

Pentamaster

Results Update

BUY

Current Price	RM 3.57
Target Price	RM 4.75
Consensus Price	RM 5.79

Stock Return Information

KLCI	1,573.89
Expected share price return (%)	33.1
Expected dividend return (%)	0.6
Expected total return (%)	33.7

Key Statistics

Shariah Compliant	YES
Bloomberg Ticker	PENT MK
Masa Ticker / Stock Code	PENTA/7160
Shares Issued (m)	712.3
Market Capitalisation (RM'm)	3,654
52 Week Hi/Lo Price (RM)	6.60/3.22
Avg Trading Volume (3-mth)	2,897,745
Est Free Float (%)	53.8
YTD Returns (%)	-35.7
Beta (x)	1.06

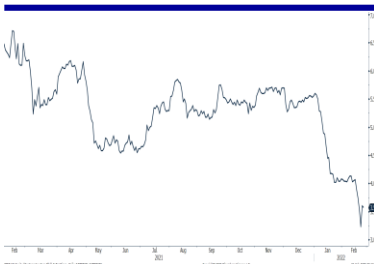
Share Price Performance (%)

Price change	Absolute	Relative
1 mth	-11.19	-15.50
3 mth	-36.36	-40.07
12 mth	-41.67	-41.18

Major Shareholders (%)

Chuah Choon Bin	19.7
Prudential PLC	6.7

1-Year Share Price Performance



Analyst: **Lai Yoon Hui, David**

Email: davidlai@interpac.com.my

Earnings In-line With Expectations

We retain Pentamaster's **BUY** recommendation but lower our TP to **RM4.75 (-RM0.55)**, based on a lower target PER of 34x (from 37x) pegged to an unchanged CY22 EPS. The valuation revision is due to weak market sentiment and rising geopolitical uncertainties causing investors to be cautious on growth and technology stocks. However, we highlight that Pentamaster is trading at attractive PEG valuation of 0.6x.

Pentamaster investment merits are: 1) tapping into the growing demand for high-power electronics in the EV segment, 2) diversification across businesses, regions and products, 3) FAS growth supported by increasing Industry 4.0 adoption, and 4) foray into the medical device market that has resilient growth potential. Downside risk includes: 1) rising raw material and components cost, and 2) technological obsolescence.

Within expectations: Pentamaster's CY21 earnings came in within expectations, accounting for 97% and 90% of ours and consensus earnings respectively.

Y-o-Y: 4QCY21 revenue expanded 11.1% Y-o-Y to RM122.5m. However, PATAMI dipped 12.7% Y-o-Y to RM62.4m due to changes in its product mix where the FAS segment chalked up higher revenue due to strong demand for automation solutions for consumer products.

Q-o-Q: PATAMI were marginally higher by 1.0% Q-o-Q due to lower administrative expenses. Revenue contribution from the ATE and FAS segments decreased due to deferment of project deliveries to customers in the electro-optical segment.

CY21: Earnings growth was flat, where CY21 earnings came in at RM72.7m, despite improved revenue that increased 21% Y-o-Y due to higher material cost, foreign outsourcing cost and logistics expenditure. ATE for automotive customers chalked in 3-years of consecutive growth while revenue from Electro-Optical rebounded strongly.

Dividend: Pentamaster has declared a second interim dividend of 2.0 sen/share, ahead of our 1.5 sen/share estimate and previous year's dividend payout.

Table 1: Financial highlights & earnings forecasts

CYE Dec (RMm)	CY19	CY20	CY21	CY22(F)	CY23(F)
Revenue	490.1	418.8	508.4	596.2	676.2
EBITDA	155.7	123.9	123.6	161.7	173.1
EBITDA Margin (%)	31.8	29.6	24.3	27.1	25.6
PATAMI	83.0	70.9	72.7	99.4	107.1
PATMI Margin (%)	16.9	16.9	14.3	16.7	15.8
EPS (sen)	11.7	10.0	10.2	14.0	15.0
Earnings Growth (%)	45.4	(14.6)	2.6	36.7	7.8
PER (x)	30.6	35.9	35.0	25.6	23.7
DPS (sen)	1.5	1.5	2.0	2.0	2.0
Dividend Yield (%)	0.4	0.4	0.6	0.6	0.6
ROE (%)	23.3	16.0	15.0	16.8	15.6
Net Gearing Ratio (%)	NET CASH	NET CASH	NET CASH	NET CASH	NET CASH
Price/Book Ratio (x)	5.8	5.0	4.5	3.9	3.4

Source: Inter-Pacific Research, Company

Outlook The management acquired a 11.8-acre site in Batu Kawan for RM28.3mn in Nov 2021, where it is looking to build a 240k sq. ft. facility for RM70m under the first phase of development which will take up ~20% of the land. Existing operations of its factory automation solutions and medical divisions will be relocated to this new site upon completion at the end of 2022. On its bread and butter ATE segment, the optoelectronics market is expected to grow at CAGR of 9.6% from 2020 to 2027, to USD77.9b.

Overall, the group remains bullish on its growth prospect for CY22F, targeting double digit Y-o-Y growth and driven by its production diversification strategy targeting the automotive segment to contribute 20% of its CY22 revenue and high-volume manufacturing for its medical products.

Table 2 :Quarterly Income Statement Results and Comparison

CYE Dec (RM m)	4QCY21	4QCY20	YoY chg (%)	3QCY21	QoQ chg (%)	CY21	CY20	YTD chg (%)
Revenue	122.5	110.2	11.1	140.1	(12.6)	508.4	418.8	21.4
GP	38.6	34.0	13.4	41.8	(7.8)	152.6	139.6	9.3
GP margin	31.5	30.9	2.0	29.9	5.4	30.0	33.3	(9.9)
EBITDA	36.0	36.2	(0.6)	33.1	8.6	123.6	123.9	(0.3)
EBITDA margin (%)	29.4	32.8	(10.6)	23.7	24.2	24.3	29.6	(17.8)
PBT	31.8	31.7	0.4	33.1	(4.1)	119.4	113.1	5.5
PBT margin (%)	26.0	28.7	(9.7)	23.7	9.7	23.5	27.0	(13.1)
PATAMI	19.7	22.1	(10.9)	19.5	1.0	72.7	70.9	2.6
PATMI margin (%)	62.4	71.5	(12.7)	65.2	(4.3)	14.3	16.9	(15.5)
EPS (sen)	2.8	3.1	(10.9)	2.7	1.0	10.2	10.0	2.6

Source: Inter-Pacific, Company

Table 3: End-market customers breakdown

CYE Dec (RM m)	4QCY21	4QCY20	YoY chg (%)	3QCY21	QoQ chg (%)	CY21	CY20	YTD chg (%)
Electro-Optical	38.7	56.9	(32.0)	46.1	(16.0)	184.3	121.0	52.3
Semiconductor	13.0	14.9	(12.9)	16.4	(20.6)	59.4	42.9	38.7
Medical devices	8.0	0.4	>500	6.8	17.6	24.4	36.8	(33.8)
Automotive	38.1	29.5	29.2	40.2	(5.2)	63.1	54.6	15.5
Consumer & industrial products	24.5	8.4	192.0	30.5	(19.7)	54.5	53.1	2.6
Others	0.1	0.0	395.0	0.0	(19.7)	0.2	0.2	40.8
	122.5	110.2	11.1	140.1	(17.6)	385.9	308.6	25.1

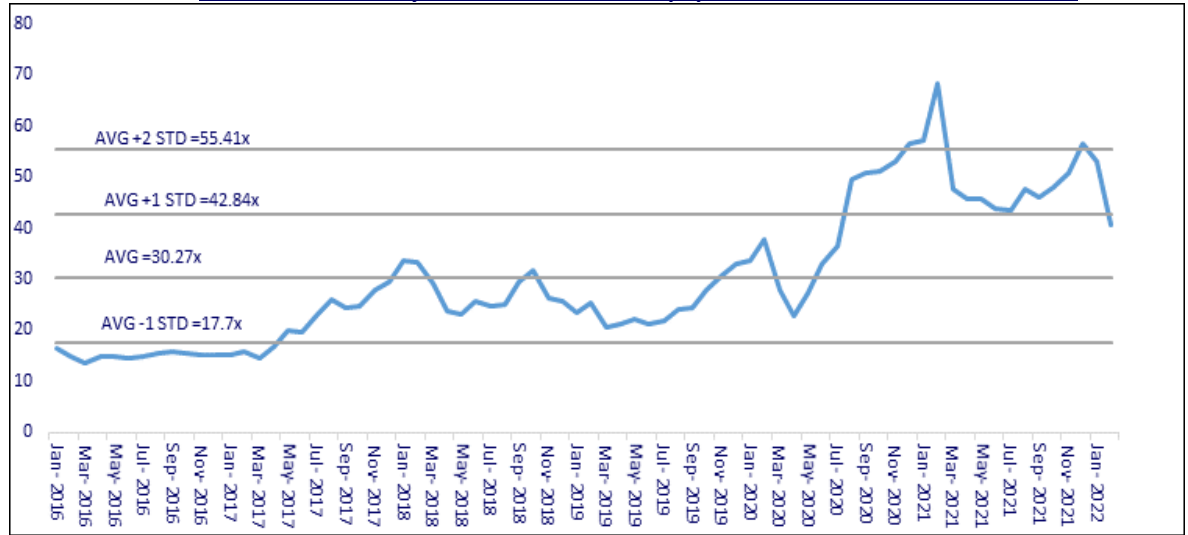
Source: Inter-Pacific, Company

Table 4: Operating segments

CYE Dec (RM m)	4QCY21	4QCY20	YoY chg (%)	3QCY21	QoQ chg (%)	CY21	CY20	YTD chg (%)
Automated test equipment	84.9	88.6	(4.1)	93.8	(9.4)	271.4	194.4	39.6
Factory automation solutions	33.3	24.3	37.0	47.7	(30.2)	118.5	114.0	3.9
Smart control systems	0.0	0.0	0.0	0.0	(51.2)	0.3	0.2	63.6
	118.2	112.9	4.7	141.5	(16.5)	390.2	308.6	26.5

Source: Inter-Pacific

Illustration 1: Malaysia's semiconductor equipment manufactures 1 Yr Fwd PER



Source: Inter-Pacific

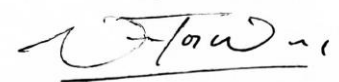
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Signed



Victor Wan Kum Seng
Head of Research
Inter-Pacific Research Sdn Bhd

Ratings System

Ratings:	Description:
BUY	Total return is expected to exceed 15% in the next 12 months
TRADING BUY	Total return is expected to exceed 10% in the next 3 months
NEUTRAL	Total return is expected to be between -15% to 15% in the next 12 months
SELL	Total return is expected to be below -15% in the next 12 months
TRADING SELL	Total return is expected to be below -10% in the next 3 months
NOT RATED	The stock is not within regular research coverage

Abbreviation

Abbreviation	Definition
PER	Price Earnings Ratio
PEG	PER to Growth
EPS	Earnings per Share
FYE	Financial Year End
FY	Financial Year
CY	Calendar Year
MoM	Month-on-Month
QoQ	Quarter-on-Quarter
YoY	Year-on-Year
YTD	Year-to-Date
p.a.	Per Annum
DCF	Discounted Cash Flow
FCF	Free Cash Flow
NAV	Net Asset Value

Abbreviation	Definition
CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditure
DPS	Dividend per Share
ROA	Return on Asset
ROE	Return on Equity
PBT	Profit Before Tax
PAT	Profit After Tax
EV	Enterprise Value
EBIT	Earnings Before Interest And Tax
EBITDA	EBIT Depreciation & Amortisation
WACC	Weighted Average Cost of Capital
NTA	Net Tangible Asset
BV	Book Value

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West Wing, Level 13,
Berjaya Times Square,
No.1, Jalan Imbi,
55100 Kuala Lumpur

General Line : 03-2117 1888 Fax : 03-2142 7678