



Pentamaster Corporation Berhad

“Ride on EV craze”

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

Main Board

Technology

HOLD

TP: RM5.35

Last Closing Price: RM4.90

Initiated Price: RM3.59

Valuation / Recommendation

Results were within expectations, achieving 102.1% and 97.4% of our full year revenue and PATMI forecasts for FY22 respectively, driven by the Automated Testing Equipment (ATE) segment, contributing 70.1% to its revenue for FY22 (+18.1% yoy) whereas the Factory Automation Solutions (FAS) segment contributed 29.9% (+18.5% yoy).

We revise our revenue and profit forecasts for FY23F and FY24F by +4.6%-+7.1% and +2.4%-+6.8% on the premise of higher order book replenishment assumptions. We recommend a HOLD on Pentamaster with a revised TP of RM5.35 (up from RM4.84) based on FY23F EPS of 15.5sen and PE of 34.5x in line with the 5-years average. We like the stock due to its attractive expansion plans, strong order book, and solid track record. The target price represents a potential return of 9.2% over the current price.

Investment Highlights

ATE segment contributed 70.1% to its total revenue for FY22, riding on the global automotive electrification where the automotive industry continues to dominate the ATE segment with its revenue contribution of approximately 42.4% for FY22 (FY21: 20.5%), indicating a significant automotive segment growth exceeding 100.0% within the ATE segment.

The Group continued to benefit from the structural shift, influenced by the mass adoption of electric vehicles. We think that the automotive segment will be a main driver to group revenue in FY23, offsetting lower contributions from electro-optical segment due to smaller sales volume on test equipment for sensors arising from lack of major upgrades in the smartphones industry.

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. The 1st phase of the construction is expected to be completed within 1H23,

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 a record order book of approximately RM600m (up from RM500m previously), expected to be fully recognized within 3Q23. 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 FY22, 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.

Sources: Mercury Securities, Company

RESULTS (RM m) FY Dec	4Q22	3Q22	qoq %	4Q21	yoy %
Revenue	147.7	155.6	-5.1	122.5	20.6
COGS	102.9	107.4	-4.2	83.9	22.7
Gross Profit	44.7	48.2	-7.3	38.6	15.8
Other Income	20.3	5.9	244.1	5.5	269.1
Operating expenses	27.3	22.9	19.2	11.7	133.3
Other expenses	-	0.1	-	0.1	-
Profit from operations	37.7	31.1	21.2	32.3	16.7
Finance costs	-	-	-	-	-
Associate (loss)	-0.8	-0.4	-	-0.5	-
Profit before tax	36.9	30.7	20.2	31.8	16.0
Tax	1.0	1.1	-9.1	1.0	-
PAT	35.9	31.8	12.9	30.8	16.6
Minority interest	13.2	11.7	12.8	11.2	17.9
PATMI	22.7	20.1	12.9	19.6	15.8
EPS (sen)	3.20	2.82	13.5	2.76	15.9
Diluted EPS (sen)	2.79	2.67	4.5	3.10	-10.0

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)	1,456.80
Expected Share Return (%)	9.2
Expected Dividend Yield (%)	0.6
Expected Total Return (%)	9.8

Price Performance	1M	3M	12M
Absolute (%)	-0.2	14.2	54.0
Relative to Index (%)	-2.8	-1.4	-9.4

Share Information

Market Cap (RM m)	3,549.5
Issued Shares (m)	711.3
52W High (RM)	5.20
52W Low (RM)	2.67
Estimated Free Float (%)	47.7
Beta vs FBM KLCI	0.72
3-month Average Vol. (m)	24.6

Top 3 Shareholders (%)

Chuah Choon Bin	19.74
Employees Provident Fund Board	7.18
Prudential PLC	5.07

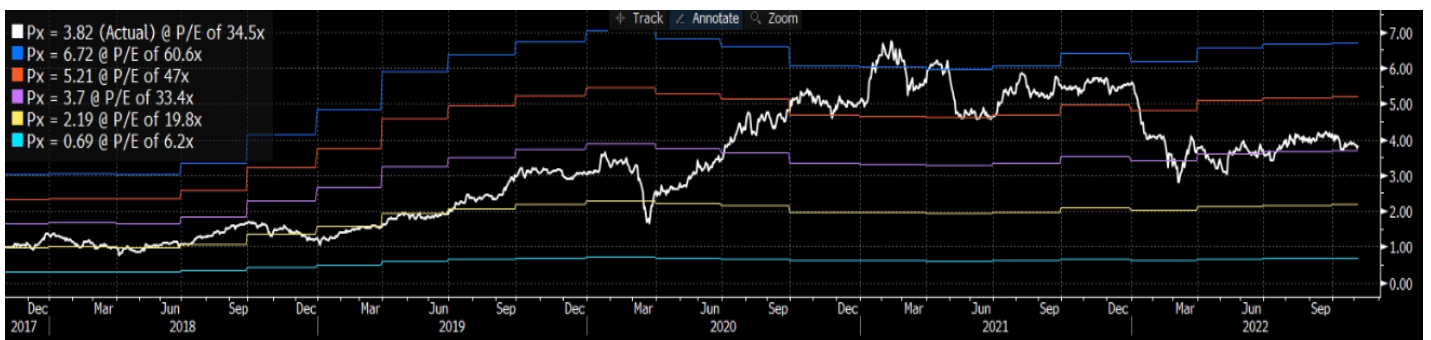
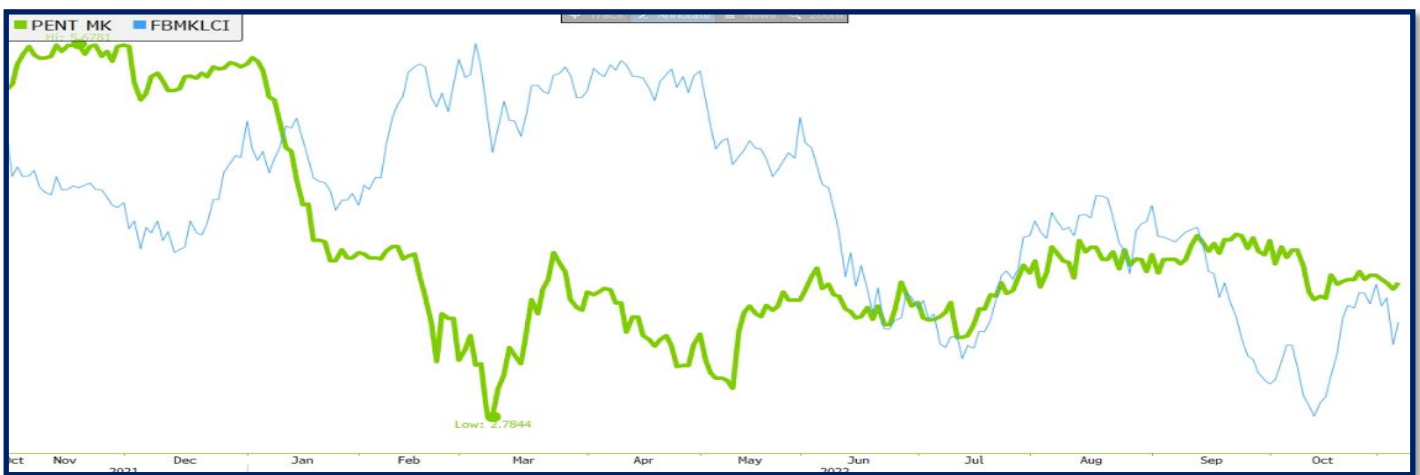
Sources: Mercury Securities, Company, Bloomberg

Ronnie Tan

ronnie-tan@mersec.com.my



INVESTMENT STATISTICS	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM m)	418.8	508.4	600.6	720.7	805.0
EBITDA	80.1	86.1	94.7	128.1	149.6
PATMI	70.9	72.9	82.4	110.1	127.6
Profit Margin (%)	16.9	14.3	13.7	15.3	15.9
EPS (sen)	10.0	10.3	11.6	15.5	17.9
EPS Growth (%)	39.0	2.9	13.0	33.5	16.0
BV Per Share (sen)	99.2	111.9	125.5	129.3	140.5
PE (x)	50.1	48.7	43.1	32.3	27.8
Dividend Yield (%)	0.3	0.4	0.5	0.6	0.7
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
ROA (%)	8.5	7.4	7.1	9.1	9.6
ROE (%)	10.1	9.2	9.2	12.0	12.8



Sources: Mercury Securities, Bloomberg



PROFIT & LOSS (RM m) FY Dec	FY20A	FY21A	FY22A	FY23F	FY24F
Net Revenue	418.8	508.4	600.6	720.7	805.0
Gross Profit	139.6	152.6	183.2	231.4	262.1
Other Operating Income	14.3	18.0	14.0	23.2	26.6
EBIT	75.5	81.9	89.0	123.1	142.6
Administrative Expenses	31.4	38.7	57.9	61.9	70.0
Selling & Distribution Expenses	7.8	10.6	10.0	16.2	17.7
Other Operating Expenses	0.2	0.2	-4.5	0.4	0.4
Profit from operations	114.5	121.0	133.8	176.2	200.5
Interest Income	0.0	0.0	0.0	0.0	0.0
Interest Expense	0.1	0.1	0.1	0.0	0.0
Profit Before Tax (PBT)	113.1	119.5	132.1	174.7	199.2
Exceptional Items	-	-	-	-	-
Taxation	0.9	3.8	1.5	7.0	8.0
Profit After Tax (PAT)	112.3	115.6	130.5	167.7	191.2
Minority Interests	41.4	42.7	48.1	57.7	63.6
Profit After Tax & MI (PATMI)	70.9	72.9	82.4	110.1	127.6
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	70.9	72.9	82.4	110.1	127.6
BALANCE SHEET (RM m) FY Dec	FY20A	FY21A	FY22A	FY23F	FY24F
Cash & Equivalents	437.3	478.2	421.2	389.3	471.4
Trade & Other Receivables	151.9	181.4	298.3	295.5	311.1
Inventories	33.8	72.0	170.9	157.3	153.8
Other Current Assets	5.2	2.1	3.5	0.2	0.1
Current Assets	628.3	733.7	894.0	842.3	936.3
Property, Plant & Equipment	121.8	135.2	170.0	285.0	298.0
Other Investments	27.3	41.2	49.0	43.0	43.3
Intangible assets	40.7	41.5	40.7	40.9	41.1
Trade & Other Receivables	10.6	28.2	0.0	0.0	0.0
Other Non-Current Assets	4.5	4.7	4.5	4.5	4.5
Non-Current Assets	204.8	250.8	264.2	373.4	386.9
Trade & Other Payables	102.0	116.9	153.3	185.6	209.5
Short-Term Borrowings	0.4	0.4	0.0	0.0	0.0
Contract liabilities	15.5	64.2	100.6	105.6	110.9
Tax Liabilities	0.7	0.9	0.9	0.9	0.9
Current Liabilities	118.7	182.5	261.7	292.1	321.3
Long-Term Borrowings	2.6	2.1	0.0	0.0	0.0
Deferred Tax Liabilities	4.8	4.3	3.8	3.0	2.0
Deferred Income	1.7	0.0	0.0	0.0	0.0
Non-Current Liabilities	9.1	6.4	3.8	3.0	2.0
Share Capital	79.3	79.3	79.3	79.3	79.3
Retained Profits	435.0	488.4	547.5	635.5	737.6
Other Equity	-5.8	-2.0	0.0	0.0	0.0
Minority Interests	196.9	229.9	266.0	205.0	182.6
Total Equity	705.3	795.6	892.7	919.8	999.5
CASH FLOW (RM m) FY Dec	FY20A	FY21A	FY22A	FY23F	FY24F
Profit before tax	140.4	113.1	119.5	132.1	174.7
Depreciation & amortization	8.2	9.3	10.7	11.1	14.0
Other operating cashflow	-2.9	-3.0	1.1	5.3	7.4
Operating profit/(loss) before working capital	118.5	125.7	143.9	191.1	220.5
Changes in working capital	-46.6	0.2	-107.7	53.8	17.1
Others	-0.9	-3.7	-4.3	-6.8	-7.9
Cashflow from operations	71.0	122.2	31.9	238.0	229.8
Other investing cashflow	-57.6	-62.6	-46.7	-45.3	-42.8
Cashflow from investing activities	-57.6	-62.6	1.6	-2.9	-2.3
Dividends paid	-11.9	-17.0	-23.9	-22.0	-25.5
Other financing cashflow	15.2	-2.6	-19.5	-2.6	-2.6
Cashflow from financing activities	3.3	-19.6	-43.4	-24.6	-28.1

Sources: Mercury Securities, Company

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Registration No. 198401000672 (**113193-W**)

L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur

Telephone: (603) - 6203 7227 Website: www.mercurysecurities.com.my

Email: mercurykl@mersec.com.my