



Pantech Group Holdings Berhad

A whisker short of all-time profit high

TP: RM 0.90 (+21%)

Last Traded: RM0.75

Buy

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

TA Research Team Coverage	+603-2072-1277 ext:1265	kylichan@ta.com.my	www.taonline.com.my
---------------------------	-------------------------	--------------------	---------------------

Review

- Pantech's FY13 net profit of RM55 mn (+61% YoY) was within our expectations and consensus', accounting for 103% and 96% of full-year estimates respectively.
- Pantech's stellar performance in FY13 was just a whisker short of exceeding its all-time record high profit of RM61.5mn in 2009. Nevertheless, it is commendable that the group increased its net profit by more than 50% over FY12 (RM37.9mn), and expanded operating margin by 2 ppt in FY13.
- Pantech's excellent showing in FY13 was underpinned by: 1) robust orders on the back of healthy demand from local O&G projects, 2) margin expansion from higher sales of niche products via Nautic, and 3) turnaround in operations at the stainless steel plant in Pasir Gudang.
- There was sequential weakness in 4Q13 due to shorter working months in December and February arising from factory shutdowns during festive holidays. Therefore, revenue (-9% QoQ, +24% YoY) was lower but nevertheless, operating margin of 14% remained intact
- Despite seasonal weakness in 4QFY13, Pantech managed to achieve higher plant utilisation levels at its manufacturing facilities at Klang (100%), Pasir Gudang (90%) and Nautic (90%). Whilst the Klang factory had also achieved full utilisation in the preceding quarter, we see a notable uptick in utilization levels for the latter two plants which had operated at 83% and 85% capacity respectively in 3QFY13.
- Earnings visibility remains healthy for the group whereby the group has locked-in orders totaling RM300mn which will keep both its trading and manufacturing divisions busy for the next 6 months. This implies that Pantech's plants will run at full capacity given that the group only take-in new orders for a maximum of 6-months forward at any given time to minimise inventory risk.
- Management alluded that it expects prices of its products to be stable in the near-to-medium term, thus assuring smooth earnings. Meanwhile, Pantech's acquisition of a new plot of land nearby its Nautic facility (55,000 sq. ft for £1.5mn) is expected to be completed in June 2013. Currently, the group is applying from local land authorities, for the conversion of the land's usage category from retail to factory.
- Pantech declared a final single tier dividend of 1.2 sen, thus bringing total full-year dividend for FY13 to 4.6 sen (40% payout ratio) in-line with expectations.

Impact

- Maintain earnings estimates.

Share Information

Bloomberg Code	PGHB MK
Stock Code	5125
Listing	Main Market
Share Cap (m)	477.9
Market Cap (RMm)	379.0
Par Value (RM)	0.20
52-wk Hi/Lo (RM)	0.49/0.81
12-mth Avg Daily Vol ('000)	940
Estimated Free Float (%)	34
Beta	0.98
Major Shareholders (%)	
Jimmy Chew	21.1%
Goh Teoh Kean	16.6%
Koperasi Permodalan Felda Bhd	7.7%
Tabung Haji	5.3%

Forecast Revision (%)

	FY14	FY15
Forecast Revision (%)	0%	0%
Net profit (RMm)	62.1	68.5
Consensus	65.3	65.8
TA/Consensus	95%	104%
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY14	FY15
Net debt/equity	43.1%	34.5%
NTA/Share (RM)	0.87	0.95
P/NTA (x)	0.9	0.8
ROE	15.0%	15.1%
ROA	8.0%	8.5%

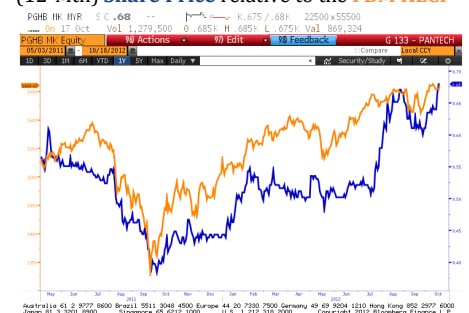
Scorecard

	% of FY
vs TA	103% Within
vs Consensus	96% Within

Share Performance

Price Change (%)	Pantech	FBMKLCI
1 mth	4.2	3.8
3 mth	-0.7	4.2
6 mth	8.8	2.0

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Outlook

- We are optimistic of Pantech's earnings trajectory given management's aggressive goal to expand sales to RM1bn by 2015. We believe that the group will be able to achieve its ambitious target via inorganic growth at the manufacturing division. The group had earlier expressed its interest to acquire synergistic European businesses given its success with Nautic and deep value for businesses at the Eurozone following the region's debt crisis.
- We expect Pantech to receive healthy flow of orders riding on Petronas' RM300bn O&G capex program over 2011-15 given that more than 80% of the group's sales are derived from the O&G industry. In addition, we expect Nautic Steels to drive earnings and margin growth for the group underpinned by strong demand from O&G projects in Brazil, and active ongoing efforts to enhance efficiency and expand factory space and acreage.

Valuation

- We introduce FY16 estimates to our forecasts and roll forward our valuation base year to CY14. Hence, our target price for Pantech is revised upwards to RM0.90 (previous: RM0.85) based on unchanged FD PER of 9x. Maintain Buy.

Figure 1: 4QFY13 Results Analysis

YE 28 Feb (RM mn)	4Q13	3Q13	QoQ	4Q12	YoY	Cumulative		
						FY13	FY12	YoY
Revenue	156.3	171.5	-9%	126.0	24%	637.2	434.6	47%
EBITDA	24.1	27.0	-11%	18.2	32%	98.9	60.0	65%
Depreciation	(2.8)	(2.9)	-3%	(2.1)	n.m.	(10.3)	(8.0)	n.m.
Finance cost	(2.9)	(3.0)	n.m.	(2.4)	n.m.	(9.4)	(5.3)	n.m.
Share of Associate & JV	0.4	(0.3)	-242%	0.1	264%	1.0	0.5	97%
PBT	18.8	20.9	-10%	13.8	36%	80.2	47.2	70%
Tax expense	(6.1)	(5.3)	n.m.	(3.4)	n.m.	(25.2)	(13.0)	n.m.
Net Profit	12.6	15.6	-19%	10.4	21%	55.0	34.2	61%
EBITDA margin	14%	14%		13%		16%	14%	
PBT margin	12%	12%		11%		13%	11%	
Core net margin	8%	9%		8%		0%	0%	

Figure 2: Earnings Summary

FYE Feb (RM mn)		FY12	FY13	FY14E	FY15F	FY16F
Revenue		434.6	637.2	655.7	696.7	741.8
EBITDA		60.0	98.9	106.9	114.4	126.8
EBITDA margin	(%)	13.8	15.5	16.3	16.4	17.1
Pretax Profit		47.2	80.2	82.8	91.3	104.5
Net Profit		34.2	55.0	62.1	68.5	78.4
EPS	(sen)	7.6	11.5	13.0	14.3	16.4
EPS (diluted)	(sen)	5.3	8.2	9.2	10.2	11.6
EPS growth	(%)	18.3	51.7	12.9	10.3	14.4
FD EPS growth	(%)	5.0	54.3	12.9	10.3	14.4
PER	(x)	9.8	6.5	5.7	5.2	4.5
FD PER	(x)	14.1	9.1	8.1	7.3	6.4
GDPS	(sen)	3.5	4.6	5.2	5.7	6.6
Dividend yield	(%)	4.7	6.2	7.0	7.7	8.8

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

for TA SECURITIES HOLDINGS BERHAD^(14948-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)
Kaladher Govindan – Head of Research