

30 November 2020

Pestech International Bhd

1QFY21 Meets Expectation

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1QFY21 core profit rose 5% sequentially to RM17.4m, which met expectations, owing to higher construction profit from BT concession asset. Going forth, the delayed claim in 2HFY20 pushed forward to FY21 together with BT construction profit should lead earnings higher. Maintain OP with unchanged TP of RM1.15 as we still like the company as a niche utility infrastructure play.

1QFY21 in line. PESTECH reported 1QFY21 results which met expectation with core profit of RM17.4m making up 23% of our FY21 estimate. Seasonally, 1H is a weaker period especially for Cambodia projects with the monsoon season affecting work progress there. While there is no regular dividend, it declared a 2nd special dividend of 0.5 sen last Friday within two months after the 1st special dividend of 0.5 sen was announced on 08 Oct (ex-date: 27 Nov; payment date: 18 Dec) - the first dividend payout since 4QFY16. We were surprised with the special dividends albeit being a small token.

Improved sequential results... 1QFY21 core profit rose slightly by 5% QoQ from RM16.5m, despite stronger growth of 24% at top-line which was largely due to higher recognition of construction earnings for its 70%-owned ODM Power Company Ltd (ODMPCL) which manages the "Build-and-Transfer" concession asset in Cambodia. The smaller percentage of profit growth was largely due to higher taxation (by 2x) and MI due to higher construction profit from ODMPCL. In term of job progress; the JB-Gemas double-track is completed up to 29% job progress in 1QFY21 from 19% in 4QFY20, KVDT to 74% from 71%, MRT2 to 69% from 63%, Alex Corp's Tatay at 70% from 68% while ODMPCL is at 37% from 9%.

...but impacted by higher taxation and MI. YoY, 1QFY21 core profit fell 9% from RM19.0m, although revenue jumped 32%, which was owing to higher taxation and MI as ODMPCL's construction project was started to be recognised in 4QFY20. This 10-year plus one month concession asset will provide two streams of earnings, i.e., EPCC contract and concession fees, for PESTECH. At current construction period, PESTECH is likely to see YoY higher revenue with higher MI as well in coming quarters until the project is completed.

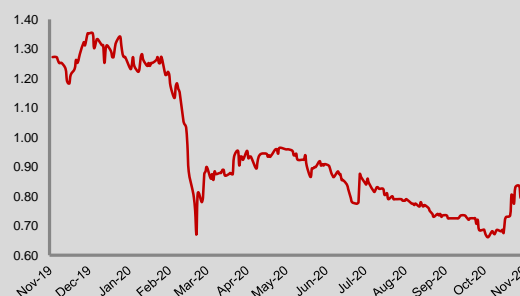
Delayed job claims in 2HFY20 should boost forward earnings. 2HFY20 results were weak due to low billings with claims now likely to be pushed forward to FY21 with the easing of COVID-led lockdowns locally as well as overseas. Besides, key local projects namely MRT2 and KVDT as well as the Cambodian Tatay project are advancing to higher stages which mean better margins in the coming quarters. In addition, the construction profit from ODMPCL should boost earnings further in the next two years. Meanwhile, its current order-book at RM1.50b from RM1.67b three months ago will keep them busy for the next two years and sustain earnings growth.

OUTPERFORM maintained. While keeping FY21-FY22 estimates, FY21 NDPS is assumed at 1.0 sen from nil following the declaration of two 0.5 sen special dividends recently. PESTECH has the ability to pay for this dividend distribution of c.RM7-RM8m, based on issued shares of 763.1m, as cash-flow position has improved from the concession incomes of which it received RM11.3m in 1QFY21. 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. Thus, our OP rating is maintained with unchanged TP of RM1.15 based on -1SD 5-year PBV moving average of 3.76x. **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 1,607.59
YTD KLCI chg 1.2%
YTD stock price chg -39.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	601.3
Shares Outstanding	761.2
52-week range (H)	1.39
52-week range (L)	0.60
3-mth avg daily vol:	1,213,628
Free Float	40%
Beta	1.1

Major Shareholders

Lim Ah Hock	33.5%
Lim Pay Chuan	20.9%
Norges Bank	2.7%

Summary Earnings Table

FYE Jun (RM m)	2020	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 (%)		-	-
Core EPS (sen)	7.3	9.7	10.6
Core EPS growth (%)	-23.0	33.5	8.4
NDPS (sen)	0.0	1.0	0.0
BV/Share (RM)	0.31	0.35	0.40
NTA/Share (RM)	0.31	0.35	0.40
Core PER (x)	12.3	8.1	7.5
PBV (x)	2.95	2.23	1.97
Price/NTA (x)	2.95	2.23	1.97
Gearing (%)	2.12	1.74	1.49
Net Yield (%)	0.0	1.3	0.0

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Income Statement								
Y/E: Jun (RM m)	1Q FY21	4Q FY20	Q-o-Q Chg	1Q FY20	Y-o-Y Chg	3M FY21	3M FY20	Y-o-Y Chg
Turnover	248.8	200.3	24%	187.4	33%	248.8	187.4	33%
EBITDA	51.4	45.0	14%	39.0	32%	51.4	39.0	32%
Depreciation	-2.9	-4.5	-36%	-2.3	25%	-2.9	-2.3	25%
EBIT	48.6	40.5	20%	36.7	32%	48.6	36.7	32%
Interest expense	-14.8	-14.8	0%	-12.8	16%	-14.8	-12.8	16%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	33.8	25.7	31%	23.9	41%	33.8	23.9	41%
Taxation	-8.7	-4.4	96%	-3.7	136%	-8.7	-3.7	136%
Profit after tax	25.0	21.3	18%	20.2	24%	25.0	20.2	24%
Minority interest	-10.0	-5.4	83%	-0.9	981%	-10.0	-0.9	981%
Net profit	15.1	15.8	-5%	19.3	-22%	15.1	19.3	-22%
Core net profit	17.4	16.5	5%	19.0	-9%	17.4	19.0	-9%
EPS (sen)	2.3	2.2	5%	2.5	-9%	2.3	2.5	-9%
NDPS (sen)	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.26	0.26	3%	0.24	12%	0.26	0.24	12%
EBITDA margin	21%	22%		21%		21%	21%	
EBIT margin	20%	20%		20%		20%	20%	
Pretax margin	14%	13%		13%		14%	13%	
Effective tax rate	26%	17%		15%		26%	15%	

Source: Company

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	12/2020	-1.7%	13.0%	11.8%	7.6%	20.6	18.4	17.1	3.4	3.3	18.2%	4.9%	2.85	MP
MALAKOFF CORP BHD	0.900	4,398.3	Y	12/2020	5.2%	1.4%	59.8%	5.3%	20.9	13.1	12.4	0.8	0.8	6.2%	6.1%	1.15	OP
PESTECH INTERNATIONAL BHD	0.790	601.3	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	16.72	33,084.4	Y	12/2020	2.3%	0.7%	7.6%	-4.2%	17.6	16.3	17.0	2.5	2.6	15.5%	7.3%	16.85	MP
TENAGA NASIONAL BHD	10.72	61,153.9	Y	12/2020	4.0%	1.8%	-29.1%	31.4%	10.9	16.5	12.6	1.0	1.0	6.3%	3.0%	12.40	OP
YTL POWER INTERNATIONAL BHD	0.685	5,577.6	N	06/2021	5.9%	-5.4%	55.8%	-12.2%	23.6	15.1	17.2	0.4	0.4	2.7%	7.3%	0.670	MP
Simple Average					5.8%	2.8%	23.2%	6.1%	17.4	14.6	14.0	1.5	1.5	10.3%	4.8%		

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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