

# Pestech International Bhd

## 3Q19 Inline; Expecting A Strong Ending

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**3Q19 rebounded strongly by 83% sequentially on better job progress claims after a lacklustre 1H19 owing to seasonality. We expect another strong set of 4Q19 results as the Cambodia projects are in full-swing before the arrival of raining season in 1H20. We continue to rate the stock OUTPERFORM with unchanged SoP-driven target price of RM1.40 to capitalise on its earnings growth story.**

**9M19 within expectation.** 3Q19 results matched expectations with Core Profit rebounding 83% sequentially to RM21.2m, totalling YTD 9M19 core profit to RM38.9m that made up 49% of our FY19 estimate. We expect a strong ending in 4Q19 given higher job progress especially for the Cambodian projects after the seasonally low progress in 1H19 owing to raining season there. No dividend was declared in 3Q19 as expected.

**Strong sequential results as Cambodian projects back on track.** After a seasonally low earnings spell in 1H19, 3Q19 core profit rebounded strongly by 83% QoQ to RM21.2m as mentioned above now that the two Alex Corp's projects as well as Oddor Meanchey project in Cambodia have resumed work progress in the dry season. Besides, the local rail electrification projects namely, KVDT and MRT2 have also progressed well, as compared to that of in 1H19, albeit still in the initial stage of work. On the other hand, PAT margin has improved further to 10.1% in 3Q19 from 9.7% and 9.5% in 2Q19 and 1Q19, respectively, which show that sequentially, these three quarters' margins were healthy between the benchmark ranges of 9-11%.

**A better YoY results too.** Despite earnings declining 15%, 3Q19 core profit leapt 41% from RM15.0m which was due to the two Alex Corp's projects which back then was still in the initial stage that usually means lower profit margin. YTD, 9M19 core profit fell 38% to RM38.9m from RM62.8m in 9M18 as revenue contracted 27% over the year. The main reason for the earnings decline was largely due to the extreme low job claims for both local and Cambodia projects in 1H19 in contrast to 1H18 although both were during raining season.

**Expect a strong ending in 4Q19.** With all main projects back on track while the Cambodian projects are in full-swing for the remainder of 2H19 before the raining season starts again in 1H20, the upcoming 4Q19 results are set to be a solid, on track to meeting our estimates. Meanwhile, with the revival of ECRL and LRT3 back home, we expect more contract news flow for PESTECH in the near future. With its current order book of RM1.8b, this should keep them busy for at least the next two years.

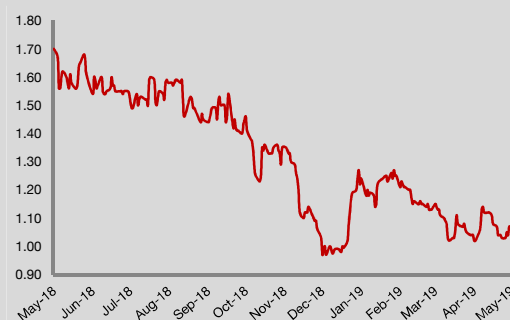
**Still attractive; OUTPERFORM reiterated.** Share price of PESTECH came under heavy sell-down in the past one year, largely due to its lacklustre results in the past 3-4 quarters. With the rebound in earnings as well as its sizeable order-book and earnings back on track, it presents a good buying opportunity into this niche utility infrastructure plays for its earnings growth story. We maintain our OUTPERFORM call at unchanged SoP-driven target price of RM1.40, which implies prospective PER of 13.4x based on FY19 earnings.

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

**OUTPERFORM** ↔

**Price:** RM1.02  
**Target Price:** RM1.40 ↔

### Share Price Performance



KLCI	1,601.87
YTD KLCI chg	-5.2%
YTD stock price chg	3.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	779.6
Shares Outstanding	764.3
52-week range (H)	1.68
52-week range (L)	0.95
3-mth avg daily vol:	290,460
Free Float	41%
Beta	1.3

### Major Shareholders

Lim Ah Hock	33.2%
Lim Pay Chuan	20.7%
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
<b>Net Profit (NP)</b>	<b>60.6</b>	<b>79.6</b>	<b>104.2</b>
<b>Core Net Profit</b>	<b>62.2</b>	<b>79.6</b>	<b>104.0</b>
Consensus (NP)		N.A.	N.A.
Earnings Revision (%)		-	-
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	9.8	7.5
PBV (x)	5.77	3.22	2.70
Price/NTA (x)	5.77	3.22	2.70
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)	3Q FY19	2Q FY19	Q-o-Q Chg	3Q FY18	Y-o-Y Chg	9M FY19	9M FY18	Y-o-Y Chg
Turnover	222.1	178.6	24%	260.9	-15%	524.8	723.8	-27%
EBITDA	39.5	31.8	24%	28.4	39%	98.2	101.8	-4%
Depreciation	(2.2)	(1.5)	53%	(1.2)	82%	(4.9)	(3.7)	34%
EBIT	37.3	30.4	23%	27.2	37%	93.2	98.1	-5%
Interest expense	(13.6)	(10.6)	28%	(9.5)	43%	(37.1)	(23.2)	60%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	23.7	19.7	20%	17.7	34%	56.1	75.0	-25%
Taxation	(1.2)	(2.3)	-50%	(2.2)	-47%	(4.5)	(12.8)	-65%
Profit after tax	22.5	17.4	30%	15.4	46%	51.6	62.1	-17%
Minority interest	(0.9)	(2.9)	-68%	(6.2)	-85%	(5.6)	(19.6)	-71%
Net profit	21.6	14.5	49%	9.2	134%	46.0	42.5	8%
Core net profit	21.2	11.6	83%	15.0	41%	38.9	62.8	-38%
EPS (sen)	2.8	1.9	49%	1.2	134%	2.8	1.9	49%
NDPS (sen)	0.0	0.0	0%!	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.21	0.20	6%	0.20	6%	0.21	0.20	6%
EBITDA margin	18%	18%		11%		19%	14%	
EBIT margin	17%	17%		10%		18%	14%	
Pretax margin	11%	11%		7%		11%	10%	
Effective tax rate	5%	12%		13%		8%	17%	

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%	
No of shares	1,052.0	1.38	100%	
<b>SoP per share</b>	<b>RM1.40</b>			Round up to the nearest RM0.05

Source: Kenanga Research

24 May 2019

## 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	2.86	3,672.2	Y	12/2019	2.9%	7.7%	8.2%	2.2%	21.6	20.0	19.5	3.6	3.3	17.3%	3.8%	3.05	MP
MALAKOFF CORP BHD	0.785	3,837.0	Y	12/2019	-0.3%	-0.1%	11.0%	4.1%	17.9	16.2	15.5	0.7	0.7	4.3%	4.9%	1.00	OP
PESTECH INTERNATIONAL BHD	1.02	779.6	Y	06/2019	6.7%	22.2%	28.0%	30.9%	12.5	9.8	7.5	1.7	1.4	16.0%	0.0%	1.40	OP
PETRONAS GAS BHD	16.30	32,253.3	Y	12/2019	4.8%	-1.8%	5.7%	-14.7%	17.7	16.7	19.6	2.5	2.4	14.5%	4.2%	16.45	MP
TENAGA NASIONAL BHD	11.66	66,309.1	Y	11/2020	3.2%	1.8%	2.6%	2.0%	12.1	11.8	11.6	1.1	1.1	9.3%	3.4%	13.30	MP
YTL POWER INTERNATIONAL BHD	0.830	6,370.5	N	06/2019	3.4%	2.6%	-1.6%	8.0%	9.5	9.7	9.0	0.5	0.4	4.6%	6.0%	0.900	MP
<b>Simple Average</b>					<b>3.4%</b>	<b>5.4%</b>	<b>9.0%</b>	<b>5.4%</b>	<b>15.2</b>	<b>14.0</b>	<b>13.8</b>	<b>1.7</b>	<b>1.6</b>	<b>11.0%</b>	<b>3.7%</b>		

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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