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RHB Indochina Bank

Credit Supervision & Review, RHBIBL					
Date	:	25-12-18	**Branch**	:	KTL
To	:	Board of Directors			
Borrower(s)	:	Pestech (Cambodia) PLC	**Credit Grade**	:	3
Guarantor(s)	:	Pestech International Berhad			
Request/ Deviation	:	1. Annual Review off existing OD facility of USD3.0M 2. To notify of changing Company's name from Pestech (Cambodia) Limited to Pestech (Cambodia) PLC.			

Comment by Credit Supervision & Review, RHBIBL

1. The borrower's business as integrated power system engineering, procurement, construction & commissioning (EPCC) remains unchanged. The OD account with us has been promptly paid with no excess or cheque return noted. The previous imposed condition to have a gradual FD built up is well in progress with current accumulated FD of USD412.5K or 13.8% from imposed condition of USD900K. (30% of total exposure)

2. In this latest review, borrower has secured a new clean borrowing with CIMB with limit of USD1.2M (OD: USD100K, RC: USD1.1M) with low interest rate of 7.2% (RC) & 7.5%(OD). The account is satisfactorily conducted with no excess or cheque return while the RC is for purchase of materials only with 90 days payment terms.

3. The pending IPO exercise of the company with RHB securities remains on-going with book building exercise. The latest listing date is moved to 2019 with potential request to downsize the IPO of USD20M to a lower limit in view of the lower demand due to the low liquidity. If by end of 2018 is still not able to garnered enough demand, IPO size is plan to reduce to only USD15M instead.

4. The changes in company name is also mainly due to regulatory requirement where private companies are required to change to PLC instead of Limited. This is to paved ways for the listing process while the PUC will also increase to USD71M with additional capital injection from holding company as part of the listing exercise.

5. Comment on financials:-
   i. The company continued to record higher revenue for the audited account up to March 2018 with revenue of USD61.5M from Jul 17 to March 18 which is an improvement of 160% compared to last FY2017 mainly contributed from the income streaming in from their completed and on-going power transmission and substation projects.
   ii. All financial ratios remain healthy except for liquidity ratio with the external auditor highlighting a going concern in view of the negative liquidity as current liability exceeded current asset with on-going concern since all business is supported by the group since inception of the company. This is not a major concern despite the concern raised as the group remain in strong position to continue to provide the liquidity required to continue the business operations as all current liabilities are mostly monies due to related party. Noted borrower has channeled most of their deposits to CIMB where there is some requirement from their contract awarder. Nevertheless, deposit with us is still healthy at around USD982K compared to USD2M with CIMB while we had the FD of USD412.5K with us. the comparison of financial ratio for preceding year as follows:-

	FY17	FY18 (until March 18)
Current ratio	0.054x	0.016x
Gearing	0.15x	No borrowings

* Gearing ratio remains healthy at 0.15x in 2018 while no borrowing in 2017 with operations wholly supported by Group.

iii. The cash flow from operating activities is positive with EBITDA of USD10M which is able to repay the bank borrowings with interest coverage of 101x. However, the overall cash flow remains negative due to long collection period as the project proceeds only be collected after completion of the projects where borrower need to commit up front on all the construction cost to be supported by the holding company.

iv. The OD continued to be justified to support their on-going projects with order book of USD269M. Repayment capacity based on EBIT continued to be strong with coverage of 36.6x based on March figure.

v. The industry outlook continues to be bullish in view of the continued rising demand for electrification of Cambodia's provinces where infrastructure demand is still strong.

6. Financials for Pestech International Berhad:-

a) During the financial year ended June 2018, the Group recorded revenue of RM834.05M as compared to RM498.3M in preceding financial year with growth mainly driven by higher contribution from the Transmission and Rail Electrification segments of the group where they are one of the few that have the expertise on rail electrification with projects granted mainly from Malaysia i.e. KTMB.

b) The GPM has reduced to 16% from 28% in the preceding year mainly due to different stages of project execution and the margin of each project whereby they were predominantly at the stage of design and foundation construction.

c) Revenue for project segment was recorded at RM819M as compared to RM488M in preceding year mainly due to more projects awarded and higher progressive construction revenue recognized while product segment at RM24.1M.

d) Gearing increase to 1.4x in FY2018 compared to 1.09x in FY2017 with higher borrowings by RM231.3M where the borrowing was raised to support on-going contracts as the revenue has almost doubled in 2018. Current ratio remains healthy at 1.39x while quick ratio is also healthy at 1.26x where the current asset is mainly comprised of amount due from contract customers, cash and trade account receivables which constitute 87% of total current asset.

e) There is continue deficit in cash flow generation from operating activities due to contract proceeds yet to be collected while the operations of business is relying on cash flow generated from drawdown of loans to support the increased project awarded in 2018. The cash flow from operation is however expected to improve with the improving completion stages and progressive billing coming in later stages of the contracts. Interest repayment for the current financial year is reliant on raising new loans to provide the cash flow for repayment.

7. Major risk highlight:-

✓ Performance/execution risk: The company has been reliable with ample experience in EPCC works which started in Malaysia since 1991. They had completed USD22M worth of power grid/substation project in Cambodia since inception with no adverse remark from major awarder i.e. EDC

✓ Payment risk from awarder: All contracts in Cambodia for power grid, substation and transformers are awarded from state owned Electricite du Cambodge where payment risk is minimal as the projects are all public infrastructure project back the Government of Cambodia while the National Power Company is also a monopoly figure where there is no competitor with good profitability. Therefore, there is no reason for any payment default as electricity supply is a vital economic growth factor and consumer necessity in the country.

6. Recommended for management approval as recommended

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Concurred by: Tang Siew Hon Senior Manager Date: 25/12/18
Concurred by: Yong Ching San Head, Credit Management Date: 25/12/2018

1. Performance risk is acceptable based on satisfactory track record. Current order book stands at USD269 million at various stage of completion. The projects are funded by the group as reflected by advance from holding company of USD64.6 mil (2017: USD54.7 mil). Going forward, they will rely less from the group for funding. They are planning to raise fund via IPO and bond/sukuk to fund the project. The proposed IPO of USD20 million is managed by RHB and is expected to be completed in 1Q2019.

2. Mostly they sub-contracted the projects from main contractors but they managed to mitigate repayment risk by securing direct payment from EDC (project owner and state owned company). The projects are mainly on deferred payment basis. As at 31/3/2018 the amount due from contracts stood at USD131.3 million.

Husnuddin Abdul Mokti
Head, International Credit Management
Date: 9/1/19