

## Kencana Energi Lestari (KEEN)

### Harnessing energy from water

- Indonesia is committed to prioritizing clean energy transition to reduce the use of conventional fuels, with a target to **increase the share of renewables in its energy mix to 23.0% by 2025** from 12.6% in 2021. State-owned electricity company PLN's Electricity Supply Business Plan (RUPTL) 2021-2030 stated that the **national electricity demand will grow at 4.9% CAGR**, which will be supported by **the planned new installed capacity of 40.6 GWh with 51.6% from renewable energy power plants. Hydro/Mini hydro power plants account for 25.6% (the highest share)** of the renewable energy category, followed by solar and geothermal at 11.5% and 8.3%, respectively.
- KEEN is **Indonesia's leading renewable power producer**, which started construction of its first hydropower plant in 2010. Currently, it has **4 operating hydropower plants and 2 under-construction power plants with a total capacity of 65 MW**. Going forward, the company includes other renewable energy power plants e.g. wind, solar, biogas, and biomass in the **future project pipeline with a total capacity of 500 MW**.
- KEEN secured a **strategic investor in TEPCO Renewable Power** (a unit of the largest electric power company in Japan Tokyo Electric Power Company Holdings, Inc) to provide value and expertise in developing green energy power plants. TEPCO Renewable Power's **acquisition of 25% stakes in KEEN** on 15Feb2022 marked its **first investment in a renewable energy company outside Japan**, complementing its current portfolio of 163 hydroelectric power stations in Japan with total electricity output of c. 9.9 GWh.
- KEEN applies accounting standards **ISAK No. 16 and 22 for its Power Purchase Agreements (PPA) with state-owned PT Perusahaan Listrik Negara Persero (PLN)**. The signed PPA is valid for 20-30 years from the commercial operation date on a **Build, Own, Operate, and Transfer (BOOT) scheme** with a take or pay basis. Under this agreement, the constructed plants belong to PLN and will be transferred to gov't by the end of PPA. KEEN **classifies the plants as unbilled financial assets** from service concessions and **recognizes concession interest income revenue** from the present value of future receipts once it starts supplying electricity.
- On the cost structure side, **hydropower plant is the cheapest renewable energy source** in Indonesia with only IDR 439/ kWh (vs. avg IDR 3,097/ kWh) and relatively more reliable than other renewables with 24 operating hours/ day (unlike solar power plants with just under 8 operating hours/ day). This should **translate to attractive margins after accounting for small fraction of overhead costs** to operate hydropower plants.
- Capex of hydropower plant is at USD 2-3 mn/MW, while both solar and wind power plant are at USD 1-1.2 mn/MW. KEEN **plans to increase its power plants portfolio to 100 MW by 2025 and construct 2 huge hydropower plants** with a 90 MW and 75 MW capacity each (which are estimated to be operational by 2028). This potentially **translates to ~33% CAGR net core profit growth to ~USD25mn in FY25**.
- KEEN's **balance sheet is quite decent with ~47% net gearing**, providing enough room for its expansion plan as explained above (normally with a 70-30 debt to equity ratio). **Post expansion, recurring cash flow should be stable** with concession interest income and take or pay electricity sales with PLN.
- Undemanding valuation** as KEEN currently trades at 1.1x PB, much lower than its closest domestic peer in ARKO (at 8.8x PB) and avg. global peers at 2.2x PB.

## Company

### Notes

### Renewables

Sep 13, 2022

12M rating **N-R**

12M TP

Upside

#### Stock Data

JCI (Sep 12)	7,254
Stock price (Sep 12, IDR)	685
Market cap (IDR bn)	2,511
Shares outstanding (mn)	3,666
52-week high/low (IDR)	770/ 410
6M avg. daily turnover (IDR bn)	1.4
Free float (%)	11.8

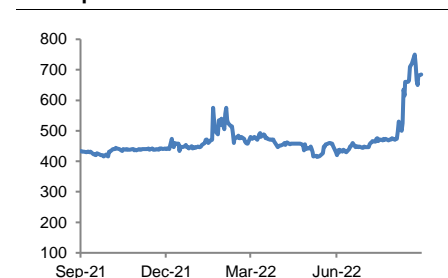
#### Major shareholders (%)

PT Paramata Indah Lestari	30.3
TEPCO Renewable Power	25.0

#### Performance

	1M	6M	12M
Absolute (%)	44.1	49.6	59.3
Relative to JCI (%)	41.4	42.7	30.8

#### KEEN price trend



Source: Bloomberg

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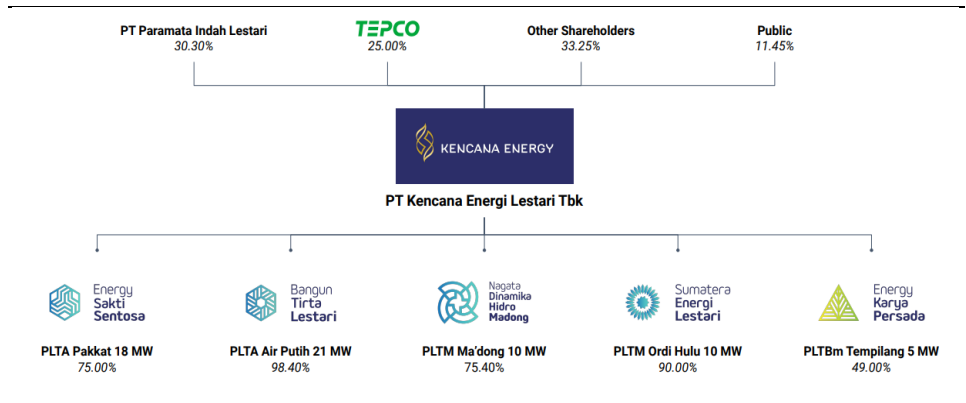
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**Table 1. KEEN Financials Summary**

	2018A	2019A	2020A	2021A	1H22A
Revenue (USD mn)	26.4	23.7	25.4	36.5	20.4
GP (USD mn)	16.7	10.4	14.2	21.1	16.2
OP (USD mn)	14.5	7.9	10.5	18.8	14.6
Net Profit (USD mn)	6.0	2.3	6.7	6.7	6.8
EBITDA (USD mn)	14.6	8.0	10.7	19.1	14.7
Net debt (USD mn)	63.2	57.7	66.0	84.9	79.8
OP margin (%)	55.0	33.3	41.5	51.6	71.5
ROE (%)	5.5	1.8	4.9	4.7	4.6
Dividend yield (%)	0.0	2.6	0.4	0.6	
EPS (IDR)	29.9	10.1	25.7	25.9	27.2
chg. (% YoY)	(4.4)	(65.0)	151.5	(0.7)	
BPS (IDR)	609	660	600	635	681
DPS (IDR)	0.0	17.5	2.8	3.9	
PE (x)	22.7	67.3	26.4	26.2	25.0
PB (x)	1.1	1.0	1.1	1.1	1.0
EV/EBITDA (x)	16.3	29.9	22.8	13.7	17.2

Source: Bloomberg, KISI

**Fig 1. KEEN Corporate Structure**



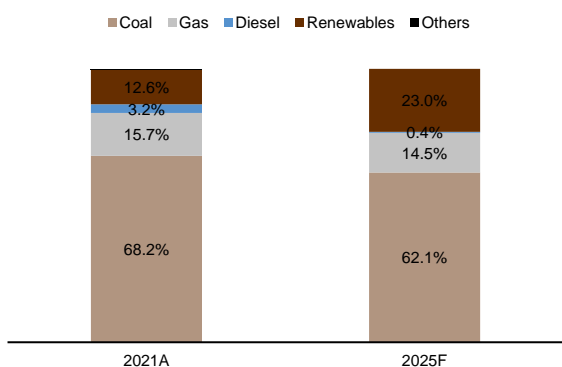
Source: Company

**Table 2. KEEN Power Plant Portfolio**

Current Portfolio 65 MW			Project Pipeline 500 MW			
Active	Hydro	Pakkat 18 MW	Hydro	Pakkat II 35 MW	Mini-Hydro	Aek Nabara 4 MW
		Air Putih 21 MW		Kalaena 75 MW		Salu Paku 6 MW
	Mini-Hydro	Ma'dong 10 MW		Salu Uro 90 MW		Salu Noling 10 MW
	Biomass	Tempilang 5 MW		Dambalo 22 MW		Nasal 10 MW
Under Construction	Mini-Hydro	Ordi Hulu 10 MW	Hybrid	5 MW	Wind	Jenepono I 62 MW
	Solar	Tempilang 1.3 MWp	Biomass	10 MW		Jenepono II 100 MW
			Biogas	10 MW		Solar PV

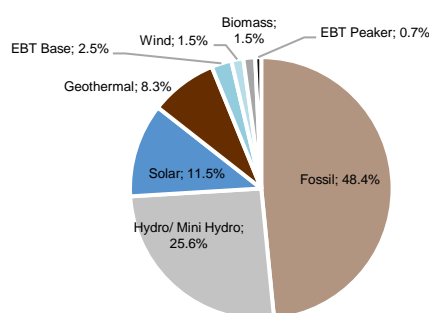
Source: Company, KISI

Fig 2. National Energy Mix



Source: PLN, KISI

Fig 3. PLN's Target for Power Plants' New Installed Capacity in 2021-2030



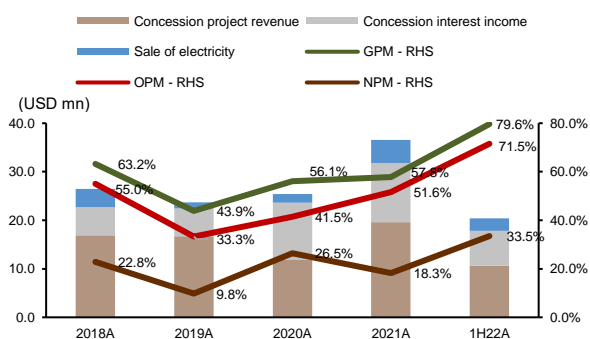
Source: PLN, Ministry of Energy and Mineral Resources, KISI

Table 3. Average Power Plant Operating Cost (IDR/ kWh)

Energy Source	Maintenance	Depreciation	Others	Employee	Finance Cost	Total
Hydro	29	28	184	6	25	439
Steam	427	35	102	2	12	637
Geothermal	850	29	116	-1	27	1,108
Gas & Steam	950	34	184	4	17	1,322
Gas	1,083	129	208	10	21	1,612
Diesel	3,288	617	423	27	215	4,746
Solar	0	594	7,090	37	1,039	11,818
<b>Average</b>	<b>947</b>	<b>210</b>	<b>1,187</b>	<b>12</b>	<b>194</b>	<b>3,097</b>

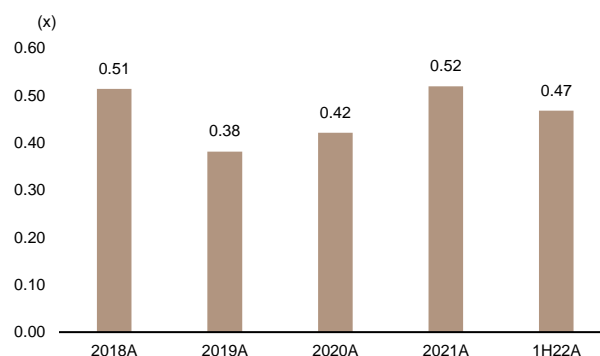
Source: PLN, KISI

Fig 4. KEEN's revenue & margins trend



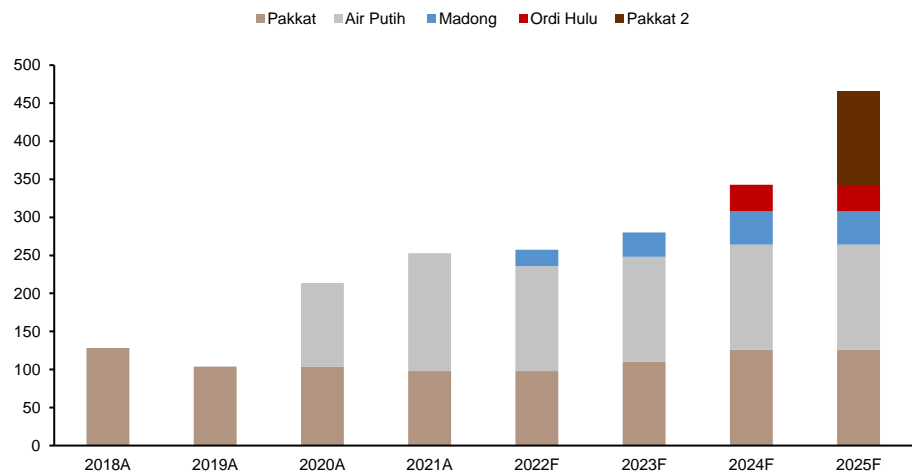
Source: Company, KISI

Fig 5. KEEN's net gearing trend



Source: Company, KISI

Fig 6. KEEN's Electricity Production (GWh)



Source: Company, KISI

Table 4. Peers Valuation

Company	Bloomberg code	Market Cap (USD mn)	P/E TTM (x)	PB TTM (x)	ROE TTM (%)
Kencana Energi Lestari	KEEN IJ Equity	169	17.9	1.1	6.5
Arkora Hydro	ARKO IJ Equity	116	28.1	8.8	33.7
HK Electric Investments	2638 HK Equity	6,901	18.4	1.1	6.1
Huaneng Lancang River Hydropower Inc	600025 CH Equity	19,906	19.8	2.7	14.0
NHPC Limited	NHPC IN Equity	4,671	10.5	1.1	10.2
JSW Energy	JSW IN Equity	7,230	33.2	3.3	10.8
Thac Mo Hydropower JSC	TMP VN Equity	173	8.9	2.9	36.0
Central Hydropower JSC	CHP VN Equity	165	7.7	2.1	26.9
Ratch Group	RATCH TB Equity	2,559	9.3	0.9	8.7
Sermang Power	SSP TB Equity	361	9.2	1.7	21.6
<b>Average</b>			<b>20.0</b>	<b>2.2</b>	<b>11.7</b>

Source: Bloomberg, KISI

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