

Pestech International

The Train Has Finally Arrived

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PESTECH has finally secured the long-awaited Gemas-JB Double Track electrification project worth RM399m while there are still portions of signalling and communication jobs up for grab. We are positive as this is a much-needed catalyst for PESTECH which share price has been lacklustre in the past two years despite a commendable earnings record. OUTPERFORM maintained at RM1.95 for its earnings growth story.

The long-awaited contract finally materialised. Yesterday, PESTECH finally announced that its wholly-owned subsidiary, Pestech Technology Sdn Bhd, has accepted a letter of award from Syarikat Pembinaan Yeoh Tiong Lay Sdn Bhd, under SIPP-YTL JV, for the turnkey EPC and maintenance of electrification system for the Gemas-JB electrified double-track at a fixed sub-contract price of RM399m. The project will take 26 months to complete by April 2021.

A much-needed price catalyst. Share price of PESTECH has been lacklustre for more than two years and it has finally secured this highly anticipated project, which was complicated earlier by the GE14. As this announcement is only for the electrification portion, we understand that there are still signalling and communication portions worth as high as RM500m still yet to be announced. With its partner Ansaldo, PESTECH should have higher chance for the project as there is no one else who can do the signalling portion in the region.

Contracts in hand keep them busy till 2021. This is the second contract PESTECH has secured in FY19, totalling RM457m and bringing total current order-book to slightly more than RM2b, which will keep them busy till 2021. In the immediate term, the double-track's signalling and communication jobs remain its top target while the potential projects East Coast Rail Link (ECRL) and KL-Singapore High-Speed Rail are the two main local electrification projects that PESTECH can participate in the bidding. Should ECRL being cancelled eventually, the government will upgrade existing KTM line in the east coast which should be another alternative for PESTECH to participate. Meanwhile, prospects for transmission line and substation remain promising in Indochina, especially Cambodia, to propel its earnings.

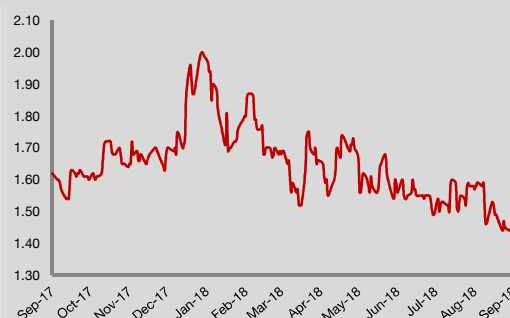
Still undemanding; OUTPERFORM reiterated. We keep our FY19-FY20 estimates unchanged for now despite this new contract win as it is still within our contract wins assumption. We continue to like this niche utility infrastructure play for its earnings growth story. In fact, its valuation is no longer excessive following the lacklustre share price performance in the past two years while earnings momentum remains strong. Hence, we maintain our OUTPERFORM rating with an unchanged price target of RM1.95/SoP share.

Risks to our call include: (i) failure to replenish order-book and (ii) cost overruns.

OUTPERFORM ↔

Price : RM1.45
Target Price : RM1.95 ↔

Share Price Performance



KLCI	1,794.47
YTD KLCI chg	-0.1%
YTD stock price chg	-17.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	1,108.2
Shares outstanding	764.3
52-week range (H)	2.07
52-week range (L)	1.42
3-mth avg daily vol:	376,043
Free Float	43%
Beta	0.8

Major Shareholders

Lim Ah Hock	33.1%
Lim Pay Chuan	20.2%
Employees Provident Fund	3.3%

Summary Earnings Table

FYE Jun (RM m)	2018A	2019E	2012E
Turnover	843.1	1,000.0	1,100.0
EBIT	119.8	181.0	195.0
PBT	92.6	146.0	162.7
Net Profit (NP)	60.6	90.8	104.2
Core Net Profit	62.2	90.8	104.2
Consensus (NP)		N/A	N/A
Earnings Revision (%)		-	-
Core EPS (sen)	8.1	11.9	13.6
Core EPS growth (%)	-30.2	46.0	14.7
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.27	0.32	0.38
NTA/Share (RM)	0.27	0.32	0.38
Core PER	19.0	12.2	10.6
PBV (x)	5.75	4.49	3.77
Price/NTA (x)	5.75	4.49	3.77
Gearing (%)	1.35	1.22	0.99
Net Yield (%)	0.0	0.0	0.0

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Contract Flow				
Date	Client	Contract Sum (RM m)	Contract Description	Duration
11 Jul 2012	OM Materials (Sarawak)	111.55	275kV Substation for the Ferro Alloy Project in Samalaju, Sarawak	16 months
20 Sep 2012	Asia Advanced Materials	27.84	Samalaju Industrial Park, Bintulu, Sarawak 132/33/6.6kV Substation	16 months
1 Oct 2012	TENAGA	16.49	132kV and 33kV switchgear, transformer and ancillary equipment and associated civil works for PMU 132/33kV Bukit Siput extension (2x90MVA), Johor	455 days
19 Oct 2012	TENAGA		132/33kV 2x45MVA at PMU New Bukit Ketri	546 days
7 Jan 2013	TENAGA	15.96	132KV and 33KV switchgear, 2 x 45MVA 132/33KV power transformer and ancillary equipment for PMU Jerantut	546 days
19 Mar 2013	RSG, gold mining company	9.21	225kV high voltage substation for the Syama Gold Mine located in the south of Mali, West Africa	13 months
30 Aug 2013	Sarawak Energy Bhd	95.62	275/33 kV substation ("MAPAI Substation") with provision for future 500kV switchyard with four future 500/275kV transformer bays expansion	23 months
19 Sep 2013	Electricite du Laos	90.40	115kV double circuits transmission line from Pakse, Lao People's Democratic Republic to the Lao-Thai border	18 months
28 Nov 2013	Metix Malaysia Sdn Bhd	51.29	132/33/11 kV integrated power distribution system including substations for Sakura Ferroalloys Sdn. Bhd	18 months
15 Jan 2014	Sarawak Energy Bhd	84.98	SEB's Mambong and Entinggan 275 kV substation extension project	23 months
10 Mar 2014	Alex Corp Co Ltd	279.71	230kv West Phnom Penh-Sihanoukville Transmission Line and 230/115/22kv substation extension project	32 months
19 Jun 2014	TENAGA	1.10	Utility SDH telecommunication equipment for TENAGA's operation requirement	240 days
10 Nov 2014	Sarawak Energy Bhd	0.89	Supply, installation, testing and commissioning of Information Management System as part of the expansion plan for control system in Sejingkat Power Plant Project in Sarawak	
19 Jan 2014	TENAGA	1.17	Supply and provision of engineering assistant to install and commission the new governor system upgrading at SJ Tenom Pangli, Sabah	14 weeks
24 Feb 2015	NUR Distribution Sdn Bhd	28.80	EPC & testing work package for the West 132kV substation project in Kulim, Kedah	15 months
2 Mar 2015	Sarawak Energy Bhd	48.36	Samajaya 132/33/11kV substation in Kuching, first indoor substation in Kuching	18 months
19 Apr 2015	Diamond Power Ltd	212.10	Design, build, testing and commissioning of the 230kV Kampong Cham-Kratie Transmission System Project.	30 months
25 Sep 2015	TENAGA	134.42	construction of the 500/275kV Yong Peng East (2x1050MVA) backbone main intake substation	36 months
31 Mar 2016	Dhaya Maju	318.00	Rail electrification and commissioning for rehabilitation work of KVDT	42 months
17 Aug 2016	NGCP	37.78	Upgrading of TIWI Geothermal Power Plant A & C Substations	420 days
23 Sep 2016	Severelectro JS	34.69	Upgrading of three substations under ESARIP	1 year
26 Sep 2016	Sarawak Energy Bhd	89.53	New Bintulu B 275/(132)kV substation	21 months
7 Oct 2016	PNG Power Ltd	52.12	Kilakila 66/11kV substation and 66kV double circuit transmission line	24 months
8 Feb 2017	Alex Corp Co Ltd	254.49	230kV Stung Hav to Chamkar Loung Transmission Line and 500kV Chamkar Loung to Bek Chan Transmission Line	34 months
6 Apr 2017	Alex Corp Co Ltd	440.94	EPC package for 230kV double circuit transmission line Stung Tatay Hydro Power Plant-Phnom Penh and two 23kV lines bays at Stung Tatay HPP switchyard.	36 months
15 Aug 2017	TENAGA	79.50	EPC for 2x1050 MVA Autotransformers, 500kV and 275kV switchgears and ancillary equipment for PMU 500/275kV Olak Lempit	18 months
4 Oct 2017	NGCP	50.18	EPCC for the Calamba 230kW Substation	18 months
19 Dec 2017	Schneitec Co., Ltd	106.08	EPC for 75km 115kV double circuit transmission line from Oddor Meanchey to Siem Reap; a 115/22kV Oddor Meanchey substation and a 230/22kV Bek Chan (Porsenchey) substation	24 months
23 Aug 2018	Sykt SESCO Bhd	57.95	Sibiyu 132/33kV Substation	28 months
25 Sep 2018	Sykt P YTL Sdn Bhd	399.00	Electrification port of Gemas-JB Double-track project	26 months

Source: Bursa

Valuation					
	RM m	RM/Share	%	Valuation Basic	
Project and Product Businesses	1,378.9	1.81	93%	CY19 15x PER, 3-year mean	
Cambodia BOT	107.1	0.14	7%	FCFF @ 7.2% discount rate	
	1,486.0	1.95	100%		
No of shares	764.3				
SoP per share	RM1.95				

Source: Kenanga Research

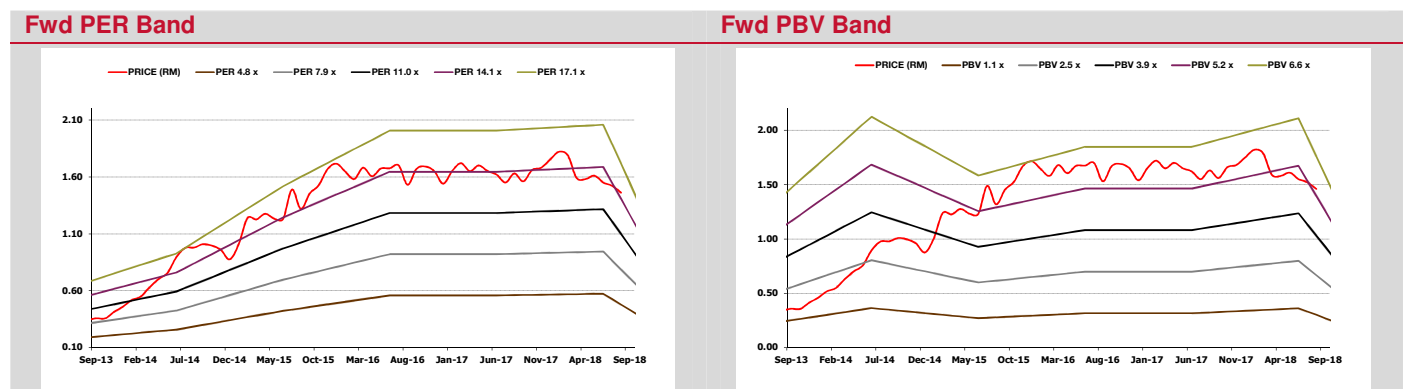
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Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2016	2017A	2018A	2019E	2020E	FY Jun (RM m)	2016	2017A	2018A	2019E	2020E
Revenue	508.7	508.2	843.1	1,000.0	1,100.0	Revenue	71.0	112.9	65.9	8.7	10.0
EBITDA	122.9	152.6	124.7	193.9	211.9	Growth (%)					
Depreciation	-4.4	-5.0	-4.9	-12.9	-16.9	Revenue	79.6	-19.1	-18.3	3.0	9.3
EBIT	118.5	147.6	119.8	181.0	195.0	EBITDA	82.5	0.0	-18.8	1.4	7.7
Interest Expense	-12.6	-11.6	-27.3	-35.0	-32.3	Operating Income	77.2	-25.5	-31.9	-1.1	11.4
Associate	0.0	0.0	0.0	0.0	0.0	Pre-tax Income	55.9	-41.9	-33.4	-1.4	14.7
Exceptional/FV	0.0	0.0	0.0	0.0	0.0	Net Income	71.9	14.2	-30.2	46.0	14.7
PBT	105.8	136.0	92.6	146.0	162.7	Core Net Income					
Taxation	-6.3	-15.7	-14.2	-29.2	-32.5	Profitability (%)					
Minority Interest	-26.7	-29.3	-17.8	-26.0	-26.0	EBITDA Margin	24.2	30.0	14.8	19.4	19.3
Net Profit	72.8	90.9	60.6	90.8	104.2	Operating Margin	23.3	29.0	14.2	18.1	17.7
Core Net Profit	78.1	89.1	62.2	90.8	104.2	PBT Margin	20.8	26.8	11.0	14.6	14.8
						Net Margin	14.3	17.9	7.2	9.1	9.5
						Core Net Margin	15.3	17.5	7.4	9.1	9.5
						Effective Tax Rate	5.9	11.6	15.3	20.0	20.0
						ROE	17.8	16.0	8.8	11.1	11.1
						ROA	28.1	24.6	14.4	17.8	18.6
						DuPont Analysis					
						Net margin (%)	15.3	17.5	7.4	9.1	9.5
						Assets Turnover (x)	0.7	0.4	0.5	0.5	0.6
						Leverage Factor (x)	2.3	2.9	3.8	3.3	2.9
						ROE (%)	24.7	21.9	13.6	16.5	15.9
						Leverage					
						Debt/Asset (x)	0.45	0.43	0.43	0.40	0.34
						Debt/Equity (x)	1.04	1.24	1.61	1.33	0.99
						Net Debt/(Cash)	-311.7	-483.4	-618.6	-668.8	-646.1
						Net Debt/Equity (x)	0.99	1.18	1.35	1.22	0.99
						Valuations					
						EPS (sen)	41.8	11.7	8.1	11.9	13.6
						NDPS (sen)	15.0	0.0	0.0	0.0	0.0
						BV (RM)	1.69	0.24	0.27	0.32	0.38
						NTA (RM)	1.69	0.24	0.27	0.32	0.38
						PER (x)	16.0	13.9	19.0	12.2	10.6
						Net yield (%)	2.2	0.0	0.0	0.0	0.0
						PBV (x)	3.96	6.71	5.75	4.49	3.77
						P/NTA (x)	3.96	5.80	5.75	4.49	3.77
						EV/EBITDA (x)	12.7	11.3	9.5	9.2	8.3

Balance Sheet					
FY Jun (RM m)	2016	2017A	2018A	2019E	2020E
Fixed Assets	35.5	45.3	70.2	90.5	117.6
Intangibles	75.5	80.6	86.6	86.0	86.0
Concession Asset	0.0	220.0	416.2	440.0	460.0
Investment	0.3	4.0	4.6	4.6	4.6
Inventories	83.2	69.2	39.5	60.1	65.0
Receivable	147.2	103.0	149.4	148.8	161.7
Due From Cust.	135.6	184.8	342.6	422.6	443.8
Due From Cos	0.0	8.0	40.8	65.0	85.0
Fixed Deposits	0.8	0.5	0.0	0.0	0.0
Cash & Bank Bal.	30.2	16.0	22.2	47.5	57.3
Total Assets	508.4	731.5	1,172.1	1,365.2	1,481.1
Payables	73.3	46.6	158.0	229.7	248.7
ST Borrowings	147.4	215.6	231.2	241.2	246.0
Other ST Liability	4.8	8.6	12.1	20.3	22.3
LT Borrowings	35.7	112.1	274.4	279.8	285.4
Other LT Liability					
Liability	8.5	6.5	32.2	56.9	61.8
Minority Interest	-1.8	26.1	56.4	64.8	71.3
Net Assets	240.4	316.1	408.0	472.5	545.6
Share Capital	92.9	93.3	211.3	211.3	211.3
Reserves	147.5	222.8	196.7	261.2	334.4
Equity	240.4	316.1	408.0	472.5	545.6

Cashflow Statement					
FY Jun (RM m)	2016	2017A	2018A	2019E	2020E
Operating CF	-84.7	-106.8	-134.8	67.5	70.8
Investing CF	-85.0	-13.8	-29.4	-30.0	-40.0
Financing CF	185.5	112.0	176.0	-12.1	-20.9
Net Chg in Cash	15.8	-8.6	11.7	25.3	9.8
Free Cash Flow	-169.7	-120.6	-164.2	37.5	30.8
Capex	-10.3	-14.1	-25.6	-30.0	-40.0

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
MALAKOFF CORP BHD	0.880	4,323.7	Y	12/2018	-2.4%	-5.3%	-34.7%	-0.1%	14.2	21.7	21.8	0.7	0.7	3.3%	4.5%	1.20	OP
PESTECH INTERNATIONAL BHD	1.45	1,108.2	Y	06/2019	18.6%	10.0%	46.0%	14.8%	17.8	12.2	10.6	2.4	2.0	18.0%	0.0%	1.95	OP
TENAGA NASIONAL BHD	15.48	87,898.2	Y	12/2018	3.7%	5.8%	10.9%	7.9%	14.4	13.0	12.0	1.5	1.4	11.4%	3.1%	17.90	OP
YTL POWER INTERNATIONAL BHD	1.03	7,905.6	N	06/2019	1.2%	2.7%	5.1%	4.1%	11.8	11.3	10.8	0.5	0.5	4.8%	4.9%	1.10	MP
Simple Average					5.3%	3.3%	6.8%	6.7%	14.6	14.5	13.8	1.3	1.2	9.4%	3.1%		

Source: Bloomberg, 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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