

# Pentamaster Corporation Berhad

“Bright prospects ahead”

Bloomberg: PENT MK | Reuters: PMAS.KL | Stock Code: 7160

**Main Board**  
**Technology**  
**BUY**  
**TP: RM4.68**  
**Price: RM3.59**

## Valuation / Recommendation

We initiate coverage on Pentamaster Corporation Berhad with a BUY recommendation with a TP of RM4.68 based on FY23F EPS of 14.5 sen and a PE of 32.3x, in line with the 5-years average. We like the stock for its attractive expansion plans and solid track record. The target price represents a potential return of 30.0% from the current price.

## Investment Highlights

**Diversified revenue stream and vast geographic footprint.** Pentamaster serves customers across various industries such as the electro-optical, automotive, consumer and industrial products, semiconductor, and medical devices industry. Having geographic footprints across 14 countries, the company plans to expand its presence into the Greater China region and penetrate into key automotive markets in Japan and Germany moving forward.

**Expansion into the medical segment.** In FY19, Pentamaster acquired TP Concept which specializes in the design and manufacturing of insulation displacement connection (IDC) machines. Subsequent to the acquisition, the company plans to leverage on the know-how of TP Concept, and venture into manufacturing of medical products after the establishment of Pentamaster MediQ in FY20. The company is building a 3<sup>rd</sup> plant in Batu Kawan with a built-up area of 600k sq ft, which is approximately 3x larger than its existing production floor space, expected to complete within 1H24.

40% of the space will be allocated for the medical segment with the installation of clean rooms and production lines, and the remainder space will be utilized for the factory automation solution (FAS) segment. Pending the approval from the Malaysia Device Authority (MDA), the company expect the medical products from MediQ to contribute positively to group revenue in FY23. We think that with the completion of the 3<sup>rd</sup> plant in FY24, the company is well-positioned to grow its medical segment and achieve its targeted RM1bn revenue by FY25, leveraging on the medical device industry which is estimated by Protégé to grow at a 5-year CAGR of 14% from 2021 to 2026.

**Strong order book and solid track record.** The company has an order book of RM500m, expected to be fully recognized between 4Q22 and 1Q23. Under the leadership of Chairman Chuah Choon Bin who has more than 30 years of experience in the design and manufacturing of automation equipment and vision inspection system, the company was able to achieve a revenue record in FY21, and a 5-year revenue CAGR of 29.1% from FY16 to FY21, despite the COVID-19 pandemic in FY20.

**Risk factor.** (1.) Fluctuation of raw material prices (2.) Labour shortages.

INVESTMENT STATISTICS	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RM m)	418.8	508.4	588.1	672.8	769.7
EBITDA (RM m)	80.1	86.1	94.4	113.7	138.1
EBITDA Margin (%)	19.1	16.9	16.1	16.9	17.9
Pre-tax Profit (RM m)	113.1	119.5	131.9	151.5	173.7
Net Profit before MI (RM m)	70.9	72.9	84.9	103.1	124.6
EPS (sen)	10.0	10.3	11.9	14.5	17.5
EPS Growth (%)	39.0	2.9	16.0	21.9	20.8
Dividend Yield (%)	0.3	0.4	0.7	0.8	1.0
BV Per Share (sen)	99.2	111.9	119.8	129.6	140.5
PE (x)	35.6	34.6	29.9	24.5	20.3
Net Gearing (%)	Net	Net	Net	Net	Net
	Cash	Cash	Cash	Cash	Cash
ROA (%)	8.5	7.4	8.0	8.8	9.7
ROE (%)	10.1	9.2	9.9	11.2	12.5

Sources: Mercury Securities, Company

## Business Overview

Pentamaster Corporation Berhad specialises in the manufacturing of automated testing equipments (ATE segment) and the provision of factory automated solutions (FAS segment) which contributes 70% and 30% to the group's revenue in FY21. The company serves customers from diverse industries which includes the electro-optical, automotive, consumer and industrial products, semiconductor, and medical devices industry.

## Stock Return Information

KLCI (pts)	1,418.69
Expected Share Return (%)	30.0
Expected Dividend Yield (%)	0.8
Expected Total Return (%)	30.8

## Share Information

Market Cap (RM m)	2,553.6
Issued Shares (m)	711.3
52W High (RM)	5.94
52W Low (RM)	2.67
Estimated Free Float (%)	49.1
Beta vs FBM KLCI	0.4
3-month Average Vol. (m)	39.8

## Top 3 Shareholders (%)

Chuah Choon Bin	19.74
Employees Provident Fund Board	7.84
Lembaga Tabung Haji	5.49

## Price Performance

	1M	3M	12M
Absolute (%)	-6.6	-5.8	-24.5
Relative to Index (%)	-0.8	4.1	-18.3



Source: Bloomberg

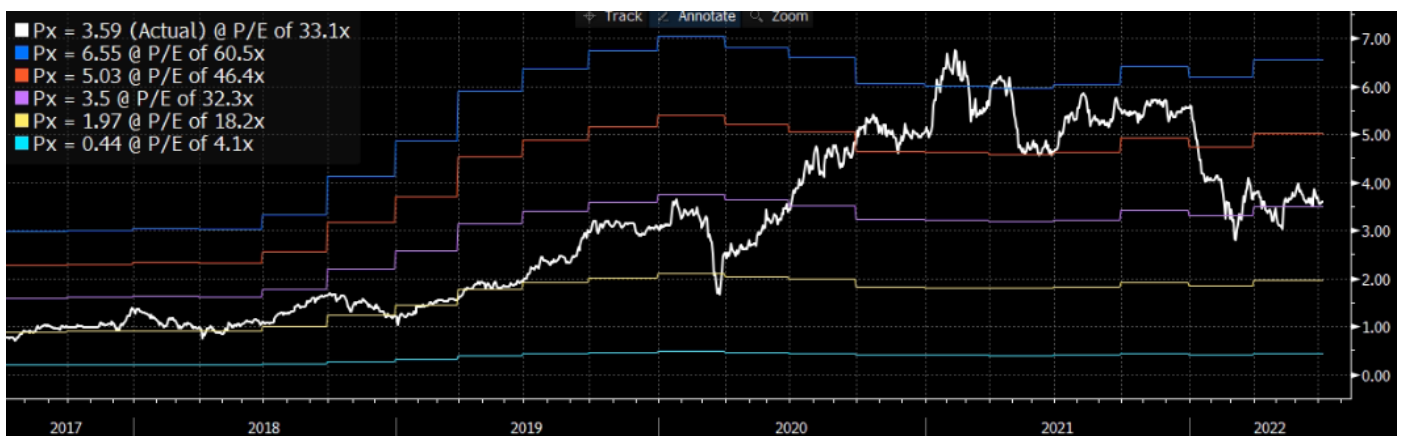
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**MERCURY ECURITIES SDN BHD**  
 (A participating organisation of Bursa Malaysia  
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RESULTS (RM m) FYE	1Q22	4Q21	qoq %	1Q21	yoy %	Comments
Revenue	146.0	122.5	19.2	115.2	26.7	
Cost of sales	102.2	83.9	21.8	80.8	26.5	
Gross profit	43.8	38.6	13.5	34.3	27.7	
Other operating income	4.4	-	-	11.4	-61.4	
Operating expenses	18.1	7.2	151.4	28.5	-36.5	
Profit from operations	30.2	31.3	-3.5	17.2	75.6	
Finance cost	-	-	-	-	-	
Pretax profit	33.3	31.8	4.7	26.6	25.2	
Tax	0.9	1.0	-10.0	0.7	28.6	
Profit after tax	32.4	30.8	5.2	25.9	25.1	
Minority interest	12.0	11.4	5.3	9.8	22.4	
PATMI	20.4	19.4	5.2	16.1	26.7	
Extraordinary losses (gains)	-	-	-	-	-	
Core net profit	20.4	19.4	5.2	16.1	26.7	
EPS (sen)	2.9	2.7	7.4	2.3	26.1	
Core EPS (sen)	2.9	2.7	7.4	2.3	26.1	

Sources: Mercury Securities, Company



Sources: Mercury Securities, Bloomberg



**MERCURY SECURITIES SDN BHD**  
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<b>PROFIT &amp; LOSS (RM m) FY Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Net Revenue	418.8	508.4	588.1	672.8	769.7
Gross Profit	139.6	152.6	178.3	206.3	237.6
Other Operating Income	14.3	18.0	19.4	22.2	25.4
EBIT	75.5	81.9	95.4	115.3	138.6
Administrative Expenses	31.4	38.7	51.2	60.6	70.8
Selling & Distribution Expenses	7.8	10.6	12.9	14.8	16.9
Other Operating Expenses	0.2	0.2	0.3	0.3	0.4
Profit from operations	114.5	121.0	133.3	152.8	174.9
Interest Income	0.0	0.0	0.0	0.0	0.0
Interest Expense	0.1	0.1	0.1	0.1	0.1
<b>Profit Before Tax (PBT)</b>	<b>113.1</b>	<b>119.5</b>	<b>131.9</b>	<b>151.5</b>	<b>173.7</b>
Exceptional Items	-	-	-	-	-
Taxation	0.9	3.8	5.3	6.1	6.9
<b>Profit After Tax (PAT)</b>	<b>70.9</b>	<b>72.9</b>	<b>84.6</b>	<b>103.1</b>	<b>124.6</b>
Minority Interests	41.4	42.7	42.0	42.4	42.2
<b>Profit After Tax &amp; MI (PATMI)</b>	<b>29.5</b>	<b>30.2</b>	<b>42.5</b>	<b>60.7</b>	<b>82.4</b>
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	29.5	30.2	42.5	60.7	82.4
<b>BALANCE SHEET (RM m) FY Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Cash & Equivalents	437.3	478.2	409.0	350.8	405.6
Trade & Other Receivables	151.9	181.4	194.5	224.4	242.1
Inventories	33.8	72.0	85.4	99.5	116.0
Other Current Assets	5.2	2.1	2.1	2.2	2.3
<b>Current Assets</b>	<b>628.3</b>	<b>733.7</b>	<b>690.9</b>	<b>677.0</b>	<b>766.0</b>
Property, Plant & Equipment	121.8	135.2	250.6	365.6	378.6
Other Investments	27.3	41.2	39.7	39.9	40.1
Intangible assets	40.7	41.5	41.7	41.9	42.1
Trade & Other Receivables	10.6	28.2	33.8	40.6	48.5
Other Non-Current Assets	4.5	4.7	4.5	4.5	4.5
<b>Non-Current Assets</b>	<b>204.8</b>	<b>250.8</b>	<b>370.3</b>	<b>492.4</b>	<b>513.8</b>
Trade & Other Payables	102.0	116.9	127.0	158.5	183.5
Short-Term Borrowings	0.4	0.4	0.4	0.8	1.1
Contract liabilities	15.5	64.2	70.6	77.6	85.4
Tax Liabilities	0.7	0.9	5.3	6.1	6.9
<b>Current Liabilities</b>	<b>118.7</b>	<b>182.5</b>	<b>203.3</b>	<b>243.0</b>	<b>276.9</b>
Long-Term Borrowings	2.6	2.1	2.0	1.9	1.8
Deferred Tax Liabilities	4.8	4.3	4.2	4.1	4.0
Deferred Income	1.7	0.0	0.0	0.0	0.0
<b>Non-Current Liabilities</b>	<b>9.1</b>	<b>6.4</b>	<b>6.2</b>	<b>6.0</b>	<b>5.8</b>
Share Capital	79.3	79.3	79.3	79.3	79.3
Retained Profits	435.0	488.4	556.1	638.5	738.2
Other Equity	-5.8	-2.0	-2.4	-2.4	-3.0
Minority Interests	196.9	229.9	218.8	205.0	182.6
<b>Total Equity</b>	<b>705.3</b>	<b>795.6</b>	<b>851.8</b>	<b>920.4</b>	<b>997.1</b>

Sources: Mercury Securities, Company



<b>CASH FLOW (RM m) FY Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Profit before tax	140.4	113.1	119.5	131.9	151.5
Bad debts	0.0	0.0	0.4	0.0	0.0
Changes in fair value of foreign currency forward contracts	-0.9	2.1	0.0	0.0	0.0
Depreciation & Amortization	8.2	9.3	10.1	11.1	14.0
Deferred income released	-0.3	-1.7	0.0	0.0	0.0
Expected credit loss on receivables	6.8	-1.2	9.1	10.6	11.6
Gain on disposals	-0.6	0.9	1.6	1.5	1.4
Assets written down/off	-1.2	0.0	0.0	0.0	0.0
(Gain)/Loss on changes in fair value	0.1	0.0	0.0	0.0	0.0
Interest income	-8.7	-6.8	-5.8	-4.8	-3.8
Interest expense	0.1	0.0	0.1	0.1	0.1
Provisions	-0.2	0.6	0.5	0.4	0.3
Share of result of an associate	1.2	1.5	-1.3	-1.2	-1.1
ESS expenses	0.0	5.6	0.0	0.0	0.0
Unrealised (gain)/loss on foreign exchange	0.8	-4.4	-3.9	-3.4	-2.9
<b>Operating profit/(loss) before working capital</b>	<b>118.5</b>	<b>125.7</b>	<b>142.2</b>	<b>165.8</b>	<b>193.4</b>
Changes in working capital	-46.6	0.2	-10.0	-5.5	-1.4
<b>Cash generated from operations</b>	<b>71.8</b>	<b>125.9</b>	<b>132.2</b>	<b>160.3</b>	<b>191.9</b>
Income tax paid & refunded	-0.8	-2.9	-4.5	-5.4	-6.4
Interest paid	-0.1	-0.1	-0.1	-0.1	-0.1
<b>Cashflow from operations</b>	<b>71.0</b>	<b>122.9</b>	<b>127.6</b>	<b>154.8</b>	<b>185.5</b>
Other investments & acquisitions	-25.0	-27.6	-16.4	-14.5	-15.5
Interest received	8.7	6.8	5.8	4.8	3.8
Proceeds from disposal of assets & investments	13.6	1.6	0.0	0.0	0.0
Purchase of property & assets	-54.9	-43.4	-49.2	-47.1	-48.4
<b>Net cash (used in)/from investing activities</b>	<b>-57.6</b>	<b>-62.6</b>	<b>-10.6</b>	<b>-9.7</b>	<b>-11.6</b>
Dividends paid	-11.9	-17.0	-16.9	-20.6	-24.9
Repayment of term loan	-0.4	-0.4	-0.1	-0.1	-0.1
Payment of finance lease liabilities	0.0	0.0	0.0	0.0	0.0
Proceeds from disposal of shares	21.4	0.0	0.0	0.0	0.0
Purchase of shares in a subsidiary for ESS	-5.8	-2.2	0.0	0.0	0.0
<b>Cashflow from financing</b>	<b>3.3</b>	<b>-19.6</b>	<b>-17.1</b>	<b>-20.7</b>	<b>-25.0</b>

Sources: Mercury Securities, Company

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