

Headline	Pestech secures upgrading contract in Cambodia
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Pestech secures upgrading contract in Cambodia

Pestech International Bhd (Feb 10, RM1.68) Maintain outperform with unchanged target price of RM2: Last Wednesday, Pestech International Bhd finally secured the well-anticipated upgrading contract from Alex Corp Co Ltd 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 (RM638.9 million) from US\$86.1 million previously. The works for this upgraded project include the transmission line of 230kV double-circuit transmission line from Stung Hav Substation to Chamkar Loung and 500kV double-circuit transmission line from Chamkar Loung to Bek Chan. Completion of the upgraded project is expected by November 2019.

Although this contract is well expected, the news is highly positive as it is the first contract secured in

four months. With this additional US\$58 million upgrading contract, Pestech has clinched a total of five contracts in its 2017 financial year (FY17) with a total contract value worth RM469 million, more than double from RM214 million previously. As of September 2016, its order book was RM1.04 billion. Thus, its order book is likely to rise to some RM1.3 billion with this contract. Nonetheless, this upgrading contract does not change our earnings estimates as it is within our FY17 and FY18 revenue assumptions. This contract raises revenues for FY17 and FY18 to RM589 million and RM438 million respectively, based on its project's duration, against our assumptions of RM580 million and RM620 million. This also means that our FY17 estimate is achievable while it needs another RM211 million worth of contracts to meet our expectation for FY18.

Receivables are expected to rise further in the previous arrangement of long credit term to Alex Corp, which was over a six-year period with first payment only starting when the project is completed by

this year end. As a result, the latest first quarter of FY17 results reported RM240 million in receivables for amount due from contract customers as of September 2016. On the other hand, the 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 receivables payment from the state-owned utility Electricite du Cambodge (EdC) for the Alex Corp job. With this new upgraded contract, we understand that payment terms for both to Alex Corp and from Speco are amended accordingly to this new contract, that is, both first payments are now delayed to end-2019 when the project is completed. As such, receivables at Pestech's end will eventually be equivalent to US\$143.9 million by end-2019.

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 cash flow problems at Pestech's end. With this contract in

Pestech International Bhd

FYE JUNE (RM MIL)	2016A	2017E	2018E
Turnover	508.7	600.0	695.0
Ebit	111.7	137.4	146.6
PBT	105.8	115.1	116.9
Net profit (NP)	72.8	76.4	89.7
Core net profit	66.1	76.4	89.7
Consensus (NP)		75.5	82.6
Core EPS (sen)	35.4	10.2	12.0
Core EPS growth (%)	102.9	15.6	17.4
NDPS (sen)	15.0	3.1	3.6
BV/Share (RM)	1.66	0.48	0.56
NTA/Share (RM)	1.66	0.48	0.56
Core PER	18.9	16.6	14.2
PBV (x)	4.04	3.54	3.01
Price/NTA (x)	4.04	3.54	3.01
Gearing (%)	0.92	0.85	0.41
Net yield (%)	2.2	1.8	2.1

Source: Kenanga Research

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 to our estimates. We continue to rate the stock "out-

perform" for its explosive earnings growth story with an unchanged price target of RM2 per share. The risks to our call include failure to replenish order book and cost overruns. — Kenanga Research, Feb 10