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RLE makes solar foray amid intense ESG focus

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ENERGY

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THE heightened focus on environmental, social and governance (ESG) matters by major institutional funds has placed some pressure on companies that are involved in the traditional oil and gas (O&G) energy space.

One such company, Reservoir Link Energy Bhd (RL), has decided to move some of its resources and investments into the renewable energy (RE) space, more specifically solar energy.

Executive director Thien Chiet Chai tells *StarBizWeek* that the company's future would be a little different following its acquisition of a 51% stake in Founder Energy Sdn Bhd, which is a subcontractor for engineering, procurement, construction and commissioning (EPCC) work for solar photovoltaic projects in Malaysia.

"We would be more of a RE company, moving forward. The world is looking at ESG as a key indicator for companies now. For us as an O&G player, we want to have net-zero carbon emissions. This acquisition would contribute to this goal," he says.

"We would like to have zero carbon emissions but at the same time we will continue to enhance our O&G business. Eventually we would like to be an energy company regardless of whether it is fossil fuels or RE," he adds.

Following the foray into RE through Founder Energy, RL will eventually derive a higher proportion of its revenue from RE.

"Revenue wise, RE will be slightly higher but profit wise, it will be 50% from O&G and 50% from RE.

"We had achieved RM80mil plus in revenue last year and we anticipate growth this year. On top of this, there is the acquisition that will contribute by the third or fourth quarter of this year," he says.



Growth strategy: A large scale solar farm in Kota Tinggi, Johor. RL has the vision of owning a solar farm or any RE farm such as biogas or biomass that would give it recurring income.

The vendor for this deal is Eric Lee Seng Chi, who before the acquisition was the sole shareholder and chief executive officer of Founder Energy.

The acquisition will also see Lee entering into an executive service agreement with Founder Energy that will see him staying and working in the company for a minimum of five years.

"Founder Energy's order book is now about RM24.3mil and we are tendering about RM100mil in projects. And there is more to come since the project owners for the Large Scale Solar 4 (LSS4) are now awarding the EPCC contracts," Lee says.

He notes that the tender value includes projects for which it has already issued a quotation or has submitted a tender.

"We are quite confident about these projects that are being tendered and I have also provided a profit guarantee," Lee says.

The profit guarantee will see Founder Energy guaranteeing to deliver RM13.836mil in net profit in two years from the completion of the acquisition.

The acquisition will cost RL a total of RM21.17mil, which will be settled in cash of RM8.46mil and new RL shares worth RM12.705mil.

This will involve the issuance of 18.15 million new shares of RL at an issue price of 70 sen each. A total of 30% of this will be issued on the completion date of the acquisition while the remaining 70% will be issued upon Founder Energy achieving the profit guarantee.

The acquisition was approved by RL's shareholders in an EGM held earlier this week.

"As a subcontractor, the projects we get have a gross profit margin of about 10% to 20%. There is always a structure in which the solar photovoltaic (PV) panel would need to be mounted onto. One of our core business is to supply this solar mounting structure," Lee says.

"The second core business is construction, where we build and construct almost everything on-site, including the installation of the solar PV panels, structure, inverter and cable laying, including testing and commissioning. This is our competitive advantage since we are able to supply and provide installation services."

Its major clients include public listed companies such as Solarvest Holdings Bhd, Cypark Resources Bhd and Samaiden Group Bhd.

"Most of these are the main players in solar PV EPCC," Lee says.

Meanwhile, Thien says that RL group's order book will rise to RM150mil following the acquisition.

Thien adds that RL would like to continue pursuing growth via mergers and acquisitions.

"In terms of RE, Lee and myself share the same vision of owning a solar farm or any RE farm such as biogas or biomass. These types of investments would give us recurring income.

"This is what we are looking at very actively," Thien says.