



31 DEC, 2019

Earnings growth for two years seen from Pestech's RM1.7b order book

The Edge Financial Daily, Malaysia

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Pestech International Bhd (Dec 30, RM1.36)

Maintain outperform with an unchanged target price of RM1.75:

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, construction and commissioning (EPCC) contract for the South Luzon substations upgrading project stage 1 (San Juan and Lumban substations) and stage 2 (Daraga substation) for a total contract value of about RM111.7 million, consisting of an offshore portion of US\$16.64 million (RM68.39 million) and an onshore portion of 528.8 million Philippine pesos (RM42.82 million).

Under the contract, Pestech will deliver an EPCC work for the existing obsolete 230kV and 69kV electrical equipment including

associated equipment and materials in San Juan, Lumban and Daraga substations with project durations from 360 to 450 days.

This 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 the financial year ending June 30, 2020 (FY20), totalling the year-to-date (YTD) contract wins to RM314.4 million against our targeted order book

replenishment of RM750 million. We believe the contract flow will not stop here. Just two weeks ago, the prime minister said the Kuala Lumpur-Singapore High-Speed Rail (HSR) is to go ahead albeit at a lower cost.

As such, there are at least four mega transportation infrastructure projects, namely the HSR, the Klang Valley Double Track Phase 2, Light Rail Transit Line 3 and the East Coast Rail Link, in the near term for Pestech to bid for in the rail electrification packages. Meanwhile, its current order book of RM1.7 billion will support earnings growth for the next two years.

Although its share price has risen 37% YTD, we believe the market has yet to appreciate the growth potential in this stock, given the earnings growth potential of 26%/14%, implying a decent price-earnings ratio of 11 times/10 times for FY20/FY21 respectively. For now, we keep

Pestech International Bhd

FY/6 JUNE (RM MIL)	2019A	2020E	2021E
Turnover	810.0	950.0	1,050.0
Ebit	150.4	166.5	179.5
PBT	97.6	116.5	131.1
Net profit (NP)	80.2	91.1	103.4
Core net profit	72.4	91.1	103.4
Core EPS (sen)	9.5	11.9	13.5
Core EPS growth (%)	16.4	25.7	13.6
BV/share (RM)	0.28	0.33	0.39
NTA/share (RM)	0.28	0.33	0.39
Core PER (x)	11.7	11.4	10.1
PBV (x)	3.97	4.08	3.45
Price/NTA (x)	3.51	4.08	3.45
Gearing (%)	1.82	1.38	1.06

Source: Kenanga Research

our estimates unchanged.

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.

Risks to our call include: i) the failure to replenish its order book; and ii) cost overruns. — Kenanga Research, Dec 30



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SUMMARIES

Pestech International Bhd (Dec 30, RM1.36) Maintain outperform with an unchanged target price of RM1.