



Pestech makes strong rebound, strong FY19 expected — Analysts

Yvonne Tuah

KUCHING: Pestech International Bhd's (Pestech) third quarter of the financial year 2019 (3Q19) results rebounded strongly by 83 per cent sequentially on better job progress claims after a lacklustre first half of 2019 (1H19), analysts say.

With all main projects back on track, analysts expect the company to end the year on a stronger note.

"With all main projects back on track while the Cambodian projects are in full-swing for the remainder of 2H19 before the raining season starts again in 1H20, the upcoming 4Q19 results are set to be a solid, on track to meeting our estimates.

"Meanwhile, with the revival of ECRL and LRT3 back home, we expect more contract news flow for Pestech in the near future. With its current order book of RM1.8 billion, this should keep them busy for at least the next two years," the research team at Kenanga Investment Bank Bhd (Kenanga Research) said.

On Pestech's 3Q19 performance, the research team said it matched expectations, with core profit rebounding 83 per cent sequentially to RM21.2 million, totalling year to date (YTD) first nine months of 2019 (9M19) core profit to RM38.9 per cent.

"We expect a strong ending in 4Q19 given higher job progress especially for the Cambodian projects after the seasonally low progress in 1H19 owing to raining season there," it highlighted.

It pointed out that after a seasonally low earnings spell in 1H19, 3Q19 core profit rebounded strongly by 83 per cent q-o-q to RM21.2 million as the two Alex Corp's projects as well as Oddor Meanchey project in Cambodia have resumed work progress in the dry season.

"Besides, the local rail electrification projects namely, KVDT and MRT2 have also progressed well, as compared to that of in 1H19, albeit still in the initial stage of work. On the other hand, PAT margin has improved further to 10.1 per cent in 3Q19 from 9.7 per cent and 9.5 per cent in 2Q19 and 1Q19, respectively,

which show that sequentially, these three quarters' margins were healthy between the benchmark ranges of nine to 11 per cent.

"Despite earnings declining 15 per cent, 3Q19 core profit leapt 41 per cent from RM15 million which was due to the two Alex Corp's projects which back then was still in the initial stage that usually means lower profit margin.

"YTD, 9M19 core profit fell 38 per cent to RM38.9 million from RM62.8 million in 9M18 as revenue contracted 27 per cent over the year.

"The main reason for the earnings decline was largely due to the extreme low job claims for both local and Cambodia projects in 1H19 in contrast to 1H18 although both were during raining season," Kenanga Research said.

Overall, the research team maintained its 'outperform' rating on the stock.

It said: "With the rebound in earnings as well as its sizeable order-book and earnings back on track, it presents a good buying opportunity into this niche utility infrastructure plays for its earnings growth story."



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SUMMARIES

KUCHING: Pestech International Bhd's (Pestech) third quarter of the financial year 2019 (3Q19) results rebounded strongly by 83 per cent sequentially on better job progress claims after a lacklustre first half of 2019 (1H19), analysts say. With all main projects back on track, analysts expect the company to end the year on a stronger note.