Pantech Group Holdings

1HFY20 Deemed Within Expectations

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OUTPERFORM ↔

Price : RM0.515

Target Price : RM0.690 ↔

PANTECH's 1HFY20 results are deemed in line with expectations, in anticipation of a stronger 2HFY20 on the back of the resumption of shipments for its carbon steel to the US. Overall, results were weaker due to higher manufacturing costs from ramping up of production ahead of the US shipment resumption, coupled with lower demand from local oil and gas projects. Maintain OUTPERFORM and TP of RM0.69.

1HFY20 results deemed broadly within expectations. We deem PANTECH's 1HFY20 net profit of RM18.4m to be broadly within expectations, despite making up only 38%/35% of our/consensus full-year earnings forecasts. This is on the back of an expected stronger 2HFY20, driven by the resumption of carbon steel shipments to the US after almost a year of suspended shipments following the preliminary affirmative anti-circumvention determination announced in July 2018. Since then, a final affirmative determination overturning the prior shipment suspension to the US had been announced in June 2019. Dividend of 0.5 sen per share was as expected.

Poorer 2QFY20 results. YoY, 2QFY20 recorded a 34% decrease in net profit, despite flattish revenue. Margins were hampered due to higher costs in its manufacturing segment as a result of ramp-up in production ahead of the resumption of shipments to the USA, while its trading division was also hit by lower sales demand from local oil and gas projects. Similarly for QoQ, net profit deteriorated 36% sequentially, despite a marginal growth in revenue, due to the aforementioned higher manufacturing costs and lower trading sales demand locally. Cumulatively, 1HFY20 dropped 27% YoY, given the suspension of U.S. shipments for its carbon steel earlier in the year, coupled with the aforementioned higher manufacturing costs and lower trading sales demand.

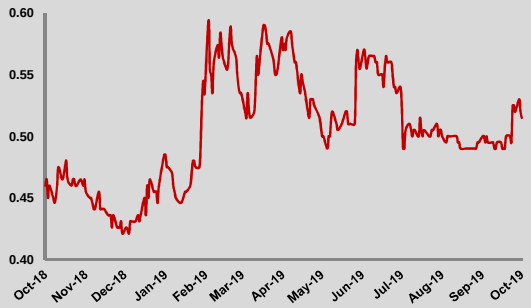
Expecting a stronger 2H. Following the lifting of the suspension of shipment to the US, PANTECH has immediately resumed productions and shipments. As such, we expect stronger earnings to kick in from 3QFY20 onwards. Further growth catalyst could still come from increased upstream oil and gas activities in the region, with the company being the only locally-owned pipe supplier under the "Petronas Framework Agreement".

Maintain OUTPERFORM, with unchanged TP of RM0.69, pegged to 0.9x FY20E PBV - implying 12x PER, which is close to its 5-year average.

We continue to like PANTECH given certainty in its earnings recovery and decent dividend yields, on top of palatable valuations, which we believe have not fully reflected upcoming positives; thus providing an attractive entry currently. No changes made to our FY20-21E numbers post results.

Risks to our call include: (i) slower-than-expected trading volumes, (ii) lower-than-expected manufacturing utilisation, and (iii) poorer-than-expected margins.

Share Price Performance



KLCI	1,568.79
YTD KLCI chg	-7.2%
YTD stock price chg	19.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PGHB MK Equity
Market Cap (RM m)	386.2
Shares outstanding	749.9
52-week range (H)	0.61
52-week range (L)	0.41
3-mth avg daily vol:	1,505,434
Free Float	64%
Beta	1.1

Major Shareholders

CTL Capital Holding	17.9%
GL Management Agency	12.9%
Employees Provident Fund	5.6%

Summary Earnings Table

FY Feb (RM'm)	2019A	2020E	2021E
Revenue	609.2	616.9	653.0
EBIT	71.4	72.6	76.1
PBT	61.6	64.3	68.4
Net Profit (NP)	**47.6**	**48.2**	**51.3**
Core NP (CNP)	**47.6**	**48.2**	**51.3**
Consensus (CNP)		52.1	57.3
Earnings revision (%)		-	-
Core EPS (sen)	5.4	5.5	5.8
CNP growth (%)	1.4	1.3	6.3
DPS (sen)*	1.5	2.0	2.0
BV/Share (RM)	0.7	0.8	0.8
Core PER (x)	9.5	9.4	8.9
Price/BV (x)	0.8	0.7	0.6
Net-gearing (x)	0.3	0.3	0.3
Dividend Yield (%)	2.9	3.9	3.9

**Only cash dividends were included into our DPS computation for FY19A*

Income Statement

FY Feb (RM'm)	2Q FY20	1Q FY20	Q-o-Q	2Q FY19	Y-o-Y	1H FY20	1H FY19	Y-o-Y
Revenue	148.0	145.0	2.1%	148.1	0.0%	293.1	326.4	-10.2%
Operating Expenses	(136.9)	(128.9)	6.3%	(131.5)	4.1%	(266.0)	(293.5)	-9.4%
Other Operating Income	1.0	1.2	-10.8%	1.1	-7.8%	2.4	5.7	-57.3%
Profit from Operations	**12.2**	**17.3**	**-29.9%**	**17.7**	**-31.3%**	**29.5**	**38.7**	**-23.8%**
Finance Cost	(2.8)	(3.1)	-10.8%	(2.8)	1.3%	(6.0)	(5.0)	18.4%
Associates	(0.0)	0.1	N.M.	0.0	N.M.	0.1	(0.1)	N.M.
Profit before taxation	**9.3**	**14.3**	**-34.9%**	**14.9**	**-37.7%**	**23.6**	**33.6**	**-29.8%**
Taxation	(2.1)	(3.1)	-31.9%	(4.1)	-47.7%	(5.2)	(8.6)	-39.1%
Non-controlling interest	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
Net profit	**7.2**	**11.2**	**-35.7%**	**10.9**	**-33.9%**	**18.4**	**25.0**	**-26.5%**
Operating margin	8.2%	11.9%		11.9%		10.1%	11.8%	
PBT margin	6.3%	9.9%		10.1%		8.0%	10.3%	
Net margin	4.9%	7.7%		7.3%		6.3%	7.7%	
Effective tax rate	22.8%	21.8%		27.2%		22.2%	25.6%	

Source: Company

Segment Breakdown

FY Feb (RM'm)	2Q FY20	1Q FY20	Q-o-Q	2Q FY19	Y-o-Y	1H FY20	1H FY19	Y-o-Y
Revenue								
Trading	82.8	90.3	-8.3%	95.6	-13.4%	173.1	198.8	-12.9%
Manufacturing	65.2	54.7	19.1%	52.5	24.3%	120.0	127.7	-6.1%
Profit Before Tax								
Trading	7.7	10.9	-28.9%	12.6	-38.5%	18.6	25.6	-27.2%
Manufacturing	3.1	4.7	-33.8%	3.5	-10.8%	7.7	10.0	-22.8%
Investment and management	(1.5)	(1.3)	20.5%	(1.1)	36.3%	(2.8)	(2.1)	35.1%
PBT Margins								
Trading	9.3%	12.1%		13.2%		10.8%	12.9%	
Manufacturing	4.7%	8.5%		6.6%		6.5%	7.9%	

Source: Company

Peer Comparison

Name	Last Price (RM)	Market Cap	Shariah Compliant	Current FYE	Revenue Growth 1-Yr. Fwd.	Revenue Growth 2-Yr. Fwd.	Core Earnings Growth 1-Yr. Fwd.	Core Earnings Growth 2-Yr. Fwd.	PER (x) - Core Earnings Hist.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) Hist.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net Div.Yld. (%) 1-Yr. Fwd.	Target Price (RM)	Rating
BUMI ARMADA BERHAD	0.445	2,615.1	N	12/2019	-15.9%	0.0%	34.4%	2.3%	11.6	8.6	8.4	0.8	0.8	9.0%	0.0%	0.200	UP
DAYANG ENTERPRISE HLDGS BHD	1.94	1,871.7	Y	12/2019	22.2%	4.4%	-10.8%	8.1%	13.7	15.3	14.2	2.0	1.9	12.8%	0.0%	2.00	OP
DIALOG GROUP BHD	3.52	19,846.8	Y	06/2020	17.7%	6.1%	4.5%	9.7%	37.0	35.4	32.3	5.2	5.0	14.4%	1.1%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.910	1,456.0	Y	12/2019	-10.1%	43.0%	845.5%	139.3%	N.A.	100.4	42.0	0.6	0.6	0.6%	0.0%	1.05	OP
MISC BHD	8.30	37,049.1	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	28.0	21.5	20.4	1.0	1.1	4.9%	3.6%	8.80	OP
PANTECH GROUP HOLDINGS BHD	0.515	386.2	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.8	8.7	8.2	0.7	0.6	7.6%	3.1%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.41	59,280.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	11.9	17.1	14.9	1.9	1.8	11.1%	2.9%	7.70	MP
PETRONAS DAGANGAN BHD	23.48	23,326.3	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	27.9	24.7	22.9	4.0	3.8	15.6%	2.8%	22.45	MP
SAPURA ENERGY BHD	0.275	4,383.3	Y	01/2020	5.9%	20.7%	-445.5%	236.1%	N.A.	N.A.	53.9	0.3	0.3	-1.4%	0.0%	0.330	OP
SERBA DINAMIK HOLDINGS	4.23	6,211.8	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.2	13.8	12.2	3.0	2.6	20.2%	2.2%	5.25	OP
UZMA BHD	1.08	345.6	Y	06/2020	-7.6%	-0.1%	117.5%	44.1%	35.6	16.4	11.4	0.7	0.7	4.2%	0.0%	0.610	UP
VELESTO ENERGY BHD	0.355	2,916.5	Y	12/2019	5.3%	6.2%	119.7%	152.0%	N.A.	191.9	76.1	1.0	1.0	0.5%	0.0%	0.350	OP
WAH SEONG CORP BHD	1.13	870.6	Y	12/2019	-47.7%	-7.7%	-18.8%	-18.1%	13.8	17.0	20.8	0.9	0.9	5.4%	0.0%	0.620	MP
YINSON HOLDINGS BHD	7.00	7,564.7	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	28.7	35.0	21.0	4.4	4.0	11.9%	0.9%	7.75	OP
Simple Average					**-1.6%**	**11.9%**	**47.1%**	**49.1%**	**21.2**	**38.9**	**25.6**	**1.9**	**1.8**	**8.3%**	**1.2%**		

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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