

Pantech Group Holdings Bhd

“Better earnings ahead”

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

Main Board
Industrial Products
BUY
TP: RM0.720
Price: RM0.595

Valuation / Recommendation

We initiate coverage on Pantech with a BUY recommendation with a TP of RM0.720 based on FY23F EPS 6.9 sen and PE of 10.4x in line with the 5-years average, on the premise of 2-year CAGR forward earnings of 37.8%, and cheap valuations.

Investment Highlights

Distinct value proposition. Pantech is an established one-stop provider of pipes, valves, and fittings (PVF) and provides total solutions for fluid and gas transmission system. The Group has more than 500 customers (Major Customer : Petronas, Shell, Exxon, etc), and exports to a total of 69 countries worldwide where 60% of sales are derived domestically while 40% are from exports.

Oil & Gas (O&G) sector a growth driver. Petronas’s increased annual capex allocations from 5% to 9% suggesting a positive industry outlook, potentially adding tally to the Group’s current order book of RM550m. With more than 50% of the Group’s earnings derived from this sector, Pantech is in the right position to benefit from the capex cycle.

Rising contributions from the palm oil industry. Pantech supplies oil pipes, valves, and flanges (PVFs) to the palm oil industry. We think that more contracts could be secured from the palm oil industry moving forward. The company has more than 30,000 stock keeping units (SKU), better positioned to meet rising customer demands. Revenue contributions from the palm oil industry increased from 7% (FY17) to 16% (FY21) and is expected to hit 20% by FY23.

Experienced management team. The Group is currently managed by 3 key individuals who is responsible for the Group’s success which is Chairman & Group MD Dato’ Chew Ting Leng and Deputy MD Dato’ Goh Teoh Kean, both having more than 30 years of experience in the PVF solutions industry. Together with Executive Director Adrian Tan, who is also MD for various subsidiaries (Pantech Steel Industries, Pantech Stainless & Alloy Industries, Nautic Steels).

Risk factor. Key risks include fluctuation of steel prices and demand of steel products, labour shortage, and slower-than-expected contract flows.

INVESTMENT STATISTICS	FY19	FY20	FY21	FY22F	FY23F
Revenue (RM m)	609.2	602.5	486.3	621.0	633.4
EBITDA (RM m)	88.3	74.5	63.9	91.3	96.3
EBITDA Margin (%)	14.5	12.4	13.1	14.7	15.2
Pre-tax Profit (RM m)	60.8	45.8	39.1	63.0	67.6
PATMI	47.5	35.8	29.5	50.9	56.0
EPS (sen)	5.8	4.4	3.6	6.3	6.9
EPS Growth (%)	3.9	-24.6	-17.5	72.4	10.0
Diluted EPS (sen)	5.8	4.4	3.6	6.3	6.9
Dividend Yield (%)	2.8	4.3	2.9	4.4	4.2
BV Per Share (sen)	73.3	81.4	83.5	82.2	83.5
PE (x)	10.4	13.8	16.7	9.7	8.8
Net Gearing (%)	28.6	13.6	3.7	9.1	7.4
ROA (%)	5.3	3.9	3.3	5.5	6.0
ROE (%)	8.0	5.4	4.4	7.6	8.3

Sources: Mercury Securities, Company

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)	1,544.33
Expected Share Return (%)	21.0
Expected Dividend Yield (%)	4.4
Expected Total Return (%)	25.4

Share Information

Market Cap (RM m)	474.8
Issued Shares (m)	811.6
52W High (RM)	0.660
52W Low (RM)	0.380
Estimated Free Float (%)	45.6
Beta vs FBM KLCI	1.19
3-month Average Vol. (m)	108.5

Top 3 Shareholders (%)

CTL Capital Holdings Sdn Bhd	17.54
GL Management Agency Sdn Bhd	12.60
Lee Keng Hong	8.13

Price Performance

	1M	3M	12M
Absolute (%)	10.4	12.5	36.1
Relative to Index (%)	6.2	11.6	39.0



Source: Bloomberg

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RESULTS (RM m) FY Feb	2Q22	1Q22	qoq %	2Q21	yoy %	Comments
Revenue	136.5	148.5	-8.1	136.3	0.1	
Cost of sales	118.0	130.2	-9.3	121.2	-2.6	
Gross profit	18.5	18.3	0.6	15.1	22.3	
Other operating income	3.3	1.7	97.6	0.3	943.5	
Administrative expenses	0.0	0.0	-	0.0	-	
Profit from operations	21.7	20.0	8.6	15.4	41.1	
Finance cost	1.6	1.5	6.9	1.9	-15.3	
Pretax profit	20.3	18.6	8.7	13.5	49.8	
Tax	5.0	3.5	43.6	2.8	76.9	
Profit after tax	15.3	15.2	0.8	10.7	42.8	
Minority interest	0.0	0.0	-	0.0	-	
PATMI	15.3	15.2	0.8	10.7	42.8	
Extraordinary losses (gains)	0.0	0.0	-	0.0	-	
Core net profit	15.3	15.2	0.8	10.7	42.8	
EPS (sen)	2.0	2.0	0.5	1.4	40.3	
Core EPS (sen)	2.0	2.0	0.5	1.4	38.2	

Sources: Mercury Securities, Company



Source: Bloomberg



MERCURY SECURITIES SDN BHD
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PROFIT & LOSS (RM m) FY Feb	FY19A	FY20A	FY21A	FY22F	FY23F
Net Revenue	609.2	602.5	486.3	621.0	633.4
Gross Profit	139.7	126.6	110.1	143.9	147.1
Other Operating Income	7.9	6.4	4.1	6.2	5.6
Depreciation & Amortisation	17.0	18.3	19.2	19.1	19.8
EBIT	71.3	56.2	44.6	72.2	76.4
Operating & Administrative Expenses	77.0	76.9	69.5	77.9	76.3
Interest Income	0.0	0.0	0.0	0.0	0.0
Profit from Operations	70.6	56.2	44.6	72.2	76.4
Interest Expense	10.5	10.3	5.6	9.2	8.8
Profit Before Tax	60.8	45.8	39.1	63.0	67.6
Exceptional Items	-	-	-	-	-
Taxation	13.3	10.0	9.5	12.1	11.6
Minority Interests	0.0	0.0	0.0	0.0	0.0
Profit After Tax (PATMI)	47.5	35.8	29.5	50.9	56.0
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	47.5	35.8	29.5	50.9	56.0
BALANCE SHEET (RM m) FY Feb	FY19A	FY20A	FY21A	FY22F	FY23F
Cash & Equivalents	51.2	88.7	137.7	130.7	130.7
Trade Debtors	129.8	111.3	94.8	117.5	113.3
Inventories	356.3	305.3	289.1	303.5	308.7
Other Current Assets	65.3	49.3	34.6	36.4	38.2
Current Assets	602.5	554.6	556.2	588.1	590.8
Fixed Assets	276.8	344.1	340.9	336.6	337.6
Other Non-Current Assets	6.0	4.0	2.8	2.9	3.0
Non-Current Assets	289.1	354.4	349.9	345.8	346.8
Short-term Debt	177.5	129.8	121.5	144.4	133.2
Trade Payables	56.4	40.8	40.8	48.3	45.5
Other Current Liabilities	0.3	2.9	0.0	0.0	0.0
Current Liabilities	251.6	176.3	165.3	196.2	182.7
Lease Liabilities	5.1	10.8	10.3	10.5	12.6
Other Non-Current Liabilities	4.8	14.5	14.6	13.6	17.1
Non-current Liabilities	53.6	73.8	66.5	70.9	77.6
Other Reserves	24.2	74.2	75.3	79.1	83.0
Share Capital	223.0	224.7	217.6	217.6	217.6
Total Equity	594.8	660.7	678.0	666.8	677.4
CASH FLOW (RM m) FY Feb	FY19A	FY20A	FY21A	FY22F	FY23F
Profit from operations	70.6	56.2	44.6	72.2	76.4
Depreciation & amortization	17.0	18.3	19.2	20.2	21.2
Taxes	13.3	10.0	9.5	12.1	11.6
(Inc) Dec in Inventories	-82.6	48.9	15.9	-40.3	-43.4
(Inc) Dec in Receivables	0.0	0.0	0.0	0.0	0.0
Inc/(Dec) in Payables	-16.0	23.1	24.8	7.1	10.1
Change in working capital	-66.6	25.8	-8.9	-47.4	-53.5
Cashflow from operations	-64.3	182.3	105.2	23.9	22.4
Acquisition of fixed & intangible assets	-20.3	-15.3	-14.2	-3.6	-11.0
Other investing activities	-13.8	0.0	0.0	-12.6	0.0
Cashflow from investing	-34.1	-15.3	-14.2	-16.2	-11.0
Debt raised/(repaid)	62.7	-59.0	-18.3	-13.8	-14.5
Shares repurchased	-2.8	0.8	-3.4	7.8	8.2
Dividends paid	-11.1	-15.0	-9.7	-9.7	-10.2
Other financing cashflow	0.0	0.0	1.5	44.8	1.7
Cashflow from financing	48.8	-73.2	-30.0	29.1	-14.8

Sources : Mercury Securities, Company

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