MERCURY SECURITIES SDN BHD
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IPO Note
Wednesday, February 19, 2025
Research Team Coverage
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Pantech Global

Main Market
Industrial Sector
SUBSCRIBE
IPO Price: RM0.68
Fair Value: RM0.88

Piping Hot Opportunities

Valuation / Recommendation

We have a SUBSCRIBE recommendation on Pantech Global Berhad (PGB), with an **FV of RM0.88 based on 11.5x FY26F EPS**, translating to a 29% potential upside to its IPO price. Given PGB leading market position, steady margins, exposure to overseas markets (particularly US), and upcoming capacity expansion, we believe a target P/E of 11.5x is well justified.

Investment Highlights

Unlocking value. The listing of PGB will offer investors a pure-play exposure to Pantech Group's manufacturing segment, which carries higher margins than its trading division. Following its recovery post COVID-19 pandemic, Pantech's manufacturing arm has consistently outperformed the trading arm in terms of profitability, with its segmental PBT margins climbing from 14.6% in FY22 to 18.9% in FY23, before stabilising at 16.2% in FY24. PGB's IPO process entails the consolidation of Pantech Steel Industries (PSI) and Pantech Stainless & Alloy (PSA), a move also designed to enhance operational efficiency and strengthen market positioning. As part of its IPO plan, PGB will also be expanding its manufacturing capacity with the establishment of Klang Factory 2 and an additional pickling facility in Johor.

Strong export market & USD tailwind. PGB has demonstrated a robust revenue 2-year CAGR of 11.9%, growing from RM352m in FY22 to RM441m FY24, with our revenue forecasts reaching RM561m by FY27F. This growth is fuelled by its global footprint, with exports accounting for over 72% of sales. US remains PGB's largest export market, contributing approximately 47% of total revenue in FY24, followed by other countries such as the Netherlands and Canada. A significant advantage lies in PGB's USD-denominated revenue, which positions it favourably against currency fluctuations, particularly amid a strong USD environment.

Riding on industrial & energy expansion. PGB's core products are essential across various sectors, including oil and gas, petrochemicals, water treatment, shipbuilding, semiconductors, and specialty chemicals. We believe the company is poised to benefit from increasing infrastructure investments in the US energy sector. Domestically, Petronas' Activity Outlook for 2025-2027 also highlights a sustained demand for high-performance piping solutions, providing a strong pipeline of demand to PGB.

Risk factors for PGB include (1) Exposure to steel price and forex fluctuations (2) Dependence on the U.S. market and key customers; and (3) Risk relating to export sales and anti-dumping duties.

FYE Feb	FY23	FY24	FY25F	FY26F	FY27F
Revenue (RM m)	551.4	440.9	529.6	552.7	561.4
EBITDA (RM m)	121.8	81.1	95.3	108.8	114.9
PAT (RM m)	81.4	49.7	57.6	64.9	66.7
PAT Margin (%)	14.8	11.3	10.9	11.7	11.9
EPS (sen)	13.9	8.5	6.8	7.6	7.8
EPS Growth (%)	112.0	-38.9	-19.9	12.7	2.8
BV Per Share (sen)	51.8	50.0	59.3	63.5	67.8
PE (x)	4.9	8.0	10.0	8.9	8.7
Net Gearing (x)	0.4	0.5	0.3	0.3	0.2
ROE (%)	26.8	16.9	11.4	12.0	11.6

Business Overview

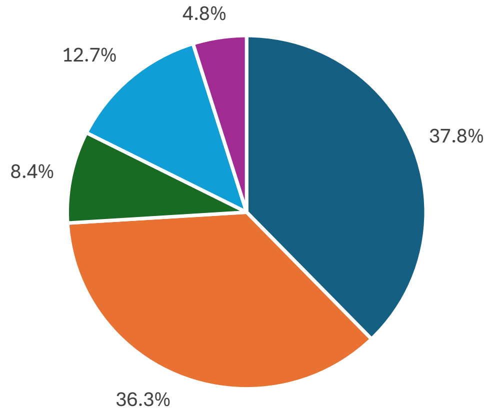
Pantech Global Berhad (PGB) manufactures butt weld pipe fittings and welded pipes, including carbon and stainless steel elbows, tees, reducers, stub ends, and end caps for pressure piping. It also offers HFI long bend processing and sells by-products, scrap, and related products.

Listing Details	
Listing date	3 Mar 2025
New shares (m)	262.2
Offer for sale (m)	0.0
Funds raised (RM m)	178.3

Post Listing	
Ordinary shares (m)	850.0
Market cap (RM m)	578.0
Free float	30.9
P/E (FY25F)	10.5

Top 3 Shareholders	
Pantech Group	69.2%
Dato' Chew Ting Leng	0.1%
Tan Ang Ang	0.2%

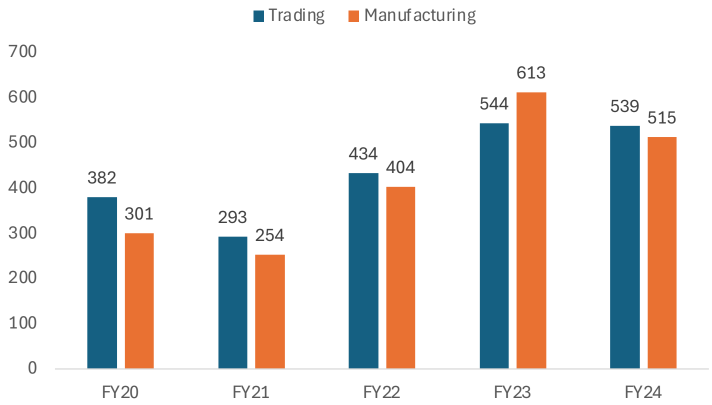
Utilisation of Proceeds	RM m
Business expansion	67.3
Capital expenditures	64.7
Repayment for bank borrowings	15.0
Working capital	22.7
Estimated listing expenses	8.6



Source: Company, Mercury Securities

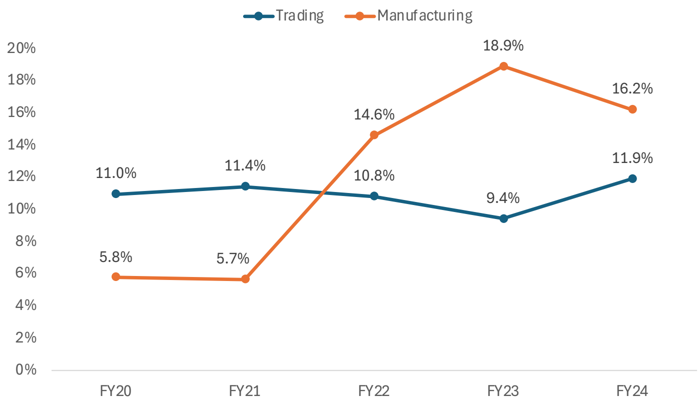
Financial Highlights and Valuation

Figure 1: Revenue breakdown of Pantech Group (in RM m)



Source: PGHB's Annual Report 2024

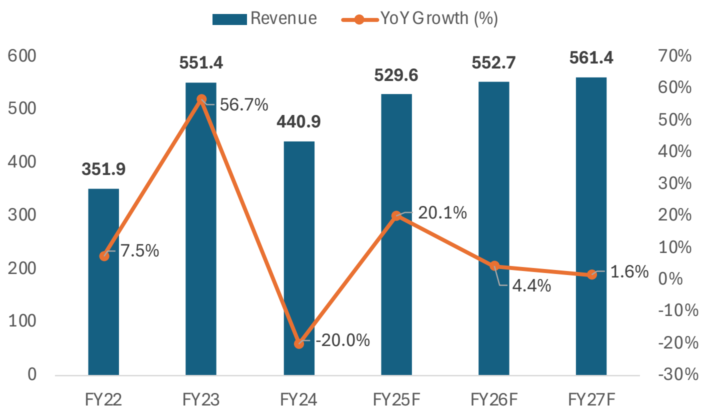
Figure 2: Segmental PBT margin of Pantech Group (%)



Source: PGHB's Annual Report 2024

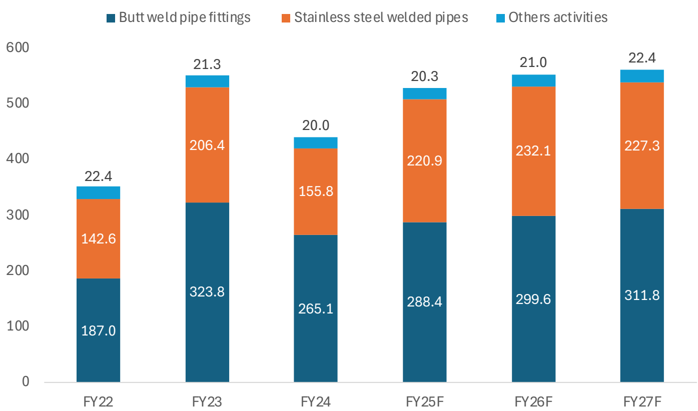
Unlocking value in the manufacturing division. Pantech Group Holdings Berhad (PGHB) operates as a leading one-stop centre for pipes, valves, and fittings (PVF), holding a 66% share of export market and 16% production market in Malaysia. The company operates primarily through two main division: (1) Trading, and (2) Manufacturing. As shown in Figure 1, while the trading division has consistently outpaced manufacturing in revenue, the manufacturing segment delivers stronger margins, recording 14.6% in FY22, 18.9% in FY23, and 16.2% in FY24. In contrast, the trading division has maintained a stable margin of approximately 11% since FY20, given the nature of the business. Amid the strong performance of its manufacturing segment, PGHB is restructuring its manufacturing division to a pure-play exposure by chain listing, following the consolidation of Pantech Steel Industries (PSI) and Pantech Stainless & Alloy Industries (PSA) into Pantech Global Berhad (PGB).

Figure 3: Revenue trend of Pantech Global (in RM m)



Source: Company, Mercury Securities

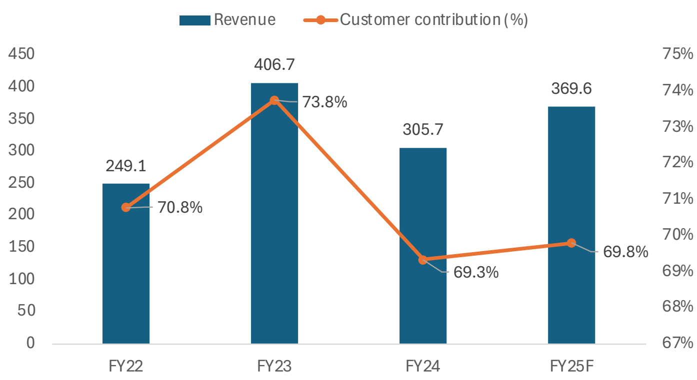
Figure 4: Revenue breakdown of Pantech Global (in RM m)



Source: Company, Mercury Securities

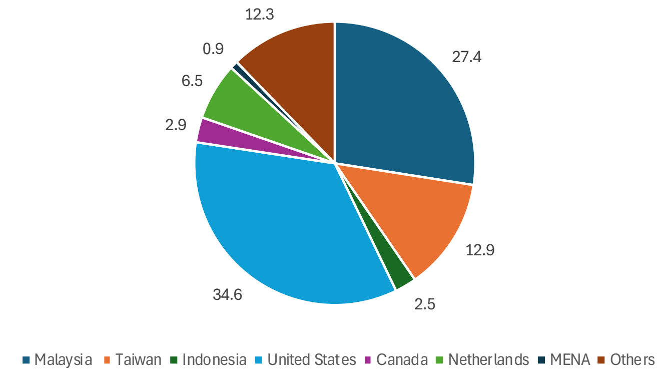
Consistent growth backed by strong clients. Pantech Global has delivered an impressive CAGR of 11.9%, with revenue rising from RM352m in FY22 to RM441m in FY24, and is projected to reach RM561m by FY27, reflecting a CAGR of 8.4% over the next three years (Figure 3). This sustained growth is primarily driven by the company's strong international presence, with exports playing a crucial role in expanding its revenue base. A key factor behind this success is its top five major customers which contributed approximately 70% of total revenue (Figure 5), amounting to RM249m in FY22, RM407m in FY23, and RM306m in FY24. The majority of these customers are from key markets like the United States, Malaysia, Taiwan and, the Netherlands where PGB has maintained long-term relationships for over 22 years (Figure 6).

Figure 5: Top 5 major customers contribution (in RM m)



Source: Company, Mercury Securities

Figure 6: Geographical markets in FY24 (%)



Source: Company, Mercury Securities

A backbone of industrial and energy expansion. Butt-weld pipe fittings and stainless-steel welded pipes are always essential across the oil and gas, petrochemicals, water treatment, power generation, shipbuilding, semiconductors, and speciality chemicals industries. These products ensure a consistent demand and mitigate reliance on any single sector. With increasing infrastructure investment in the US energy sector and Petronas' strategic plan for three offshore developments (per its recently released 2025-2027 Activity Outlook), the demand for high-performance piping solutions that can withstand harsh environments is expected to increase.

Adapting to new growth opportunities in the green economy. The global shift towards environmentally sustainable practices has led to increased investments in facility upgrades, new plant developments, and industrial expansions, particularly in the speciality chemicals sector. In Malaysia, the Chemical Industry Roadmap 2030 (CIR2030) aims to elevate the industry's Gross Value Add (GVA) from 3.4% to over 4.5% by 2030, further accelerating growth in this space. As a key supplier of specialised piping solutions, PGB is well-positioned to capitalize on these trends, reinforcing its market leadership and long-term resilience. (Figure 7)

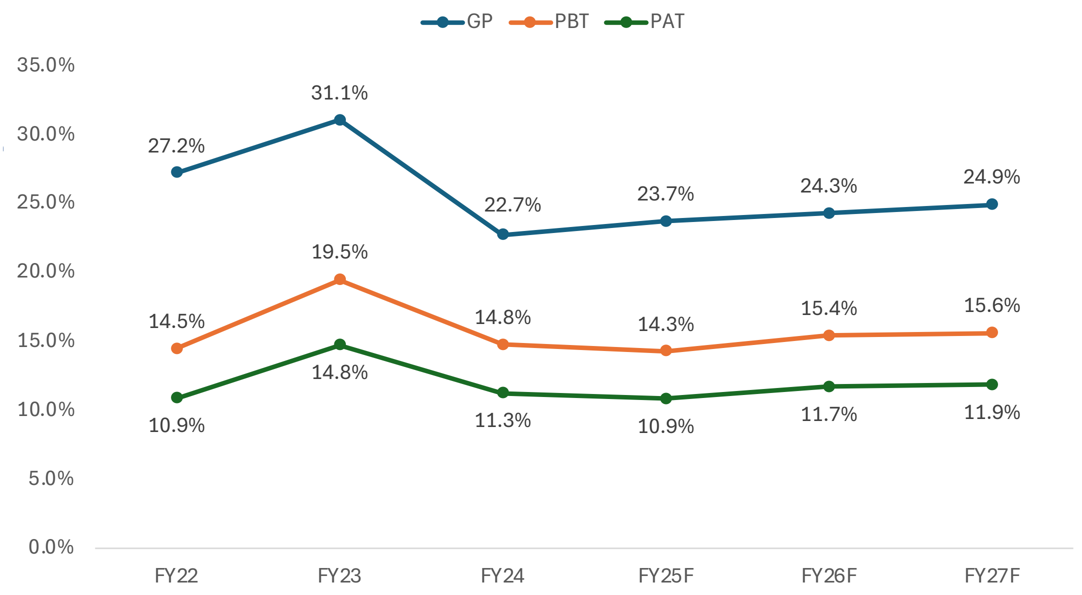
Figure 7: One of the key metrics to track progress on CIR2030

Themes	Metric	2019	2025	2030	Comments
Industry Value Add	GVA[1]	>3.4%	>3.7%	>4.5%	• Increase share of high-value add chemicals (i.e., production of composites, Engr. Plastics, Care Chemicals, Electronic Chemicals, etc.); will help counteract the impact of commoditisation/margin erosion in basic chemicals

Source: Chemical Industry Roadmap 2030 (CIR2030)

Ramping up production to meet demand. In 1HFY25 (current FPE25), the company has seen a significant spike in utilisation rates, reaching the highest levels in recent years. The manufacturing utilisation of its various steel pipe products stands at 80-92%. This surge in demand reflects the growing need for high-performance piping solutions across key sectors. To further strengthen its position, the company plans to expand operations by adding a new pickling facility, which could increase the annual production capacity of stainless-steel welded pipes from 23,850 MT to 26,850 MT (+13%). Along with the expansion of a single-storey warehouse in Johor, PGB also intends to build a new office and factory and invest in new machinery and equipment for the Klang plant. These strategic moves will enhance overall production capacity, boosting the total from 50,410 MT to 53,410 MT (+6%).

Figure 8: Margins trend (%)



Source: Company, Mercury Securities

Steady margins in a dynamic market. We expect PGB to maintain a steady GP margin of 23% to 25% from FY25 to FY27, supported by its improved cost efficiencies, flexible pricing strategy, and strong demand for high-performance piping solutions. Historically, its GP margin ranged between 23% and 31% from FY22-24, with the fluctuations mainly affected by global steel price movements.

Healthy balance sheet and attractive yields. The company has maintained a solid balance sheet, with a healthy net gearing ratio of 0.47x for FY24. With the cash proceeds from the IPO, PGB's balance sheet is expected to strengthen and turn into a net cash position post-IPO. While there is no formal dividend policy, management has targeted a payout ratio of between 40%-50%. Given its strong cash flow, a payout ratio of 45% is projected for FY25-27F, translating into attractive net dividend yields of 4.0%-5.0%. (Figure 10).

RM0.88 FV based on 11.5x FY26 EPS. We assign PGB a target PE of 11.5x, aligning with the industry average for comparable peers. With its leading market position, steady margins, exposure to overseas markets (particularly U.S.), and upcoming capacity expansion, we believe a target P/E of 11.5x is well justified. Applying this to our FY26F EPS of 7.6 sen, we derive an FV of RM0.88, implying an upside potential of 29%.

Peer Comparison (as at 17 Feb 2024)

Company	Bloomberg Ticker	Share Price (RM)	Mkt Cap (in RM m)	EPS (sen)	P/E (x)	P/B (x)	ROE (%)	Net Yield (%)	PATM (%)
Malaysia									
Engtex Group Bhd	ENGT MK	0.53	416.0	2.0	28.4	0.5	1.8	0.8	1.2
Hiap Teck Venture Berhad	HTVB MK	0.31	548.8	9.0	3.9	0.4	11.2	1.6	6.2
Prestar Resources Berhad	PRST MK	0.39	140.0	5.0	8.2	0.3	3.9	5.1	3.5
Wasco Bhd	WSC MK	1.08	836.3	20.0	5.4	1.0	21.0	0.0	4.5
Simple Average				**9.0**	**11.5**	**0.6**	**9.5**	**1.9**	**3.8**
Pantech Global		0.68	578.0	6.8	10.0	1.1	11.4	4.5	10.9

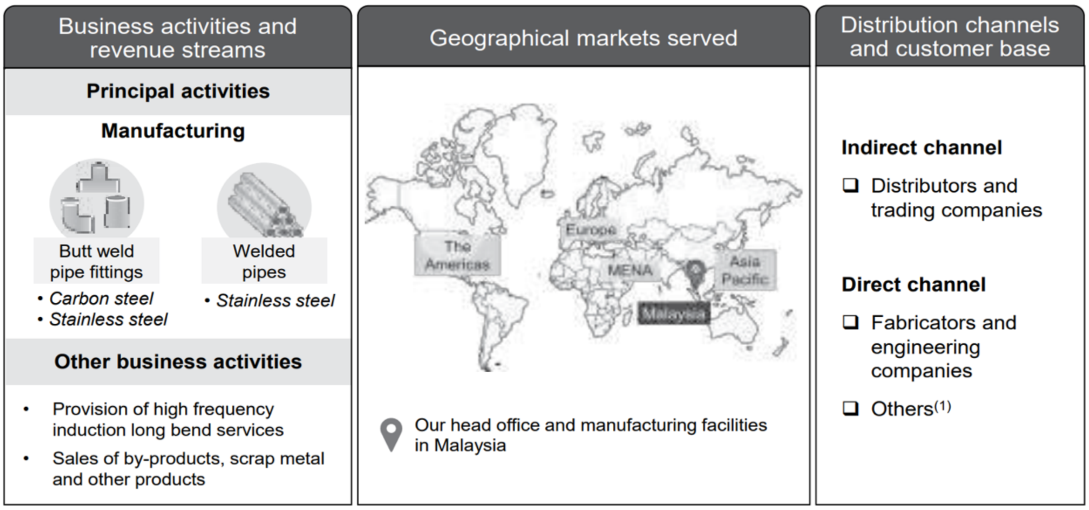
Source: Bloomberg

Company Background

Reshaping the business for a stronger future. From a humble trading company in 1988, Pantech Group Holdings Berhad (PGHB) has grown into a leading force in Malaysia's steel industry, supplying industrial hardware and machinery, as well as pipes and fittings. To strengthen its position, PGHB expanded upstream into manufacturing with the establishment of Pantech Steel Industries (PSI) in 2000, focusing on butt weld pipe fittings and HFI long bends for the export market, followed by Pantech Stainless & Alloy Industries (PSA) in 2009 as a stainless-steel welded pipes manufacturer.

Now, in a strategic move to unlock further value, PGHB is restructuring through a chain listing on the Main Market of Bursa Securities, creating Pantech Global Berhad (PGB) as a standalone manufacturing entity. Through this restructuring, Pantech Global will consolidate all manufacturing operations under one roof, offering pure-play exposure to butt weld pipe fittings, welded pipes, HFI long bend services, and metal by-products, while PGHB retains a 69.15% stake and focus on trading and specialized metal processing, ensuring a clear distinction between its core business segments.

Figure 9: Business overview



Source: Company, Mercury Securities

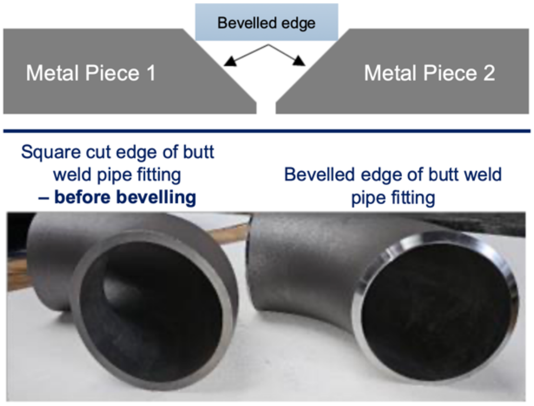
Figure 10: Corporate milestones

- **2000** – PSI incorporated as a manufacturer of **carbon steel butt weld pipe fittings**
- **2001** – PSI: **first export orders** for carbon steel butt weld elbow fittings to the **United States, Taiwan and Thailand**.
- **2007** – As a subsidiary of PGHB, PSI was part of the **listing group of PGHB** on the **Main Board** (now known as the **Main Market**) of Bursa Securities.
- **2009** – PSA became a wholly-owned subsidiary of PGHB.
- **2011** – PSA **commenced operations as a manufacturer of stainless steel welded pipes.** Started **exporting** to the **United States, Canada** and **Indonesia**.
- **2012** – PSA commenced the **manufacture and sales of stainless steel butt weld pipe fittings.** First **export** to **Singapore**.
- **2013** – PSA **expanded export** of stainless steel butt weld pipe fittings to **Europe**.
- **2014** – PSA: **expanded range** of **stainless steel butt weld fittings** to include stub ends.
- **2019** – PSI was **cleared** of **anti-dumping circumvention** by the **United States Department of Commerce** and resumed shipments of carbon steel butt weld fittings to the United States.
- **2020** – PSA obtained a **Type Approval Certificate** from **Lloyd's Register** for austenitic stainless steel butt weld pipe fittings and a **Product Certification Licence** from **SIRIM QAS** for austenitic stainless steel welded pipes and pipe fittings.
- **2022** – PSA was found not to be involved in anti-dumping circumvention practices and was **exempted** from **anti-dumping duties** for exports of stainless steel butt weld pipe fittings to the **European Union**.
- **2024** – PSA obtained the **AD 2000-Merkblatt Quality System** certification from LRQA Nederland B.V.

Source: Company, Mercury Securities

Figure 11: Butt weld pipes fittings

Butt welding is a method of welding or joining two pieces of metal end-to-end on the same plane



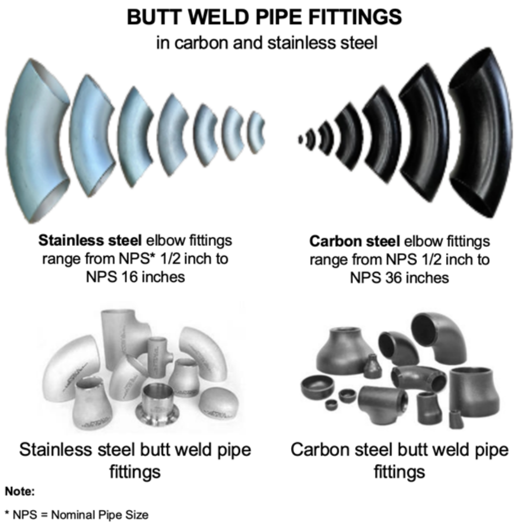
Butt weld pipe fittings are ideal for high-pressure and high-temperature applications

Pipe fittings are the short length of connectors in a piping or pipeline system which affect the movement of fluids such as changing the direction and rate of flow, splitting the flow into several directions, stopping the flow, or continuing the flow.

Capability to manufacture large-size butt weld pipe fittings and stainless steel welded pipes to allow the Group to meet the diverse requirements of various industry sectors including oil and gas, water treatment, construction, automotive and power generation industries

Source: Company, Mercury Securities

Figure 12: Product categories



Product Categories

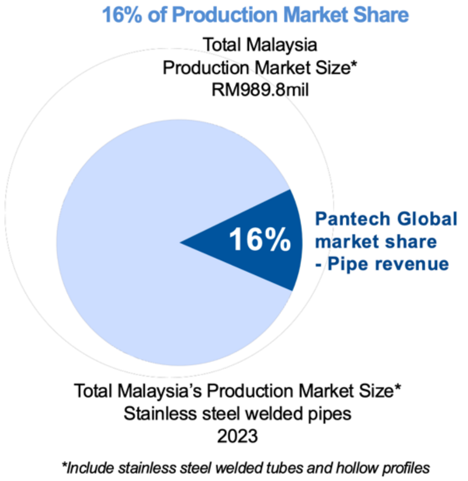
Pantech Global manufactures butt weld pipe fittings and welded pipes in Klang, Selangor, and Pasir Gudang, Johor.

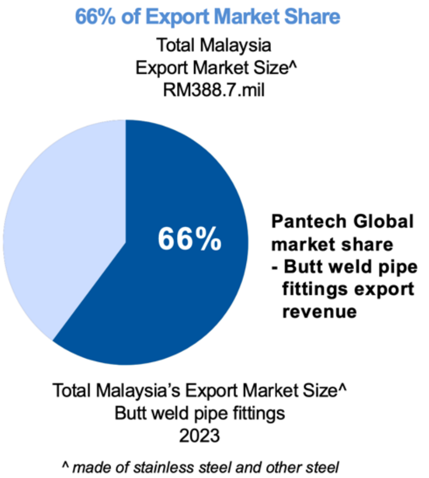
- Short and long radius **elbows**
- **Equal and reducing tees**
- **Concentric and eccentric reducers**
- **Stub ends** (stainless steel only)
- **End caps**
- **High Frequency Induction (HFI) long bends services**

American Society for Testing and Materials (ASTM) and **American Society of Mechanical Engineers (ASME) standards**.

Source: Company, Mercury Securities

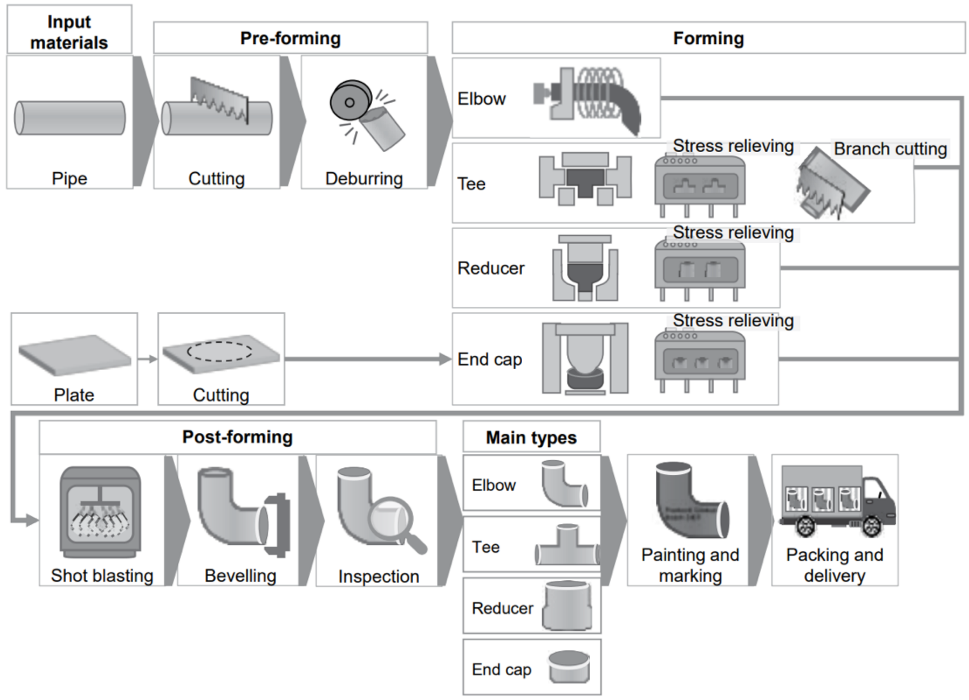
Figure 13: Pantech Global's market size and share





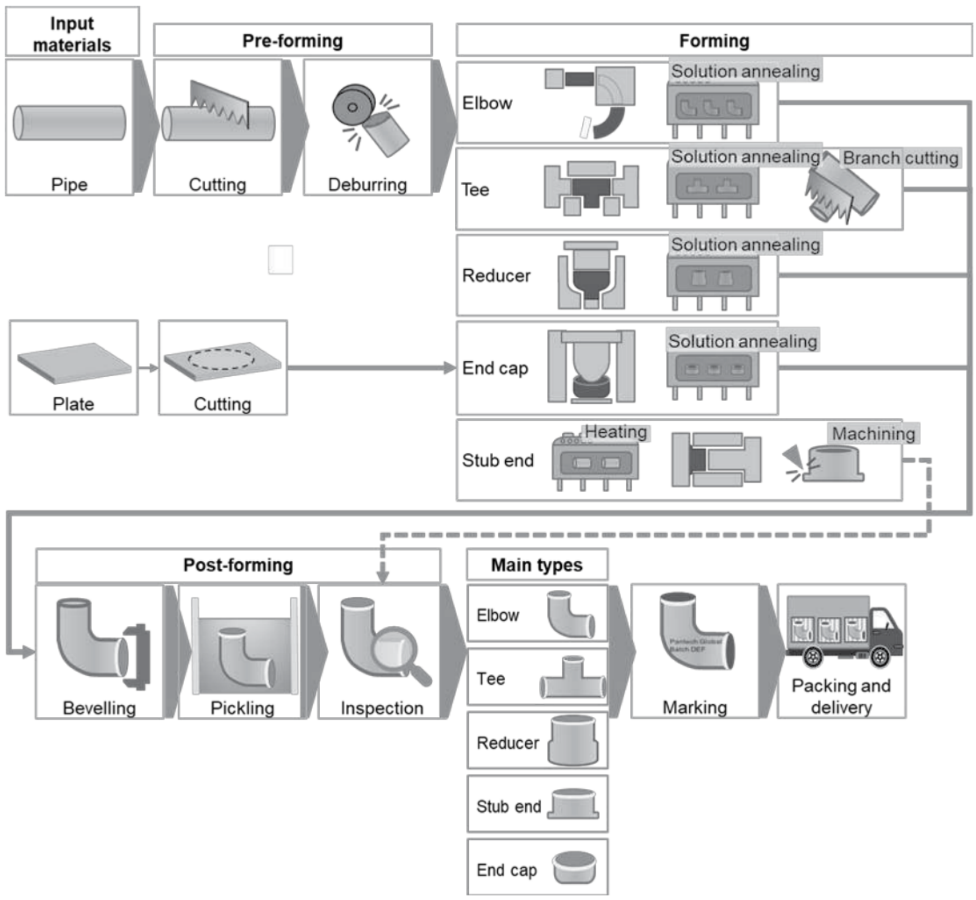
Source: Company, Mercury Securities

Figure 14: Process flow for manufacture carbon steel butt weld pipe fittings



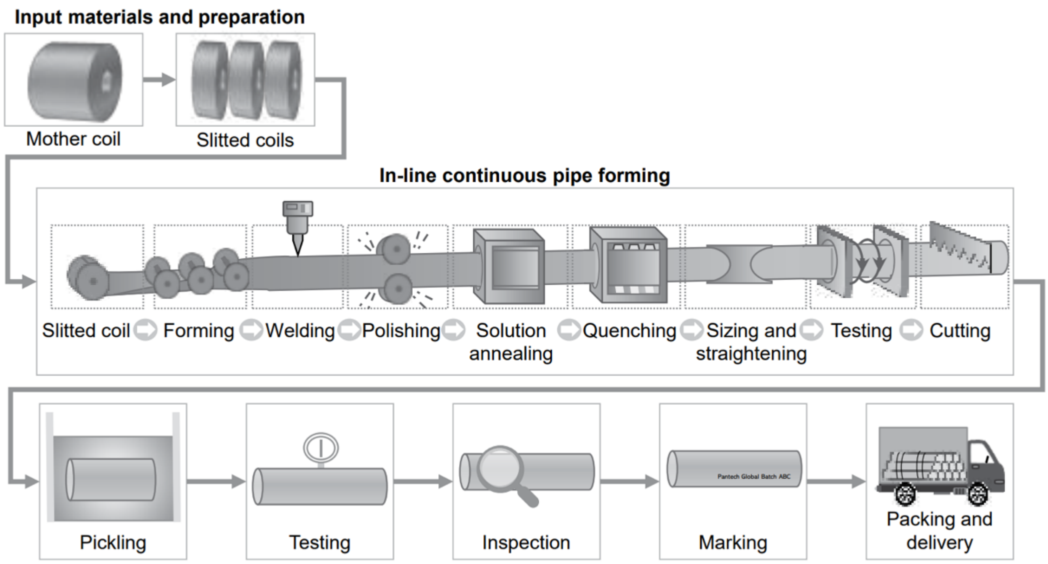
Source: Company, Mercury Securities

Figure 15: Process flow of manufacture stainless steel butt weld pipe fittings



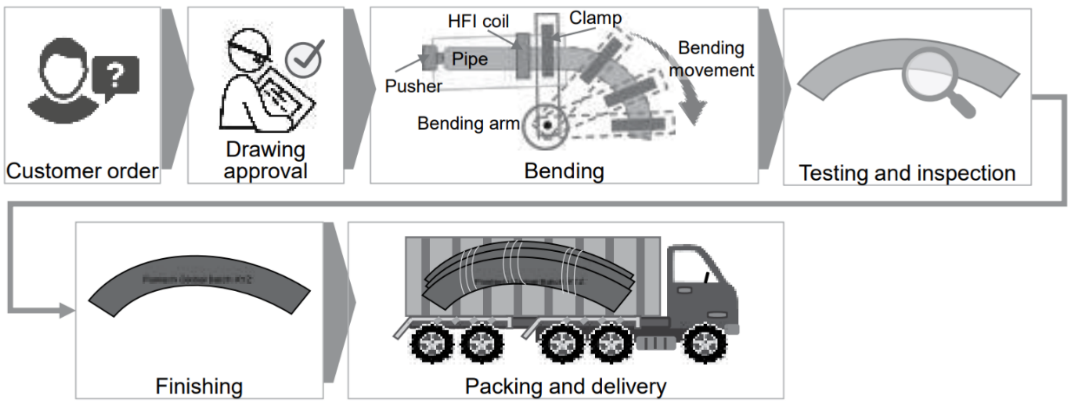
Source: Company, Mercury Securities

Figure 16: Process Flow for manufacture stainless steel butt weld pipe



Source: Company, Mercury Securities

Figure 17: Process flow for provision of HFI long bend services



Source: Company, Mercury Securities

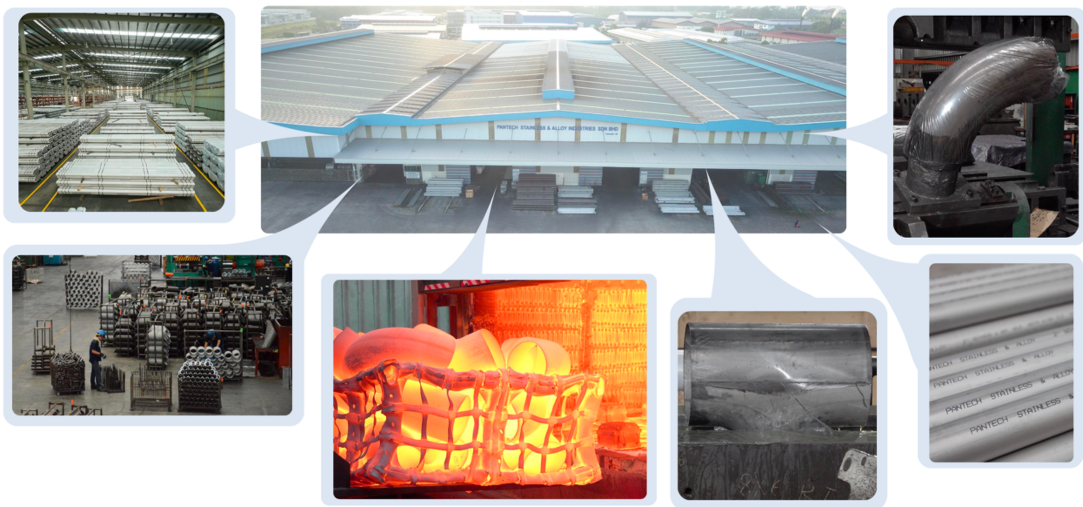
Figure 18: Key industries

Source: Company, Mercury Securities

Figure 19: PSI (Meru, Klang) - Fittings, HFI, and Warehouse

Source: Company, Mercury Securities

Figure 20: PSA (Pasir Gudang, Johor) - Pipes, Fittings, and Warehouse



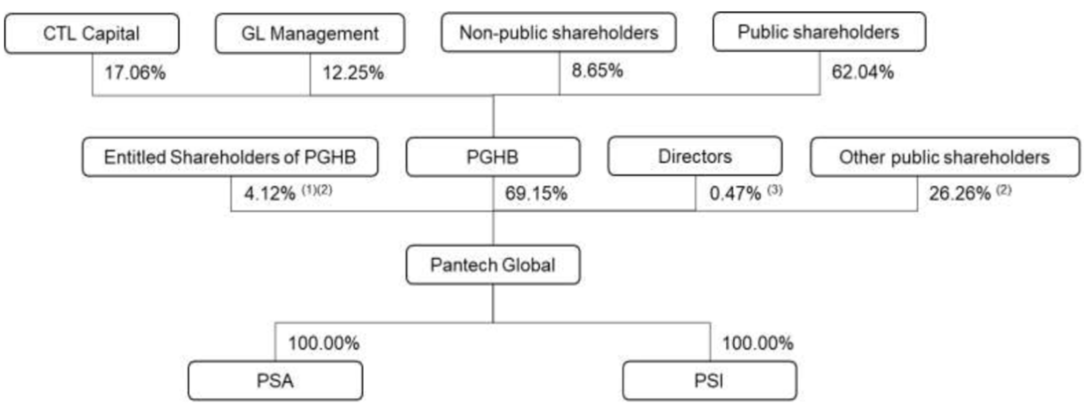
Source: Company, Mercury Securities

Figure 21: Key Management Team

Name and Designation	Age	Profile
Tan Ang Ang Managing Director	69	• As Group Managing Director (GMD), he drives strategic direction and business expansion, overseeing overall management, operations, and international sales and marketing for the Group. • Holds a Professional Diploma from the Chartered Institute of Marketing (1989). • Began his career in 1980 at SKF Malaysia Sdn Bhd, ascending through industrial roles at advancing through roles at Amalgamated Industrial Steel (1985), DOE Industries (1988), Kanzen Tetsu (1990), Wing Tiek Ductile Iron Pipe (1993/94), and Pressure Products (1998) to become PSI's Managing Director in 2000, then Executive Director of PGHB in 2006, and played a pivotal role in launching PSA's manufacturing facilities in 2009.
Kong Chiong Lee Deputy Group Managing Director	56	• Oversees production, quality control, and product and capacity planning for the Group. • Holds a Diploma in Mechanical Engineering from the Federal Institute of Technology (1991). • Started his career as a Production Assistant at Kris Component in 1991. progressed through roles at Bertool (1992), Wing Tiek Ductile Iron Pipe (1994), Baswood Furniture Hardware (1998), and PSI—joined as Production Manager in 2000, promoted to General Manager in 2006, and became Director in 2010.
Lim Soon Beng Group Executive Director	54	• Oversees sales for domestic and Southeast Asia markets, along with HR and administration functions. • Completed secondary education at SMK Dato' Bentara Luar, Batu Pahat, Johor. • Brings over 30 years of experience in the pipes, valves, and fittings industry. Began his career in 1990 at Pantech Hardware and Machinery Trading Sdn Bhd, progressing from Sales & Marketing Assistant to Senior Sales & Marketing Manager by 2008, and served as PSA's Executive Director from April 2010 before his current appointment.
Chew Zhiyin Chief Financial Officer	36	• As CFO, she oversees financial reporting, taxation, cost management, cash flow, budgeting, banking and finance, insurance matters, and international trade remedy issues for the Group. • Holds a Bachelor of Business (Accounting) from Monash University (2011) and an MBA from RMIT (2012); admitted as a CPA, Australia (2020) and Chartered Accountant of MIA (2023). • Began her career in 2013 at Pantech Corporation, advancing from accountant to Senior Finance Manager in 2021 and oversaw the acquisition of Unity Precision Engineering Sdn Bhd in 2022.
Ee Kuan Seng Factory Manager (PSA)	46	• Oversees overall operations of PSA's manufacturing plant in Pasir Gudang, Johor. • Holds a Bachelor of Engineering (Petroleum) from Universiti Teknologi Malaysia (2007). • Began his career in 2004 at Suruga Techno (M) Sdn Bhd in charge of the operations, production target and maintenance work of the factory, advancing from Engineer to Manager before joining PSA in 2010 and being promoted to Factory Manager in 2022.
Yip Weng Yuen Factory Manager (PSI)	44	• Oversees production operations at PSI's factory, collaborating with quality control to ensure process excellence and address production issues. • Holds a Bachelor of Engineering (Electrical-Electronics) from Universiti Teknologi Malaysia (2003). • Began his career at PSI in 2004 as Production Engineer, promoted to Production Manager in 2010, briefly led manufacturing at Anggerik Laksana Sdn Bhd from 2012 - 2013, and joined back PSI in 2013 and was promoted to Factory Manager in 2018.

Source: Company, Mercury Securities

Figure 22: Post-listing corporate structure



Source: Company, Mercury Securities

Future Plans & Business Strategies

Acquisition of existing operational facilities. The company will acquiring the key operational facilities to enhance ownership structure and long-term stability. This includes the purchase of land and buildings at its Klang Factory (Lot 13258 and Lot 13259) from the related company, Pantech Corporation for RM40m, with completion expected within three months post-listing. Additionally, the company is acquiring the PLO 641 land at its Johor Factory for RM12.5m, replacing existing tenancy agreements that expire in February 2025. These acquisitions will provide greater control over its manufacturing facilities and support future growth.

Purchase new machinery and equipment for Klang Factory, and to upgrade and replace certain old machinery and components. This is also to improve the manufacturing processes for carbon steel butt weld pipe fittings and HFI long bend services at the Klang Factory. With the additional machinery and equipment, the company would be able to enhance production capabilities and efficiency.

Additional pickling facility and new warehouse in Johor. The company is expanding its Johor operations with the setup of an additional pickling facility at its existing Johor Factory. This new facility will feature larger pickling tanks capable of accommodating pipes up to 11.8 meters in length, increasing production capacity from 23,850 to 26,850 tonnes annually. Block F, which currently serves as a warehouse, will be repurposed for this new facility by 2026. Additionally, a new warehouse, Johor Warehouse, will be established in Pasir Gudang by 2027 to support future growth.

Figure 23: The location of expand operational facilities in Johor

Source: Company, Mercury Securities

Expansion of Selangor operations. The company is expanding its Selangor operations with the establishment of Klang Factory 2 by 2028. This new facility will include a corporate head office, production floor, warehouse, and accommodation for workers. On 23 December 2024, PSI entered into a sale and purchase agreement (SPA) for a 10-acre vacant land in Klang, with a purchase price of RM28.1m. A deposit of RM2.8m has already been paid, and the remaining balance will be funded through proceeds from the public issue. The acquisition is expected to be completed by April 2025.

Key Risks

Exposure to steel price fluctuations. The business relies heavily on stainless and carbon steel as primary raw materials, which are subject to global market price fluctuations. These price variations affect both the cost of steel inputs and the selling prices of products like butt weld pipe fittings and stainless-steel welded pipes. An increase in steel prices typically boosts revenue and profitability but may reduce demand for products. Conversely, a sharp decrease in steel prices could lower average selling prices and impact financial performance. Thus, the company's financial outcomes, including revenue, profitability, and margins, are influenced by the volatility in steel prices.

Dependence on the U.S. market and key customers. The business is heavily reliant on the United States market, which has been the largest geographical market. Any decline in demand from the U.S., due to economic, political, or geopolitical changes, could negatively impact financial performance. The company also depends on a few key customers for a significant portion of its revenue. If any of these relationships were terminated or lost without finding suitable replacements, it would materially affect the company's operations and financial results.

Lack of long-term contracts with customers. The business operates based on purchase orders and does not have any long-term contracts with customers, which means there is no guarantee of continuity in orders. If customers choose to switch to other manufacturers or reduce their purchases, it could negatively impact the company's financial performance.

Dependency on imported steel materials and major suppliers. The business relies on imports for steel materials and is dependent on two major suppliers. Any disruption in the supply chain, such as shortages, increases in shipping rates, or issues with the suppliers, could adversely affect operations and financial performance.

Exposure to foreign currency exchange rate fluctuations. The business is highly exposed to foreign currency exchange rate fluctuations, as a significant portion of both revenue and purchases are denominated in USD. With revenue from USD accounting for over 69% of total revenue and steel material purchases being predominantly in USD, any adverse fluctuations in exchange rates between the RM and USD could negatively impact financial performance.

Risk relating to export sales and trade barriers. The business may face risks related to export sales, such as the imposition of anti-dumping duties, tariffs, or trade restrictions by foreign government authorities. Anti-dumping duties, which are levied on imported goods perceived to be sold below fair market value, could significantly affect the company’s competitiveness in international markets. These duties can vary by exporter and may adversely impact financial performance.

IPO Details

	Offer for Sale (m)	Public Issue (m)	Total (m)	(%)
Malaysiam Public	-	21.3	14.5	2.5
Eligible Persons	-	29.8	20.2	3.5
Entitled Shareholders of PGHB	-	35.0	23.8	4.1
Private Placement to Institutional and Selected Investors	-	70.0	47.6	8.2
Private Placement to Selected Bumiputera Investors		106.3	72.3	12.5
Total	-	262.2	178.3	30.9

Source: Company, Mercury Securities

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