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Wasco to gain from transition to renewables



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Demand for biomass systems forecast to grow

ENERGY

PETALING JAYA: A rise in demand for boiler and steam turbines from the biomass sector this year and next year will drive growth in earnings for Wasco Greenenergy Bhd (Wasco), analysts say.

Consultancy firm Frost & Sullivan said it expects the biomass boiler and steam turbine markets in Malaysia, including after-sales services, to grow at compounded annual growth rates (CAGR) of between 8.6% and 7.7% from 2024 to 2029.

In Indonesia, Frost & Sullivan forecasts the biomass boiler and steam turbine markets, including after-sales services, to grow at a CAGR of between 11.2% and 8.6% for the same period.

Wasco has a big presence in both markets, holding a 17% market share of Malaysia's steam turbine generator systems and around 22% in Indonesia.

Maybank Investment Bank Research (Maybank IB Research) said, based on this it believes Wasco is well placed to ride the decarbonisation theme in both markets, especially among palm oil plants and factories, for the foreseeable future.

"We forecast Wasco's three-year core net profit CAGR for 2024 to 2027 at 16%, led by a revenue CAGR of 7% and enhanced by expansion in the group's core net margin to 9.7% in 2027 (from 7.6% in 2024)," the research house said in an initiation report on the company.

Maybank IB Research has a "buy" rating

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Maybank Investment Bank Research

on Wasco with a target price of 85 sen a share, pegged to a 14 times price-earnings multiple on earning per share for this year.

The research house said it sees Wasco as a proxy to the growing renewable energy (RE) sector with revenue growth in the next two years to be driven by replenishment of boiler and steam turbine orders and the approved 181.25MW in RE projects proposed in Malaysia under the Feed-in Tariff (FiT) mechanism.

Wasco's earnings will also be boosted by a reduction in finance costs after its recent listing and Wasco Thermal Sdn Bhd becoming a wholly owned subsidiary of the group.

"We believe Wasco's outlook should improve this year, backed by the revenue recognition of secured contracts under an order book of RM267.5mil as of last May 31; consistent boiler and steam turbine order book replenishments and the continued industry drive towards decarbonisation," the research house said.

For 2027, Maybank IB Research said it

thinks the company should indirectly benefit from the approved 181.25MW RE projects under the FiT mechanism, valued at RM1.87bil.

Based on Maybank IB Research's findings, there are eight successful bidders for the biomass segment and the winners are expected to begin supplying green electricity to Tenaga Nasional Bhd as early as 2028.

Hence, a rise in orders for biomass boilers from Wasco may begin next year.

For Wasco's steam turbine generator systems segment, the research house has a more conservative growth forecast of 5% for next year.

According to Wasco's prospectus, it is aiming for a dividend payout of between 20% and 40% of net profit.

Maybank IB Research has assumed a payout rate of 30% for 2025 to 2027, resulting in total dividend distributions of RM7.1mil, RM9.1mil and RM9.9mil, respectively.