

Headline	Cambodia remains Pestech's growth area
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Pestech International Bhd (Dec 20, RM1.68)

Maintain outperform rating with an unchanged target price (TP) of RM2 per share: Yesterday, Pestech announced that its wholly-owned Cambodian subsidiary Pestech (Cambodia) Ltd has completed the execution of a contract agreement with Schneitec Co Ltd, for the engineering, procurement, and construction (EPC) of developing a 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 at a contract price of US\$26 million (RM106 million). The project is expected to start by next month over a period of 18 to 24 months.

With this contract, Pestech has already secured three contracts in financial year 2018 (FY18) with a total value of RM236 million, which include one with Tenaga Nasional Bhd (TP: RM17.17) and another in the Philippines. As of September 2017, its order book was RM1.41 billion. Thus its order book is likely to rise to RM1.5 billion with earnings visibility of up to end-2019. While it has minimal impact in FY18 earnings, we keep our FY19 estimates as it is still within our FY19 revenue assumptions. This contract raises FY19 revenue to RM600 million, based on billing progress, against our assumption of RM700 million. This also means that it needs another RM100 million worth of contracts to meet our expectations for FY19.

Cambodia remains Pestech's prospective growth area given the high expansion of power infrastructure development there. Given it is a preferred EPC contractor for Electricite du Cambodge under the private funded projects on the back of its track record, Pestech should stand a good chance to secure future projects. Meanwhile, the EPC portion for Diamond Power project has completed and energised in October. Pestech is expecting its maiden recurring income stream to flow in from January 2018 over the next 25 years. Domestically, though, the long-awaited Gemas-Johor Baru double-track electrification project has no outcome yet, but based on the

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firm's track record and its recent merger and acquisition of railway contractor Colas Rail System, Pestech stands a good chance of securing it.

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 1.5 years, while earnings momentum remains strong. With the exciting acquisition of Colas Rail System coupled with busy contract flow from Cambodia, we believe it is currently good timing to look at this attractive stock. Hence, we maintain our "outperform" rating with an unchanged TP of RM2/sum-of-parts share. Risks to our call include failure to replenish order book and cost overruns. — Kenanga Research, Dec 20

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