

Headline	Pestech`s first FY18 contract from Tenaga a positive development
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Pestech's first FY18 contract from Tenaga a positive development

KUALA LUMPUR: Pestech International Bhd's (Pestech) first contract for financial year 2018(FY18)fromTenaga Nasional Bhd (Tenaga) is a positive development, analysts say, and the group is on track to meet their order-book replenishments assumption of RM1 billion.

In a filing on Bursa Malaysia, the board of directors of Pestech announced that wholly-owned subsidiary company, Pestech Sdn Bhd (PSB) had accepted a letter of acceptance from Tenaga for the supply, erect and commissioning of 2x1050 MVA Autotransformers, 500 kilo Volt (kV) Switchgears, 275kV Switchgears and ancillary equipment with associated civil works for PMU 500/275kV Olak Lempit, Selangor for a contract value of RM79.5 million.

According to the research arm of Kenanga Investment Bank Bhd (Kenanga Research), this is a positive to Pestech as the last sizeable contract from Tenaga was in September 2015 for the construction of the 500/275kV Yong Peng East (2x1050MVA) backbone main intake substation worth RM134.4 million.

"Although Tenaga is not its main customer, this highlights its ability to secure contract in Peninsular Malaysia as well," Kenanga Research said.

"This is a good start for FY18 for which we have an order-book replenishment assumption of RM1 billion which it is not excessive, in our view, as it

bagged a total of RM910 million contracts in FY17 against our assumption of RM800 million."

Kenanga Research highlighted that with this win, Pestech's order-book is estimated to be circa RM1.5 billion with earnings visibility up to end-2019.

"So far, the RM1 billion worth of domestic electrification contract is not finalised yet," it said. "And, we believe that it stands a good chance based on its track record and work capacity."

Nonetheless, Indochina remained Pestech's main focus and the research arm believed there were few more contracts open for grab there, especially once the group's built, operate and transfer (BOT) project, Diamond Power commences operations by this year-end.

Pestech is expected to release the group's FY17 results next week and Kenanga Research believed its estimates were achievable given that the fourth quarter of 2017 (4Q17) is a dry season in Cambodia, which is conducive for work escalation to meet timeline; thus, higher earnings are expected.

"We continue to like this niche utilities infrastructure play for its earnings growth story," the research arm said.

Hence, Kenanga Research maintained its 'outperform' rating with an unchanged price target of RM2 per share.