

Pestech International

First Project In Kyrgyzstan

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We see two positive points from its new Kyrgyzstan contract in which PESTECH is partnering with SPECO despite the small value of USD8.5m. Kyrgyzstan is a totally new market to PESTECH and being a World Bank's funded project means payment is secured. Furthermore, it is a good reference for future tender bids. This also marks the second new market for PESTECH this year after it managed to secure its first contract in the Philippines last month. Earnings-wise, impact is immaterial with <2% to FY17E-FY18E earnings. **OUTPERFORM** and price target of **RM2.00/SoP** share maintained.

A new inroad to Kyrgyzstan. Last Friday, PESTECH announced that its wholly-owned subsidiary Pestech Sdn Bhd together with Shandong Power Equipment Co Ltd (SPECO), via a consortium called PESTECH & SPECO JV, had received the Notification of Award from Severelectro JSC for the upgrading of three substations for Severelectro in Kyrgyzstan under the Electricity Supply Accountability and Reliability Improvement Project (ESARIP) for USD8.46m. Contract agreement is expected to be signed in Oct.

Funded by World Bank. Severelectro is the largest Kyrgyzstan's state-owned power distribution company, which serves >40% of all residential customers in the country with delivering >50% of the total electricity consumption there. The project is funded by World Bank with aim to improve the reliability of the electricity supply in the capital city - Bishkek - as well as the Chui and Talas regions. We understand that PESTECH will recognise the whole project value as it takes charge of design and engineering work while SPECO is the supplier of equipment. The project period is about one year.

Immaterial earnings impact for now. We are positive on this new venture given that PESTECH is making inroad into a new market as well as it being funded by World Bank, which means payment is secured. In addition, a World Bank's project could be a good reference for future tenders. That aside, impacts to FY17E-FY18E earnings are < 2% each assuming it is able to maintain 10%-12% net margins. In the future, we believe PESTECH will still look for projects in Kyrgyzstan that come with secured payment like this World Bank's funded project to minimise default risk.

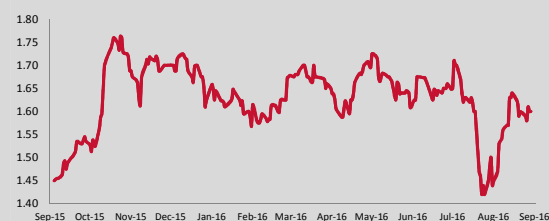
Maintain OUTPERFORM. This project will help to boost order book by another c.RM35m from RM840m, which was recorded in end-June. Although the contract value is small, it is a good reference project for future tendering. We maintain our estimates for now. We continue to like the company for its explosive earnings growth story. **OUTPERFORM** reiterated with unchanged price target of **RM2.00/SoP** share.

Risks to our call include failure to replenish order book and cost overruns.

OUTPERFORM ↔

Price: RM1.60
Target Price: RM2.00 ↔

Share Price Performance



KLCI	1670.99
YTD KLCI chg	-1.3%
YTD stock price chg	-6.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	1,194.2
Issued shares	746.4
52-week range (H)	1.77
52-week range (L)	1.41
3-mth avg daily vol:	1,170,011
Free Float	43%
Beta	0.9

Major Shareholders

AH HOCK LIM	33.3%
PAY CHUAN LIM	20.3%
NORGES BANK	3.8%

Summary Earnings Table

FYE Jun (RM m)	2016A	2017E	2018E
Turnover	508.7	600.0	695.0
EBIT	111.7	137.4	146.6
PBT	105.8	115.1	116.9
Net Profit (NP)	72.8	76.4	89.7
Core Net Profit	66.1	76.4	89.7
Consensus (NP)		75.7	82.4
Earnings Revision (%)		-	-
Core EPS (sen)	35.4	10.2	12.0
Core EPS growth (%)	102.9	15.6	17.4
NDPS (sen)	3.0	3.1	3.6
BV/Share (RM)	1.66	0.48	0.56
NTA/Share (RM)	1.66	0.48	0.56
Core PER	18.9	15.6	13.3
PBV (x)	4.04	3.33	2.83
Price/NTA (x)	4.04	3.33	2.83
Gearing (%)	0.92	0.85	0.41
Net Yield (%)	0.4	1.9	2.3



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Contract Flow				
Date	Client	Contract Sum (RM m)	Contract Description	Duration
11 Jul 2012	OM Materials (Sarawak)	111.55	275 KV 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 Pangi, Sabah	14 weeks
24 Feb 2015	NUR Distribution Sdn Bhd	28.80	EPCC & 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

Source: Bursa



Valuation				
	RM m	RM/Share	%	Valuation Basic
Project and Product Businesses	1,415.7	1.90	95%	CY17 16x PER, 3-year mean FCFF @ 7.2% discount rate
Cambodia BOT	78.0	0.10	5%	
	1,493.7	2.00	100%	
SoP per share	RM2.00			

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
			CY15	CY16	CY17				CY16	CY17		
MALAKOF	1.68	8,400.0	18.5	17.9	16.1	3.9	7.6	1.4	3.8	10.8	1.79	MP
PESTECH	1.60	1,194.2	21.7	16.8	14.4	1.9	25.4	5.5	29.3	16.6	2.00	OP
TENAGA	14.40	81,268.0	13.0	11.9	11.8	2.5	12.9	1.7	9.2	0.5	17.50	OP
YTLPOWR	1.61	12,432.6	14.1	14.9	14.6	6.2	7.7	1.1	-4.9	1.8	1.54	MP
	Simple average		16.8	15.4	14.2							
	Weighted average		13.7	12.8	12.6							

Source: Kenanga Research

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Income Statement

FY Jun (RM m)	2013	2015	2016	2017E	2018E
Revenue	181.8	394.8	508.7	600.0	695.0
EBITDA	34.4	70.9	116.1	143.5	153.7
Depreciation	-2.4	-5.0	-4.4	-6.1	-7.1
EBIT	32.1	65.9	111.7	137.4	146.6
Interest Expense	-3.3	-6.5	-12.6	-22.3	-29.7
Associate	-0.2	-0.8	0.0	0.0	0.0
Exceptional/FV	0.0	14.5	6.8	0.0	0.0
PBT	28.6	73.1	105.8	115.1	116.9
Taxation	-7.9	-18.4	-6.3	-16.1	-29.3
Minority Interest	0.0	0.1	-26.7	-22.6	2.1
Net Profit	20.7	54.8	72.8	76.4	89.7
Core Net Profit	20.7	40.3	66.1	76.4	89.7

Balance Sheet

FY Jun (RM m)	2013	2015	2016	2017E	2018E
Fixed Assets	24.5	35.5	48.8	54.7	59.6
Intangibles	0.0	75.5	82.0	82.0	82.0
Investment	1.0	0.3	0.3	0.3	0.3
Inventories	62.7	83.2	69.4	81.3	96.4
Receivable	83.2	147.2	98.9	113.0	130.9
Due From Customers	22.7	135.6	478.8	688.2	716.9
Due From Companies	0.0	0.0	0.0	0.0	0.0
Fixed Deposits	0.1	0.8	7.7	7.7	7.7
Cash & Bank Balances	17.9	30.2	17.7	47.8	83.8
Total Assets	212.1	508.4	803.6	1,075.0	1,177.7

Payables	48.5	73.3	159.4	172.8	203.3
ST Borrowings	56.2	147.4	189.2	320.0	222.4
Other ST Liability	4.7	4.8	2.4	2.3	0.9
LT Borrowings	4.6	35.7	112.1	187.6	291.5
Other LT Liability	5.8	8.5	7.0	5.6	5.6
Minority Interest	0.0	-1.8	24.0	28.3	32.8
Net Assets	92.3	240.4	309.4	358.5	421.3
Share Capital	46.2	92.9	93.3	93.3	93.3
Reserves	46.1	147.5	216.1	265.3	328.0
Equity	92.3	240.4	309.4	358.5	421.3

Cashflow Statement

FY Jun (RM m)	2013	2015	2016	2017E	2018E
Operating CF	-34.3	-84.7	-99.9	-12.2	197.7
Investing CF	-9.7	-85.0	-19.1	-141.1	-141.1
Financing CF	47.1	185.5	112.0	183.3	-20.6
Net Change in Cash	3.1	15.8	-6.9	30.1	36.0
Free Cash Flow	-44.1	-169.7	-118.9	-153.3	56.6
Capex	-10.3	-10.3	-19.3	-141.1	-141.1

Financial Data & Ratios

FY Jun (RM m)	2013	2015	2016	2017E	2018E
Growth (%)					
Revenue	33.6	35.7	71.0	18.0	15.8
EBITDA	33.1	40.0	114.0	23.6	7.1
Operating Income	32.5	40.6	120.1	23.0	6.7
Pre-tax Income	24.1	88.7	77.2	8.8	1.5
Net Income	25.4	102.4	55.9	4.9	17.4
Core Net Income	25.4	43.5	102.9	15.6	17.4

Profitability (%)

EBITDA Margin	18.9	17.9	22.8	23.9	22.1
Operating Margin	17.6	16.7	22.0	22.9	21.1
PBT Margin	15.7	18.5	20.8	19.2	16.8
Net Margin	11.4	13.9	14.3	12.7	12.9
Core Net Margin	11.4	10.2	13.0	12.7	12.9
Effective Tax Rate	27.5	25.2	5.9	14.0	25.1
ROE	14.1	13.4	12.0	10.5	10.6
ROA	26.3	25.2	24.0	22.9	23.0

DuPont Analysis

Net margin (%)	11.4	10.2	13.0	12.7	12.9
Assets Turnover (x)	0.9	0.8	0.6	0.6	0.6
Leverage Factor (x)	2.3	2.1	2.6	3.0	2.8
ROE (%)	22.5	16.8	21.4	21.3	21.3

Leverage

Debt/Asset (x)	0.29	0.36	0.37	0.47	0.44
Debt/Equity (x)	0.66	0.76	0.97	1.42	1.22
Net Debt/(Cash)	-43.0	-152.9	-283.7	-304.8	-171.8
Net Debt/Equity (x)	0.47	0.64	0.92	0.85	0.41

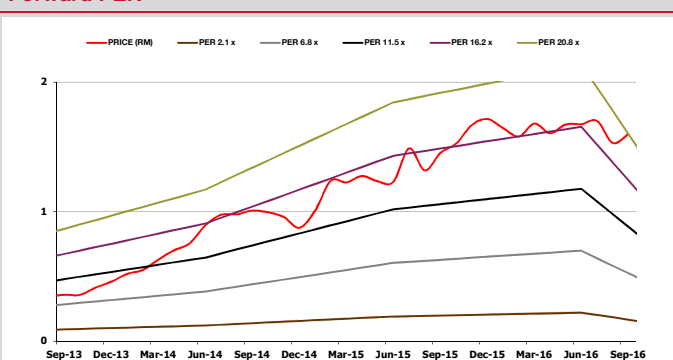
Valuations

EPS (sen)	22.4	22.5	35.4	10.2	12.0
NDPS (sen)	7.0	9.0	3.0	3.1	3.6
BV (RM)	1.00	1.29	1.66	0.48	0.56
NTA (RM)	1.00	1.29	1.66	0.48	0.56
PER (x)	13.6	23.5	18.9	15.6	13.3
Net Dividend Yield (%)	2.3	1.7	0.4	1.9	2.3
PBV (x)	3.06	4.07	4.04	3.33	2.83
P/NTA (x)	3.06	4.07	4.04	3.33	2.83
EV/EBITDA (x)	9.4	16.0	10.8	10.4	8.9

Note: 2013A was FYE Dec; 2015 was 18M period from Jan-14 to Jun-15; 2016-2018E are FYE Jun

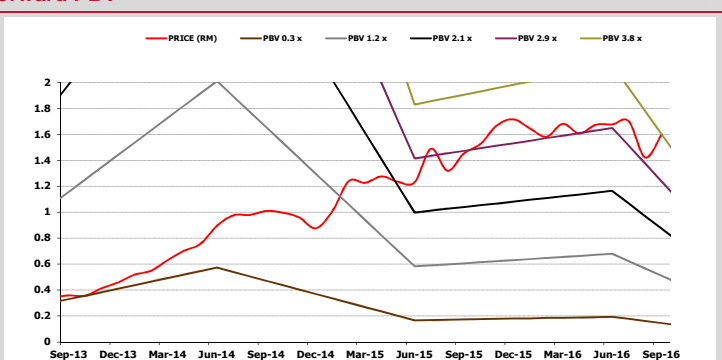
Source: Kenanga Research

Forward PER



Source: Bloomberg, Kenanga Research

Forward PBV



26 September 2016

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

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

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

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