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Pestech on a roll

But analyst concerned about its receivables

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PETALING JAYA: Having just secured its biggest contract ever, and currently in the forefront to win another major job, Pestech International Bhd is one company to watch.

The power systems technology firm has won two big contracts in the past two months, and analysts say it is likely to win another job which will push its earnings to new highs.

However there are some reservations about the group's receivables.

At least one research house expects an increase in the amount outstanding following its latest US\$100mil (RM443.7mil) contract win from Alex Corp in Cambodia.

According to a report by Kenanga Research, its receivables could rise to a record high.

This, it says, is due to the likelihood that the payment and credit terms for the project will be the same as its previous contract from Alex Corp – an US\$86.1mil (RM280mil) contract for engineering works in March 2014.

In its announcement to the stock exchange last week, Pestech did not disclose details regarding the payment terms for the project.

The research house, however, suspects the payment arrangement will be the same as the previous arrangement of long credit term to Alex Corp, which is over a six-year period, with the payment only commencing once the project is completed.

If this is the case, the research house said it expected Pestech's receivables to eventually rise by a

further US\$100.2mil by mid-2020 in ringgit terms.

Despite this, the research house said it was not concerned about the company's cash flow.

"We understand that it is the same supplier, SPECO, which also gave Pestech a long credit term of two years for the first Alex Corp project that matched receivable payments from the state-owned utility Electricite du Cambodge (EdC).

"Admittedly, the high receivables look uncomfortable, but with the guaranteed payment from EdC, which matches payment to supplier, this reduces cash-flows concerns at Pestech's end," it said.

The research house, which maintained its "outperform" call on the stock, added that Pestech was also in the midst of another major bid, in which it stood a high chance of success.

"If successful, this could catapult its earnings to a new high," it said.

On Thursday, Pestech announced that its Cambodian unit, Pestech (Cambodia) Ltd (PCL) had entered into a deal with Cambodian firm Alex Corp, whereby PCL will be involved in works on the Stung Tatay Hydro Power Plant – Phnom Penh Transmission System Project.

It said the project mainly involved the design, engineering, manufacturing, installation, testing and commissioning of about 220km of a 230kV double circuit transmission line from the Stung Tatay Hydro Power Plant to Phnom Penh, as well as the supply, installation and connection of two 230kV lines bays at Stung Tatay HPP switchyard.

The group said the project was expected to commence within three

months, and to be completed within 36 months from commencement.

Pestech had first made inroads into Indochina with a transmission line project in Cambodia in June 2013.

In the early years, Pestech's main customer were Tenaga Nasional Bhd and later Sarawak Energy Bhd and Sabah Electricity Sdn Bhd. It began venturing overseas in 2007 when it entered Brunei.

Since then the group has made its mark with jobs in Sri Lanka, Cambodia, Papua New Guinea as well as in several African countries.

The US\$100mil contract win last week represented the company's largest win in a single contract.

Its previous US\$86.1mil (RM280mil) contract from Alex Corp for engineering works in 2014 involved works for the 230KV West Phnom Penh-Sihanoukville transmission line and the 230/115/22KV substation extension.

The 2014 contract was followed by an upgrading work project in February 2017, which included a 500kV double circuit transmission line, raising the total contract value to US\$143.9mil.

The group has clinched six contracts worth a total of about RM910mil in FY17, a record amount secured within one financial year.

As at December 2016, its order book was RM1.02bil.

Kenanga Research expects the group's order book to reach about RM1.7bil with the latest contract as well as the upgrading contract secured in February 2017.

According to its latest quarterly report, the group has RM283.4mil due from its contract customers as at Dec 31, 2016.