

Headline	Unfazed by increased debt, Pestech aims to be 'Malaysian Siemens'
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BY LIEW JIA TENG

Since its listing in 2012, Pestech International Bhd has given its shareholders an impressive return of more than 1,000%, excluding dividends and returns from a dividend reinvestment plan.

Not only that, the home-grown integrated electric power technology firm rewarded its shareholders twice with bonus shares in 2014 and 2016.

At post-bonus adjusted price, the shares of Pestech have risen 14 times, from 11.4 sen apiece on June 1, 2012, to RM1.63 last Thursday, giving it a market capitalisation of RM1.24 billion.

But euphoria aside, it has not gone unnoticed that Pestech's debt has been ballooning over the past five years. Its gearing level was more than 100% as at financial year ended June 30, 2017 (FY2017). Its gearing ratio has almost tripled, from 0.4 times in financial year ended Dec 31, 2012 (FY2012) to 1.1 times in FY2017. It changed its financial year end from Dec 31 to June 30 in 2015.

The group's total bank borrowings have also increased by almost 20 times from RM25.8 million in FY2012 to RM507.8 million in FY2017.

While Pestech's debt levels have stirred concern among certain quarters, group CEO and executive director Paul Lim Pay Chuan is unfazed, saying that it is still manageable.

"Our gearing is not really a concern to us because we are [borrowing money] on a project basis. We are obtaining project-finance debt. As our projects progress, it (the debt) will eventually cool off," he tells *The Edge* in an interview.

Pav Chuan, 47, was appointed to

the board in August 2011. He is the nephew of Pestech founding executive chairman and substantial shareholder Lim Ah Hock.

As a result of the change in its financial year end in 2015, Pestech had an 18-month financial period between Jan 1, 2014, and June 30, 2015 (18MFY2015).

The group's gearing ratio stood at 0.79 times in 18MFY2015, increasing to 0.97 times in FY2016 as its total bank borrowings swelled from RM187.6 million to RM330.6 million during the same period.

Pay Chuan reiterates that Pestech is obtaining mostly case-by-case borrowing, or rather, project financing, which is a loan structure that relies primarily on a project's cash flow for repayment.

"In any case, what I want to stress is we are not borrowing mon-

ey to acquire assets in order to grow the company. Our debt is not caused by heavy capital investment, which usually needs a longer time to pare down and you would then have a high gearing for many years," he explains.

As Pestech aims to secure more projects in Southeast Asia, Pay Chuan notes that the group's debt will stay at that level for a while.

Nevertheless, it is worth not-

ing that Pestech's interest cover has been maintained at a healthy level of more than 12 times in the last three financial years.

The next big thing

Pestech is mainly involved in four major business segments, namely power transmission infrastructure and products, power generation and rail electrification, built-and-operate transmission assets, as well as embedded system software and product development.

According to 65-year-old Ah Hock, his ultimate goal is to make Pestech an engineering, procurement and construction (EPC) service provider in the power sector and eventually become an independent power producer (IPP).

In other words, Pestech is striving to be the Malaysian version of world-class industry players such as German technology firm Siemens AG and Swedish-Swiss engineering giant ABB Ltd.

"We are preparing ourselves to become an IPP, as well as to undertake EPC of power plants. That's the next big thing for us," he says at the interview.

In the last two years, Pestech has secured contracts worth RM52

million to provide distributed control systems (DCS) for power plants in Malaysia.

"We are the first Malaysian company providing such control automation services for power plants," Ah Hock says proudly.

He points out that DCS services are traditionally provided by the likes of Siemens and ABB, as well as Irish conglomerate Johnson Controls International PLC, US-based Emerson Electric Company and French electricity and rail giant Alstom.

Ah Hock adds that Pestech wants to be technically competent before it becomes an IPP.

"We want to be able to successfully roll out EPC projects for power plants. We want to learn how to build a power plant first, so that we know how to control and operate it when we own a power plant in the future."

Pay Chuan is of the view that power generation and rail electrification division has the potential to become the largest revenue contributor to the group, thanks to the higher demand for such projects. The division reported a profit of

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RM9 million in FY2017, while revenue was close to RM60 million.

CONTINUES ON PAGE 34



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Power infrastructure sector expected to continue growing in Southeast Asia

FROM PAGE 28

He expects revenue from this business segment to triple to RM180 million in FY2018, with a profit margin of 9% to 11%.

At the group level, Pestech aims to reach the RM1 billion mark in revenue by FY2020. It posted record net profit of RM91 million on revenue of RM508 million in FY2017.

Pay Chuan is confident Pestech will achieve another record-breaking year in FY2018 on the back of a strong order book of RM1.3 billion to RM1.4 billion. The group is also tendering for jobs worth RM1.7 billion.

“The power infrastructure build-up remains a big thing in Southeast Asia. The market is not crowded, so we expect the growth to continue in the coming years,” he says.

Working with Lysaght in Yong Peng

Pestech secured a RM134 million contract in 2015 from Tenaga Na-

sional Bhd to build the 500/275kV backbone main intake substation (2x1050 MVA) in Yong Peng East, Johor.

It is noteworthy that the huge steel structure at the Yong Peng site was designed by Pestech, but fabricated by Lysaght Galvanized Steel Bhd.

Interestingly, Pestech’s Ah Hock and Lysaght CEO Chua Tia Bon are classmates. Both obtained a Bachelor of Science, majoring in mechanical engineering, from the University of Strathclyde in Glasgow, the UK.

Ah Hock says they have known each other for about 30 to 40 years, but the Yong Peng project was the first time they have worked together.

“We are good friends and meet regularly. Sometimes, we have coffee or dinner together in Ipoh. But all this while, we have never

done business together.”

Ah Hock says the contract value for Lysaght — a one-off project — is close to RM10 mil-

lion, but admits that the original equipment manufacturing (OEM) job offers a relatively low profit margin.

He adds that Pestech will invite Lysaght to tender for local jobs in the future, but it is “very unlikely” to engage the latter for overseas jobs.

“When we go overseas, we will invite international tenders. The Chinese players are very competitive, whereas the cost of production for Malaysian players is too high. I don’t think they (Lysaght) can meet the price that we can get internationally [because] anyone can be our fabricators,” says Ah Hock.

But for local jobs, a future collaboration with Lysaght is still possible as long as the price is right.

“Lysaght offers very good galvanising quality but to us, it’s all about dollars and cents. We want to get the best price for ourselves, as both are listed companies,” he says. **E**