

27 November 2017

# Pestech International

## A Slow Start to FY18

By Teh Kian Yeong | [tehky@kenanga.com.my](mailto:tehky@kenanga.com.my)

The slow start to 1Q18 was well expected on seasonality while earnings are expected to pick up in the coming quarters. With the completion of BOT this month, PESTECH will see its maiden recurring income in 2H18. We keep our **OUTPERFORM** call with an unchanged target price of RM2.00/SoP share, for its earnings growth story led by the exciting Indochina power infrastructure spending.

**1Q18 within expectation.** Although making up only 15% of our FY18 estimate, 1Q18 core profit of RM11.9m is deemed as within our expectations as first quarter is always a weak quarter. The two main current Alex Corp's projects - the 500kV upgrading job and Stung Tatay contract - are all at the beginning stages, thus generating lower job progress claims. Nevertheless, earnings should pick up in the coming quarters. No dividend was declared in 1Q18 as expected.

**A seasonally weak quarter.** Despite revenue surging 61% to RM184.9m, 1Q18 core profit plunged 73% sequentially from RM42.4m in 4Q17, which was largely due to; (i) higher-than-expected financial income from Diamond Power (DPL) amounting to RM21.5m in 4Q17, and (ii) the two main Alex Corp's contracts mentioned above still at the beginning stages.

The strong revenue growth in 1Q18 was largely due to the matching of revenue against the recognition of material purchase for the two Alex Corp's projects while typically at this stage of billings provide low margins. This also explains why top-line grew substantially but bottom-line did not grow as much.

**However, a better quarter than last year.** On a YoY comparison, 1Q18 jumped 48% to RM11.9m from RM8.1m in 1Q17, as revenue surged 80% owing to the reason mentioned above. The better earnings posted in 1Q18 was attributable to higher level of work recognition as opposed to last year. Back then, the Alex Corp's job slowed down in 1Q17 pending the upgrade of 500kV transmission line which has been done.

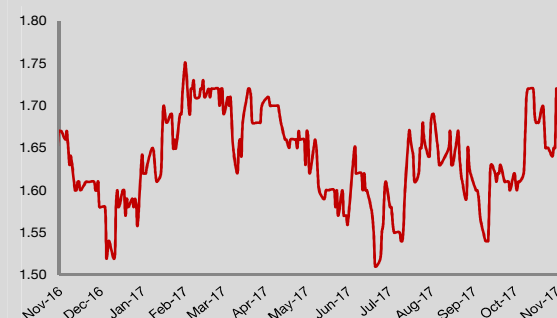
**The start of recurring income in 2H18.** Although 1Q18 results were slow given the seasonality effect, we expect a better 2Q18 before a strong 2H18, as work progress will be back in full swing in the dry season in Cambodia. On the other hand, the completion of DPL in early this month and earnings are expected to reflect from 3Q18 onwards. This will mark its recurring income-stream over the next 25 years. Meanwhile, its current order-book which stands at c.RM1.41b will keep PESTECH busy up to end-2019. In all, we keep our FY18-FY19 estimates unchanged for now.

**Reiterate OUTPERFORM.** We continue to like this niche utilities infrastructure play for its earnings growth story. In fact, its valuation is no longer excessive following the lacklustre share price performance in the past 1.5 years while earnings momentum remains strong. We believe more contract flows are set to kick in, which should act as share price catalysts. It remains an **OUTPERFORM** with price target of RM2.00/SoP share for its earnings growth story. Risks to our call include failure to replenish order book and cost over-runs.

# OUTPERFORM ↔

**Price:** RM1.68  
**Target Price:** RM2.00 ↔

### Share Price Performance



KLCI	1,717.23
YTD KLCI chg	4.6%
YTD stock price chg	9.1%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	1,284.0
Issued shares	764.3
52-week range (H)	1.77
52-week range (L)	1.51
3-mth avg daily vol:	508,958
Free Float	43%
Beta	0.4

### Major Shareholders

Lim Ah Hock	33.3%
Lim Pay Chuan	20.3%
Employees Provident Fund	3.3%

### Summary Earnings Table

FYE Jun (RM m)	2017A	2018E	2019E
Turnover	508.2	695.0	762.9
EBIT	137.2	136.8	149.8
PBT	136.0	107.1	118.8
<b>Net Profit (NP)</b>	90.9	82.3	90.6
<b>Core Net Profit</b>	83.0	82.3	90.6
Consensus (NP)		N.A.	N.A.
Earnings Revision (%)		-	-
Core EPS (sen)	44.5	10.8	11.9
Core EPS growth (%)	6.4	-0.9	10.1
NDPS (sen)	0.0	3.2	3.6
BV/Share (RM)	0.97	0.28	0.31
NTA/Share (RM)	0.97	0.28	0.31
Core PER	3.8	15.6	14.2
PBV (x)	1.74	6.10	5.37
Price/NTA (x)	6.10	6.10	5.37
Gearing (%)	1.18	1.03	0.77
Net Yield (%)	0.0	1.9	2.1

27 November 2017

Income Statement								
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
Y/E : Jun (RM m)	FY18	FY17	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	184.9	114.6	61%	102.8	80%	184.9	102.8	80%
EBITDA	30.0	68.9	-57%	18.5	62%	30.0	18.5	62%
Depreciation	(1.2)	(1.4)	-11%	(1.1)	14%	(1.2)	(1.1)	14%
EBIT	28.7	67.5	-57%	17.4	65%	28.7	17.4	65%
Interest expense	(7.2)	(4.2)	71%	(2.7)	169%	(7.2)	(2.7)	169%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Exceptional items	(1.1)	(0.9)	19%	5.1	-122%	(1.1)	5.1	-122%
Pretax profit	20.5	62.4	-67%	19.8	3%	20.5	19.8	3%
Taxation	(2.3)	(11.6)	-80%	(0.7)	208%	(2.3)	(0.7)	208%
Profit after tax	18.2	50.9	-64%	19.0	-4%	18.2	19.0	-4%
Minority interest	(7.1)	(9.2)	-23%	(7.1)	0%	(7.1)	(7.1)	0%
Net profit	11.1	41.7	-73%	11.9	-7%	11.1	11.9	-7%
Core net profit	11.9	42.4	-72%	8.1	48%	11.9	8.1	48%
EPS (sen)	1.5	5.5	-73%	1.6	-7%	1.5	5.5	-73%
NDPS (sen)	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.20	0.19	4%	0.16	22%	0.20	0.16	22%
EBITDA margin	16%	60%		18%		16%	18%	
EBIT margin	16%	59%		17%		16%	17%	
Pretax margin	11%	54%		19%		11%	19%	
Effective tax rate	11%	19%		4%		11%	4%	

Source: Company

Valuation				
	RM m	RM/Share	%	Valuation Basic
Project and Product Businesses	1,407.1	1.89	94%	CY18 16x PER, 3-year mean FCFF @ 7.2% discount rate
Cambodia BOT	83.7	0.11	6%	
	1,490.8	2.00	100%	
No of shares	746.4			
<b>SoP per share</b>	<b>RM2.00</b>			

Source: Kenanga Research

Power Utility Comparisons												
Company	Price (RM)	Market Cap (RM m)	PER(x)			Est. Div. Yld. (%)	His. ROE (%)	His. P/BV (x)	NP Growth (%)		Target Price (RM)	Rating
			CY16	CY17	CY18				CY17	CY18		
MALAKOF	0.99	4,925.0	13.9	16.4	16.3	4.3	5.7	0.8	-15.7	0.6	1.25	OP
PESTECH	1.68	1,284.0	17.2	15.5	14.9	1.9	26.5	3.1	10.9	4.6	2.00	OP
TENAGA	14.82	83,969.9	12.8	13.5	12.5	3.2	12.6	1.5	-5.4	8.6	17.17	OP
YTLPOWR	1.23	9,750.4	12.7	12.7	10.9	4.1	5.1	0.7	0.2	16.7	1.30	MP
	<b>Simple average</b>		<b>14.2</b>	<b>14.6</b>	<b>13.6</b>							
	<b>Weighted average</b>		<b>12.9</b>	<b>13.6</b>	<b>12.5</b>							

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)



Chan Ken Yew  
Head of Research

