

24 February 2020

Pestech International Bhd

Earnings To Accelerate In 2HFY20

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

With a 65% YoY jump, 1HFY20 earnings is on track with our estimate while projects progressing to advanced stage would boost billing with better margin. Its sizeable order-book of RM1.59b 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.

Weak seasonally, 1HFY20 on track. At 32% of our FY20 estimate, 1HFY20 core profit of RM29.3m met our expectations as 1H is seasonally weak (in the past three years, 1H made up only a quarter of full-year earnings except FY18 at 77% which was mainly due to the inclusion of MRT2 project). In fact, 1HFY20 core profit jumped by 65% from RM17.8m. Meanwhile, there was no dividend declared during the period as expected with cash conserved for expansion.

Sequentially, results affected by higher interest and MI. 2QFY20 core profit contracted 46% to RM10.3m from RM19.0m in the preceding quarter despite revenue inching up 2%. The decline in earnings was due to higher interest cost by 15% or RM1.8m while MI jumped to RM4.1m from RM0.9m in 1QFY20. For project progress, it has completed almost all Cambodian projects except Apex Corp's Tatay project which was at 55% completion from 54% previously due to the raining season, and it should expedite progress in the next quarter as Cambodia is entering dry season. Back home, progress for JB-Gemas double track was fairly slow with only progress completion inching up by 1% to 12%, currently still at the early stage. Meanwhile, KVDT and MRT2 are both at the mid-way of their completion with the former progress completion increasing to 63% from 58% while the latter was at 46% from 40%.

Advancing to higher stage helped to push better YTD margin. YoY, 2QFY20 core profit fell slightly to RM10.3m from RM11.6m in 2QFY19, albeit a 7% hike in revenue, primarily due to higher interest expense which jumped 38% or RM4.0m from RM10.6m. Without this, it would have posted better bottom-line as projects were at more advanced stages as compared to a year ago. Key project KVDT had a 25% incremental work done from 38%; MRT2 had 21% more from 25% while JB-Gemas is a new projects. This explained the higher revenue posted over the year. As such, 1HFY20 core profit leapt 65% to RM29.3m from RM17.8m while revenue rose 25% to RM378.2m.

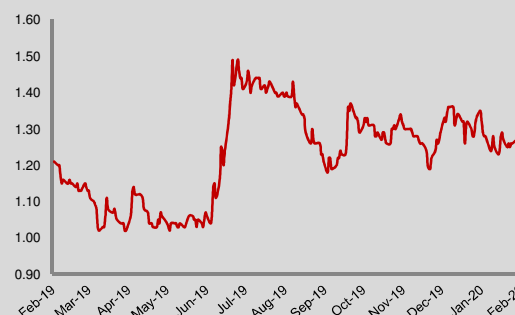
Earnings to accelerate in 2HFY20. After the seasonally weak period of 1HFY20, earnings are set to accelerate in 2HFY20 as key local projects MRT2 and KVDT are advancing to higher stage which fetches better margin as compared to the early stage while the start of dry season in Cambodia should expedite the Tatay project to high speed to make up for the slow progress in the past six months. Meanwhile, the refinancing of existing loan should help to address the issue of high interest cost. Going forth, its current order-book of RM1.59b will keep them busy for the next two years and sustain earnings growth. 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.

Attractive; OUTPERFORM reiterated. 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 Indochina. Post earnings release, we keep our FY20-FY21 estimates unchanged as well as 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: **RM1.28**
Target Price: **RM1.75** ↔

Share Price Performance



KLCI	1,531.20
YTD KLCI chg	-3.6%
YTD stock price chg	-2.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	978.3
Shares Outstanding	764.3
52-week range (H)	1.53
52-week range (L)	1.00
3-mth avg daily vol:	800,986
Free Float	42%
Beta	1.1

Major Shareholders

Lim Ah Hock	33.3%
Lim Pay Chuan	19.6%
Prudential Plc	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	11.7	10.7	9.5
PBV (x)	3.97	3.84	3.24
Price/NTA (x)	3.51	3.84	3.24
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)	2Q FY20	1Q FY20	Q-o-Q Chg	2Q FY19	Y-o-Y Chg	1H FY20	1H FY19	Y-o-Y Chg
Turnover	190.9	187.4	2%	178.6	7%	378.2	302.7	25%
EBITDA	34.3	39.0	-12%	31.8	8%	73.3	58.5	25%
Depreciation	(2.4)	(2.3)	3%	(1.5)	63%	(4.6)	(2.7)	72%
EBIT	32.0	36.7	-13%	30.4	5%	68.7	55.8	23%
Interest expense	(14.6)	(12.8)	15%	(10.6)	38%	(27.4)	(23.5)	16%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	17.3	23.9	-28%	19.7	-12%	41.3	32.3	28%
Taxation	(5.1)	(3.7)	39%	(2.3)	119%	(8.9)	(3.3)	168%
Profit after tax	12.2	20.2	-40%	17.4	-30%	32.4	29.0	12%
Minority interest	(4.1)	(0.9)	340%	(2.9)	40%	(5.0)	(4.6)	9%
Net profit	8.1	19.3	-58%	14.5	-44%	27.5	24.4	12%
Core net profit	10.3	19.0	-46%	11.6	-11%	29.3	17.8	65%
EPS (sen)	1.1	2.5	-58%	1.9	-44%	1.1	2.5	-58%
NDPS (sen)	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.25	0.24	4%	0.20	24%	0.25	0.20	24%
EBITDA margin	18%	21%		18%		19%	19%	
EBIT margin	17%	20%		17%		18%	18%	
Pretax margin	9%	13%		11%		11%	11%	
Effective tax rate	30%	15%		12%		21%	10%	

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 (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings		PBV (x)		ROE (%)		Net Div. Yld. (%)	Target Price (RM)	Rating
					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.			
GAS MALAYSIA BHD	2.82	3,620.9	Y	12/2020	3.3%	7.5%	8.7%	2.7%	20.9	19.3	18.8	3.5	3.4	17.9%	4.7%	3.00	OP
MALAKOFF CORP BHD	0.900	4,398.3	Y	12/2020	-0.6%	0.3%	20.8%	3.1%	21.5	17.8	17.2	0.8	0.8	4.5%	4.6%	1.00	OP
PESTECH INTERNATIONAL BHD	1.28	978.3	Y	06/2020	17.3%	10.5%	25.8%	13.5%	13.5	10.7	9.5	2.1	1.8	18.3%	0.0%	1.75	OP
PETRONAS GAS BHD	16.46	32,569.9	Y	12/2020	18.4%	0.9%	1.4%	0.1%	17.3	17.1	17.0	2.5	2.4	14.2%	4.4%	17.20	MP
TENAGA NASIONAL BHD	12.78	72,678.4	Y	12/2019	3.2%	1.8%	5.2%	0.8%	13.3	12.6	12.5	1.3	1.2	9.7%	4.0%	14.30	OP
YTL POWER INTERNATIONAL BHD	0.720	5,526.2	N	06/2020	-7.2%	2.0%	-23.7%	0.4%	8.4	11.0	11.0	0.4	0.4	3.7%	6.9%	0.680	MP
Simple Average					5.7%	3.8%	6.4%	3.4%	15.8	14.7	14.3	1.8	1.7	11.4%	4.1%		

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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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

