Headline	PESTECH substation, transmission line ops seen promising
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THE EDGE MARKETS
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PESTECH SUBSTATION, TRANSMISSION LINE OPS SEEN PROMISING

Maintain outperform with an unchanged target price (TP) of RM1.95: Yesterday Pestech International Bhd (Pestech) finally announced that its wholly-owned subsidiary, Pestech Technology Sdn Bhd, had accepted a letter of award from Syarikat Pembenaan Yeoh Tiong Lay Sdn Bhd, under SIPP-YTL JV, for the turnkey engineering, procurement and construction (EPC) and maintenance of electrification system for the Gemas-JB electrified double-track at a fixed subcontract price of RM399 million. The project will take 26 months and is expected to be completed by April 2021.

Pestech share price has been lacklustre for more than two years and it has finally secured this highly anticipated project, which was complicated earlier by the GE14. As this announcement is only for the electrification portion, we understand that there are still signalling and communication portions worth as high as RM500 million to be announced. With its partner Ansaldo, Pestech should have a higher chance for the project as there is no one else who can do the signalling portion in the region.

This is the second contract Pestech has secured in the financial year ending 2019 (FY19), totalling RM457 million and bringing the total current order book to slightly more than RM2 billion, which will keep it busy till 2021. In the immediate term, the double-track's signalling and communication jobs remain its top target while the potential projects East Coast Rail Link (ECRL) and KL-Singapore high-speed rail are the two main local electrification projects that Pestech can participate in the bidding. Should ECRL be eventually cancelled, the government will upgrade the existing KTM line on the east coast which should be another alternative for Pestech to participate in. Meanwhile, prospects for transmission line and substation remain promising in Indochina, especially Cambodia, to propel its earnings.

We keep our FY19-FY20 estimates unchanged for now despite this new contract win as it is still within our contract win assumption. We continue to like this niche utility infrastructure play for its earnings growth story. In fact, its valuation is no longer excessive following the lacklustre share price performance in the past two years while earnings momentum remains strong. Hence, we maintain our "outperform" rating with an unchanged TP of RM1.95 sums-of-parts (SoP) share. Risks to our call include: (i) failure to replenish the order book and (ii) cost overruns. — *Kenanga Research*, Sept 26

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