

## Smart Clean Energy Solutions

### SWIFT ENERGY TECHNOLOGY BERHAD

**Fair Value: RM0.42 (+50.00%)**

#### Company Description

Swift Energy Technology Berhad ("Swift Energy") is principally involved in the provision of industrial automation and power systems focusing on process control, explosive proof ("Ex") solar photovoltaic ("PV"), power distribution, and other systems mainly servicing customers in the oil and gas ("O&G") sector, as well as grain products, edible oils, and food manufacturing industries. The Group also supplies related products and services comprising the distribution of power and industrial electrical products, and provision of technical services for process control and power distribution systems.

#### Investment Highlight

- Opportunities driven by solid upstream sector investment:** The number of rigs in Malaysia grew at a compound annual growth rate ("CAGR") of 22.5% between 2021 and 2023. In 2023, Petroliaam Nasional Berhad ("PETRONAS") implies that the utilisation of drilling rigs was as planned, except for hydraulic workover units where the lower utilisation was contributed by the optimisation in performing planned. The strong growth of drilling operations in Malaysia will benefits operators in the provision of Ex power distribution and Ex solar PV systems.
- Increasing investments in the O&G industry:** O&G industry provides opportunities for operators involved in the provision of Ex power distribution and Ex solar PV systems. Locally, PETRONAS plans to increase its domestic capital investment allocation over the next five years by 12% to RM113 billion ("bn") between 2023 and 2027 partly – to fulfil its commitment to ensuring energy security.
- Trend-shift towards sustainable and renewable energy:** The decarbonisation efforts and initiatives in the O&G industry boosts the demand for Ex solar PV systems. In May 2023, the Government of Malaysia set out to achieve 70% renewable energy installed capacity in the power mix by 2050. This is in line with the National Energy Transition Roadmap ("NETR") approach – which was introduced to expedite energy transition initiatives.
- Blue ocean strategy approach:** Swift Energy applies blue ocean strategy in its solar segment – given that the Group focuses on O&G production platform as its niche. The Group largest Ex solar PV systems project was with Malaysia Marine and Heavy Engineering Sdn Bhd. It comprises 240 solar PV modules (91.2 kWp) for the Rosmari-Marjoram gas platform off the coast of Sarawak, Malaysia. It is also the provider for Shell first solar powered wellhead platform – SK408 gas field.
- Huge potential growth:** Standing at FYE2023 revenue of RM41.8 million ("mn") in the industry size of RM13,941mn, Swift Energy market shares is considerably small less than 1%. Hence, it implies huge room for the Group to grow in future.

#### Valuation / Recommendation

We derive a fair value of RM0.42 based on 23x multiple to its FYE2025F EPS of 1.82sen. The initial public offering ("IPO") aims to raise approximately RM70.06mn from the issuance of 250.200mn new shares. A total of 72.38% of proceeds will be utilised for capital expenditure, 19.05% is allocated for working capital, while the remaining 8.56% of it will be used for listing expenses.

Swift Energy shows a healthy current ratio above 1x at 1.77x (as of FYE2023) indicating its strong capability to repay its current liabilities. The Group's gearing ratio is below 1x at 0.52x implying healthy funding ability – hence – we opine to see a sustainable long-term sustainable growth in future.

#### IPO TIMELINE

|              |             |
|--------------|-------------|
| Opening Date | 9 Dec 2024  |
| Closing Date | 23 Dec 2024 |
| Listing Date | 8 Jan 2025  |

|                 |                     |
|-----------------|---------------------|
| IPO Price (RM)  | 0.28                |
| Expected Return | 50.00%              |
| Market/ Sector  | Industrial Products |
| Bursa Code      | 0337                |

|                    |                   |
|--------------------|-------------------|
| <b>IPO Details</b> | <b>Shares(mn)</b> |
| Offer for Sale     | 50.04             |
| Public Issue       | 250.20            |
| Enlarged share     | 1,000.80          |

|                   |               |
|-------------------|---------------|
| <b>Market Cap</b> | <b>RM(mn)</b> |
| Market Cap        | 280.22        |
| Shariah compliant | Yes           |

|                                 |                   |            |
|---------------------------------|-------------------|------------|
| <b>Substantial Shareholders</b> | <b>Shares(mn)</b> | <b>(%)</b> |
| Blueprint Capital               | 316.38            | 31.61      |
| Tan Bin Chee                    | 278.24            | 27.80      |
| Chin Saw Yong                   | 105.94            | 10.59      |

|                                    |               |               |
|------------------------------------|---------------|---------------|
| <b>Utilisation of IPO Proceeds</b> | <b>RM(mn)</b> | <b>(%)</b>    |
| Expansion of facilities            | 28.00         | 39.97         |
| Purchase of hardware and software  | 2.20          | 3.14          |
| Setup of a dedicated R&D centre    | 1.48          | 2.11          |
| Business expansion                 | 4.03          | 5.75          |
| Repayment of borrowing             | 15.00         | 21.41         |
| Working capital                    | 13.35         | 19.05         |
| Estimated listing expenses         | 6.00          | 8.56          |
| <b>Total</b>                       | <b>70.06</b>  | <b>100.00</b> |

|  |                   |              |
|--|-------------------|--------------|
| <b>Allocation</b>  | <b>Shares(mn)</b> | <b>(%)</b>   |
| <b>Public Issue</b>  |                   |              |
| Malaysian Public via balloting process:                    |                   |              |
| • Public investors   | 25.02             | 2.50         |
| • Bumiputera public investors                              | 25.02             | 2.50         |
| Eligible Directors   | 1.75              | 0.17         |
| Eligible employees   | 48.29             | 4.83         |
| Private placement to selected investors                    | 25.02             | 2.50         |
| Private placement to Bumiputera investors approved by MITI | 125.10            | 12.50        |
| <b>Subtotal</b>  | <b>250.20</b>     | <b>25.00</b> |

|  |                |              |
|--|----------------|--------------|
| <b>Offer for sale</b>                            |                |              |
| Private placement to selected investors          | 50.04          | 5.00         |
| <b>Subtotal</b>                                  | <b>50.04</b>   | <b>5.00</b>  |
| <b>Total</b>                                     | <b>300.24</b>  | <b>30.00</b> |
| <b>Total enlarged share capital upon listing</b> | <b>1000.80</b> |              |

Source: Company Prospectus

#### Key Financial Summary

| FYE Sept (RMmn)    | 2022A | 2023A | 2024F  | 2025F  | 2026F  |
|--------------------|-------|-------|--------|--------|--------|
| Revenue            | 81.84 | 92.43 | 112.66 | 138.23 | 168.13 |
| Gross Profit       | 28.01 | 37.24 | 45.40  | 55.70  | 67.75  |
| Pre-tax Profit     | 9.56  | 14.49 | 17.66  | 21.66  | 26.35  |
| Core Net Profit    | 8.20  | 12.20 | 14.87  | 18.24  | 22.19  |
| Core EPS (Sen)     | 0.82  | 1.22  | 1.49   | 1.82   | 2.22   |
| P/E (x)            | 34.16 | 22.97 | 18.84  | 15.36  | 12.63  |
| DPS (Sen)          | 0.40  | 1.10  | 0.00   | 0.00   | 0.00   |
| Dividend Yield (%) | 1.43  | 3.93  | 0.00   | 0.00   | 0.00   |

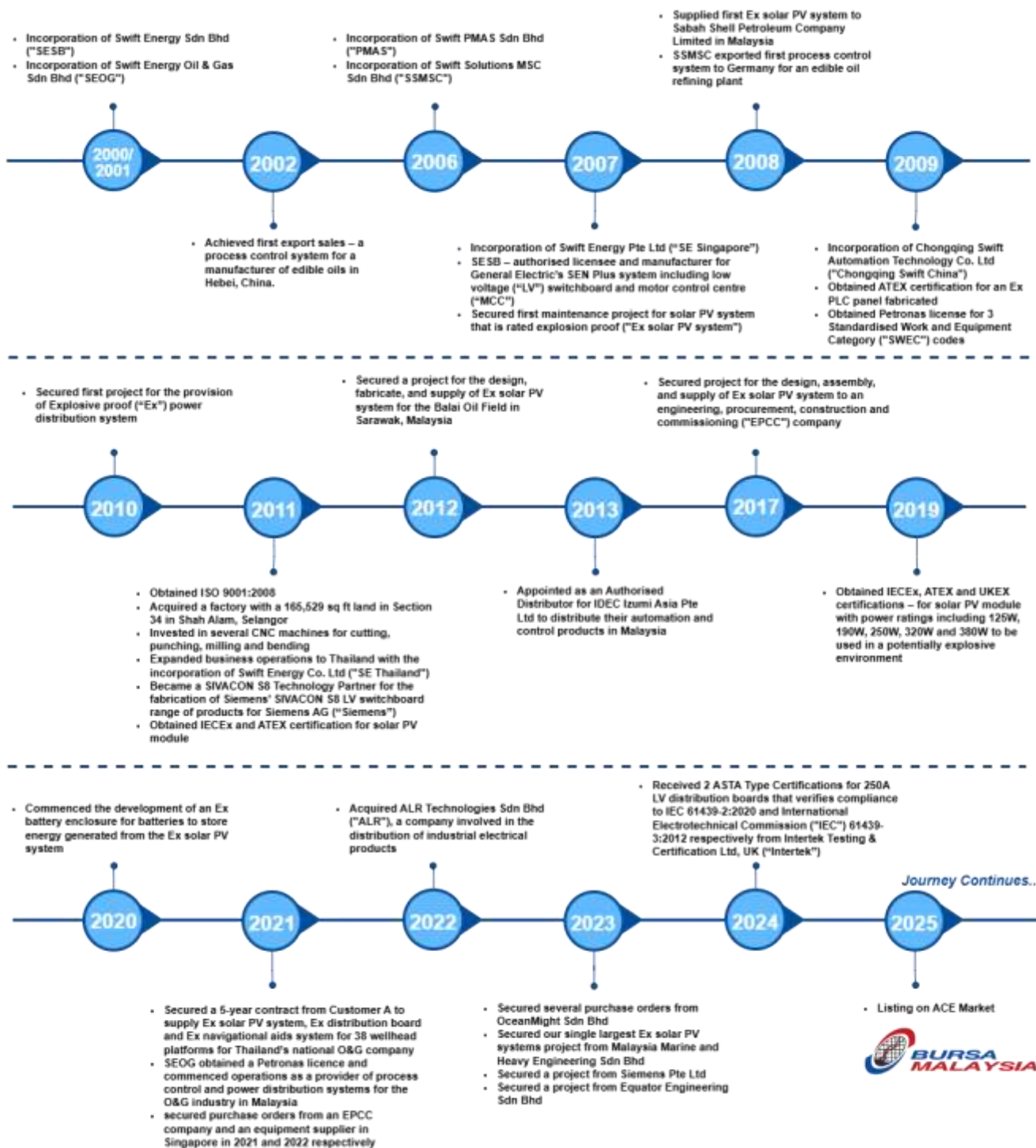
Source: Company Prospectus, S&P Global, Eco Asia Research Estimates  
EPS, P/E and DPS from 2022A to 2023A (pre-IPO) are on pro-forma basis for comparative purposes only.



**Company Background**

Swift Energy was incorporated in Malaysia under the Act on 12 September 2022 as a private limited company under the name of Swift Energy Technology Sdn Bhd. The Group operates in Malaysia as its head office, Thailand, Singapore and China. Its fabrication facility is located in Shah Alam, Malaysia with branch offices in Selangor and Johor in Malaysia, Bangkok in Thailand, Singapore, and Chongqing in China. Below is The Group’s milestones of history and development.

**Key Milestones**



Source: Company Prospectus

**Business activities**

**Provision of industrial automation and power systems:** The application of control systems, information technologies and robotics to streamline complex industrial processes. These integrated systems facilitate real-time decision-making processes which then enhance operational efficiency and ensure consistent product quality. Swift Energy also design, fabricate, assemble and integrate for the following categories:

- **Process control systems:** The Group design and develop the system, program the application software and integrate communications for the supervisory control and data acquisition ("SCADA"), distributed control system ("DCS"), programmable logic controller ("PLC"), remote terminal unit ("RTU"), and human – machine interface ("HMI"), and install, assemble, and integrate them with other industrial sensors, instrumentations and other devices. The hardware and systems software are purchased from third parties, while programming and integrations of all devices are in-house fabricated.
- **Ex solar PV systems:** A rated explosion-proof that installed in hazardous or potentially explosive locations, i.e. offshore O&G platforms or petrochemical refineries – an alternative and eco-friendly solution power supply. It is mainly using Ex certified products and systems to provide captive and remote power supply for hazardous areas – including installation supervision, testing and commissioning services.
- **Power distribution systems:** The Group fabricates power distribution panels for industrial plants/facilities operating in normal environments such as grain products, edible oil and food manufacturing plants, and utility plants. This includes main low voltage ("LV") switchboards, motor control centre ("MCC") panels, LV sub-switchboard panels and distribution boards.
- **Other systems:** It covers Ex navigational aid system, Ex battery charger, Ex diesel-powered generator system and Ex silicone fluid transformer system. These systems could be supplied to customers as auxiliary systems together with Ex solar PV systems and Ex switchcracks, or as a standalone system.



Source: Company Prospectus

**An IECEx and ATEX certified manufacturers for Ex solar PV panels or modules and some other electrical equipment**

**IECEx and ATEX certifications**

**Ex systems product components**

- Ex Navigation Aids System with Solar Panel
- Ex Diesel Generator System
- Ex Switchrack
- Ex LV Busbar Junction box
- Ex Battery Box
- Ex Transformer

**An approved partner for Siemens' LV switchboard products and authorized distributor**

**Approved technology partners**

The Group is a SIVACON S8 Technology Partner for Siemens and are authorised to fabricate Siemens' SIVACON S8 LV switchboard range of products

**Authorised distributors**

Certified Siemens System Integrator for Siemens' industrial automation hardware and software such as Siemens' SIMATIC controllers.

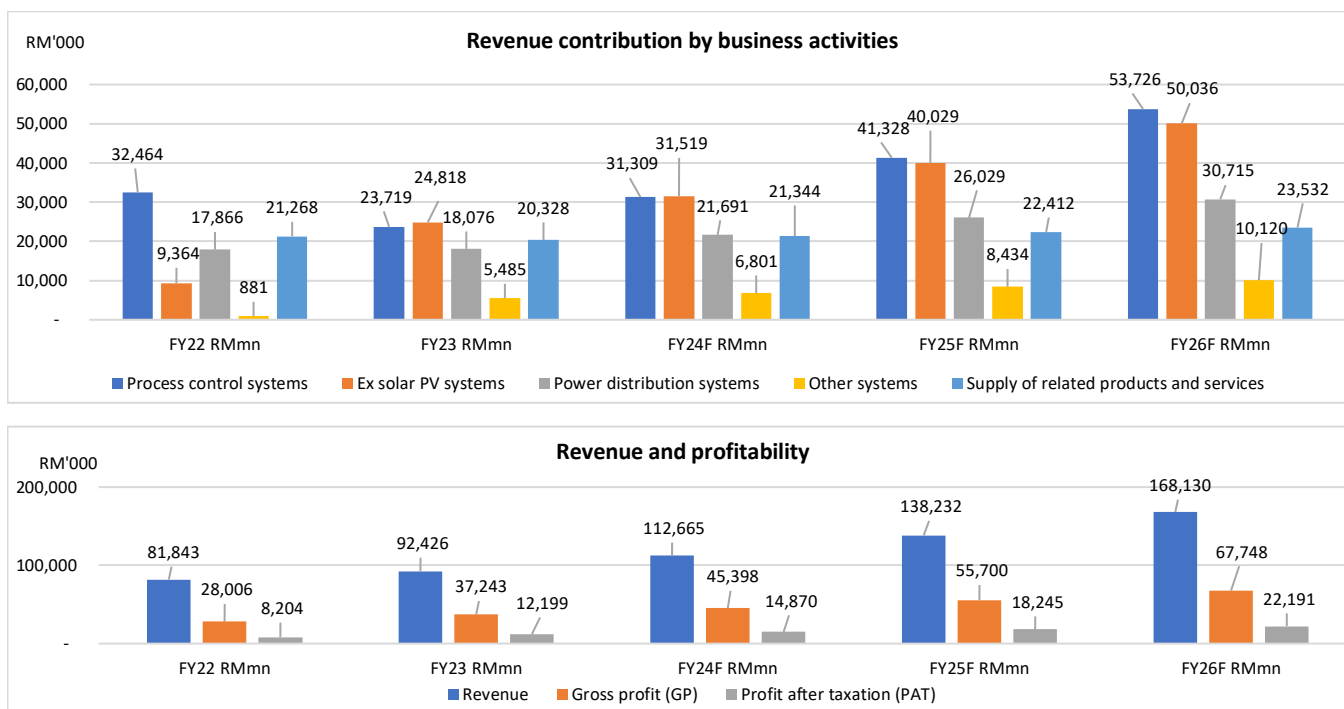
The Group is an authorised Distributor for 9 brands of power and industrial electrical products principally Cressall, Danfoss, Domo, Emerson, IDEC, Novaris, Seneca, Wieland and UIC.

Source: Company Prospectus

**Supply of related products and services:** Swift Energy also involves in the distribution of power and industrial electrical products including industrial automation and control devices, power control, distribution and protection devices, neutral earthing resistors ("NER"), transformers, and other related products and accessories. This includes technical services for maintenance, upgrading and replacement services, site installation supervision, testing and commissioning works, troubleshooting and rectification works.

## Revenue and Profitability

Swift Energy revenue from FYE2022 to FYE2023 was mainly derived from the process control systems and EX solar PV systems, which accounted around 52.60% of the Group's total revenue (as of FYE2023). The following shows revenue contributions by business activities as well as the revenue and profitability from FYE2022 to FYE2023, FYE2024F, FYE2025F and FYE2026F:



Source: Company Prospectus / Eco Asia Research Estimates

## Future Plans

### 1) Expansion of fabrication facility, storage, office and new research and development ("R&D") centre:

- Installation of Mezzanine Level by 2025 for storage purposes. It will be installed above the existing production floor and is expected to increase the usable floor area by 7,640 square feet ("sq ft") or approximately 23.82% (from approximately 32,070 sq ft to approximately 39,710 sq ft).
- Construction of new 3-storey Fabrication Facility on the land beside the existing fabrication facility – expected to have a total floor space of approximately 83,220 sq ft.

### 2) Expansion of operations in Indonesia:

- To expand business in Indonesia by setting up a wholly-owned subsidiary with an office based in Jakarta, Indonesia. This is to meet with the regional demand and enable a better serve to existing and new customers.
- Plan to commence business operations in Jakarta by 2nd quarter of 2025.

### 3) Purchase of new machineries, equipment and software:

- 1 unit of computer numerical control ("CNC") turret punching machine for cutting, shaping and forming metal sheets to create the components needed for enclosures or boxes.
- 1 unit of CNC metal bending machine for re-shaping metal sheets to create the components required for enclosures or boxes.
- 1 unit of 10-tonne overhead crane for lifting and moving heavy loads such as assembled panels, metal skids and enclosures within our production floor.
- 2 user licenses for CAD/CAM software to aid the design of components and creation of fabrication toolpaths/steps for the CNC turret punching machine and bending machine.



**4) Setting up a dedicated R&D centre:**

- a) Purchase new testing equipment – 2 units of temperature humidity chamber and 2 units of pressure test set equipment for testing on prototypes
- b) Recruit 3 R&D personnel comprising 2 electronics engineers and 1 draftsman responsible for product conceptualisation and design
- c) Develop new products and enhance existing products.

**Key Risks**

**Dependent on the performance of major industries user:** Swift Energy depends on the performance of major industries user of O&G industry, and grain products, edible oils, and food manufacturing industries. The Group's customers in the O&G industry comprise engineering, procurement, construction and commissioning ("EPCC") and engineering companies that involves in the construction or upgrading of offshore O&G platforms, as well as the installation of industrial automation and power systems. Any economic slowdown in these industries will adversely affect its business operation and financial performance.

**Dependent on Siemens group:** The Group purchases from Siemens group represented 16.84% (RM6.78mn), 18.77% (RM9.98mn), 22.63% (RM12.24mn), and 17.96% (RM7.84mn) of total purchases for the FYE 2021/22/23 and FPE 2024, respectively. Any termination or non-renewal of certification with Siemens would negatively affect its business operations and financial performance.

**Dependent on Emerson group:** Swift Energy purchases from Emerson represented 17.20% (RM6.93 million), 11.70% (RM6.22 million), 3.42% (RM1.85 million) and 6.02% (RM2.63 million) of our total purchases in FYE 2021/22/23 and FPE 2024, respectively. Any termination or non-renewal of any agreements with Emerson would affect the Group business operations and financial performance.

**No long-term contractual agreements:** The business operations are based on purchase orders issued by customers ranging between 3 months to 6 months. Hence, the financial performance would be dependent on the Group's ability to continually secure new contracts. Failure to secure new sizeable job could have a material adverse financial impact to Swift Energy.

**Exposed to foreign exchange fluctuation risks:** Part of purchases are transacted in foreign currencies, which are in Ringgit Malaysia ("RM"), United States Dollar ("USD"), Euro ("EUR"), Renminbi ("RMB"), Singapore Dollar ("SGD"), and Great Britain Pound ("GBP"). A depreciation of the RM against the currencies in which Swift Energy transacts will lead to higher costs of purchases.

**Industry Outlook**

The continuous growth in the O&G industry grants opportunities for operators involved in the provision of Ex power distribution and Ex solar PV systems. Locally, the production of O&G aimed to reach two million barrels of oil equivalent per day (MMboe/d) by 2025. This will be anchored by various O&G projects in the pipeline including, among others, Kasawari, Jerun, Rosmari-Marjoram and Lang Lebah in Sarawak, Gumusut-Kakap Redev and Belud Clusters in Sabah, and Bekok Oil Redev, Tabu Redev and Seligi Redev in Peninsular Malaysia.

The growing demand for renewable-efficient-alternative energy anchors long-term opportunities for Ex solar PV systems – especially in industries where explosion-proof solutions are a necessity – such as O&G industry. In May 2023, Malaysian government aims to achieve 70% renewable energy installed capacity in the power mix by 2050 – which in line with energy transition initiatives by the NETR. Hence, the decarbonisation efforts and initiatives will serve as industry-driver growth.



## DEFINITION OF RATINGS

Eco Asia Investment Advice uses the following rating system:

### STOCK RECOMMENDATION

**BUY** Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.

**TRADING BUY** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.

**HOLD** Share price may fall within the range of +/- 10% over the next 12 months

**TAKE PROFIT** Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.

**TRADING SELL** Share price may fall by more than 15% in the next 3 months.

**SELL** Share price may fall by more than 10% over the next 12 months.

**NOT RATED** Stock is not within regular research coverage.

### SECTOR RECOMMENDATION

**OVERWEIGHT** The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months

**NEUTRAL** The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months

**UNDERWEIGHT** The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

### Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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