



Pantech Group Holdings Bhd

“Ride on robust demand”

Bloomberg: PGHB MK | Reuters: PNTE.KL | Stock Code: 5125

Main Board

Industrial Products

BUY

TP: RM0.930

Price: RM0.630

Initiated Price: RM0.595

Valuation / Recommendation

Results were above expectations, achieving 70.4% and 75.3% of our full year revenue and profit forecasts for FY23 respectively due to higher local oil and gas demand and robust export demand for carbon and stainless steels.

We revise our FY23F, FY24F revenue and profit forecasts upward by 3.8-27.5% and 1.0-26.2% and maintain a BUY recommendation on Pantech with a revised TP of RM0.930 based on FY23F EPS 9.9 sen and PE of 9.4x in line with the 5-years average. We like the stock due to its attractive dividend yield, and cheap valuations. The target price represents a potential return of 47.6% over the current price.

Investment Highlights

Key catalyst was from the manufacturing and trading division, contributing 51.3% and 48.7% to total revenue for the current quarter. Deliveries to local oil and gas sector were higher.

Results were stronger due to better product mix, and increased export demand supported by the reopening of the economy and waning impact from the Covid-19 pandemic. We noticed that nickel, which is a major raw material utilised by Pantech had decreased in price resulting in lower ASP for their products.

Oil & Gas (O&G) sector a growth driver. Petronas had allocated 20% of planned capex over the next 5 years from FY22. This suggests a positive industry outlook, potentially adding tally to the Group’s current order book of RM400m as of 1st October 2022, expected to be fully recognised within 9 months to 1.5 years. With more than 70% of the Group’s earnings derived from this sector, Pantech is in the right position to benefit from the capex cycle. Approximately 40% of the revenue from this sector comes from the maintenance of pipes, valves, and fittings (PVF), suggesting a strong recurring income.

Expect higher contributions from the palm oil industry. Pantech supply PVFs to the palm oil industry. We think that more contracts could be secured from the palm oil industry on the back of strong palm oil prices. We expect contributions from this segment to the company’s revenue to increase to 20% for FY23, up 4% from FY21. With more than 30,000 stock keeping units (SKUs), the company is better positioned to meet rising customer demands.

Dividend. A second interim single tier dividend of 1.5 sen per share was declared, ex on 29th Dec 2022. (FY22 – 4.0 sen, 2Q21 – 1.0 sen, FY21 – 1.8 sen)

Risk factor. Key risks include fluctuation of steel and nickel prices, labour shortage, and slower-than-expected contract flow.

INVESTMENT STATISTICS	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM m)	602.5	486.3	753.2	978.3	812.7
EBITDA	74.7	60.8	120.6	154.6	135.0
PATMI	36.0	26.5	71.8	96.2	81.0
EPS (sen)	4.4	3.2	8.7	11.7	9.9
EPS Growth (%)	-25.0	-26.5	171.1	34.0	-15.7
BV Per Share (sen)	80.2	82.1	91.8	99.2	104.9
PE (x)	17.0	23.1	8.5	6.4	7.5
Dividend Yield (%)	2.9	1.7	4.5	7.4	6.3
Net Gearing (%)	Net Debt	Net Debt	Net Debt	Net Cash	Net Cash
ROA (%)	4.0	2.9	6.1	7.6	6.6
ROE (%)	5.5	3.9	9.5	11.8	9.4

Sources: Mercury Securities, Company

RESULTS (RM m)	2Q23	1Q23	qoq %	2Q22	yoy %
Revenue	270.0	270.8	-0.3	136.5	97.8
Operating costs	228.3	234.5	-2.6	118.0	93.5
Other income	1.8	1.9	-5.3	3.3	-45.5
Profit from operations	43.5	38.1	14.2	21.7	100.5
Interest expense	2.3	1.8	27.8	1.6	43.8
Associate	0.1	0.1	-	0.1	-
Exceptionals	-	-	-	-	-
Pretax profit	41.4	36.5	13.4	20.3	103.9
Tax	10.5	10.1	3.9	4.9	114.3
Minority interest	-	-	-	-	-
Net profit	31.0	26.4	17.4	15.3	102.6
Core net profit	31.0	26.4	17.4	15.3	102.6
EPS (sen)	3.8	3.2	18.8	2.0	90.0
Core EPS (sen)	3.8	3.2	18.8	2.0	90.0

Business Overview

Pantech Group Holdings Bhd manufactures and markets steel products. The company produces butt-welded carbon steel elbows, tees, reducers, end caps, long bends, and flow control products used in pipelines, refineries, processing plants, and marine vessels.

Stock Return Information

KLCI (pts)	1,399.38
Expected Share Return (%)	47.6
Expected Dividend Yield (%)	6.3
Expected Total Return (%)	53.9

Price Performance

	1M	3M	12M
Absolute (%)	-7.4	12.5	-1.6
Relative to Index (%)	-3.8	14.6	11.3

Share Information

Market Cap (RM m)	517.4
Issued Shares (m)	821.3
52W High (RM)	0.765
52W Low (RM)	0.495
Estimated Free Float (%)	44.2
Beta vs FBM KLCI	1.20
3-month Average Vol. (m)	52.0

Top 3 Shareholders (%)

CTL Capital Holdings Sdn Bhd	18.78
GI Management Agency Sdn Bhd	12.45
Hong Leong Co Malaysia Bhd	3.42

Sources: Mercury Securities, Company, Bloomberg

Ronnie Tan

ronnie-tan@mersec.com.my



Sources: Mercury Securities, Company



PROFIT & LOSS (RM m) FY Feb	FY20A	FY21A	FY22A	FY23F	FY24F
Net Revenue	602.5	486.3	753.2	978.3	812.7
Gross Profit	126.6	110.1	186.7	242.2	203.3
Other Operating Income	6.4	4.1	5.3	4.9	4.1
EBIT	56.4	41.6	101.4	133.9	113.3
Operating and Administrative expenses	76.9	69.5	88.6	115.4	95.9
Interest income	1.1	1.1	1.6	2.2	1.9
Profit from operations	56.2	44.6	96.9	131.6	111.4
Interest Expense	10.3	5.6	4.7	7.4	6.7
Profit Before Tax	46.0	36.0	96.7	126.5	106.6
Exceptional Items	-	-	-	-	-
Taxation	10.0	9.5	25.0	30.4	25.6
Profit After Tax (PATMI)	36.0	26.5	71.8	96.2	81.0
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	36.0	26.5	71.8	96.2	81.0
BALANCE SHEET (RM m) FY Feb	FY20A	FY21A	FY22A	FY23F	FY24F
Cash & Equivalents	86.1	135.1	178.6	224.3	260.9
Trade and other receivables	124.0	105.6	229.1	217.1	233.2
Inventories	305.3	289.1	400.8	455.7	347.4
Other current assets	39.2	27.6	12.0	11.3	11.1
Current Assets	554.6	557.3	820.5	908.3	852.5
Property, plant & equipment	343.5	330.8	321.2	332.1	356.2
Other non-current assets	10.9	19.2	27.9	22.4	20.5
Non-Current Assets	354.4	349.9	349.1	354.5	376.7
Short term borrowings	129.8	121.5	187.5	206.2	175.3
Trade and other payables	38.3	34.7	150.0	175.0	132.6
Other current liabilities	8.3	10.1	12.7	4.0	3.5
Current Liabilities	176.3	166.3	350.2	385.3	311.4
Long term borrowings	48.5	41.5	32.5	39.0	46.8
Other non-current liabilities	25.3	24.9	32.5	23.8	18.3
Non-current Liabilities	73.8	66.5	65.0	62.8	65.1
Share capital	209.9	210.3	258.9	258.9	258.9
Retained profits	360.9	383.3	429.9	487.6	536.2
Other equity	88.1	80.8	65.3	68.3	66.7
Total Equity	658.9	674.4	754.1	814.9	861.8
CASH FLOW (RM m) FY Feb	FY20A	FY21A	FY22A	FY23F	FY24F
Profit before tax	46.0	36.0	96.7	126.5	106.6
Depreciation & amortization	18.3	19.2	19.2	20.7	21.7
Other operating cashflow	3.0	4.8	1.8	1.5	1.5
Interest income	-1.1	-1.1	-1.6	-1.6	-1.6
Interest expense	9.6	5.6	4.7	7.4	6.7
Operating profit before working capital changes	75.8	64.5	120.9	154.6	135.0
Changes in working capital	72.0	40.7	-105.0	-17.6	49.9
Cashflow from operations	147.8	105.2	15.9	137.0	184.9
Purchase of PPE	-12.0	-4.3	-7.7	-12.0	-12.0
Other investing cashflow	-2.1	-9.8	-9.8	0.0	0.0
Interest received	1.1	1.1	1.6	2.2	1.9
Cashflow from investing	-13.1	-13.0	-16.0	14.2	13.9
Dividend paid	-15.0	-9.7	-23.2	-38.5	-32.4
Proceeds from issuance of share capital	1.3	0.3	39.2	0.0	0.0
Other financing cashflow	-60.2	-21.3	47.0	86.5	35.1
Interest paid	-9.6	-5.6	-4.7	-7.4	-6.7
Cashflow from financing	-83.5	-36.3	58.3	40.6	-4.0

Sources: Mercury Securities, Company

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Registration No. 198401000672 (**113193-W**)

L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur

Telephone: (603) - 6203 7227 Website: www.mercurysecurities.com.my

Email: mercurykl@mersec.com.my