

Strategic Petronas deals power KAB's expansion plans

BY CHERYL POO

These are exciting times for Kinergy Advancement Bhd (KAB) (KL:KAB), thanks to a pivotal break in 2023 from Petronas Gas Bhd (KL:PETGAS) for a major contract, followed by subsequent contract awards.

Formerly known as Kejuruteraan Asastera Bhd — a traditional mechanical engineering services company established in 1997 — KAB has made great strides in recent years towards becoming a comprehensive sustainable energy solutions (SES) provider.

In an interview with *The Edge*, KAB founder and executive deputy chairman-cum-group managing director Datuk Lai Keng Onn and group chief financial officer John Chin Sze How detail the group's intention to become a full-fledged independent power producer (IPP) and how major engineering, procurement, construction and commissioning (EPCC) project wins are working in its favour.

"We've had the advantage of decades of experience in mechanical engineering, so it was a natural expansion into the energy segment when we started the division [in 2018]. It was related and complementary to mechanical engineering," explains Lai, who owns a 27.71% equity stake in KAB (8.8% of which is held via his private vehicles, Fasttrans Venture Sdn Bhd and Stocqtech Sdn Bhd). The other substantial shareholder is Kingston Tong Kum Loong, who holds 9.48%.

"Most players in the energy segment tend to focus on solar, given its low barrier to entry. And as we started to move towards the high-level technical segment, that was when Petronas came to study our plant."

Not every mechanical engineering company can proclaim it is in partnership with Petronas, so when KAB clinched the EPCC award of a 72 megawatt (MW) gas engine power plant project in Sabah worth RM230 million in January 2023, it proved to be a game changer.

The deal included KAB taking a 10% equity stake in Sipitang Utilities Sdn Bhd (formerly known as Regas Terminal [Lahad Datu] Sdn Bhd), positioning the former as a key local technical partner.

KAB went on to secure a RM33.3 million EPCC contract for utility supply from Pengerang LNG (Two) Sdn Bhd in November that year, involving the expansion and transformation of 137,000m³ liquefied natural gas carriers into a floating storage unit.

Last month, KAB landed its biggest EPCC win to date when its unincorporated joint venture (JV) with Sinohydro Corporation (M) Sdn Bhd secured a RM646.3 million contract to build a 120MW power plant facility in Labuan. Having commenced on May 20,



Lai: We want to be a large-scale IPP, and not just an EPCC contractor for large-scale power plants

the project was awarded by the subsidiaries of Petronas Gas Bhd, Sabah Electricity Sdn Bhd and Sabah Energy Corporation Sdn Bhd.

"That Petronas would award us subsequent EPCC projects [of that quantum] has boosted our confidence. Now is the time to aggressively push towards a higher level of technical expertise in positioning ourselves as a major Malaysian-based EPCC," asserts Lai, having identified a gap to fill based on his observation that most EPCC projects in the market are either undertaken via a JV with a foreign company or purely owned by the latter.

In January, Bursa Malaysia reclassified KAB's sector from engineering to energy and with a subsegment in renewable energy (RE).

Road to becoming full-fledged IPP

To cement its position in the power space, KAB acquired a 47.5% equity stake in electricity generating plant operator Jati Cakerawala Sdn Bhd in February for RM35 million to position itself as one of the project developers for the repowering of Teknologi Tenaga Perlis Consortium Sdn Bhd's (TTPC) 650MW power plant in Perlis.

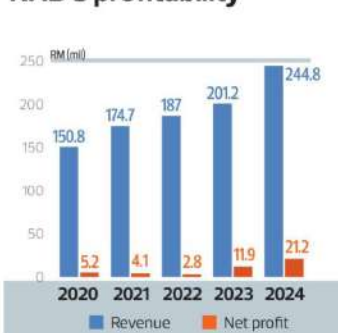
Jati Cakerawala holds an 80% stake in TTPC, one of six IPPs established under Malaysia's privatisation scheme to supply electricity to Tenaga Nasional Bhd (KL:TENAGA).

Ultimately, the move paves the way for KAB to be an IPP.

"We made the stake acquisition [ahead of] the government's request for RFP [request for proposal] (on May 10). The RFP invites developers to take on new gas-fired power generation capacity in Peninsular Malaysia via a competitive bidding exercise, for an additional 6-gigawatt (GW) capacity. We will be participating, and hopefully we can be an IPP in Malaysia. We would like to develop a solar power plant with a capacity of 1.8GW in five years," shares Chin.

"We want to be a large-scale IPP, and not just an EPCC contractor for large-scale power plants. Looking at the [headway] we have made, we will [get there] in the very near future. In our transformation journey over the

KAB's profitability



last few years, we made many acquisitions and built smaller scale power assets. But we are now moving to a much larger scale in order to grow our earnings and asset profile," adds Lai, surmising that KAB may be the only local partner to Petronas to have a stake in the latter's portfolio of power assets.

Chin explains that the group is actively expanding its RE business, having announced a 1.8GW project in partnership with Perak State Development Corp (PKNP) to carry out 29 RE projects. He adds that KAB is also partnering with other state-owned entities such as Johor Corp Bhd for the same reason.

Building on healthy cash flow and profitability

There are two main business divisions in the company — mechanical engineering and SES — each contributing about 50% to group revenue in 2024. As the split was 70%:30% in 2023, this indicates rapid contribution growth from the energy segment.

"Looking at our bottom line, however, the bulk comes from the energy segment, which is very lucrative. This is why eventually, the mechanical engineering segment will be supporting our gas power plant and solar plant projects in the other division, rather than taking on jobs from external contractors," foresees Chin.

At the time of writing, KAB has a total order book of RM1.3 billion and a tender pipeline of RM3.3 billion.

"The order book will keep us busy for the next two to three years. KAB is actively bidding for the RM3.3 billion. The RM646 million contract secured last month gives us confidence," Chin says.

When asked whether KAB is seeking to work with other major industry partners or if there will be more work from Petronas, Lai and Chin decline to comment.

"Our strategy is to have a good mix of concession and EPCC projects, as conces-

sion projects give us very stable recurring income for the next 10 to 12 years. And that is a better kind of play amid uncertainties in the market. Hence, we built on that for the past few years to develop a sizeable portfolio. Now, we are also building up our EPCC for energy projects for a short[er] term boost of three to four years," explains Chin.

"We continue to explore low-hanging fruit since we own and manage many different kinds of power plants. Being a power producer comes with a lot of upside. Our tariffs are still much lower than that of the Philippines and Thailand."

For the first quarter ended March 31, 2025, KAB raked in a 26% higher net profit of RM6.3 million compared with RM5 million during the previous corresponding period. Revenue came in at RM68.6 million, a 63% boost from RM42 million earlier, driven by a significant increase in project progress in the SES segment.

"Based on KAB's profitability record since 2022, we are definitely expecting substantial growth this year," affirms Chin.

However, in spite of its profitability record, promising order book and tender pipeline, KAB's share price has remained subdued since falling from a record high of RM2.08 on April 2, 2021 (or RM1.156 after accounting for a share split and dividends) amid a market rally during the Covid-19 pandemic.

In the last 12 months, the counter has hovered at the 37 sen level, closing at 34 sen last Wednesday for a market capitalisation of RM712.63 million.

Chin explains that KAB has not declared dividends since a payout of RM2.3 million in FY2020, so as to "secure its war chest", given its expansion priorities in the last few years. As at March 31, 2025, the company had cash and cash equivalents of RM14 million and RM178.38 million in borrowings.

KAB's total capital expenditure from 2020 to 2025 amounted to RM150 million, with RM20 million set aside for this year, given the absence of any mergers and acquisitions at present.

Besides solar assets in Malaysia, KAB also has co-generation, waste heat recovery, biogas and hydroelectric power assets in the country. It also owns a mini-hydropower plant in North Sumatra, Indonesia and solar farm projects in Thailand.

According to Bloomberg, there are currently no analysts covering the counter. ■



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