

15 Nov, 2024

Pentamaster | 01665.HK

Macro uncertainties remain the primary obstacle

STOCK RATING

BUY

TARGET PRICE

HK\$ 0.75

Pentamaster (01665.HK) recorded a 16.9% YoY revenue decline in 2024 Q3 to MYR 150.1mn, resulting in a 5.9% YoY decrease in the top-line for the first nine months ended Sep 2024.

Stable contribution in the medical segment: The Group achieved MYR 79.0mn revenue in the medical segment, maintaining flat in the past few quarters due to the stable contribution from the primary customer. We believe that, according to the customer's investment plan, the contribution will remain steady in the short term. The medical segment is expected to grow further because i) the adoption of automation may bring the Group more customers, especially med-tech customers, and ii) the contributions from single-use medical devices.

Diversified outlook in other segments: Despite a QoQ decrease in the electro-optical segment due to the seasonal issues, Pentamaster (01665.HK) maintained a positive view in this business, an upgrade in the proximity sensor will continue to bring the Group a decent momentum in this segment. The Group recorded MYR 32.6mn revenue in the automotive segment in 2024 Q3, and it was the primary dragger in the ATE business segment. The downstream customers remained cautious, and the customers' plan of CAPEX did not expand together with the rebound of sales in the end-user market. A clearer picture of tariffs and continuous robust sales of automotive may provide better incentives to the downstream customers to expand the CAPEX, but we are conservative due to the political issues in the US, and policy uncertainties will be the primary factor deterring the manufacturers from investment in the short term.

Potential rebound in gross margin: The gross margin rebounded from 28.1% in 2024 Q2 to 28.8% in 2024 Q3; the higher profit margin in the FAS segment offset the sluggish performance in the ATE segment. The unsatisfied performance in the automotive segment resulted in a terrible profit margin in the ATE segment, and a lower utilization rate in Campus 3 during the initial ramp-up period may further drag the profit margin in 2025 1H. Assuming a pick-up in utilization rate and an amelioration in the automotive segment, we expect that the profit margin will gradually improve in the 2H.

Macro uncertainties remain the primary obstacle: We cut our estimates and downward adjust the TP to HKD 0.75/share to reflect a weaker performance in Q3 and a stagnant outlook in the short term. Although we see few drivers bringing a rebound to the Group, it may take longer time than expected due to the macro uncertainties.

COMPANY UPDATE

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Pentamaster (01665.HK)

Stock Rating BUY (BUY)

Target Price **HK\$ 0.75** (HK\$ 0.95)

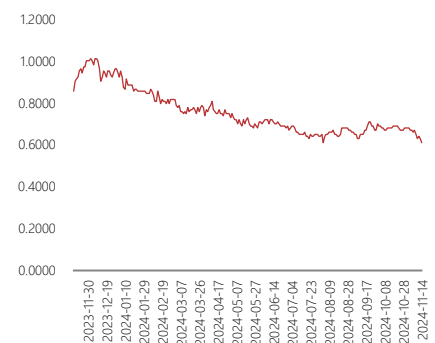
Current Price HK\$ 0.61

52-Week Range HK\$ 0.60 – 1.30

Market cap. (HKD, bn) HK\$ 1.5

MYR, mn	2023 (A)	2024 (E)	2025 (E)	2026 (E)
Revenue	691.9	651.2	735.0	806.2
Gross Profit	209.6	187.3	212.8	249.8
Gross Margin	30.3%	28.8%	29.0%	31.0%
Profit Attr.	142.2	117.7	133.8	161.8
ROE	18.0%	13.1%	13.3%	14.2%

Performance	1 mth	3 mth	6 mth	1 year
Absolute	-10.3%	-9.0%	-15.2%	-30.3%
Relative to HSI	-4.3%	-24.8%	-19.1%	-44.2%



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	30,880.7	76.2	24.2	2.0	2.3	14,697.5	39.3	2.6
COHU.US	Cohu	9,454.5	-	82.5	1.4	2.8	4,981.7	47.6	(5.5)
ROK.US	Rockwell	250,159.2	29.3	30.0	9.2	3.9	64,566.5	38.6	26.9
TER.US	Teradyne	135,590.1	36.5	27.6	6.0	6.1	20,952.4	57.4	19.2
2360.TW	Chroma	42,697.4	38.6	27.2	7.7	8.6	4,691.0	57.6	20.5
6337.JP	Tesec	429.2	9.3	-	0.6	1.2	467.1	44.4	6.5
6503.JP	Mitsubishi	288,050.2	20.1	16.4	1.5	1.1	284,937.1	29.4	7.9
6857.JP	Advantest	348,929.5	63.7	39.9	14.2	11.3	26,364.8	50.6	24.1
6954.JP	Fanuc	204,845.7	28.0	25.6	2.3	5.0	43,097.5	34.7	8.3
300604.CH	Chang Chuan Technology	33,457.1	76.6	-	9.4	9.9	1,962.4	57.1	13.1
688001.CH	HYC Technology	15,118.3	-	38.3	3.7	7.8	2,057.5	54.0	(0.1)
SCHN.FR	Schneider	238,292.1	29.8	27.3	5.8	2.4	100,195.2	71.1	20.3
ABBN.SW	ABB	816,239.1	26.9	20.0	7.4	3.2	252,363.5	34.8	28.4
SIE.GR	Siemens	1,243,100.0	18.2	15.8	3.0	1.9	643,199.6	39.3	17.1
GTB.MK	Globetronics	626.7	13.8	14.5	1.2	2.9	226.5	38.8	8.6
VITRO.MK	VitroX	11,680.4	73.0	-	6.7	12.3	987.9	-	9.4
	<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	1,464.0	6.8	6.6	1.0	1.3	1,188.9	30.3	16.0

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 consumer electronic devices is slow
- Slow progress in the sales of advanced packaging testing equipment
- Low utilization rate

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	651.2	735.0	806.2	PPE	247.1	396.0	522.7	573.1
<i>YoY growth</i>	<i>15.2%</i>	<i>-5.9%</i>	<i>12.9%</i>	<i>9.7%</i>	Others	107.4	100.4	93.1	93.9
COGS	(482.2)	(463.9)	(522.2)	(556.4)	Non-current assets	354.6	496.4	615.8	667.0
Gross profit	209.6	187.3	212.8	249.8	Inventories	190.6	103.5	107.6	140.9
Other income	17.9	12.0	11.9	12.1	Trade receivables	196.3	162.5	168.7	185.1
Operating expenses	(84.5)	(79.4)	(87.8)	(94.4)	Cash & cash equivalents	395.8	391.9	399.3	465.9
Operating profit	143.1	119.9	136.9	167.5	Others	21.8	29.8	32.6	34.2
Finance expenses	-	-	-	-	Current assets	804.5	687.8	708.2	826.1
JV & Ass.	0.0	(0.3)	-	-	Total assets	1,159.0	1,184.1	1,324.0	1,493.1
Profit before tax	143.1	119.6	136.9	167.5	LT borrowings	-	-	-	-
Tax	(0.9)	(1.9)	(3.1)	(5.7)	Others	9.5	10.8	9.8	10.2
Net profit	142.2	117.7	133.8	161.8	Non-current liabilities	9.5	10.8	9.8	10.2
<i>YoY growth</i>	<i>6.7%</i>	<i>-17.2%</i>	<i>13.6%</i>	<i>21.0%</i>	Trade payables	118.0	108.7	114.9	118.5
					ST borrowings	-	-	-	-
					Others	183.6	116.7	130.0	147.7
					Current liabilities	301.6	225.5	244.9	266.2
					Total liabilities	311.1	236.3	254.6	276.4
					Non-controlling interests	-	(0.0)	(0.0)	(0.0)
					Controlling interests	848.0	947.8	1,069.4	1,216.8
					Total equities	848.0	947.8	1,069.4	1,216.8

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	119.6	136.9	167.5	Gross margin	30.3%	28.8%	29.0%	31.0%
Finance expenses	-	-	-	-	Operating margin	20.7%	18.4%	18.6%	20.8%
Finance income	(10.0)	(12.0)	(11.9)	(12.1)	Net profit margin	20.6%	18.1%	18.2%	20.1%
D&A	15.2	13.1	19.6	25.8	Return on Equity	18.0%	13.1%	13.3%	14.2%
Others	1.1	9.7	9.1	7.5	Return on Asset	13.2%	10.0%	10.7%	11.5%
Change in working capital	67.3	31.2	4.8	(30.0)	Current ratio	266.8%	305.0%	289.2%	310.3%
CFO	216.8	161.5	158.4	158.7	Quick ratio	198.8%	259.1%	245.3%	257.4%
					Cash ratio	131.2%	173.8%	163.1%	175.0%
CAPEX	(119.2)	(146.1)	(139.4)	(77.4)	Debt-to-Equity ratio	0.0%	0.0%	0.0%	0.0%
Others	8.7	8.9	11.9	12.1	Net Debt-to-Equity ratio	-46.7%	-41.3%	-37.3%	-38.3%
CFI	(110.5)	(137.1)	(127.5)	(65.3)	Inventory turnover days	136.8	115.7	73.8	81.5
					Receivable turnover days	114.5	100.5	82.2	80.1
Shares issuance	-	-	-	-	Payable turnover days	90.7	89.2	78.2	76.6
Net borrowings	-	-	-	-					
Interest expenses	-	-	-	-					
Dividend paid	(27.6)	(28.3)	(23.5)	(26.8)					
Others	(12.3)	-	-	-					
CFF	(39.9)	(28.3)	(23.5)	(26.8)					
FCFE	97.5	15.5	19.0	81.3					
FCFF	97.5	15.5	19.0	81.3					

Source: Company data, West Bull Securities

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

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