

28 May 2018

Pestech International Bhd

3Q18 In line; Strong 4Q18 Ahead

By Teh Kian Yeong | tehky@kenanga.com.my

3Q18 results were weaker, but still within expectations, on anticipation of a stronger 4Q18 to end FY18 with a bang. The recent share price volatility was largely due to the government reviewing two mega projects, HSR and ECRL, which may impact PESTECH. However, this could be replaced by the potential upgrading of existing KTM rail lines. It remains an OUTPERFORM at RM2.15/SoP share for its exciting earnings growth story.

3M18 matched expectation. At 68% of our FY18 estimates, we consider 9M18 core profit of RM62.8m to be within expectations as we expect a stronger 4Q18 to end FY18 on a record year again. The core earnings were adjusted for RM3.2m unrealised forex loss and RM23.6m loss on hedging financial instrument on the strengthening of MYR against USD, from headline reported net profit of RM42.5m. We understand that the hedging financial instrument involved USD21m from 2019 to 2025. There was no dividend declared in 3Q18 as expected.

Weaker sequential results on initial stage works. 3Q18 core earnings fell 53% QoQ to RM15.0m from RM31.6m previously on the back of 6% decline in revenue. This was due to weaker earnings, especially from Cambodian projects as Diamond Power's (DLP) EPC was already completed and it is now receiving concession fees while the two main Alex Corp's projects were still at the beginning stages with minimal work claims. The core earnings were adjusted for loss of hedging financial instrument of RM8.1m and RM0.5m unrealised forex gain in 3Q18 from losses of RM9.8m and RM2.6m, previously.

MRT2 led earnings higher from last year. YoY, 3Q18 core earnings contracted 28% from RM20.8m, although revenue jumped 53%, owing to the abovementioned reasons. YTD, 9M18 core profit leapt 44% to RM62.8m from RM43.8m previously as revenue surged 84% over the year. This was largely due to the inclusion of MRT2 earnings, which started in 2Q18 as well as the KVDT project. Note that back then, the Alex Corp job slowed down in 1Q17 pending the upgrade of 500kV transmission line which was subsequently awarded in early February of last year or 3Q17 in PESTECH's financial period.

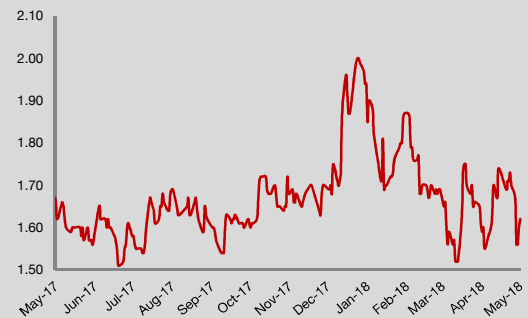
Local rail projects at risk? Share price of PESTECH has come under pressure following statement from the new Economic Affairs Minister that the government will review the mega projects like ECRL and KL-Singapore HSR. However, the PM also mentioned that the government will look into upgrading existing KTM rail lines with higher speed. As such, the change of government or policy may not be necessary negative for PESTECH as it may opt to bid for the upgrading works. Meanwhile, its current order-book of RM1.67b should keep it busy for at least next 2-3 years.

Maintain OUTPERFORM. We are keeping our FY18-FY19 estimates unchanged for now as it is expecting a strong 4Q18, premised on stronger Cambodian earnings before the start of the raining season in 2H of 2018, and to end FY18 as another record year. Prospects for local rail projects are likely to slow down given the change in government but its intention to upgrade existing KTM rail lines for higher speed should provide opportunity for PESTECH. We reiterate OUTPERFORM with an unchanged target price of RM2.15/SoP share. Risks to our call include failure to replenish order-book and cost overruns.

OUTPERFORM ↔

Price: RM1.62
Target Price: RM2.15 ↔

Share Price Performance



KLCI	1,797.40
YTD KLCI chg	0.0%
YTD stock price chg	-7.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	1,238.2
Shares Outstanding	764.3
52-week range (H)	2.07
52-week range (L)	1.47
3-mth avg daily vol:	532,172
Free Float	44%
Beta	0.8

Major Shareholders

Lim Ah Hock	33.1%
Lim Pay Chuan	20.1%
Employees Provident Fund	3.3%

Summary Earnings Table

FYE Jun (RM m)	2017A	2018E	2019E
Turnover	508.2	920.0	1,000.0
EBIT	147.6	178.5	195.7
PBT	136.0	147.6	163.2
Net Profit (NP)	90.9	92.1	104.5
Core Net Profit	89.1	92.1	104.5
Consensus (NP)		N.A.	N.A.
Earnings Revision (%)		-	-
Core EPS (sen)	11.7	12.0	13.7
Core EPS growth (%)	14.2	3.3	13.5
NDPS (sen)	0.0	3.6	4.1
BV/Share (RM)	0.24	0.28	0.32
NTA/Share (RM)	0.24	0.28	0.32
Core PER	13.9	13.4	11.8
PBV (x)	6.71	5.80	5.02
Price/NTA (x)	5.80	5.80	5.02
Gearing (%)	1.18	1.00	0.87
Net Yield (%)	0.0	2.2	2.5

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Income Statement								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
Y/E : Jun (RM m)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	260.9	278.0	-6%	170.8	53%	723.8	393.6	84%
EBITDA	28.4	44.5	-36%	33.4	-15%	101.8	84.7	20%
Depreciation	(1.2)	(1.2)	1%	(1.3)	-7%	(3.7)	(3.6)	0%
EBIT	27.2	43.3	-37%	32.1	-15%	98.1	81.0	21%
Interest expense	(9.5)	(6.5)	47%	(2.2)	324%	(23.2)	(7.5)	210%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	17.7	36.8	-52%	29.9	-41%	75.0	73.6	2%
Taxation	(2.2)	(8.3)	-73%	(1.8)	27%	(12.8)	(4.2)	207%
Profit after tax	15.4	28.5	-46%	28.1	-45%	62.1	69.4	-10%
Minority interest	(6.2)	(6.3)	-2%	(4.0)	57%	(19.6)	(20.1)	-2%
Net profit	9.2	22.2	-58%	24.1	-62%	42.5	49.2	-14%
Core net profit	15.0	31.6	-53%	20.8	-28%	62.8	43.8	44%
EPS (sen)	1.2	2.9	-58%	3.2	-62%	1.2	2.9	-58%
NDPS (sen)	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.20	0.20	0%	0.19	7%	0.20	0.19	7%
EBITDA margin	11%	16%		20%		14%	22%	
EBIT margin	10%	16%		19%		14%	21%	
Pretax margin	7%	13%		17%		10%	19%	
Effective tax rate	13%	23%		6%		17%	6%	

Source: Company

Valuation - New				
	RM m	RM/Share	%	Valuation Basic
Project and Product Businesses	1,537.2	2.01	93%	CY19 15x PER, 3-year mean FCFF @ 7.2% discount rate
Cambodia BOT	107.1	0.14	7%	
	1,644.3	2.15	100%	
No of shares	764.3			
SoP per share	RM2.15			

Source: Kenanga Research

Valuation - Old				
	RM m	RM/Share	%	Valuation Basic
Project and Product Businesses	1,549.0	2.02	94%	CY18 15.4x PER, 3-year mean FCFF @ 7.2% discount rate
Cambodia BOT	101.1	0.13	6%	
	1,650.1	2.15	100%	
No of shares	764.3			
SoP per share	RM2.15			

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
			CY17	CY18	CY19				CY18	CY19		
MALAKOF	0.88	4,375.0	14.1	17.7	17.5	5.6	3.9	0.7	-20.4	1.1	1.20	OP
PESTECH	1.62	1,238.2	14.1	12.6	11.0	2.2	26.3	3.0	12.3	14.0	2.15	OP
TENAGA	15.04	85,399.8	13.8	12.7	11.8	3.2	12.9	1.5	8.6	7.9	17.90	OP
YTLPOWR	0.81	6,383.1	9.7	9.5	8.4	6.2	4.9	0.5	1.4	13.3	1.25	MP
Simple average			12.9	13.1	12.2							
Weighted average			13.5	12.7	11.8							

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

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



Chan Ken Yew
Head of Research