

16 June 2022

Pestech International

A Soft Patch, But Growth Prospects Intact

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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;
2. 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;
3. 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 ↓

Share Price Performance



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

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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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price (RM)	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.		
GAS MALAYSIA BHD	3.03	3,890.5	Y	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	Y	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	Y	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	Y	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	Y	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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