

16 January 2020

Pestech International

First Power Generating Asset

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PESTECH will own its first power generating asset by acquiring a 94% stake in a Cambodian company possessing the right to Build-Own-and-Operate a solar farm in the country with a 20-year concession to sell energy to EdC. We are positive on the move as it helps to enrich its future recurring income, diversifying away from reliance on EPCC contracts. We estimate a small earnings enhancement of USD2.8m p.a. and 3.0 sen/share added to SoP. Maintain OP at RM1.75

Acquiring a greenfield solar farm in Cambodia. Yesterday, PESTECH announced that its indirectly wholly-owned subsidiary Astoria Solar Farm Sdn Bhd (ASF), is acquiring 94% stake in Green Sustainable Ventures (Cambodia) (GSV) for USD4m from two individuals, namely Mr Salah A. Essa and Mr Sachithanathan Muniandy R Sambu. Under the proposed acquisition, ASF has the super-majority rights over the development of a 20-year concession with additional one year of construction period for not less than 20MWAC (24MWDC) large-scale solar farm project in Bavet City, Svay Rieng Province, Cambodia via a long-term PPA with Eletricite du Cambodge (EdC), a local electric utility company, under the Built-Own-and-Operate (BOO) model with a power purchase price of USD0.076/kWh.

A 10% IRR project. We are positive with the move, catapulting PESTECH into the power generation business with recurring income over the next 20 years. This is also its second concession business following the independent power transmitter Diamond Power Ltd (DPL) in Cambodia that started operating in Jan 2018. The capex for this solar farm is estimated at USD20m with scheduled COD of Oct this year. We learnt that it is a 70:30 debt to equity financing with cost of borrowing of <6% and a 10% IRR. Based on this information, our back-on-the-envelope calculations derive c.USD2.8m profit a year and it could also add c.RM0.03/share into PESTECH's SoP valuation matrix. As ASF will be the EPPC constructor for this solar farm project, PESTECH is expected to generate construction profit from this project during the construction period

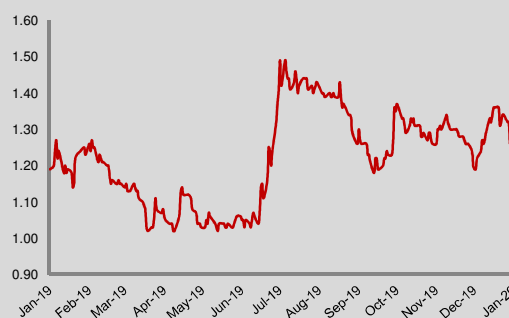
To improve recurring income. To lessen reliance on EPCC and product earnings, this 2nd concession asset is timely, building its recurring income base further. Based on FY18A MI, we estimated that the 60%-owned DPL contributed slightly less than 20% or RM15m to its core profit of RM72.4m in FY18. Therefore, the recurring income could double up in 3-4 years' time when GSV matures. For now, we keep our earnings estimate and SoP valuation of RM1.75/share unchanged pending further information from the company. Meanwhile, its order-book of RM1.7b should be able to support earnings growth for the next two years o which we expect earnings to growth 26%/14% in FY20/FY21.

An attractive alternative utility play; OUTPERFORM maintained. 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 Cambodia. At PER of 11x/10x for FY20/FY21, the stock is fairly attractive given its earnings growth potential as mentioned above. As such, we also maintain our OUTPERFORM rating and target price of RM1.75/SoP share. Risks to our call include: (i) failure to replenish order book, and (ii) cost overruns.

OUTPERFORM ↔

Price : RM1.28
Target Price : RM1.75 ↔

Share Price Performance



KLCI 1,585.14
YTD KLCI chg -0.2%
YTD stock price chg -2.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	978.3
Shares Outstanding	764.3
52-week range (H)	1.53
52-week range (L)	1.00
3-mth avg daily vol:	926,700
Free Float	42%
Beta	1.1

Major Shareholders

Lim Ah Hock	33.3%
Lim Pay Chuan	19.6%
Norges Bank	2.3%

Summary Earnings Table

FYE Jun (RM m)	2019A	2020E	2021E
Turnover	810.0	950.0	1,050.0
EBIT	150.4	166.5	179.5
PBT	97.6	116.5	131.1
Net Profit (NP)	80.2	91.1	103.4
Core Net Profit	72.4	91.1	103.4
Consensus (NP)		N/A	N/A
Earnings Revision (%)		-	-
Core EPS (sen)	9.5	11.9	13.5
Core EPS growth (%)	16.4	25.7	13.6
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	0.28	0.33	0.39
NTA/Share (RM)	0.28	0.33	0.39
Core PER (x)	11.7	10.7	9.5
PBV (x)	3.97	3.84	3.24
Price/NTA (x)	3.51	3.84	3.24
Gearing (%)	1.82	1.38	1.06
Net Yield (%)	0.0	0.0	0.0



16 January 2020

Valuation				
	RM m	RM/Share	%	Valuation Basis
Project and Product Businesses	1,206.1	1.58	91%	FY20 15.0x PER, 3-year mean FCFF @ 7.2% discount rate
Cambodia BOT	112.5	0.15	9%	
	1,318.6	1.73	100%	
No of shares	764.3			
SoP per share	RM1.75			round to the nearest RM0.05

Source: Kenanga Research

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16 January 2020

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 Pangli, 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 & 2	360-450 days

Source: Bursa

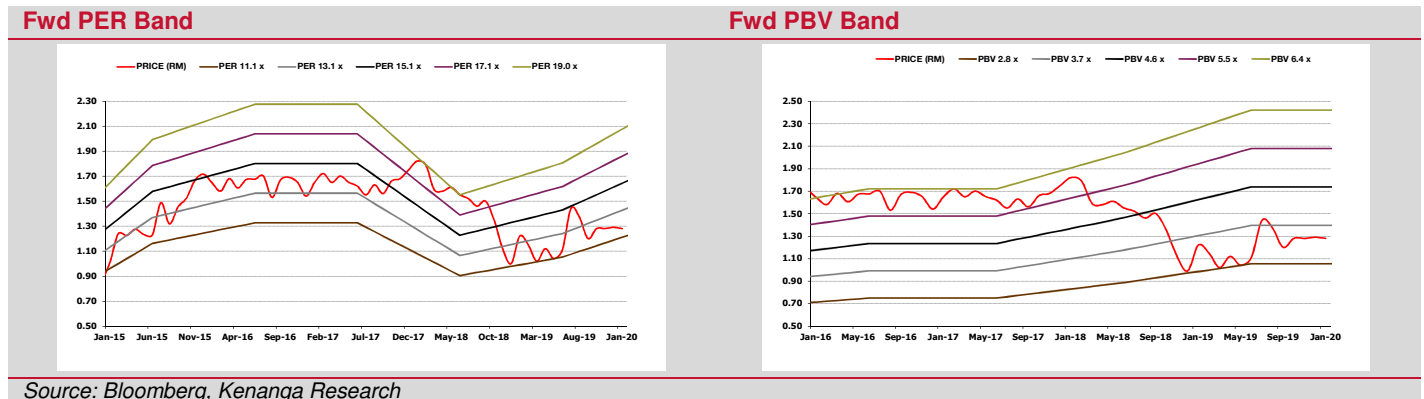
16 January 2020

Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E	FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	508.2	843.1	810.0	950.0	1,050.0	Revenue	-0.1	65.9	-3.9	5.6	10.5
EBITDA	152.6	124.7	157.6	174.5	188.1	EBITDA	24.2	-18.3	26.3	-2.4	7.8
Depreciation	-5.0	-4.9	-7.2	-8.0	-8.6	Operating Income	24.6	-18.8	25.5	-0.3	7.8
EBIT	147.6	119.8	150.4	166.5	179.5	Pre-tax Income	28.5	-31.9	5.5	-11.7	12.5
Interest Expense	-11.6	-27.3	-52.8	-50.0	-48.4	Net Income	24.8	-33.4	32.5	14.4	13.6
Associate	0.0	0.0	0.0	0.0	0.0	Core Net Income	14.2	-30.2	16.4	25.7	13.6
Exceptional/FV	0.0	0.0	0.0	0.0	0.0						
PBT	136.0	92.6	97.6	116.5	131.1	Profitability (%)					
Taxation	-15.7	-14.2	-9.7	-17.5	-19.7	EBITDA Margin	30.0	14.8	19.5	18.4	17.9
Minority Interest	-29.3	-17.8	-7.7	-8.0	-8.0	Operating Margin	29.0	14.2	18.6	17.5	17.1
Net Profit	90.9	60.6	80.2	91.1	103.4	PBT Margin	26.8	11.0	12.1	12.3	12.5
Core Net Profit	89.1	62.2	72.4	91.1	103.4	Net Margin	17.9	7.2	9.9	9.6	9.9
						Core Net Margin	17.5	7.4	8.9	9.6	9.9
						Effective Tax Rate	11.6	15.3	9.9	15.0	15.0
						ROE	16.0	8.9	8.6	10.8	9.5
						ROA	24.6	14.4	15.5	17.3	18.4
						DuPont Analysis					
						Net margin (%)	17.5	7.4	8.9	9.6	9.9
						Assets Turnover (x)	0.4	0.5	0.4	0.4	0.5
						Leverage Factor (x)	2.9	3.7	4.5	3.9	3.4
						ROE (%)	21.9	13.6	15.2	16.0	15.4
						Leverage					
						Debt/Asset (x)	0.43	0.43	0.48	0.45	0.42
						Debt/Equity (x)	1.24	1.61	2.17	1.76	1.44
						Net Debt/(Cash)	-483.4	-616.4	-863.0	-782.9	-711.8
						Net Debt/Equity (x)	1.18	1.35	1.82	1.38	1.06
						Valuations					
						EPS (sen)	11.7	8.1	9.5	11.9	13.5
						NDPS (sen)	0.0	0.0	0.0	0.0	0.0
						BV (RM)	0.24	0.27	0.28	0.33	0.39
						NTA (RM)	0.24	0.27	0.28	0.33	0.39
						PER (x)	13.9	19.0	11.7	10.7	9.5
						Net yield (%)	0.0	0.0	0.0	0.0	0.0
						PBV (x)	6.71	5.77	3.97	3.84	3.24
						P/NTA (x)	5.80	5.77	3.51	3.84	3.24
						EV/EBITDA (x)	11.3	9.5	5.4	10.1	9.0

Balance Sheet					
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	70.2	83.2	91.0	93.0	94.3
Intangibles	86.6	90.5	87.3	88.0	88.0
Concession Asset	416.2	435.5	462.5	480.0	480.0
Investment	4.6	13.8	7.5	7.5	7.5
Inventories	39.5	33.9	42.3	42.5	47.2
Receivable	149.4	155.9	245.1	242.9	268.4
Due From Cust.	342.6	708.6	956.0	975.2	996.2
Due From Cos	40.8	67.6	68.3	70.0	72.0
Fixed Deposits	0.0	0.0	0.0	0.0	0.0
Cash & Bank Bal.	22.2	118.6	168.4	216.1	256.4
Total Assets	1,172.1	1,707.7	2,128.5	2,215.1	2,310.1
Payables	158.0	421.1	517.6	535.1	547.3
ST Borrowings	231.2	362.6	382.6	387.3	394.2
Other ST Liability	12.1	24.4	11.5	12.2	13.7
LT Borrowings	274.4	372.4	648.8	611.8	574.0
Other LT Lia.	32.2	0.8	13.6	13.8	13.8
Minority Interest	56.4	69.1	79.2	87.1	95.8
Net Assets	408.0	457.3	475.2	567.8	671.2
Share Capital	211.3	212.7	212.7	212.7	212.7
Reserves	196.7	244.6	262.5	355.1	458.5
Equity	408.0	457.3	475.2	567.8	671.2

Cashflow Statement					
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	-140.5	-114.7	-107.4	-273.2	81.1
Investing CF	-29.4	-26.9	-17.7	-10.0	-10.0
Financing CF	176.0	238.8	238.8	267.6	-30.8
Net Chg in Cash	6.1	97.2	113.7	-15.6	40.3
Free Cash Flow	-169.9	-141.6	-125.0	-283.2	71.1

Source: Kenanga Research



16 January 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	2.78	3,569.5	Y	12/2019	5.2%	7.7%	5.9%	4.4%	21.0	19.8	19.0	3.5	3.4	17.4%	4.5%	3.00	OP
MALAKOFF CORP BHD	0.865	4,227.2	Y	12/2019	-0.3%	-0.1%	10.5%	4.5%	19.7	17.8	17.1	0.8	0.8	4.3%	4.5%	1.00	OP
PESTECH INTERNATIONAL BHD	1.28	978.3	Y	06/2020	17.3%	10.5%	25.8%	13.5%	13.5	10.7	9.5	2.1	1.8	18.3%	0.0%	1.75	OP
PETRONAS GAS BHD	16.60	32,846.9	Y	12/2019	4.8%	-1.8%	5.7%	-14.7%	18.0	17.0	20.0	2.5	2.4	14.5%	4.1%	15.75	MP
TENAGA NASIONAL BHD	12.90	73,360.9	Y	12/2019	3.2%	1.8%	5.2%	0.8%	13.4	12.7	12.6	1.3	1.2	9.7%	3.9%	14.30	OP
YTL POWER INTERNATIONAL BHD	0.785	6,025.1	N	06/2020	-12.9%	1.9%	-21.5%	-1.4%	9.2	11.7	11.9	0.4	0.4	3.8%	6.4%	0.700	MP
Simple Average					2.9%	3.3%	5.3%	1.2%	15.8	15.0	15.0	1.8	1.7	11.3%	3.9%		

Source: Bloomberg, Kenanga Research

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16 January 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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