

8 August 2023

Clean Energy | Solar Power

## Solarvest (SOLAR MK)

**Buy** (Maintained)

### A Big Winner Of CGPP; Keep BUY

- **Keep BUY, new SOP-derived MYR1.53 TP from MYR1.46, 18% upside.** Post the announcement of the shortlisted bidders for the Corporate Green Power Programme (CGPP), we remain positive on Solarvest continuing to build recurring income via solar assets, and further strengthening its EPCC order replenishment for the next two years. It is well-poised to benefit from the country's transition towards renewable energy and should stay at the forefront of the local pure-play solar EPCC sector.
- **CGPP announcement.** The Energy Commission shortlisted 22 solar power producers under the CGPP. The first announcement awarded a total capacity of 563.42MW, with plant capacity ranging between 7MW and 30MW. A 21-year power purchase agreement is expected to be signed between Tenaga Nasional (TNB MK, BUY, TP: MYR12.40), selected power producers, as well as their off-takers. These plants are expected to commence operations in 2024-2025.
- **Won a total of 90MW solar assets.** Solarvest, via its subsidiary/special-purpose vehicle Atlantic Blue, Blazing Solar, and Solarvest Asset Management won three solar assets (totalling 90MW) under three different consortiums. The financial details are being finalised – shortlisted power producers are required to apply for participation in the New Enhanced Dispatch Arrangement (NEDA) programme within three months after the date of notification of the application status. Approvals could take 3-6 months. We expect significant recurring income contributions to kick in starting FY26.
- **EPCC contracts flow.** While EPCC contracts have yet to be announced (likely in the next 3-6 months), we understand that Solarvest has the first right of refusal to a total of 175MW (31% of the announced 563.42MW capacity) of EPCC jobs (including its assets), as it previously undertook the CGPP design and consultation work for these clients. This is above our assumption of 150MW for CGPP. Assuming a contract of MYR3m/MW, the total contracts could be worth up to c.MYR525m.
- **We revise its FY25F orderbook replenishment** on potentially higher EPCC job wins from CGPP, leading to FY25-26F earnings likely being higher by 10.2-11.9%. Consequently, our TP rises to MYR1.53. Further upside for our TP should stem from recurring income from the newly secured assets – we have yet to bake this into our assumptions, pending further details. Our TP is based on an unchanged 30x CY24F P/E (1SD above the 3-year mean) and DCF valuation (WACC: 5.4%) on its LSS4 solar assets. Our TP also includes an 8% ESG premium, as Solarvest's 3.4 ESG score is four notches above the country median.
- **Risks:** Lower-than-expected contract wins, unexpected changes in project costs, and lack of progress in its Taiwan and Philippines overseas ventures.

Target Price (Return): MYR1.53 (+18%)  
Price (Market Cap): MYR1.30 (USD191m)  
ESG score: 3.4 (out of 4)  
Avg Daily Turnover (MYR/USD) 3.84m/0.84m

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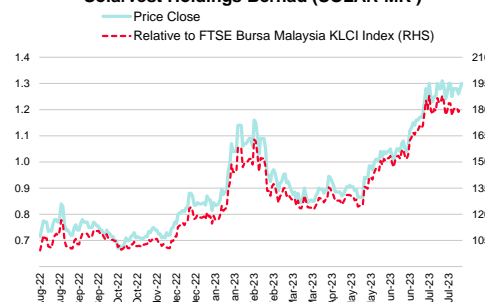
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	52.0	4.8	46.1	22.6	80.6
Relative	55.4	(0.1)	45.1	24.7	84.4
52-wk Price low/high (MYR)				0.67 – 1.31	

#### Solarvest Holdings Berhad (SOLAR MK)



Source: Bloomberg

#### Overall ESG Score: 3.4 (out of 4)

##### E: EXCELLENT

Solarvest is in the business of solar EPCC, where the group promotes the use of clean energy to reduce the global carbon footprint. In terms of operations, Solarvest properly disposes its waste to approved treatment premises and disposal facilities.

##### S: EXCELLENT

The group has in place an Occupational Safety, Health & Environmental Policy that serves as a guideline in ensuring proper health and safety standards are being applied in the workplace. On community engagement, it has participated in various corporate social responsibility programmes, such as donating gloves to frontliners in combating COVID-19.

##### G: GOOD

Solarvest has applied and adopted a majority of the best practices of the Malaysian Code on Corporate Governance. Nevertheless, we note that it has yet to achieve the target of having 30% female directors on its board.

#### Note:

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

Forecasts and Valuation	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Total turnover (MYRm)	178	366	540	877	931
Recurring net profit (MYRm)	7	20	32	43	47
Recurring net profit growth (%)	(53.7)	184.2	64.7	31.3	11.2
Recurring P/E (x)	125.09	44.02	26.73	20.36	18.31
P/B (x)	5.0	4.5	3.8	3.2	2.7
P/CF (x)	na	15.17	13.47	na	14.77
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	53.55	26.42	16.99	13.62	12.08
Return on average equity (%)	4.5	10.8	15.5	17.2	16.2
Net debt to equity (%)	net cash	16.4	47.4	59.5	42.3

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Mar-22</b>	<b>Mar-23</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Malaysia	Recurring EPS	0.01	0.03	0.05	0.06	0.07
Clean Energy	BVPS	0.26	0.29	0.34	0.40	0.47
<b>Solarvest</b>	Return on average equity (%)	4.5	10.8	15.5	17.2	16.2
SOLAR MK						
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Mar-22</b>	<b>Mar-23</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Our SOP valuation comprises:	Recurring P/E (x)	125.09	44.02	26.73	20.36	18.31
i. 30x CY24F P/E fully diluted EPS;	P/B (x)	5.0	4.5	3.8	3.2	2.7
ii. DCF (WACC:5.4%) valuation on LSS4 solar assets	FCF Yield (%)	(8.1)	(9.2)	(4.1)	(4.9)	4.5
	EV/EBITDA (x)	53.55	26.42	16.99	13.62	12.08
	EV/EBIT (x)	69.34	30.07	19.41	15.48	13.64
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Mar-22</b>	<b>Mar-23</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
i. Demand for solar EPCC works from commercial and industrial projects;	Total turnover	178	366	540	877	931
ii. Demand for solar EPCC works from utility-sized projects.	Gross profit	35	65	98	142	153
	EBITDA	15	34	58	76	84
	Depreciation and amortisation	(3)	(4)	(7)	(9)	(10)
	Operating profit	12	30	51	67	74
	Net interest	(1)	(2)	(8)	(11)	(12)
	Pre-tax profit	11	28	42	55	62
	Taxation	(4)	(8)	(9)	(12)	(14)
	Reported net profit	7	20	32	43	47
	Recurring net profit	7	20	32	43	47
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Mar-22</b>	<b>Mar-23</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
i. Dependence on government policies and initiatives on renewable energy;	Change in working capital	(72.6)	26.7	16.0	(86.1)	(11.3)
ii. Competition risks;	Cash flow from operations	(64.0)	57.2	64.4	(22.2)	58.8
iii. Unexpected increase in project costs.	Capex	(6.1)	(137.0)	(100.0)	(20.0)	(20.0)
	Cash flow from investing activities	(6.5)	(136.9)	(100.0)	(20.0)	(20.0)
	Cash flow from financing activities	25.4	91.1	71.9	(11.5)	(12.1)
	Cash at beginning of period	92.2	56.3	72.6	75.6	21.9
	Net change in cash	(45.1)	11.4	36.3	(53.7)	26.7
	Ending balance cash	47.1	67.8	108.9	21.9	48.6
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Mar-22</b>	<b>Mar-23</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Solarvest is a solar turnkey EPCC service provider, providing end-to-end solutions to build solar photovoltaic systems from scratch.	Total cash and equivalents	56	73	76	22	49
	Tangible fixed assets	29	172	265	276	286
	Total assets	262	476	590	725	788
	Short-term debt	4	17	17	17	17
	Total long-term debt	3	88	168	168	168
	Total liabilities	86	278	359	451	466
	Total equity	176	197	231	274	322
	Total liabilities & equity	262	476	590	725	788
	<b>Key metrics</b>	<b>Mar-22</b>	<b>Mar-23</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
	Revenue growth (%)	(20.7)	105.6	47.8	62.3	6.2
	Recurrent EPS growth (%)	(53.7)	184.2	64.7	31.3	11.2
	Gross margin (%)	19.7	17.8	18.2	16.2	16.5
	Operating EBITDA margin (%)	8.6	9.4	10.7	8.7	9.0
	Net profit margin (%)	3.9	5.4	6.0	4.9	5.1
	Capex/sales (%)	3.4	37.5	18.5	2.3	2.1
	Interest cover (x)	5.66	7.40	4.99	5.17	5.72

Source: Company data, RHB

Figure 1: CGPP shortlisted bidders

No.	Selected shortlisted bidders	Export capacity
1	Cenergi EE Holdings	29.99 MW
2	Coara Solar	29.99 MW
3	Consortium of Angelaxy Power and Uzma Environergy	12.16 MW
4	Atlantic Blue (Solarvest) and TNB Renewables	29.99 MW
5	Conextone Energy and ENGIE Renewable SEA	29.99 MW
6	JAKS Solar Power, Ann Joo Green Energy and Fabulous Sunview (Sunview)	29.99 MW
7	KVC Corporation, Meriah Suria and Kuala Berang Solution	29.515 MW
8	Nestcon Infra and Pristine Multivision (M)	10.00 MW
9	Reservoir Link Renewable, Sumitomo Corporation and Maqo Engineering	29.99 MW
10	Salcon Berhad and KAB Smart Solar Energy	7.00 MW
11	Savellite Engineering, Blazing Solar (Solarvest) and TNB Renewables	29.99 MW
12	Shizen Malaysia, HSS Engineering, Solarvest Asset Management (Solarvest) and Aziho Trading	29.99 MW
13	Solar Citra and Total Energies Renewables SAS	29.99 MW
14	Gading Kencana	30.00 MW
15	Mega First Power Industries	29.99 MW
16	Pekat Teknologi	29.99 MW
17	Sime Darby Plantation Renewable Energy	14.989 MW
18	Solarcity REIT	29.99 MW
19	Starken AAC	10.00 MW
20	Sunway Construction	29.90 MW
21	Tanah Matahari	29.99 MW
22	TNB Renewables	29.99 MW

Note: Balance quota – 236.58MW

Source: Energy Commission

Figure 2: Valuation table

	Valuation method	Fully diluted value per share (MYR)
Fully diluted CY24F EPCC earnings	30x P/E on fully diluted CY24F EPCC EPS	1.09
LSS4 50MW solar assets	DCF (25 years PPA, WACC: 5.4%)	0.14
Cash proceeds from warrants		0.19
	SOP-derived intrinsic value	1.42
	+8% ESG premium	0.11
	<b>TP (MYR)</b>	<b>1.53</b>
	Current share base (m)	667.6
	Warrants conversion (m)	158.5
	<b>Fully diluted share base (m)</b>	<b>826</b>

Source: Company data, RHB

## Recommendation Chart

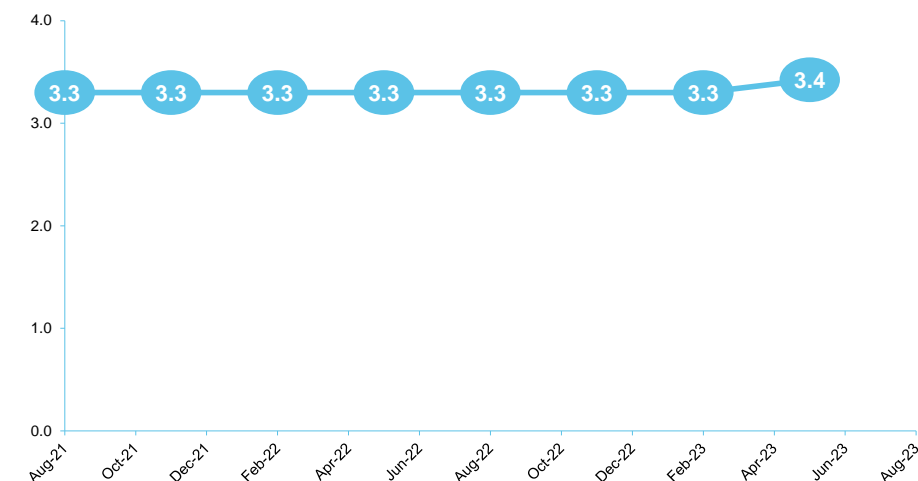


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-07-28	Buy	1.46	1.25
2023-06-08	Buy	1.28	1.00
2023-05-26	Buy	1.36	1.00
2023-02-28	Buy	1.34	0.93
2023-02-06	Buy	1.34	1.09
2022-08-29	Neutral	0.77	0.76
2022-05-27	Neutral	0.77	0.72
2022-02-24	Neutral	1.09	0.99
2021-11-30	Buy	1.54	1.17
2021-10-01	Buy	1.54	1.26
2021-09-02	Buy	1.51	1.37
2021-08-05	Buy	1.51	1.34
2021-07-16	Buy	1.32	1.15
2021-07-06	Neutral	1.32	1.18
2021-05-25	Neutral	1.50	1.38

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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Analyst	Company
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