

26 February 2021

# Pestech International Bhd

## 2QFY21 In Line

By Teh Kian Yeong | [tehky@kenanga.com.my](mailto:tehky@kenanga.com.my)

**2QFY21 core profit fell 8% sequentially to RM15.9m, which matched expectations, due to lower job claims. However, a stronger 2HFY21 is expected on seasonality. Going forth, the delayed claim in 2HFY20 pushed forward to FY21 together with BT construction profit should lead earnings higher. OP and TP of RM1.46 are maintained as we still like the stock as a niche utility infrastructure play.**

**1HFY21 in line.** At 45% of our FY21 forecast, 1HFY21 core profit of RM33.3m came within expectations as 1H is always the seasonally weaker period especially for Cambodia projects with the monsoon season affecting work progress there. No dividend was declared during the quarter as expected. There were two special dividends of 0.5 sen each announced in 1QFY21.

**2QFY21 results fell sequentially** with core profit falling 8% to RM15.9m from RM17.4m in the preceding quarter on the back of 28% contraction in revenue to RM178.6m from RM248.8m. This was due to lower job progress billings. Meanwhile, taxation fell sharply to RM0.5m from RM8.7m in 2QFY21 as it started to recognise the effect of tax exempt in the current quarter for the construction earnings for its 70%-owned ODM Power Company Ltd (ODMPCL) which manages the "Build-and-Transfer" concession asset in Cambodia. This concession asset came with six years of tax exemption.

**ODMPCL's construction profit led yearly earnings growth.** YoY, core profits jumped 54% and 14% from RM10.3m and RM29.3m in 2QFY20 and 1HFY20 respectively, largely due to the ODMPCL's construction project which was started to be recognised in 4QFY20. This 10-year plus one month concession asset will provide two streams of earnings, i.e., EPCC contract and concession fees, for PESTECH. At current construction period, PESTECH is likely to see YoY higher revenue with higher MI as well in coming quarters until the project is completed. As such, respective MI in 2QFY21 and 1HFY21 were higher at RM8.6m and RM18.5m from RM4.1m and RM5.0m previously.

**Looking to a seasonally stronger 2HFY21.** 2HFY20 results were weak due to low billings with claims likely pushed forward to FY21 with the easing of COVID-led lockdowns locally as well as overseas. Besides, key local projects namely MRT2 and KVDT as well as the Cambodian Tatay project are advancing to higher stages which mean better margins in the coming quarters. In addition, the construction profit from ODMPCL should boost earnings further in the next two years. We keep our FY21-FY22 forecast unchanged for now.

**Keep OUTPERFORM.** 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 Indochina. As such, we maintain our OP rating on the stock with unchanged TP of RM1.46 which is based on 3-year PER mean of 13.8x FY22E earnings. **Risks to our call include:** (i) failure to replenish order-book, and (ii) cost overruns.

# OUTPERFORM ↔

Price: **RM1.23**  
Target Price: **RM1.46** ↔

### Share Price Performance



KLCI	1,581.54
YTD KLCI chg	-2.8%
YTD stock price chg	32.2%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	936.2
Shares Outstanding	761.2
52-week range (H)	1.43
52-week range (L)	0.59
3-mth avg daily vol:	6,694,297
Free Float	41%
Beta	1.0

### 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)	69.1	74.5	80.7
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	12.6	11.6
PBV (x)	1.32	1.56	1.37
Price/NTA (x)	1.58	1.81	1.57
Gearing (%)	2.12	1.74	1.49
Net Yield (%)	0.0	0.8	0.0

26 February 2021

Income Statement								
Y/E: Jun (RM m)	2Q FY21	1Q FY21	Q-o-Q Chg	2Q FY20	Y-o-Y Chg	1H FY21	1H FY20	Y-o-Y Chg
Turnover	178.6	248.8	-28%	190.9	-6%	427.4	378.2	13%
EBITDA	34.5	51.4	-33%	34.3	0%	85.9	73.3	17%
Depreciation	-2.8	-2.9	-2%	-2.4	19%	-5.7	-4.6	22%
EBIT	31.7	48.6	-35%	32.0	-1%	80.2	68.7	17%
Interest expense	-14.5	-14.8	-2%	-14.6	-1%	-29.3	-27.4	7%
Associates	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Pretax profit	17.2	33.8	-49%	17.3	-1%	50.9	41.3	23%
Taxation	-0.5	-8.7	-94%	-5.1	-89%	-9.3	-8.9	5%
Profit after tax	16.6	25.0	-33%	12.2	37%	41.7	32.4	28%
Minority interest	-8.6	-10.0	-14%	-4.1	111%	-18.5	-5.0	272%
Net profit	8.1	15.1	-46%	8.1	-1%	23.1	27.5	-16%
Core net profit	15.9	17.4	-8%	10.3	54%	33.3	29.3	14%
EPS (sen)	2.1	2.3	-8%	1.4	54%	4.4	3.8	14%
NDPS (sen)	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.59	0.59	-1%	0.55	7%	0.59	0.55	7%
EBITDA margin	19%	21%		18%		20%	19%	
EBIT margin	18%	20%		17%		19%	18%	
Pretax margin	10%	14%		9%		12%	11%	
Effective tax rate	3%	26%		30%		18%	21%	

Source: Company

26 February 2021

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	2.65	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	0.815	3,982.9	Y	12/2021	25.1%	0.3%	26.8%	3.0%	16.1	12.7	12.3	0.8	0.8	6.0%	6.3%	1.05	OP
PESTECH INTERNATIONAL BHD	1.23	936.2	Y	06/2021	19.2%	5.3%	33.5%	8.3%	16.8	12.6	11.6	1.8	1.5	13.2%	0.0%	1.46	OP
PETRONAS GAS BHD	16.30	32,253.3	Y	12/2021	0.6%	0.9%	-2.9%	1.4%	16.1	16.6	16.4	2.6	2.5	15.2%	5.1%	16.97	MP
TENAGA NASIONAL BHD	10.12	57,731.1	Y	12/2020	4.0%	1.8%	-29.1%	31.4%	10.3	15.6	11.9	0.9	1.0	6.3%	3.2%	12.40	OP
YTL POWER INTERNATIONAL BHD	0.725	5,874.1	N	06/2021	5.9%	-5.4%	105.3%	-1.6%	24.9	12.1	12.4	0.4	0.4	3.6%	6.9%	0.720	MP
<b>Simple Average</b>					<b>8.8%</b>	<b>2.6%</b>	<b>24.2%</b>	<b>8.4%</b>	<b>17.4</b>	<b>14.6</b>	<b>13.5</b>	<b>1.6</b>	<b>1.6</b>	<b>10.4%</b>	<b>4.4%</b>		

Source: Bloomberg, Kenanga Research

*This section is intentionally left blank*

26 February 2021

**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.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

