

Pestech International

Contracts Keep Rolling In

By Teh Kian Yeong | tehky@kenanga.com.my

PESTECH has just secured yet another contract from NGCP worth RM112m for EPCC upgrading work for South Luzon substations in the Philippines. This is its 3rd offshore contract win which showcase its prowess in bidding internationally. Meanwhile, with the revival of mega transportation infrastructure projects back home, contract awards should start rolling soon. Given its technical capability, PESTECH is likely to stand a good winning chance. Maintain OP at RM1.75.

Secured RM112m Filipino project. Last Friday, PESTECH announced that its wholly-owned subsidiary Pestech Sdn Bhd has received a Notice of Award from National Grid Corporation of the Philippines (NGCP) for the EPCC contract for South Luzon Substations Upgrading Project Stage 1 (San Juan and Lumban Substations) and Stage 2 (Daraga Substation) for a total contract value of c.RM111.7m which consists of: (i) offshore portion of USD16.64m, and (ii) onshore portion of PHP528.8m. Under the contract, PESTECH will deliver an EPCC work for the existing obsolete 230kV and 69kV electrical equipment including the associated equipment and materials in San Juan, Lumban and Daraga Substations with project durations over 360-450 days.

Another NGCP contract secured in three weeks. We are positive with this win which is another major power infrastructure project awarded by NGCP hot on the heels of the Cebu-Bohol 230kV Interconnection project clinched by PESTECH on 12 Dec. This RM112m project forms part of the major power infrastructure upgrading undertaken by NGCP in its efforts to replace and upgrade the reliability of the power infrastructure in Philippines to support robust growth. With these two major Filipino contracts coupled with the ADB-funded contract secured in PNG the week before, PESTECH proved that it possesses the capacity and ability to provide and deliver products and services at the international level.

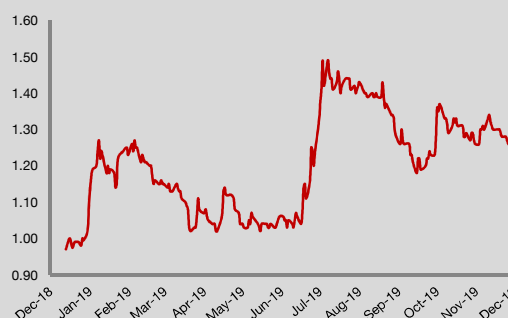
Contracts keep flowing. This is its 3rd contract win in three weeks and is also the 4th project win for FY20, totalling YTD contract win to RM314.4m against our targeted order-book replenishment of RM750m. We believe the contract flow will not stop here. Just two weeks ago, the Prime Minister said that the KL-Singapore HSR is to go ahead albeit at a lower cost. As such, there are at least four mega transportation infrastructure projects, namely HSR, KVDT2, LRT3 and ECRL, in the near term for PESTECH to bid for in the rail electrification packages. Meanwhile, its current order-book of RM1.7b will support earnings growth for the next two years.

Still an attractive alternative utility play; OUTPERFORM maintained. Although share price has risen 37% YTD, we believe the market has yet to appreciate the growth potential in this stock, given the earnings growth potential of 26%/14% which imply decent PER of 11x/10x for FY20/FY21. For now, we keep our estimates unchanged. 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. As such, 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 : RM1.36
Target Price : RM1.75 ↔

Share Price Performance



KLCI	1,610.61
YTD KLCI chg	-4.7%
YTD stock price chg	37.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	1,039.4
Shares Outstanding	764.3
52-week range (H)	1.53
52-week range (L)	0.97
3-mth avg daily vol:	1,049,491
Free Float	42%
Beta	1.1

Major Shareholders

Lim Ah Hock	33.3%
Lim Pay Chuan	19.6%
Norges Bank	2.3%

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 (x)	11.7	11.4	10.1
PBV (x)	3.97	4.08	3.45
Price/NTA (x)	3.51	4.08	3.45
Gearing (%)	1.82	1.38	1.06
Net Yield (%)	0.0	0.0	0.0

30 December 2019

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

This section is intentionally left blank

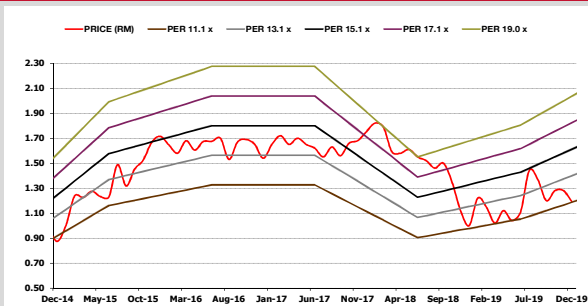
Contract Flow				
Date	Client	Contract Sum (RM m)	Contract Description	Duration
11 Jul 2012	OM Materials (S'wak)	111.55	275kV Substation for the Ferro Alloy Project in Samalaju, Sarawak	16 months
20 Sep 2012	Asia Advanced	27.84	Samalaju Industrial Park, Bintulu, Sarawak 132/33/6.6kV Substation	16 months
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
12 Dec 2019	NGCP	93.79	EPCC for Cebu-Bohol 230kV interconnection project for substation portic	450 days
20 Dec 2019	PNG Power Ltd	70.52	EPC for Port Moresby System Study and 11kV Distribution Upgrade	900 days
27 Dec 2019	NGCP	111.71	EPCC for South Luzon Substation Upgrading Project Stage 1 & 2	360-450 days

Source: Bursa

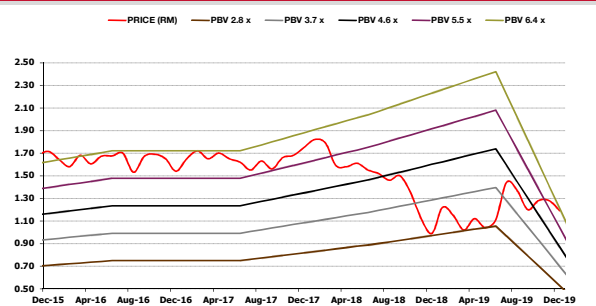
Income Statement						Financial Data & Ratios					
FY Jun (RM m)						FY Jun (RM m)					
	2017A	2018A	2019A	2020E	2021E		2017A	2018A	2019A	2020E	2021E
Revenue	508.2	843.1	810.0	950.0	1,050.0	Growth (%)					
EBITDA	152.6	124.7	157.6	174.5	188.1	Revenue	-0.1	65.9	-3.9	5.6	10.5
Depreciation	-5.0	-4.9	-7.2	-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
Balance Sheet						Core Net Margin					
FY Jun (RM m)						Margin					
	2017A	2018A	2019A	2020E	2021E	Effective Tax Rat	11.6	15.3	9.9	15.0	15.0
Fixed Assets	70.2	83.2	91.0	93.0	94.3	ROE	16.0	8.9	8.6	10.8	9.5
Intangibles	86.6	90.5	87.3	88.0	88.0	ROA	24.6	14.4	15.5	17.3	18.4
Concession Asset	416.2	435.5	462.5	480.0	480.0	DuPont Analysis:					
Investment	4.6	13.8	7.5	7.5	7.5	Net margin (%)	17.5	7.4	8.9	9.6	9.9
Inventories	39.5	33.9	42.3	42.5	47.2	Assets Turnover (x)	0.4	0.5	0.4	0.4	0.5
Receivable	149.4	155.9	245.1	242.9	268.4	Leverage Factor (x)	2.9	3.7	4.5	3.9	3.4
Due From Cust.	342.6	708.6	956.0	975.2	996.2	ROE (%)	21.9	13.6	15.2	16.0	15.4
Due From Cos	40.8	67.6	68.3	70.0	72.0	Leverage					
Fixed Deposits	0.0	0.0	0.0	0.0	0.0	Debt/Asset (x)	0.43	0.43	0.48	0.45	0.42
Cash & Bank Bal.	22.2	118.6	168.4	216.1	256.4	Debt/Equity (x)	1.24	1.61	2.17	1.76	1.44
Total Assets	1,172.1	1,707.7	2,128.5	2,215.1	2,310.1	Net Debt/(Cash)	-483.4	-616.4	-863.0	-782.9	-711.8
Payables	158.0	421.1	517.6	535.1	547.3	Net Debt/Equity (x)	1.18	1.35	1.82	1.38	1.06
ST Borrowings	231.2	362.6	382.6	387.3	394.2	Valuations					
Other ST Liability	12.1	24.4	11.5	12.2	13.7	EPS (sen)	11.7	8.1	9.5	11.9	13.5
LT Borrowings	274.4	372.4	648.8	611.8	574.0	NDPS (sen)	0.0	0.0	0.0	0.0	0.0
Other LT Lia.	32.2	0.8	13.6	13.8	13.8	BV (RM)	0.24	0.27	0.28	0.33	0.39
Minority Interest	56.4	69.1	79.2	87.1	95.8	NTA (RM)	0.24	0.27	0.28	0.33	0.39
Net Assets	408.0	457.3	475.2	567.8	671.2	PER (x)	13.9	19.0	11.7	11.4	10.1
Share Capital	211.3	212.7	212.7	212.7	212.7	Net yield (%)	0.0	0.0	0.0	0.0	0.0
Reserves	196.7	244.6	262.5	355.1	458.5	PBV (x)	6.71	5.77	3.97	4.08	3.45
Equity	408.0	457.3	475.2	567.8	671.2	P/NTA (x)	5.80	5.77	3.51	4.08	3.45
Cashflow Statement						EV/EBITDA (x)					
FY Jun (RM m)						11.3					
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

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, 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	2.77	3,556.7	Y	12/2019	5.2%	7.7%	5.9%	4.4%	20.9	19.8	18.9	3.5	3.4	17.4%	4.5%	3.00	OP
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	1.36	1,039.4	Y	06/2020	17.3%	10.5%	25.8%	13.5%	14.4	11.4	10.1	2.3	1.9	18.3%	0.0%	1.75	OP
PETRONAS GAS BHD	17.24	34,113.3	Y	12/2019	4.8%	-1.8%	5.7%	-14.7%	18.7	17.7	20.7	2.6	2.5	14.5%	3.9%	15.75	MP
TENAGA NASIONAL BHD	13.26	75,408.1	Y	12/2019	3.2%	1.8%	5.2%	0.8%	13.8	13.1	13.0	1.3	1.2	9.7%	3.8%	14.30	OP
YTL POWER INTERNATIONAL BHD	0.770	5,910.0	N	06/2020	-12.9%	1.9%	-21.5%	-1.4%	9.0	11.5	11.6	0.4	0.4	3.8%	6.5%	0.700	MP
Simple Average					2.9%	3.3%	5.3%	1.2%	16.1	15.2	15.3	1.8	1.7	11.3%	3.9%		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

30 December 2019

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

