

Headline	Pestechs 3Q16 below expectations, looking to a strong 4Q17
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Pestech's 3Q16 below expectations, looking to a strong 4Q17

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KUCHING: Despite Pestech International Bhd's (Pestech) third quarter of 2016 (3Q16) coming in below expectations, the research arm of Kenanga Investment Bank Bhd (Kenanga Research) opined that Pestech should end financial year 2017 (FY17) on a higher note.

In a filing on Bursa Malaysia, Pestech revealed that the group recorded revenue of RM170.8 million and profit after taxation of RM28.1 million for the financial quarter ended March 31, 2017.

According to Kenanga Research, Pestech's 3Q17 results came below expectation with core profit of RM17.4 million, bringing the first nine months of 2017 (9M17) core profit to RM40.6 million which accounted for 53 per cent of its FY17 full-year estimates.

"The divergence between actual results and our estimates were because Alex Corp's upgrading job brought in higher revenue, but profit margin was lower as the job just started in February, still at an early stage," the research arm said,

adding that there was no dividend declared in 3Q17 as expected.

Kenanga Research highlighted that although 3Q17 was a better quarter compared to the first half of 2017 (1H17), lower profit margin for the early stage of the upgrading of Alex Corp's job resulted in earning before interest and tax (EBIT) margin for 3Q17 deteriorating to 14 per cent from 21 per cent in 1H17.

"Nonetheless, 2H, especially 4Q is always a strong period seasonally as it enters the dry season, coupled with some contracts are now moving into advanced stages in the coming quarters, resulting in better progress claims and profit margins.

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"With the second Alex Corp's contract worth US\$100 million won in April, its current orderbook stands at circa RM1.54 billion with earnings visibility up to end-2019,"

the research arm said.

Meanwhile, with the weak profit margin recorded in 3Q17, Kenanga Research cut FY17 and FY18 estimates by six per cent and eight per cent, respectively, mainly to adjust for lower profit margin.

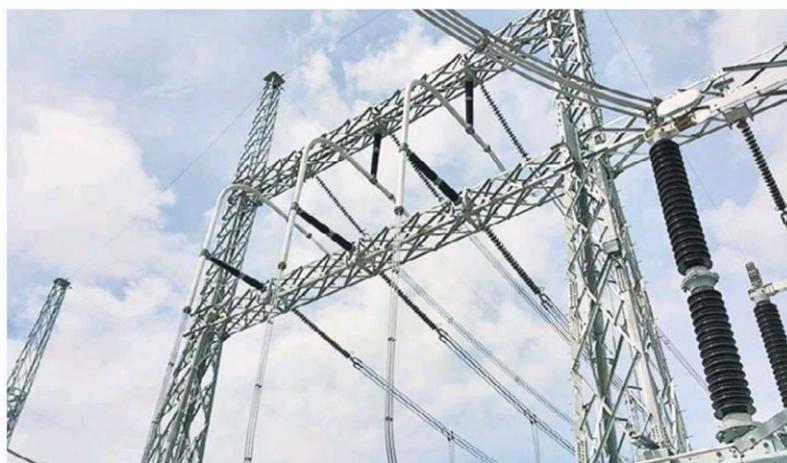
It also introduced FY19 estimates with earnings expected to grow at 10 per cent.

Overall, while 3Q17 was slower than expected, Kenanga Research remained positive on Pestech for the group's growth story, especially for the Indochina growth area.

"In addition, as its billings are priced in US dollar and payment guaranteed by financiers like World Bank and Asian Development Bhd, risk of default payment is fairly low," the research arm said.

As such, Kenanga Research maintained its 'outperform' call on Pestech with the target price remaining at RM2 per share after rolling over its valuation base year to current year 2018 (CY18) from CY17 previously.

US\$100 million contract won in April



Pestech revealed that the group recorded revenue of RM170.8 million and profit after taxation of RM28.1 million for the financial quarter ended March 31, 2017.