

04 June 2020

Pestech International

Third Concession Asset In Hand

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

PESTECH is getting its third concession asset with 70% stake in Cambodia for a 10-year “Build-and-Transfer” transmission line project worth a total payment collection of USD100m. We are positive on this as it helps to enrich its future recurring income, and provides diversification from over-reliance on EPCC contracts. We like this company for its niche utility infrastructure play. Maintain OUTPERFORM at RM1.15.

A 10-year “Build-and-Transfer” concession asset. Yesterday, PESTECH announced that its 70%-owned Cambodian subsidiary ODM Power Line Company Ltd (OPL) had completed the execution of all novation agreements in relation to the rights of the development of 230kV Transmission Line from Oddor Meanchey to East Siem Reap Grid Substation on a Build-Transfer basis. The concession value stems from committed payment from the state utilities Electricite Du Cambodge (EdC) to OPL over concession period of 10 years and one month. Payments will be paid on a monthly basis where 1st and 121st payments are both at c.USD458k each while payment for 2nd to 120th are at c.USD917k each.

EPCC portion worth about USD50m. This is PESTECH's third concession asset, of which all are located in Cambodia, trailing after the 25-year BOT independent power transmitter Diamond Power and the 20-year BOO solar farm Green Sustainable Ventures. PESTECH is expected to book in two streams of earnings from this project, i.e. the 10-year concession fees and an EPCC contract which is valued at c.USD50m. Assuming this project to take 18 months to complete, with c.USD11m cash flow per year for 10 years and contract value of USD110m with 70:30 debt:equity financing at cost of borrowing of <6%, our back-on-the-envelope calculations derive and impute c.RM0.07/share into PESTECH's SoP valuation matrix.

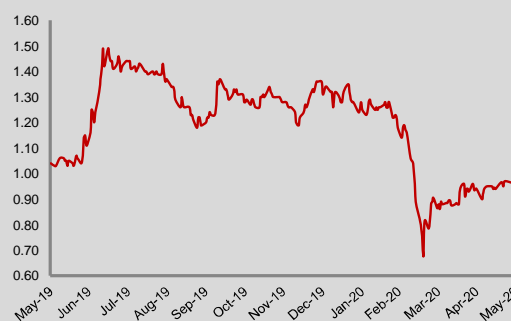
To improve recurring income. To lessen reliance on EPCC and product earnings, this 3rd concession asset is timely, strengthening its recurring income base further. The BOT which started operations in Jan 2018, contributes c.RM15m to bottomline. For now, we keep our estimates unchanged as OPL is likely to commence in late-FY22 which is beyond our estimate horizon. Meanwhile, the COVID-19 is likely to impact mildly on project progress as all its local projects are proceeding during this Movement Control Order period while its Cambodia project is also business as usual. The sizeable outstanding order-book of c.RM1.6b will sustain earnings growth for the next two years.

Keep OUTPERFORM. We are positive on this concession asset as it helps to lessen reliance on EPCC with stable recurring cashflow over the next 10 years. Although borrowing is set to increase, it is mainly ring-fenced financing like the other existing borrowings which is fairly safe. In all, we still 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. Thus, we maintain our OUTPERFORM rating with unchanged target price of RM1.15 which is based on -1SD PBV 5-year mean of 4.04x under the currently depressed market condition. Nonetheless, a “business as usual” fair value will be RM1.45 which is based on PBV of 5-year mean of 5.23x. **Risks to our call include:** (i) failure to replenish order book, and (ii) cost overruns.

OUTPERFORM ↔

Price : **RM0.945**
Target Price : **RM1.15** ↔

Share Price Performance



KLCI	1,538.53
YTD KLCI chg	-3.2%
YTD stock price chg	-27.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	721.2
Shares Outstanding	763.1
52-week range (H)	1.53
52-week range (L)	0.60
3-mth avg daily vol:	788,536
Free Float	40%
Beta	1.4

Major Shareholders

Lim Ah Hock	33.4%
Lim Pay Chuan	21.3%
Norges Bank	2.7%

Summary Earnings Table

FYE Jun (RM m)	2019A	2020E	2021E
Turnover	810.0	950.0	1,050.0
EBIT	150.3	166.5	179.5
PBT	97.5	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	7.9	7.0
PBV (x)	3.97	2.83	2.40
Price/NTA (x)	3.51	2.83	2.40
Gearing (%)	1.82	1.38	1.06
Net Yield (%)	0.0	0.0	0.0

04 June 2020

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	455 days
19 Oct 2012	TENAGA		(2x90MVA), Johor	
7 Jan 2013	TENAGA	15.96	132/33kV 2x45MVA at PMU New Bukit Ketri	546 days
19 Mar 2013	RSG, gold mining company	9.21	132KV and 33KV switchgear, 2 x 45MVA 132/33KV power transformer and ancillary equipment for PMU Jerantut	546 days
30 Aug 2013	Sarawak Energy Bhd	95.62	225kV high voltage substation for the Syama Gold Mine located in the south of Mali, West Africa	13 months
19 Sep 2013	Electricite du Laos	90.40	275/33 kV substation ("MAPAI Substation") with provision for future expansion	23 months
28 Nov 2013	Metix Malaysia Sdn Bhd	51.29	500kV switchyard with four future 500/275kV transformer bays	
15 Jan 2014	Sarawak Energy Bhd	84.98	115kV double circuits transmission line from Pakse, Lao People's Democratic Republic to the Lao-Thai border	18 months
10 Mar 2014	Alex Corp Co Ltd	279.71	132/33/11 kV integrated power distribution system including substations for Sakura Ferroalloys Sdn. Bhd	18 months
19 Jun 2014	TENAGA	1.10	SEB's Mambong and Entinggan 275 kV substation extension project	23 months
10 Nov 2014	Sarawak Energy Bhd	0.89	230kv West Phnom Penh-Sihanoukville Transmission Line and 230/115/22kv substation extension project	32 months
19 Jan 2014	TENAGA	1.17	Utility SDH telecommunication equipment for TENAGA's operation requirement	240 days
24 Feb 2015	NUR Distribution Sdn Bhd	28.80	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	
2 Mar 2015	Sarawak Energy Bhd	48.36	Supply and provision of engineering assistant to install and commission the new governor system upgrading at SJ Tenom Pangi, Sabah	14 weeks
19 Apr 2015	Diamond Power Ltd	212.10	EPC & testing work package for the West 132kV substation project in Kulim, Kedah	15 months
25 Sep 2015	TENAGA	134.42	Samajaya 132/33/11kV substation in Kuching, first indoor substation in Kuching	18 months
31 Mar 2016	Dhaya Maju	318.00	Design, build, testing and commissioning of the 230kV Kampong Cham-Kratie Transmission System Project.	30 months
17 Aug 2016	NGCP	37.78	construction of the 500/275kV Yong Peng East (2x1050MVA) backbone main intake substation	36 months
23 Sep 2016	Severelectro JS	34.69	Rail electrification and commissioning for rehabilitation work of KVDT	42 months
26 Sep 2016	Sarawak Energy Bhd	89.53	Upgrading of TIWI Geothermal Power Plant A & C Substations	420 days
7 Oct 2016	PNG Power Ltd	52.12	Upgrading of three substations under ESARIP	1 year
8 Feb 2017	Alex Corp Co Ltd	254.49	New Bintulu B 275/(132)kV substation	21 months
6 Apr 2017	Alex Corp Co Ltd	440.94	KilaKila 66/11kV substation and 66kV double circuit transmission line	24 months
15 Aug 2017	TENAGA	79.50	230kV Stung Hav to Chamkar Loung Transmission Line and 500kV Chamkar Loung to Bek Chan Transmission Line	34 months
4 Oct 2017	NGCP	50.18	EPC package for 230kV double circuit transmission line Stung Tatay	36 months
19 Dec 2017	Schneitec Co., Ltd	106.08	Hydro Power Plant-Phnom Penh and two 23kV lines bays at Stung Tatay HPP switchyard.	
23 Aug 2018	Sykt SESCO Bhd	57.95	EPC for 2x1050 MVA Autotransformers, 500kV and 275kV switchgears and ancillary equipment for PMU 500/275kV Olak Lempit	18 months
25 Sep 2018	Sykt P YTL Sdn Bhd	399.00	EPCC for the Calamba 230kW Substation	18 months
09 Oct 2018	Sykt P YTL Sdn Bhd	75.00	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
31 Jan 2019	TENAGA	112.50	Sibiyu 132/33kV Substation	28 months
31 Jan 2019	TENAGA	168.39	Electrification portion of Gemas-JB Double-track project	26 months
17 Jun 2019	Electricity Ministry, Iraq	29.90	Signaling portion of Gemas-JB Double-track project	26 months
11 Nov 2019	TENAGA	38.38	Double circuit 275kV XLPE underground cable	730 days
12 Dec 2019	NGCP	93.79	PMU 500/275kV Junjung (3x1050 MVA) substation in Kedah	912 days
20 Dec 2019	PNG Power Ltd	70.52	4 new 132/33kV, 31.5MVA mobile substations & 2 new 132/11, 25MWV mobile substations	-
27 Dec 2019	NGCP	111.71	To supply and delivery of Smart Meter for Smart Billing Project deployment Phase 2	2019-2020
17 Jan 2020	Energy Fiji Ltd	65.63	EPCC for Cebu-Bohol 230kV interconnection project for substation portic	450 days
26 Mar 2020	Renaissance Minerals	32.22	EPCC for Port Moresby System Study and 11kV Distribution Upgrade	900 days
			EPCC for South Luzon Substation Upgrading Project Stage 1 and Stage	360 days
			EPCC of Virara Koronubu 132kV transmission line Package 1 & 2	18 months
			EPCC of 230/11kV Okvau Transmission Substation	12 months

Source: Bursa

Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E	FY Jun	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	7.9	7.0
						Net yield (%)	0.0	0.0	0.0	0.0	0.0
						PBV (x)	6.71	5.77	3.97	2.83	2.40
						P/NTA (x)	5.80	5.77	3.51	2.83	2.40
						EV/EBITDA (x)	11.3	9.5	5.4	8.6	7.6

Balance Sheet

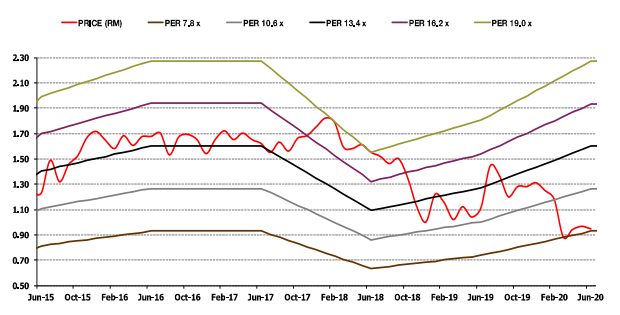
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	70.2	83.2	91.0	93.0	94.3
Intangibles	86.6	90.5	87.3	88.0	88.0
Concession Asset:	416.2	435.5	462.5	480.0	480.0
Investment	4.6	13.8	7.5	7.5	7.5
Inventories	39.5	33.9	42.3	42.5	47.2
Receivable	149.4	155.9	245.1	242.9	268.4
Due From Cust.	342.6	708.6	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

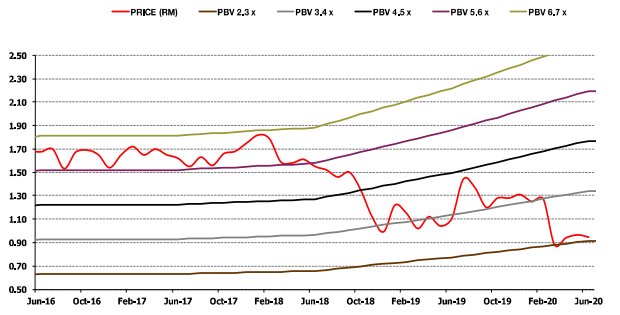
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	-140.5	-114.7	-107.4	-273.2	81.1
Investing CF	-29.4	-26.9	-17.7	-10.0	-10.0
Financing CF	176.0	238.8	238.8	267.6	-30.8
Net Chg in Cash	6.1	97.2	113.7	-15.6	40.3
Free Cash Flow	-169.9	-141.6	-125.0	-283.2	71.1

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research



04 June 2020

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	12/2020	-4.7%	16.5%	-4.6%	15.2%	20.6	21.6	18.7	3.4	3.4	15.7%	4.2%	2.80	MP
MALAKOFF CORP BHD	0.865	4,227.2	Y	12/2020	7.4%	0.3%	58.1%	6.3%	20.6	13.0	12.3	0.8	0.8	6.0%	7.6%	1.02	OP
PESTECH INTERNATIONAL BHD	0.945	721.2	Y	06/2020	17.3%	10.5%	25.8%	13.5%	10.0	7.9	7.0	1.6	1.3	18.3%	0.0%	1.15	OP
PETRONAS GAS BHD	17.92	35,458.9	Y	12/2020	18.4%	0.9%	1.4%	0.1%	18.8	18.6	18.5	2.7	2.6	14.2%	4.0%	17.20	OP
TENAGA NASIONAL BHD	11.98	68,128.9	Y	12/2020	4.0%	1.8%	2.2%	1.9%	12.5	12.2	12.0	1.2	1.1	9.4%	4.1%	13.00	OP
YTL POWER INTERNATIONAL BHD	0.700	5,372.7	N	06/2020	-7.2%	2.0%	-23.7%	0.4%	8.2	10.7	10.7	0.4	0.4	3.7%	7.1%	0.570	MP
Simple Average					5.9%	5.3%	9.9%	6.2%	15.1	14.0	13.2	1.7	1.6	11.2%	4.5%		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

04 June 2020

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

