

5 February 2025

Industrials | Mechanical and Electrical

## ES Sunlogy (SUNLOGY MK)

### Walking On Sunshine

- **MYR0.41 FV based on 14x FY26F (Jul) P/E.** ES Sunlogy aims to raise MYR42m from its IPO, primarily to fund the development and construction of the Selarong Large Scale Solar Photovoltaic (LSSPV) plant. We project a 3-year earnings CAGR of 24%, driven by Malaysia's target of achieving a 70% renewable energy (RE) mix by 2050, which is expected to significantly boost solar adoption in addition to higher demand for mechanical & electrical (M&E) engineering services for buildings (residential, commercial, and industrial).
- **Business overview.** SUNLOGY primarily engages in the provision of M&E engineering services for electricity supply distribution systems and buildings along with the generation and sales of RE (via its Junjong LSSPV in Kedah with a total capacity of 20.8MWac). Currently, 63% of its outstanding orderbook as of 24 Dec 2024 comes from commercial and residential jobs, which have GPMs ranging between 12% and 16%.
- **Expansion plans.** SUNLOGY is allocating 33.6% of the IPO proceeds for the development and construction of the Selarong LSSPV plant. Meanwhile, another 21.9% of the IPO proceeds have been earmarked for general working capital purposes, including workforce expansion and payment to procure materials. By utilising these funds to meet working capital needs associated with contract works, the group will enhance its capacity to tender for projects and expand its portfolio in the EPCC and development of solar PV plants on top of its M&E services for buildings, in our view.
- **Forecasts.** We forecast SUNLOGY's revenue to grow at a 3-year (FY24-FY27F) CAGR of 17%, primarily driven by increasing orders from its commercial & industrial (C&I) customers – in line with the country's commitment towards energy transition. As of 24 Dec 2024, the group's orderbook stood at MYR269m with a tenderbook of MYR1bn spread across 103 bids. We have also assumed a net margin of 7% for FY25, before improving further to 7.8% in FY26 – backed by projected steady new job wins and higher contribution from its RE generation business.
- **Valuation.** We ascribe a 14x P/E to SUNLOGY's FY26F earnings to arrive at a FV of MYR0.41. Our target P/E is positioned at the mid-point of the 11-16x range for contractors related to residential, commercial, and industrial buildings as the majority of its orderbook still comes from this segment. The target valuation is also below the range of solar EPCC players of 22-26x to reflect the group's smaller market cap.
- **Key risks:** Slow replenishment of its orderbook, dependence on government policies on RE, and higher-than-expected project costs.

Fair Value (Return):	MYR0.41 (+37%)
IPO Price:	MYR0.30
Closing Application Date:	5 February 2025
Indicative Listing Date	20 February 2025

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#### Company Description

ES Sunlogy is a well-established provider of mechanical & electrical (M&E) engineering services and renewable energy solutions

#### IPO Details

Public Issue of new shares (m)	140
Offer for sale of existing shares (m)	70
Shares outstanding (m)	700
Implied market cap	MYR210m

#### Major Shareholders (%)

Datuk Keh Chuan Seng	28.0
Khor Chuan Meng	21.0
Chu Kerd Yee	21.0

#### Utilisation of IPO Proceeds

	MYRm
Development and construction of Selarong LSSPV	14.1
Repayment of borrowings	14.0
General working capital	9.2
Listing expenses	4.0
Purchase of enterprise resource planning system	0.7
<b>TOTAL</b>	<b>42</b>

#### Additional Data

Listing Market	ACE
Bursa Code	0345

#### Note:

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

Forecasts and Key Data	Jul-23	Jul-24	Jul-25F	Jul-26F	Jul-27F
Total turnover (MYRm)	136.7	191.1	237.7	263.1	309.5
Recurring net profit (MYRm)	11.3	13.5	16.6	20.6	25.9
Recurring net profit growth (%)	>100	19.2	23.3	24.0	25.6
Recurring EPS (MYR)	1.7	1.9	2.4	2.9	3.7
Recurring P/E (x)	17.7	15.6	12.6	10.2	8.1
P/BV (x)	4.8	3.7	3.1	2.5	2.1
Dividend Yield (%)	0.0	2.0	0.0	0.0	0.0
EV/EBITDA (x)	18.4	11.5	9.4	7.8	6.4
ROE (%)	27.2	23.6	24.2	24.8	25.6
Net debt to equity (x)	1.5	1.1	1.0	0.9	0.7

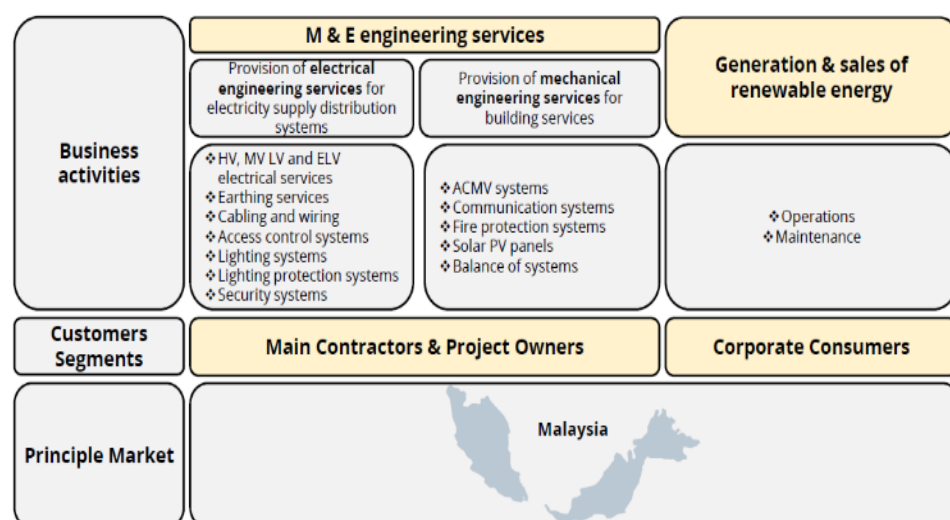
Source: Company data, RHB

## Company Overview

SUNLOGY is a well-established provider of M&E engineering services and RE solutions. The group has delivered numerous high-profile projects across Malaysia, steadily expanding its footprint across the northern region to key locations such as Kulim, Sitiawan, Seremban, and Cyberjaya. Its business segments can be categorised into:

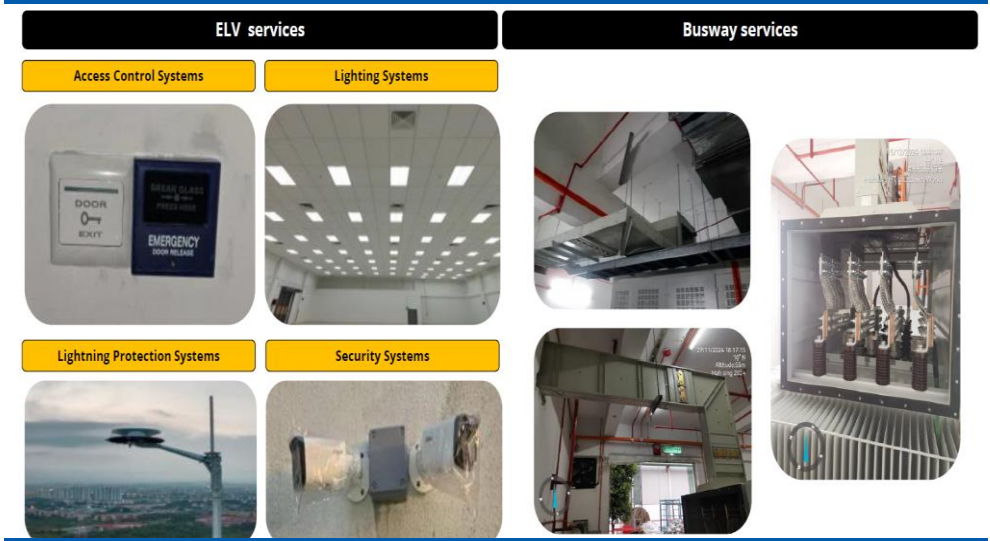
- i. **Provision of M&E engineering services for electricity supply distribution systems, buildings and solar PV plants (88.4% of FY24 revenue):** a) Electricity supply distribution systems: involved in the supply, installation, testing, commissioning, maintenance and services of high voltage or HV, medium voltage or MV, low voltage or LV and extra-low voltage (ELV) electricity supply distribution systems within end-user premises where the electricity supplied by its distribution systems is used to power various electrical machinery, equipment, appliances and devices in industrial, commercial and residential properties; b) building services: encompass the supply, installation, testing and commissioning of ELV building services in residential, C&I properties comprising air conditioning and mechanical ventilation (ACMV) systems, communication systems and fire systems; and c) solar PV plants: mechanical engineering works for solar PV plants where this involves the installation, testing and commissioning of solar PV panels and balance of systems;
- ii. **Trading (7.1% of FY24 revenue).** For such projects where SUNLOGY outsources physical installation and labour works to subcontractors, the group requires such subcontractors to purchase certain brands of electrical components such as wire trunking, wires and power cables from the group.
- iii. **Generation and sales of renewable energy (4.5% of FY24 revenue).** On 18 Aug 2021, Energy ES (indirect subsidiary of SUNLOGY) and Tenaga Nasional (TNB MK, BUY, TP: MYR16.60) entered into a RE power purchase agreement (PPA) (which was later supplemented on 29 Nov 2023 and 4 Dec 2023) for a period of 25 years for the purchase of electricity generated from the Junjong LSSPV Plant, commencing 24 July 2023 to 23 July 2048. Additionally, on 17 Jan 2024, Savelite (a subsidiary of SUNLOGY) entered into a JV and shareholder agreement with TNB Renewables (TRE; a subsidiary of TNB) and Blazing Solar to jointly collaborate for the development, construction and operations of Selarong LSSPV Plant. Commercial operations are slated to begin in Dec 2025.

Figure 1: Corporate structure



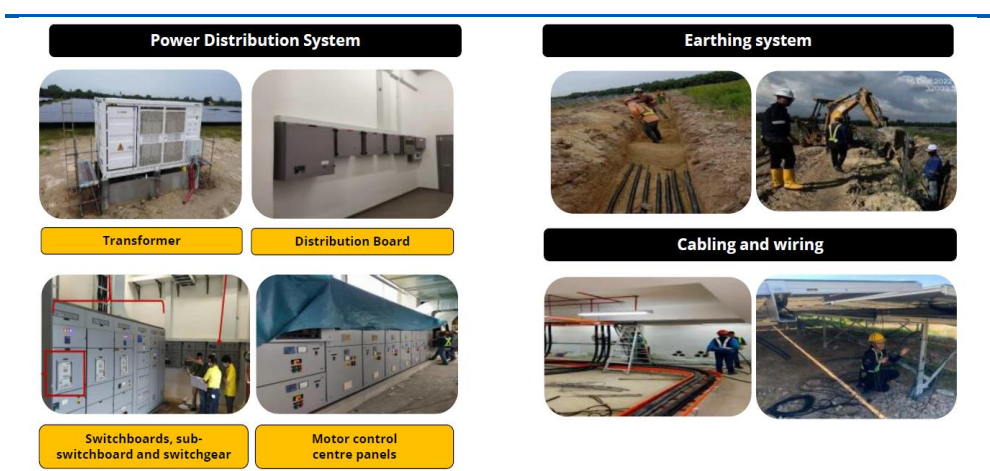
Source: Company data

Figure 2: M&E engineering services for electrical distribution systems (I)



Source: Company data

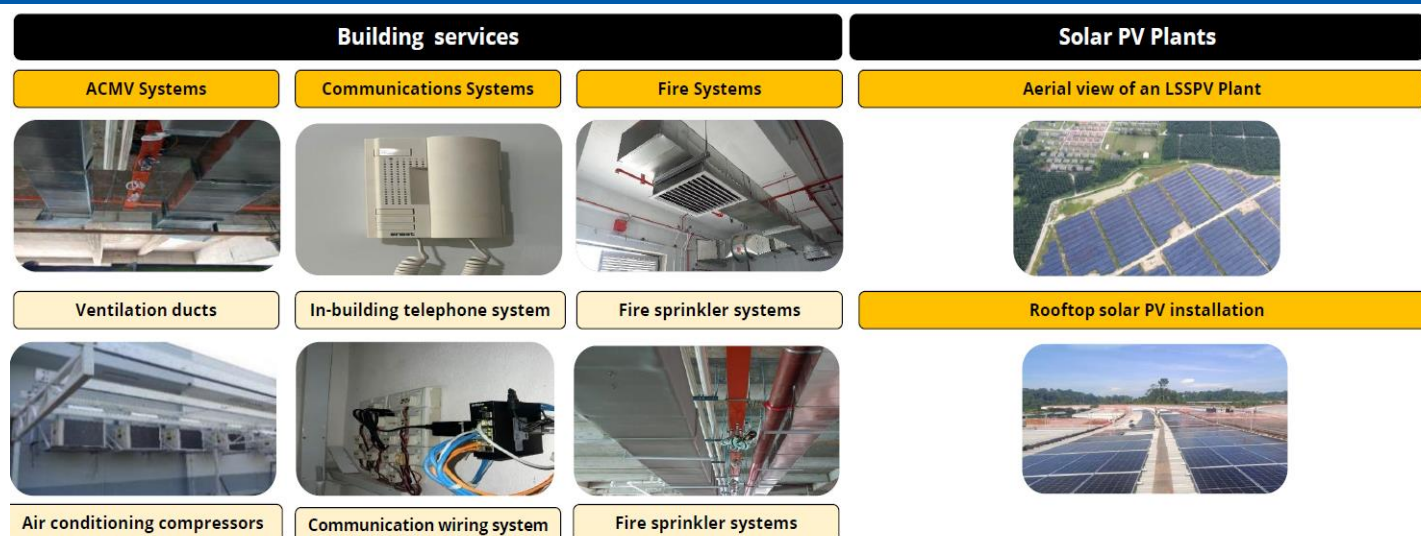
Figure 3: M&E engineering services for electrical distribution systems (II)



Source: Company data



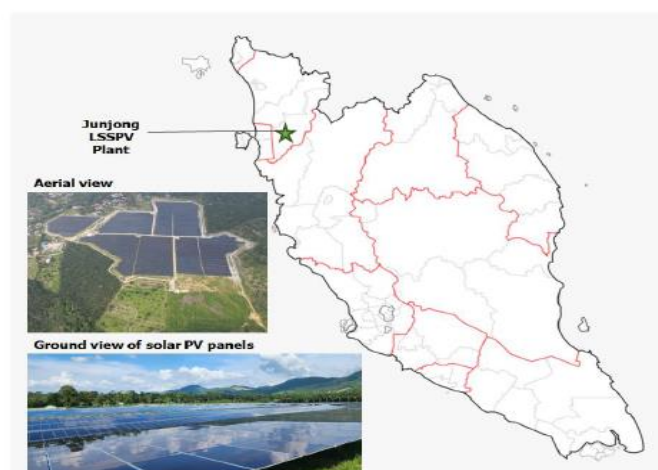
Figure 4: M&amp;E engineering services for buildings and solar PV plants



Source: Company data

Figure 5: Junjong LSSPV Plant

<b>LSSPV Plant capacity</b>	20.76MWac
<b>Consortium</b>	Savelite (90.0%), Frasers Construction (5.0%) and Moderntent Development (5.0%)
<b>Location</b>	Junjong, Kulim, Kedah
<b>Concession period</b>	25 years, commencing on 24 July 2023 and expiring on 23 July 2048
<b>Buyer</b>	Tenaga Nasional Berhad under REPPA
<b>Program</b>	LSS4
<b>Construction value</b>	RM87.50 million
<b>Operator</b>	Powertrack Sdn Bhd, a wholly-owned subsidiary of Solarvest Holdings Berhad (listed on the Main Market)



Source: Company data

Figure 6: Selarong LSSPV Plant



<b>LSSPV Plant capacity</b>	29.99MW
<b>Consortium</b>	Savelite (40.0%), Blazing Solar Sdn Bhd, a wholly-owned subsidiary of Solarvest Holdings Berhad (30.0%) and TNB Renewables Sdn Bhd, a wholly-owned subsidiary of TNB (30.0%)
<b>Location</b>	Selarong, Kulim, Kedah
<b>Concession period</b>	21 years, commencing on December 2026 to December 2047
<b>Buyer</b>	Client M
<b>Program</b>	Corporate Green Power Agreement
<b>Construction value</b>	RM129.13 million (Savelite shall contribute total capital of RM17.45 million, representing 40.0% of the shareholdings held by Savelite in Selarong Pertama)

Source: Company data

## Future Plans And Strategies

**Development of Selarong LSSPV Plant.** SUNLOGY intends to develop a 29.99MW Selarong LSSPV Plant in Kulim, Kedah, under the Corporate Green Power Programme (CGPP) via a JV with Blazing Solar (30%) and TRe (30%) via Selarong Pertama. Operations are expected to commence in Dec 2025 – increasing the revenue contribution from the generation and sales of RE, which made up 4.5% of revenue in FY24.

**Secure more solar projects to further grow revenue from the RE segment.** Being a registered PV service provider with the Sustainable Energy Development Authority or SEDA, SUNLOGY intends to increase revenue from the solar segment by securing more M&E engineering services for solar facilities through tenders and direct client negotiations in the private and public sector. The group has a proven track record for the delivery of solar PV projects. As at 24 Dec 2024, SUNLOGY has installed a total capacity of 160.7MW across residential, C&I buildings as well as LSSPV plants.

**Intend to increase market share within the M&E engineering industry in Malaysia.** This is done by tendering for more projects with larger contract sums. Since 1 Aug 2023 up to 24 Dec 2024, SUNLOGY has submitted 103 tenders with a total tender sum of MYR1bn which are still pending decision from clients. These tendered projects relate to M&E engineering services and if awarded to the group, will further increase the orderbook.

**Strengthen internal workforce through the recruitment of qualified employees.** The group plans to expand its project department by recruiting additional personnel to support the growth of existing business operations and the expected growth in its business. This will also allow it to better manage and control the progress of various M&E engineering projects undertaken by them. At the same time, it enables SUNLOGY to supervise and monitor the works of its workers and subcontractors at different project sites simultaneously.

**Intends to participate in the LSS5 programme to generate recurrent revenue.** Participation in the LSS5 programme presents a compelling opportunity for SUNLOGY to expand its presence in the RE sector and generate recurring revenue. By leveraging its expertise in M&E engineering services and experience in past solar projects, the group is well positioned to participate in the LSS5 programme. SUNLOGY may collaborate with strategic partners such as project developers, investors, other industry players in order to submit a more compelling proposal to the Energy Commission. By forging strategic business relationships within the RE ecosystem, SUNLOGY can enhance its market position, access new business opportunities and foster long-term sustainability.

**The group is led by a skilled management team,** headed by Managing Director Khor Chuan Meng who brings at least 20 years of experience in electrical engineering field. He is supported by Executive Director Chu Kerd Yee, as well as key senior management who have relevant experience in their respective fields covering M&E engineering, finance, project tendering, project management and implementation, contract matters, procurement, and human resource management.

## Financial Overview And Valuation

**Financial overview.** SUNLOGY's revenue increased by 40% YoY to MYR191m in FY24, primarily driven by better contribution of M&E engineering services which saw a 28.8% YoY increase backed by higher progress billings from its ongoing projects and the commencement of a new project in Kulim for Risinglight. Its RE generation segment also recorded its maiden contribution of MYR8.6m in FY24 following the commencement of the Junjong LSSPV plant in Jul 2023. SUNLOGY's trading segment marked a 141% jump in revenue for FY24 due to an increase in purchase orders from its subcontractors for electrical components such as wire trunking, wires, and cables.

The group's GPM was flattish at 16.2% in FY24 vs 16.1% in FY23 as the completion of M&E engineering services projects for certain solar plants ended but was supported by the full year maiden contribution of the Junjong LSSPV plant in FY24. However, its core net margin experienced a slight contraction, declining to 7% in FY24 from 8.3% in FY23, primarily due to higher finance costs and a higher effective tax rate.

SUNLOGY recorded a core net earnings 3-year (FY21-24) CAGR of more than 100%, underpinned by robust topline growth. This performance reflects the group's ability to capitalise on M&E opportunities not just from residential, C&I, but also solar plants.

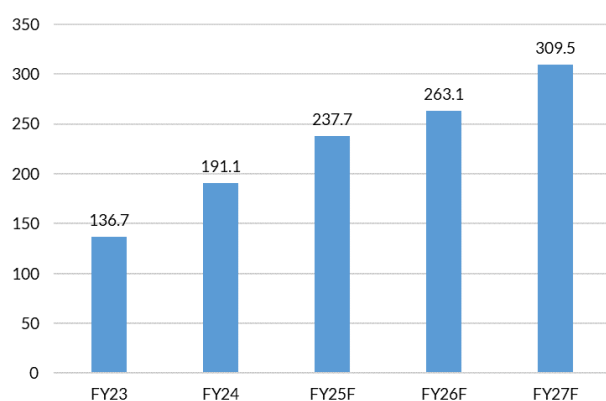
**Forecasts.** We forecast the group's earnings to grow at a 3-year (FY24-FY27) CAGR of 24%, primarily driven by increasing orders from its residential as well as C&I customers – in line with the country's commitment towards energy transition. As of 24 Dec 2024, its orderbook stood at MYR269m – expected to be recognised within 12 months – and it has a strong tenderbook of MYR1bn via 103 tenders submitted. Assuming active tenders remain at MYR1bn in each financial year with a win rate of 20-25%, we pencil in a MYR200m, MYR250m, and MYR250m in job replenishments for FY25F-27.

We have also assumed a core net margin of 7% for FY25 (FY24: 7%), but envisage an expansion in FY26 and FY27 to reach 7.8% and 8.4% amid better contribution from the RE business (which has higher margins compared to the M&E engineering services and trading segment) attributable to the planned commencement of Selarong LSSPV Plant by Dec 2025. We envisage future earnings growth to be underpinned by higher transactions in residential as well as C&I property.

For instance, Kerjaya Prospek (KPG MK, BUY, TP: MYR2.67) is a client with one of the projects (the Seri Tanjung Pinang Project) – which we believe could be related to the Andaman Island developed by Eastern & Oriental (EAST MK, BUY, TP: MYR1.38). We envisage that upcoming launches on Andaman Island could potentially provide a steady pipeline for SUNLOGY in future, not just due to its current involvement for the said project but also for another project by KPG in Bangsar.

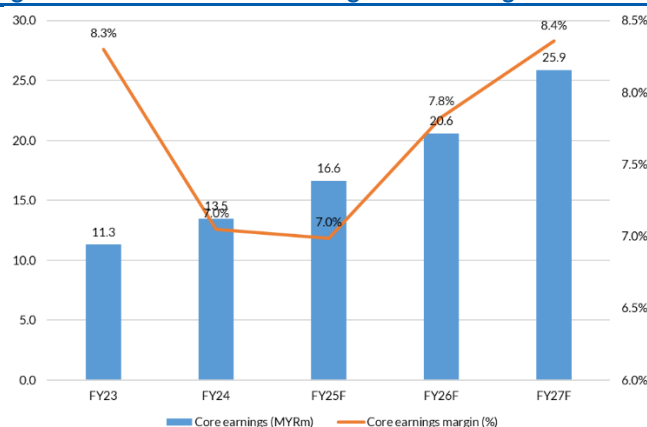
Malaysia's target of achieving a 70% RE mix by 2050 is expected to significantly boost solar adoption – potentially enhancing its orderbook expansion for M&E works for solar plants. The group's track record in solar plants puts it in a sweet spot to also eye for development of solar PV plants which can generate recurring income for the group.

Figure 7: SUNLOGY's revenue trends (MYRbn)



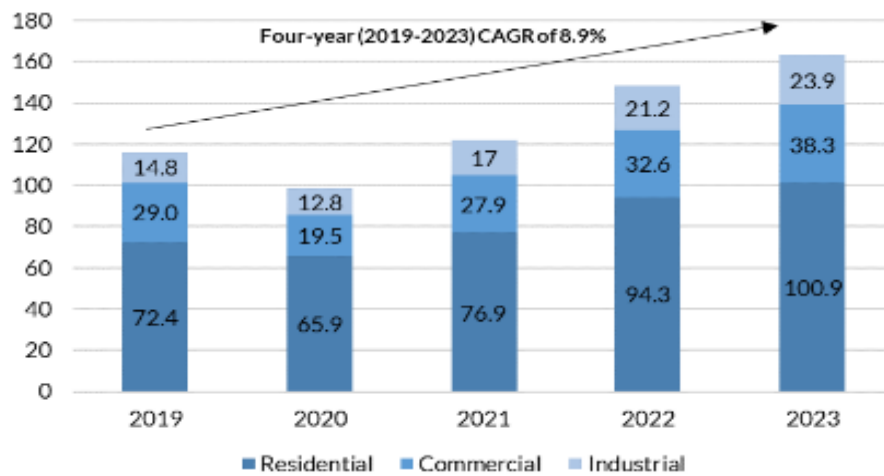
Source: Company data, RHB

Figure 8: SUNLOGY's core earnings and net margin trends



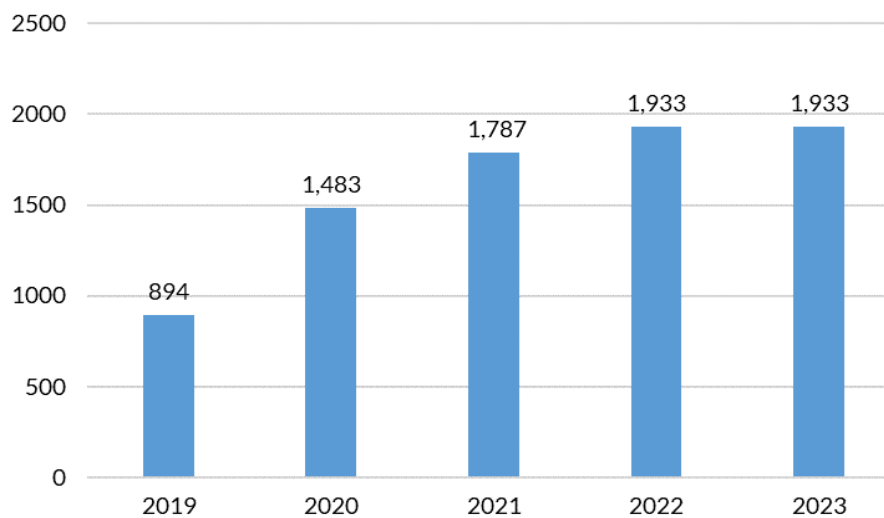
Source: Company data, RHB

Figure 9: Residential, commercial and industrial property transactions in Malaysia (MYRbn)



Source: National Property Information Centre

Figure 10: Installed capacity for solar PV systems and facilities in Malaysia (MW)



Source: Energy Commission

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**Valuation.** We ascribe 14x P/E to the group's FY26F earnings to arrive at a FV of MYR0.41. For peer comparison purposes, we selected companies involved in carrying out main construction works related to residential and C&I buildings as well as EPCC solar players that may require M&E services for its solar projects.

The contractors related to commercial and industrial buildings trade within a P/E range of 11-16x while EPCC solar player are trading in the range 22-26x.

Our target P/E is positioned at the mid-point of the range for contractors related to residential, and C&I buildings as the majority of SUNLOGY's orderbook still comes from this segment. The target valuation is also below the range of solar EPCC players to reflect its smaller market cap.

**Dividends.** SUNLOGY does not have a formal dividend policy and we do not anticipate one in the near future given its continued focus on expansion and growth initiatives.

Figure 11: Peer comparison

Company Name	FYE	Price	Market cap (MYRm)	P/E (x)			Net Profit growth (%)		ROE (%)	EV/ EBITDA	Div. yield (%)
				Actual	1 Yr Fwd	2 Yr Fwd	1 Yr Fwd	2 Yr Fwd			
ES Sunlogy	Jul	0.30	210	15.6	12.6	10.2	23.0	24.0	24.2	9.4	na
<b><u>Commercial, residential &amp; industrial contractors</u></b>											
Kerjaya Prospek	Dec	2.09	2,650	21.0	16.2	13.6	29.1	19.3	14.6	9.9	6.1
Vestland	Dec	0.58	543	21.4	11.1	7.5	92.1	47.8	33.9	17.5	n.a.
IJM Corp	Mar	2.44	8,900	14.5	15.6	14.0	-6.9	12.0	4.7	8.4	3.2
<b><u>Solar</u></b>											
Solarvest	Mar	1.68	1,220	38.8	24.9	19.1	56.2	30.1	20.4	14.9	0.1
Samaiden	Jun	1.20	503	32.3	22.8	18.1	41.7	26.0	16.3	10.7	1.3
Sunview	Mar	0.42	239	26.3	25.7	16.8	2.7	52.4	6.7	12.6	n.a.
Market Cap Weighted Average			6,284.3	19.0	16.8	14.3	11.1	17.5	9.5	9.7	3.2
Weighted average			2,342.5	25.7	19.4	14.9	35.8	31.3	16.1	12.3	1.8

Source: Bloomberg, RHB



## IPO Details

Figure 12: Indicative IPO timeline

Opening of application	27 Jan 2025
Closing of application	5 Feb 2025
Balloting of applications	10 Feb 2025
Allotment of the IPO Shares to successful applicants	18 Feb 2025
Listing	20 Feb 2025

Source: Company data

Figure 13: Utilisation of IPO proceeds

	Estimated timeframe	MYRm	% of proceeds
Development and construction of Selarong LSSPV Plant	Within 12 months	14.1	33.6
Repayment of borrowings	Within 6 months	14.0	33.3
General working capital requirements	Within 24 months	9.2	21.9
Estimated IPO listing expenses	Within one month	4.0	9.5
Purchase of enterprise resource planning system	Within 24 months	0.7	1.7
<b>Total</b>		<b>42.0</b>	<b>100.0</b>

Source: Company data

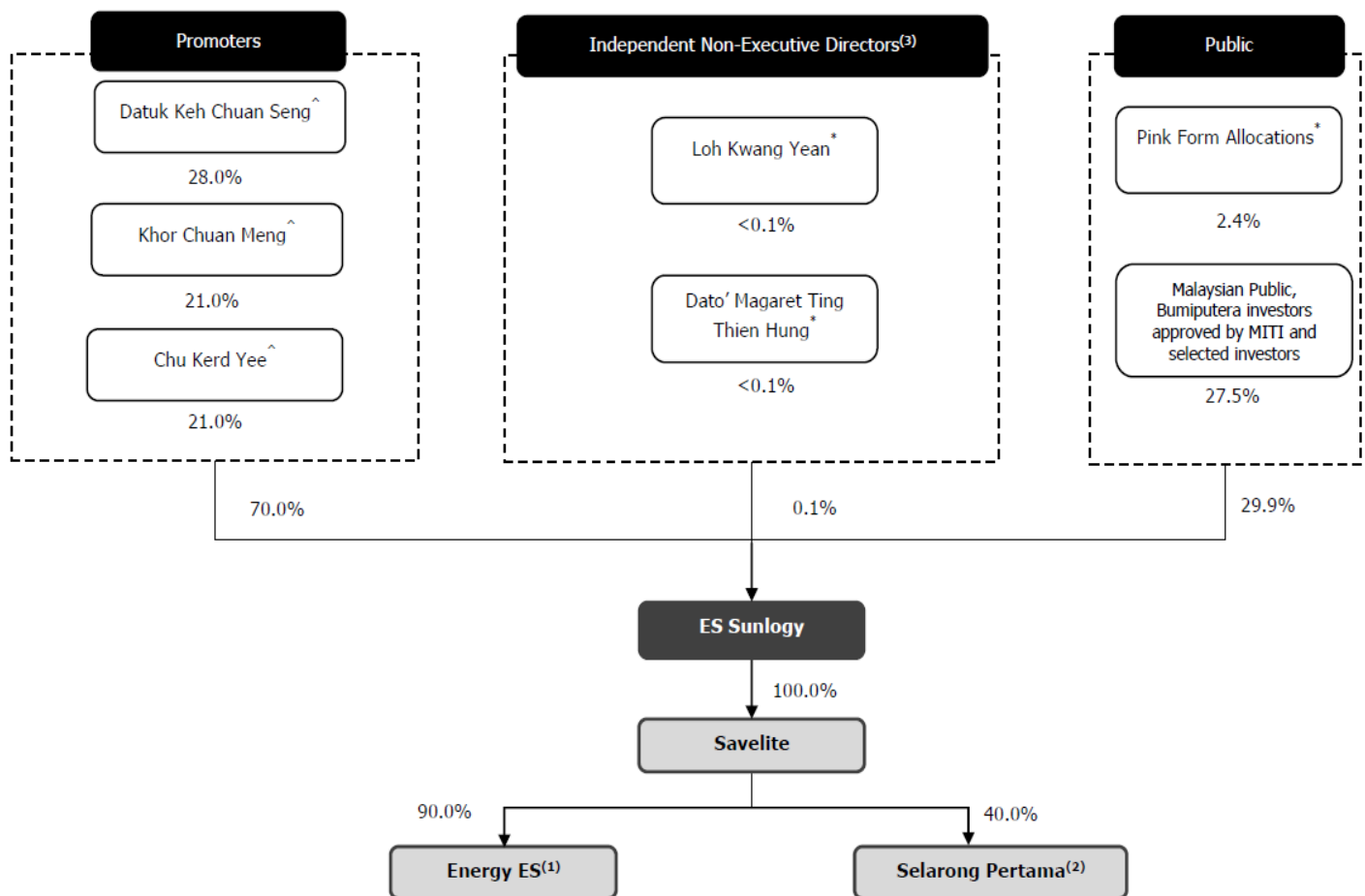
Figure 14: Offering structure

	Number of IPO shares	% of enlarged share base*
<b>Public Issue of new shares:</b>		
Malaysian public	17,500,000	2.5
Pink Form allocations	17,500,000	2.5
<i>Bumiputera</i>	17,500,000	2.5
Private placement to <i>bumiputera</i> investors approved by the Ministry of Investment, Trade, and Industry	87,500,000	12.5
	<b>140,000,000</b>	<b>20.0</b>
<b>Offer for sale:</b>		
Private placement to selected investors	70,000,000	10.0
<b>Total</b>	<b>210,000,000</b>	<b>30.0</b>

Note: Based on the enlarged issued share capital of 700,000,000 shares after IPO

Source: Company data

Figure 15: Group structure after the IPO



Source: Company data

## Key Risks:

- Slow replenishment of its orderbook;
- Dependence on government policies on RE;
- Cost overruns from delayed projects or the inability to complete them;
- Higher-than-expected project costs due to volatile fluctuation of material prices;
- Risks of defects liability claims by customers.

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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