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Pestech International

A Solid 2Q18

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2Q18 results came in strong, beating expectations with revenue at a record high of RM278.0m, thanks largely to the two rail projects, namely KVDT and MRT2. With the inclusion of MRT2 following the acquisition of Colas Rail last October, order-book is at a new high of RM1.88b. Hence, we upgrade FY18/FY19 estimates by 12%/15% and target price to RM2.15/share. It remains an **OUTPERFORM** for its exciting earnings growth story.

2Q18 above expectation. Although making up 44% of our FY18 estimates, we consider 1H18 core profit of RM36.1m as above our expectation given that 2H is always a stronger period while the latest 2Q18 results reflected contribution from the MRT2 following the acquisition of Colas Rail's business in Malaysia in end-October last year. The stronger-than-expected 2Q18 core profit of RM24.2m was largely due to the contributions from MRT2. There was no dividend declared in 2Q18 as expected.

Strong earnings led by rail projects. 2Q18 core earnings doubled to RM24.2m, from RM11.9m in 1Q18, on the back of 50% hike in revenue. In fact, 2Q18 revenue of RM278.0m was a record high. The strong earnings were largely attributable to rail projects, namely KVDT and MRT2. Meanwhile, contributions from Cambodia were less given the raining season there. In addition, the Diamond Power's (DPL) EPC contract was at its tail-end, which was completed in end-October while the two main Alex Corp's contracts were still at the beginning stages.

Same reason for YoY comparison. Likewise, both 2Q18 and 1H18 core earnings leapt 60% and 56% from RM15.1m and RM23.2m, respectively, on the back of 132% and 108% jump in revenues. This was primarily driven by the two rail projects mentioned above. To 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 last year or 3Q17 in PESTECH's financial period.

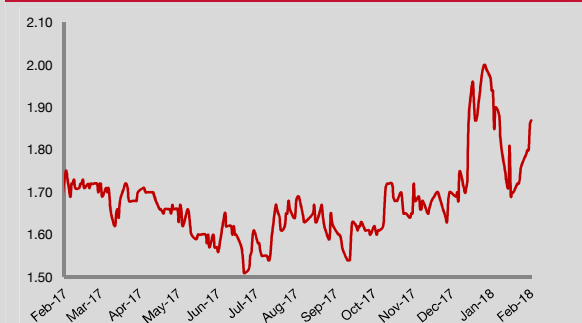
Expecting seasonally strong 2H18. As it is entering the busy period in Cambodia as work progress is expected to be ramped up in the dry season, coupled with the inclusion of MRT2, PESTECH is set to witness a seasonally strong 2H18. Its current order-book of RM1.88b after the inclusion of MRT2 will keep it busy for the next 2-3 years. With MRT2, we raised our FY18/FY19 estimates by 12%/15% as revenue assumptions are upgraded to RM720m/RM800m from RM650m/RM700m previously. This is on the back of RM1.0b/RM1.1b order-book replenishment assumptions.

Exciting time ahead; reiterate OUTPERFORM. Post-earnings revision, we upgrade our target price to RM2.15/SoP share from RM2.00/SoP share for the same CY18 valuation basis. 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 two 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**. Risks to our call include failure to replenish order-book and cost over-runs.

OUTPERFORM ↔

Price: RM1.87
Target Price: RM2.15 ↑

Share Price Performance



KLCI	1,861.50
YTD KLCI chg	3.6%
YTD stock price chg	6.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	1,429.2
Issued shares	764.3
52-week range (H)	2.07
52-week range (L)	1.51
3-mth avg daily vol:	1,422,943
Free Float	44%
Beta	0.5

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	767.2	866.6
EBIT	137.2	150.9	169.7
PBT	136.0	120.0	137.1
Net Profit (NP)	90.9	92.1	104.5
Core Net Profit	83.0	92.1	104.5
Consensus (NP)		N.A.	N.A.
Earnings Revision (%)		12.0	15.4
Core EPS (sen)	10.9	12.0	13.7
Core EPS growth (%)	6.4	10.9	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	14.9	15.5	13.7
PBV (x)	6.71	6.69	5.79
Price/NTA (x)	5.80	6.69	5.79
Gearing (%)	1.18	1.07	0.93
Net Yield (%)	0.0	1.9	2.2

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Income Statement								
Y/E : Jun (RM m)	2Q FY18	1Q FY18	Q-o-Q Chg	2Q FY17	Y-o-Y Chg	1H FY18	1H FY17	Y-o-Y Chg
Turnover	278.0	184.9	50%	119.9	132%	462.8	222.8	108%
EBITDA	47.2	30.0	57%	30.3	56%	77.1	48.7	58%
Depreciation	(1.2)	(1.2)	-1%	(1.3)	-3%	(2.4)	(2.3)	5%
EBIT	45.9	28.7	60%	29.0	58%	74.7	46.4	61%
Interest expense	(6.5)	(7.2)	-9%	(2.6)	153%	(13.6)	(5.2)	161%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Exceptional items	(2.6)	(1.1)	139%	(2.5)	3%	(3.7)	2.5	-248%
Pretax profit	36.8	20.5	80%	23.9	54%	57.3	43.7	31%
Taxation	(8.3)	(2.3)	266%	(1.7)	394%	(10.6)	(2.4)	338%
Profit after tax	28.5	18.2	57%	22.2	28%	46.7	41.3	13%
Minority interest	(6.3)	(7.1)	-11%	(9.1)	-30%	(13.4)	(16.2)	-17%
Net profit	22.2	11.1	100%	13.2	68%	33.3	25.1	33%
Core net profit	24.2	11.9	102%	15.1	60%	36.1	23.2	56%
EPS (sen)	2.9	1.5	100%	1.7	68%	2.9	1.5	100%
NDPS (sen)	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.20	0.20	1%	0.17	14%	0.20	0.17	14%
EBITDA margin	17%	16%		25%		17%	22%	
EBIT margin	17%	16%		24%		16%	21%	
Pretax margin	13%	11%		20%		12%	20%	
Effective tax rate	23%	11%		7%		18%	6%	

Source: Company

Valuation - New				
	RM m	RM/Share	%	Valuation Basic
Project and Product Businesses	1,549.0	2.03	94%	CY18 15.4x PER, 3-year mean FCFF @ 7.2% discount rate
Cambodia BOT	101.1	0.13	6%	
	1,650.1	2.16	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	1,407.1	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			
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
			CY16	CY17	CY18				CY17	CY18		
MALAKOF	0.94	4,675.0	13.2	15.1	16.0	4.4	4.9	0.7	-12.8	-5.6	1.25	OP
PESTECH	1.87	1,429.2	19.2	16.3	14.5	1.9	25.5	3.5	17.5	12.3	2.15	OP
TENAGA	15.64	88,616.0	13.5	14.3	13.2	3.0	12.9	1.6	-5.4	8.6	17.17	OP
YTLPOWR	1.20	9,328.6	12.2	14.1	13.9	4.2	5.1	0.7	-13.6	1.4	1.25	MP
Simple average			14.5	15.0	14.4							
Weighted average			13.5	14.3	13.4							

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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