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Running ahead of fundamentals

SELL

(Downgraded)

Rationale for report: Company Result

Price	RM3.9
Target price	RM2.6
52-week High/Low	RM4.62/RM1.86

Key Changes

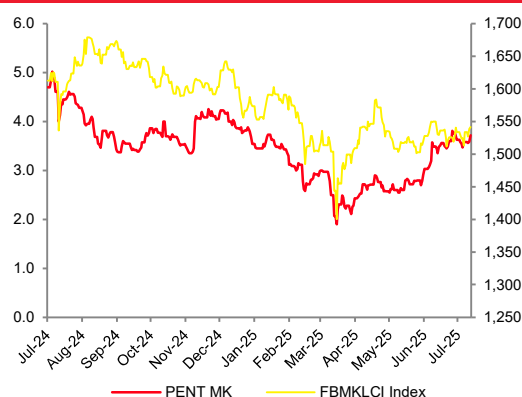
Target price	↓
EPS	↔

YE to Dec	FY24	FY25F	FY26F	FY27F
Revenue (RM mil)	623.0	540.5	599.0	663.4
Core net profit (RM mil)	73.2	63.4	72.3	80.3
FD Core EPS (sen)	10.3	8.9	10.2	11.3
FD Core EPS growth (%)	(23.9)	(13.3)	14.0	11.0
Consensus Net Profit (RM mil)	-	-	-	-
DPS (sen)	2.0	2.0	2.0	2.0
PE (x)	37.2	43.0	37.5	33.9
EV/EBITDA (x)	16.5	20.5	18.4	16.5
Div yield (%)	0.5	0.5	0.5	0.5
ROE (%)	9.0	8.9	10.2	10.4
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	711.3
Market Cap (RMmil)	2,553.6
Book Value (RM/Share)	1.05
P/BV (x)	3.4
ROE (%)	9.0
Net Gearing (%)	-
Major Shareholders	Chuah Choon Bin (19.7%) abrdrn plc (19.7%) EPF (11.0%)
Free Float	56.2
Avg Daily Value (RMmil)	7.0

Price performance	3mth	6mth	12mth
Absolute (%)	34.0	0.6	(10.3)
Relative (%)	34.0	2.9	(10.4)



Investment Highlights

We believe Pentamaster's share price (+34% in 3M) has ran ahead of fundamentals. While new product launches offer promise, we expect a more gradual recovery. Order book has levelled at RM350mil, but needs to grow to RM500-600mil to meet present market expectations. We downgrade the stock to a non-consensus SELL at a higher TP of RM2.60/share (from RM2.45). At a FY26F PE of 37.5x, the stock currently trades at +1sd above its 5-year average.

- Downgrade to SELL.** Rolling forward our valuation base year to capture a 12-months view, we raise our TP from RM2.45 to RM2.60/share. This is based on an unchanged target PE of 24x. We downgrade the stock, as we believe the strong recovery in share price has ran ahead of fundamentals. The stock now trades at a FY26F PE of 37.5x, representing 1sd above its 5-year average.
- Medical devices drag earnings.** 1H25 core earnings fell 27% YoY to RM30mil. This was within ours, but below consensus expectations, forming 49% and 42% of estimates. The decline was due to the medical devices segment, where contributions fell from 45% to 15% of 1H25 revenues.
- Market pricing in peak profits.** Back-solving from current share price and its 5-year average PE of 30x, market is expecting forward earnings of RM92mil. This matches record profits in 2023, when order book averaged at RM550mil.
- More gradual recovery is expected.** Comparatively, order book currently stands at RM350mil (-13% YoY, flat QoQ). From its current level, we estimate order book needs to rise by +57% to meet consensus expectations vs. Am's more conservative growth assumptions of +14%. Although we do anticipate new orders from a large medical device customer, these serve as replenishment orders. Higher US tariffs could also potentially threaten end demand.
- Where we could be wrong?** Upside risks lie in new product momentum. Management has been focusing on new product developments, which could gain traction. This includes advanced wafer AOI (automated optical inspection), HPC (high performance computing) burn in test equipment, silicon photonic wafer prober and X-ray imaging inspection.

EXHIBIT 1: 2Q25 EARNINGS SUMMARY

RMmil	2Q25	2Q24	YoY (%)	1Q25	QoQ (%)	6M25	6M24	YoY (%)
Revenue	145	171	-15.5	132	10.1	276	342	-19.2
Ebitda	30	36	-18.5	27	7.5	59	73	-19.2
Depreciation and amortisation	-7	-5	33.7	-7	3.4	-14	-10	33.9
Ebit	23	31	-27.4	21	8.9	45	62	-28.0
Finance income	2	3	-36.5	2	-0.1	3	6	-44.9
Finance costs	0	0	n.a.	0	n.a.	0	0	n.a.
JV/Associates	0	0	793.3	-1	-65.4	-1	0	313.5
EI	-6	-1	321.8	-1	421.1	-9	-5	75.9
Pbt	18	32	-45.0	20	-13.3	38	63	-39.6
Taxation	0	0	-28.8	0	1.8	-1	-1	-32.0
MI	-6	-12	-51.3	-7	-20.4	-13	-23	-43.1
Patami	12	20	-41.7	13	-9.7	24	39	-37.7
Core Patami	16	21	-23.0	14	17.9	31	43	-27.4
EPS (sen)	1.6	2.8	-41.8	1.8	-11.4	3.5	5.5	-37.1
DPS (sen)	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Profitability ratio (%)								
Ebitda margin	20.4	21.2	-0.8	20.9	-0.5	21.3	21.3	0.0
Ebit margin	15.5	18.1	-2.6	15.7	-0.2	16.3	18.2	-2.0
Pbt margin	12.2	18.7	-6.5	15.5	-3.3	13.7	18.4	-4.6
Tax rate	1.9	1.5	0.4	1.6	0.3	1.7	1.5	0.2
Patami margin	11.1	12.2	-1.1	10.3	0.7	11.2	12.4	-1.3
Revenue breakdown								
Electro-optical	33	25	32.9	27	22.3	60	53	12.3
Consumer and industrial products	17	7	149.6	20	-16.6	37	17	120.3
Semiconductor	12	11	22.0	26	-54.7	38	21	79.9
Automotive	44	51	-14.3	51	-13.6	95	95	-0.2
Medical devices	36	77	-53.8	7	416.7	42	156	-72.7
Renewable energy	4	0	n.a.	0	n.a.	4	0	n.a.
Others	0	0	n.a.	0	-110.7	0	0	n.a.
Automated test equipment								
Revenue	83	70	19.5	96	-13.5	180	143	26.0
Pbt	9	4	122.4	24	-61.9	34	16	113.5
Pat	9	4	147.8	24	-62.7	33	15	125.4
Factory automation solutions								
Revenue	61	102	-39.6	36	68.7	98	199	-51.0
Pbt	17	34	-51.0	5	264.0	21	57	-63.2
Pat	17	34	-51.2	5	263.4	21	58	-63.4
Smart control								
Revenue	0	0	2,100.0	0	n.a.	0	0	-137.3
Pbt	0	-1	-90.4	0	-264.3	0	-2	-97.7
Pat	0	-1	-89.5	0	-348.8	0	-2	-96.1

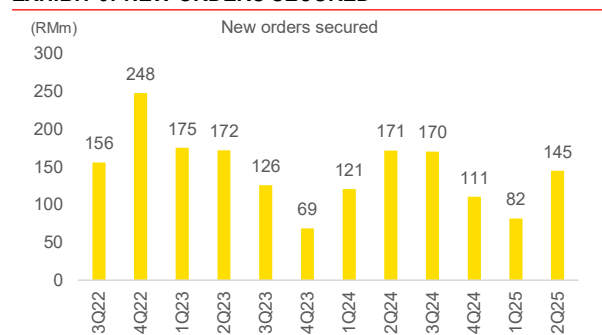
Source: Pentamaster

EXHIBIT 2: ORDER BOOK



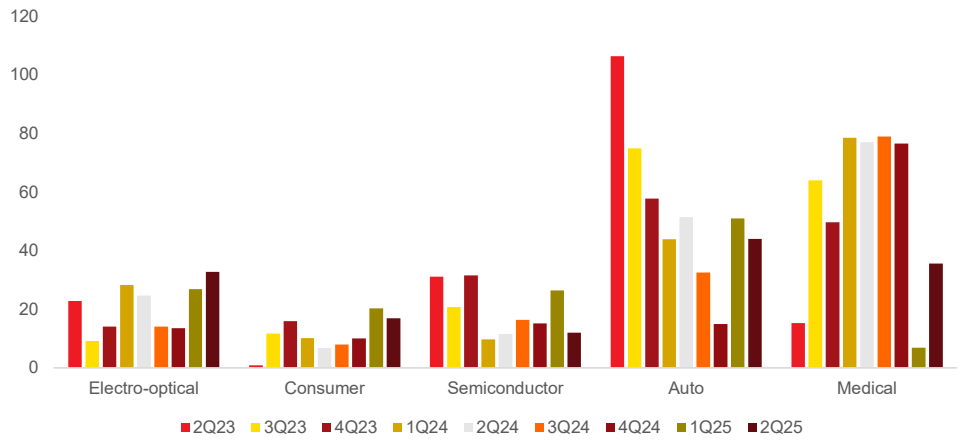
Source: Pentamaster

EXHIBIT 3: NEW ORDERS SECURED



Source: Pentamaster

EXHIBIT 4: REVENUE BY END MARKETS



Source: Pentamaster

EXHIBIT 5: VALUATIONS

Target PE (x) – 1sd below 5-year average	24x
Blended CY26/27 EPS	10.7sen (from 10.2sen)
3-star ESG premium	-
12-month target price	RM2.60 (from RM2.45)

EXHIBIT 6: 5-YEAR FORWARD PE



Source: Bloomberg

Company profile

Pentamaster Corporation Berhad (PCB) is a manufacturer of automated test and factory automation equipment. It serves customers from a broad range of industries, including telecommunications, consumer, semiconductor, automotive and medical.

The group sets itself apart, by being able to offer customised solutions. This allows it to create sticky relationships with customers and also command premium margins.

PCB owns 71% of Pentamaster International Limited, which is its main subsidiary that is listed on the Main Board of The Stock Exchange of Hong Kong.

Mr. Chuah Choon Bin is the Executive Chairman and co-founded Pentamaster in 1991. He is a professional engineer and prior to setting up the group, served as an automation engineer for National Semiconductor and Intel Technology Malaysia.

Demonstrating its adaptability, the group constantly reinvents itself. By anticipating future trends to remain relevant, revenue drivers have evolved over the years from smartphone to automotive to medical devices.

Production facilities are primarily located in Penang, while the group also has sales and technical support offices in the US, Singapore, Japan and Germany.

Investment thesis and catalysts

Slowdown in growth. Order book has plateaued over the past few quarters and a meaningful recovery is not expected until 2H25. Being a forward indicator, share price is primarily driven by order book, which provides a preview of upcoming results.

While medical devices revenues have exhibited strong growth, we expect it to normalise in 2025. Meanwhile, a recovery in automotive revenues is also expected to be more gradual than anticipated.

Proxy to FDIs (foreign direct investments). Medical devices revenues have grown, partly driven by FDIs into Malaysia, where it currently serves a blood glucose monitoring customer. As MNCs set up their factories in Malaysia, the group's factory automation solutions segment is a capex beneficiary. Building on its expertise, the group has expanded its customer base to more than five medical devices customers now.

Held back by overcapacity in SiC (silicon carbide) sector. One of the group's flagship products is its wafer level burn in systems, catering for SiC power devices. An EV slowdown and a previous rush to expand capacity has resulted in overcapacity in the SiC sector. This is amplified by geopolitical tensions, causing customers to be more cautious and delaying expansion plans.

Valuation methodology

We value Pentamaster at a target PE of 24x and blended CY26/27 EPS, to capture a 12-month forward view. Our target PE is based on one standard deviation below the group's 5-year average.

We think this is appropriate, until the group is able to secure new concrete revenue growth drivers. We expect medical devices revenue growth to normalise, coupled with a more gradual recovery for its automotive revenues.

Risk factors

Being a capex beneficiary, revenue growth is contingent on its customer's expansion plans. As customers cannot expand perpetually and usually need time to digest new capacity, it is important that Pentamaster maintains a large customer base and continues to source for new customers.

Currently, the group's revenues are mainly exposed to medical devices and SiC. Hence, any developments relating to both these industries could impact the outlook of the group.

Another key risk is currency, where we estimate, every 1% increase/decrease in the USD/MYR rate increases/decreases earnings by 3%.

EXHIBIT 1: ESG RATING

	Environmental assessment	Parameters	Weightage	Rating					Rationale
1	Scope 1 GHG Emissions	Co2e reduction	25%	*	*	*			13% increase in 2022
2	Scope 2 GHG Emissions	Co2e reduction	15%	*	*	*			2% increase in 2022
3	Air, noise & water quality	% reduction in water withdrawal from municipal suppliers	25%	*	*	*			8% decrease in 2022.
4	Minimise hazardous waste generation	kg	20%	*	*	*			64% decrease in 2022.
5	Minimise non-hazardous waste generation	kg	15%	*	*	*			8% increase in solid waste in 2022
	Weighted score for environmental assessment		100%	*	*	*			
	Social assessment								
1	Employee turnover	No of workforce changes	25%	*	*	*			14% in 2022
2	Health, safety & well-being	Recorded injuries	25%	*	*	*	*	*	zero cases
3	Women in workforce	% of total workforce	25%	*	*				18% in workforce
4	Investment in employee training	RM	25%	*	*	*	*		RM0.4mil - 5x increase in 2022
	Weighted score for social assessment		100%	*	*	*			
	Governance assessment								
1	Board age diversity	% under 60 years old	15%	*	*	*	*		83%
2	Board women representation	% of total board directors	15%	*	*	*			33% representation
3	Directors with tenure below 6 years	% below 6 years category	15%	*	*	*			33%
4	Independent board directors	% of total board directors	15%	*	*	*			33% - independent non-exec
5	Remuneration to directors	% of total staff costs	20%	*	*	*			RM4mil - 5% of 2022 staff costs
6	Corruption investigations	Confirmed incidents	20%	*	*	*	*	*	zero cases
	Weighted score for governance assessment		100%	*	*	*			
	Environmental score		40%	*	*	*			
	Social score		30%	*	*	*			
	Governance score		30%	*	*	*			
	Overall ESG Score		100%	*	*	*			

EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	691.9	623.0	540.5	599.0	663.4
EBITDA	157.4	127.4	113.1	123.6	135.0
Depreciation/Amortisation	(17.7)	(21.6)	(23.9)	(24.7)	(25.6)
Operating income (EBIT)	139.6	105.8	89.2	98.8	109.5
Other income & associates	-	(0.6)	-	-	-
Net interest	13.0	12.8	6.9	5.1	6.0
Exceptional items	(11.2)	(12.6)	-	-	-
Pretax profit	141.4	105.4	96.0	104.0	115.4
Taxation	(1.0)	(1.5)	(1.9)	(2.1)	(2.3)
Minorities/pref dividends	(51.3)	(38.7)	(30.7)	(29.5)	(32.8)
Net profit	89.1	65.2	63.4	72.3	80.3
Core net profit	96.2	73.2	63.4	72.3	80.3
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Fixed assets	282.0	457.3	487.0	515.6	542.9
Intangible assets	44.6	40.8	37.2	33.9	31.0
Other long-term assets	63.6	46.0	46.0	46.0	46.0
Total non-current assets	390.2	544.2	570.2	595.5	619.9
Cash & equivalent	490.9	448.7	237.6	275.2	322.4
Stock	190.6	121.8	141.2	156.5	173.3
Trade debtors	241.4	230.6	210.8	233.6	258.7
Other current assets	4.8	6.5	6.5	6.5	6.5
Total current assets	927.7	807.6	596.1	671.8	761.0
Trade creditors	162.5	195.4	123.4	136.7	151.4
Short-term borrowings	-	-	-	-	-
Other current liabilities	140.3	62.0	62.0	62.0	62.0
Total current liabilities	302.8	257.3	185.3	198.7	213.4
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	9.5	13.4	13.4	13.4	13.4
Total long-term liabilities	9.5	13.4	13.4	13.4	13.4
Shareholders' funds	699.4	748.0	681.9	740.1	806.2
Minority interests	306.1	333.0	285.7	315.3	348.1
BV/share (RM)	0.98	1.05	0.96	1.04	1.13
Cash Flow (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	141.4	105.4	96.0	104.0	115.4
Depreciation/Amortisation	17.7	21.6	23.9	24.7	25.6
Net change in working capital	68.5	5.0	(71.6)	(24.8)	(27.2)
Others	(11.7)	6.4	(8.8)	(7.2)	(8.3)
Cash flow from operations	215.9	138.4	39.6	96.7	105.5
Capital expenditure	(116.1)	(154.9)	(50.0)	(50.0)	(50.0)
Net investments & sale of fixed assets	(8.0)	3.8	(95.9)	-	-
Others	7.3	5.6	6.9	5.1	6.0
Cash flow from investing	(116.7)	(145.6)	(139.0)	(44.9)	(44.0)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	6.8	-	-	-	-
Dividends paid	(14.2)	(14.2)	(111.6)	(14.2)	(14.2)
Others	(9.9)	(10.4)	-	-	-
Cash flow from financing	(29.7)	(32.6)	(111.6)	(14.2)	(14.2)
Net cash flow	69.4	(39.7)	(211.1)	37.6	47.2
Net cash/(debt) b/f	421.2	490.9	448.7	237.6	275.2
Net cash/(debt) c/f	490.9	448.7	237.6	275.2	322.4
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	15.2	(10.0)	(13.2)	10.8	10.8
EBITDA growth (%)	10.3	(19.1)	(11.2)	9.3	9.3
Pretax margin (%)	20.4	16.9	17.8	17.4	17.4
Net profit margin (%)	12.9	10.5	11.7	12.1	12.1
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	0.7	1.5	2.0	2.0	2.0
Dividend payout (%)	16.0	21.8	176.0	19.7	17.7
Debtors turnover (days)	142	138	149	135	135
Stock turnover (days)	95	92	89	91	91
Creditors turnover (days)	83	105	108	79	79

Source: Company, AmInvestment Bank Bhd estimates

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