

28 August 2020

Pestech International Bhd

4QFY20 Below; Billings Delayed

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

4QFY20 core profit of RM16.5m fell short of expectation given the lockdown-led delayed billing claims which dragged a normally seasonal strong quarter. Nonetheless, earnings recognition is likely to be pushed forward to FY21 while the start of recognising BT construction profit should lead earnings higher. In all, we still like the company as a niche utility infrastructure play. Maintain OP with revised TP of RM1.15.

4QFY20 missed forecast. At 81% of our estimate, FY20 core profit of RM55.8m came below our estimate of RM69.1m by 19% primarily due to further delayed billings for its local as well as Philippines projects in 4QFY20. Against its job schedule, there was c.RM120m worth of local rail works, including MRT2, KVDT and JB-Gemas double-track which were delayed in April and May. Meanwhile, there is still no dividend declared during the period as expected with cash conserved for expansion.

Better sequential results on construction earnings for BT. Despite top-line dipping 8% to RM200.3m, 4QFY20 core profit jumped 64% to RM16.5m from RM10.0m. This was due to the start of recognition of construction profit for its 70%-owned ODM Power Company Ltd (OPL) which manages the "Build-and-Transfer" concession asset in Cambodia. So far, OPL has completed 8% work progress in 4QFY20 while the construction earnings fetch higher profit margin than the typical EPCC job. This also explained the MI which doubled to RM5.4m from RM2.7m. In term of job progress; the JB-Gemas double-track is completed up to 19% job progress in 4QFY20 from 16% in 3QFY20, KVDT to 71% from 68%, MRT2 to 63% from 54% while Alex Corp's Tatay at 68% from 61%.

Weaker YoY earnings on delayed billing. YoY, 4QFY20 core profit tumbled 51% from RM33.5m as revenue declined 30% from RM285.3m while FY20 core income contracted 23% to RM55.8m from RM72.4m as revenue dipped 2% to RM797.3m. The decline in earnings was largely due to lower-than-expected billing claims given the lockdown restrictions in Malaysia as well as the Philippines, although 2H had always been the stronger half in the past.

Earnings to be pushed forward to FY21. While 2HFY20 results were disappointing given the low billings, earnings are likely to be pushed forward to FY21 with the lockdown being eased locally as well as overseas. Besides, key local projects namely MRT2 and KVDT as well as the Cambodian Tatay project are advancing to a higher stage which mean better margin in the coming quarters. In addition, the construction profit from OPL should boost earnings further in the next two years. Meanwhile, its current order-book has increased to RM1.67b from RM1.48b three months ago which will keep them busy for the next two years and sustaining earnings growth.

Keep OUTPERFORM. Post 4QFY20 results, we cut FY21 earnings estimates by 9% as we lowered operating margin by 1% while RM750m work recognition is maintained. Meanwhile, we introduced FY22 forecasts where earnings expected to grow 8% with work assumption of RM800m. Meanwhile, with new FY20A BV of 30.5 sen and unchanged -1SD 5-year PBV moving average of 3.76x, our new target price is RM1.15 from RM1.05 previously. Although 2HFY20 results were disappointing, 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 Indochina. Thus, our OUTPERFORM rating is maintained.

Risks to our call include: (i) failure to replenish order-book, and (ii) cost overruns.

OUTPERFORM ↔

Price: **RM0.79**
Target Price: **RM1.15** ↑

Share Price Performance



KLCI	1,554.78
YTD KLCI chg	-2.1%
YTD stock price chg	-39.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	602.5
Shares Outstanding	762.7
52-week range (H)	1.50
52-week range (L)	0.60
3-mth avg daily vol:	1,075,576
Free Float	40%
Beta	1.2

Major Shareholders

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

Summary Earnings Table

FYE Jun (RM m)	2020E	2021E	2022E
Turnover	797.3	950.0	1,000.0
EBIT	141.3	159.0	165.0
PBT	83.4	99.4	106.7
Net Profit (NP)	55.1	74.5	80.7
Core Net Profit	55.1	74.5	80.7
Consensus (NP)		N.A.	N.A.
Earnings Revision (%)		-8.8	New
Core EPS (sen)	7.3	9.7	10.6
Core EPS growth (%)	-23.9	35.2	8.4
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.31	0.36	0.41
NTA/Share (RM)	0.31	0.36	0.41
Core PER (x)	12.3	8.1	7.5
PBV (x)	2.95	2.20	1.94
Price/NTA (x)	2.95	2.20	1.94
Gearing (%)	2.12	1.71	1.47
Net Yield (%)	0.0	0.0	0.0

28 August 2020

Income Statement

Y/E: Jun (RM m)	4Q	3Q	Q-o-Q Chg	4Q	Y-o-Y	12M	12M	Y-o-Y
	FY20	FY20		FY19	Chg	FY20	FY19	Chg
Turnover	200.3	218.8	-8%	285.3	-30%	797.3	810.0	-2%
EBITDA	45.0	34.3	31%	59.5	-24%	152.6	157.5	-3%
Depreciation	(4.5)	(2.2)	99%	(2.2)	98%	(11.3)	(7.2)	58%
EBIT	40.5	32.1	26%	57.2	-29%	141.3	150.3	-6%
Interest expense	(14.8)	(15.6)	-5%	(15.7)	-6%	(57.8)	(52.8)	9%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	25.7	16.4	56%	41.5	-38%	83.4	97.5	-14%
Taxation	(4.4)	(2.0)	128%	(5.2)	-15%	(15.2)	(9.7)	57%
Profit after tax	21.3	14.5	47%	36.3	-41%	68.2	87.8	-22%
Minority interest	(5.4)	(2.7)	104%	(2.1)	159%	(13.1)	(7.6)	72%
Net profit	15.8	11.8	34%	34.2	-54%	55.1	80.2	-31%
Core net profit	16.5	10.0	64%	33.5	-51%	55.8	72.4	-23%
EPS (sen)	2.2	1.3	64%	4.4	-51%	7.3	9.5	-23%
NDPS (sen)	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.26	0.25	3%	0.23	12%	0.26	0.23	12%
EBITDA margin	22%	16%		21%		19%	19%	
EBIT margin	20%	15%		20%		18%	19%	
Pretax margin	13%	8%		15%		10%	12%	
Effective tax rate	17%	12%		13%		18%	10%	

Source: Company

28 August 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	2.76	3,543.8	Y	12/2020	-4.7%	16.5%	3.8%	14.7%	20.4	19.7	17.2	3.4	3.3	17.1%	4.6%	2.85	MP
MALAKOFF CORP BHD	0.985	4,813.7	Y	12/2020	7.4%	0.3%	75.7%	1.9%	23.5	13.3	13.1	0.9	0.9	6.7%	6.0%	1.15	OP
PESTECH INTERNATIONAL BHD	0.790	602.5	Y	06/2021	19.2%	5.3%	33.5%	8.3%	10.8	8.1	7.5	1.2	1.0	13.2%	0.0%	1.15	OP
PETRONAS GAS BHD	16.88	33,401.0	Y	12/2020	2.3%	0.7%	4.7%	-1.5%	17.7	16.9	17.2	2.5	2.6	15.1%	7.2%	16.85	MP
TENAGA NASIONAL BHD	11.12	63,435.3	Y	12/2020	4.0%	1.8%	0.2%	2.0%	12.2	12.1	11.9	1.1	1.0	8.8%	4.1%	13.95	OP
YTL POWER INTERNATIONAL BHD	0.685	5,257.6	N	06/2020	-3.4%	2.1%	-34.6%	4.3%	8.0	12.2	11.7	0.4	0.4	3.2%	7.3%	0.650	MP
Simple Average					4.1%	4.5%	13.9%	5.0%	15.4	13.7	13.1	1.6	1.5	10.7%	4.9%		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

28 August 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