

27 February 2019

Pestech International Bhd

1H19 Below; Looking To A Strong 2H19

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2Q19 results improved sequentially but were not good enough as job progress claims in this seasonally weak period remained slow. With Cambodia now in dry season with projects progress going full-swing, a stronger 2H19 is expected to make up the short-fall in the 1H19. We continue to rate the stock **OUTPERFORM** with a revised target price of RM1.40 to capitalise on its earnings growth story.

1H19 below expectation. Although 2Q19 core profit improved almost double sequentially to RM11.6m, 1H19 core profit of RM17.8m, which made up 20% of our FY19 estimates, was still below expectation. This was due to low job claims as (i) MRT2 and KVDT are still in the early stages with project completions of 25% and 38%, respectively, from 20% and 31% in 1Q19, and (ii) lower job claims from the Cambodian projects given the raining season there in 1H19. No dividend was declared as expected.

Better sequential results on improved job claims. 2Q19 core profit jumped 86% to RM11.6m from RM6.2m on the back of 44% hike in revenue to RM178.6m from RM124.1m in 1Q19. Although job claims remained slow, the project completion progress was still higher in 2Q19 than that of 1Q19, especially KVDT at 38% completion, a 7% incremental work done in 2Q19 as compared to 2% in 1Q19. On the other hand, PAT margin of 9.7% which was slightly higher than 9.5% in 1Q19 show both quarters were healthy between the benchmark ranges of 9-11%.

Weak YoY results on slower job claims. While revenue declined 36% YoY to RM178.6m from RM278.0m in 2Q18, 2Q19 core profit tumbled 63% from RM31.6m in 2Q18 which was due to slower work progress. Meanwhile, 1H19 core profit contracted 63% to RM17.8m as revenue fell 35% over the year. In fact, the two main Alex Corp's projects and Oddor Meanchey project in Cambodia had little progress, but with one of them scheduled to be completed by November this year and the other two projects are in the mid-way of the project timeframe, works for these three projects will be in full-swing during the dry season in 2H19.

To be back on track in 2H19. Although 1H19 results were weaker than expected, we remain hopeful that 2H19 will be a stronger period as the Cambodian projects are at full steam in dry season while the local projects are progressing towards an advanced stage. With the two TENAGA (OP; TP: RM16.45) contracts secured last month-end, PESTECH's order-book still maintains at slightly more than RM2b, which will keep them busy for at least the next 2-3 years.

Still attractive; OUTPERFORM reiterated. Given the soft 1H19 results, we decided to lower our FY19 revenue assumption to RM900m from RM1.0b, which brings down our FY19 estimates by 12.3% as some job claim could be lengthened to FY20; thus, there is no change to our FY20 forecast. Despite the seasonally weaker results, 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 one year while earnings improved over the past three years. Post earnings revision, we lowered our SoP-driven target price slightly to RM1.40 from RM1.45 previously. **OUTPERFORM** maintained.

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

OUTPERFORM ↔

Price: **RM1.20**
Target Price: **RM1.40** ↓

Share Price Performance



KLCI	1,719.00
YTD KLCI chg	1.7%
YTD stock price chg	21.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	917.2
Shares Outstanding	764.3
52-week range (H)	1.95
52-week range (L)	0.95
3-mth avg daily vol:	412,648
Free Float	41%
Beta	1.2

Major Shareholders

Lim Ah Hock	33.2%
Lim Pay Chuan	20.6%
Prudential Plc	5.2%

Summary Earnings Table

FYE Jun (RM m)	2018A	2019E	2020E
Turnover	843.1	900.0	1,100.0
EBIT	119.8	167.0	195.0
PBT	92.6	132.0	162.7
Net Profit (NP)	60.6	79.6	104.2
Core Net Profit	62.2	79.6	104.2
Consensus (NP)		N.A.	N.A.
Earnings Revision (%)		-12.3	-
Core EPS (sen)	8.1	10.4	13.6
Core EPS growth (%)	-30.2	28.0	30.8
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	11.5	8.8
PBV (x)	5.77	3.79	3.18
Price/NTA (x)	5.77	3.79	3.18
Gearing (%)	1.35	1.29	1.01
Net Yield (%)	0.0	0.0	0.0

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Income Statement								
Y/E : Jun (RM m)	2Q FY19	1Q FY19	Q-o-Q Chg	2Q FY18	Y-o-Y Chg	1H FY19	1H FY18	Y-o-Y Chg
Turnover	178.6	124.1	44%	278.0	-36%	302.7	462.8	-35%
EBITDA	31.8	26.8	18%	44.5	-29%	58.6	73.4	-20%
Depreciation	(1.5)	(1.2)	17%	(1.2)	20%	(2.7)	(2.4)	11%
EBIT	30.4	25.6	19%	43.3	-30%	55.9	70.9	-21%
Interest expense	(10.6)	(12.9)	-18%	(6.5)	64%	(23.5)	(13.6)	72%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	19.7	12.7	55%	36.8	-46%	32.4	57.3	-43%
Taxation	(2.3)	(1.0)	146%	(8.3)	-72%	(3.3)	(10.6)	-69%
Profit after tax	17.4	11.7	48%	28.5	-39%	29.1	46.7	-38%
Minority interest	(2.9)	(1.8)	62%	(6.3)	-54%	(4.7)	(13.4)	-65%
Net profit	14.5	10.0	45%	22.2	-35%	24.4	33.3	-27%
Core net profit	11.6	6.2	86%	31.6	-63%	17.8	47.9	-63%
EPS (sen)	1.9	1.3	45%	2.9	-35%	1.9	1.3	45%
NDPS (sen)	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.20	0.19	5%	0.20	0%	0.20	0.20	0%
EBITDA margin	18%	22%		16%		19%	16%	
EBIT margin	17%	21%		16%		18%	15%	
Pretax margin	11%	10%		13%		11%	12%	
Effective tax rate	12%	8%		23%		10%	18%	

Source: Company

Valuation – New				
	RM m	RM/Share	%	Valuation Basic
Project and Product Businesses	945.0	1.24	90%	CY19 11x PER, -1 SD 3-year mean FCFF @ 7.2% discount rate
Cambodia BOT	107.1	0.14	10%	
	1,052.0	1.38	100%	
No of shares	764.3			
SoP per share	RM1.40			Round up to the nearest RM0.05

Source: Kenanga Research

Valuation - Old				
	RM m	RM/Share	%	Valuation Basic
Project and Product Businesses	1,011.2	1.31	90%	CY19 11x PER, -1 SD 3-year mean FCFF @ 7.2% discount rate
Cambodia BOT	107.1	0.14	10%	
	1,118.3	1.45	100%	
No of shares	764.3			
SoP per share	RM1.45			Round up to the nearest RM0.05

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.	Price (RM)	
GAS MALAYSIA BHD	2.88	3,697.9	Y	12/2019	2.9%	7.7%	8.2%	2.2%	21.1	19.5	19.1	3.5	3.2	17.3%	3.8%	3.05	MP
MALAKOFF CORP BHD	0.910	4,447.9	Y	12/2019	-0.3%	-0.1%	11.0%	4.1%	20.8	18.7	18.0	0.8	0.8	4.3%	4.3%	1.00	OP
PESTECH INTERNATIONAL BHD	1.20	917.2	Y	06/2019	6.7%	22.2%	28.0%	30.9%	14.7	11.5	8.8	2.0	1.7	16.0%	0.0%	1.40	OP
PETRONAS GAS BHD	18.20	36,012.9	Y	12/2019	4.8%	-1.8%	5.7%	-14.7%	19.7	18.7	21.9	2.8	2.6	14.5%	3.7%	16.45	MP
TENAGA NASIONAL BHD	13.44	76,431.8	Y	12/2018	3.7%	5.8%	-7.0%	18.3%	12.5	13.4	11.4	1.3	1.2	9.6%	3.0%	16.45	OP
YTL POWER INTERNATIONAL BHD	0.910	6,984.5	N	06/2019	3.3%	2.6%	0.5%	7.6%	10.5	10.4	9.7	0.5	0.5	4.7%	5.5%	1.05	MP
Simple Average					3.5%	6.1%	7.7%	8.1%	16.6	15.4	14.8	1.8	1.7	11.1%	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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