



AmInvestment Bank

Company report

AmInvestment Bank
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PENTAMASTER CORP

(PENT MK EQUITY, PMAS.KL)

29 Jun 2020

Valuations rich after the run-up in share price

HOLD

Price: RM5.31
Fair Value: RM4.95

Rationale for report: Company update

YE to Dec	FY19	FY20F	FY21F	FY22F
FD Core EPS (sen)	17.5	18.8	21.5	23.9
PE (x)	30.4	28.3	24.7	22.3

Source: AmInvestment Bank Bhd

Quick Take

- **We downgrade our recommendation on Pentamaster Corporation (Pentamaster) to HOLD from BUY with an unchanged fair value of RM4.95/share**, pegged to an FY21F PE of 23x which is in line with local equipment makers' sector market cap weighted average PE as per our report issued on 18 May 2020. Since initiating coverage on the group in end March 2020, its share price has risen by 41% and is currently fairly valued.
- Its 1QFY20 results saw impaired revenue recognition due to travel restrictions related to Covid-19, affecting sales of its automated test equipment (ATE) segment which contributed 66% of group revenue for the quarter. However, **earnings recovery is anticipated in the 2H20** due to: (i) the gradual relaxation of Covid-19 containment measures leading to production normalization; (ii) mass production of some of its telecommunication solutions expected to ensue in 2H20 after undergoing prototyping in 1QFY20; and (iii) anticipation of demand for smart sensors to be supported in the quarters ahead.
- **We continue to like Pentamaster due to its positive growth prospects, despite expectations of a weak 1H20 impacted by Covid-19 as we anticipate earnings recovery in subsequent quarters.** Its positive prospects are driven by: (i) growth in its ATE segment on sustained demand for smart sensors and upcoming 3D sensing technology wave; (ii) growth in its factory automated solutions (FAS) segment 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 long term.

TABLE 1 : VALUATION MATRIX

YE 31 Dec	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	422.2	490.1	510.2	583.5	646.8
Core net profit (RM mil)	57.1	83.0	89.2	102.1	113.3
FD Core EPS (sen)	18.0	17.5	18.8	21.5	23.9
FD Core EPS growth (%)	58.8	(3.1)	7.4	14.5	10.9
Consensus Net Profit (RM mil)	-	-	-	-	-
DPS (sen)	-	1.5	1.6	1.8	2.0
PE (x)	29.4	30.4	28.3	24.7	22.3
EV/EBITDA (x)	22.2	15.9	14.7	12.3	10.4
Div yield (%)	-	0.3	0.3	0.3	0.4
ROE (%)	21.3	20.9	18.7	18.1	17.1
Net Gearing (%)	nm	nm	nm	nm	nm

Source: Company, AmInvestment Bank Bhd estimates

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