

Pesona Metro an emerging contractor, says TA Research

KUALA LUMPUR — TA Research initiated coverage on Pesona Metro Holdings Bhd, a construction service provider, with a “buy” recommendation.

The company’s business is supplemented by manufacturing of construction panels and polyurethane products, which are relatively small compared to its core construction business.

“We see Pesona Metro as an emerging contractor given its good track records and relatively small base versus other more established listed contractors. Based on a target price to earnings multiple of 14x, we value Pesona Metro at RM0.78,” said TA Research in a note yesterday

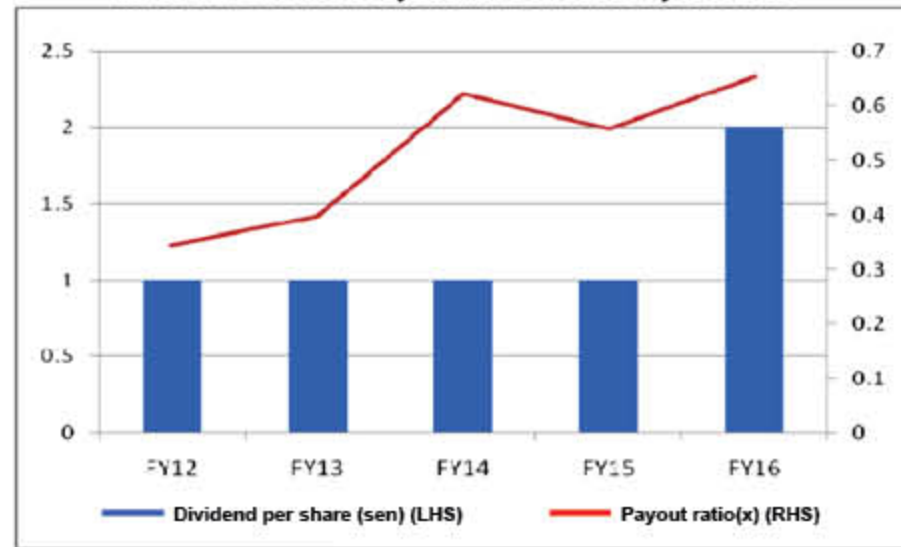
Forecast

“We forecast net profit for FY17 and FY18 to jump 64.9% and 15.3% to RM33.0 million and RM38.1 million respectively, supported by a surge in job wins worth RM1.8 billion in FY16. “Subsequently, FY19 earnings are expected to contract by 10.9% to RM33.9 million as we assumed only RM500 million of job wins for FY17, FY18 and FY19 respectively,” said TA Research.

Valuation

The research house said it “initiated coverage on Pesona Metro with a ‘buy’ call and a target price of RM0.78

Historical Dividend Payout and Dividend Payout Ratio



per share, based on 14x CY18 earnings per share. This offers a potential total return of 20.1% (inclusive of 3.7% estimated dividend yield)”.

Sound balance sheet

Until end-December 2016, Pesona Metro had been in net cash position since the completion of its reverse takeover exercise (RTO) in FY12, albeit on a declining trend since FY14.

The decrease in net cash amount as of end-FY14 and FY15 was due to increased working capital requirements

and investment in property, plant and equipment (PPE).

TA Research opined that given the high working capital and investment in PPE that are required to cope with the surge in volume of work in FY17, it predicts that Pesona Metro to fall into a net debt position in FY17.

“However, we are not overly concerned as the gearing or increase in capex is supportive of future earnings growth. Furthermore, with the investment in PPE, the company will be more equipped and ready to take on more jobs in the future,” TA Research said.

Strong growth boosted by huge contracts

Post-acquisition of Mithril Bhd through a RTO in 2012, Pesona’s revenue was range-bound within a band of RM200 million to RM300 million a year between 2012 and 2015.

The revenue jumped 51.9% to RM393.0 million in 2016 on account for acceleration in construction activities derived from sizeable new job wins amounting to RM583.7 million secured in 2015.

The best is yet to come

The year 2016 was an extraordinary year for Pesona Metro as it managed to clinch huge amount of new jobs amounting to RM1.78 billion.

This boosted the outstanding order book from RM1.2 billion as of end-2015 to RM1.9bn, translating into 5.0x FY16 construction revenue.

The jobs in hand could provide earnings visibility to the group up to end-2019.

“Backed by the strong outstanding order book, we forecast FY17 revenue to surge 104.9% to RM805.3 million and to peak in FY18 at RM911.2 million.

“This is premised on the assumptions that Pesona Metro replenishes RM500 million of new construction jobs a year in FY17, FY18 and FY19,” said TA Research.