

13 August 2024

Utilities | Power

Kencana Energi Lestari (KEEN IJ)

Buy (Maintained)

La Nina Likely To Boost CF; Maintain BUY

Target Price (Return): IDR990 (39.4%)
 Price (Market Cap): IDR710 (USD163m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (IDR/USD) 1,129m/0.07m

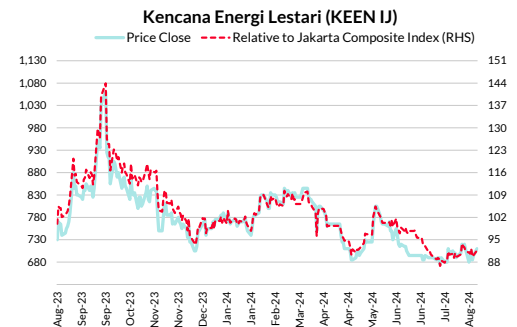
- **Maintain BUY and IDR990 TP, 42% upside.** With Kencana Energi Lestari reporting 1H24 earnings at USD10m – in line with our full-year estimate at 49% – we are confident it will achieve its USD20m net income target at end 2024. Positive catalysts supporting our investment thesis: i) Meteorological, Climatological, and Geophysical (BMKG) predicting *La Nina* potentially coming in the 2H24, which propels its capacity factor (CF) to 59%, and ii) potential USD4.5m in new revenue streams from the 10MW Ordi Hulu hydropower plant that supports earnings growth of 54% YoY.
- **BMKG predicts a potential 2H24 *La Nina*,** propelling KEEN's CF to 59% on average. According to the agency, Indonesia expects *La Nina* to occur in 2H24 (after *El Nino* in 2023), especially in August and September, before turning milder till end 2024. *El Nina*, indicated by higher rainfall intensity, previously struck Indonesia in 2020-2022, causing floods and landslides. Still hurting from 2023's *El Nino*, our calculations show CF at only 54%. In 2022, KEEN posted an average CF of 61%. With the Pakkat and Air Putih hydroelectric power plants at 50% and 66% capacity, we follow suit and tweak the CF to 59%. We assume 297GWh electricity for 2024 (+7% YoY).
- **Potential USD4.5m revenue stream from Ordi Hulu.** Although the plant just began commercial operations on 1 May, it generated 1H24 revenue of USD1.2m, which suggests a monthly topline of USD600k. Hence, this subsidiary could potentially bring in USD3.6m in revenue for 2H24, which could take 2024 topline to USD4.8m – our estimate is USD4.5m. This new revenue stream should boost KEEN's 2024 electricity revenue by 54% YoY to USD28m. The new Salu Noling project contributed 1H24 construction revenue of USD10.1m or 40% of our 2024 estimate of USD25m. For FY24, we forecast KEEN's total revenue to hit USD53m, a 10% YoY increase.
- **2024F EBIT and earnings should grow 28% and 54% YoY.** Ordi Hulu posted 1H24 EBIT of USD697k – we see this continuing for the rest of 2024, taking total EBIT to USD2.1m. Combined with growth spurs from other assets on higher CF and potentially lower opex of 14% YoY on no major maintenance expenses (1H24 opex: USD1.7m; -9% YoY), 2024 EBIT and earnings can potentially hit USD31m and USD20m or +28% and +54% YoY.
- **Still undervalued despite good 2H24 prospects, KEEN trades at 27% below the 5-year mean.** We see this stock as undervalued at 7.8x FY24F P/E or 27% below its 5-year average of 10.7x. As a renewable energy power player, we ascribe a 4% premium to TP, as KEEN's ESG score of 3.2 is above the 3.0 country median. Our TP is based on 10.7x FY24F P/E. Downside risks to our call include: i) Longer-than-expected construction of Salu Noling and ii) a lower-than-expected capacity factor.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.4)	2.9	(2.1)	(12.9)	(2.7)
Relative	(8.7)	3.3	(5.0)	(12.9)	(8.8)
52-wk Price low/high (IDR)	675 – 1,060				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	42	48	53	57	57
Recurring net profit (USDm)	13	13	20	23	23
Recurring net profit growth (%)	89.3	4.3	53.8	11.8	2.7
Recurring P/E (x)	12.94	12.40	8.06	7.21	7.03
P/B (x)	1.1	1.0	0.9	0.8	0.7
P/CF (x)	34.08	na	10.39	17.51	24.18
Dividend Yield (%)	0.8	1.0	1.5	1.7	1.8
EV/EBITDA (x)	10.94	11.40	8.59	7.66	7.46
Return on average equity (%)	8.6	8.3	11.7	11.8	11.0
Net debt to equity (%)	46.9	50.3	40.0	34.0	29.9

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

The company is fully committed to developing its business in providing electricity through renewable sources with minimum impact to the surrounding environment.

S: GOOD

Each year, the company is always committed to implement various CSR programmes. The goal is to provide benefits for employees, and create prosperity and economic empowerment.

G: GOOD

The board of commissioners performs and functions independently based on the company's articles of association, as well as the appropriate laws and regulations. These are based on the principles of good corporate governance.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

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Financial Exhibits

Asia	Financial summary (USD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Indonesia	Recurring EPS	0.00	0.00	0.01	0.01	0.01
Utilities	DPS	0.00	0.00	0.00	0.00	0.00
Kencana Energi Lestari	BVPS	0.04	0.04	0.05	0.06	0.06
KEEN IJ	Return on average equity (%)	8.6	8.3	11.7	11.8	11.0
Buy						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	12.94	12.40	8.06	7.21	7.03
5-year average P/E band	P/B (x)	1.1	1.0	0.9	0.8	0.7
	FCF Yield (%)	2.7	(8.1)	8.8	5.2	3.6
Key drivers	Dividend Yield (%)	0.8	1.0	1.5	1.7	1.8
i. New revenue stream;	EV/EBITDA (x)	10.94	11.40	8.59	7.66	7.46
ii. Government concerns on emissions;	EV/EBIT (x)	11.08	11.61	8.71	7.82	7.62
iii. Electricity demand & economic growth;						
iv. New projects won.						
	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	41.8	48.0	52.5	56.5	56.8
i. Longer-than-expected construction of Salu Noling;	Gross profit	27.1	27.9	34.0	37.0	37.5
ii. Lower-than-expected capacity factor;	EBITDA	24.4	24.6	31.2	34.3	34.7
iii. Force majeure such as landslides and earthquakes.	Depreciation and amortisation	(0.3)	(0.5)	(0.5)	(0.7)	(0.7)
	Operating profit	24.1	24.1	30.8	33.5	34.0
	Net interest	(5.8)	(6.4)	(4.5)	(4.4)	(4.2)
Company Profile	Pre-tax profit	18.1	18.6	27.2	30.1	30.8
KEEN is a company that sells electricity through renewable energy power plants. It currently has four power purchase agreements or PPAs with Perusahaan Listrik Negara (PLN).	Taxation	(3.6)	(3.5)	(5.1)	(5.7)	(5.8)
	Reported net profit	12.6	13.2	20.3	22.7	23.3
	Recurring net profit	12.6	13.2	20.3	22.7	23.3
	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(1.48)	6.80	4.83	(6.03)	(3.21)
	Cash flow from operations	4.80	(11.56)	15.73	9.34	6.76
	Capex	(0.44)	(1.75)	(1.31)	(0.80)	(0.82)
	Cash flow from investing activities	(1.10)	(1.23)	(1.31)	(0.80)	(0.82)
	Cash flow from financing activities	(1.09)	18.63	(16.33)	(0.56)	(5.48)
	Cash at beginning of period	1.32	3.90	9.75	8.05	16.03
	Net change in cash	2.60	5.85	(1.90)	7.98	0.45
	Ending balance cash	3.90	9.75	8.05	16.03	16.48
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	8	16	14	22	22
	Tangible fixed assets	276	302	313	321	331
	Total investments	1	1	1	1	1
	Total assets	316	353	352	375	394
	Short-term debt	11	15	15	13	13
	Total long-term debt	79	95	81	85	83
	Total liabilities	141	165	147	150	148
	Total equity	175	188	205	225	246
	Total liabilities & equity	316	353	352	375	394
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	14.5	14.8	9.4	7.6	0.5
	Recurrent EPS growth (%)	89.3	4.3	53.8	11.8	2.7
	Gross margin (%)	64.8	58.1	64.8	65.4	66.0
	Operating EBITDA margin (%)	58.3	51.2	59.4	60.6	61.1
	Net profit margin (%)	30.2	27.4	38.6	40.1	40.9
	Dividend payout ratio (%)	10.7	12.1	12.4	12.4	12.4
	Capex/sales (%)	1.1	3.6	2.5	1.4	1.4
	Interest cover (x)	4.07	3.66	6.56	7.31	7.74

Source: Company data, RHB

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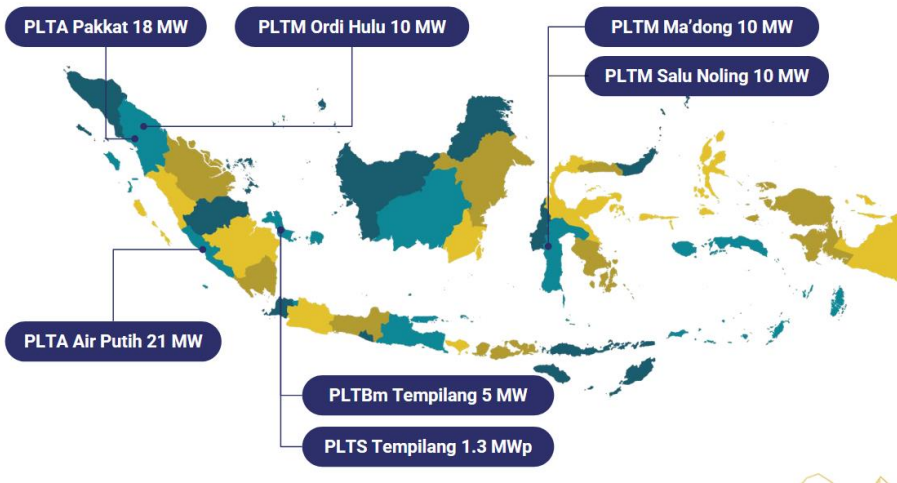
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Figure 1: 1H24 numbers vs estimates

USDm	2Q23	1Q24	2Q24	QoQ	YoY	1H23	1H24	YoY	1H24 / RHB	1H24/ consensus
Revenue	11	10	13	31.7%	12.9%	25	23	-7.9%	42.7%	na
Gross profit	8	7	11	53.6%	27.1%	17	17	3.5%		
	margin	73%	70%	82%		69%	77%			
EBIT	7	6	10	61.9%	36.7%	15	16	5.1%	50.5%	na
	margin	62%	61%	75%		61%	69%			
Net profit	5	3	7	101.6%	41.7%	10	10	3.1%	49.4%	na
	margin	41%	34%	51%		39%	44%			

Source: Company data, Bloomberg, RHB

Figure 2: Location of projects



Source: Company data, RHB

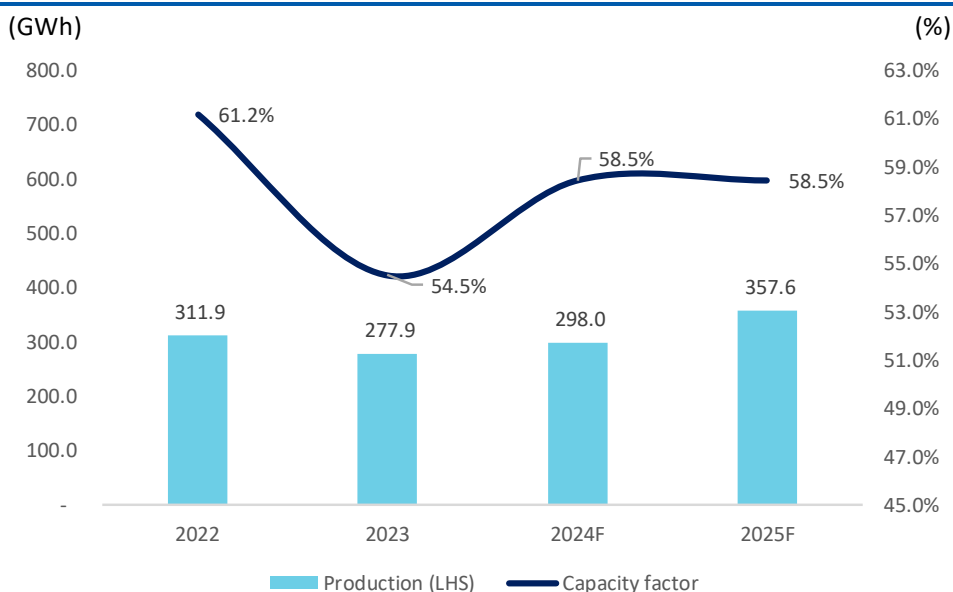
- ◆ KEEN currently has four operating assets totalling 64MW, with another 10MW under construction
- ◆ In terms of project pipelines, KEEN has done a working feasibility study for over 500MW capacity across Indonesia. Upcoming projects include a 90MW hydropower plant in Sulawesi and 35MW hydropower plant in Sumatera

Figure 3: Projects pipeline

75 MW		500 MW	
Current Projects		Project Pipelines	
Hydro		Hydro	
PLTA Pakkat	18 MW	PLTA Sumatera 1	35 MW
PLTA Air Putih	21 MW	PLTA Sulawesi 1	75 MW
Mini Hydro		PLTA Sulawesi 2	90 MW
PLTM Ma'dong	10 MW	PLTA Gorontalo	22 MW
PLTM Ordi Hulu	10 MW	Wind	
PLTM Salu Noling		PLTB Sulawesi 5	62 MW
Biomass		PLTB Sulawesi 6	100 MW
PLTBm Tempilang	5 MW	Solar PV	
Solar PV		PLTS Tempilang	1.3 MWp
PLTS Tempilang	1.3 MWp	Hybrid	
		Hybrid	
		5 MW	
		Mini Hydro	
		PLTM Sumatera 2	4 MW
		PLTM Sulawesi 3	6 MW
		PLTM Sulawesi 4	10 MW
		PLTM Nasal	10 MW
		Biomass	
		10 MW	
		Biogas	
		10 MW	

Source: Company data

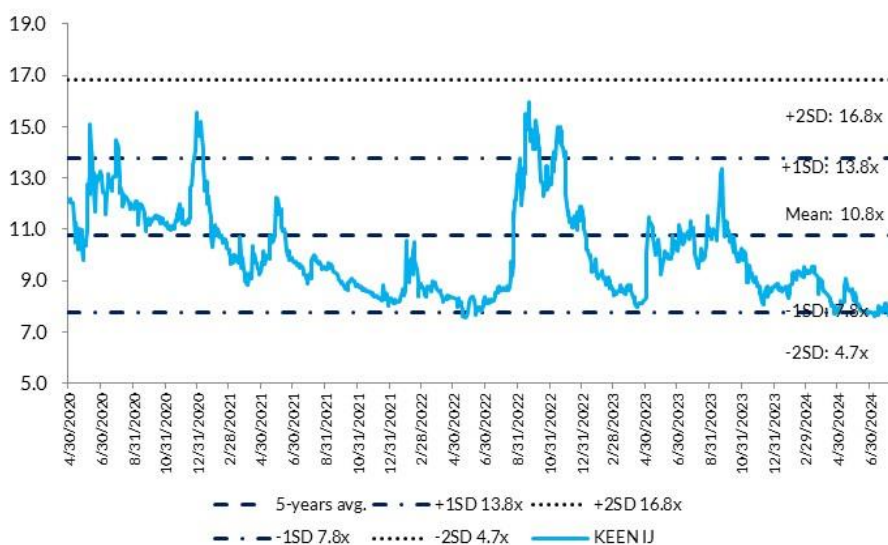
Figure 4: Production and utilisation rate



- ◆ El Nino's severely impacted KEEN's CF, taking it to a rate of 55%
- ◆ We expect KEEN's utilisation rate to improve in 2024 with La Nina approaching, as well as additional flow streams from the Ordi Hulu hydropower plant

Source: Company data, RHB

Figure 5: 5-year average P/E band



- ◆ KEEN is currently hovering at -0.5SD or 7.8x 2024F P/E
- ◆ It is also 58% below the peer average of 18.7x

Source: Bloomberg, RHB

Figure 6: Peer comparison

Company	Tickers	Mkt cap (USDm)	EV/EBITDA 2024F (x)	EV/EBITDA 2025F (x)	P/E 2024F (x)	P/E 2025F (x)	Dividend yield (%)	EBITDA Margin (x)
Kencana Energi Lestari	KEEN IJ	165	7.9	7.2	12.8	7.8	0.8	59.4
Arise AB	ARISE SS	214	11.7	8.6	13.5	10.2	2.4	53.0
Polaris Renewable Energy	PIF CN	187	5.5	5.2	19.8	14.3	6.7	74.8
Gia Lai Electricity	GEG VN	191	8.9	8.7	28.6	17.9	4.4	77.2
Weighted average		757	8.6	7.5	18.7	12.6	3.6	65.9

Source: Company data, Bloomberg, RHB

Emissions And ESG

Trend analysis

KEEN committed to implement ESG approaches to help Indonesia achieve its net zero emissions target. Going forward, the company targets to build renewable energy power plants with total capacity of 500MW.

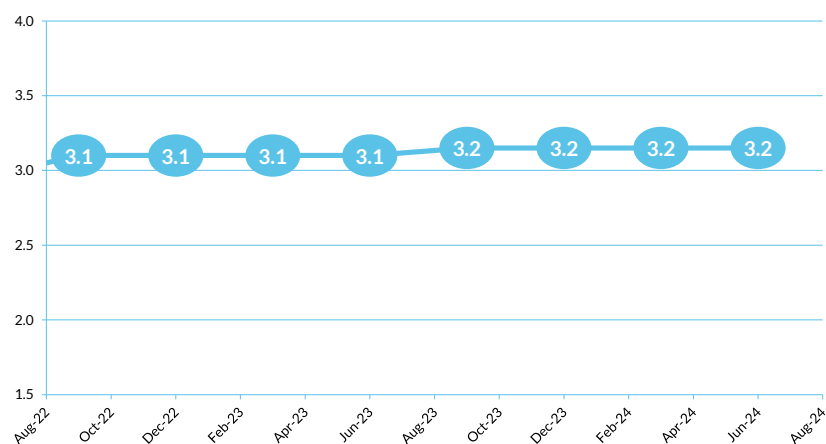
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	-	-	-
Scope 2	na	na	na
Scope 3	na	na	na
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

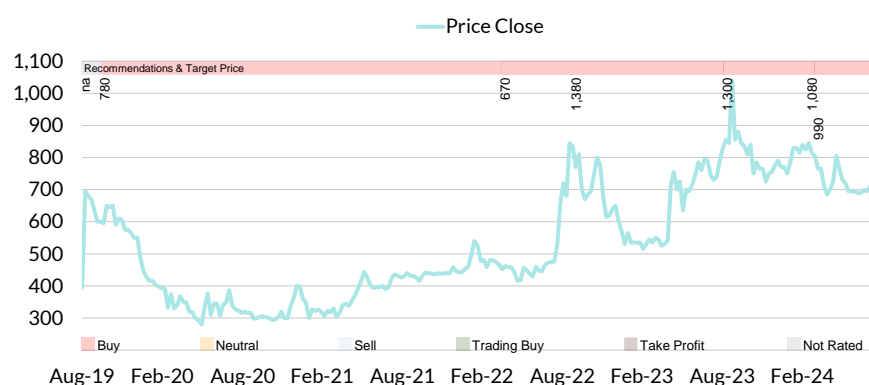
- KEEN recently signed another PPA with PLN for 10MW hydro power plants and will continue developing its renewable energy power plants.
- KEEN continues to use 100% renewable electricity for its core activities.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-03-28	Buy	990	805
2024-03-13	Buy	1,080	835
2023-09-01	Buy	1,300	830
2022-09-21	Buy	1,380	810
2022-04-13	Buy	670	450
2019-10-14	Buy	780	600

Source: RHB, Bloomberg

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