



## Pestech's 4Q disappoint, but contracts offer earnings visibility

**KOTA KINABALU:** Pestech International Bhd's (Pestech) fourth quarter of the financial year 2018 (4QFY18) results was below analysts' expectations but its contracts in hand are expected to provide two to three years of earnings visibility for the company.

According to Kenanga InvestmentBankBhd's research arm (Kenanga Research), Pestech's dismal 4QFY18 set of results with core loss of RM0.6 million brought FY18 core profit to RM62.2 million which came 32 per cent below its estimate of RM92.1 million.

It explained that this was largely due to weaker-than-expected EPC project margin as those projects were in the beginning stages as well as the adjustment on DPL contribution, which had since started concession fees in January.

It also noted that Pestech's 4QFY18 plunged into core loss of RM0.6 million after adjusting for RM7.8 million unrealised forex loss and RM32.5 million gain on hedging instrument, against a core profit of RM15 million in 3QFY18.

The research team said the losses were due to weaker top-line as the two main Alex Corp's projects were still in foundation stages with minimal work claims, MRT2's rail electrification was in design stage, which also entailed minimal work claims, and adjustment of overstated recognition of DPL in 3Q18 after it started receiving concession fees in January.

It further noted that based on the MI reported in 2HFY18, the earnings contribution from DPL could be RM5.5 million per quarter from circa RM16 million previously during the construction period.

As such, it pointed out that all these factors explained the plunge in 4QFY18 revenue and the lower bottom-line.

Looking ahead, however, Kenanga Research said: "With the cancellation of East Coast Rail Link (ECRL), the KL-Singapore High-Speed Rail and Gemas-JB double track projects are the only two major electrification projects locally for Pestech to participate, of which we think the contract sums are fairly huge should it be able to secure them.

"On the other hand, as the government is looking to upgrade the existing East Coast KTM line to replace the canceled ECRL project, Pestech should stand a good chance of securing the project based on its track record on the West Coast KTM line."

Meanwhile, it highlighted that Pestech's current order-book is estimated at RM1.57 billion which should keep it busy for at least the next two to three years.

Despite the disappointing 4QFY18 results, Kenanga Research maintained an 'outperform' call on the stock.

"Although 4QFY18 earnings were disappointing, we believe it should be back on track from FY19 onwards."



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SUMMARIES

KOTA KINABALU: Pestech International Bhd's (Pestech) fourth quarter of the financial year 2018 (4QFY18) results was below analysts' expectations but its contracts in hand are expected to provide two to three years of earnings visibility for the company. According to Kenanga Investment Bank Bhd's research arm (Kenanga Research), Pestech's dismal 4QFY18 set of results with core loss of RM0.6 million brought FY 18 core profit to RM62.