

9 Aug, 2024

## Pentamaster | 01665.HK

Recovery is delayed due to macro issues

STOCK RATING

**BUY**

TARGET PRICE

**HK\$ 0.95**

Pentamaster (01665.HK) continued to deliver a sluggish performance in 2024 1H, it recorded MYR 342.1mn revenue in 2024 1H, maintaining flat when compared to last year. The ATE segment plunged YoY 45.1%, offsetting a YoY 1.4x growth in the FAS segment. The gross margin dropped further due to certain R&D expenses and decreased economies of scale in the ATE segment. The disappointing performance brought the Group a YoY 12.8% and YoY 13.5% decline in the bottom-line in 2024 1H and 2024 Q2 respectively.

**Stable contribution from the major customer in the medical segment:** The contribution from the primary customer remained strong, resulting in a MYR 155.5mn in the medical segment. Despite a downward adjustment in the forecast, the investment schedule and hence the order visibility of the major customer remains unchanged, providing a decent outlook for the Group in the medical segment. We are more concerned about the next driver in the medical segment, the Group commenced to deliver i) prototype equipment to new med-tech customers and ii) small quantities of single-use medical devices to customers, we hope to see more orders from different customers and a contribution from single-use medical devices in FY 2025.

**Too early to see a turnaround in other segments:** The resilient sales of testing equipment for the ambient light sensors and proximity sensors brought a YoY 26.2% growth to the electro-optical segment, and technological advancement of the end-product may bring this segment to a better level. The contribution from the semiconductor and automotive segments plummeted YoY 63.2% and YoY 51.8% respectively in Q2, dragging the overall performance of the Group. The semiconductor segment may remain stable as industry participants remain conservative. The automotive segment may recover slower than expected, we do not see significant improvement in the industry, and we need more evidence to confirm the potential turnaround. A clearer picture of the trade barriers in Europe and the US may be a factor leading to an improvement of the order book, and there may be a contribution from the KGD testers in FY 2025.

**Recovery is delayed due to macro issues:** The order book in Q2 remained stable, and the financial performance was slightly lower than our estimations. We slash our estimates in FY 2024 and cut the TP to HKD 0.95/share to reflect a lustreless Q2, but we maintain our forecast in the longer term because we believe that the recovery is just delayed due to macro issues. Besides, we do see new potential drivers like KGD testers and single-use medical devices in FY 2025, we, therefore, reiterate the "BUY" rating to Pentamaster (01665.HK).

## 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\$ 0.95 (HK\$ 1.10)

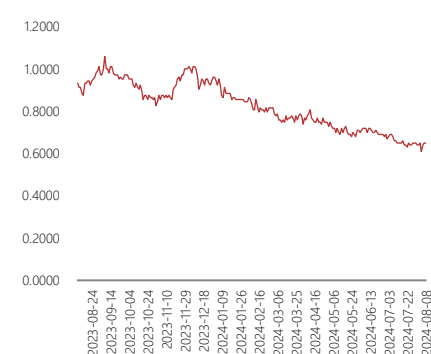
Current Price HK\$ 0.65

52-Week Range HK\$ 0.60 – 1.07

Market cap. (HKD, bn) HK\$ 1.6

MYR, mn	2023 (A)	2024 (E)	2025 (E)	2026 (E)
Revenue	691.9	738.8	931.4	1,026.5
Gross Profit	209.6	212.0	278.8	310.5
Gross Margin	30.3%	28.7%	29.9%	30.2%
Profit Attr.	142.2	131.8	174.6	195.3
ROE	18.0%	14.6%	16.8%	16.2%

Performance	1 mth	3 mth	6 mth	1 year
Absolute	-4.4%	-7.1%	-19.4%	-31.8%
Relative to HSI	-0.8%	0.6%	-25.8%	-19.8%



## 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	30,341.8	74.8	26.4	2.0	2.3	14,697.5	39.3	2.6
COHU.US	Cohu	30,341.8	(39.7)	137.8	1.3	2.3	4,981.7	47.6	(3.1)
ROK.US	Rockwell	8,819.6	20.3	22.0	8.5	3.3	70,931.9	41.0	30.4
TER.US	Teradyne	220,418.0	39.9	30.6	6.8	6.5	20,952.4	57.4	19.2
2360.TW	Chroma	28,952.6	27.4	21.4	5.9	6.1	4,691.0	57.6	20.4
6337.JP	Tesec	438.0	7.3	-	0.6	1.1	467.1	44.4	8.0
6503.JP	Mitsubishi	239,713.7	16.2	14.7	1.2	0.8	284,937.1	29.4	7.7
6857.JP	Advantest	238,732.8	56.2	39.6	9.5	8.3	26,364.8	50.6	18.3
6954.JP	Fanuc	211,017.5	28.7	26.4	2.1	4.8	43,097.5	34.7	7.8
300604.CH	Chang Chuan Technology	21,059.2	173.6	29.8	6.6	9.5	1,962.4	57.1	4.1
688001.CH	HYC Technology	10,290.5	53.2	25.8	2.4	5.3	2,057.5	54.0	-
SCHN.FR	Schneider	218,556.9	26.5	25.3	5.2	2.1	100,195.2	71.1	20.3
ABBN.SW	ABB	757,988.6	25.3	18.5	7.2	3.0	252,363.5	34.8	29.0
SIE.GR	Siemens	1,050,800.0	16.8	14.2	2.7	1.6	650,354.2	38.1	16.2
GTB.MK	Globetronics	1,386.8	27.4	21.9	2.6	6.2	226.5	38.8	9.7
VITRO.MK	VitroX	12,674.8	70.6	-	7.4	13.3	987.9	-	10.9
	<i>Average</i>	<i>199,783.7</i>	<i>39.0</i>	<i>32.5</i>	<i>4.5</i>	<i>4.8</i>	<i>92,454.3</i>	<i>46.4</i>	<i>13.4</i>
01665.HK	Pentamaster	1,560.0	6.7	5.1	1.0	1.3	1,188.9	30.3	16.7

Source: Bloomberg, West Bull Securities

## Risk factors

- Change in the investment planning of the primary customer
- Recovery of the automotive segment business remains weak
- Technological advancement of the optical sensors in the consumer electronic devices is slow
- 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)
<b>Revenue</b>	<b>691.9</b>	<b>738.8</b>	<b>931.4</b>	<b>1,026.5</b>	PPE	247.1	396.0	522.7	573.1
<i>YoY growth</i>	<i>15.2%</i>	<i>6.8%</i>	<i>26.1%</i>	<i>10.2%</i>	Others	107.4	97.8	96.5	95.3
COGS	(482.2)	(526.9)	(652.6)	(716.0)	<b>Non-current assets</b>	<b>354.6</b>	<b>493.8</b>	<b>619.2</b>	<b>668.4</b>
<b>Gross profit</b>	<b>209.6</b>	<b>212.0</b>	<b>278.8</b>	<b>310.5</b>	Inventories	190.6	183.4	211.1	221.1
Other income	17.9	12.0	11.2	11.8	Trade receivables	196.3	198.2	236.3	256.1
Operating expenses	(84.5)	(90.1)	(111.3)	(120.3)	Cash & cash equivalents	395.8	369.3	391.0	506.8
<b>Operating profit</b>	<b>143.1</b>	<b>133.9</b>	<b>178.7</b>	<b>202.1</b>	Others	21.8	23.1	32.7	28.8
Finance expenses	-	-	-	-	<b>Current assets</b>	<b>804.5</b>	<b>774.0</b>	<b>871.1</b>	<b>1,012.9</b>
JV & Ass.	0.0	-	-	-	<b>Total assets</b>	<b>1,159.0</b>	<b>1,267.8</b>	<b>1,490.3</b>	<b>1,681.3</b>
<b>Profit before tax</b>	<b>143.1</b>	<b>133.9</b>	<b>178.7</b>	<b>202.1</b>	LT borrowings	-	-	-	-
Tax	(0.9)	(2.1)	(4.1)	(6.8)	Others	9.5	2.8	2.8	2.8
<b>Net profit</b>	<b>142.2</b>	<b>131.8</b>	<b>174.6</b>	<b>195.3</b>	<b>Non-current liabilities</b>	<b>9.5</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>
<i>YoY growth</i>	<i>6.7%</i>	<i>-7.3%</i>	<i>32.5%</i>	<i>11.9%</i>	Trade payables	118.0	120.0	137.6	137.0
					ST borrowings	-	-	-	-
					Others	183.6	183.2	228.5	247.4
					<b>Current liabilities</b>	<b>301.6</b>	<b>303.2</b>	<b>366.1</b>	<b>384.4</b>
					<b>Total liabilities</b>	<b>311.1</b>	<b>305.9</b>	<b>368.9</b>	<b>387.2</b>
					Non-controlling interests	-	-	-	-
					Controlling interests	848.0	961.9	1,121.4	1,294.1
					<b>Total equities</b>	<b>848.0</b>	<b>961.9</b>	<b>1,121.4</b>	<b>1,294.1</b>

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	133.9	178.7	202.1	Gross margin	30.3%	28.7%	29.9%	30.2%
Finance expenses	-	-	-	-	Operating margin	20.7%	18.1%	19.2%	19.7%
Finance income	(10.0)	(12.0)	(11.2)	(11.8)	Net profit margin	20.6%	17.8%	18.7%	19.0%
D&A	15.2	13.1	19.6	25.8	Return on Equity	18.0%	14.6%	16.8%	16.2%
Others	1.1	9.2	8.3	6.5	Return on Asset	13.2%	10.9%	12.7%	12.3%
Change in working capital	67.3	(10.6)	(13.0)	(8.3)	Current ratio	266.8%	255.3%	238.0%	263.5%
<b>CFO</b>	<b>216.8</b>	<b>133.5</b>	<b>182.3</b>	<b>214.3</b>	Quick ratio	198.8%	194.8%	180.3%	206.0%
					Cash ratio	131.2%	121.8%	106.8%	131.8%
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	11.2	11.9	Net Debt-to-Equity ratio	-46.7%	-38.4%	-34.9%	-39.2%
<b>CFI</b>	<b>(110.5)</b>	<b>(131.8)</b>	<b>(134.2)</b>	<b>(63.5)</b>	Inventory turnover days	136.8	129.6	110.3	110.2
					Receivable turnover days	114.5	97.4	85.1	87.5
Shares issuance	-	-	-	-	Payable turnover days	90.7	82.4	72.0	70.0
Net borrowings	-	-	-	-					
Interest expenses	-	-	-	-					
Dividend paid	(27.6)	(28.3)	(26.4)	(34.9)					
Others	(12.3)	-	-	-					
<b>CFF</b>	<b>(39.9)</b>	<b>(28.3)</b>	<b>(26.4)</b>	<b>(34.9)</b>					
<b>FCFE</b>	<b>97.5</b>	<b>(10.3)</b>	<b>36.9</b>	<b>138.9</b>					
<b>FCFF</b>	<b>97.5</b>	<b>(10.3)</b>	<b>36.9</b>	<b>138.9</b>					

Source: Company data, West Bull Securities

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