



Media Release

RAM Ratings assigns A₁/P1 ratings to PESTECH, and A₃ rating to proposed RM400 mil perpetual sukuk

RAM Ratings has assigned preliminary A₁/Stable/P1 corporate credit ratings (CCRs) to PESTECH International Berhad (PESTECH or the Group), along with an A₃/Stable rating for the proposed RM400 mil Tranche 1 under its RM1 bil Perpetual Sukuk Musharakah Programme (the Perpetual Sukuk). The ratings reflect PESTECH's sound business position in the power infrastructure (particularly the construction of sub-station and transmission systems) and rail electrification segments, as well as its healthy debt-coverage metrics, anchored by the locked-in cashflow from its long-term concession-based projects. The proceeds from the proposed Tranche 1 will be used for refinancing purposes.

The proposed Tranche 1 perpetual sukuk is rated two notches below PESTECH's long-term CCR, to reflect the risk of deferrable profit distributions and the deeply subordinated position of the sukukholders in the event of insolvency. The assigned CCRs incorporate the successful issuance of at least RM400 mil of perpetual sukuk that qualifies for 50% equity credit, as defined under RAM's Criteria of Equity Credit for Corporate Hybrid Securities.

PESTECH has established a solid footprint in Malaysia and Cambodia, having completed numerous electrical sub-station and power transmission system projects over the last two decades. These jobs are highly specialised given the high levels of technical and safety requirements. The Group has also participated in many local rail electrification schemes, including Phase 1 of the Klang Valley Double Track project, Mass Rapid Transit 2 (or MRT 2) and the Gemas-Johor Bahru electrified double-track project. As at end-December 2019, PESTECH's outstanding order book remained healthy at RM1.6 bil, with 55% contributed from railway division and the remaining 45% from power segment. This underpins PESTECH's revenue visibility through the next two years.

In Cambodia, PESTECH owns two concession-based power transmission assets and has secured many similar construction projects. Most of these are structured as long-term, deferred-payment arrangements (concession-based build-and-transfer (BT) projects). Although the Group must fund construction cost upfront, post-completion collection is secured by the commitment of government-owned Electricite du Cambodge (EDC). PESTECH has also procured political risk insurance to protect itself against non-payment by EDC, which helps moderate Cambodia's weak sovereign

rating. Payments from EDC have mostly been prompt in the past 28 months up to May 2020.

RAM's cashflow analysis indicates that concession and BT projects will contribute an average of RM186 mil annual funds from operations (FFO) to PESTECH over the next three years. This accounts for about 54% of PESTECH's adjusted FFO. Coupled with healthy profits from its Engineering, Procurement, Construction and Commissioning (EPCC) projects and a lighter post-refinancing debt load, this translates into a strong FFO debt coverage ratio of 0.24 times in fiscal 2021. We expect the highly predictable recurring cashflow to keep supporting PESTECH's debt coverage ratios through the next decade.

Notwithstanding the above strengths, the ratings are moderated by PESTECH's hefty debt load, mainly due to its concession-based projects. That said, its gearing ratio is anticipated to ease after it begins collecting payments for two of its BT projects early this year. This will allow PESTECH to gradually trim its debts. After according 50% equity credit to the proposed Tranche 1 hybrid, we expect its gearing ratio to come in at 0.77 times at end-June 2021, before moderating to 0.59 times the following year (end-March 2020: 2.01 times). However, the Group is likely to gear up again to fund construction expenses if it secures new concessions or BT projects.

PESTECH's foreign operations are mostly in emerging countries with evolving legal and regulatory frameworks. Being a heavily regulated industry, the power sector in particular is vulnerable to regulatory changes. However, we derive some comfort from the Group's prudent expansion via collaboration with local partners and strict evaluation of counterparty credit risks. Although PESTECH's counterparties are typically national utility firms that have a strong bargaining power, the jobs are mostly awarded via open tenders. This, together with the power sector's daunting entry barriers are also envisaged to protect PESTECH from margin erosion in the medium term.

PESTECH was listed on Bursa Malaysia in 2012. Its wholly owned subsidiary, PESTECH Cambodia Plc, will undertake an initial public offering through the Main Board of the Cambodia Securities Exchange. This is slated for completion by September 2020. PESTECH had been founded by Executive Chairman Lim Ah Hock. Lim's nephew, Lim Pay Chuan, is the Group's executive director and CEO. Collectively, they own 53.9% of PESTECH (as of 31 December 2019).

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