

27 November 2015

Pestech International

A Slow Start

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OUTPERFORM ↔

Price: **RM6.75**
Target Price: **RM7.43** ↑

- Period** ■ 1Q16
- Actual vs. Expectations** ■ Although core profit of RM4.2m only made up 7% of house and street's full-year FY16 estimates, it is still within expectations as earnings are expected to pick up in the remaining quarters.
- Dividends** ■ No dividend was declared as expected.
- Key Results Highlights** ■ The reported 1Q16 net profit of RM20.5m included RM16.3m unrealised forex gain arising from the Alex Corp's job in Cambodia. Note that the reported income tax of RM6.2m included an accrual taxation of RM4.6m on the unrealised gain. Stripping out the EI, 1Q16 core net profit would have declined 59% QoQ to RM4.2m from RM10.1m in 6Q15 as revenue plummeted by 46%. This was mainly attributable to project executions still at early stages, such as substations of Samajaya and Yong Peng East, while Alex Corp's project was slow due to the raining season there.
- Compared to the period of Jul-Sep 2014 (which is 3Q15), 1Q16 core earnings contracted 42% YoY from RM7.2m as revenue declined 30% over the year. The decline in earnings was mainly due to project executions still at the early stages as mentioned above.
- Outlook** ■ Earnings are expected to pick up for the remaining quarters of FY16 given that Cambodia is now in the dry season; therefore, Alex Corp's job can now go full-swing while projects for NUR and substations of Mambong and Entinggan are approaching final stages when higher contract values are recognised.
- We understand that it is looking to secure two major projects worth a total of c.RM700m in FY16; this could almost double its current order-book of RM856m as at 30 Sep with tender book of RM1.34b.
- Change to Forecasts** ■ No changes to our FY16E-FY17E numbers.
- Rating** Maintain **OUTPERFORM**
- Valuation** ■ Although share price has almost doubled YTD with high CY16 PER of 18.4x vs. the power utility sector average of 14.1x, we still believe the valuation is justifiable given its explosive earnings growth story.
- With a higher moving 3-year mean of 12.8x from 10.5x, the benchmark +1.5 SD 3-year mean has raised targeted CY16 PER to 19.1x from 16.6x for the existing project and product businesses valuation.
- Thus, its new price target is now upgraded to RM7.43/SoP share from RM6.49/SoP, which includes FCF valuation for the Cambodia BOT at 7.2% discount rate.
- Risks to Our Call** ■ Failure to replenish orderbook.
■ Cost over-runs.

Share Price Performance



KLCI	1683.09
YTD KLCI chg	-4.4%
YTD stock price chg	92.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	1,254.1
Issued shares	185.8
52-week range (H)	7.08
52-week range (L)	2.82
3-mth avg daily vol:	389,331
Free Float	44%
Beta	1.1

Major Shareholders

AH HOCK LIM	33.1%
PAY CHUAN LIM	20.7%
MAAKL MUTUAL BERHAD	2.4%

Summary Earnings Table

FYE Jun (RM m)	2015A	2016E	2017E
Turnover	400.8	500.0	620.0
EBIT	65.6	85.6	115.2
PBT	72.8	74.7	96.7
Net Profit (NP)	56.5	59.0	77.4
Core Net Profit	41.9	59.0	77.4
Consensus (NP)		56.8	68.0
Earnings Revision (%)		-	-
Core EPS (sen)	45.6	31.8	41.6
Core EPS growth (%)	40.4	82.0	31.1
NDPS (sen)	9.0	9.5	12.5
BV/Share (RM)	1.27	1.49	1.78
NTA/Share (RM)	1.27	1.49	1.78
Core PER	11.6	21.3	16.2
PBV (x)	4.16	4.54	3.79
Price/NTA (x)	4.16	4.54	3.79
Gearing (%)	0.41	0.54	0.95
Net Yield (%)	1.3	1.4	1.9

Note: FY15E is 18 months period (Jan-14 to Jun-15)

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Income Statement

Y/E : Jun (RM m)	Jul-Sep CY15	Apr-Jun CY15	Q-o-Q Chg	Jul-Sep CY14	Y-o-Y Chg	Jul-Sep CY15	Jul-Sep CY14	Y-o-Y Chg
Turnover	48.3	88.9	-46%	68.5	-30%	48.3	68.5	-30%
EBITDA	11.7	20.2	-42%	12.0	-2%	11.7	12.0	-2%
Depreciation	0.0	(1.1)	-100%	(0.8)	-100%	0.0	(0.8)	-100%
EBIT	11.7	19.2	-39%	11.2	5%	11.7	11.2	5%
Interest expense	(1.5)	(1.2)	29%	(0.8)	91%	(1.5)	(0.8)	91%
Associates	0.0	(0.1)	-100%	(0.2)	-100%	0.0	(0.2)	-100%
Exceptional items	16.3	14.3	14%	(0.4)	-4271%	16.3	(0.4)	-4271%
Pretax profit	26.5	32.2	-18%	9.8	171%	26.5	9.8	171%
Taxation	(6.2)	(7.9)	-21%	(2.6)	138%	(6.2)	(2.6)	138%
Profit after tax	20.3	24.3	-16%	7.2	183%	20.3	7.2	183%
Minority interest	0.2	0.1	100%	0.0	7500%	0.2	0.0	7500%
Net profit	20.5	24.4	-16%	7.2	186%	20.5	7.2	186%
Core net profit	4.2	10.1	-59%	7.2	-42%	4.2	7.2	-42%
EPS (sen)	11.1	13.1	-16%	3.9	186%	11.1	3.9	186%
NDPS (sen)	0.0	3.0	-100%	0.0	N/M	0.0	0.0	N/M
NTA/share (RM)	0.99	1.27	-21%	0.77	29%	0.99	0.77	29%
EBITDA margin	24%	23%		17%		24%	17%	
EBIT margin	24%	22%		16%		24%	16%	
Pretax margin	55%	36%		14%		55%	14%	
Effective tax rate	23%	24%		27%		23%	27%	

Source: Company

Segment Breakdown

Y/E : Jun (RM m)	Jul-Sep CY15	Apr-Jun CY15	Q-o-Q Chg	Jul-Sep CY14	Y-o-Y Chg	Jul-Sep CY15	Jul-Sep CY14	Y-o-Y Chg
Turnover								
Project	1273.4	1287.6	-1%	1400.3	-9%	3899.3	4090.4	-5%
Product	10.2	8.2	24%	7.6	34%	26.7	21.7	23%
Investment	1,283.60	1,295.80	-1%	1,407.90	-9%	3,926.00	4,112.10	-5%
Elimination								
Group Turnover								
	470.2	417.2	13%	1024.6	-54%	1327.4	2127.8	-38%
Segment Results	50.5	78.1	-35%	92.1	-45%	195.1	177	10%
Project	-187.1	-157.6	19%	-759.6	-75%	-516.7	-1413.9	-63%
Product	333.6	337.7	-1%	357.1	-7%	1005.8	890.9	13%
Investment								
Elimination								
Group EBIT	37%	32%		73%		34%	52%	
	N/M	N/M		N/M		N/M	N/M	
EBIT Margin	26%	26%		25%		26%	22%	
Project								
Product								
Investment								
Elimination								
Group EBIT Margin								

Source: Company

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Valuation - New

	RM m	RM/Share	%	Valuation Basic
Project and Product Businesses	1,302.4	7.01	94%	CY16 16.6x PER, +1.5SD 3-year mean FCFF @ 7.2% discount rate
Cambodia BOT	78.0	0.42	6%	
	1,380.4	7.43	100%	
SoP per share	185.8			
	RM7.43			

Source: Kenanga Research

Sensitivity Analysis On Target Price - New

Standard Deviation	Existing Business		BOT NPV/share	Target Price
	CY16 PER	Value/share		
mean	12.8x	4.70	0.42	5.12
+0.5	15.2x	5.58	0.42	6.00
+1.0	17.6x	6.46	0.42	6.88
+1.5	19.1x	7.01	0.42	7.43
+2.0	22.5x	6.66	0.42	8.67

Source: Kenanga Research

Valuation - Old

	RM m	RM/Share	%	Valuation Basic
Project and Product Businesses	1,128.5	6.07	94%	CY16 16.6x PER, +1.5SD 3-year mean FCFF @ 7.2% discount rate
Cambodia BOT	78.0	0.42	6%	
	1,206.5	6.49	100%	
SoP per share	185.8			
	RM6.49			

Source: Kenanga Research

Sensitivity Analysis On Target Price - Old

Standard Deviation	Existing Business		BOT NPV/share	Target Price
	CY16 PER	Value/share		
mean	10.5x	3.84	0.42	4.26
+0.5	12.8x	4.68	0.42	5.10
+1.0	15.1x	5.52	0.42	5.94
+1.5	16.6x	6.07	0.42	6.49
+2.0	19.6x	7.21	0.42	7.63

Source: Kenanga Research

Power Utility Comparisons

Company	Price (RM)	Market Cap (RM m)	PER(x)			Est. Div. Yld. (%)	His. ROE (%)	His. P/BV (x)	NP Growth (%)		Target Price (RM)	Rating
			CY14	CY15	CY16				CY15	CY16		
MALAKOF	1.59	7,950.0	23.3	17.9	13.1	3.9	8.6	2.0	29.9	37.1	2.19	OP
PESTECH	6.75	1,254.1	44.0	22.8	18.4	1.4	18.2	8.0	93.5	23.8	7.43	OP
TENAGA	13.60	76,753.1	14.8	13.1	13.5	2.5	11.6	1.7	13.4	-3.0	15.42	OP
YTLPOWR	1.51	11,653.1	12.8	12.3	11.4	6.6	8.3	1.1	3.9	7.9	1.76	OP
	Simple average		23.7	16.5	14.1							
	Weighted average		15.7	13.5	13.3							

Source: Kenanga Research

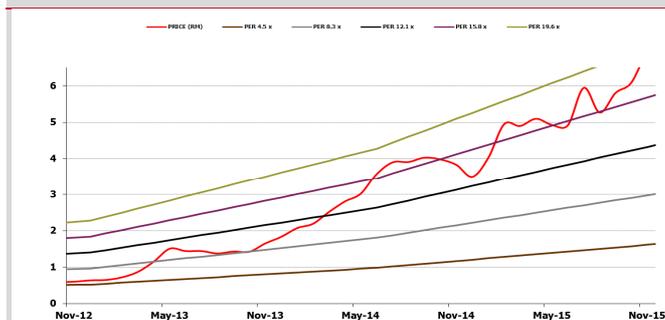
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Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2012A	2013A	2015A	2016E	2017E	FY Jun (RM m)	2012A	2013A	2015A	2016E	2017E
Turnover	136.1	181.8	400.8	500.0	620.0	Growth					
EBITDA	25.9	34.4	70.5	90.6	121.2	Turnover (%)	N/A	33.6	35.7	42.1	24.0
Depreciation	-1.7	-2.4	-5.0	-5.0	-6.0	EBITDA (%)	N/A	33.1	40.0	67.0	33.7
Operating Profit	24.2	32.1	65.6	85.6	115.2	Operating Profit (%)	N/A	32.5	40.6	68.7	34.6
Interest Expense	-1.2	-3.3	-6.5	-10.9	-18.5	PBT (%)	N/A	24.1	88.7	25.1	29.4
Associate	0.0	-0.2	-0.8	0.0	0.0	Net Profit (%)	N/A	25.4	102.4	26.3	31.1
Exceptional Items	0.0	0.0	14.5	0.0	0.0	Core Net Profit (%)	N/A	25.4	40.4	82.0	31.1
PBT	23.0	28.6	72.8	74.7	96.7	Profitability					
Taxation	-6.5	-7.9	-16.5	-17.2	-22.2	EBITDA Margin (%)	19.0	18.9	17.6	18.1	19.5
Minority Interest	0.0	0.0	0.1	1.4	2.9	Operating Margin (%)	17.8	17.6	16.4	17.1	18.6
Net Profit	16.5	20.7	56.5	59.0	77.4	PBT Margin (%)	16.9	15.7	18.2	14.9	15.6
Core Net Profit	16.5	20.7	41.9	59.0	77.4	Net Profit	12.1	11.4	14.1	11.8	12.5
						Core Net Profit	12.1	11.4	10.5	11.8	12.5
						Effective Tax Rate	28.3	27.5	22.6	23.0	23.0
						ROA	13.7	14.1	13.7	12.4	12.2
						ROE	25.3	26.2	25.7	23.1	25.5
						DuPont Analysis					
						Net Margin	12.1	11.4	10.5	11.8	12.5
						Total Assets Turnover	1.1	0.9	0.8	0.8	0.7
						Leverage Factor	2.0	2.3	2.1	2.3	2.9
						ROE	25.3	22.3	17.8	21.3	23.4
						Leverage					
						Debt/Asset (x)	0.18	0.29	0.25	0.26	0.44
						Debt/Equity (x)	0.36	0.66	0.54	0.60	1.25
						Net Cash/(Debt)	-9.2	-43.0	-96.4	-149.0	-314.0
						Net Debt/Equity (x)	0.14	0.46	0.41	0.54	0.95
						Valuations					
						EPS (sen)	19.2	22.4	45.6	31.8	41.6
						NDPS (sen)	5.7	7.0	9.0	9.5	12.5
						BV (RM)	0.76	1.00	1.27	1.49	1.78
						NTA (RM)	0.76	1.00	1.27	1.49	1.78
						PER (x)	5.5	13.6	11.6	21.3	16.2
						Net Dividend Yield (%)	0.8	1.0	1.3	1.4	1.9
						PBV (x)	1.39	3.06	4.16	4.54	3.79
						P/NTA (x)	1.39	3.06	4.16	4.54	3.79
						EV/EBITDA (x)	3.9	9.4	8.3	15.5	12.9

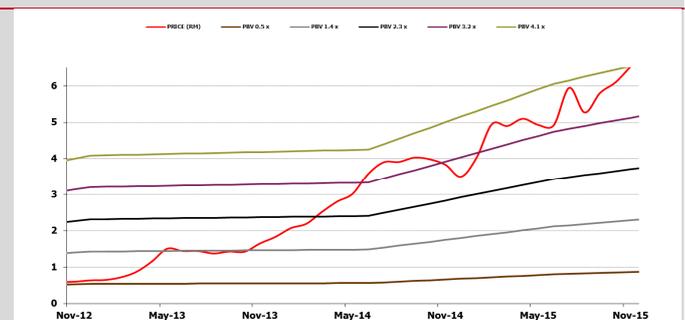
Note: 2012A & 2013A were FYE Dec; 2015E is 18M period from Jan-14 to Jun-15; 2016E-2017E are FYE Jun

Source: Kenanga Research

Forward PER



Forward PBV



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% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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