

17 February 2021

## Pestech International

### Wins Another EdC Project

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**PESTECH and its Japanese consortium partner have won a JICA-funded 230kV underground cable project in Cambodia which is highly positive as this is the first such project in the country. However, this was offset by a contract cancellation in Fiji. Meanwhile, although EV is the investment theme of the day, earnings impact from its EV exposure is insignificant for now. Maintain OP with a higher TP of RM1.46**

**Secured another contract in Cambodia.** Yesterday, PESTECH announced that a consortium comprising its wholly-owned subsidiary Pestech Sdn Bhd and Furukawa Electric Co Ltd of Japan, has received a Notification of Award from Electricite du Cambodge (EdC) for the contract pertaining to the Phnom Penh City Transmission and Distribution System Expansion Project Phase 2(l) – Package 3 at a total contract value of JPY portion of JPY2,219.5m (c.RM85m) and USD portion of USD19.9m (c.RM80m). This is a Japan International Cooperation Agency (JICA)-funded project and the commencement and completion dates of the project will be decided by EdC upon contract negotiation with the consortium.

**First 230kV underground cable work project.** This project is positive for PESTECH as a good project reference for its successful venture into exporting extra high voltage underground cable design and laying capability outside Malaysia. For PESTECH to secure this first underground cable work in Cambodia, it highlights that PESTECH's technical ability is well accepted by EdC. Being a JICA project, we believe the USD portion of project value will be executed by PESTECH while the JPY portion is for the Japanese partner. On the other hand, PESTECH also announced the cancellation of a Fiji contract worth FJD34.99m (c.RM70m) (which was secured in Jan 2020) with Energy Fiji Ltd as both parties had mutually agreed to terminate the contract due to non-fulfilment of conditions precedent.

**Share price fuelled by EV story.** Share price of PESTECH has surged 52% in the past two weeks with investors swayed by the electric vehicle (EV) theme. To recap, PESTECH started its digitalisation technologies in 2018 which offer service of smart meters and EV charging stations. Currently, it is the only non-government body to collaborate with TNBX Sdn Bhd, a wholly-owned unit of **TENAGA (OP; TP: RM12.40)** for EV chargers with 18 stations being installed currently. It shares certain revenue from the stations which is immaterial to its earnings. In a counter check with TENAGA, we learned that besides PESTECH, TNBX has also collaborated with Malaysian Green Technology Corp (MGTC) and it has total of 73 EV charging stations at the moment.

**OUTPERFORM maintained.** Although EV is the theme of the day, the earnings impact is small and unlikely to be significant in the near term as the rollout plan is dependent on TNBX and not PESTECH. We keep our estimates for now as the new EdC contract win is dampened by the cancellation of the Fijian contract. However, we switch back to PER valuation method from PBV as the world is in the vaccination stage which raises certainty of economic recovery. We are now valuing PESTECH based on 3-year PER mean of 13.8x from -1.5SD 5-year PBV mean of 1.21x, deriving a new TP of RM1.46 from RM1.15. As such, PESTECH remains as an OP. **Risks to our call include:** (i) failure to replenish order-book, and (ii) cost overruns.

## OUTPERFORM ↔

Price : **RM1.34**  
Target Price : **RM1.46** ↑

### Share Price Performance



KLCI	1,606.14
YTD KLCI chg	-1.3%
YTD stock price chg	44.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	1,020.0
Shares Outstanding	761.2
52-week range (H)	1.43
52-week range (L)	0.59
3-mth avg daily vol:	5,819,681
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
<b>Net Profit (NP)</b>	55.1	74.5	80.7
<b>Core Net Profit</b>	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)	0.57	0.68	0.78
Core PER (x)	12.3	13.8	12.7
PBV (x)	1.32	1.70	1.50
Price/NTA (x)	1.58	1.97	1.71
Gearing (%)	2.12	1.74	1.49
Net Yield (%)	0.0	0.7	0.0

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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 2020	NGCP	104.20	EPCC of Nabas-Caticlan-Boracay 138kV transmission line for substation	14 months
16 Feb 2021	Electricite du Cambodge	80.35	EPCC of 230kW underground cable work in Phnom Penh	-

Source: Bursa

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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	<b>Growth (%)</b>					
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	<b>Profitability (%)</b>					
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
						Effective Tax Rate	18.2	11.7	18.3	15.0	15.0
						ROE	8.5	8.7	6.3	6.7	6.7
						ROA	14.4	15.4	11.1	13.3	12.5
						<b>DuPont Analysis</b>					
						Net margin (%)	7.4	8.9	7.0	7.8	8.1
						Assets Turnover (x)	0.5	0.4	0.3	0.4	0.4
						Leverage Factor (x)	3.7	4.3	4.7	4.2	3.8
						ROE (%)	13.6	15.0	10.7	12.4	11.8
						<b>Leverage</b>					
						Debt/Asset (x)	0.43	0.49	0.49	0.47	0.45
						Debt/Equity (x)	1.61	2.14	2.30	1.98	1.70
						Net Debt/(Cash)	-616.4	-863.4	1,100.2	-1,050.2	-1,022.1
						Net Debt/Equity (x)	1.35	1.79	2.12	1.74	1.49
						<b>Valuations</b>					
						EPS (sen)	8.1	9.5	7.3	9.7	10.6
						NDPS (sen)	0.0	0.0	0.0	1.0	0.0
						BV (RM)	0.60	0.63	0.68	0.79	0.89
						NTA (RM)	0.48	0.52	0.57	0.68	0.78
						PER (x)	19.0	11.7	12.3	13.8	12.7
						Net yield (%)	0.0	0.0	0.0	0.7	0.0
						PBV (x)	2.59	1.76	1.32	1.70	1.50
						P/NTA (x)	3.23	2.15	1.58	1.97	1.71
						EV/EBITDA (x)	15.0	10.8	11.7	12.0	11.4

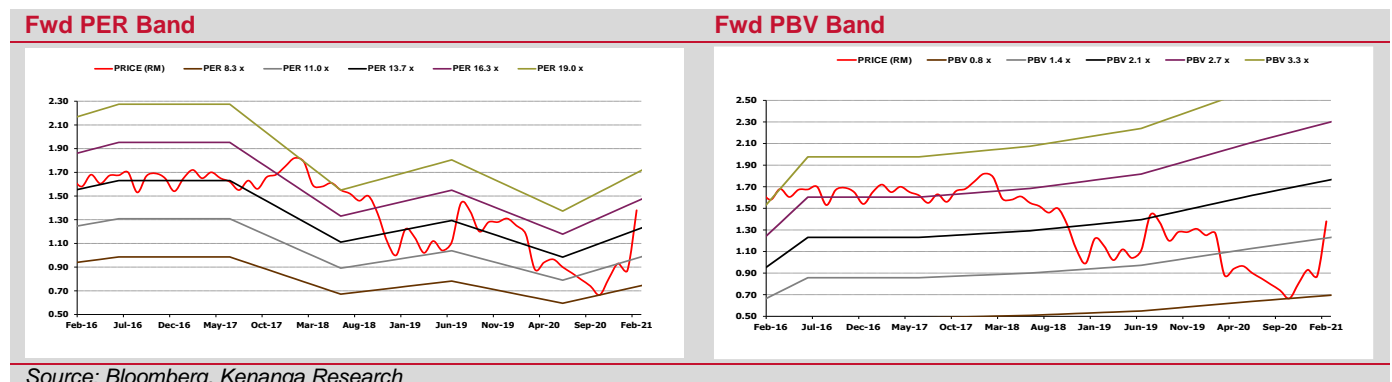
  

Balance Sheet					
FY Jun (RM m)	2018A	2019A	2020A	2021E	2022E
Fixed Assets	83.2	91.4	143.5	140.2	136.3
Intangibles	90.5	87.3	83.9	84.0	84.0
Concession Assets	435.5	461.9	480.1	480.0	480.0
Investment	13.8	7.7	0.6	0.6	0.6
Inventories	33.9	14.1	35.6	42.6	45.0
Receivable	155.9	243.9	241.8	259.4	273.1
Due From Cust.	708.6	956.9	1,291.5	1,327.5	1,366.1
Due From Cos	67.6	57.7	67.5	67.0	67.0
Fixed Deposits	0.0	0.0	0.0	0.0	0.0
Cash & Bank Bal.	118.6	166.6	97.0	142.0	143.2
Total Assets	1,707.7	2,087.5	2,441.6	2,543.4	2,595.3
Payables	421.1	403.1	547.8	562.0	548.2
ST Borrowings	362.6	367.7	498.4	394.2	401.3
Other ST Liability	24.4	14.3	18.3	17.9	18.9
LT Borrowings	372.4	662.3	698.8	798.0	764.0
Other LT Lia.	0.8	79.3	67.7	72.6	74.0
Minority Interest	69.1	79.3	91.0	95.6	105.1
<b>Net Assets</b>	<b>457.3</b>	<b>481.6</b>	<b>519.5</b>	<b>603.1</b>	<b>683.8</b>
Share Capital	212.7	212.7	212.7	212.7	212.7
Reserves	244.6	268.9	306.9	390.4	471.1
<b>Equity</b>	<b>457.3</b>	<b>481.6</b>	<b>519.5</b>	<b>603.1</b>	<b>683.8</b>

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



Source: Bloomberg, 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 Price (RM)	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.		
GAS MALAYSIA BHD	2.65	3,402.6	Y	12/2020	-1.7%	13.0%	11.8%	7.6%	19.8	17.7	16.5	3.3	3.2	18.2%	5.1%	2.85	MP
MALAKOFF CORP BHD	0.850	4,153.9	Y	12/2020	5.2%	1.4%	59.8%	5.3%	19.7	12.3	11.7	0.8	0.8	6.2%	6.5%	1.15	OP
PESTECH INTERNATIONAL BHD	1.34	1,020.0	Y	06/2021	19.2%	5.3%	33.5%	8.3%	18.4	13.7	12.7	2.0	1.7	13.2%	0.0%	1.46	OP
PETRONAS GAS BHD	16.24	32,134.6	Y	12/2020	2.3%	0.7%	7.6%	-4.2%	17.1	15.9	16.5	2.4	2.5	15.5%	7.5%	16.85	MP
TENAGA NASIONAL BHD	9.90	56,476.1	Y	12/2020	4.0%	1.8%	-29.1%	31.4%	10.1	15.3	11.6	0.9	0.9	6.3%	3.3%	12.40	OP
YTL POWER INTERNATIONAL BHD	0.690	5,590.5	N	06/2021	5.9%	-5.4%	55.8%	-12.2%	23.8	15.3	17.4	0.4	0.4	2.7%	7.2%	0.670	MP
<b>Simple Average</b>					<b>5.8%</b>	<b>2.8%</b>	<b>23.2%</b>	<b>6.1%</b>	<b>18.1</b>	<b>15.0</b>	<b>14.4</b>	<b>1.6</b>	<b>1.6</b>	<b>10.3%</b>	<b>4.9%</b>		

Source: Bloomberg, Kenanga Research

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**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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