



Pentamaster Corporation Berhad

“Bright prospects ahead”

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

Main Board
Technology
BUY
TP: RM4.72
Price: RM4.15

Valuation / Recommendation

Results were within expectations, achieving 50.6% and 46.8% of our full year revenue and PATMI forecasts for FY22 respectively, driven by its Automated Testing Equipment (ATE) segment which contributes 75.4% to its revenue for 1H22.

We maintain a BUY recommendation on Pentamaster with a revised TP of RM4.72 based on FY23F EPS of 14.5 sen and PE of 32.6x in line with the 5-years average. We like the stock due to its attractive expansion plans, and solid track record. The target price represents a potential return of 13.7% over the current price.

Investment Highlights

Results were driven by its ATE segment which contributes 75.4% to its revenue for 1H24, riding on the global automotive electrification where the automotive industry continue to dominate the ATE segment with its revenue contribution of approximately 44.6%. The Group continued to benefit from the structural shift, influenced by the mass adoption of electric vehicles.

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 3rd 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 3rd 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 within 2Q23. 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.) Rising raw material prices (2.) Skilled-labour shortages.

INVESTMENT STATISTICS	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RM m)	418.8	508.4	588.1	672.8	769.7
EBITDA	80.1	86.1	100.0	120.3	145.6
PATMI	70.9	72.9	84.6	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
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
Dividend Yield (%)	0.3	0.4	0.7	0.8	1.0
Net Gearing (%)	Net	Net	Net	Net	Net
ROA (%)	Cash	Cash	Cash	Cash	Cash
ROE (%)	8.5	7.4	8.0	8.8	9.7
	10.1	9.2	9.9	11.2	12.5

Sources: Mercury Securities, Company

RESULTS (RM m) FY Dec	2Q22	1Q22	qoq %	2Q21	yoy %
Revenue	151.3	146.0	3.6	130.6	15.8
COGS	104.9	102.2	2.6	92.8	13.0
Gross Profit	46.4	43.8	5.9	37.9	22.4
Other Income	7.4	4.4	68.2	3.1	138.7
Operating expenses	22.3	14.5	53.8	10.6	110.4
Other expenses	0.1	0.2	-50.0	-	-
Profit from operations	31.4	33.6	-6.5	30.4	3.4
Finance costs	-	-	-	-	-
Associate (loss)	-0.2	-0.2	-	-0.4	-
Profit before tax	31.2	33.3	-6.3	29.9	4.3
Tax	0.7	0.9	-22.2	1.2	-41.7
PAT	30.4	33.4	-9.0	28.7	5.9
Minority interest	11.2	12.0	-6.7	10.8	3.7
PATMI	19.2	21.4	-10.3	17.9	7.3
EPS (sen)	2.70	2.86	-5.6	2.52	7.1
Diluted EPS (sen)	2.52	2.26	-5.6	2.39	7.1

Business Overview

Pentamaster Corporation Berhad is an investment holding company. The company, through its subsidiaries, manufactures automated and semi-automated machines and equipment, designs and manufactures precision machinery components, as well as assembles and installs computerized automation system and equipment.

Stock Return Information

KLCI (pts)	1,505.56
Expected Share Return (%)	13.7
Expected Dividend Yield (%)	0.8
Expected Total Return (%)	14.5

Price Performance	1M	3M	12M
Absolute (%)	22.1	34.7	-28.2
Relative to Index (%)	16.0	36.9	-27.9

Share Information

Market Cap (RM m)	2,952.0
Issued Shares (m)	711.3
52W High (RM)	5.82
52W Low (RM)	2.67
Estimated Free Float (%)	46.5
Beta vs FBM KLCI	0.46
3-month Average Vol. (m)	37.3

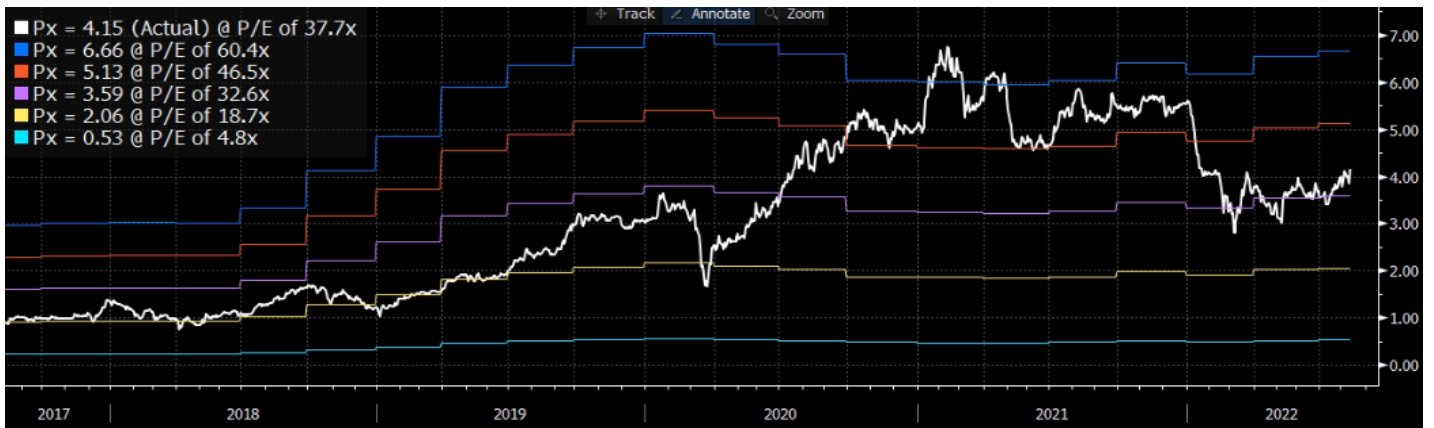
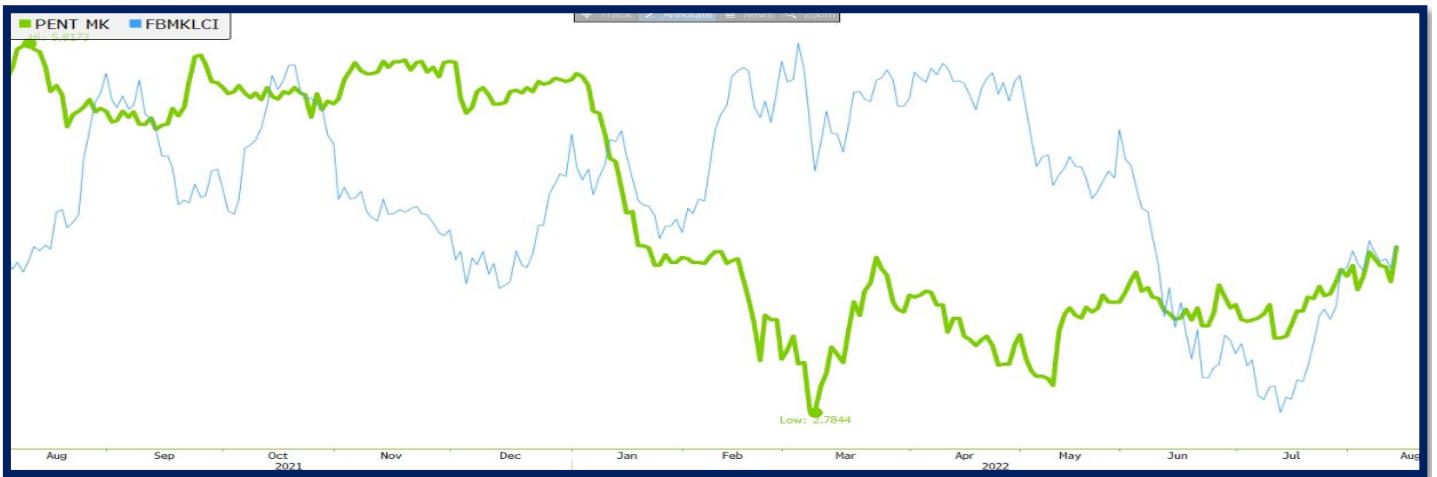
Top 3 Shareholders (%)

Chuah Choon Bin	19.74
Employees Provident Fund Board	7.87
Lembaga Tabung Haji	5.49

Sources: Mercury Securities, Company, Bloomberg

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Sources: Mercury Securities, Bloomberg



PROFIT & LOSS (RM m) FY Dec	FY20A	FY21A	FY22F	FY23F	FY24F
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
Profit Before Tax (PBT)	113.1	119.5	131.9	151.5	173.7
Exceptional Items	-	-	-	-	-
Taxation	0.9	3.8	5.3	6.1	6.9
Profit After Tax (PAT)	112.3	115.6	126.6	145.5	166.8
Minority Interests	41.4	42.7	42.0	42.4	42.2
Profit After Tax & MI (PATMI)	70.9	72.9	84.6	103.1	124.6
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	70.9	72.9	84.6	103.1	124.6
BALANCE SHEET (RM m) FY Dec	FY20A	FY21A	FY22F	FY23F	FY24F
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
Current Assets	628.3	733.7	690.9	677.0	766.0
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
Non-Current Assets	204.8	250.8	370.3	492.4	513.8
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
Current Liabilities	118.7	182.5	203.3	243.0	276.9
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
Non-Current Liabilities	9.1	6.4	6.2	6.0	5.8
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
Total Equity	705.3	795.6	851.8	920.4	997.1

Sources: Mercury Securities, Company



CASH FLOW (RM m) FY Dec	FY20A	FY21A	FY22F	FY23F	FY24F
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
Operating profit/(loss) before working capital	118.5	125.7	142.2	165.8	193.4
Changes in working capital	-46.6	0.2	-10.0	-5.5	-1.4
Cash generated from operations	71.8	125.9	132.2	160.3	191.9
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
Cashflow from operations	71.0	122.9	127.6	154.8	185.5
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
Net cash (used in)/from investing activities	-57.6	-62.6	-10.6	-9.7	-11.6
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
Cashflow from financing	3.3	-19.6	-17.1	-20.7	-25.0

Sources: Mercury Securities, Company

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