



AmInvestment Bank

Company report

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TECHNOLOGY

# PRESTARIANG

(PRES MK EQUITY, PSTG.KL)

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## Partnering with Thales for SKIN

**BUY**

Price: RM2.29  
Fair Value: RM2.60

Rationale for report: Company update

YE to Dec	FY16	FY17F	FY18F	FY19F
FD Core EPS (sen)	1.8	6.8	12.7	14.7
PE (x)	124.8	33.7	18.0	15.5

Source: AmInvestment Bank Bhd

Quick Take

- Prestariang has entered into a Heads of Agreement with Thales Communications & Security SAS (Thales) and Thales Malaysia to facilitate the implementation of Sistem Kawalan Imigresen Nasional (SKIN).
- According to *Stockholm International Peace Research Institute (SIPRI)*, Thales is the 11th largest arms-producing and military services company in the world (excluding China) in terms of arms sales. Thales has advanced technical know-how and vast experience in designing and building defence systems and providing security services.
- The potential tie-up could translate into transfer of technology to Prestariang's Malaysia-based operations which would be synergistic to the company's ICT training and education businesses. From the collaboration, Prestariang could nurture local talents in the border security field and provide related training services in the future.
- To recap, on 18 November 2016, the Cabinet approved Prestariang's proposal to implement SKIN with the objective of beefing up national border security. SKIN is an integrated technology platform aimed at enhancing the core applications and infrastructure of the national immigration system.
- The public-private partnership project has a 15-year concession period comprising 3 years to build and deploy, and 12 years of operational maintenance phase under a Build, Operate, Maintain and Transfer (BOMT) arrangement.
- Twelve annual payments averaging RM295mil each year will be made to Prestariang after 3 years, when the system is fully functional. This gives the project a value of RM3.5bil, which underpins the group's forward earnings growth momentum.
- We note that Prestariang could recognise revenue from SKIN in accordance with the IC Interpretation 12 vis-à-vis Service Concession Arrangements. Under this arrangement, Prestariang is projected to record an annual revenue of RM648mil and a pre-tax profit of RM33mil in the first 3 years of the project. For FY17F, we are assuming a half-year contribution from SKIN to account for possible delays in execution.
- From a low base, Prestariang's earnings are expected to register a FY16-FY19F CAGR of 100%, premised on: 1) a recent contract to implement Sistem Kawalan Imigresen Nasional (SKIN); 2) pick-up in ICT training orders from Refinery And Petrochemicals Integrated Development (RAPID) project in Pengerang; and 3) uptick in student registration at University Malaysia of Computing Science & Engineering (UniMy).
- Currently, Prestariang is trading at CY18F PE of 17x, on par with its peers. However, Prestariang has a lower PEG (CY18F PE/3-year forward EPS CAGR) of 0.2x vs. its peer average of 0.8x. All-in, we are reiterating our BUY call.

TABLE 1 : VALUATION MATRIX

YE 30 Dec	FY15	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	115.5	132.1	483.3	840.3	872.1
Core net profit (RM mil)	15.8	8.9	32.9	61.5	71.3
FD Core EPS (sen)	3.3	1.8	6.8	12.7	14.7
FD Core EPS growth (%)	(20.9)	(43.9)	270.0	87.0	16.0
Consensus Net Profit (RM mil)			46.1	61.3	66.8
DPS (sen)	3.7	3.0	4.8	6.8	8.0
PE (x)	70.0	124.8	33.7	18.0	15.5
EV/EBITDA (x)	49.8	98.8	24.4	12.8	10.8
Div yield (%)	171.8	137.6	220.2	311.9	367.0
ROE (%)	10.2	5.4	19.8	33.2	33.1
Net Gearing (%)	nm	nm	nm	nm	nm

Source: Company, AmInvestment Bank estimates

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