



Pentamaster Corporation Berhad

Capitalising on the automotive sector growth

Bloomberg: PENT MK | Stock Code: 7160

Valuation / Recommendation

Results were below expectations, achieving 72.6% and 62.5% of our full year revenue and profit forecasts for FY23 respectively, with the shortfall attributed to China's weaker-than-expected economic growth. Results were primarily driven by the Automated Testing Equipment (ATE) and Factory Automation Solutions (FAS) segments, each representing approximately 68.5% and 31.5% respectively for the 9M2023 period.

We maintain a BUY recommendation on Pentamaster with a TP of RM5.47 based on FY24F EPS 23.8 sen and a PE of 23x. We like the stock for its attractive expansion plans, strong order book, and solid track record. The target price represents a potential return of 17.1% over the current price.

Investment Highlights

Automotive segment continues to be a key revenue contributor. The automotive segment continues to dominate the ATE segment, representing revenue contribution of 74.4% and growth of 48% for 9M2023. This expansion is primarily fueled by the accelerating transition towards electric vehicles and the implementation of various automotive-related stimulus and policies aimed at achieving decarbonization, which are driving growth in the EV market. We think that the automotive and medical segment will continue to be the main drivers to group revenue in FY24, 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 specialises in the design and manufacturing of insulation displacement connection (IDC) machines. After 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. Construction is progressing as scheduled, with the 1st phase expected to be completed within 2H23 and the 2nd phase in 2H24.

Approximately 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 FY24. 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.

Healthy order book. The company's order book is approximately RM550 million, with medical devices and automotive customers jointly contributing around 70% to the total order value.

Risk factor. (1.) Rising raw material prices (2.) Skilled-labour shortages.

Investment Statistics	FY20	FY21	FY22	FY23F	FY24F
Revenue	418.8	508.4	600.6	720.7	856.6
EBITDA (RM m)	80.1	86.1	94.8	127.6	193.1
PATMI (RM m)	70.9	72.9	82.5	109.5	169.3
Profit Margin (%)	16.9	14.3	13.7	15.2	19.8
EPS (sen)	10.0	10.3	11.6	15.4	23.8
EPS Growth (%)	-39.0	2.9	13.1	32.8	54.6
BV Per Share (sen)	99.2	111.9	125.5	137.0	153.3
PE (x)	50.1	48.7	43.0	30.3	19.6
Dividend Yield (%)	0.3	0.4	0.5	0.6	1.0
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash
ROA	8.5	7.4	7.1	8.6	11.4
ROE	10.1	9.2	9.2	11.2	15.5

Main Market

Technology sector

BUY

TP: RM5.47

Last Closing Price: RM4.67

Initiated Price: RM3.59

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 computerised automation systems and equipment.

Stock Return Information

KLCI (pts)	1,455.9
Expected Share Return (%)	17.1%
Expected Dividend Yield (%)	1.0%
Expected Total Return (%)	16.1%

Price Performance

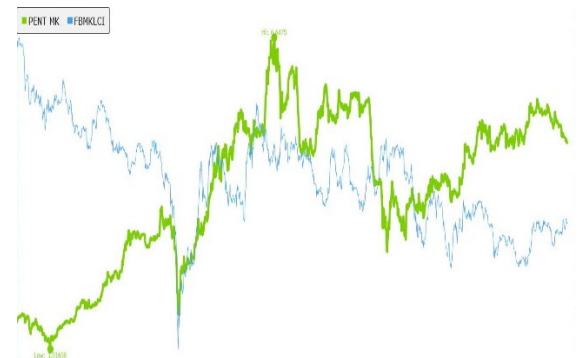
	1M	3M	12M
Absolute (%)	-4.6%	-9.6%	17.7%
Relative to Index (%)	-5.8%	-9.9%	16.7%

Stock Return Information

Market Cap (RM m)	3,378.8
Issued Shares (m)	711.3
52W High (RM)	5.56
52W Low (RM)	4.26
Estimated Free Float (%)	49.8
Beta vs FBM KLCI	0.91
3-month Average Vol. (m)	17.2

Top 3 Shareholders

Chuah Choon Bin	19.8
EPF Board	7.5
KWAP	5.4



Source: Mercury Securities, Bloomberg



Quarter Results & Peer Comparisons

Quarter Results Comparison (RM m)

FY Dec	3Q23	2Q23	QOQ%	3Q22	YOY%
Revenue	180.7	176.9	2.2	155.6	16.2
COGS	126.2	124.1	1.7	-107.4	17.5
Gross Profit	54.6	52.8	3.3	48.2	13.2
Other Income	6.3	8.2	-22.9	5.9	6.7
Selling & Distribution Expenses	2.9	2.2	27.8	2.5	14.0
Admin Expenses	19.8	20.0	-1.1	20.4	-3.1
Other Operating Expenses	0.1	0.1	-56.4	0.1	-12.1
Operating Profit	38.2	38.6	-1.2	31.1	22.7
Finance Costs	0.0	0.0	-	0.0	-
Income (Loss) from Affiliates	-0.6	-0.3	98.8	-0.4	59.0
Profit Before Tax	37.5	38.3	-2.0	30.7	22.3
Tax Expense	0.9	1.1	-21.3	-1.1	-178.3
Net profit	36.7	37.2	-1.4	31.8	15.4
Core net profit	36.7	37.2	-1.4	31.8	15.4
EPS (sen)	330	333	-0.9	282	17.0
Core EPS	330	333	-0.9	282	17.0

Source: Mercury Securities, Bloomberg

Peer Comparison

Company	Bloomberg Ticker	Share Price (RM)	Market Cap (RM m)	P/E (x)		EPS (sen)		EPS Growth		P/BV (x)	
				FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Greatech Technology Bhd	GREATEC MK	4.86	6,095.4	35.2	28.6	14.3	17.7	35.8%	23.8%	8.1	6.4
ECA Integrated Solution Bhd	ECA MK	0.60	344.5	23.8	18.6	2.5	3.2	-	28.0%	6.0	6.0
Mi Technovation Bhd	MI MK	1.91	1,706.1	30.3	21.7	2.5	3.2	-19.4%	37.1%	1.6	1.6
Average				29.8	23.0						

Source: Mercury Securities, Bloomberg



Key Financial Data

PROFIT & LOSS (RM m) FY Dec	FY20	FY21	FY22	FY23F	FY24F
Net Revenue	418.8	508.4	600.6	720.7	856.6
Gross Profit	139.6	152.6	183.2	231.4	313.7
Other Operating Income	14.3	20.4	18.8	23.5	28.3
EBIT	75.5	81.9	89.0	122.6	186.1
Administrative Expenses	31.4	41.1	57.9	62.6	74.5
Selling & Distribution Expenses	7.8	10.6	10.0	16.4	18.8
Other Operating Expenses	0.2	0.2	0.3	0.4	0.4
Profit from operations	114.5	121.0	133.8	175.6	248.1
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	113.1	119.5	132.1	174.1	246.8
Exceptional Items	-	-	-	-	-
Taxation	0.9	3.8	1.5	7.0	9.9
Minority Interests	41.4	42.7	48.1	57.7	67.7
Profit After Tax (PATMI)	70.9	72.9	82.5	109.5	169.3
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	70.9	72.9	82.5	109.5	169.3
BALANCE SHEET (RM m) FY Dec	FY20	FY21	FY22	FY23F	FY24F
Cash & Equivalents	437.3	478.2	421.2	508.8	644.2
Trade & Other Receivables	151.9	181.4	298.3	258.5	243.7
Inventories	33.8	72.0	170.9	164.2	210.7
Other Current Assets	5.2	2.1	3.5	1.4	0.0
Current Assets	628.3	733.7	894.0	932.9	1098.6
Property, Plant & Equipment	121.8	135.2	170.0	248.2	296.0
Other Non-Current Assets	83.1	115.6	94.2	88.4	90.6
Non-Current Assets	204.8	250.8	264.2	336.6	386.6
Trade & Other Payables	102.0	116.9	153.3	185.6	222.9
Other Current Liabilities	16.6	65.5	108.3	106.5	167.6
Current Liabilities	118.7	182.5	261.7	292.1	390.6
Other Non-Current Liabilities	9.1	6.4	3.8	3.0	4.0
Non-current Liabilities	9.1	6.4	3.8	3.0	4.0
Share Capital	79.3	79.3	79.3	79.3	79.3
Retained Profits	435.0	488.4	547.5	635.1	770.5
Other Equity	191.0	227.9	266.0	260.0	240.9
Total Equity	705.3	795.6	892.7	974.4	1090.7
CASH FLOW (RM m) FY Dec	FY20	FY21	FY22	FY23F	FY24F
Profit Before Tax	140.4	113.1	119.5	132.1	174.1
Other Operating Cash Flow	-2.9	-3.0	1.1	2.5	2.1
Changes in Working Capital	-46.6	0.2	-107.7	83.9	58.4
Others	-0.9	-3.7	-4.3	-6.7	-9.7
Cash Flow from Operations	71.0	122.2	31.9	264.9	311.6
Other Investing Cash Flow	-57.6	-62.6	-46.7	-44.3	-41.2
Cash Flow from Investing	-57.6	-62.6	1.6	-1.9	-0.3
Dividends Paid	-11.9	-17.0	-23.9	-21.9	-33.9
Other Financing Cash Flow	15.2	-2.6	-19.5	-2.6	-2.6
Cash Flow from Financing	3.3	-19.6	-43.4	-24.5	-36.4

Source: Mercury Securities, Bloomberg



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