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Growing demand for electricity in Asean set to keep company busy through 2019

Salient points

- Outstanding order book of RM1.41bil
- A steady inflow of power projects expected for FY2018
- Active tender book valued at RM2.75bil

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RIDING on the growing energy infrastructure development market in the region, Pestech International Bhd expects to see continued growth in its order book over the medium term.

As at the end of September, the power systems technology firm, which builds facilities to transmit electricity produced by power stations, has an estimated outstanding order book of RM1.41bil, the bulk of which come from foreign markets.

According to Pestech group chief executive director Paul Lim Pay Chuan, the growing business prospects in Asean will be sufficient to keep the group busy through its financial year (FY) ending June 30, 2019.

"Our current order book will carry us well into the year 2019," Lim tells *StarBizWeek* in an email.

"The power industry environment in the region is diverse due to the different economic development in each country in the region.

"We believe these provide us with a steady requirement regardless of world and regional economic performance at any one time," he says.

Lim is the second single-largest shareholder in Pestech, with a stake of 20.32%.

His uncle Lim Ah Hock, who is the founder and executive chairman of the group, remains the largest shareholder in Pestech, with a 33.1% stake.

Lim points out that the robust economic growth of countries in Asean is driving demand for the continuous development and increased reliability of their power network to continue fuelling growth.

Hence, for FY2018, Pestech sees a steady inflow of power projects throughout the year.

Lim notes that the group has set a target of new order book of RM1bil for FY2018.

But as of Dec 20, Pestech's new order book for the year has already reached RM989mil at the group level.

At present, Pestech's active tender book at the group level stands at around RM2.75bil.

Good prospect: Lim says current order book will carry the company well into 2019.

"As regional demand for power transmission and distribution assets continues to grow, Pestech will continue to tap on these opportunities as its corner stone for business development," Lim says.

"In addition, the vast opportunities in the area of rail electrification both in double track and urban rail segments present excellent complementary source of business growth catalyst for the group to grasp on for the upcoming financial year," he explains.

Pestech has diversified into the rail electrification business since about four years ago.

Given its track record in high-voltage jobs, the extension into electrification of rail is synergistic.

The company is one of the companies currently bidding for the power infrastructure for the proposed Gemas-Johor Baru electrified double-tracking project.

For FY2018, Pestech's local focus is currently on the execution and completion of its 500-kilovolt (KV) Yong Peng substation as well as its involvement in the Mass Rapid Transit 2 power system project.

"These are milestone that would propel the group into servicing power delivery requirement of electrical infrastructure project to the next level," Lim explains.

"In turn, it would expand the target market of the group to serve the region whose highest level of voltage is at 500kV and also the vast potential in urban rail development for the main city in the region," he adds.

Positive rating

Pestech over the week secured its third contract for FY2018.

The US$26mil contract for engineering, procurement and construction (EPC) works for a transmission line and substation project in Cambodia would begin next month over a period of 18 to 24 months.

Prior to this, in the first quarter of its FY2018, Pestech had bagged a RM79.5mil contract from Tenaga Nasional Bhd (TNB) for a power transmission line project in Selangor and another contract worth about RM49mil for its first engineering, procurement, construction and commissioning project for a substation in the Philippines.

According to Kenanga Research, Pestech will likely see more contracts rolling in through the year, particularly from Cambodia, based on its favourable track record.

The brokerage has an "outperform" call on Pestech's shares, with a target price of RM2 based on sum-of-parts valuation.

"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," Kenanga Research says in its recent report.

"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," it adds.

Kenanga Research views Cambodia as Pestech's major prospective growth area given the high expansion of power infrastructure development there.

"Given it is a preferred EPC contractor for Electricite Du Cambodge (Cambodian state-owned power company) under the private funded projects on the back of its track record, Pestech should stand a good chance to secure future projects," the brokerage says.

Pestech made inroads into Indochina with its first transmission line project in Cambodia, which was successfully commissioned seven months ahead of the contractual requirement in June 2013.

In that same year, it secured a US$29.3mil contract from Electricite du Laos, to build a 115kV double circuit transmission line in Laos.

Since then, the company has strengthened its presence in Cambodia.

Meanwhile, Kenanga Research expects Pestech to see maiden recurring income stream from its Diamond Power project in Cambodia to flow in from January 2018 onwards over the next 25 years.

This follows the completion of the EPC portion of the project in October.

Domestically, Kenanga Research believes Pestech stands a good chance to win the Gemas-Johor Baru double track electrification project.

"Though the long-awaited Gemas-Johor Baru double track electrification project has no outcome yet, but based on the firm's track record and its recent M&A of railway contractor Colas Rail System, Pestech stands a good chance of securing it," Kenanga Research explains.

Sharing a bullish view on Pestech is RHB Research Institute, which has a "buy" call on the counter, with a target price of RM2.12.

This represents an upside of about 24% from Pestech's closing price yesterday.

Pestech's shares ended unchanged at RM1.70 yesterday.

At that level, the counter was traded at 16 times estimated earnings for FY2018 and 14 times the estimated earnings for FY2019.

Pestech saw its net profit fall 7% to RM11.1mil in the first quarter ended Sept 30, 2017, from RM11.9mil in the corresponding period last year.

Consequently, its earnings per share fell to 1.45 sen from 1.60 sen.

During the quarter in review, Pestech's revenue rose about 80% to RM184.9mil from RM102.8mil in the previous corresponding period.

This was mainly attributable to higher progressive construction revenue recognised from domestic and oversea projects which were derived from newly secured orders.

Pestech noted that the group recorded a lower gross profit margin of 18.6% for the quarter under review, compared with 23.3% in the previous corresponding period.

The lower gross profit margin was mainly due to current projects phases.

In addition, the financial elements of the concession asset, amounting to RM10.2mil, was recognised as other income instead of revenue in accordance with IC Interpretation 12 Service Concession Arrangements.