

26 November 2018

Pestech International Bhd

A Slow Start to FY19

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Although 1Q19 results were seasonally weak, we believe earnings momentum should pick up in the upcoming quarters, especially in 2H19. This is based on its healthy profit margin and strong contract flow replenishment supporting forward earnings. **OUTPERFORM** maintained with an unchanged target price of RM1.95 to capitalise on its earnings growth story.

A soft start in 1Q19. Although 1Q19 core profit of RM6.2m only made up 7% of our FY19 full-year estimates, we consider the results to be within expectations given that (i) both MRT2 and KVDT are still in the early stages with project completions of 20% and 28% respectively and (ii) lower job claims from the Cambodian projects given the raining season there. As such, we should see stronger earnings in the upcoming quarters, especially in 2H19. No dividend was declared as expected.

Better sequential results after first quarterly losses previously. 1Q19 returned to the black with core profit of RM6.2m as opposed to core loss of RM0.6m reported in the preceding quarter. The loss reported in 4Q18 was mainly due to lower revenue recognition on lower job claims coupled with adjustment of overstated recognition of DPL in 3Q18 after it started receiving concession fees in January. Nonetheless, in fact, 1Q19 results were weak due to abovementioned lower job claims, which resulted in lower revenue recognition and thus softer bottom-line. However, PAT margin of 9.5% was healthy, which is still between the benchmark ranges of 9%-11%.

Weak YoY results on lower job claims. While revenue plummeted 33% YoY, 1Q19 core profit plunged 62% to RM6.2m from RM16.3m in 1Q18. This was due largely to a much lower progress claim in the already seasonal weak 1Q. Besides the early stages for the local MRT2 and KVDT projects, the Cambodian projects (such as two main Alex Corp's projects as well as the Oddor Meanchey project) were at 40%-67% completion stages and not in full swing progress partly due to raining season there. As such, the progressive job claims were not substantial.

Contracts in hand offer 2-3 years earnings visibility. With the East Coast Rail Link and KL-Singapore High Speed Rail projects still uncertain at the moment and the KVDT2 to be re-tendered, PESTECH's focus will switch back to the region for the transmission line, substation and underground cable projects. Although 1Q19 results were weak, we believe it is not alarming given the seasonality effect. In addition, the strong contract replenishment should sustain its future earnings. Meanwhile, its current order-book is estimated at RM2.02b which should keep it busy for at least the next 2-3 years.

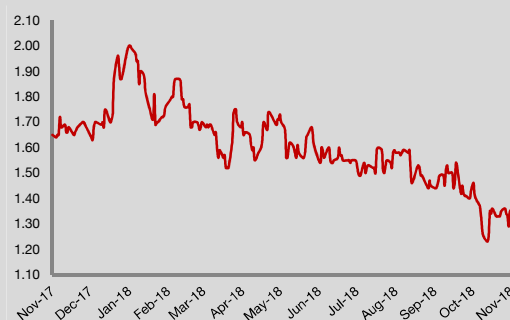
Undemanding valuation; OUTPERFORM maintained. We keep our FY19-FY20 estimates unchanged for now as we believe the weak 1Q19 results were mainly seasonally-driven and earnings should pick up especially in 2H19. We continue to like this niche utility infrastructure play for its earnings growth story. In fact, its valuation is no longer excessive following the lackluster 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: **RM1.30**
Target Price: **RM1.95** ↔

Share Price Performance



KLCI	1,695.88
YTD KLCI chg	-5.6%
YTD stock price chg	-25.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	993.6
Shares Outstanding	764.3
52-week range (H)	2.07
52-week range (L)	1.13
3-mth avg daily vol:	306,580
Free Float	44%
Beta	1.1

Major Shareholders

Lim Ah Hock	33.1%
Lim Pay Chuan	20.4%
Employees Provident Fund	2.3%

Summary Earnings Table

FYE Jun (RM m)	2018A	2019E	2020E
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	10.9	9.5
PBV (x)	5.77	4.02	3.38
Price/NTA (x)	5.77	4.02	3.38
Gearing (%)	1.35	1.20	0.99
Net Yield (%)	0.0	0.0	0.0

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Income Statement								
Y/E : Jun (RM m)	1Q FY19	4Q FY18	Q-o-Q Chg	1Q FY18	Y-o-Y Chg	3M FY19	3M FY18	Y-o-Y Chg
Turnover	124.1	119.3	4%	184.9	-33%	124.1	184.9	-33%
EBITDA	26.8	23.0	17%	28.9	-7%	26.8	28.9	-7%
Depreciation	(1.2)	(1.2)	0%	(1.2)	2%	(1.2)	(1.2)	2%
EBIT	25.6	21.7	18%	27.6	-7%	25.6	27.6	-7%
Interest expense	(12.9)	(4.1)	215%	(7.2)	80%	(12.9)	(7.2)	80%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	12.7	17.6	-28%	20.5	-38%	12.7	20.5	-38%
Taxation	(1.0)	(1.4)	-30%	(2.3)	-58%	(1.0)	(2.3)	-58%
Profit after tax	11.7	16.3	-28%	18.2	-35%	11.7	18.2	-35%
Minority interest	(1.8)	1.8	-198%	(7.1)	-75%	(1.8)	(7.1)	-75%
Net profit	10.0	18.1	-45%	11.1	-10%	10.0	11.1	-10%
Core net profit	6.2	(0.6)	>100%	16.3	-62%	6.2	16.3	-62%
EPS (sen)	1.3	2.4	-45%	1.5	-10%	1.3	2.4	-45%
NDPS (sen)	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.19	0.22	-13%	0.20	-3%	0.19	0.20	-3%
EBITDA margin	22%	19%		16%		22%	16%	
EBIT margin	21%	18%		15%		21%	15%	
Pretax margin	10%	15%		11%		10%	11%	
Effective tax rate	8%	8%		11%		8%	11%	

Source: Company

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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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.	1-Yr. Fwd.	Price (RM)
MALAKOFF CORP BHD	0.865	4,237.5	Y	12/2018	-4.5%	-3.6%	-43.5%	9.7%	14.0	24.7	22.5	0.7	0.7	2.9%	5.3%	1.00	OP
PESTECH INTERNATIONAL BHD	1.30	993.6	Y	06/2019	18.6%	10.0%	46.0%	14.8%	16.0	10.9	9.5	2.2	1.8	18.0%	0.0%	1.95	OP
TENAGA NASIONAL BHD	14.80	84,037.1	Y	12/2018	3.7%	5.8%	10.9%	7.9%	13.8	12.4	11.5	1.5	1.4	11.4%	3.2%	17.90	OP
YTL POWER INTERNATIONAL BHD	0.960	7,368.3	N	06/2019	3.3%	2.6%	0.5%	7.6%	11.0	11.0	10.2	0.5	0.5	4.7%	5.2%	1.05	MP
Simple Average					5.3%	3.7%	3.5%	10.0%	13.7	14.7	13.4	1.2	1.1	9.2%	3.4%		

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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