



AmInvestment Bank

Company report

PENTAMASTER CORP

(PENT MK EQUITY, PMAS.KL)

19 May 2020

More diversified revenue base cushions margin decline

BUY

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2333

Rationale for report: Company update

Price	RM4.36
Fair Value	RM4.95
52-week High/Low	RM5.58/RM2.37

Key Changes

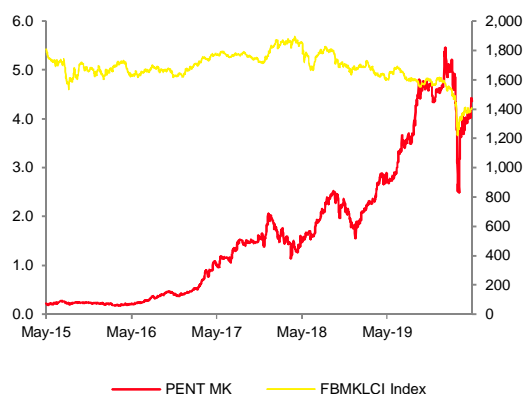
Fair value	⬇️
EPS	⬇️

YE to Dec	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	490.1	510.2	583.5	646.8
Core net profit (RM mil)	83.0	89.2	102.1	113.3
FD Core EPS (sen)	17.5	18.8	21.5	23.9
FD Core EPS growth (%)	(3.1)	7.4	14.5	10.9
Consensus Net Profit (RM mil)	-	83.6	100.1	114.3
DPS (sen)	1.5	1.6	1.8	2.0
PE (x)	24.9	23.2	20.3	18.3
EV/EBITDA (x)	12.5	11.4	9.3	7.7
Div yield (%)	0.3	0.4	0.4	0.5
ROE (%)	20.9	18.7	18.1	17.1
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	474.9
Market Cap (RM mil)	2,070.5
Book Value (RM/share)	0.92
P/BV (x)	4.7
ROE (%)	20.9
Net Gearing (%)	-
Major Shareholders	Chuah Choon Bin (19.7%) KWAP (5.9%) Prudential PLC (5.1%)
Free Float	62.2
Avg Daily Value (RM mil)	17.1

Price performance	3mth	6mth	12mth
Absolute (%)	(12.3)	(7.2)	50.7
Relative (%)	(4.4)	5.5	71.6



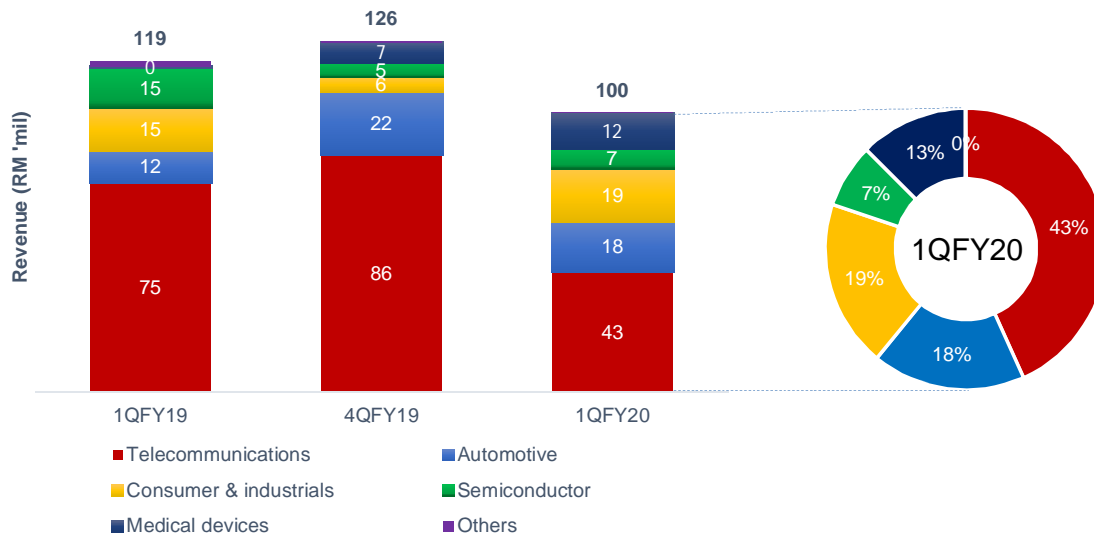
Investment Highlights

- We maintain our BUY recommendation on Pentamaster Corporation (Pentamaster) with a lower fair value of RM4.95/share (previously RM5.39/share), pegged to an unchanged FY21F PE of 23x, in line with its sector weighted average forward PE.** We cut our FY20F–FY22F forecasts by 8–10% on expectations of a weaker 2QFY20 and a deferment in orders due to the Covid-19 impact.
- Key updates from Pentamaster's 1QFY20 conference call are as follows:**

 - **Results summary:** 1QFY20 core profit came in at RM16mil, declining 23% YoY in tandem with a 16% fall in revenue mainly due to weaker automated test equipment (ATE) sales as travel restrictions related to Covid-19 affected Pentamaster's revenue recognition for the quarter. Gross profit (GP) margin is maintained at ~34%, cushioned by the change in product mix as factory automated solutions (FAS) sales had increased due to TP Concept's contribution and higher demand for i-Arms solutions in the automotive and consumer & industrials segments.
 - **Revenue recognition impact:** The group has a three-step process: i) receive purchase order from customer; ii) deliver equipment; and iii) site acceptance test where the revenue will only be recognized in the final payment phase as Pentamaster does not practise progressive revenue recognition. Pentamaster said that phases 2 and 3 of this process were the ones that had been impacted due to the travel restrictions.
 - **Diversifying revenue streams:** The group has managed to diversify its revenue by customer segment which has helped to protect its overall GP margins. Despite seeing a decline in contribution in telecommunications, growth was seen in the automotive, consumer & industrials, and medical segments in 1QFY20 (Exhibit 1).
 - **Less customer concentration risk:** Contribution from Pentamaster's top 5 customers has declined to less than 60%, from around 80% previously. The group said that there is a broader customer base and wider geographical mix now, which bodes well to the group's exposure.
 - **Orders delayed, not cancelled:** Its latest order book is at RM230mil, with a composition that is similar to that seen in 1QFY20 and higher contribution from the automotive and consumer & industrial segments.

- **Anticipate weak 2Q, hopeful of 2H recovery:** 2QFY20 is expected to be weak due to the impact of Covid-19 containment measures in the form of travel restrictions and lockdowns imposed globally such as the movement control order (MCO) in Malaysia that has disrupted the group's project delivery timeline. Pentamaster is more optimistic of a recovery in 2H due to: i) a gradual relaxation of Covid-19 containment measures globally which will result in production normalization; ii) some telecommunication solutions were in the prototyping phase in 1QFY20, with mass production being delayed due to Covid-19 but management anticipates mass production to ensue in 2H; and iii) anticipation that demand for smart sensors would be supported in subsequent quarters.
- **We continue to like Pentamaster due to its positive growth prospects despite expectations of a weak 1H, impacted by Covid-19 as we anticipate a recovery in earnings in subsequent quarters.** The group's positive prospects are driven by: (i) growth in its ATE segment due to sustained growth for smart sensors and the upcoming 3D sensing technology wave (tied to the telecommunications and automotive sectors); (ii) growth in FAS to be supported by the adoption of Industry 4.0 and synergies from the acquisition of TP Concept; and (iii) margin expansion from portfolio expansion and diversification in the longer-term.

EXHIBIT 1: REVENUE CONTRIBUTION BY MARKET SEGMENT



Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART

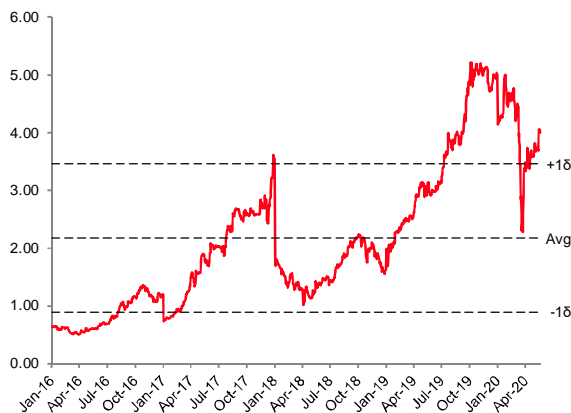


EXHIBIT 3: PE BAND CHART

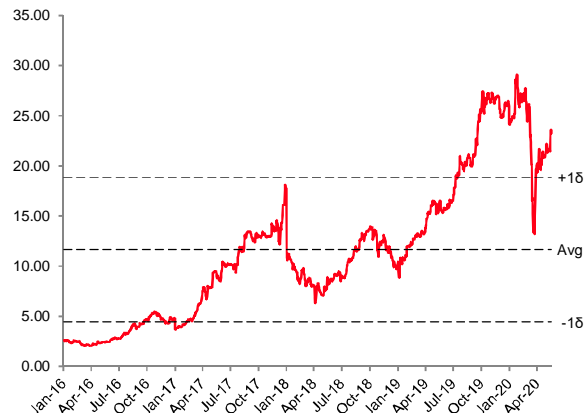


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	422.2	490.1	510.2	583.5	646.8
EBITDA	99.3	132.3	135.6	153.4	167.8
Depreciation/Amortisation	(2.6)	(3.8)	(4.7)	(5.0)	(5.1)
Operating income (EBIT)	96.7	128.5	130.9	148.4	162.7
Other income & associates	-	-	-	-	-
Net interest	2.9	10.4	13.6	17.1	20.9
Exceptional items	-	-	-	-	-
Pretax profit	99.6	138.9	144.6	165.5	183.6
Taxation	(5.6)	(7.8)	(8.1)	(9.3)	(10.3)
Minorities/pref dividends	(36.9)	(48.1)	(47.3)	(54.1)	(60.0)
Net profit	57.1	83.0	89.2	102.1	113.3
Core net profit	57.1	83.0	89.2	102.1	113.3
Balance Sheet (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Fixed assets	71.7	85.6	96.7	109.5	123.6
Intangible assets	10.8	44.6	43.9	43.1	42.4
Other long-term assets	13.1	35.5	14.0	14.0	14.0
Total non-current assets	95.5	165.7	154.6	166.6	180.0
Cash & equivalent	324.7	423.3	529.8	645.5	778.9
Stock	138.1	59.5	61.9	70.8	78.5
Trade debtors	51.9	65.6	68.2	78.0	86.5
Other current assets	35.8	23.6	21.2	21.2	21.2
Total current assets	550.5	571.9	681.1	815.5	965.1
Trade creditors	40.0	33.0	39.9	45.7	50.7
Short-term borrowings	0.4	0.4	0.4	0.4	0.4
Other current liabilities	127.5	92.2	98.1	151.1	209.7
Total current liabilities	167.9	125.6	138.3	197.1	260.7
Long-term borrowings	3.3	3.0	3.0	3.0	3.0
Other long-term liabilities	0.3	13.0	13.0	13.0	13.0
Total long-term liabilities	3.6	16.0	16.0	16.0	16.0
Shareholders' funds	356.2	436.6	518.1	611.5	715.1
Minority interests	118.2	159.3	159.3	159.3	159.3
BV/share (RM)	1.13	0.92	1.09	1.29	1.51
Cash Flow (RMmil, YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Pretax profit	99.6	138.9	144.6	165.5	183.6
Depreciation/Amortisation	2.6	3.8	4.7	5.0	5.1
Net change in working capital	(18.6)	9.8	(11.9)	(24.5)	(21.2)
Others	(8.6)	(13.9)	(21.6)	(21.2)	(25.9)
Cash flow from operations	74.9	138.7	115.8	124.8	141.6
Capital expenditure	(28.3)	(14.1)	(15.3)	(17.5)	(19.4)
Net investments & sale of fixed assets	29.5	-	-	-	-
Others	(19.9)	(45.8)	13.8	17.3	21.1
Cash flow from investing	(18.6)	(59.8)	(1.5)	(0.2)	1.7
Debt raised/(repaid)	(0.3)	(0.3)	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	-	(7.6)	(8.7)	(9.7)
Others	179.9	21.8	(0.2)	(0.2)	(0.2)
Cash flow from financing	179.6	21.5	(7.8)	(8.9)	(9.8)
Net cash flow	235.9	100.4	106.5	115.7	133.4
Net cash/(debt) b/f	82.2	324.7	423.3	529.8	645.5
Net cash/(debt) c/f	324.7	423.3	529.8	645.5	778.9
Key Ratios (YE 31 Dec)	FY18	FY19	FY20F	FY21F	FY22F
Revenue growth (%)	48.6	16.1	4.1	14.4	10.9
EBITDA growth (%)	116.1	33.2	2.5	13.1	9.4
Pretax margin (%)	23.6	28.3	28.3	28.4	28.4
Net profit margin (%)	13.5	16.9	17.5	17.5	17.5
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	5.6	5.6	5.6	5.6	5.6
Dividend payout (%)	-	8.5	8.5	8.5	8.5
Debtors turnover (days)	40	44	48	46	46
Stock turnover (days)	112	74	43	41	42
Creditors turnover (days)	29	27	26	27	27

Source: Company, AmInvestment Bank Bhd estimates

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