CORPORATE

Pentamaster rides on solid demand

Firm poised to make strong comeback this year

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WITH solid orders in hand, especially for higher-margin semiconductor and smartphone-related products, Pentamaster Corp Bhd seems to be well-positioned to make a comeback this year.

The cash-rich Penang-based company has already begun its financial year 2021 with a 15% jump in sales in the first quarter (Q1), although it was not spared from the sector-wide margin pressure.

The earnings trajectory in the coming quarters is expected to be boosted by Pentamaster's robust order book worth over RM230mil.

Pentamaster's current order book size, according to UOB Kay Hian Malaysia Research, is 18% higher than the normal range last year.

The company has seen stronger order intakes since the beginning of 2021, on the back of improving albeit uneven sentiment for the equipment market, following the roll-out of Covid-19 vaccinations globally.

Not only that, the company also benefits from the ongoing semiconductor industry "supercycle" as market demand exceeds global supply.

Late last month, the Semiconductor Industry Association announced that worldwide sales of semiconductors in Q1 of 2021 rose by almost 18% year-on-year (y-o-y) to US$123.1bil (RM507.85bil).

UOB Kay Hian Malaysia Research believes that "the light is at the end of the tunnel" for Pentamaster and it expects the group's earnings in 2021 to grow by 35%.

"The year 2020 was a washout period for the group due the worldwide travel restrictions alongside the movement control order (MCO) disruptions in Malaysia.

"We believe the worst could have been fully captured in 2020, and the group has already gradually resumed cross-border travelling for its project site installation, but on a more constrained basis," it said in an earlier note.

In financial year 2020 ended Dec 31 (FY20), Pentamaster suffered its first annual decline in net profit since the company turned profitable seven years ago.

Net profit dropped 14.6% y-o-y to RM70.9mil, against another 14.6% fall in revenue to RM418.8mil.

Sales to the electro-optical segment, or previously known as the telecommunications segment, dragged down the full-year turnover, although sales to other key segments such as semiconductor, automotive, medical devices as well as consumer and industrial products all staged double-digit revenue growth on a y-o-y basis.

It is noteworthy that the electro-optical segment contributed almost 43% to the group's overall revenue in FY20.

Pentamaster began its FY21 with a 4.2% y-o-y drop in net profit to RM16.07mil in Q1, although revenue surged 15% y-o-y to RM115.2mil.

The higher cost of goods sold, administrative expenses and distribution costs have weighed on the bottomline despite the group's stronger turnover.

Nevertheless, Pentamaster's smart sensor test equipment and solutions, particularly those supplied to the electro-optical and semiconductor segments, have led to higher revenue.

Meanwhile, the group said that its proprietary i-ARMS (intelligent Automated Robotic Manufacturing System) solutions have received robust demand as more industries and companies adopt industry automation.

Additionally, Pentamaster's automated assembly solutions for single-use medical devices also contributed to the higher Q1 revenue.

Sales to the automotive segment contributed less than 10% to the group's revenue in Q1, given the automotive industry-wide production disruption from the microchip shortage situation.

Nevertheless, Pentamaster believes that sales to the automotive segment will see structural growth in the medium term as the chips shortage is addressed.

Looking ahead, CGS-CIMB Research expects Pentamaster to register stronger sales and profit after tax in Q2, building on the performance seen in Q1.

The stronger performance in Q2 is expected to be driven by Pentamaster's insulated-gate bipolar transistor (IGBT) and 3D-magnetometer sensor solutions, targeted at the electric vehicle and smartphone markets.

"We keep our earnings forecasts.

"Easing travel restrictions, stronger earnings contribution from the automotive and medical segments and the United States Food and Drug Administration (FDA) approval for new medical consumables are potential re-rating catalysts.

"Meanwhile, delays in the FDA approval for new medical consumables and further deferment in order fulfillment due to a prolonged Covid-19 pandemic and material shortages are key downside risks," stated CGS-CIMB Research.

The research house has maintained its "add" view on Pentamaster, with an unchanged target price of RM5.85 per share.

AmInvestment Bank Research, which has a "hold" call on the stock, says it continues to like Pentamaster, but believes that the stock is fairly valued at the current price.

It says that Pentamaster's positive prospects are driven by the growth in its automated test equipment segment, underpinned by the sustained growth for smart sensors and the upcoming 3D sensing technology wave, tied to the telecommunications and automotive sectors.

> ***"Pentamaster's order book continues to be robust with growth in the electro-optical segment due to increasing demand for smart sensors and the rollout of 5G."***
>
> AmInvestment Bank Research

In addition, the growth in its factory automation solutions (FAS) segment supported by adoption of Industry 4.0 and the portfolio diversification efforts across market segments and expansion of customer base, are key positives for the group.

"Pentamaster's order book continues to be robust with growth in the electro-optical segment due to increasing demand for smart sensors and the rollout of 5G, while the automotive segment is expected to expand in the medium term.

"The group will continue to closely monitor the global supply chain constraints, ensuring timely delivery of its customer commitments and has taken steps to mitigate risks by maintaining visibility in orders with its customers.

"We still anticipate Pentamaster to show growth in FY21 compared to pre-pandemic FY19," according to AmInvestment Bank Research.

The research house also noted that Pentamaster has earmarked RM60mil over three years for its subsidiary, Pentamaster MediQ, which is involved in manufacturing single-use medical devices.

The subsidiary is currently in the research and development stage to develop the prototype for its safety intravenous catheter and safety pen needle.

The group expects to see maiden revenue contribution from Pentamaster MediQ in the second half of FY22.

By FY23, the subsidiary is projected to contribute 30% to Pentamaster's overall revenue.

Pentamaster has also set aside RM25mil to expand the production space at its Batu Kawan and Bayan Lepas factories in 2021. The group is currently looking out for its third plant in Batu Kawan to cater to the boost in its FAS segment in the years ahead.

With almost RM430mil cash in its coffers, Pentamaster is well-positioned to spend for capital expenditure as it seeks to capture more sales in its key operating segments.

FINANCE

Weighing the need for a reverse mortgage

By JOY LEE
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RETIREMENT savings have been put in the spotlight for some time now.

The percentage of the population aged 65 and above in Malaysia has hit 7.5% and is predicted to make up 14% of the population by 2044.

However, many seem ill-prepared for retirement. Reports note that 54% of Employees Provident Fund (EPF) contributors aged 54 have less than RM50,000 set aside for retirement. What's more, 70% of contributors who withdraw their funds at age 55 use up their savings in less than a decade after retiring.

The recent measure to allow members to dip into their already inadequate EPF savings may also exacerbate the risk of low savings at retirement. As of March 14, i-Sinar withdrawals of RM52.48bil had been approved for 5.94 million applicants.

Given the current scenario, there may be a need to look at other avenues to supplement the expenditure of retirees.

Over the past decade, many developed countries have used home equity release as a tool to help the elderly cope with the rising cost of living. Given that real estate makes up the largest single asset of any family, Cagamas Bhd president and chief executive officer Datuk Chung Chee Leong opines that monetising the equity portion of their home could be a way to help elderly people who do not have enough savings.

Additional income: People lining up to submit their i-Sinar application at an EPF branch. Inadequate EPF savings calls for a need to look at other avenues like reverse mortgages to supplement the expenditure of retirees.

"I think the first reaction for many old people is to keep the house for their children. But over the years, you find that products like these have become more popular because people now realise, if they don't have enough to spend, what can they do? One of the ways is to monetise the house because they can't go back to working," he says.

On that front, Cagamas is looking to launch its reverse mortgage scheme later this year to address income insecurity for seniors.

A reverse mortgage allows an elderly homeowner to take out a loan using his or her primary residence as a collateral. In return, they receive a steady stream of disbursement on a monthly basis while still being allowed to stay in the home.

The repayment of the loan, inclusive of interest, generally only occurs after the death of the homeowner, or when they move out or sell the house.

In this case, the next of kin may opt to repay the loan and take back the property or the property will be sold for recovery purposes.

If the house sells for more than the amount owed, the homeowner or heirs will receive the balance. But if the house sells for less than the amount owed, Chung says the losses will be borne by the guarantor – in this case, Cagamas.

For those in their advanced years who are asset-rich but have challenges with cash flow, this may be an additional lifeline that they can tap into.

But is a reverse mortgage really the way to go?

Notably, it is difficult to get an accurate projection when it comes to reverse mortgages. Property values will vary over the years and an individual's lifespan is unpredictable. This may lead to some lost opportunity to sell the property at a higher value or increases in cost from accumulated interest and fees if the homeowner lives longer.

Also, this would mean that the borrower will no longer be able to pass on the property as an inheritance to their heir – a tradition long-held in most Asian countries. If the next of kin intends to keep the property within the family, they will, instead, have to bear the debt from the loan.

The product itself may come across as complex and confusing for the elderly and there are, obviously, concerns that they may be taken advantage of. One can look up enough horror stories on reverse mortgages and the risk of foreclosures.

But Chung notes that its scheme has been designed to help safeguard retiree interest.

"The good thing about this is that it's a lifetime tenure. So if your property is worth RM2mil, for example, and Cagamas or the bank has already disbursed RM2mil over a period of time, they will still have to continue

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