

Headline	PESTECH Could Gain from Revival of Local Megaprojects, Cambodia Energy Market
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**PESTECH International Bhd  
(Dec 13, RM1.22)**

**Maintain outperform with an unchanged target price (TP) of RM1.75:** Pestech International Bhd has secured its third contract in the Philippines for an engineering, procurement, construction and commissioning (EPCC) contract worth about RM94 million. We see vast potential there as 30% or 28 million of the population of the Philippines do not have access to electricity supply. Meanwhile, with the revival of mega transportation infrastructure projects in Malaysia, contract awards should start rolling soon. Given its technical capability, Pestech is likely to stand a good winning chance.

Last Thursday, Pestech announced that its wholly-owned subsidiary Pestech Sdn Bhd had received a notice of award from National Grid Corp of the Philippines (NGCP) for the EPCC contract for Cebu-Bohol 230kV interconnection project for the substation portion for a total contract value of about RM94 million, comprising an offshore portion of US\$13.89 million (RM57.7 million), and onshore portion of 439.9 million peso (RM36.1 million). Under the contract, Pestech will deliver a new 230kV outdoor substation in Bohol and a 138kV extension work at the existing substation in Bohol with a project duration of 450 days.

We are positive with this third contract secured from NGCP with a greater contract value, increasing from the about RM38 million Tiwi contract in August 2016 and followed by the bigger RM50 million Calamba contract in October 2017. This latest contract value of RM94 million almost doubled the Calamba contract, showing an increasing trend in project value. Profit margin for this new contract is still within the range of 9-11%. We have learnt that Pestech is eyeing another EPCC contract in the Philippines as well.

With this Philippines contract win, Pestech has secured a total of RM132 million for financial year 2020 (FY20) after winning a small smart metering contract last month worth RM38.4 million from Tenaga Nasional Bhd. Although almost crossing the half-year mark for FY20, we believe our targeted order book replenishment of RM750 is not overly optimistic given the upcoming contract flows from the Klang Valley Double Track phase 2 (KVDT2), Light Rail Transit Rail 3 (LRT3) and East Coast Rail Link (ECRL) projects. While there is no indication of contract value sizes, we believe the combined value of any two of these three rail electrification projects could likely boost the company's order book by 40-50%, from the current size of RM1.6 billion, should it be successful in the bidding.

We continue to like this niche utility infrastructure play which could potentially benefit from the revival of megaprojects domestically and the fast-growing energy infrastructure development market in Cambodia. Given the earnings growth potential of 26%/14%, at decent price-to-earnings ratio of 10 times/nine times for FY20/FY21, we believe the market has yet to appreciate the growth potential in this stock. While keeping our estimates unchanged, we also maintain our "outperform" rating and TP of RM1.75/sum-of-parts share. Risks to our call include failure to replenish order book and cost overruns. — *Kenanga Research*, Dec 13

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