

Pestech International Bhd

Weaker 1QFY22 As Expected

By Teh Kian Yeong | tehy@kenanga.com.my

The weaker 1QFY22 core profit of RM11.6m is well expected given seasonality effect. Having said that, while 2QFY22 is likely to be another soft quarter, key projects are advancing to the tail-end stage which fetch higher margin; thus, FY22 is expected to be a stronger year. In all, we still like the stock as a niche utility infrastructure play. Maintain OP with TP of RM1.39. Ex-bonus TP is RM1.11.

1QFY22 in line. At 15% of our FY22 estimate, we deem the 1QFY22 core profit of RM11.6m as within expectation on seasonality factor as 1H of the financial year is always a weak period especially for Cambodia projects with the monsoon season affecting work progress there. No dividend was declared during the quarter as expected.

A seasonally weak quarter... 1QFY22 core profit plummeted 63% to RM11.6m from RM31.2m in the seasonally strong 4QFY21 with revenue contracting 10% to RM207.8m from RM231.9m. This was due to lower job progress billings, except for ODM Power Co Ltd (ODM)'s concession project. Its key local project MRT2 only completed 4% in job claim in 1QFY22 as opposed to 7% in 3QFY21 and 10% in 4QFY21. However, despite the monsoon season, ODM's job claim added 16% (where the majority was land compensation claim) in 1QFY22, which was the same as 4QFY21, as it has expedited work progress to meet the completion date in Sep 2022.

...and a softer YoY results as well. YoY, 1QFY22 core profit tumbled 33% from RM17.4m in 1QFY21 to RM11.6m on lower revenue of 16% from RM248.8m to RM207.8m as job claim billings declined. Key projects ODM completed job claim of 16% to 89% vs. 18% claim in 1QFY21, MRT2 of 4% at 94% vs. 6%, and JB-Gemas double-track of 8% at 51% vs. 10%.

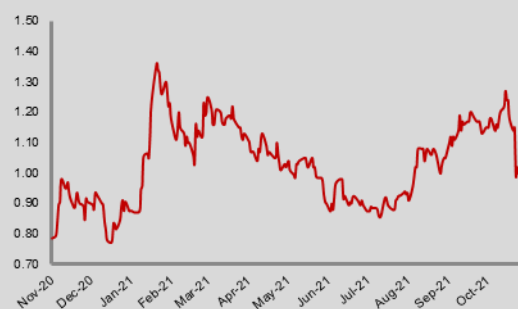
Looking forward to a better FY22. While next quarter 2QFY22 is likely to be another seasonally weak quarter, key projects namely ODM and Tatay projects in Cambodia, and MRT2 locally advancing to higher stages which mean overall better margins in FY22. As ODM project is on-going till Sep next year, MI will continue to stay higher on construction profit from this concession project till 1QFY23. Meanwhile, current order-book is reduced further to RM1.58b from RM1.76b three months ago. In all, we keep our FY22E/FY23E estimates unchanged and we do not expect any dividend payments in these two years.

OUTPERFORM reaffirmed. Going forth, 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 OUTPERFORM rating on the stock with unchanged target price of RM1.39 which is based on 3-year moving mean of 14x FY22 PER. On the other hand, the 8-for-2 bonus shares with one free warrant will go ex-entitlement on 09 Dec; ex-bonus TP will be adjusted to RM1.11 and ex-all TP to RM1.01. Given the warrants have seven year to maturity, our ex-bonus TP will be RM1.11. **Risks to our call include:** (i) failure to replenish order-book, and (ii) cost overruns.

OUTPERFORM ↔

Price: **RM1.03**
Target Price: **RM1.39** ↔

Share Price Performance



KLCI	1,512.22
YTD KLCI chg	-7.1%
YTD stock price chg	10.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	784.0
Shares Outstanding	761.2
52-week range (H)	1.43
52-week range (L)	0.74
3-mth avg daily vol:	5,277,151
Free Float	35%
Beta	1.0

Major Shareholders

Lim Ah Hock	33.5%
Lim Pay Chuan	19.1%
Great Eastern Life	1.8%

Summary Earnings Table

FYE Jun (RM m)	2021A	2022E	2023E
Turnover	889.4	1,000.0	1,050.0
EBIT	169.1	165.0	171.0
PBT	113.8	111.0	118.9
Net Profit (NP)	66.4	75.7	87.0
Core Net Profit	72.4	75.7	87.0
Consensus (NP)		N/A	N/A
Earnings Revision (%)		-	-
Core EPS (sen)	9.5	9.9	11.4
Core EPS growth (%)	38.8	4.7	14.9
NDPS (sen)	1.0	0.0	0.0
BV/Share (RM)	0.76	0.86	0.97
NTA/Share (RM)	0.63	0.73	0.84
Core PER (x)	9.3	10.4	9.0
PBV (x)	1.16	1.20	1.06
Price/NTA (x)	1.39	1.42	1.23
Gearing (%)	1.86	1.46	1.06
Net Yield (%)	1.1	0.0	0.0

29 November 2021

Income Statement								
Y/E: Jun (RM m)	1Q FY22	4Q FY21	Q-o-Q Chg	1Q FY21	Y-o-Y Chg	3M FY22	3M FY21	Y-o-Y Chg
Turnover	207.8	231.9	-10%	248.8	-16%	207.8	248.8	-16%
EBITDA	27.6	42.3	-35%	40.0	-31%	27.6	40.0	-31%
Depreciation	-3.1	-3.0	4%	-2.9	7%	-3.1	-2.9	7%
EBIT	24.5	39.3	-38%	37.2	-34%	24.5	37.2	-34%
Interest income	14.2	13.8	3%	11.4	25%	14.2	11.4	25%
Interest expense	-14.0	-12.7	10%	-14.8	-5%	-14.0	-14.8	-5%
Associates	-0.1	-0.3	-78%	0.0	-279%	-0.1	0.0	-279%
Pretax profit	24.6	40.1	-39%	33.8	-27%	24.6	33.8	-27%
Taxation	-3.0	1.5	-299%	-8.7	-66%	-3.0	-8.7	-66%
Profit after tax	21.6	41.6	-48%	25.0	-14%	21.6	25.0	-14%
Minority interest	-9.8	-12.7	-23%	-10.0	-2%	-9.8	-10.0	-2%
Net profit	11.9	28.9	-59%	15.1	-21%	11.9	15.1	-21%
Core net profit	11.6	31.2	-63%	17.4	-33%	11.6	17.4	-33%
EPS (sen)	1.5	4.1	-63%	2.3	-33%	1.5	2.3	-33%
NDPS (sen)	0.0	0.0	0%	1.0	-100%	0.0	1.0	-100%
NTA/share (RM)	0.66	0.64	4%	0.59	12%	0.66	0.59	12%
EBITDA margin	13%	18%		16%		13%	16%	
EBIT margin	12%	17%		15%		12%	15%	
Pretax margin	12%	17%		14%		12%	14%	
Effective tax rate	12%	-4%		26%		12%	26%	

Source: Company

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	12/2021	-11.9%	8.6%	7.8%	-7.7%	15.2	14.1	15.3	3.2	3.1	22.0%	6.4%	3.00	OP
MALAKOFF CORP BHD	0.755	3,689.7	Y	12/2021	-8.0%	0.4%	24.9%	-4.9%	14.9	11.9	12.5	0.7	0.7	5.9%	6.8%	1.01	OP
PESTECH INTERNATIONAL BHD	1.03	784.0	Y	06/2022	12.4%	5.0%	4.7%	14.9%	10.9	10.4	9.0	1.4	1.2	12.3%	0.0%	1.39	OP
PETRONAS GAS BHD	16.36	32,372.1	Y	12/2021	0.7%	1.4%	3.5%	-5.8%	16.2	15.6	16.6	2.6	2.5	16.2%	5.4%	17.02	MP
TENAGA NASIONAL BHD	9.38	53,710.7	Y	12/2021	14.6%	1.0%	27.2%	5.8%	14.1	11.1	10.5	1.0	0.9	8.5%	4.5%	11.41	OP
YTL POWER INTERNATIONAL BHD	0.640	5,185.4	N	06/2022	-4.8%	1.6%	-15.7%	21.2%	11.3	13.4	11.0	0.4	0.4	3.0%	7.8%	0.890	OP
Simple Average					0.5%	3.0%	8.7%	3.9%	13.8	12.8	12.5	1.5	1.5	11.3%	5.2%		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

29 November 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 E-mail: research@kenanga.com.my