

09 December 2020

Pestech International

Another Win in The Philippines

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PESTECH has won yet another project from the Philippines National Grid Corporation of the Philippines (NGCP) worth RM104m. Being the 5th win from NGCP, this goes to show the confidence the Filipino entity have in PESTECH. There are vast opportunities there, where 30% of the population are still without access to electricity supply as well as from a potential rail electrification project in Luzon. The stock is still attractive post rally of late, trading at 1.5SD below 5-year PBV mean. Maintain OP at TP of RM1.15.

Bagged RM104m Filipino project. Yesterday, PESTECH announced that its wholly-owned subsidiary Pestech Sdn Bhd has accepted a Notice of Award from NGCP for an EPC contract for the substation portion of the Nabas-Caticlan-Boracay 138kV transmission line project for a total value of c.RM104m comprising: (i) offshore portion of USD15.56m, and (ii) onshore portion of PHP483.306m. Under the contract, PESTECH will deliver a new Boracay substation and an expansion of the existing Nabas substation with project duration over 420 days.

5th NGCP contract. We are positive with this win which shows NGCP's confidence in PESTECH's ability to deliver the project as it is the 5th contract that PESTECH secured from NGCP since 2016. Pre-tax profit margin for this new contract is still within between the 9% and 11% range. We see vast potential in the Philippines for transmission line and substation EPC projects as 30% or 28m of its population are still without access to electricity supply, and there is opportunity in a rail electrification project in the country as well in which PESTECH is participating in the tender for the 38km North-South Commuter Railway for the south Luzon portion with contract value of RM400m.

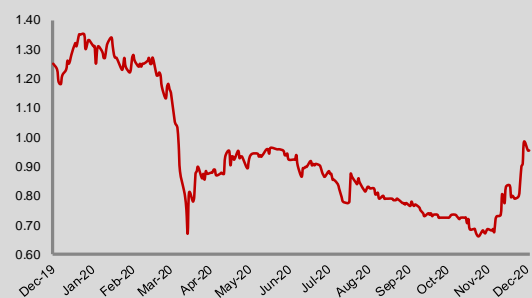
Four potential rail electrification projects in the region. Besides the abovementioned Filipino projects, there are three other potential rail electrification projects available for tender i.e. Bangkok's MRT Orange Line's rail electrification work, valued at RM500m-RM600m; Taiwan's 50km Cycle Line's work, valued at about USD200m and a 4km RTS line for JB side with two stations worth RM40m-RM50m. However, there is no tender update on the local rail electrification projects such as HSR, ECRL and KVDT2. Meanwhile, with this NGCP's win, order-book is increased to RM1.60b from RM1.50b in Sep which will keep them busy for the next two years and sustain earnings growth.

OUTPERFORM maintained. Share price has rebounded strongly by 40% from the recent low of RM0.68 in early Nov, which we believe was due to investors buying on weakness. Even at current price, the stock is trading attractively at 1.5SD below 5-year PBV mean of 1.21x. As such, we maintain our OUTPERFORM rating with unchanged target price of RM1.15 which is based on 1SD below 5-year PBV moving average of 1.69x. We continue to like this niche utility infrastructure play which could potential benefit from the revival of mega projects locally and the fast growing energy infrastructure development market in Indochina. **Risks to our call include:** (i) failure to replenish order-book, and (ii) cost overruns.

OUTPERFORM ↔

Price : **RM0.955**
Target Price : **RM1.15** ↔

Share Price Performance



KLCI 1,631.70
YTD KLCI chg 2.7%
YTD stock price chg -26.6%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker PEST MK
Market Cap (RM m) 726.9
Shares Outstanding 761.2
52-week range (H) 1.39
52-week range (L) 0.60
3-mth avg daily vol: 2,284,095
Free Float 41%
Beta 1.1

Major Shareholders

Lim Ah Hock 33.5%
Lim Pay Chuan 20.2%
Norges Bank 2.7%

Summary Earnings Table

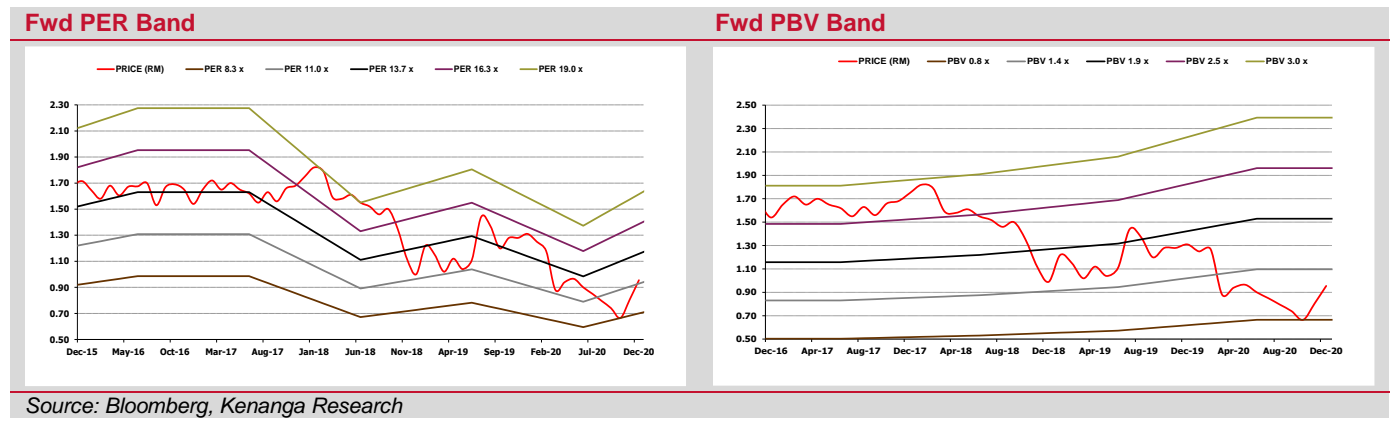
FYE Jun (RM m)	2020A	2021E	2022E
Turnover	797.3	950.0	1,000.0
EBIT	141.3	159.0	165.0
PBT	83.4	99.4	106.7
Net Profit (NP)	55.1	74.5	80.7
Core Net Profit	55.8	74.5	80.7
Consensus (NP)		N/A	N/A
Earnings Revision (%)		-	-
Core EPS (sen)	7.3	9.7	10.6
Core EPS growth (%)	-23.0	33.5	8.4
NDPS (sen)	0.0	1.0	0.0
BV/Share (RM)	0.68	0.79	0.89
NTA/Share (RM)	0.68	0.79	0.89
Core PER (x)	12.3	9.8	9.0
PBV (x)	1.32	1.21	1.07
Price/NTA (x)	1.32	1.21	1.07
Gearing (%)	2.12	1.74	1.49
Net Yield (%)	0.0	1.0	0.0

Contract Flow				
Date	Client	Contract Sum (RM m)	Contract Description	Duration
11 Jul 2012	OM Materials (S'wak)	111.55	275kV Substation for the Ferro Alloy Project in Samalaju, Sarawak	16 months
20 Sep 2012	Asia Advanced	27.84	Samalaju Industrial Park, Bintulu, Sarawak 132/33/6.6kV Substation	16 months
1 Oct 2012	TENAGA	16.49	132kV and 33kV switchgear, transformer and ancillary equipment and associated civil works for PMU 132/33kV Bukit Siput extension (2x90MVA), Johor	455 days
19 Oct 2012	TENAGA		132/33kV 2x45MVA at PMU New Bukit Ketri	546 days
7 Jan 2013	TENAGA	15.96	132KV and 33KV switchgear, 2 x 45MVA 132/33KV power transformer and ancillary equipment for PMU Jerantut	546 days
19 Mar 2013	RSG, gold mining company	9.21	225kV high voltage substation for the Syama Gold Mine located in the south of Mali, West Africa	13 months
30 Aug 2013	Sarawak Energy Bhd	95.62	275/33 kV substation ("MAPAI Substation") with provision for future 500kV switchyard with four future 500/275kV transformer bays expansion	23 months
19 Sep 2013	Electricite du Laos	90.40	115kV double circuits transmission line from Pakse, Lao People's Democratic Republic to the Lao-Thai border	18 months
28 Nov 2013	Metix Malaysia Sdn Bhd	51.29	132/33/11 kV integrated power distribution system including substations for Sakura Ferroalloys Sdn. Bhd	18 months
15 Jan 2014	Sarawak Energy Bhd	84.98	SEB's Mambong and Entinggan 275 kV substation extension project	23 months
10 Mar 2014	Alex Corp Co Ltd	279.71	230kv West Phnom Penh-Sihanoukville Transmission Line and 230/115/22kv substation extension project	32 months
19 Jun 2014	TENAGA	1.10	Utility SDH telecommunication equipment for TENAGA's operation requirement	240 days
10 Nov 2014	Sarawak Energy Bhd	0.89	Supply, installation, testing and commissioning of Information Management System as part of the expansion plan for control system in Sejingkat Power Plant Project in Sarawak	
19 Jan 2014	TENAGA	1.17	Supply and provision of engineering assistant to install and commission the new governor system upgrading at SJ Tenom Pangi, Sabah	14 weeks
24 Feb 2015	NUR Distribution Sdn Bhd	28.80	EPC & testing work package for the West 132kV substation project in Kulim, Kedah	15 months
2 Mar 2015	Sarawak Energy Bhd	48.36	Samajaya 132/33/11kV substation in Kuching, first indoor substation in Kuching	18 months
19 Apr 2015	Diamond Power Ltd	212.10	Design, build, testing and commissioning of the 230kV Kampong Cham-Kratie Transmission System Project.	30 months
25 Sep 2015	TENAGA	134.42	construction of the 500/275kV Yong Peng East (2x1050MVA) backbone main intake substation	36 months
31 Mar 2016	Dhaya Maju	318.00	Rail electrification and commissioning for rehabilitation work of KVDT	42 months
17 Aug 2016	NGCP	37.78	Upgrading of TIWI Geothermal Power Plant A & C Substations	420 days
23 Sep 2016	Severelectro JS	34.69	Upgrading of three substations under ESARIP	1 year
26 Sep 2016	Sarawak Energy Bhd	89.53	New Bintulu B 275/(132)kV substation	21 months
7 Oct 2016	PNG Power Ltd	52.12	KilaKila 66/11kV substation and 66kV double circuit transmission line	24 months
8 Feb 2017	Alex Corp Co Ltd	254.49	230kV Stung Hav to Chamkar Loung Transmission Line and 500kV Chamkar Loung to Bek Chan Transmission Line	34 months
6 Apr 2017	Alex Corp Co Ltd	440.94	EPC package for 230kV double circuit transmission line Stung Tatay Hydro Power Plant-Phnom Penh and two 23kV lines bays at Stung Tatay HPP switchyard.	36 months
15 Aug 2017	TENAGA	79.50	EPC for 2x1050 MVA Autotransformers, 500kV and 275kV switchgears and ancillary equipment for PMU 500/275kV Olak Lempit	18 months
4 Oct 2017	NGCP	50.18	EPCC for the Calamba 230kW Substation	18 months
19 Dec 2017	Schneitec Co., Ltd	106.08	EPC for 75km 115kV double circuit transmission line from Oddor Meanchey to Siem Reap; a 115/22kV Oddor Meanchey substation and a 230/22kV Bek Chan (Porsenchey) substation	24 months
23 Aug 2018	Sykt SESCO Bhd	57.95	Sibiyu 132/33kV Substation	28 months
25 Sep 2018	Sykt P YTL Sdn Bhd	399.00	Electrification portion of Gemas-JB Double-track project	26 months
09 Oct 2018	Sykt P YTL Sdn Bhd	75.00	Signaling portion of Gemas-JB Double-track project	26 months
31 Jan 2019	TENAGA	112.50	Double circuit 275kV XLPE underground cable	730 days
31 Jan 2019	TENAGA	168.39	PMU 500/275kV Junjung (3x1050 MVA) substation in Kedah	912 days
17 Jun 2019	Electricity Ministry, Iraq	29.90	4 new 132/33kV, 31.5MVA mobile substations & 2 new 132/11, 25MWV mobile substations	-
11 Nov 2019	TENAGA	38.38	To supply and delivery of Smart Meter for Smart Billing Project deployment Phase 2	2019-2020
12 Dec 2019	NGCP	93.79	EPCC for Cebu-Bohol 230kV interconnection project for substation portic	450 days
20 Dec 2019	PNG Power Ltd	70.52	EPC for Port Moresby System Study and 11kV Distribution Upgrade	900 days
27 Dec 2019	NGCP	111.71	EPCC for South Luzon Substation Upgrading Project Stage 1 and Stage	360 days
17 Jan 2020	Energy Fiji Ltd	65.63	EPCC of Virara Koronubu 132kV transmission line Package 1 & 2	18 months
26 Mar 2020	Renaissance Minerals	32.22	EPCC of 230/11kV Okvau Transmission Substation	12 months
08 Dec 2019	NGCP	104.20	EPCC of Nabas-Caticlan-Boracay 138kV transmission line for substation.	14 months

Source: Bursa

Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2018A	2019A	2020A	2021E	2022E	FY Jun	2018A	2019A	2020A	2021E	2022E
Revenue	834.9	811.5	797.3	950.0	1,000.0	Growth (%)					
EBITDA	120.3	158.5	152.6	172.3	178.9	Revenue	64.3	-2.8	-1.7	19.2	5.3
Depreciation	-4.9	-7.2	-11.3	-13.3	-13.9	EBITDA	-21.2	31.7	-3.7	12.9	3.9
EBIT	115.4	151.3	141.3	159.0	165.0	Operating Income	-21.8	31.1	-6.7	12.5	3.8
Interest Expense	-23.0	-53.2	-57.8	-59.6	-58.3	Pre-tax Income	-31.9	6.0	-15.0	19.1	7.4
Associate	0.2	0.0	0.0	0.0	0.0	Net Income	-36.2	36.2	-30.2	35.2	8.4
Exceptional/FV	0.0	0.0	0.0	0.0	0.0	Core Net Income	-30.2	16.4	-23.0	33.5	8.4
PBT	92.6	98.2	83.4	99.4	106.7	Profitability (%)					
Taxation	-16.8	-11.5	-15.2	-14.9	-16.0	EBITDA Margin	14.4	19.5	19.1	18.1	17.9
Minority Interest	-17.8	-7.7	-13.1	-10.0	-10.0	Operating Margin	13.8	18.7	17.7	16.7	16.5
Net Profit	58.0	79.0	55.1	74.5	80.7	PBT Margin	11.1	12.1	10.5	10.5	10.7
Core Net Profit	62.2	72.4	55.8	74.5	80.7	Net Margin	6.9	9.7	6.9	7.8	8.1
						Core Net Margin	7.4	8.9	7.0	7.8	8.1
Balance Sheet						Effective Tax Rate	18.2	11.7	18.3	15.0	15.0
FY Jun (RM m)	2018A	2019A	2020A	2021E	2022E	ROE	8.5	8.7	6.3	6.7	6.7
Fixed Assets	83.2	91.4	143.5	140.2	136.3	ROA	14.4	15.4	11.1	13.3	12.5
Intangibles	90.5	87.3	83.9	84.0	84.0	DuPont Analysis					
Concession Assets	435.5	461.9	480.1	480.0	480.0	Net margin (%)	7.4	8.9	7.0	7.8	8.1
Investment	13.8	7.7	0.6	0.6	0.6	Assets Turnover (x)	0.5	0.4	0.3	0.4	0.4
Inventories	33.9	14.1	35.6	42.6	45.0	Leverage Factor (x)	3.7	4.3	4.7	4.2	3.8
Receivable	155.9	243.9	241.8	259.4	273.1	ROE (%)	13.6	15.0	10.7	12.4	11.8
Due From Cust.	708.6	956.9	1,291.5	1,327.5	1,366.1	Leverage					
Due From Cos	67.6	57.7	67.5	67.0	67.0	Debt/Asset (x)	0.43	0.49	0.49	0.47	0.45
Fixed Deposits	0.0	0.0	0.0	0.0	0.0	Debt/Equity (x)	1.61	2.14	2.30	1.98	1.70
Cash & Bank Bal.	118.6	166.6	97.0	142.0	143.2	Net Debt/(Cash)	-616.4	-863.4	1,100.2	-1,050.2	-1,022.1
Total Assets	1,707.7	2,087.5	2,441.6	2,543.4	2,595.3	Net Debt/Equity (x)	1.35	1.79	2.12	1.74	1.49
Payables	421.1	403.1	547.8	562.0	548.2	Valuations					
ST Borrowings	362.6	367.7	498.4	394.2	401.3	EPS (sen)	8.1	9.5	7.3	9.7	10.6
Other ST Liability	24.4	14.3	18.3	17.9	18.9	NDPS (sen)	0.0	0.0	0.0	1.0	0.0
LT Borrowings	372.4	662.3	698.8	798.0	764.0	BV (RM)	0.60	0.63	0.68	0.79	0.89
Other LT Lia.	0.8	79.3	67.7	72.6	74.0	NTA (RM)	0.60	0.63	0.68	0.79	0.89
Minority Interest	69.1	79.3	91.0	95.6	105.1	PER (x)	19.0	11.7	12.3	9.8	9.0
Net Assets	457.3	481.6	519.5	603.1	683.8	Net yield (%)	0.0	0.0	0.0	1.0	0.0
Share Capital	212.7	212.7	212.7	212.7	212.7	PBV (x)	2.59	1.76	1.32	1.21	1.07
Reserves	244.6	268.9	306.9	390.4	471.1	P/NTA (x)	2.59	1.76	1.32	1.21	1.07
Equity	457.3	481.6	519.5	603.1	683.8	EV/EBITDA (x)	11.3	15.0	10.8	11.7	10.3
Cashflow Statement											
FY Jun (RM m)	2018A	2019A	2020A	2021E	2022E						
Operating CF	-114.8	-230.6	-143.0	79.5	48.1						
Investing CF	-26.9	1.7	-61.4	-20.0	-20.0						
Financing CF	238.8	276.1	123.1	-14.5	-27.0						
Net Chg in Cash	97.0	47.2	-81.3	45.0	1.2						
Free Cash Flow	-141.8	-228.9	-204.4	59.5	28.1						

Source: Kenanga Research



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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	2.74	3,518.2	Y	12/2020	-1.7%	13.0%	11.8%	7.6%	20.5	18.4	17.1	3.4	3.3	18.2%	4.9%	2.85	MP
MALAKOFF CORP BHD	0.895	4,373.8	Y	12/2020	5.2%	1.4%	59.8%	5.3%	20.8	13.0	12.3	0.8	0.8	6.2%	6.1%	1.15	OP
PESTECH INTERNATIONAL BHD	0.955	726.9	Y	06/2021	19.2%	5.3%	33.5%	8.3%	13.1	9.8	9.0	1.4	1.2	13.2%	0.0%	1.15	OP
PETRONAS GAS BHD	17.62	34,865.3	Y	12/2020	2.3%	0.7%	7.6%	-4.2%	18.5	17.2	17.9	2.6	2.7	15.5%	6.9%	16.85	MP
TENAGA NASIONAL BHD	10.76	61,382.1	Y	12/2020	4.0%	1.8%	-29.1%	31.4%	11.0	16.6	12.6	1.0	1.0	6.3%	3.0%	12.40	OP
YTL POWER INTERNATIONAL BHD	0.710	5,776.4	N	06/2021	5.9%	-5.4%	55.8%	-12.2%	24.5	15.7	17.9	0.4	0.4	2.7%	7.0%	0.670	MP
Simple Average					5.8%	2.8%	23.2%	6.1%	18.1	15.1	14.5	1.6	1.6	10.3%	4.7%		

Source: Bloomberg, Kenanga Research

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09 December 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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