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**P**ower infrastructure company Pestech International Bhd hopes to complete the listing of its Cambodian unit by the end of this year, raising proceeds of between US\$10 million and US\$15 million.

The proposed flotation of wholly-owned subsidiary, Pestech (Cambodia) Ltd (PCL), was first announced in February last year but has taken longer to complete because market conditions last year were unfavourable, says group CEO Paul Lim Pay Chuan.

"It is still on the horizon. Hopefully, we can list it by the fourth quarter of this year," Lim tells *The Edge*, adding that Pestech is looking to hold between 60% and 70% of PCL post-listing.

The initial public offering (IPO) of the company will be done through the issuance of new shares.

Incorporated in 2010, PCL mainly undertakes the construction of electrical substations and transmission lines. According to Lim, PCL has an annual turnover of around US\$30 million and enjoys net profit margins of between 9% and 11%. It is also a significant contributor to Pestech's earnings.

For the financial year ended June 30, 2016 (FY2016), Pestech made a net profit of RM69.9 million on revenue of RM517.5 million, compared with a net profit of RM54.83 million on a turnover of RM394.8 million in the 18-month period ended June 30, 2015.

For the second quarter ended Dec 31 (2QFY2017), its revenue dropped 18% year on year to RM119.9 million while net profit was 24% lower at RM13.2 million. This was attributed to the slower progression of ongoing projects.

Conceding that the relative youth and small size of the Cambodian Stock Exchange may pose liquidity risks, among other challenges, Lim says the choice was aimed at signalling Pestech's commitment to the country.

"We want to be there early — we will be the first foreign infrastructure player listed there that is not linked to the Cambodian government. We are not going to worry about liquidity," he explains.

PCL is undertaking two contracts in Cambodia at the moment. The first involves upgrading works on two double-circuit transmission lines in the country — 230kV and 500kV — worth US\$58 million, which was awarded last month, on Feb 8.

This job is the continuation of a previous contract awarded on March 7, 2014, for construction works on the two transmission lines, which was worth US\$86 million.

The second contract is for works related to a 230kV transmission system project that was awarded to Diamond Power Ltd, a 60%-owned Pestech subsidiary, on a build-operate-transfer (BOT) basis.

Overall, the latest job takes Pestech's total order book to RM1 billion, which will sustain the group through to FY2018.

At market close last Thursday, the stock was last traded at RM1.73 apiece, giving the company a market capitalisation of RM1.32 billion. It has advanced 11.48% over the past year.

## Eyeing more concessions

The 25-year BOT concession marked Pestech's emergence as an independent power transmitter, bringing electricity from the upcoming Lower Se San 2 hydroelectric dam to Kratie town in northeastern Cambodia.

According to Lim, the US\$92.2 million project is currently 83% done. It is scheduled to be fully completed by November this year.

For the first three years, Pestech will receive US\$12.25 million annually from the Cambodian government. This will rise to US\$18.21 million from the fourth year with Pestech set to receive US\$437 million for the duration of the concession.

"Our internal rate of return on this project is 15% to 16%," says Lim. "With this project, the door has been opened to us to approach other utilities in the region [for similar concessions]."

Pestech is eyeing Myanmar and Indonesia, in particular, for similar BOT concessions in respect of power transmission. More concession wins will help diversify its earnings base, which is almost entirely driven by its bread-and-butter project division that does engineering, design and commissioning of power infrastructure.

However, Lim clarifies that things are still at the preliminary stage and that Pestech is focusing on successfully completing the Diamond Power BOT job before looking for more concessions.

"We also don't want to overstretch ourselves. It is something that we have to do one step at a time. Technical risk is minimum; we know we can do the work and finish it. [The challenge] is always the money," he says.

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The financing aspect of such projects can be a heavy load. As at end-FY2016, Pestech's gearing had risen to 0.91 times — its highest in seven financial years — from 0.4 times just five years before, based on Bloomberg data.

Most of its debt was in the form of short-term borrowings, which stood at RM213.7 million as at end-2QFY2017, while the rest made up long-term debt totalling RM217.3 million. Nearly 60% of Pestech's debt is in US dollars due to its regional operations.

Much of the surge in gearing in recent years was due to the Diamond Power concession, says Lim. However, he says the level fluctuates with each project cycle and most of the debt is ring-fenced for the respective projects.

For example, upcoming cash flow from the Diamond Power concession will go first towards repaying borrowings (from Export-Import Bank of Malaysia) taken to finance the project.

That said, the construction phase will be challenging cash flow-wise as the revenue generated will not be received immediately. Meantime, Pestech would be incurring con-

struction costs up front and drawing down on borrowings, which would also incur interest.

This is seen in Pestech's rising amounts due from contract customers, which hit RM283.4 million as at Dec 31, 2016, compared with RM184.8 million six months before. Lim says the company relies on cash flow from other jobs to manage the finance cost of such projects.

"We are okay in terms of cash flow; we are managing," he says. "Because of the nature of our clients [mainly utilities that are statutory bodies], we are not worried about defaults."

If all goes well, analysts expect Pestech to hit revenue of RM600 million in FY2017, setting yet another record year.

Accomplishing this means the company would have to extend its streak of surpassing the previous year's turnover and net profit since at least FY2007. Lim is confident of marking this milestone, given Pestech's strong order book.

"We are very confident we can reach that figure," says Lim. "If we continue to grow like that, we should be able to hit RM1 billion revenue by FY2020." **E**