Pentamaster conserving cash to grow smart control business

BY LIEW JIA TENG


SAM FONG/THE EDGE

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Penang-based technology firm Pentamaster Corp Bhd has been building a war chest since floating the shares of its 63%-owned automated solutions arm Pentamaster International Ltd (PIL) on the Main Board of the Hong Kong Exchanges and Clearing Ltd (HKEX) in January last year.

As at Dec 31, 2018, it had net cash of RM321 million. However, co-founder and chairman Chuah Choon Bin has no intention of taking Pentamaster on a spending spree.

"We have come a long way ... [to now] becoming cash rich. Thus, this cash should be reinvested in the group for its operational activities or business expansion," he tells *The Edge* on the sidelines of the Invest Malaysia 2019 forum.

The company is also keeping part of the cash to grow its up-and-coming third business segment, called smart control, via its wholly-owned subsidiary, Pentamaster Smart Solution Sdn Bhd.

"Today, everyone is talking about smart warehouse, smart delivery and smart logistics. These are some of the most important vehicles for e-commerce. If your warehouse is not fully automated, then the data of all your transactions will not be fully synergised with the warehouse solution and end-customers," says Chuah.

"But with our know-how, we can put these three things together — a cost-effective warehouse, delivery system and automation system. You will not have to hire many workers in the warehouse. Essentially, it's still an automation business but we call it smart control."

For starters, the group plans to invest RM10 million to RM20 million in research and development of the hardware for this particular business segment.

Chuah, however, points out that the smart control business is still in the development stage.

"Pentamaster Smart Solution has not been active, although it did generate revenue of less than RM10 million by doing some maintenance jobs for existing customers. We have not commercialised the smart control business yet, but our potential clients could be merchandisers or warehouse operators," he adds.

On its RM321 million cash pile, Chuah says about half was derived from PIL's listing proceeds and the rest from Pentamaster's operational activities.

It has not gone unnoticed that Pentamaster has stopped paying cash dividends since 2008, but Chuah reiterates that the group needs to build its cash reserves to fund its future growth ambitions.

"At the moment, Pentamaster is very much a growth stock, not a dividend play. We will not pay dividends so soon. I believe that as long as our fundamentals remain intact and our business continues to grow, our share price will grow in tandem," he says.

Year to date, the counter has gained 29% to close at RM3.54 last Thursday, giving the company a market capitalisation of RM1.12 billion. The stock is currently trading at a historical price-earnings ratio (PER) of 19.6 times, over its net profit of RM57.11 million in the financial year ended Dec 31, 2018 (FY2018).

Chuah notes that PIL is paying dividends and hence, it will be declared upwards to Pentamaster.

"At the group level, we want to make use of the dividends from Hong Kong, together with the listing proceeds raised last year, to continue to grow the business. We want to be a key player in the global market," he says.

Co-founded by Chuah in 1995, Pentamaster has grown from a simple automation house to a high-technology firm specialising in providing factory automation equipment as well as systems and information and communications technology solutions to industrial and commercial customers.

Currently, the group has two major business segments — automated test equipment (ATE) for sensors and automated manufacturing solution (AMS) for factory automation. About 80% of the group's revenue comes from the ATE segment while the rest comes from the AMS division.

Pentamaster's clients include multinational manufacturers from the semiconductor, telecommunications, medical device, food and beverage, pharmaceutical, consumer electronics and automotive sectors spanning Asia-Pacific, North America and Europe.

Chuah was appointed to the board in November 2002. The 58-year-old professional engineer has experience in the design and manufacturing of automation equipment and vision inspection system.

He is the single largest shareholder of Pentamaster with a 19.64% stake, followed by Kumpulan Wang Persaraan (Diperbadankan) with 10.7% equity interest.

Pentamaster was named one of the top 200 Asia-Pacific public listed companies with less than US$1 billion in revenue and consistent top-and-bottom-line growth on Forbes' list in 2017 and 2018. Its revenue increased by more than 80% in FY2016 and FY2017, before growing another 48% to RM422.2 million in FY2018.

The strong revenue growth was underpinned by demand for test equipment and solutions to cater for the wider adoption of smart sensors in a broader product range and segment, broadening exposure in the 3D sensor module test equipment and solutions segment, the higher adoption rate of electronic devices and the growth in electric vehicles.

Pentamaster is the second largest back-end semiconductor ATE manufacturer listed on Bursa Malaysia in terms of revenue from 2014 to 2018. It focuses on the non-memory ATE and test handler markets — both are in the back-end semiconductor manufacturing processes.

Nomura Research analyst Kong Heng Siong has a "buy" call on Pentamaster with a target price of RM4.74, giving it a potential upside of 34% based on last Thursday's closing price.

PIL's listing in Hong Kong saw it raise RM192 million, of which RM92 million was allocated for PIL's business activities, leaving RM100 million to be used for Pentamaster's expansion.

"It's been more than a year since our spin-off listing in Hong Kong. We have seen more business opportunities and new customers from Greater China as well as more collaborative activities in terms of design and development from Taiwan," Chuah remarks.

Looking at the growth in automation for ATE and AMS, he says prospects for the industry remain bright, considering that the Internet of Things and Industry 4.0 will need a lot of high-end, high-tech equipment to test and automate.

"Today, things are getting more complex and smaller, so precision automation is a must. The testing of all these smart sensors will require a lot of optics, imaging and electronics," says Chuah. E