

16 May, 2024

Pentamaster | 01665.HK

More patience is required for new drivers

STOCK RATING

BUY

TARGET PRICE

HK\$ 1.10

A setback in 2024 Q1: Pentamaster (01665.HK) recorded MYR 170.7mn revenue in 2024 Q1, amounting to a YoY 3.3% increment when compared to 2023 Q1, of which approximately MYR 72.8mn and MYR 97.9mn were generated from ATE and FAS business segments respectively. However, the net profit declined YoY 11.9% to MYR 30.2mn due to i) a sharp decrease in the gross margin in the ATE segment, ii) an increase in the staff expenses and iii) amortization of development cost.

Substantial contribution from the medical segment: Thanks to the contribution from the key customers, the revenue derived from the medical segment boomed 3.1x to MYR 78.5mn, accounting for 46.0% of total revenue generated in 2024 Q1. The order visibility of the primary customers remained strong, contributing nearly half of the order book recorded in 2024 Q1. We maintain our view that the medical segment will remain robust and the contribution from this segment will be substantial. Besides, we may see contributions from the single-use medical devices after the completion of phases 1 / 2 of Campus 3.

Mixed signals in other segments: Despite a YoY 47.8% growth achieved in the electro-optical segment, there may not be a strong recovery due to limited technological advancement of the end products, the sales of testing equipment for the ambient light sensors and proximity sensors remained the primary contributors. The contribution from the semiconductor and automotive segments remained sluggish, of which the automotive segment was especially weak due to the order deferral caused by the headwind in the automotive market. However, we remain positive about the long-term development of the EV market, a setback caused by the price war as well as weaker demand may be temporary, and cooperation between the Chinese and European manufacturers may be a way to mitigate the escalating trade barriers. Moreover, we may also see revenue generated from the KGD testers in the coming future, bringing an amelioration in the automotive business segment.

More patience is required for new drivers: We slash our estimates by ~10% and cut the TP to HKD 1.10/share to reflect greater difficulties faced by the Group in 2024 Q1, including lower order book and squeezed profit margin. It may take more time for the automotive segment to recover, and the contributions from the medical segment may be more substantial than our expectations. We believe that more patience is required because the medical segment will give support to the Group in 2024, and we may see some new drivers from Campus 3 and the automotive segment in 2H.

COMPANY UPDATE

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Pentamaster (01665.HK)

Stock Rating **BUY** (BUY)

Target Price **HK\$ 1.10** (HK\$ 1.18)

 Current Price **HK\$ 0.74**

 52-Week Range **HK\$ 0.70 – 1.10**

 Market cap. (HKD, bn) **HK\$ 1.8**

MYR, mn	2023 (A)	2024 (E)	2025 (E)	2026 (E)
Revenue	691.9	768.1	942.6	1,027.3
Gross Profit	209.6	231.8	289.3	310.7
Gross Margin	30.3%	30.2%	30.7%	30.2%
Profit Attr.	142.2	148.2	184.1	196.7
ROE	18.0%	16.2%	17.3%	15.9%

Performance	1 mth	3 mth	6 mth	1 year
Absolute	-6.3%	-15.9%	-17.8%	-31.5%
Relative to HSI	-20.4%	-36.0%	-27.4%	-28.7%



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	40,352.1	56.0	27.1	2.6	2.7	14,697.5	39.3	4.6
COHU.US	Cohu	10,766.5	682.4	71.3	1.5	2.5	4,981.7	47.6	(0.2)
ROK.US	Rockwell	244,866.8	21.9	24.8	8.9	3.5	70,931.9	41.0	35.3
TER.US	Teradyne	160,754.3	48.1	38.4	7.9	7.6	20,952.4	57.4	17.2
2360.TW	Chroma	26,656.1	27.1	21.4	5.4	5.8	4,691.0	57.6	20.4
6337.JP	Tesec	646.0	7.5	-	0.9	1.4	467.1	46.8	12.6
6503.JP	Mitsubishi	306,409.3	20.7	18.7	1.6	1.1	284,937.1	29.4	8.2
6857.JP	Advantest	213,340.4	65.1	48.1	9.4	8.3	26,364.8	50.6	15.6
6954.JP	Fanuc	230,773.2	32.4	31.2	2.5	5.4	43,097.5	34.7	8.0
	Chang Chuan								
300604.CH	Technology	18,528.4	153.3	26.3	5.9	7.3	1,962.4	57.1	4.1
688001.CH	HYC Technology	10,574.8	45.0	25.7	2.5	4.9	2,701.5	52.1	5.7
SCHN.FR	Schneider	221,387.9	29.2	26.8	5.5	2.2	100,195.2	71.1	19.4
ABBN.SW	ABB	786,054.3	27.2	22.8	7.8	3.1	252,363.5	34.8	29.0
SIE.GR	Siemens	1,273,800.0	16.7	18.0	3.3	1.9	650,354.2	38.1	19.3
GTB.MK	Globetronics	1,440.3	32.5	23.7	2.8	6.5	226.5	38.8	8.7
VITRO.MK	VitroX	11,982.6	63.9	-	7.4	12.8	987.9	-	11.9
	Average	222,395.8	83.1	30.3	4.7	4.8	92,494.5	46.4	13.7
01665.HK	Pentamaster	1,752.0	7.5	6.0	1.2	1.5	1,188.9	30.3	16.7

Source: Bloomberg, West Bull Securities

Risk factors

- The automotive market remains weak
- Insufficient demand for KGD testers
- Loss of orders from the key customers from the medical segment
- Insufficient demand for single-use medical devices
- Keen competition for R&D staff

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	768.1	942.6	1,027.3	PPE	247.1	396.0	522.7	573.1
<i>YoY growth</i>	<i>15.2%</i>	<i>11.0%</i>	<i>22.7%</i>	<i>9.0%</i>	Others	107.4	97.8	96.5	95.3
COGS	(482.2)	(536.3)	(653.4)	(716.5)	Non-current assets	354.6	493.8	619.2	668.4
Gross profit	209.6	231.8	289.3	310.7	Inventories	190.6	190.2	204.8	227.7
Other income	17.9	12.0	11.1	12.6	Trade receivables	196.3	213.8	232.6	235.5
Operating expenses	(84.5)	(93.7)	(112.6)	(120.3)	Cash & cash equivalents	395.8	367.5	416.9	550.2
Operating profit	143.1	150.1	187.8	203.1	Others	21.8	24.9	31.4	30.1
Finance expenses	-	-	-	-	Current assets	804.5	796.4	885.7	1,043.5
JV & Ass.	0.0	-	-	-	Total assets	1,159.0	1,290.2	1,504.9	1,711.8
Profit before tax	143.1	150.1	187.8	203.1	LT borrowings	-	-	-	-
Tax	(0.9)	(1.8)	(3.7)	(6.4)	Others	9.5	2.8	2.8	2.8
Net profit	142.2	148.2	184.1	196.7	Non-current liabilities	9.5	2.8	2.8	2.8
<i>YoY growth</i>	<i>6.7%</i>	<i>4.2%</i>	<i>24.2%</i>	<i>6.9%</i>	Trade payables	118.0	124.3	133.6	141.1
					ST borrowings	-	-	-	-
					Others	183.6	184.8	223.0	242.7
					Current liabilities	301.6	309.1	356.7	383.9
					Total liabilities	311.1	311.8	359.4	386.6
					Non-controlling interests	-	-	-	-
					Controlling interests	848.0	978.3	1,145.5	1,325.2
					Total equities	848.0	978.3	1,145.5	1,325.2

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	150.1	187.8	203.1	Gross margin	30.3%	30.2%	30.7%	30.2%
Finance expenses	-	-	-	-	Operating margin	20.7%	19.5%	19.9%	19.8%
Finance income	(10.0)	(12.0)	(11.1)	(12.6)	Net profit margin	20.6%	19.3%	19.5%	19.1%
D&A	15.2	13.1	19.6	25.8	Return on Equity	18.0%	16.2%	17.3%	15.9%
Others	1.1	9.5	8.7	6.9	Return on Asset	13.2%	12.1%	13.2%	12.2%
Change in working capital	67.3	(28.9)	7.1	2.2	Current ratio	266.8%	257.7%	248.3%	271.8%
CFO	216.8	131.7	212.0	225.3	Quick ratio	198.8%	196.1%	190.9%	212.5%
					Cash ratio	131.2%	118.9%	116.9%	143.3%
CAPEX	(119.2)	(143.8)	(145.4)	(75.4)	Debt-to-Equity ratio	0.0%	0.0%	0.0%	0.0%
Others	8.7	12.0	11.1	12.6	Net Debt-to-Equity ratio	-46.7%	-37.6%	-36.4%	-41.5%
CFI	(110.5)	(131.8)	(134.3)	(62.8)	Inventory turnover days	136.8	129.6	110.3	110.2
					Receivable turnover days	114.5	97.4	86.4	83.2
Shares issuance	-	-	-	-	Payable turnover days	90.7	82.4	72.0	70.0
Net borrowings	-	-	-	-					
Interest expenses	-	-	-	-					
Dividend paid	(27.6)	(28.3)	(28.3)	(29.3)					
Others	(12.3)	-	-	-					
CFF	(39.9)	(28.3)	(28.3)	(29.3)					
FCFE	97.5	(12.1)	66.6	149.9					
FCFF	97.5	(12.1)	66.6	149.9					

Source: Company data, West Bull Securities

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