

Client :	Advancecon Holdings Berhad	Date :	13 June 2020
Media :	The Edge Markets (Online)	Section :	Business
Language :	English		

Earthworks specialist Advancecon eyes solar energy opportunities

RENEWABLE ENERGY

By GANESHWARAN KANA
ganeshtwaran@thestar.com.my

LISTED earthworks player, Advancecon Holdings Bhd, expects to make about 25% of its net profit from its new renewable energy (RE) business within the next three to five years, according to co-founder and group chief executive officer Datuk Phum Ang Kia.

The group, which has been serving property developers such as SP Setia, EcoWorld, Sime Darby Properties and the Tropicana group, recently announced its diversification into the RE segment, particularly in investing and maintaining solar photovoltaic systems.

Advancecon's decision to venture into RE is understandable, considering that more than 91% of its revenue over the years have been coming solely from its earthworks and civil engineering services segment.

Earthworks alone contribute about 53% of its total revenue in the financial year of 2019 (FY19).

The diversification would not only reduce Advancecon's over-dependence on the construction and property, but will also enable the group to capitalise on the solar power generation potential in Malaysia.

Speaking to StarBizWeek, Phum says the

group's projects a double-digit internal rate of return (IRR) for its RE business.

"I must emphasise that our focus is beyond the IRR, but the fact that the group can establish a new and recurring income stream that bolsters our long-term earnings," he says.

Phum further points out that with Advancecon being the owner of the solar panel systems, the net profit margin it enjoys from the RE business will rise gradually over the ownership period of approximately 21 years.

"Consequently, the net profit contribution in percentage terms to the group is expected to rise accordingly," he says.

Moving forward, Advancecon eyes to secure Large Scale Solar (LSS) projects, as part of its long-term growth plan.

"In realising our strategies mentioned above, we are open to collaborate with the right strategic partners and joint venture agreements," says Phum.

Earlier in February 2020, Advancecon partnered with another listed company, Solarvest Holdings Bhd for solar energy projects in Malaysia under the commercial and industrial category.

Advancecon's subsidiary, Advancecon Solar Sdn Bhd, signed a memorandum of understanding (MoU) to engage Solarvest's wholly-owned unit, Solarvest Energy Sdn Bhd as its exclusive engineering, procurement, construction and commissioning (EPC) ser-

vices contractor.

Advancecon Solar will invest, operate and maintain the solar photovoltaic system, while Solarvest Energy would be responsible for the entire engineering, procurement and construction of solar photovoltaic systems.

In the same month of February, Advancecon Solar also entered into a MOU with latex glove-manufacturer Oon Corp Resources (M) Sdn Bhd to install solar photovoltaic systems under the net energy metering scheme on the rooftop of Oon Corp's two premises in Senawang Industrial Estate.

The total generation capacity of the installations on Oon Corp's premises will be 586.06 kWp or approximately 750,480 kWh per annum.

Despite its new-found interest in RE, Advancecon's main business focus remains in earthworks and civil engineering services.

Phum says that Advancecon is currently tendering for more than RM1.5bil worth of contracts, including for East Coast Rail Link (ECRL), various road works packages in Sarawak, and residential townships.

"We target to secure RM300mil worth of new awards this year and we believe that our good track record in securing pivotal infrastructure projects like West Coast Expressway (WCE) and Pan Borneo Highway should place us in good stead.

"As at Dec 31, 2019, Advancecon's order-

book stood at RM763mil, with earnings visibility for at least 24 months," he says.

Within the construction sector, Advancecon carries out earthworks and civil engineering works for a number of major infrastructure projects, such as for major highways in Peninsular Malaysia namely WCE and South Klang Valley Expressway.

Meanwhile in Sarawak, apart from the Pan Borneo Highway, it is also involved in projects to build new roads under the Upper Rajang Development Authority.

"In October 2019, we secured RM88.1mil worth of contracts to undertake earthworks and ancillaries works for the proposed new road in Pelagus/Baleh, and for Rh. Undi/ Rh. Seji/ Rh. Mamut/ Rh. Ai in Antawau, Sg. Bena (Phase 1).

"On the other hand, in the property sector, we are currently executing various works including in Setia Alamsari (by SP Setia), Serenia City and SME Business Park @ Nilai Implan (by developer Sime Darby), and Eco Ardence (by Ecoworld)," he says.

Earlier in May this year, RHB Research Institute analyst Muhammad Danial Abd Razak said that Advancecon is a promising candidate for ECRI jobs.

"We believe Advancecon remains a strong player, well poised to first benefit from sector jobs flow.

> TURN TO PAGE 5

Advancecon forecast to offer dividend yield of 3.3% in FY20-22

< FROM PAGE 4

"Its sizeable machinery fleet and in-house maintenance team ensure that it remains competitive, with the fleet utilisation rate kept at an optimal 80% to 85%.

"Capital expenditure of about RM15mil to RM20mil is put aside yearly to expand its fleet, allowing the group to undertake bigger projects. This also reduces the need for sub-contractors, enabling it to sustain profit margins and work quality.

"These, coupled with an experienced management team, have positioned the company as a strong contender for both property development and infrastructure-related projects," stated Muhammad Danial.

He further added that Advancecon is forecast to offer a dividend yield of 3.3% in FY20-22, based on the group's historical payout which came above its policy to pay a minimum of 20% of net profit as dividend.

For context, Advancecon is listed as one of the 20 small-cap jewels for 2020 by RHB Research Institute.

While its work progress came to a halt previously due to the Movement Control Order, Phum says all of Advancecon's project sites have re-commenced.

Despite the impact of the Covid-19 outbreak earlier, Phum says the group is working towards ensuring its resilience by having adequate cash flow and optimising efficiencies group-wide.

Phum was also asked to comment on the group's financial position, considering that it is currently in a net debt position.

As of end-2019, Advancecon's cash and cash equivalents stood at RM9.38mil, while total borrowings were RM128.51mil.

"Our net gearing level was at 0.61 times as at Dec 31, 2019, which has already improved from 0.68 times as at end-2018.

"We will remain financially prudent; given that we have made the necessary substantial investments in machinery in recent years (in line with our growing project portfolio), and do not foresee the need to incur large-capital expenditure in the near future," he says.