

Pestech International Bhd

4QFY21 Results Beat Estimates

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4QFY21 core profit which jumped almost 3-fold to RM31.2m topped our forecasts given the higher-than-expected profit margin arising from advanced stage job claims as well as lower taxation on exemption. Although 1HFY22 is expected to be seasonally weaker, FY22 is expected to be a stronger year, given key projects that are advancing to tail-end stage which fetch higher margin. In all, we still like the stock as a niche utility infrastructure play. OP rating and TP of RM1.39 maintained.

FY21 result above forecast. 4QFY21 core profit almost quadrupled sequentially to RM31.2m, tallying FY21 core profit to RM72.4m which beat our forecast by 22%, due to higher-than-expected profit margin in 4QFY21 coupled with a tax credit of RM1.5m owing to tax exemption for ODM Power Co Ltd (ODM) concession project that brought FY21 effective tax rate to 9.6% vs. our assumption of 15%. No dividend was declared during the quarter as expected. There were two special dividends of 0.5 sen each announced in 1QFY21.

Earnings fuelled by advanced stage job claims. 4QFY21 core profit jumped almost 3x sequentially to RM31.2m from RM7.9m in the preceding quarter, although revenue only inched up 1%. This was largely due to a higher concentration of higher margin advanced stage claims from ODM and MRT2 projects, where job claims from these two projects made up 62% of the group revenue. ODM reached 75% of completion from 56% while MRT2 hit 90% from 80% previously. In addition, the 70%-owned ODM enjoys tax exemption which also explained the tax credit mentioned above as well as higher MI of RM12.7m from RM5.2m previously.

ODM's construction profit led yearly earnings higher. YoY, due to the same reason of higher ODM's job claim which forms part of the construction profit for the BT concession asset, 4QFY21 core profit jumped 89% from RM16.5m. Similarly, FY21 core profit leapt 30% to RM72.4m from RM55.8m as revenue grew 12% over the year. As ODM started to recognise construction profit in 4QFY20, MI jumped 179% to RM36.4m from RM13.1m in FY20

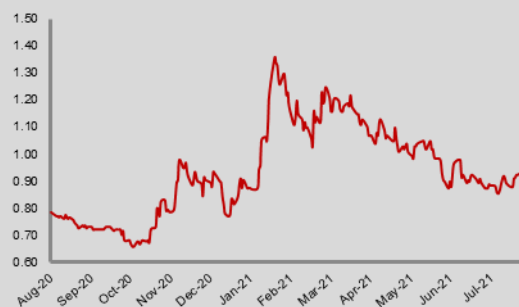
Expect a seasonally weaker 1HFY22, especially in Cambodia which is facing a raining season deterring project progress. Having said that, key projects namely ODM and Tatay projects in Cambodia, and MRT2 locally are advancing to higher stages which mean better margins in FY22. As ODM project is on-going till Oct next year, MI will continue to stay higher on construction profit from this concession project. Meanwhile, current order-book is reduced to RM1.82b from RM1.92b three months ago. In all, we keep our FY22 estimates unchanged and introduce our new forecast for FY23 where we expect earnings to grow by 15%. However, 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. **Risks to our call include:** (i) failure to replenish order-book, and (ii) cost overruns.

OUTPERFORM ↔

Price: **RM0.91**
Target Price: **RM1.39** ↔

Share Price Performance



KLCI	1,590.16
YTD KLCI chg	-2.3%
YTD stock price chg	-2.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	692.7
Shares Outstanding	761.2
52-week range (H)	1.43
52-week range (L)	0.65
3-mth avg daily vol:	1,798,647
Free Float	42%
Beta	0.9

Major Shareholders

Lim Ah Hock	33.6%
Lim Pay Chuan	19.1%
Citigroup Incorporate	2.1%

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 (%)		-	New
Core EPS (sen)	9.5	9.9	11.4
Core EPS growth (%)	29.7	4.7	14.9
NDPS (sen)	1.0	0.0	0.0
BV/Share (RM)	0.76	0.86	0.97
NTA/Share (RM)	0.64	0.73	0.84
Core PER (x)	9.3	9.2	8.0
PBV (x)	1.16	1.06	0.93
Price/NTA (x)	1.38	1.24	1.08
Gearing (%)	1.85	1.45	1.06
Net Yield (%)	1.1	0.0	0.0

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Income Statement								
Y/E: Jun (RM m)	4Q FY21	3Q FY21	Q-o-Q Chg	4Q FY20	Y-o-Y Chg	12M FY21	12M FY20	Y-o-Y Chg
Turnover	231.9	230.0	1%	200.3	16%	889.4	797.3	12%
EBITDA	56.1	39.4	42%	45.0	25%	181.0	152.4	19%
Depreciation	-3.0	-3.2	-8%	-4.5	-34%	-11.9	-11.3	5%
EBIT	53.1	36.2	47%	40.6	31%	169.1	141.1	20%
Interest expense	-12.7	-13.6	-7%	-14.8	-14%	-55.6	-57.8	-4%
Associates	-0.3	0.2	-281%	-0.1	425%	0.2	0.2	41%
Pretax profit	40.1	22.7	77%	25.7	56%	113.8	83.4	36%
Taxation	1.5	-3.2	-147%	-4.4	-134%	-11.0	-15.2	-28%
Profit after tax	41.6	19.5	113%	21.3	96%	102.8	68.2	51%
Minority interest	-12.7	-5.2	145%	-5.4	134%	-36.4	-13.1	179%
Net profit	28.9	14.3	102%	15.8	83%	66.4	55.1	20%
Core net profit	31.2	7.9	294%	16.5	89%	72.4	55.8	30%
EPS (sen)	4.1	1.0	294%	2.2	89%	9.5	7.3	30%
NDPS (sen)	0.0	0.0	0%	0.0	0%	1.0	0.0	N/A
NTA/share (RM)	0.64	0.60	7%	0.57	12%	0.64	0.57	12%
EBITDA margin	24%	17%		22%		20%	19%	
EBIT margin	23%	16%		20%		19%	18%	
Pretax margin	17%	10%		13%		13%	10%	
Effective tax rate	-4%	14%		17%		10%	18%	

Source: Company

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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	2.71	3,479.6	Y	12/2021	-11.9%	8.6%	-0.4%	5.4%	15.6	15.6	14.8	3.2	3.2	20.4%	5.8%	3.00	OP
MALAKOFF CORP BHD	0.870	4,251.7	Y	12/2021	-8.0%	0.4%	24.9%	3.3%	17.2	13.7	13.3	0.8	0.8	5.9%	5.9%	1.06	OP
PESTECH INTERNATIONAL BHD	0.910	692.7	Y	06/2022	12.4%	5.0%	4.7%	14.9%	9.6	9.2	8.0	1.2	1.1	12.2%	0.0%	1.39	OP
PETRONAS GAS BHD	16.26	32,174.2	Y	12/2021	0.7%	1.4%	3.5%	0.5%	16.1	15.5	15.5	2.5	2.5	16.2%	5.5%	17.06	OP
TENAGA NASIONAL BHD	10.38	59,436.8	Y	12/2021	14.6%	1.0%	27.2%	8.9%	14.5	12.2	11.2	1.0	1.0	8.5%	4.1%	11.76	OP
YTL POWER INTERNATIONAL BHD	0.705	5,712.0	N	06/2021	-2.8%	-1.0%	111.1%	-4.0%	23.1	10.9	11.4	0.4	0.4	3.8%	7.1%	0.900	OP
Simple Average					0.8%	2.6%	28.5%	4.8%	16.0	12.9	12.4	1.5	1.5	11.2%	4.7%		

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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