Headline	Pestech International on a roll
MediaTitle	Malay Mail
Date	13 Feb 2017


Global outlook good for Malaysian manufacturing

Pestech International on a roll

Pestech International on a roll

PETALING JAYA — Pestech International Bhd has finally received the highly anticipated upgrading project from Alex Corp, which involves the first 500kV transmission line in Cambodia for an additional contract value of US$58 million (RM257.52 million).

As the payments to supplier and from vendor remain the same upon the project's completion at end-2019, this lessens the pressure on Pestech's cashflow and it is also guaranteed by state-owned utility Electricite du Cambodge (EdC).

"We believe the best is yet to come for Pestech as it still has two major tenders with a high chance of success.

"This should thrust Pestech to a new high, should it succeed in the tenders. We maintain our 'outperform' call and a target price at RM2 per share based on a sum-of-parts valuation," said Kenanga Research analyst Teh Kian Yeong in a note to investors on Friday.

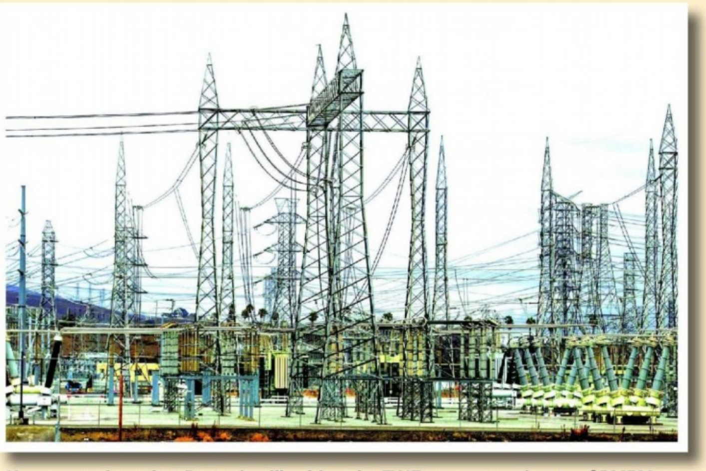
On Wednesday, Pestech finally secured the much-anticipated upgrading contract from Alex Corp for the design, engineering, manufacturing, installing, testing and commissioning of the 230kV West Phnom Penh-Sihanoukville transmission line and substation, which was initially awarded in March 2014.

This new upgrading works raised the total contract value for the project to US$143.9 million from US$86.1 million previously.

The works for this upgraded project include: (i) 230kV double circuit transmission line from Stung Hav Substation to Chamkar Loung, and (ii) 500kV double circuit transmission line from Chamkar Loung to Bek Chan.

The upgraded project is expected to be completed by November 2019.

Although this contract was expected, the news is highly positive as it is the first contract secured in four months, the Kenanga analyst pointed out.



Kenanga opines that Pestech will achieve its FY17 revenue estimate of RM580 million. — Picture by Reuters

> **With this additional US$58 million upgrading contract, Pestech has clinched a total of five contracts in its financial year ending June 30, 2017 (FY17), with a total contract value worth of more than double of RM469 million from RM214 million previously.**
>
> *— Teh Kian Yeong*

"With this additional US$58 million upgrading contract, Pestech has clinched a total of five contracts in its financial year ending June 30, 2017 (FY17), with a total contract value worth of more than double of RM469 million from RM214 million previously.

"As of September 2016, the company's order book was RM1.04 billion. Thus, its order book is likely to rise to RM1.30 billion with this contract. Nonetheless, this upgrading contract does not change our earnings estimates as it is within our FY17-FY18 revenue assumptions.

"This contract raises revenues for FY17/FY18 to RM589 million/RM438 million, based on its project's duration, against our assumptions of RM580 million/RM620 million.

"This also means that our FY17 estimate is achievable while it needs another RM211 million worth of contract to meet our expectation for FY18," Teh added.

The previous arrangement of long credit terms to Alex Corp was over a six-year period. with the first payment only due when the project was set to be completed by end-2017 initially.

As a result, the latest first quarter results reported RM240 million receivables for amount due from contract customers as of September 2016.

On the other hand, its supplier Shandong Power Equipment Co Ltd (Speco) also gave Pestech a long credit term of two years with first payment starting in early 2018 that matches receivable payments from EdC for this Alex Corp job.

"With this new upgraded contract, we understand that payment terms both to Alex Corp and from Speco have been amended in line with this new contract, that is both first payments are now delayed to end-2019 when the project is expected to be completed.

"As such, receivables at Pestech's end will eventually be equivalent to US$143.9 million by end 2019," the analyst said.

Although the credit term is long, raising concerns over the issue of high receivables, it is guaranteed by EdC and is matched with payment to supplier, reducing cashflow problems at Pestech's end, the analyst said.

With this contract in hand, Pestech is still involved in two major biddings that it stands high chances of securing, which could bring its earnings to a new high if it succeeds in the tenders.

"For now, we keep our estimates. We continue to rate the stock 'outperform' for its explosive earnings growth story with an unchanged price target of RM2 per share. Risks to our call include failure to replenish orderbook and cost overruns," Teh said.

(US$1 = RM4.44)