16 June 2022

Pestech International

A Soft Patch, But Growth Prospects Intact

By Teh Kian Yeong I tehky@kenanga.com.my

We cut our FY23 net profit forecast by 25% and lower our TP by 24% to RM0.66 (from RM0.87) based on unchanged FY23E PER of 12.4x, which is at a 20% discount to the average prospective PER of 15.5x for international peers of Siemen and ABB, to reflect its significant smaller size, partially compensated by its greater growth potential and a leaner setup. Maintain Outperform.

The key takeaways from our recent engagement with PESTECH are as follows:

- 1.The company guided for lower revenues of RM700m-RM750m in FY22-FY23 (vs. RM900m-RM1.0b previously) given the challenging market conditions, such as slowdown in activities and award of new jobs;
- It also guided for the PAT margin to ease to 5%-7% (from 9%-11% normally) given that the rising cable and copper costs - which typically in combine make up 15%-20% of contract value - have risen by 30% YTD;
- Under the current volatile input cost environment, the company is gravitating towards cost-plus new contracts to shield it from margin erosion experienced at its existing projects, especially transmission line and substation projects; and
- 4. Meanwhile, the prospects of the industry over the medium term remains positive, underpinned by several rail electrifications projects in the region such as new metro system in the Philippines and the new Orange Line in Bangkok. We understand that the tender outcome will be announced soon for one metro project in the Philippines which is worth c.USD100m-USD150m. Back home, the ECRL's electrification part of the project valued at c.RM300m has yet to be announced. All these are the potential jobs that PESTECH are interested to participate.

A soft patch over the immediate term. Cost pressure and weak billings may persist into the next few quarters but the start of KLIA aerotrain in 4QFY22 should help to gradually improve earnings. Its orderbook as of Mar 2022 at RM1.93b will keep them busy for the next 2-3 years. While keeping FY22E revenue and FY22E-FY23E project operating margins, we lowered FY23E revenue assumption to RM750m from RM1.05b which led us to cut FY23 net profit forecast by 25% to RM52.5m with FY22E net profit estimate unchanged at RM50.6m.

OUTPERFORM maintained. The soft patch aside, 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.

Risks to our call include: (i) failure to replenish order-book, and (ii) cost overruns.

OUTPERFORM ↔

Price: RM0.47
Target Price: RM0.66



KLCI	1,459.05
YTD KLCI chg	-6.9%
YTD stock price chg	-42.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PEST MK
Market Cap (RM m)	462.7
Shares Outstanding	984.6
52-week range (H)	1.02
52-week range (L)	0.46
3-mth avg daily vol:	1,958,269
Free Float	36%
Beta	0.6

Major Shareholders

Lim Ah Hock	32.5%
Lim Pay Chuan	19.3%
Great Eastern Life	1.8%

Summary Earnings Table

Outlindary Euriningo ra	510		
FYE Jun (RM m)	2021A	2022E	2023E
Turnover	889.4	800.0	750.0
EBIT	120.3	100.0	97.3
PBT	113.8	88.9	78.4
Net Profit (NP)	66.4	50.6	52.5
Core Net Profit	72.4	50.6	52.5
Consensus (NP)		N/A	N/A
Earnings Revision (%)		-	-25.4
Core EPS (sen)	7.3	5.1	5.3
Core EPS growth (%)	38.8	-30.1	3.9
NDPS (sen)	1.0	0.0	0.0
BV/Share (RM)	0.59	0.66	0.71
NTA/Share (RM)	0.49	0.56	0.62
Core PER (x)	12.1	9.2	8.9
PBV (x)	1.50	0.72	0.66
Price/NTA (x)	1.79	0.83	0.75
Gearing (%)	1.83	1.77	1.65
Net Yield (%)	1.1	0.0	0.0

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ncome Statemen						Financial Data & I				
Y Jun (RM m)	2019A	2020A	2021A	2022E	2023E	FY Jun	2019A	2020A	2021A	2022E
Revenue	811.5	797.7	889.4	800.0	750.0	Growth (%)				
BITDA	118.4	115.9	132.2	111.6	108.5	Revenue	-2.8	-1.7	11.5	-10.0
epreciation	-7.2	-12.6	-11.9	-11.6	-11.2	EBITDA	-1.6	-2.1	14.0	-15.5
BIT	111.3	103.3	120.3	100.0	97.3	Operating Income	-3.6	-7.1	16.4	-16.9
nterest Expense	-53.2	-63.6	-55.6	-66.4	-69.5	Pre-tax Income	6.0	-14.3	35.2	-21.9
Associate	0.0	0.2	0.2	0.2	0.2	Net Income	36.2	-34.9	29.0	-23.8
xceptional/FV	0.0	0.0	0.0	0.0	0.0	Core Net Income	16.4	-28.0	38.8	-30.1
PBT	98.2	84.2	113.8	88.9	78.4					
axation	-11.5	-19.7	-11.0	-13.3	-11.8	Profitability (%)				
Inority Interest	-7.7	-13.1	-36.4	-25.0	-14.1	EBITDA Margin	14.6	14.5	14.9	14.0
let Profit	79.0	51.4	66.4	50.6	52.5	Operating Margin	13.7	13.0	13.5	12.5
Core Net Profit	72.4	52.1	72.4	50.6	52.5	PBT Margin	12.1	10.6	12.8	11.1
						Net Margin	9.7	6.4	7.5	6.3
Balance Sheet						Core Net Margin	8.9	6.5	8.1	6.3
Y Jun (RM m)	2019A	2020A	2021A	2022E	2023E	Effective Tax Rate	11.7	23.4	9.6	15.0
ixed Assets	91.4	144.9	201.1	229.5	248.3	ROE	8.7	7.7	8.1	6.5
ntangibles	87.3	83.9	92.6	90.7	85.1	ROA	15.4	10.5	13.2	8.2
Concession Assets		1,054.6	956.6	925.0	893.4					
nvestment	7.7	0.6	0.9	2.9	2.7	DuPont Analysis				
nventories	14.1	35.7	21.6	37.7	35.2	Net margin (%)	8.9	6.5	8.1	6.3
Receivable	243.9	243.8	283.4	244.8	229.5	Assets Turnover (0.4	0.3	0.3	0.3
ue From Cust.	956.9	731.5	890.5	1,155.5	1,201.8	Leverage Factor (4.3	4.8	4.7	4.3
Due From Cos	57.7	59.1	55.3	14.8	14.1	ROE (%)	15.0	10.1	12.4	7.8
ixed Deposits	0.0	7.9	17.9	18.8	17.6	- ()	10.0	10.1	12.7	7.0
Cash & Bank Bal.	166.6	90.5	184.4	55.0	102.6	Leverage				
otal Assets	2,087.5	2,452.6	2,704.3	2,774.8	2,830.3	Debt/Asset (x)	0.49	0.49	0.46	0.44
Olai Assels	2,007.3	2,432.0	2,704.5	2,114.0	2,030.3	Debt/Equity (x)	2.14	2.33	2.15	1.86
Payables	403.1	553.0	632.3	622.8	581.0	Net Debt/(Cash)				-1,152.1
T Borrowings	367.7	510.9	491.9	475.9	468.1	Net Debt/Equity (>	1.79	2.15	1.83	1.77
		18.7	14.2		12.0	rior Book Equity (1.79	2.13	1.03	1.77
Other ST Liability	14.3 662.3	689.6	757.9	12.8 731.3	795.9	Valuations				
T Borrowings					23.3		0.5	6.0	7.2	E 1
Other LT Lia.	79.3	74.3	46.4	24.8		EPS (sen)	9.5	6.8	7.3	5.1
Perpetual Sukuk	0.0	0.0	48.6	100.0	100.0	NDPS (sen)	0.0	0.0	1.0	0.0
Minority Interest	79.3	90.5	131.6	156.9	147.1	BV (RM)	0.63	0.67	0.59	0.66
let Assets	481.6	515.7	581.6	650.3	702.8	NTA (RM)	0.52	0.56	0.49	0.56
Chara Carital	040 =	040.7	040 =	000.0	000.0	PER (x)	11.7	13.2	12.1	9.2
Share Capital	212.7	212.7	212.7	232.9	232.9	Net yield (%)	0.0	0.0	1.1	0.0
Reserves	268.9	303.0	368.9	417.4	469.9	PBV (x)	1.76	1.33	1.50	0.72
quity	481.6	515.7	581.6	650.3	702.8	P/NTA (x)	2.15	1.59	1.79	0.83
ashflow Statem	ent					EV/EBITDA (x)	14.5	15.5	14.7	14.5
Y Jun (RM m)	2019A	2020A	2021A	2022E	2023E					
Operating CF	-230.8	-126.4	14.88	-27.42	50.64					
nvesting CF	1.7	-60.9	-61.98	-60.00	-60.00					
Financing CF	276.1			-34.86						
Net Chg in Cash		110.6 -76.7	117.00		56.91					
Free Cash Flow	47.0 -229.1	-76.7 -187.3	69.91 -47.1	-122.27 -87.4	47.55 -9.4					

Pestech International Company Update

16 June 2022

Peer (Compar	ison
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Name	Last Price	Market	Shariah	Current	Reve Gro			arnings owth		R (x) - C Earning:		PB\	/ (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	3.03	3,890.5	Υ	12/2022	9.3%	8.3%	5.1%	0.6%	15.5	14.7	14.6	3.4	3.4	23.1%	6.1%	3.10	OP
MALAKOFF CORP BHD	0.610	2,981.0	Υ	12/2022	22.8%	-5.8%	-12.6%	11.8%	9.5	10.8	9.7	0.6	0.6	5.2%	7.4%	0.980	OP
PESTECH INTERNATIONAL BHD	0.470	462.7	Υ	06/2022	-10.1%	-6.3%	-30.1%	3.8%	6.2	8.9	8.6	0.8	0.7	8.2%	0.0%	0.660	OP
PETRONAS GAS BHD	16.24	32,134.6	Υ	12/2022	1.0%	-0.8%	-3.7%	4.5%	15.9	16.5	15.8	2.5	2.4	14.8%	5.2%	17.51	MP
TENAGA NASIONAL BHD	8.40	48,099.2	Υ	12/2022	-3.3%	1.8%	-0.8%	13.1%	10.0	10.1	8.9	0.8	0.8	8.3%	5.0%	11.06	OP
YTL POWER INTERNATIONAL BHD	0.690	5,590.5	N	06/2022	31.8%	1.5%	-61.4%	104.7%	12.2	31.5	15.4	0.4	0.4	1.4%	7.2%	1.11	OP
Simple Average					8.6%	-0.2%	-17.2%	23.1%	11.5	15.4	12.2	1.4	1.4	10.2%	5.1%		

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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