

Hong Kong

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price: HK\$0.86
 Target price: ▼ HK\$1.45
 Previous target: HK\$1.60
 Up/downside: 68.8%
 CGI / Consensus: -2.2%

Reuters: 1665.HK
 Bloomberg: 1665 HK
 Market cap: US\$263.1m
 HK\$2,064m

Average daily turnover: US\$0.02m
 HK\$0.19m

Current shares o/s: 2,400m

Free float: 29.4%

*Source: Bloomberg

Key changes in this note

- 22F, 23F and 24F net profit decreased by 5.5%, 6.0% and 6.4%, respectively.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.9	-6.5	-16.5
Relative (%)	9.8	-7.8	8.2

Major shareholders	% held
PentaMaster Corporation Berhad	63.9

Analyst(s)

Mark Po

T (852) 3698 6318

E markpo@chinastock.com.hk

Pentamaster

Decent 2Q22 results; no slowdown yet

- Pentamaster released its 2Q22 results, which reported record-high quarterly turnover and decent yoy net profit growth despite increasing macro uncertainties.
- Owing to unfavourable FX movement, Pentamaster booked about a MYR4m net FX loss in 1H22, mainly due to MYR movement in 2Q.
- The auto sector was the main growth driver, which more than offset weakness in demand from the smartphone segment in 2Q22.
- We revised down our revenue and net profit forecasts for 2022–2024F post-2Q results adjustment. We maintain the view that Pentamaster remains a beneficiary of industry development trends, such as power management (upstream substrates and IGBT modules) applications for autos.
- We reiterate our ADD rating with a target price of HK\$1.45, based on 14x 2022 P/E.

2Q22 results recap

Pentamaster reported 2Q22 net profit of MYR31.1m in 2Q22, up 6.5% yoy from MYR29.2m in 2Q21, but down 6.2% qoq from MYR33.2m in 1Q22. 1H22 net profit accounted for 43.2% of our original full-year forecasts for 2022. Its gross profit margin was 31.1% in 2Q22, up from 29.4% in 2Q21 and 30.5% in 1Q22, but lower than our original full-year forecast of 32.2% for 2022. The Company reported 2Q22 revenue of MYR151.3, up 15.9% yoy from MYR130.6m in 2Q21 and up 3.7% qoq from MYR146.0m in 1Q22. 1H22 revenue accounted for 46.9% of our original full-year forecast for 2022. Pentamaster's 2Q22 revenue was a record high on a quarterly basis. The automotive sector was the growth driver in 1H22, accounting for about 35% of revenue (1H21: 20% of total revenue). Strong demand from the automotive segment was due to global momentum in structurally shifting towards EVs. Pentamaster also benefited from an increase in demand for automotive test solutions, entailing a full range of assembly and test technologies from front- to back-end solutions. Strong revenue growth from the automotive sector more than offset revenue weakness in the electro-optical sector. Revenue from the medical devices sector also reported strong yoy growth, accounting for 8.1% of revenue in 1Q22, up from 7.6% in 1Q21 and 2.6% in 1Q20. Revenue from the FAS segment in 1H22 increased by 7.8% to MYR76.3m.

Order book expected to support growth

The Company's order book remained at a high level at about MYR500m at the end of 2Q22, almost flat qoq and still higher than MYR350m at end of 4Q21. The strong order book will support the Company's growth in 2022. The Company had cash and bank deposits of about MYR333.9m at the end of Mar 22. Its strong financial position enables it to fund future development. The Company is expected to enter a period of encouraging growth on back of strong order fulfillment in tandem with its key segment focus, driven largely by the wave of major underlying global trends. The strategy adopted by the Group in the medical devices segment focuses on long-term sustainability to stay ahead of the curve in addressing new users and markets where it has a competitive edge. Pentamaster's product range includes front-end testers covering new compound substrates, such as silicon carbide (SiC) and gallium nitride (GaN), to back-end solutions that involve testing, assembling and packaging integrated power management circuits.

Reiterate ADD

We revised down our net profit forecasts for 2022F, 2023F and 2024F after the 2Q22 results announcement after factoring in slower turnover growth and a lower gross profit margin. We reiterate our ADD rating with a lower target price of HK\$1.45, based on 14x 2022 P/E (target P/E multiple remains unchanged).

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (RMm)	418.6	508.1	619.5	742.5	890.0
Operating EBITDA (RMm)	110.0	110.9	148.3	188.8	234.6
Net Profit (RMm)	113.9	116.7	140.6	173.2	214.4
Normalised EPS (RM)	0.071	0.058	0.059	0.072	0.089
Normalised EPS Growth	(13.3%)	(18.0%)	0.4%	23.2%	23.8%
FD Normalised P/E (x)	6.84	8.35	8.32	6.75	5.46
DPS (RM)	0.011	0.011	0.007	0.009	0.011
Dividend Yield	2.32%	2.32%	1.44%	1.78%	2.20%
EV/EBITDA (x)	4.34	5.64	5.52	4.15	2.89
P/FCFE (x)	41.01	13.67	37.07	21.43	8.81
Net Gearing	(56.7%)	(54.9%)	(46.2%)	(42.2%)	(44.7%)
P/BV (x)	1.46	1.84	1.54	1.28	1.06
ROE	23.4%	20.0%	20.1%	20.7%	21.3%
% Change In Normalised EPS Estimates			(5.50%)	(5.97%)	(6.39%)
Normalised EPS/consensus EPS (x)			0.85	0.86	0.91

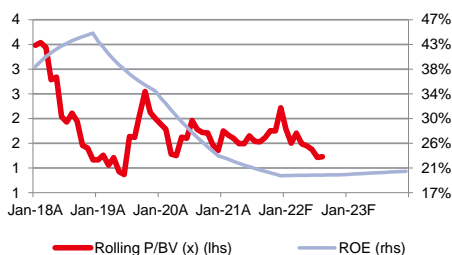
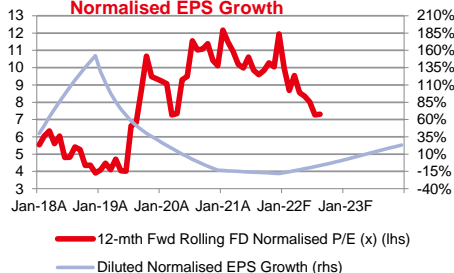
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: Change in assumptions

	2022F			2023F			2024F		
	Old	New	% change	Old	New	% change	Old	New	% change
Turnover (MYR m)									
Automated Equipment	452.5	452.5	0.0%	543.0	543.0	0.0%	651.7	651.7	0.0%
Automated Manufacturing Solutions	181.4	166.9	-7.9%	216.7	199.5	-7.9%	259.0	238.4	-7.9%
Others	0	0	0.0%	0	0	0.0%	0	0	0.0%
Total	633.9	619.5	-2.3%	759.8	742.5	-2.3%	910.6	890.0	-2.3%
YoY Change (%)									
Automated Equipment	27.0	27.0		20.0	20.0		20.0	20.0	
Automated Manufacturing Solutions	19.5	10.0		19.5	19.5		19.5	19.5	
Others	0	0		0	0		0	0	
Total	24.8	21.9		19.9	19.9		19.9	19.9	
Gross margin (%)									
			ppt			ppt			ppt
Automated Equipment	32.6	31.6	(1.0)	33.6	32.6	(1.0)	34.6	33.6	(1.0)
Automated Manufacturing Solutions	31.2	30.7	(0.5)	32.2	31.2	(1.0)	33.2	31.7	(1.5)
Others	31.0	31.0	0	32.5	32.5	0	34.0	34.0	0
Net profit (MYR m)	148.77	140.6	-5.5%	184.24	173.2	-6.0%	229.01	214.4	-6.4%
Net margin (%)	23.5	22.7	(0.8)	24.2	23.3	(0.9)	25.1	24.1	(1.1)
Cost (MYR m)									
S,G&A	(57.8)	(56.5)	-2.3%	(69.3)	(67.7)	-2.3%	(83.0)	(81.1)	-2.3%
Financial Expenses	(0.1)	(0.1)	0.0%	(0.1)	(0.1)	0.0%	(0.1)	(0.1)	-2.3%
YoY Change (%)									
			ppt			ppt			ppt
S,G&A	20.8	18.0	(2.7)	19.9	19.9	0.0	19.9	19.9	0.0
Financial Expenses	(37.1)	(37.1)	0	(21.4)	(21.4)	0	24.8	21.9	(2.8)
CAPEX (MYR m)	100.0	100.0	0.0%	100.0	100.0	0.0%	60.0	60.0	0.0%
Net Gearing (%)	Net Cash	Net Cash		Net Cash	Net Cash		Net Cash	Net Cash	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE

12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth


Profit & Loss

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	418.6	508.1	619.5	742.5	890.0
Gross Profit	144.7	158.7	204.8	256.5	315.7
Operating EBITDA	110.0	110.9	148.3	188.8	234.6
Depreciation And Amortisation	(4.3)	(3.8)	(10.5)	(17.2)	(21.2)
Operating EBIT	105.7	107.1	137.8	171.6	213.4
Financial Income/(Expense)	5.8	4.4	4.4	4.8	6.2
Pretax Income/(Loss) from Assoc.	(1.2)	(1.5)	(1.6)	(1.7)	(1.8)
Non-Operating Income/(Expense)	4.5	10.6	7.1	7.2	7.4
Profit Before Tax (pre-EI)	114.8	120.6	147.7	182.0	225.2
Exceptional Items					
Pre-tax Profit	114.8	120.6	147.7	182.0	225.2
Taxation	(0.9)	(3.8)	(7.1)	(8.8)	(10.8)
Exceptional Income - post-tax					
Profit After Tax	113.9	116.7	140.6	173.2	214.4
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	113.9	116.7	140.6	173.2	214.4
Normalised Net Profit	113.9	116.7	140.6	173.2	214.4
Fully Diluted Normalised Profit	113.9	116.7	140.6	173.2	214.4

Cash Flow

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	110.0	110.9	148.3	188.8	234.6
Cash Flow from Inv. & Assoc.	(58.1)	(3.0)	(29.0)	(32.0)	(38.4)
Change In Working Capital					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	7.2	6.8	7.2	9.4	11.6
Other Operating Cashflow	4.5	10.6	7.1	7.2	7.4
Net Interest (Paid)/Received	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Tax Paid					
Cashflow From Operations	63.5	125.2	133.5	173.3	215.1
Capex	(40.8)	(9.3)	(100.0)	(100.0)	(60.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(4.9)	0.4	0.0	0.0	0.0
Other Investing Cashflow	1.7	(44.6)	(2.5)	(19.3)	(23.1)
Cash Flow From Investing	(44.1)	(53.5)	(102.5)	(119.3)	(83.1)
Debt Raised/(repaid)	(0.4)	(0.4)	0.6	0.6	0.7
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(13.5)	(17.0)	(27.1)	(16.9)	(20.8)
Preferred Dividends					
Other Financing Cashflow	(3.9)	(3.7)	(2.3)	(3.4)	(4.0)
Cash Flow From Financing	(17.8)	(21.1)	(28.9)	(19.7)	(24.0)
Total Cash Generated	1.6	50.6	2.1	34.3	108.0
Free Cashflow To Equity	19.0	71.3	31.6	54.6	132.8
Free Cashflow To Firm	19.5	71.8	31.1	54.1	132.2

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	305.5	352.0	354.4	388.9	497.2
Total Debtors	143.5	176.6	215.3	258.0	309.3
Inventories	33.8	72.0	87.8	105.2	126.1
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	482.8	600.6	657.4	752.2	932.6
Fixed Assets	114.4	99.7	189.3	272.1	310.9
Total Investments	22.4	68.4	68.4	68.5	68.5
Intangible Assets	39.6	56.3	60.3	64.5	69.0
Total Other Non-Current Assets	0.0	0.0	0.0	0.0	0.0
Total Non-current Assets	176.5	224.5	318.0	405.1	448.4
Short-term Debt	3.0	2.6	3.1	3.7	4.5
Current Portion of Long-Term Debt					
Total Creditors	100.0	116.4	141.9	170.1	203.9
Other Current Liabilities	16.2	65.1	65.2	65.3	65.4
Total Current Liabilities	119.1	184.0	210.2	239.1	273.8
Total Long-term Debt	0.0	0.0	0.0	0.0	0.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1.7	0.0	0.0	0.0	0.0
Total Non-current Liabilities	1.7	0.0	0.0	0.0	0.0
Total Provisions	4.8	4.3	4.7	5.2	5.7
Total Liabilities	125.7	188.3	214.9	244.3	279.5
Shareholders' Equity	533.5	636.7	760.5	912.9	1,101.6
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	533.5	636.7	760.5	912.9	1,101.6

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(14.1%)	21.4%	21.9%	19.9%	19.9%
Operating EBITDA Growth	(15.1%)	0.8%	33.7%	27.3%	24.3%
Operating EBITDA Margin	26.3%	21.8%	23.9%	25.4%	26.4%
Net Cash Per Share (RM)	0.19	0.15	0.15	0.16	0.21
BVPS (RM)	0.33	0.27	0.32	0.38	0.46
Gross Interest Cover	904	1,164	1,229	1,277	1,324
Effective Tax Rate	0.77%	3.18%	4.82%	4.81%	4.81%
Net Dividend Payout Ratio	15.9%	23.2%	12.0%	12.0%	12.0%
Accounts Receivables Days	91.5	114.9	115.4	116.3	116.6
Inventory Days	62.33	55.29	70.33	72.48	73.73
Accounts Payables Days	114.6	113.0	113.7	117.1	119.2
ROIC (%)	91.2%	49.8%	61.8%	49.7%	46.0%
ROCE (%)	22.6%	18.8%	20.2%	20.9%	21.6%
Return On Average Assets	17.5%	15.1%	15.1%	15.8%	16.4%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Automated Equipment yoy growth (%)	-33.0%	25.9%	27.0%	20.0%	20.0%
Automated Manufacturing Solutions yoy growth (%)	109.9%	11.9%	10.0%	19.5%	19.5%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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643 companies under coverage for quarter ended on 30 Jun 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)

Pentamaster (1665 HK)

RECOMMENDATION FRAMEWORK

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