Headline	PESTECH Should Post Record FY19
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PESTECH SHOULD POST RECORD FY19

Pestech International Bhd
(Feb 4, RM1.24)
Maintain outperform with an unchanged target price (TP) of RM1.45: Pestech International Bhd has clinched two contracts from Tenaga Nasional Bhd (TNB) cumulatively worth RM281 million for a substation project in Kedah and an underground cable job in Kuala Lumpur. The stock has rebounded 23% in the past one month from a plunge of 42% in 2018, which took its price-earnings ratio (PER) to a new low of eight times. With an order book of RM2.3 billion keeping it busy until 2021, it should be able to post a record financial year ending June 30, 2019 (FY19).

Last Thursday, Pestech announced that its wholly-owned subsidiary Pestech Sdn Bhd had secured two separate contracts from TNB (outperform; TP: RM16.45) for: i) a main intake substation (PMU) — the 500.275kV Junjung (3 x 1,050 megavolt-ampere [MVA]) substation in Kedah worth RM168.4 million for a contract period of 2.5 years; and ii) through the Pembinaan Tajri Sdn Bhd-Pestech Sdn Bhd joint venture, a RM112.5 million contract for the double-circuit 275kV cross-linked polyethylene underground cable from PMU Prince Court to PMU Ampang for a contract period of two years.

This is definitely positive for Pestech as the RM112.5 million underground cable contract is Pestech's biggest underground cable project so far and good future job reference. The cable system will deliver a minimum of 500MVA power for each 275kV cable circuit under the project. On the other hand, the Junjung substation is required to facilitate heavy power transfer from Perak to the Prai area through several transformers and lines to the northern region. Including these two TNB contracts, Pestech has secured five contracts worth RM812.8 million in FY19 and brought its current order book to approximately RM2.3 billion, which will keep it busy for at least the next two to three years.

To recap, Pestech registered a slow start to FY19 with a core profit of RM6.2 million only making up 7% of our full-year estimate for FY19, owing to early construction stages for mass rapid transit 2 and the Klang Valley Double Track project as well as lower job claims from Cambodian projects given the raining season there. However, we should see better quarters for the rest of FY19 as local projects are progressing towards an advanced stage, while the Cambodian projects will be at full stream in dry season in the second half of FY19. With targeted revenue of RM1 billion for FY19 and a 9% to 11% net margin, we believe our FY19 net profit estimate of RM90.8 million is not excessive — and achievable.

As such, we have maintained our "outperform" rating with an unchanged TP of RM1.45 per sum-of-parts share for this niche utility infrastructure play mainly for its earnings growth story. Risks to our call include: i) failure to replenish its order book; and ii) cost overruns. — Kenanga Research, Feb 4

Source: http://www.theedgemarkets.com/article/pestech-should-post-record-fy19