

29 November 2019

Pestech International Bhd

A Good Start to FY20

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PESTECH registered the strongest first quarter so far which saw 1QFY20 core profit jumping 2-fold YoY to RM19.0m as projects are moving into advanced stages which fetch better margins. Its sizeable order-book of RM1.5b will sustain its earnings growth story for the next two years while domestic contract flows such as KVDT2, LRT3 and ECRL should keep PESTECH on investors' radar. We keep our OP call and TP of RM1.75.

A good start for FY20. PESTECH reported a satisfactory set of 1QFY20 results which matched expectation with core profit jumping 2-fold YoY to RM19.0m which made up 21% of our FY20 estimates. 1H of the financial year is seasonally softer and we expect earnings to pick up in the 2H. Meanwhile, there was no dividend declared during the period as expected as it keeps cash for expansion.

A seasonally soft quarter sequentially... 1QFY20 core profit contracted 43% QoQ to RM19.0m from RM33.5m in the preceding quarter while revenue declined 34%. The decline in earnings was not unexpected given the seasonality factor. Project progress was on track with the first Alex Corp's project at 90% completion in 1QFY20 as compared to 84% three months ago but the second project was maintained at 54% completion, making way for the first project to expedite progress. The other Cambodian project Oddor Meanchey is at the tail-end with 98% completion from 92% earlier. Meanwhile, the two big local projects namely KVDT and MRT2 are at midway of completion with the former 58% completed vs. 54% in 4QFY19 while the latter had progressed by 5% to 40%.

... but the strongest first quarter so far. YoY, 1QFY20 core profit soared 2-fold to RM19.0m from RM6.2m on the back of 51% jump in revenue to RM187.4m from RM124.1m. This was largely attributable to higher job claims for local rail electrification project and Cambodian projects compared to last year on the back of projects moving to more advanced stage, fetching higher margins. As such, it posted higher pretax margin of 13% in 1QFY20 as opposed to 10% in the correspondingly period last year.

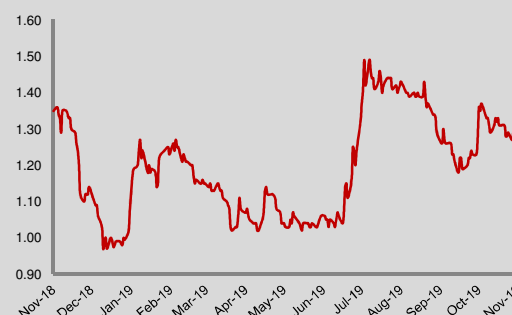
Earnings are set to accelerate in 2HFY20. Although 1H is a seasonally weak period, the outstanding order-book for Cambodian projects, which is mostly at the final stage of completion, only accounted for 17% of the group's current order-book of RM1.50b as at Sep 2019. As such, we believe the seasonal earnings gap could not be that apparent as compared to previously when the Cambodian projects made up half of order-book while the local MRT2 and KVDT works are advancing to higher stages, which are likely to mitigate the shortfall. The RM1.5b order-book should keep them busy for the next two years. In addition, we expect contract flows to start kicking in with the revival of KVDT2, LRT2 and ECRL. PESTECH should stand a good chance of participating in these projects as it is the only local firm with rail electrification expertise.

Still attractive; 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. Post earnings release, while we keep our FY20-FY21 estimates unchanged. We also maintain our OUTPERFORM rating and target price of RM1.75/SoP share. **Risks to our call include:** (i) failure to replenish order-book, and (ii) cost overruns.

OUTPERFORM ↔

Price: RM1.29
Target Price: RM1.75 ↔

Share Price Performance



KLCI	1,583.77
YTD KLCI chg	-6.3%
YTD stock price chg	30.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	985.9
Shares Outstanding	764.3
52-week range (H)	1.53
52-week range (L)	0.95
3-mth avg daily vol:	1,342,503
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	10.8	9.5
PBV (x)	3.97	3.87	3.27
Price/NTA (x)	3.51	3.87	3.27
Gearing (%)	1.82	1.38	1.06
Net Yield (%)	0.0	0.0	0.0

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Income Statement								
Y/E : Jun (RM m)	1Q FY20	4Q FY19	Q-o-Q Chg	1Q FY19	Y-o-Y Chg	3M FY20	3M FY19	Y-o-Y Chg
Turnover	187.4	285.3	-34%	124.1	51%	187.4	124.1	51%
EBITDA	36.7	59.5	-38%	26.7	37%	36.7	26.7	37%
Depreciation	0.0	(2.2)	-100%	(1.2)	-100%	0.0	(1.2)	-100%
EBIT	36.7	57.2	-36%	25.5	44%	36.7	25.5	44%
Interest expense	(12.8)	(15.7)	-19%	(12.9)	-1%	(12.8)	(12.9)	-1%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	23.9	41.5	-42%	12.6	90%	23.9	12.6	90%
Taxation	(3.7)	(5.2)	-29%	(1.0)	289%	(3.7)	(1.0)	289%
Profit after tax	20.2	36.3	-44%	11.6	74%	20.2	11.6	74%
Minority interest	(0.9)	(2.1)	-56%	(1.7)	-46%	(0.9)	(1.7)	-46%
Net profit	19.3	34.2	-44%	10.0	94%	19.3	10.0	94%
Core net profit	19.0	33.5	-43%	6.2	205%	19.0	6.2	205%
EPS (sen)	2.5	4.5	-44%	1.3	94%	2.5	1.3	94%
NDPS (sen)	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.24	0.23	4%	0.19	26%	0.24	0.19	26%
EBITDA margin	20%	21%		22%		20%	22%	
EBIT margin	20%	20%		21%		20%	21%	
Pretax margin	13%	15%		10%		13%	10%	
Effective tax rate	15%	13%		8%		15%	8%	

Source: Company

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

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	2.75	3,531.0	Y	12/2019	5.2%	7.7%	5.9%	4.4%	20.8	19.6	18.8	3.4	3.4	17.4%	4.6%	3.00	MP
MALAKOFF CORP BHD	0.875	4,276.1	Y	12/2019	-0.3%	-0.1%	10.5%	4.5%	19.9	18.0	17.3	0.8	0.8	4.3%	4.4%	1.00	OP
PESTECH INTERNATIONAL BHD	1.29	985.9	Y	06/2020	17.3%	10.5%	25.8%	13.5%	13.6	10.8	9.5	2.2	1.8	18.3%	0.0%	1.75	OP
PETRONAS GAS BHD	16.06	31,778.4	Y	12/2019	4.8%	-1.8%	5.7%	-14.7%	17.4	16.5	19.3	2.4	2.3	14.5%	4.2%	15.75	MP
TENAGA NASIONAL BHD	13.72	78,024.1	Y	12/2019	3.2%	1.8%	5.2%	0.8%	14.2	13.5	13.4	1.3	1.3	9.7%	3.7%	14.30	MP
YTL POWER INTERNATIONAL BHD	0.690	5,296.0	N	06/2020	-12.9%	1.9%	-21.5%	-1.4%	8.1	10.3	10.4	0.4	0.4	3.8%	7.2%	0.700	MP
Simple Average					2.9%	3.3%	5.3%	1.2%	15.7	14.8	14.8	1.8	1.7	11.3%	4.0%		

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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