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Pestech International Bhd

Target price: **RM2 OUTPERFORM**



KENANGA RESEARCH (OCT 31): Pestech announced last Monday that its wholly-owned subsidiary Pestech Technology Sdn Bhd had entered into agreements to acquire the entire 100% equity interest in Colas Rail System Engineering Sdn Bhd (CRSE) for RM10.4 million. CRSE is involved in engineering, procurement and construction (EPC) contracts for railway electrical and mechanical projects. This is not the first time Pestech has acquired a competitor.

To recap, Pestech lost its bid for the MRT2 rail electrification job to CRSE in July last year. The latter was awarded a RM693 million contract by MRT Corp for system work package SY205 for the EPC of power supply and distribution systems for the Sungai Buloh-Serdang-Putrajaya Line. As CRSE is the contract owner, we believe Pestech is technically taking over the job since CRSE is now 100% owned by Pestech.

Pestech's contract flow YTD 2017

DATE	CLIENT	CONTRACT SUM (RM MIL)	DESCRIPTION	DURATION (MONTHS)
Feb 8	Alex Corp Co Ltd	254.49	230kV Stung Hav to Chamkar Loung Transmission Line and 500kV Chamkar Loung to Bek Chan Transmission Line	34
Apr 6	Alex Corp Co Ltd	440.94	EPC package for 230kV double circuit transmission line Stung Tatay Hydro Power Plant-Phnom Penh and two 23kV lines bays at Stung Tatay HPP switchyard	36
Aug 15	Tenaga Nasional Bhd	79.5	EPC for 2x1050 MVA Autotransformers, 500kV and 275kV switchgears and ancillary equipment for PMU 500/275kV Olak Lempit	18
Oct 4	NGCP	50.18	EPCC for the Calamba 230kV Substation	18

SOURCE: BURSA MALAYSIA

Valuation

	RM MIL	RM/SHARE	%	VALUATION BASIC
Project and Product Businesses	1,415.7	1.90	95	CY17 16 times PER, 3-year mean
Cambodia BOT	78	0.10	5	FCFF @ 7.2% discount rate
No of shares (mil)	1,493.7	2.00	100	
SOP per share	746.4	RM2		

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Many rail infrastructure systems are expected to come up within Asean in the future. So far, only Singapore and Malaysia have mass transport systems while there is no local Asean rail electrification com-

pany except Pestech. As such, we believe the potential from this region is huge, especially in megacities such as Jakarta and Bangkok. Domestically, this would also boost its chance of getting the long-awaited Gemas-Johor Baru double-tracking job and the upcoming KL-Singapore High-Speed Rail as well as East Coast Rail Line projects.

As we expect a minimum impact on FY18E numbers from this acquisition, which is also within our revenue assumption for FY19, we keep our FY18/FY19 estimates unchanged for now.

We continue to like this niche utilities infrastructure play for its earnings growth story. In fact, its valuation is no longer excessive following the lacklustre share price performance in the past 1½ years while earnings momentum remains strong.

With the exciting acquisition, coupled with busy contract flow from Cambodia, we believe it is currently good timing to look at this attractive stock. We maintain our "outperform" rating with an unchanged target price of RM2 per share.