

27 Feb, 2024

Pentamaster | 01665.HK

Medical segment provides support during crucial time

STOCK RATING

BUY

TARGET PRICE

HK\$ 1.18

Pentamaster (01665.HK) achieved a YoY 15.2% growth in the top-line to MYR 691.9mn and a YoY 6.7% increase in the bottom-line in FY 2023, in line with our estimates. The automotive segment remained the primary contributor, accounting for 47.6% of total revenue, and the medical segment boomed YoY 75.2% to MYR 148.2mn. Thanks to the growing contribution from the FAS services in the medical segment, the gross margin in Q4 surged to 31.9%, bringing the FY gross margin and the FY net margin to 30.3% and 20.6% respectively.

The convincing performance in the medical segment: Pentamaster (01665.HK) continued to deliver resilient results, especially in the medical segment, the key customers with better order visibility remained the primary drivers. Based on the order book of the Group, the medical segment will remain robust in 2024, and, according to the planning of the primary customers, we expect that the solid performance will be sustained for at least two years. The contribution from the major customers will remain substantial, and the contribution from single-use medical devices will be reflected after the completion of phases 1 / 2 of Campus 3.

Mixed signals in other segments: Pentamaster (01665.HK) was affected by the headwind in the automotive segment, the orders from automotive customers were delayed, resulting in a loss of momentum in the order book for 2 consecutive quarters. A temporary setback may not change the long-term trend of EV and ADAS, but we are more cautious and we need more evidence to show an end to the market fluctuation. Besides, the Group achieved stable growth in the semiconductor segment, but the electro-optical segment, despite a short rebound, is expected to remain weak due to the stagnated smartphone market.

Re-schedule of Campus 3: Rather than starting to operate in 2024 Q4 and 2025 Q3 respectively for both phases 1 and 2, Campus 3 will be fully operational in 2025 Q1, and production will start to take place in 2024 Q3.

Medical segment provides support during crucial time: We slash our estimates by ~10% and cut the TP to HKD 1.18/share to reflect the short-term uncertainties faced in the automotive segment which is the major contributor to the Group. However, the visibility in the medical segment remains clear, we expect that the medical segment will be the primary driver in 2024, partially offsetting the deceleration of the automotive segment. Therefore, we maintain the rating "BUY" and the order book in the coming quarters will be our primary concern.

COMPANY UPDATE

H F NGO, Brian, CFA

SENIOR ANALYST

briango@westbullsec.com.hk

+852 3896 2965

 2701 – 2703, 27/F, Infinitus Plaza, 199 Des Voeux Rd
 Central, Sheung Wan, HK

Pentamaster (01665.HK)

Stock Rating BUY (BUY)

Target Price HK\$ 1.18 (HK\$ 1.23)

Current Price HK\$ 0.82

52-Week Range HK\$ 0.74 – 1.17

Market cap. (HKD, bn) HK\$ 2.0

MYR, mn	2023 (A)	2024 (E)	2025 (E)	2026 (E)
Revenue	691.9	813.0	960.7	1,047.5
Gross Profit	209.6	252.6	305.6	336.8
Gross Margin	30.3%	31.1%	31.8%	32.1%
Profit Attr.	20.6%	20.2%	21.0%	21.5%
ROE	18.0%	17.9%	18.6%	17.6%

Performance	1 mth	3 mth	6 mth	1 year
Absolute	-6.8%	-15.5%	-16.3%	3.1%
Relative to HSI	-11.1%	-10.2%	-9.0%	20.0%



Peers comparison

		Mkt. Cap.	P/E	Fw. P/E	P/B	P/S	Revenue	GM	ROE
		(HKD, mn)	(x)	(x)	(x)	(x)	(HKD, mn)	(%)	(%)
00522.HK	ASMPT	36,932.4	24.3	28.2	2.4	2.2	19,363.5	41.1	9.7
COHU.US	Cohu	11,669.2	48.2	63.2	1.6	2.4	4,981.7	47.6	3.0
ROK.US	Rockwell	249,088.4	21.2	21.7	8.8	3.5	70,931.9	41.0	37.3
TER.US	Teradyne	122,351.6	36.7	35.0	6.3	5.9	20,952.4	57.4	18.0
2360.TW	Chroma	24,101.8	24.2	18.3	4.5	5.2	4,691.0	51.5	19.2
6337.JP	Tesec	717.1	8.1	-	1.0	1.6	506.9	46.8	12.6
6503.JP	Mitsubishi	269,875.0	19.5	19.0	1.5	1.0	290,122.0	28.1	8.0
6857.JP	Advantest	276,351.0	65.8	61.2	12.7	10.3	32,480.7	57.0	21.2
6954.JP	Fanuc	227,010.0	29.8	30.3	2.5	5.1	49,397.7	38.2	8.6
	Chang Chuan								
300604.CH	Technology	19,222.5	125.8	25.3	6.2	8.4	3,000.2	56.7	5.5
688001.CH	HYC Technology	12,979.0	54.9	-	3.1	6.0	2,701.5	52.1	5.7
SCHN.FR	Schneider	217,549.2	27.8	26.3	5.2	2.1	100,195.2	71.1	19.4
ABBN.SW	ABB	675,141.6	22.6	19.3	6.3	2.6	252,363.5	34.8	28.6
SIE.GR	Siemens	1,187,100.0	15.6	16.6	3.0	1.8	650,354.2	38.1	19.3
GTB.MK	Globetronics	1,712.7	39.3	29.8	3.4	7.9	226.5	38.8	8.7
VITRO.MK	VitroX	11,498.7	54.8	30.7	7.3	12.2	987.9	-	14.0
	Average	195,332.9	208,956.3	38.7	30.4	4.7	4.9	93,953.6	46.7
01665.HK	Pentamaster	2,016.0	8.6	6.8	1.5	1.8	1,188.9	30.3	18.0

Source: Bloomberg, West Bull Securities

Risk factors

- A low valuation is given to the Hong Kong stock market, especially small-cap stocks
- A decrease in the demand for electric vehicles
- Loss of orders from the key customers from the medical segment
- Keen competition for R&D staff
- Worse-than-expected demand for smartphone and consumer electronics products

Financial Statement

PnL					Balance Sheet				
(MYR, mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)	(MYR, mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)
Revenue	691.9	813.0	960.7	1,047.5	PPE	247.1	360.9	456.6	476.8
<i>YoY growth</i>	<i>15.2%</i>	<i>17.5%</i>	<i>18.2%</i>	<i>9.0%</i>	Others	107.4	95.9	96.0	96.2
COGS	(482.2)	(560.4)	(655.1)	(710.7)	Non-current assets	354.6	456.7	552.7	573.0
Gross profit	209.6	252.6	305.6	336.8	Inventories	190.6	207.2	219.4	225.9
Other income	17.9	12.0	12.3	14.5	Trade receivables	196.3	218.5	247.5	292.5
Operating expenses	(84.5)	(98.0)	(112.3)	(118.7)	Cash & cash equivalents	395.8	404.3	476.5	633.6
Operating profit	143.1	166.6	205.6	232.5	Others	21.8	27.7	29.5	33.0
Finance expenses	-	-	-	-	Current assets	804.5	857.7	972.8	1,185.0
JV & Ass.	0.0	-	-	-	Total assets	1,159.0	1,314.4	1,525.5	1,758.0
Profit before tax	143.1	166.6	205.6	232.5	LT borrowings	-	-	-	-
Tax	(0.9)	(2.1)	(4.0)	(7.3)	Others	9.5	2.8	2.8	2.8
Net profit	142.2	164.6	201.6	225.2	Non-current liabilities	9.5	2.8	2.8	2.8
<i>YoY growth</i>	<i>6.7%</i>	<i>15.7%</i>	<i>22.5%</i>	<i>11.7%</i>	Trade payables	118.0	135.1	138.3	142.0
					ST borrowings	-	-	-	-
					Others	183.6	172.7	197.0	222.3
					Current liabilities	301.6	307.8	335.3	364.3
					Total liabilities	311.1	310.6	338.0	367.0
					Non-controlling interests	-	-	-	-
					Controlling interests	848.0	993.0	1,175.9	1,378.8
					Total equities	848.0	993.0	1,175.9	1,378.8

Cash Flow					Financial Ratio				
(MYR, mn)	2023 (A)	2024 (E)	2025 (E)	2026 (E)		2023 (A)	2024 (E)	2025 (E)	2026 (E)
Profit before tax	143.1	166.6	205.6	232.5	Gross margin	30.3%	31.1%	31.8%	32.1%
Finance expenses	-	-	-	-	Operating margin	20.7%	20.5%	21.4%	22.2%
Finance income	(10.0)	(12.0)	(12.3)	(14.5)	Net profit margin	20.6%	20.2%	21.0%	21.5%
D&A	15.2	25.3	49.5	55.1	Return on Equity	18.0%	17.9%	18.6%	17.6%
Others	1.1	7.4	6.4	3.7	Return on Asset	13.2%	13.3%	14.2%	13.7%
Change in working capital	67.3	(38.5)	(15.5)	(26.1)	Current ratio	266.8%	278.7%	290.2%	325.3%
CFO	216.8	148.8	233.8	250.7	Quick ratio	198.8%	211.3%	224.7%	263.3%
					Cash ratio	131.2%	131.4%	142.1%	173.9%
CAPEX	(119.2)	(124.0)	(145.6)	(75.6)	Debt-to-Equity ratio	0.0%	0.0%	0.0%	0.0%
Others	8.7	12.0	12.3	14.5	Net Debt-to-Equity ratio	-46.7%	-40.7%	-40.5%	-46.0%
CFI	(110.5)	(112.0)	(133.3)	(61.1)	Inventory turnover days	136.8	129.6	118.8	114.3
					Receivable turnover days	114.5	93.1	88.5	94.1
Shares issuance	-	-	-	-	Payable turnover days	90.7	82.4	76.2	72.0
Net borrowings	-	-	-	-					
Interest expenses	-	-	-	-					
Dividend paid	(27.6)	(28.3)	(28.3)	(32.5)					
Others	(12.3)	-	-	-					
CFF	(39.9)	(28.3)	(28.3)	(32.5)					
FCFE	97.5	24.8	88.2	175.1					
FCFF	97.5	24.8	88.2	175.1					

Source: Company data, West Bull Securities

West Bull Securities is a dedicated small/mid cap stock brokerage house. Find our research on: Bloomberg, factset.com, Capital IQ, Refinitiv, Wind, Choice, Hibor and 同花顺

Ratings of West Bull Securities:

STRONG BUY : absolute upside of >50% over the next 12 months

BUY : absolute upside of >10% over the next 12 months

HOLD : absolute return of -10% to +10% over the next 12 months

SELL : absolute downside of >10% over the next 12 months

STRONG SELL : absolute downside of >50% over the next 12 months

Investors should assume that West Bull Securities is seeking or will seek investment banking or other related businesses with the companies in this report.

Analyst certification: The views expressed in this report accurately reflect the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Disclaimer:

This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by the Research Department of West Bull Securities Limited ('West Bull Securities') from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by West Bull Securities Securities or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of West Bull Securities as of the date of this report only and are subject to change without notice. Neither West Bull Securities nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of the companies referred to in this report. West Bull Securities and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have positions in, and buy or sell, the securities of companies referred to in this report (or related investments); (2) have a consulting, investment banking or broking relationship with any company referred to in this report; and (3) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors and dealers in securities and must not be copied, published, reproduced or redistributed (in whole or in part) by any recipient for any purpose. Any recipient of this report who requires further information regarding any securities referred to in this report should contact the relevant office of West Bull Securities located in such recipient's home jurisdiction.

Copyright© West Bull Securities Limited. All rights reserved.