

Pantech Group Holdings Berhad

TP: RM1.18 (+37.1%)
3QFY24 Dragged by Less O&G Projects
Last Traded: RM0.90
BUY (ESG: ★★★★★)

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Review

- Pantech Group Holdings Bhd (PANTECH) registered a poorer performance in 3QFY24 both QoQ and YoY. 9MFY24 core net profit of RM69.8mn (-15.2% YoY) came in within our but below consensus' expectations at 73% of ours and 68% of consensus' full-year forecasts.
- The group declared a third interim dividend of 1.5 sen/share (3QFY23: 1.5 sen/share), bringing the YTD DPS to 4.5 sen (9MFY23: 4.5 sen).
- **YoY:** 3QFY24 revenue plunged 26.2% YoY dragged by both softer sales demand from local oil and gas projects for the Trading Division (-32.9% YoY) as well as lower ASP and lower demand for stainless steel products for the Manufacturing division (-20.6% YoY). We understand that the tenders for major oil and gas (O&G) projects such as the Pengerang Integrated Petroleum Complex (PIPC) have been delayed. On the back of revenue decline, quarterly PBT dropped 41.8% YoY. Similarly, 9MFY24 revenue and PBT slipped 14.8% YoY and 19.2% YoY respectively due to the same reasons mentioned above.
- **QoQ:** 3QFY24 revenue dropped 11.6% QoQ mainly attributed to lower demand in both divisions. Notably, poorer product mix in the Trading division led to 3.3%-pts drop in the operating margin QoQ to 8.3% in 3QFY24. Consequently, PBT dipped 27.0% QoQ.

Impact

- No changes to our earnings forecasts.

Outlook

- We expect 4QFY24 results to be flattish or only improve slightly QoQ due to less major O&G projects locally. Nonetheless, the group should register better performance in FY25 as the tenders for major projects such as PIPC are expected to commence in mid-2024.
- As one of the largest one-stop providers for pipes, valves and fittings (PVF) in Malaysia, we are sanguine on the long-term outlook of PANTECH as Malaysia aspires to move up the value chain from basic to specialty chemical under the National Industrial Master Plan 2030.
- PANTECH presents as an attractive dividend play, potentially offering 6.7% dividend yield for FY24-FY26 supported by free cash flow yield of above 15%.

Valuation

- Reiterate **Buy** with an unchanged TP of **RM1.18/share** based on 10x CY24 EPS.

Share Information

Bloomberg Code	PGHB MK
Stock Code	5125
Listing	Main Market
Share Cap (m)	829.6
Market Cap (RMm)	746.7
52-wk Hi/Lo (RM)	0.93/0.71
12-mth Avg Daily Vol ('000)	1,657.2
Estimated Free Float (%)	50.0
Beta	1.4

Major Shareholders (%)

CTL Capital	- 18.8
GL-Management	- 12.5
Hong Leong Co	- 3.4

Forecast Revision (%)

	FY24	FY25
Forecast Revision (%)	0.0	0.0
Net profit (RM mn)	95.9	98.5
Consensus	102.0	111.3
TA/Consensus	94	89
Previous Rating	Buy (Maintained)	
Consensus Target Price (RM)	1.26	

Financial Indicators

	FY24	FY25
Net debt/equity (x)	0.0	Net Cash
ROA (%)	7.9	7.6
ROE (%)	11.1	10.8
NTA/Share (RM)	1.0	1.1
P/NTA (x)	0.9	0.8

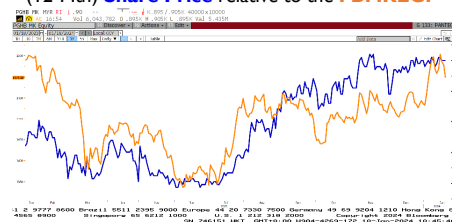
Scorecard

	% of FY	
vs TA	73	Within
vs Consensus	68	Below

Share Performance

Price Change (%)	PANTECH	FBMKLCI
1 mth	0.0	0.9
3 mth	4.0	2.3
6 mth	19.2	5.4
12 mth	10.4	(1.1)

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Figure 1: 3QFY24 Quarterly Results Analysis

FYE Feb (RM mn)	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Revenue	299.9	250.4	221.4	(11.6)	(26.2)	840.6	716.6	(14.8)
Core EBITDA	50.6	41.9	33.2	(20.7)	(34.4)	133.7	114.6	(14.3)
Depreciation & Amortisation	(4.5)	(5.2)	(4.9)	(4.1)	10.6	(13.6)	(15.1)	11.5
Net Finance Cost	(2.5)	(1.9)	(1.9)	(1.2)	(25.5)	(5.6)	(5.8)	2.9
Associate & JV	0.1	0.1	0.1	(21.5)	(10.6)	0.4	0.3	(34.1)
EI	3.0	2.3	0.8	(67.3)	(74.8)	9.7	6.8	(30.4)
PBT	46.7	37.2	27.2	(27.0)	(41.8)	124.6	100.7	(19.2)
Tax Expense	(12.0)	(8.8)	(6.0)	(31.4)	(49.7)	(32.5)	(24.1)	(25.8)
Minority Interests	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Net Profit	34.7	28.4	21.2	(25.6)	(39.0)	92.1	76.6	(16.8)
Core Net Profit	31.6	26.1	20.4	(21.8)	(35.5)	82.3	69.8	(15.2)
Core EPS (sen)	3.9	3.2	2.5	(22.0)	(36.1)	10.0	8.4	(15.8)
DPS (sen)	1.5	1.5	1.5	0.0	0.0	4.5	4.5	0.0
				%-points	%-points			%-points
Core EBITDA Margin (%)	16.9	16.7	15.0	(1.7)	(1.9)	15.9	16.0	0.1
PBT Margin (%)	15.6	14.9	12.3	(2.6)	(3.3)	14.8	14.1	(0.8)
Core Net Margin (%)	10.5	10.4	9.2	(1.2)	(1.3)	9.8	9.7	(0.1)

Figure 2: 3QFY24 Quarterly Segmental Analysis

FYE Feb (RM mn)	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Revenue								
Trading of Pipes, Fitting & Flanges	173.5	146.0	116.5	(20.2)	(32.9)	443.8	411.1	(7.4)
Manufacturing of Pipe Fittings	162.1	132.5	128.7	(2.9)	(20.6)	492.1	390.9	(20.6)
Investments & Management	26.9	13.8	13.8	(0.0)	(48.5)	28.7	28.5	(0.6)
Sub-total	362.5	292.3	259.0	(11.4)	(28.5)	964.6	830.5	(13.9)
Inter-segment elimination	(62.5)	(41.9)	(37.6)	(10.4)	(39.9)	(124.0)	(113.9)	(8.1)
Total	299.9	250.4	221.4	(11.6)	(26.2)	840.6	716.6	(14.8)
Operating Profit								
Trading of Pipes, Fitting & Flanges	14.7	16.9	9.6	(43.1)	(34.5)	44.3	42.5	(4.0)
Manufacturing of Pipe Fittings	34.1	21.9	18.9	(13.5)	(44.5)	85.4	62.7	(26.5)
Investments & Management	26.5	13.4	13.5	1.0	(48.9)	27.1	27.4	1.4
Sub-total	75.3	52.2	42.1	(19.4)	(44.1)	156.7	132.7	(15.3)
Inter-segment elimination	(26.1)	(13.2)	(13.1)	(0.6)	(50.0)	(26.9)	(26.5)	(1.6)
Total	49.1	39.0	29.0	(25.7)	(41.0)	129.8	106.2	(18.2)
Operating Margin								
				%-points	%-points			%-points
Trading of Pipes, Fitting & Flanges (%)	8.5	11.6	8.3	(3.3)	(0.2)	10.0	10.3	0.4
Manufacturing of Pipe Fittings (%)	21.0	16.5	14.7	(1.8)	(6.3)	17.4	16.1	(1.3)

Figure 3: Earnings Summary

FYE Feb (RM mn)	FY22	FY23	FY24E	FY25F	FY26F
Revenue	751.5	1,037.8	1,032.7	1,075.6	1,113.8
Core EBITDA	121.5	181.0	157.5	161.1	165.8
Core EBITDA margin (%)	16.2	17.4	15.3	15.0	14.9
Pretax Profit	96.7	155.6	129.6	133.0	138.5
Net Profit	71.8	115.6	95.9	98.5	102.5
Core Net Profit	72.0	115.8	95.9	98.5	102.5
Core EPS (sen)	9.3	14.1	11.6	11.9	12.4
Core EPS growth (%)	132.2	52.2	(18.0)	2.7	4.1
PER (x)	9.7	6.4	7.8	7.6	7.3
DPS (sen)	4.0	6.0	6.0	6.0	6.0
Dividend yield (%)	4.4	6.7	6.7	6.7	6.7

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★★	★★★	★★★★★	★★★★★
Remark	Sustainability measures in terms of safeguarding environment are in place.	Moderate CSR activities. Lacks disclosure on availability of structured human resource policies.	Transparent in corporate disclosures. Combative stance against corruption.	

- ★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.
★★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions.
★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions.
★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient.
★ (<20%) : Minimal or no integration of ESG factors in operations and management.

Disclaimer

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As of Friday, January 19, 2024, the analyst, Ong Tze Hern, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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