

01 July 2020

Pestech International Bhd

3QFY20 Disappointing; Billing Delayed

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The flattish sequential 3QFY20 core profit of RM10.0m is disappointing as the lockdown-led slow billing claims dragged a normally seasonal strong quarter. Thus, earnings recognition is likely to be pushed forward to FY21 while profit margin should normalise as higher opex during the period is an isolated event. We still like the company for its niche utility infrastructure play. Maintain OP with revised TP of RM1.05.

3QFY20 below on MCO-delayed billings. At 43% of our FY20 estimates, 9MFY20 core profit of RM39.3m fell short of our estimate primarily due to the MCO lockdown which delayed billings for its local as well as Philippines projects; besides that, interest expense and minority interest were also higher than expected. Meanwhile, there is still no dividend declared during the period as expected with cash conserved for expansion.

Flattish sequential results. Despite revenue rising 15% to RM218.8m, 3QFY20 core profit fell slightly by 3% to RM10.0m from RM10.3m in the preceding quarter. The weaker results were partly attributable to higher operating costs in Cambodia as the project team employed more workers as it expedited works to meet COD for the first Alex Corp's project and Oddor Meanchey. Meanwhile, the second Alex Corp's Tatay project has progressed further by 6% to 61% completion as compared to the almost flattish rate of 55% previously due to the raining season. Back home, progress for JB-Gemas double-track project saw its progress completion going up by 4% at 16% this quarter (from up 1% to 12% completion in 2QFY20). Meanwhile, KVD and MRT2 are both at the mid-way of their completion with the former's progress completion increasing to 68% from 63% while the latter reached 54% from 46%.

Weaker YoY earnings on delayed billing. YoY, 3QFY20 core profit fell 53% from RM21.2m in 3QFY19 while revenue dipped slightly by 1% from RM222.1m. The fall in earnings was largely due to lower-than-expected billing claims given the lockdown restriction in Malaysia as well as Philippines, although 2H had always been the stronger half in the past. However, accumulative 9MFY20 core profit inched up slightly 1% to RM39.3m from RM38.9m last year despite a strong top-line growth of 14%. The higher revenue which was due to JB-Gemas double-track project being a new project and the MRT2 project had more work done, while the small increment in bottomline was due partly to the higher operating costs mentioned above.

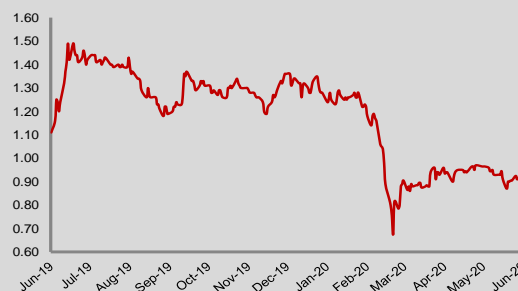
Earnings to be pushed forward to FY21. While 3QFY20 results were disappointing given the low billings, earnings are likely to be pushed forward to FY21 with the lockdown being eased locally as well as overseas. Besides, key local projects MRT2 and KVD are advancing to higher stages as well as the Cambodian Tatay project. Meanwhile, the refinancing of existing loan should help to address the issue of high interest cost with the first drawdown expected in Aug. Going forth, its current order-book of RM1.48b will keep them busy for the next two years and sustain earnings growth. In addition, we expect contract flows to start kicking in with the revival of KVD2, LRT2 and ECRL. PESTECH should stand a good chance of participating in these projects as it is the only local firm with rail electrification expertise.

Keep OUTPERFORM. Post-3QFY20 results, we cut FY20/FY21 earnings estimates by 24%/21% on: (i) lower revenue assumption on lockdown-effect and (ii) higher interest expense and minority interest. We also lowered our target price to RM1.05 based on -1SD 5-year PBV moving average of 3.78x from RM1.15 on -1SD 5-year PBV moving average of 4.04x. Although 3QFY20 results were disappointing, we still 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 Indochina. Thus, OUTPERFORM rating maintained. **Risks to our call include:** (i) failure to replenish order-book, and (ii) cost overruns.

OUTPERFORM ↔

Price: **RM0.900**
Target Price: **RM1.050** ↓

Share Price Performance



KLCI 1,500.97
YTD KLCI chg -5.5%
YTD stock price chg -31.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	686.8
Shares Outstanding	763.1
52-week range (H)	1.53
52-week range (L)	0.60
3-mth avg daily vol:	596,950
Free Float	40%
Beta	1.2

Major Shareholders

Lim Ah Hock	33.4%
Lim Pay Chuan	21.3%
Norges Bank	2.7%

Summary Earnings Table

FYE Jun (RM m)	2019A	2020E	2021E
Turnover	810.0	900.0	950.0
EBIT	150.3	153.0	166.5
PBT	97.5	93.0	107.9
Net Profit (NP)	80.2	69.1	81.7
Core Net Profit	72.4	69.1	81.7
Consensus (NP)		N.A.	N.A.
Earnings Revision (%)		-24.1	-21.0
Core EPS (sen)	9.5	9.0	10.7
Core EPS growth (%)	16.4	-4.6	18.3
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.28	0.32	0.37
NTA/Share (RM)	0.28	0.32	0.37
Core PER (x)	11.7	10.0	8.4
PBV (x)	3.97	2.81	2.44
Price/NTA (x)	3.51	2.81	2.44
Gearing (%)	1.82	1.49	1.24
Net Yield (%)	0.0	0.0	0.0

01 July 2020

Income Statement

Y/E : Jun (RM m)	3Q FY20	2Q FY20	Q-o-Q Chg	3Q FY19	Y-o-Y Chg	9M FY20	9M FY19	Y-o-Y Chg
Turnover	218.8	190.9	15%	222.1	-1%	597.0	524.8	14%
EBITDA	34.3	34.3	0%	39.5	-13%	107.6	98.1	10%
Depreciation	(2.2)	(2.4)	-5%	(2.2)	1%	(6.9)	(4.9)	40%
EBIT	32.1	32.0	0%	37.3	-14%	100.8	93.1	8%
Interest expense	(15.6)	(14.6)	7%	(13.6)	15%	(43.0)	(37.1)	16%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	16.4	17.3	-5%	23.7	-31%	57.7	56.0	3%
Taxation	(2.0)	(5.1)	-62%	(1.2)	65%	(10.8)	(4.5)	141%
Profit after tax	14.5	12.2	19%	22.5	-36%	46.9	51.5	-9%
Minority interest	(2.7)	(4.1)	-34%	(0.9)	191%	(7.6)	(5.5)	39%
Net profit	11.8	8.1	45%	21.6	-45%	39.3	46.0	-15%
Core net profit	10.0	10.3	-3%	21.2	-53%	39.3	38.9	1%
EPS (sen)	1.5	1.1	45%	2.8	-45%	1.5	1.1	45%
NDPS (sen)	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.25	0.25	0%	0.21	18%	0.25	0.21	18%
EBITDA margin	16%	18%		18%		18%	19%	
EBIT margin	15%	17%		17%		17%	18%	
Pretax margin	8%	9%		11%		10%	11%	
Effective tax rate	12%	30%		5%		19%	8%	

Source: Company

01 July 2020

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
GAS MALAYSIA BHD	2.80	3,595.2	Y	12/2020	-4.7%	16.5%	-4.6%	15.2%	20.8	21.8	18.9	3.4	3.4	15.7%	4.1%	2.80	MP
MALAKOFF CORP BHD	0.910	4,447.1	Y	12/2020	7.4%	0.3%	58.1%	6.3%	21.7	13.7	12.9	0.8	0.8	6.0%	7.2%	1.02	OP
PESTECH INTERNATIONAL BHD	0.900	686.8	Y	06/2020	11.1%	5.6%	-4.6%	18.2%	9.5	10.0	8.4	1.4	1.3	13.5%	0.0%	1.05	OP
PETRONAS GAS BHD	16.88	33,401.0	Y	12/2020	18.4%	0.9%	1.4%	0.1%	17.7	17.5	17.5	2.5	2.4	14.2%	4.3%	17.20	OP
TENAGA NASIONAL BHD	11.62	66,287.4	Y	12/2020	4.0%	1.8%	0.2%	2.0%	12.7	12.7	12.4	1.1	1.1	8.8%	3.9%	13.95	OP
YTL POWER INTERNATIONAL BHD	0.670	5,142.5	N	06/2020	-3.4%	2.1%	-34.6%	4.3%	7.8	12.0	11.5	0.4	0.4	3.2%	7.5%	0.650	MP
Simple Average					5.5%	4.5%	2.6%	7.7%	15.0	14.6	13.6	1.6	1.6	10.2%	4.5%		

Source: Bloomberg, Kenanga Research

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01 July 2020

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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