Headline	Contracts keep rolling in for Pestech
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Improving earnings visibility seen for Globetronics
IGB REIT anchored by two prime assets
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Pestech International Bhd
(April 7, RM1.68)

Retain outperform call with an unchanged target price (TP) of RM2: Last Thursday, Pestech International Bhd secured another well anticipated engineering, procurement and construction contract for the 220km 230kV double circuit transmission line from Stung Tatay Hydro Power Plant (HPP) to Phnom Penh and two 230kW line bays at Stung Tatay HPP switchyard.

The contract was awarded by an existing customer, Alex Corp Co Ltd with a contract value of US$100.2 million (about RM440 million at RM4.40/USD) for a project duration of 36 months which is expected to commence within the next three months. This is the biggest win it has secured in one single contract.

To recap, the first Alex Corp contract was secured in March 2014 — the 230kV West Phnom Penh-Sihanoukville transmission line and substation worth US$86.1 million. Later, it was awarded an upgrading work that included 500kV double circuit transmission line in February 2017 which brought the total contract value to US$143.9 million.

Although this contract is well expected, it still offers excitement to the company which has so far clinched six contracts worth a total of about RM910 million in financial year 2017 (FY17), a record sum secured within one financial year.

As of December 2016, its order book was RM1.02 billion. Thus, its order book is likely to rise to about RM1.7 billion with this contract together with the US$58 million upgrading contract in February 2017. While this contract is unlikely to have any impact in FY17, we keep our FY18 estimates as it is within our FY18 revenue assumptions.

This contract raises FY18's revenue to RM585 million, based on billing progress, against our assumption of RM650 million. This also means that it needs another RM65 million worth of contracts to meet our expectation for FY18.

While there is no disclosure of payment terms in the announcement, we suspect the payment arrangement is likely to be the same as the previous arrangement of a long credit term to Alex Corp, which is over a six-year period with first payment only starting when the project is completed.

And we understand that it is the same supplier, Shandong Power Equipment Co Ltd (Speco), which also gave Pestech a long credit term of two years for the first Alex Corp project that matched receivable payments from state-owned utility Electricite du Cambodge (EdC) for Alex Corp's job. If this is the case, Pestech's receivables will eventually rise by another US$100.2 million by mid-2020 in ringgit terms.

Admittedly, the high receivables look uncomfortable but with the guarantee payment from EdC which matches payment to the supplier, this reduces cash flow concerns on Pestech's end. With two major wins in the past two months, Pestech is still involved in another major bidding in which it stands a high chance of success and if successful could catapult its earnings to a new high.

We continue to rate the stock as "outperform" for its earnings growth story with an unchanged TP of RM2 per sum-of-parts share. Risks to our call include failure to replenish its order book and cost overruns. — *Kenanga Research, April 7*

Pestech International Bhd

FYE JUNE (RM MIL)	2016A	2017E	2018E
Turnover	508.7	600.0	695.0
Ebit	111.7	137.4	146.6
PBT	105.8	115.1	116.9
Net profit (NP)	72.8	76.4	89.7
Core net profit	66.1	76.4	89.7
Consensus (NP)		76.4	89.7
Core EPS (sen)	35.4	10.2	12.0
Core EPS growth (%)	102.9	15.6	17.4
NDPS (sen)	15.0	3.1	3.6
BV/Share (RM)	1.66	0.48	0.56
NTA/Share (RM)	1.66	0.48	0.56
Core PER	18.9	16.0	13.7
PBV (x)	4.04	3.41	2.91
Price/NTA (x)	4.04	3.41	2.91
Gearing (%)	0.92	0.85	0.41
Net yield (%)	2.2	1.9	2.2

Source: Kenanga Research