



Results Review: 2Q17

In-line

BUY ◀▶

Price: **RM1.75**
Target Price: **(+51.4%) RM2.65**

- **2Q17 core earnings jumped 80.9% qoq and 50.9% yoy respectively to RM5.8m. This was driven by the Software & Services and Academy segments while the Education unit saw and lower losses in the quarter.**
- **Overall, 1H17 earnings grew 33.9% to RM9.0m (1H16: RM6.7m) in tandem with improvement in revenue which rose 10.9% YTD**
- **No changes to earnings. We expect near to medium earnings growth to be driven by SKIN albeit we note there is inherent execution risk given the company's lack of track record.**
- **Maintain BUY with a TP of RM2.65 TP which implies a FY17E PE of 95x before easing to 32x in FY18E.**

Strong quarter performance

Prestariang's 2Q17 core earnings grew 80.9% qoq and 50.9% yoy to RM5.8m. This was underpinned by higher profit recorded at its Software & Services and Academy segments while the Education segment recorded lower losses on higher student intakes.

Earnings improved

Overall, 1H17 earnings grew 33.9% to RM9.0m (1H16: RM6.7m) in tandem with revenue increasing 10.9% underpinned by higher contribution from Software & Services and Education segments. Prestariang's 1H17 core earnings were ahead of our expectations at 67% but fell short of consensus at only 32% of FY17E forecast.

No change to forecast

Despite the strong 1H17 earnings performance, our forecasts remain unchanged as we expect contribution from the Software & Services to normalise in 2H17. Management guided that the Software & Services are typically front-end loaded due to timing of license renewals.

SKIN to be the main earnings driver

In the near to medium term, we expect the implementation of Sistem Kawalan Imegresen Nasional (SKIN) would underpin its structural earnings growth. Nevertheless, we assumed earnings contribution from SKIN to only start from FY18 onwards while we note that there is inherent execution risk due to the company's lack of track record in executing projects of such scale.

Dividend declared

A second interim DPS of 1.0 sen was declared. Our full year DPS of 2.9 sen. Our forecast DPS implies a dividend yield of 1.7%.

Maintain BUY with TP of RM2.65

We maintain our BUY with a DCF-derived TP of RM2.65 (Table 2). This implies a FY17E PE of 95x before easing to 32x in FY18E which is fair considering the sizeable contribution of SKIN project.

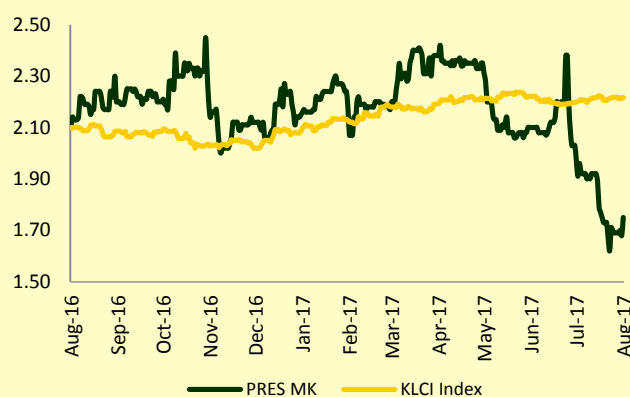
Prestariang

Strong quarter performance

Stock Data

Bloomberg Ticker	PRES MK	Altman Z-score	15.2
Market Cap	844.0	YTD price chg	-15.0%
Issued shares	482.3	YTD KLCI chg	8.1%
52-week range (H/L)	2.53/1.61	Beta	0.9
3-mth avg daily volume	915,511	Major Shareholders	
Free Float	52.9%	EkoHati	20.7%
Shariah Compliant	Y	Kumpulan Modal Perdana	13.3%
		KWAP	13.1%

Share Price Chart (RM)



Share Performance (%)

	1mth	3mth	12mth
Absolute	(11.2)	(24.0)	(15.5)
vs. KLCI	(11.8)	(24.4)	(21.1)

Consensus

	2017	2018
Net Profit	28.5	61.5
EPS (sen)	5.9	12.8

Financial Highlights (RMm)

FYE 31 Dec	FY15	FY16	FY17E	FY18E	FY19E
Turnover	115.5	132.1	151.6	624.7	707.2
EBITDA	20.8	10.4	16.2	98.9	119.1
Pretax profit	22.5	11.5	17.6	72.1	97.3
Core Profit	16.0	8.7	13.5	40.4	53.6
EPS (sen)	3.3	1.8	2.8	8.4	11.1
PER (x)	52.7	97.0	62.7	20.9	15.7
DPS (sen)	3.8	3.0	2.9	4.2	5.6
Div. Yield (%)	2.1%	1.7%	1.7%	2.4%	3.2%
P/B Value	5.0	5.2	5.2	4.9	4.6

Margins

	FY15	FY16	FY17E	FY18E	FY19E
EBITDA	18.0%	7.9%	10.7%	15.8%	16.8%
Pretax margin	19.4%	8.7%	11.6%	11.5%	13.8%
Core margin	13.9%	6.6%	8.9%	6.5%	7.6%
ROE	9.4%	5.4%	8.4%	20.5%	21.8%
ROA	7.8%	4.4%	5.5%	11.4%	10.8%
Net Gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Bloomberg, BIMB Securities Research

Prestariang quarterly earnings summary

FYE 31 Dec (RM m)	2Q16	3Q16	4Q16	1Q17	2Q17	QoQ Chg	YoY Chg	1H16	1H17	YTD Chg
Revenue	48.8	17.8	24.7	43.9	55.2	25.8%	13.1%	89.5	99.1	10.7%
EBITDA	4.8	0.6	1.7	3.6	7.3	100.8%	52.2%	8.4	10.9	29.8%
Pretax profit	5.0	0.7	1.7	3.8	7.3	90.1%	44.5%	9.1	11.1	22.1%
Taxation	(1.3)	-	(0.1)	(0.6)	(1.4)	125.1%	3.2%	(2.3)	(2.0)	-15.8%
Minority Interest	-	-	0.2	-	0.1	n.a	n.a	-	0.1	n.a
Core profit	3.7	0.7	1.4	3.2	5.8	80.9%	56.9%	6.7	9.0	33.9%
Core EPS (sen)	0.8	0.2	0.3	0.7	1.2			1.4	1.9	33.9%
Net gearing (x)	Net cash	Net cash	Net cash	Net cash	Net cash			Net cash	Net cash	
EBITDA margin (%)	9.8	3.2	6.8	8.2	13.1			9.4	11.0	
PBT margin (%)	10.3	4.1	7.0	8.7	13.2			10.1	11.2	
Core profit margin (%)	7.6	4.1	5.7	7.3	10.5			0.1	0.1	
Effective tax rate (%)	26.3	0.0	8.6	15.8	18.8			25.7	17.7	

Source: Company, BIMB Securities

Table 1: Details of SKIN project

Item	Remarks
Total project cost	RM3.546bn
Capex	RM821m
Concession period	15-year
Building and deployment phase	3-year
Maintenance and technical phase	12-year
Payment received	During the maintenance and technical phase

Source: Company, BIMB Securities

Table 2: DCF breakdown

Items	RM m	Remarks
WACC (%)	7.7%	
Long term growth rate (%)	0.5%	
NPV of forecast for SKIN project	819.7	Assume Prestariang owns 70% direct interest on SKIN project
NPV of forecast for other businesses	201.4	
NPV of terminal value	309.8	For other businesses
Total Enterprise Value	1,330.9	
Less: Net debt/(cash)	52.4	
Total Equity value	1,278.4	
No. of shares	482.3	
Equity value per share (RM)	2.65	Implies PE FY17E/18E of 92x/32x

Source: Company, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Disclaimer

The investments discussed or recommended in this report may not be suitable for all investors. This report has been prepared for information purposes only and is not an offer to sell or a solicitation to buy any securities. The directors and employees of BIMB Securities Sdn Bhd may from time to time have a position in or either the securities mentioned herein. Members of the BIMB Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. The information herein was obtained or derived from sources that we believe are reliable, but while all reasonable care has been taken to ensure that stated facts are accurate and opinions fair and reasonable, we do not represent that it is accurate or complete and it should not be relied upon as such. No liability can be accepted for any loss that may arise from the use of this report. All opinions and estimates included in this report constitute our judgements as of this date and are subject to change without notice. BIMB Securities Sdn Bhd accepts no liability for any direct, indirect or consequential loss arising from use of this report.

Printed and published by

بای آئی سیور بی سیکوریتیس سنڊیرین برحد

BIMB SECURITIES SB (290163-X)

A Participating Organisation of Bursa Malaysia Securities Berhad
Level 32, Menara Multi Purpose, Capital Square,
No. 8 Jalan Munshi Abdullah,
50100 Kuala Lumpur
Tel: 03-2613 1600 Fax: 03-2613 1799
<http://www.bimbsec.com.my>

Azharuddin Nordin
Head of Research