding on TNB's massive RP4 capex with further upside from leveraging Pekat's network to capture a larger slice of private sector deals like data centres (DCs)," said the research arm.

They added that with EPE's current RM504 million orderbook, its profits should also already exceed its RM16 million annual guaranteed profit threshold which was stipulated during its acquisition by Pekat.

And for FY25 and FY26, they estimate that EPE's earnings will surpass this profit guarantee by 33 and 54 per cent, respectively.

Meanwhile, Pekat's bread and butter solar activities are also expected to continue taking centre stage as the research arm reports that the government's aggressive push for RE with large scale solar 5 (LSS5) and LSS5+ which are four times bigger than LSS4's 800MW will unlock over RM10 billion in engineering, procurement, construction and commissioning (EPCC) contracts.

"Pekat, maintaining a steady circa five per cent market share, remains selective in LSS projects due to tight margins, and is making aggressive moves on the high-margin commercial and industrial (C&I) segment," they shared.

Kenanga Research estimates that Pekat is on track to double its residential, and C&I revenue to RM120 million in FY25.

With bright prospects ahead, Kenanga Research maintains their 'outperform' call with a target price of RM1.68 based on a sum-of-parts valuation with a blended valuation of 20-times FUY26F price earnings ratio (PER).

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