

COMPANY UPDATE

Pentamaster Corporation (PENT MK)

On The Mend; Multi-pronged Approach To Spearhead Growth

While the systemic issues could continue to pressure margins, we expect stronger revenue momentum to cushion the impact with higher absolute earnings growth. Orderbook backlog stood at RM500m as of May 22, which is 2x higher yoy. With its strategic sector exposure and robust demand for its highly-customised test equipment and solutions, the group is expected to supersede its peak performance in 2019. **Maintain BUY. Target price: RM4.00.**

WHAT'S NEW

- More details on 1Q22 results.** Despite the systemic cost challenges that are pressuring margins, Pentamaster Corporation's (Pentamaster) core net profit surged by a commendable quantum of 25% yoy, in tandem with its strong revenue growth of 27% yoy. Management attributed this to a better product mix anchored by the automobile segment's higher margin on the back of strong demand for its burn-in, assembly and test for front-end to back-end solutions. Going forward, management targets to achieve better gross profit margin from the current level of 30% for the remaining 2022, which will premise on robust sales from the automobile segment, in tandem with the increasing customers.
- Strong sales momentum cushioning margin compression; recorded highest orderbook backlog.** While supply chain disruptions and bottleneck could continue to linger amid the structural change in the business operating environment, we understand that the strong sales based on the visibility from its orderbook backlog are cushioning the downside in terms of absolute earnings. Its latest orderbook backlog stood at RM500m (on a rolling basis), which is 2x higher than the normal range last year. In terms of order mix, we understand it is consist mainly of higher-margin automobile-related orders.
- Three-pronged approach to spearhead further growth.** The group is spearheading further growth via geographical, segmental and product/solution diversification after a speed bump in 2020-21. For the automobile segment, besides China (Jiangsu), the group has established a subsidiary in Japan, with Germany as the next destination. Meanwhile, for the medical segment, the group is leveraging on TP Concept's technical know-how for single-use medical devices via MediQ, with earnings contribution expected in 2023. In terms of product offerings, the group will continue to offer more automation solutions ranging from components level to new generation semiconductor materials

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	419	508	599	684	782
EBITDA	123	112	153	180	207
Operating profit	114	121	147	172	197
Net profit (rep./act.)	71	73	90	106	121
Net profit (adj.)	76	71	90	106	121
EPS (sen)	10.7	10.0	12.7	14.8	17.0
PE (x)	32.5	34.7	27.4	23.4	20.4
P/B (x)	4.9	4.4	3.4	2.5	2.0
EV/EBITDA (x)	17.0	18.6	13.6	11.5	10.0
Dividend yield (%)	0.4	0.6	0.7	0.8	1.0
Net margin (%)	16.9	14.3	15.1	15.5	15.5
Net debt/(cash) to equity (%)	(85.4)	(84.1)	(85.1)	(80.1)	(77.6)
Interest cover (x)	1,048.3	1,214.7	n.a.	n.a.	n.a.
ROE (%)	15.0	13.5	14.0	12.4	10.8
Consensus net profit	-	-	93	117	143
UOBKH/Consensus (x)	-	-	0.97	0.91	0.85

Source: Pentamaster Corporation Bhd, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM3.47
Target Price	RM4.00
Upside	+15.3%

COMPANY DESCRIPTION

Pentamaster designs, manufactures and installs automated equipment in the semiconductor, pharmaceutical, medical devices, automotive, food and beverages, and consumer goods industries globally.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	PENT mk
Shares issued (m):	711.3
Market cap (RMm):	2,468.3
Market cap (US\$m):	561.1
3-mth avg daily t'over (US\$m):	2.6

Price Performance (%)

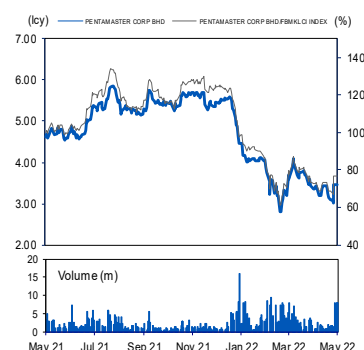
52-week high/low	RM5.85/RM2.80			
1mth	3mth	6mth	1yr	YTD
(3.1)	(16.0)	(39.1)	(26.2)	(37.5)

Major Shareholders

Chuah Choon Bin	19.7
Employees Provident Fund	7.3
Lembaga Tabung Haji	5.4

FY22 NAV/Share (RM)	1.02
FY22 Net Cash/Share (RM)	0.87

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Progressively adjusting to new norm amid systemic disruptions.** 2020-21 was a washout period for the group due to worldwide travel restrictions alongside the movement control order disruptions in Malaysia. We believe the worst could have been fully captured in the past few quarters, with Pentamaster slowly seeing a smoother progress in its project delivery and site installation. Meanwhile, the group is working on an upward pricing adjustment to ease the impact from rising logistics and component costs. For its orderbook backlog, it has been experiencing order intake momentum on the back of improving sentiment for the equipment market. Its latest orderbook backlog is RM500m (on a rolling basis) – the highest ever quantum, which is 2x higher than the normal range in 2021.
- Well-positioned to ride on the long-term structural growth from high-growth sectors.** The group is undergoing a high-growth phase with its structurally well-diversified revenue exposure in the electro-optical and automobile segments. With the prevalence of optoelectronics and 3D-sensing technology further compounded by the pandemic situation, the group's core products and solutions that cater for a wide range of smart sensors will become increasingly important to its customers.

For the automobile business, while there is still an industry-wide disruption from the microchip shortage situation, the structural growth is here to stay with the proliferation of electric vehicles and autonomous driving. Given Pentamaster's current exposure and product portfolio encompassing a diverse area of the automobile test solution from front-end to back-end, the group will be able to play a dominant role in this ecosystem. For the medical segment, the group is making progress in the prototyping stage of single-use medical devices like intravenous catheters and pen needles; the timeline for ISO13485 certification remains on track.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of RM4.00** still based on 31.0x 2022F PE (near industry's five-year forward PE). Since our upgrade last week, Pentamaster's share price has surged 16%, reflective of its good value proposition after the gestation period. Trading at 23.4x 2023F PE (-0.5SD below its 5-year mean PE), we believe there is still value in the improving operational matrix alongside traction from new customers which could surprise on the upside in 2023.
- Upside risks:** a) faster-than-expected jobs delivery and project installation, b) better-than-expected margins on cost pass-through, and c) easing COVID-19 disruption.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

Environmental

- To minimise waste, Pentamaster only starts material procurement, assembly and programming once a suggested solution is approved by its customers.

Social

- In 2020, besides various donations to support NGOs, Pentamaster provided used computers to schools and charity homes to support e-learning, low-cost ventilators to support local hospitals, and financial assistance to the needy.

Governance

- The company has in place an Anti-Bribery and Anti-Corruption Policy.
- There were zero whistle-blowing and bribery instances in 2020.

REVENUE BY SEGMENT

Year to 31 Dec (RMm)	1Q22	1Q21	yoy % chg
Total Revenue	146.02	115.17	27%
Electro Optical (Telco)	44.23	65.24	-32%
Auto	52.43	11.35	362%
CE & Industrial	19.89	16.38	21%
Semicon	18.35	19.16	-4%
Medical	11.09	2.93	278%
Others	0.03	0.11	-70%

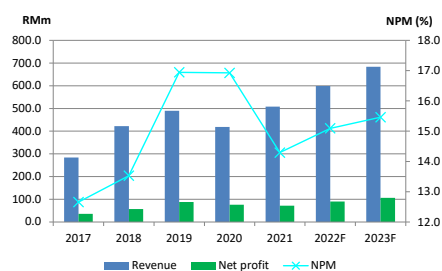
Source: Pentamaster, UOB Kay Hian

REVENUE DRIVERS' ASSUMPTIONS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F
Total Revenue	418.6	508.1	599.1	684.1
yoy % chg	-14%	21%	18%	14%
Semicon	57.8	72.4	79.7	87.7
yoy % chg	68%	25%	10%	10%
Electro Optical (Telco)	178.0	223.1	263.2	308.0
yoy % chg	-47%	25%	18%	17%
Automotive	84.1	104.3	135.6	156.0
yoy % chg	19%	24%	30%	15%
Consumer Electronics (CE)	61.5	79.0	86.9	93.8
yoy % chg	68%	28%	10%	8%
Medical devices	37.2	29.3	33.7	38.7
yoy % chg	349%	-21%	15%	15%

Source: Pentamaster, UOB Kay Hian

REVENUE AND MARGIN OUTLOOK



Source: Pentamaster, UOB Kay Hian

TARGET PRICE SENSITIVITY ANALYSIS

Valuation (2022)	PE multiple	TP
+1SD above 5-yr mean PE	39.7	RM5.04
Average 5-yr mean PE	29.1	RM3.70
-1SD below 5-yr mean PE	18.5	RM2.35

Source: Pentamaster, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	508	599	684	782
EBITDA	112	153	180	207
Deprec. & amort.	(9)	6	8	11
EBIT	121	147	172	197
Total other non-operating income	0	0	0	0
Associate contributions	(1)	(1)	(1)	(1)
Net interest income/(expense)	0	0	0	0
Pre-tax profit	119	146	171	195
Tax	(4)	(1)	(1)	(2)
Minorities	(43)	(54)	(63)	(73)
Net profit	73	90	106	121
Net profit (adj.)	71	90	106	121

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	122	181	206	237
Pre-tax profit	119	146	171	195
Tax	(4)	(1)	(1)	(2)
Deprec. & amort.	(9)	6	8	11
Associates	1	1	1	1
Working capital changes	0	29	27	31
Non-cash items	0	0	0	0
Other operating cashflows	14	0	0	0
Investing	(63)	(20)	(20)	(20)
Capex (growth)	(38)	(20)	(20)	(20)
Investments	(18)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(8)	0	0	0
Financing	(20)	(18)	(21)	(24)
Dividend payments	(11)	(18)	(21)	(24)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(8)	0	0	0
Net cash inflow (outflow)	40	143	165	193
Beginning cash & cash equivalent	437	478	622	787
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	478	622	787	980

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	155	144	203	260
Other LT assets	96	96	96	96
Cash/ST investment	478	622	787	980
Other current assets	255	294	333	378
Total assets	985	1,156	1,419	1,714
ST debt	0	0	0	0
Other current liabilities	182	192	203	217
LT debt	2	2	2	2
Other LT liabilities	4	4	4	4
Shareholders' equity	566	728	979	1,260
Minority interest	230	230	230	230
Total liabilities & equity	985	1,156	1,419	1,714

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	22.0	25.6	26.3	26.5
Pre-tax margin	23.5	24.4	24.9	25.0
Net margin	14.3	15.1	15.5	15.5
ROA	8.0	8.4	8.2	7.7
ROE	13.5	14.0	12.4	10.8
Growth				
Turnover	21.4	17.8	14.2	14.3
EBITDA	(8.9)	37.1	17.7	15.0
Pre-tax profit	5.6	22.2	16.9	14.5
Net profit	2.5	24.4	17.0	14.5
Net profit (adj.)	(6.5)	27.1	17.0	14.5
Leverage				
Debt to total capital	0.3	0.3	0.2	0.2
Debt to equity	0.5	0.4	0.3	0.2
Net debt/(cash) to equity	(84.1)	(85.1)	(80.1)	(77.6)
Interest cover (x)	1,214.7	n.a.	n.a.	n.a.

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