

Headline	Strong 4QFY18 expected for Pestech
MediaTitle	The Edge Financial Daily
Date	30 May 2018



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Pestech International Bhd (May 28, RM1.60)

Maintain outperform with a target price (TP) of RM2.15: At 68% of our financial year ending June 30, 2018 (FY18) estimates, we consider Pestech International Bhd's nine months ended March 31, 2018 (9MFY18) core profit of RM62.8 million to be within expectations as we expect a stronger fourth quarter FY18 (4QFY18) to end FY18 on a record year again.

The core earnings were adjusted for RM3.2 million unrealised foreign exchange (forex) loss and RM23.6 million loss on hedging financial instruments on the strengthening of the ringgit against the US dollar, from headline reported net profit of RM42.5 million. We understand that the hedging financial instrument involves US\$21 million from 2019 to 2025. There was no dividends declared in 3QFY18 as expected.

Pestech's 3QFY18 core earnings fell 53% quarter-on-quarter (q-o-q) to RM15 million from RM31.6 million previously on the back of a 6% decline in revenue. This was due to weaker earnings, especially from Cambodian projects as Diamond Power's engineering, procurement and construction (EPC) was already completed and it is now receiving concession fees while the two main Alex Corp's projects are still at the beginning stages with minimal work claims. The core earnings were adjusted for loss of hedging financial instruments of RM8.1 million and RM500,000 unrealised forex gains in 3QFY18 from losses of RM9.8 million and RM2.6 million previously.

Year-on-year (y-o-y), 3QFY18 core earnings contracted 28% from RM20.8 million, although revenue jumped 53%, owing to the above-mentioned reasons. Year to date,

Pestech International Bhd

FYE JUNE (RM MIL)	2017A	2018E	2019E
Turnover	508.2	920.0	1,000.0
Ebit	147.6	178.5	195.7
PBT	136.0	147.6	163.2
Net profit (NP)	90.9	92.1	104.5
Core net profit	89.1	92.1	104.5
Core EPS (sen)	11.7	12.0	13.7
Core EPS growth (%)	14.2	3.3	13.5
NDPS (sen)	0.0	3.6	4.1
BV/Share (RM)	0.24	0.28	0.32
NTA/Share (RM)	0.24	0.28	0.32
Core PER	13.9	13.4	11.8
PBV (x)	6.71	5.80	5.02
Price/NTA (x)	5.80	5.80	5.02
Gearing (%)	1.18	1.00	0.87
Net yield (%)	0.0	2.2	2.5

Source: Kenanga Research

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9MFY18 core profit leapt 44% to RM62.8 million from RM43.8 million previously as revenue surged 84% over the year. This was largely due to the inclusion of the mass rapid transit Line 2 earnings, which started in 2QFY18 as well as the Klang Valley double track electrification project.

Pestech's share price has come under pressure following the statement from the new economic affairs minister that the government will review the megaprojects such as the East Coast Rail Link and Kuala Lumpur-Singapore high-

speed rail. However, the prime minister also mentioned that the government will look into upgrading existing Keretapi Tanah Melayu (KTM) rail lines with higher speed. As such, the change of government or policy may not be necessarily negative for Pestech as it may opt to bid for the upgrading works. Meanwhile, its current order book of RM1.67 billion should keep it busy for at least next two to three years.

We are keeping our FY18 to FY19 estimates unchanged for now as it is expecting a strong 4QFY18, premised on stronger Cambodian earnings before the start of the raining season in the second half of 2018, and to end FY18 as another record year. Prospects for local rail projects are likely to slow down given the change in government but its intention to upgrade existing KTM rail lines for higher speed should provide opportunity for Pestech. — Kenanga Research, May 28