Earnings rebounded, margins improved

Pintaras achieved net profit of RM33m (9M17), 92-94% of consensus and our FY17E estimates of RM35-36m. The result was above our expectation due to higher-than-expected EBIT margin, which improved to 20.8% (+8.3ppts). We expect weaker 4Q17 earnings than the first 3 quarters. We maintain our revenue forecast but raise our EPS forecast by 16% to 25 sen. Maintain BUY with a TP of RM4.62 (weighted average peer target CY18E PER of 15x) and attractive net yield of 5.2%. DPS of 8 sen was declared in 3Q17.

Significant improvement for piling division

For 3Q17, Pintaras revenue increased 82% yoy to RM52.6m but dropped 12% qoq (2Q17: RM59.8m) due to a depleting orderbook of about RM50m, mainly works for the I-City and Quantum Quest Office in Tun Razak. Revenue rebounded strongly to RM172.1m (+79% yoy) from a low base due to higher volume of construction works in FY17 compared to FY16.

Improvement in margins

EBIT leaped 198% yoy to RM35.9m in 9M17 with EBIT margin improving 8.3ppts to 20.8% (9M16:12.6%), climbing back to its normalized average EBIT margin of 23.4% (FY09-FY16). This was mainly contributed by improved EBIT margin for piling division to 20.5% (+10.5 ppts) and manufacturing to 16.6% (+2.6 ppts). Despite manufacturing EBIT improving, revenue shrank 8.9% yoy to RM23.3m due to lower sales volume and selling prices for its metal container products. But earnings was partially cushioned by lower material costs.

Maintain our revenue forecast but tweak our margins higher

For 9M17, Pintaras achieved a net profit of RM33m, 92-94% of consensus and our FY17E estimates of RM35-36m. We expect weaker 4Q17 earnings than the first 3 quarters as they have not been securing any contracts since our last meeting with them in April 2017. We maintain our revenue forecasts at this juncture because we view that even if Pintaras can secure a contract within a month, it will only contribute to earnings in FY18 (June year-end). However, we revise up our piling margins assumption by 4 ppt to better reflect its remaining contracts contribution, which led us to raise our EPS by 16% to 25 sen (Previous EPS: 21.5sen) in FY17E.

Earnings & Valuation Summary

FYE 30 Jun	2015	2016	2017E	2018E	2019E
Revenue (RMm)	243.0	136.9	189.6	222.0	262.5
EBITDA (RMm)	84.0	32.0	61.9	69.1	82.6
Pretax profit (RMm)	68.6	23.0	53.2	58.5	72.7
Net profit (RMm)	51.9	17.8	41.0	45.1	56.0
EPS (sen)	31.9	10.9	25.0	27.5	34.2
EPS growth (%)	(5.6)	(65.8)	129.6	9.9	24.2
PER (x)	12.1	35.5	15.5	14.1	11.3
Core net profit	54.3	15.6	38.6	45.1	56.0
Core EPS (sen)	33.4	9.5	23.6	27.5	34.2
Core EPS growth (%)	3.9	(71.4)	147.3	16.6	24.2
Core PER (x)	11.6	40.6	16.4	14.1	11.3
Net DPS (sen)	18.0	20.0	20.0	20.0	20.0
Dividend Yield (%)	4.7	5.2	5.2	5.2	5.2
EV/EBITDA (x)	5.4	14.4	7.4	6.4	5.2
Core ROE (%)	16.6	4.6	11.5	13.0	15.4
ROA (%)	13.0	4.3	10.2	11.0	12.9
Debt to equity ratio (x)	0.0	0.0	0.0	0.0	0.0
BPS (RM)	2.1	2.0	2.1	2.1	2.3
PBR (x)	1.8	1.9	1.9	1.8	1.7
Chg in EPS (%)			16.4	0.0	0.2
Affin core/Consensus (x)			1.1	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Pintaras Jaya

PINT MK; PTARAS
Listing Market: Main
Sector: Construction

RM3.87 @ 26 May 2017

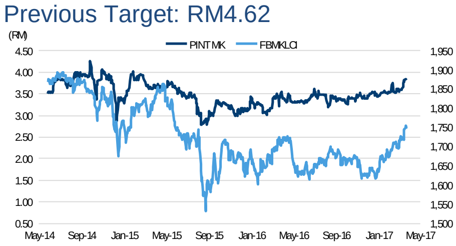
KLCI: 1,772

Buy (maintain)

Upside: 19%

Price Target: RM4.62

Previous Target: RM4.62



Price Performance

	1M	3M	12M
Absolute	+6.9%	+12.2%	+9.9%
Rel to KLCI	+6.8%	+7.6%	+1.3%

Stock Data

Issued shares (m)	637.5/149.4
Mkt cap (RMm)/(US$m)	0.1
Avg daily vol - 3mth (m)	3.3-4.02
52-wk range (RM)	26.0%
Est free float	2.06
BV per share (RM)	1.88
P/BV (x)	177.99
Net cash/(debt) (RMm)	163
ROE (2018F)	13.2%
Beta	0.6
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Dr. Chiu Hong Keong	64.2%
LTH	5.0%
EPF	1.2%

Source: Affin, Bloomberg

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Maintain BUY with a TP of RM4.62

We maintain our BUY call and a RM4.62 target price, based on weighted average peer target CY18E PER of 15x. Pintaras currently is trading at 14.1x CY18E PER, which is below 20x, one standard deviation below mean PER level. Net yield of 5.2% based on dividend of 20 sen in FY17E is attractive (FY16: 20 sen). Net cash of RM163m or RM1.00/share supports our projected DPS.

Key risks to our call:

Key downside risks are i) inability to secure piling jobs will pose earnings risk ii) earnings lag due to timing of contract wins; iii) thinner margins due to a competitive environment; iv) defect liablities and execution risks; v) slowdown of construction contract awards.

Fig 1: Results Comparison

FYE 30 Jun (RMm)	3Q17	% QoQ	% YoY	9M17	% YoY	Comment
Revenue	**52.6**	***(12.1)***	***81.5***	**172.1**	***79.3***	Significant improvement in piling revenue due to increased volume of construction works compared to previous year
Op costs	(39.3)	*(9.1)*	*79.0*	(125.0)	*74.9*	
EBITDA	**13.3**	***(19.8)***	***89.2***	**47.1**	***92.3***	
EBITDA margin (%)	*25.2*	*(2.4)*	*1.0*	*27.4*	*1.8*	
Depn and amort	(3.7)	*(0.8)*	*(7.3)*	(11.2)	*(9.7)*	
EBIT	**9.5**	***(25.4)***	***220.0***	**35.9**	***>100***	
EBIT margin (%)	*18.1*	*(3.2)*	*7.8*	*20.8*	*8.3*	Improvement in both piling and manufacturing margins - Piling was due to higher profits realized from its completed projects, while manufacturing was due to lower material cost.
Interest income	1.0	*(6.4)*	*(22.4)*	3.1	*(19.0)*	
Forex gain (losses)	0.0	*(58.8)*	*NA*	0.1	*8.2*	
Exceptional items	0.3	*(48.0)*	*53.5*	2.6	*>100*	
Pretax profit	**10.9**	***(25.2)***	***148.5***	**41.6**	***>100***	
Core pretax	**10.5**	***(23.9)***	***148.2***	**39.0**	***>100***	
Tax	(2.4)	*(24.7)*	*146.3*	(8.6)	*>100*	
Tax rate (%)	*22.2*	*0.1*	*(0.2)*	*20.7*	*(1.7)*	
Net profit	**8.5**	***(25.3)***	***149.1***	**33.0**	***>100***	
Core net profit	**8.1**	***(23.7)***	***148.8***	**30.3**	***>100***	
EPS (sen)	5.2	*(24.6)*	*147.6*	20.2	*>100*	

Source: Affin Hwang, Company data

Fig 2: Segmental revenue breakdown

FYE 30 Jun (RMm)	3Q16	4Q16	1Q17	2Q17	3Q17	% QoQ	% YoY	9M16	9M17	% YoY
Piling	20.5	32.7	52.6	52.0	44.2	*(15.0)*	*>100*	70.4	148.8	*>100*
Manufacturing	8.4	8.2	7.2	7.8	8.4	*7.8*	*(0.7)*	25.6	23.3	*(8.9)*
Total	**29.0**	**40.9**	**59.7**	**59.8**	**52.6**	***(12.1)***	***81.5***	**95.9**	**172.1**	***79.3***

Source: Affin Hwang, Company data

Fig 3: Segmental EBIT margin

FYE 31 Jun (%)	3Q16	4Q16	1Q17	2Q17	3Q17	ppt QoQ	ppt YoY	9M16	9M17	ppt YoY
Piling	5.4	11.2	22.4	21.5	17.1	*(4.4)*	*11.6*	9.9	20.5	*10.5*
Manufacturing	16.3	20.1	15.5	16.2	17.9	*1.7*	*1.6*	14.0	16.6	*2.6*
Total	**10.3**	**12.1**	**22.6**	**21.3**	**18.1**	***(3.2)***	***7.8***	**12.6**	**20.8**	***8.3***

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is printed and published by:
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