



31 DEC, 2019

Pestech`s contracts keep rolling in

The Malaysian Reserve, Malaysia

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► **Recommendation:**
Outperform
TARGET Price: RM1.75
 by Kenanga Research (Dec 30)

LAST Friday, Pestech International Bhd announced that its wholly-owned subsidiary Pestech Sdn Bhd has received a Notice of Award from National Grid Corp of the Philippines (NGCP) for the engineering, procurement and construction and commissioning (EPCC) contract for South Luzon substations upgrading project Stage 1 (San Juan and Lumban substations) and Stage 2 (Daraga substation) for a total contract value of c.RM111.7m which consists of: i) offshore portion of US\$16.64m (RM68.4m); and ii) onshore portion of 528.8m Philippines pesos (RM42.8m).

Under the contract, Pestech will deliver an EPCC work for the existing obsolete 230kV and 69kV electrical equipment including the associated equipment and materials in San Juan, Lumban and Daraga substations with project durations over 360-450 days.

We are positive with this win,

► PESTECH INTERNATIONAL BHD			
FYE JUNE	2019A	2020E	2021E
TURNOVER (RM mil)	810.0	950.0	1,050.0
CORE NET PROFIT (RM mil)	72.4	91.1	103.4
CORE EPS (sen)	9.5	11.9	13.5
CORE PER (x)	11.7	11.4	10.1

which is another major power infrastructure project awarded by NGCP, hot on the heels of the Cebu-Bohol 230kV Interconnection project clinched by Pestech on Dec 12. This RM112m project forms part of the major power infrastructure upgrading undertaken by NGCP in its efforts to replace and upgrade the reliability of the power infrastructure in the Philippines to support robust growth.

With these two major Filipino contracts coupled with the Asian Development Bank-funded contract secured in Papua New Guinea the week before, Pestech proved that it possesses the capacity and ability to provide and deliver products and services

at the international level.

This is its third contract win in three weeks and is also the fourth project win for FY20, totalling YTD contract win to RM314.4m against our targeted orderbook replenishment of RM750m. We believe the contract flow will not stop here.

We continue to like this niche utility infrastructure play which could potentially benefit from the revival of mega projects domestically and the fast growing energy infrastructure development market in Cambodia. As such, we also maintain our 'Outperform' rating and TP of RM1.75/SOP share.

Risks to our call include: i) failure to replenish orderbook; and ii) cost overruns.



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SUMMARIES

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