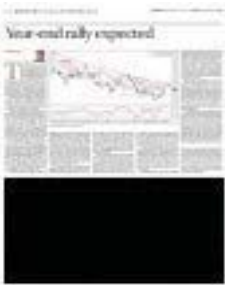


Headline	Pestech likely to gain from revival of megaprojects
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# Pestech likely to gain from revival of megaprojects

**Pestech International Bhd**  
(Nov 12, RM1.30)

**Maintain outperform with an unchanged target price (TP) of RM1.75:** Pestech International Bhd announced on Monday that its wholly-owned subsidiary Pestech Sdn Bhd had received a letter of award from Tenaga Nasional Bhd ("market perform"; TP: RM13.40) for the supply and delivery of smart meters for Smart Billing Project Deployment Phase 2 in Selangor, Kuala Lumpur, Putrajaya and Cyberjaya in 2019 and 2020 for a total contract amount of RM38.4 million. This is the second phase of implementing smart meters after the pilot project in Melaka with a total of 300,000 meters having already been installed between 2016 and 2018. We learnt that Pestech will start installing the meters soon and the contract is valid until the end of 2020.

This small contract is its first contract win in the financial year ending June 30, 2020 (FY20), albeit of a small value against its order book of RM1.6 billion as at June 2019. We believe there are many smart meter contracts to be released in stages soon as there are 1.2 million meters targeted to be installed in the Klang

**Pestech International Bhd**

FYE JUNE (RM MIL)	2019A	2020E	2021E
Turnover	810.0	950.0	1,050.0
Ebit	150.4	166.5	179.5
PBT	97.6	116.5	131.1
Net profit (NP)	80.2	91.1	103.4
Core net profit	72.4	91.1	103.4
Core EPS (sen)	9.5	11.9	13.5
Core EPS growth (%)	16.4	25.7	13.6
BV/Share (RM)	0.28	0.33	0.39
NTA/Share (RM)	0.28	0.33	0.39
Core PER	11.7	10.6	9.3
PBV (x)	3.97	3.78	3.19
Price/NTA (x)	3.51	3.78	3.19
Gearing (%)	1.82	1.38	1.06

Source: Kenanga Research

Valley by 2020. According to a statement made by an officer of the Energy Commission at end-September, the total cost to instal the meters in Melaka and the Klang Valley is RM1.2 billion. As such, we should expect to see more metering contract roll-outs in the near future. There are a total of 9.1 million households in Peninsular Malaysia targeted to be fully installed with smart meters by 2026. After Pestech posted a 16% jump

in core earnings to RM72.4 million on the back of a revenue of RM810 million for FY19, we expect stronger earnings for the next two years given its sizeable order book of RM1.6 billion. In addition, both the East Coast Rail Link and Klang Valley Double Track Phase 2 (KVDT2) were restored in the middle of this year, and Pestech stands a good chance to secure the electrification portion of the contracts given its technical



Pestech, a niche utility infrastructure play, could potentially benefit from the fast-growing energy infrastructure development market in Cambodia.

capacity. In fact, Pestech won KVDT1 jobs worth RM318 million in March 2016. While there is no indication of the contract value size, we believe the combined value of the two rail electrification projects could likely boost its current book by 40% to 50% should it be successful in the bidding.

We continue to like this niche utility infrastructure play which could potentially benefit from the revival

of megaprojects domestically and the fast-growing energy infrastructure development market in Cambodia. We believe the market is still not appreciating the growth potential of this stock. While keeping our estimates unchanged, we maintain our "outperform" rating with a TP of RM1.75. Risks to our call include: i) failure to replenish its order book; and ii) cost overruns. — *Kenanga Research, Nov 12*