

12 November 2019

Pestech International

A Small Contract Win

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Although winning a small RM38.4m Smart Meter contract, we see this is just the beginning of more such contract to rollout as 1.2m meters are targeted to be installed by 2020 which could worth RM1b. That aside, with the revival of mega transportation infrastructure projects, contract flow should keep rolling out soon and PESTECH is likely to stand a chance to secure given its technical capacity. As such, our OP call remains on the stock with unchanged TP of RM1.75.

Bagged Smart Meter contract. Yesterday, PESTECH announced that its wholly-owned subsidiary Pestech Sdn Bhd had received a Letter of Award from TENAGA (MP; TP: RM13.40) for the supply and delivery of Smart Meter for Smart Billing Project Deployment Phase 2, i.e., in Selangor, Kuala Lumpur, Putrajaya and Cyberjaya, in 2019 and 2020, for a total contract amount of RM38.4m. This is the second phase of implementing Smart Meter after the pilot project in Melaka with a total of 300,000 meters having already been installed between 2016 and 2018. We have learnt that PESTECH will start installing the meters soon and the contract is valid till end of 2020.

Small contract but more to come? This small contract is its first contract win in FY20, albeit small value against its orderbook of RM1.6b as at Jun 2019. We believe there are many Smart Meter contracts to be released in stages soon as there are 1.2m meters targeted to be installed in Klang Valley by 2020. According to a statement made by an officer from Energy Commission in end Sep, the total cost to install the meters in Melaka and Klang Valley is worth RM1.2b. As such, we should expect to see more metering contracts to rollout in the near future. And, there are a total of 9.1m households in Peninsular Malaysia targeted to be fully installed with Smart Meter by 2026.

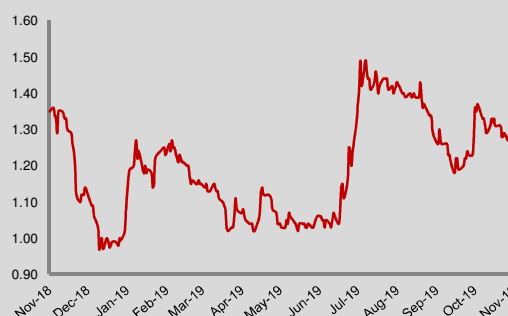
Current orderbook of RM1.6b to lend earnings support for the next two years. After posting a 16% jump in core earnings to RM72.4m on the back of revenue of RM810m in FY19, we expect stronger earnings over the next two years given the sizeable orderbook of RM1.6b. In addition, both ECRL and KVDT2 have been restored middle of this year and PESTECH stands a good chance to secure the electrification portion of contracts given its technical capacity. In fact, PESTECH won the KVDT Phase 1 worth RM318m in Mar 2016. While there is no indication of contract value size, we believe the combined value of these two rail electrification projects could likely boost its current book by 40%-50% should it be successful in the bidding.

An alternative attractive utility play; OUTPERFORM maintained. We continue to like this niche utility infrastructure play which could potentially benefit from the revival of mega projects domestically and the fast growing energy infrastructure development market in Cambodia. Given the growth potential of 26%-14%, at PER of 11x-10x for FY20-FY20, we believe the market is still not appreciating the growth potential in this stock. While keeping our estimates unchanged, we maintain our OUTPERFORM rating at target price of RM1.75/SoP share. Risks to our call include: (i) failure to replenish order book, and (ii) cost overruns.

OUTPERFORM ↔

Price : **RM1.26**
Target Price : **RM1.75** ↔

Share Price Performance



KLCI	1,608.15
YTD KLCI chg	-4.9%
YTD stock price chg	27.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	963.0
Shares outstanding	764.3
52-week range (H)	1.53
52-week range (L)	0.95
3-mth avg daily vol:	1,357,097
Free Float	42%
Beta	1.1

Major Shareholders

Lim Ah Hock	33.3%
Lim Pay Chuan	19.6%
Prudential Plc	5.1%

Summary Earnings Table

FYE Jun (RM m)	2019A	2020E	2021E
Turnover	810.0	950.0	1,050.0
EBIT	150.4	166.5	179.5
PBT	97.6	116.5	131.1
Net Profit (NP)	80.2	91.1	103.4
Core Net Profit	72.4	91.1	103.4
Consensus (NP)		N/A	N/A
Earnings Revision (%)		-	-
Core EPS (sen)	9.5	11.9	13.5
Core EPS growth (%)	16.4	25.7	13.6
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.28	0.33	0.39
NTA/Share (RM)	0.28	0.33	0.39
Core PER	11.7	10.6	9.3
PBV (x)	3.97	3.78	3.19
Price/NTA (x)	3.51	3.78	3.19
Gearing (%)	1.82	1.38	1.06
Net Yield (%)	0.0	0.0	0.0

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Valuation				
	RM m	RM/Share	%	Valuation Basis
Project and Product Businesses	1,206.1	1.58	91%	FY20 15.0x PER, 3-year mean FCFF @ 7.2% discount rate
Cambodia BOT	112.5	0.15	9%	
	1,318.6	1.73	100%	
No of shares	764.3			
SoP per share	RM1.75			round to the nearest RM0.05

Source: Kenanga Research

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Contract Flow				
Date	Client	Contract Sum (RM m)	Contract Description	Duration
11 Jul 2012	OM Materials (S'wak)	111.55	275kV Substation for the Ferro Alloy Project in Samalaju, Sarawak	16 months
20 Sep 2012	Asia Advanced	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 Pangli, Sabah	14 weeks
24 Feb 2015	NUR Distribution Sdn Bhd	28.80	EPC & 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
23 Sep 2016	Severelectro JS	34.69	Upgrading of three substations under ESARIP	1 year
26 Sep 2016	Sarawak Energy Bhd	89.53	New Bintulu B 275/(132)kV substation	21 months
7 Oct 2016	PNG Power Ltd	52.12	KilaKila 66/11kV substation and 66kV double circuit transmission line	24 months
8 Feb 2017	Alex Corp Co Ltd	254.49	230kV Stung Hav to Chamkar Loung Transmission Line and 500kV Chamkar Loung to Bek Chan Transmission Line	34 months
6 Apr 2017	Alex Corp Co Ltd	440.94	EPC package for 230kV double circuit transmission line Stung Tatay Hydro Power Plant-Phnom Penh and two 23kV lines bays at Stung Tatay HPP switchyard.	36 months
15 Aug 2017	TENAGA	79.50	EPC for 2x1050 MVA Autotransformers, 500kV and 275kV switchgears and ancillary equipment for PMU 500/275kV Olak Lempit	18 months
4 Oct 2017	NGCP	50.18	EPCC for the Calamba 230kW Substation	18 months
19 Dec 2017	Schneitec Co., Ltd	106.08	EPC for 75km 115kV double circuit transmission line from Oddor Meanchey to Siem Reap; a 115/22kV Oddor Meanchey substation and a 230/22kV Bek Chan (Porsenchey) substation	24 months
23 Aug 2018	Sykt SESCO Bhd	57.95	Sibiyu 132/33kV Substation	28 months
25 Sep 2018	Sykt P YTL Sdn Bhd	399.00	Electrification portion of Gemas-JB Double-track project	26 months
09 Oct 2018	Sykt P YTL Sdn Bhd	75.00	Signaling portion of Gemas-JB Double-track project	26 months
31 Jan 2019	TENAGA	112.50	Double circuit 275kV XLPE underground cable	730 days
31 Jan 2019	TENAGA	168.39	PMU 500/275kV Junjung (3x1050 MVA) substation in Kedah	912 days
17 Jun 2019	Electricity Ministry, Iraq	29.90	4 new 132/33kV, 31.5MVA mobile substations & 2 new 132/11, 25MWV mobile substations	-
11 Nov 2019	TENAGA	38.38	To supply and delivery of Smart Meter for Smart Billing Project deployment Phase 2	2019-2020

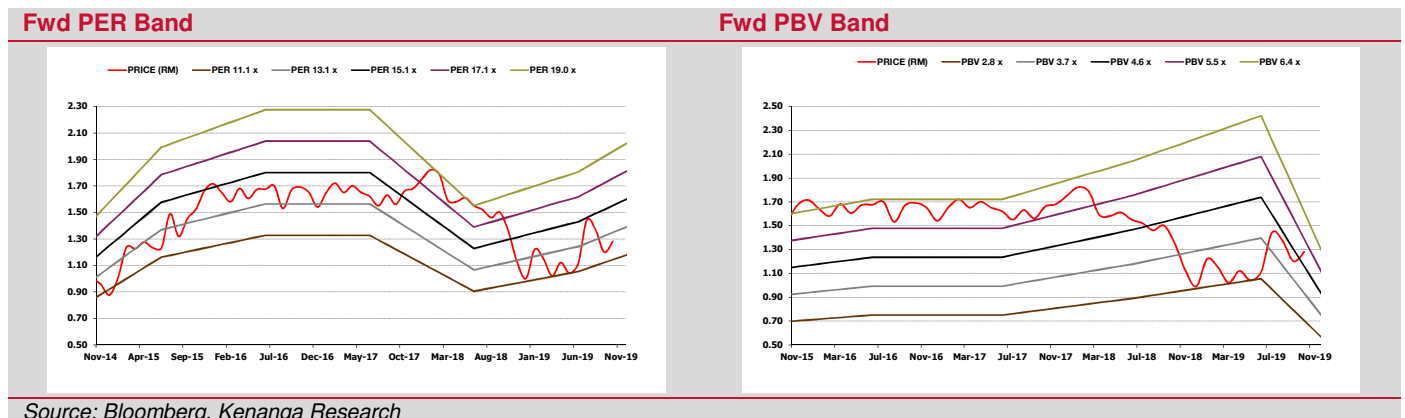
Source: Bursa

Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E	FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	508.2	843.1	810.0	950.0	1,050.0	Growth (%)					
EBITDA	152.6	124.7	157.6	174.5	188.1	Revenue	-0.1	65.9	-3.9	5.6	10.5
Depreciation	-5.0	-4.9	-7.2	-8.0	-8.6	EBITDA	24.2	-18.3	26.3	-2.4	7.8
EBIT	147.6	119.8	150.4	166.5	179.5	Operating Income	24.6	-18.8	25.5	-0.3	7.8
Interest Expense	-11.6	-27.3	-52.8	-50.0	-48.4	Pre-tax Income	28.5	-31.9	5.5	-11.7	12.5
Associate	0.0	0.0	0.0	0.0	0.0	Net Income	24.8	-33.4	32.5	14.4	13.6
Exceptional/FV	0.0	0.0	0.0	0.0	0.0	Core Net Income	14.2	-30.2	16.4	25.7	13.6
PBT	136.0	92.6	97.6	116.5	131.1	Profitability (%)					
Taxation	-15.7	-14.2	-9.7	-17.5	-19.7	EBITDA Margin	30.0	14.8	19.5	18.4	17.9
Minority Interest	-29.3	-17.8	-7.7	-8.0	-8.0	Operating Margin	29.0	14.2	18.6	17.5	17.1
Net Profit	90.9	60.6	80.2	91.1	103.4	PBT Margin	26.8	11.0	12.1	12.3	12.5
Core Net Profit	89.1	62.2	72.4	91.1	103.4	Net Margin	17.9	7.2	9.9	9.6	9.9
						Core Net Margin	17.5	7.4	8.9	9.6	9.9
						Effective Tax Rate	11.6	15.3	9.9	15.0	15.0
						ROE	16.0	8.9	8.6	10.8	9.5
						ROA	24.6	14.4	15.5	17.3	18.4
						DuPont Analysis					
						Net margin (%)	17.5	7.4	8.9	9.6	9.9
						Assets Turnover (x)	0.4	0.5	0.4	0.4	0.5
						Leverage Factor (x)	2.9	3.7	4.5	3.9	3.4
						ROE (%)	21.9	13.6	15.2	16.0	15.4
						Leverage					
						Debt/Asset (x)	0.43	0.43	0.48	0.45	0.42
						Debt/Equity (x)	1.24	1.61	2.17	1.76	1.44
						Net Debt/(Cash)	-483.4	-616.4	-863.0	-782.9	-711.8
						Net Debt/Equity (x)	1.18	1.35	1.82	1.38	1.06
						Valuations					
						EPS (sen)	11.7	8.1	9.5	11.9	13.5
						NDPS (sen)	0.0	0.0	0.0	0.0	0.0
						BV (RM)	0.24	0.27	0.28	0.33	0.39
						NTA (RM)	0.24	0.27	0.28	0.33	0.39
						PER (x)	13.9	19.0	11.7	10.6	9.3
						Net yield (%)	0.0	0.0	0.0	0.0	0.0
						PBV (x)	6.71	5.77	3.97	3.78	3.19
						P/NTA (x)	5.80	5.77	3.51	3.78	3.19
						EV/EBITDA (x)	11.3	9.5	5.4	10.0	8.9

Balance Sheet					
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	70.2	83.2	91.0	93.0	94.3
Intangibles	86.6	90.5	87.3	88.0	88.0
Concession Asset	416.2	435.5	462.5	480.0	480.0
Investment	4.6	13.8	7.5	7.5	7.5
Inventories	39.5	33.9	42.3	42.5	47.2
Receivable	149.4	155.9	245.1	242.9	268.4
Due From Cust.	342.6	708.6	956.0	975.2	996.2
Due From Cos	40.8	67.6	68.3	70.0	72.0
Fixed Deposits	0.0	0.0	0.0	0.0	0.0
Cash & Bank Bal.	22.2	118.6	168.4	216.1	256.4
Total Assets	1,172.1	1,707.7	2,128.5	2,215.1	2,310.1
Payables	158.0	421.1	517.6	535.1	547.3
ST Borrowings	231.2	362.6	382.6	387.3	394.2
Other ST Liability	12.1	24.4	11.5	12.2	13.7
LT Borrowings	274.4	372.4	648.8	611.8	574.0
Other LT Lia.	32.2	0.8	13.6	13.8	13.8
Minority Interest	56.4	69.1	79.2	87.1	95.8
Net Assets	408.0	457.3	475.2	567.8	671.2
Share Capital	211.3	212.7	212.7	212.7	212.7
Reserves	196.7	244.6	262.5	355.1	458.5
Equity	408.0	457.3	475.2	567.8	671.2

Cashflow Statement					
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	-140.5	-114.7	-107.4	-273.2	81.1
Investing CF	-29.4	-26.9	-17.7	-10.0	-10.0
Financing CF	176.0	238.8	238.8	267.6	-30.8
Net Chg in Cash	6.1	97.2	113.7	-15.6	40.3
Free Cash Flow	-169.9	-141.6	-125.0	-283.2	71.1

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	2.85	3,659.4	Y	12/2019	2.9%	7.7%	8.2%	2.2%	21.5	19.9	19.5	3.6	3.3	17.3%	4.5%	3.00	MP
MALAKOFF CORP BHD	0.845	4,129.5	Y	12/2019	-0.3%	-0.1%	10.5%	4.5%	19.3	17.4	16.7	0.7	0.7	4.3%	4.6%	1.00	OP
PESTECH INTERNATIONAL BHD	1.26	963.0	Y	06/2020	17.3%	10.5%	25.8%	13.5%	13.3	10.6	9.3	2.1	1.8	18.3%	0.0%	1.75	OP
PETRONAS GAS BHD	16.40	32,451.2	Y	12/2019	4.8%	-1.8%	5.7%	-14.7%	17.8	16.8	19.7	2.5	2.4	14.5%	4.1%	15.75	MP
TENAGA NASIONAL BHD	13.80	78,479.1	Y	12/2019	3.2%	1.8%	1.6%	2.0%	14.3	14.1	13.8	1.4	1.3	9.3%	3.6%	13.40	MP
YTL POWER INTERNATIONAL BHD	0.685	5,257.6	N	06/2020	-8.5%	2.2%	-10.2%	4.3%	8.0	8.9	8.5	0.4	0.4	4.3%	7.3%	0.800	OP
Simple Average					3.2%	3.4%	6.9%	2.0%	15.7	14.6	14.6	1.8	1.6	11.3%	4.0%		

Source: Bloomberg, Kenanga Research

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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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