

26 September 2016

Malaysia | Small &amp; Mid Caps

## Pestech International

### Footprint Into Central Asia

**Pestech's success in winning its first project in Kyrgyzstan is an important milestone to expand its presence into Central Asia. It also helps to establish a track record with the World Bank as the project is funded by this organisation. While make no changes to our earnings estimates, we reiterate our BUY rating with a MYR2.12 TP (32% upside) by ascribing a target 20x FY17F P/E and adding the DCF valuation of DPL's concession.**

**MYR34.7m substation project.** Pestech International's (Pestech) wholly owned subsidiary, Pestech SB together with Shandong Power Equipment Co Ltd (SPECO), have established a consortium called "PESTECH & SPECO Joint Venture". This comes after having received notification of an award from Severelectro JSC for the design, supply and installation of three substations under the latter's electricity supply accountability and reliability improvement project (ESARIP). The contract value is USD8.46m (approximately MYR34.7m).

**Important milestone.** This is the first project secured from Severelectro JSC, the largest state-owned power distribution company based in Bishkek, the capital of Kyrgyzstan. Severelectro JSC serves more than 40% of all residential customers in the country, delivering more than 50% of the total electricity requirements. We believe this may potentially help Pestech to widen its footprint into Central Asia along the Silk Road, which is the ancient trade route between China and the Mediterranean. Given that this project is funded by the World Bank, it will also help the company to establish a track record with this prominent organisation, which provide various funding to support infrastructure development for less developed nations.

**Forecast and risks.** While we are positive on the latest win, we make no changes to our earnings estimates, as this first project secured for FY17 still very much within our contract replenishment assumption of MYR550m for the new financial year. Key risks include new contract wins falling short of our assumptions and an escalation in input costs, which would trim margins. Separately, there is limited credit risk from this project, as it is funded by the World Bank.

**Reiterate BUY.** We welcome the latest project win. Separately, we continue to like Pestech's unique business proposition, as it rides on the fast growing regional demand for electricity and rail related infrastructure. With that, we reiterate our BUY call with a MYR2.12 TP, derived from ascribing a 20x FY17F P/E and add the DCF valuation of Diamond Power's (DPL) concession. We deem the premium P/E, vis-à-vis typical utilities firms is justifiable given the company's robust growth prospects as compared to only the organic growth of most giant utilities.

**Buy** (Maintained)

Target Price:	MYR2.12
Price:	MYR1.60
Market Cap:	USD290m
Bloomberg Ticker:	PEST MK

#### Share Data

Avg Daily Turnover (MYR/USD)	1.68m/0.42m
52-wk Price low/high (MYR)	1.42 - 1.76
Free Float (%)	40
Shares outstanding (m)	746
Estimated Return	32%

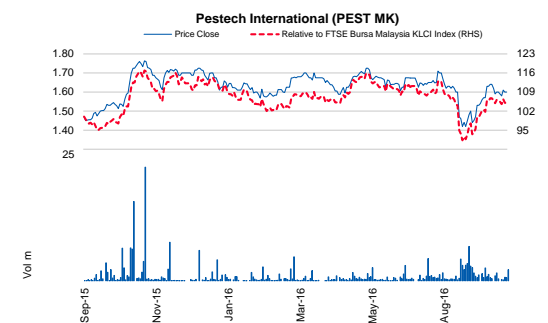
#### Shareholders (%)

Lim Ah Hock	34.2
Lim Pay Chuan	20.5

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.7)	8.1	(2.4)	(4.4)	10.9
Relative	(5.4)	8.8	(4.3)	(1.3)	7.3

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Jun-15	Jun-16	Jun-17F	Jun-18F	Jun-19F
Total turnover (MYRm)	401	509	622	652	728
Reported net profit (MYRm)	56.5	72.8	74.6	75.4	84.1
Recurring net profit (MYRm)	45.4	66.8	74.6	75.4	84.1
Recurring net profit growth (%)	116.3	47.1	11.8	1.0	11.6
Recurring EPS (MYR)	0.08	0.09	0.10	0.10	0.11
DPS (MYR)	0.01	na	0.01	0.01	0.01
Recurring P/E (x)	19.6	17.9	16.0	15.8	14.2
P/B (x)	5.06	3.86	3.17	2.69	2.30
P/CF (x)	na	na	na	na	11.5
Dividend Yield (%)	0.5	na	0.6	0.6	0.7
EV/EBITDA (x)	13.7	13.0	14.5	14.8	12.7
Return on average equity (%)	34.5	26.7	21.8	18.4	17.4
Net debt to equity (%)	43.1	85.8	137.0	128.7	100.7
Our vs consensus EPS (adjusted) (%)			11.1	(1.0)	0.0

Source: Company data, RHB

#### Analyst

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Figure 1: Map of Central Asia



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2016-09-01	Buy	2.12	1.54
2016-05-27	Buy	1.96	1.73
2016-04-01	Buy	1.87	1.69
2016-02-26	Buy	1.73	1.62
2015-11-27	Take Profit	1.47	1.68
2015-08-31	Buy	1.71	1.32
2015-07-31	Buy	1.71	1.49
2015-05-20	Buy	1.55	1.28
2015-04-09	Neutral	1.26	1.39
2015-03-02	Neutral	1.13	1.23

Source: RHB, Bloomberg

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**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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