

Pentamaster International | 1665.HK

Potential beneficiary of lower import tariff

Rating	Trading Buy	Maintain
Target Price	HKD 1.58	From HK\$1.41
Current price	HKD 1.20	Upside:31.6%

China to lower import tariff may benefit non-US equipment suppliers

The State Council announced on Sept 26 after the executive meeting that China will reduce import tariffs on 1,585 taxable items starting Nov. 1 2018, to serve industrial upgrading, lower corporate cost and meet domestic demand. The tariff cut will lower the tax burden on consumers and companies by about US\$8.7bn (~RMB 60 billion) this year. The average import tax for some machinery will be reduced from 12.2% to 8.8%, any reduction of tariffs usually must be offered to all countries equally under WTO rules, but we believe U.S. goods would still be subject to China's retaliatory tariffs. According to China Customs, the cumulative import value of machinery and electrical equipment came in at ~US\$136bn in 8M18 (+25.6% Yoy), in which the import value of machinery and electrical equipment used for the manufacture of semiconductor devices/ ICs was at US\$8.2bn (+39.8% Yoy), while import volume rose 76.5% to 10.2k units.

The Chinese smartphone brands began to gradually adopt 3D sensing solutions and under-glass FP recognition module in their flagship smartphones. In early Jul 2018, AMS (PI currently providing testing solution and contributed 56.6% of total revenue in 1H18) announced that Xiaomi's new Mi8 Explorer Edition adopts their miniature infrared VCSEL arrays to enable the world's first implementation of user face recognition in a smartphone based on the Android platform. Meanwhile, the rumoured Huawei Mate 20 series (to be officially unveiled in mid-Oct) would also equip with 3D face identification for unlocking and under-glass FP recognition module.

In 1H18, PI's revenue derived from China soared 204% to MYR38.9mn (based on shipment destination) and accounted for 19.5% of total revenue. In view of increasing popularity 3D sensing solutions and under-glass FP recognition module among Chinese smartphones, this would trigger demand for MEMS & smart sensor test handler solution. As the trade tensions between US and China do not see any signs of easing, we believe Chinese smartphone brands would choose non-US brand 3D sensing solutions, hence expecting AMS and Pentamaster would be the potential beneficiaries.

Strong ATE equipment demand boost 1H18 result, GM expansion on better margin projects being delivered;

Pentamaster delivered a strong set of 1H18 results, with revenue and adjusted net profit (excl. MYR 1.65mn listing fee) up 106.3%/148% respectively to MYR 199.4mn/47.2Mn. The robust result was driven by robust demand for MEMS & smart sensor testing handler (we believe to be 3D sensing) from ATE segment, and higher demand for integrated AMS (telecom and automotives). In 1H18, sales from telecom, semiconductor and automobile sector rocketed 112.5%/21.2%/>15x Yoy, and Pentamaster's GM soared 160bps Yoy to 31.9% (vs. 30.1% in 1Q18) thanks to **i) automated equipment projects with better margins delivered to customers in the telecom sector and ii) increased economy of scale**

The non-memory ATE segment, which Pentamaster currently focuses on, dominated the automated test equipment market in 2016 (accounted for >50%). Though the overall market expected to grow 3.5% in 2016-2021E, we expect Pentamaster would continue enjoy a higher than industry growth, thanks to **i) incorporating new features by smartphone customers (such as 3D sensing, under-glass FP recognition modules etc.) ; ii) increasing automotive IC dollar contents and iii) taking up market share from other industry players.**

Company Update

4 October 2018

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Trading data

52-Week Range (HK\$)	1.40/0.86
3 Mth Avg Daily Vol (m)	2.23
No. of Shares (m)	1,600.0
Market Cap (HK\$m)	1,902.0
Major Shareholders (%)	Pentamaster Corp BHD
Auditors	(63.1%)
Result Due	Grant Thornton
	3Q18: Nov 2019

Company description

Established in 1995 and listed in HKEx in Jan 2018, Pentamaster International (PI) is an automation manufacturing and technology solutions provider, providing an integrated range of innovative services in manufacturing of automated and semi-automated machinery and equipment to renowned clients worldwide with exposure to semiconductor, computer, automotive, electrical & electronics, pharmaceutical, medical devices, food & beverages, consumer electronics or end product test solutions to general manufacturing

Price chart



Sources: Bloomberg, CIRC

FLASH NOTE represent short-term trading ideas by Cinda International Research which are distinguished from our normal coverage. The recommended stocks may not be continually followed.

⚡ Factory Automation System (FAS) to benefit from increasing IC contents in automobiles and China favourable policy

FAS revenue grew 26.1% CAGR in FY14-FY17, and further accelerated to 80.1% Yoy to MYR 25.1Mn (12.6% of 1H18 revenue), and segment result came in at MYR 2.86mn (vs. MYR 0.94mn in 1Q18).

Particularly in China, in view of rising wages, shortage in skilled factory workers, growing demand for high precision parts/components (e.g. consumer electronics and automotives) and to improve production efficiency and quality, these provide ample room for FAS implementation (e.g. industrial robots installation). Pentamaster targets to expand Greater China business, and we believe they would benefit under Made in China 2025 and Robotics Industry Development Plan 2016-2020(《**機器人產業發展規劃(2016-2020年)**》)

⚡ Order backlog with high sales visibility, new plant began operation

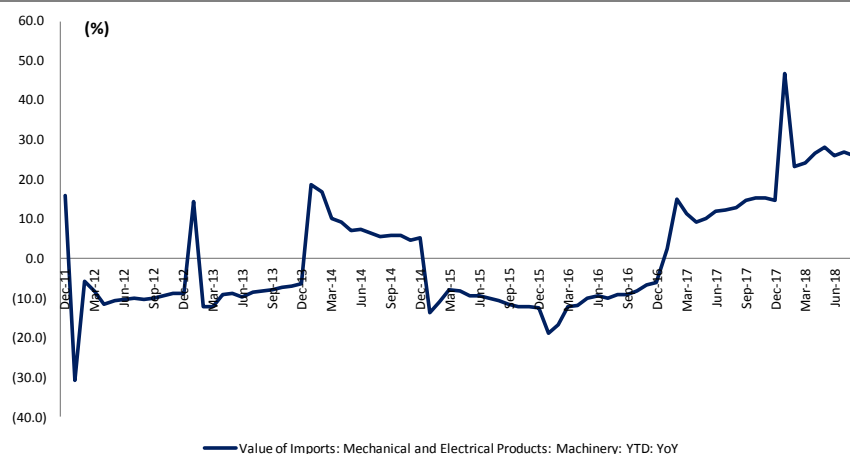
In 1H18, Pentamaster's outstanding order backlog came in at MYR235.7mn (vs. MYR249.2 in end-2017), which implies a ~1.2x book-to-bill ratio, already accounted for ~60% of market consensus revenue. With 6-9 months delivery time required, this means most of the backlogs would be recognized as revenue in FY18E and 1Q19.

Following the completion of the second new production plant with GFA ~97k sq. ft., Pentamaster production plant's total gross floor is now estimated to be >180k sq. ft. Pentamaster expects more delivery of projects involving large-scale factory automation lines such as i-ARMs solutions in 2H18E. The new plant fulfill clean room ISO Class 9 environment, which is a prerequisite for a number of potential customers in the medical device sector.

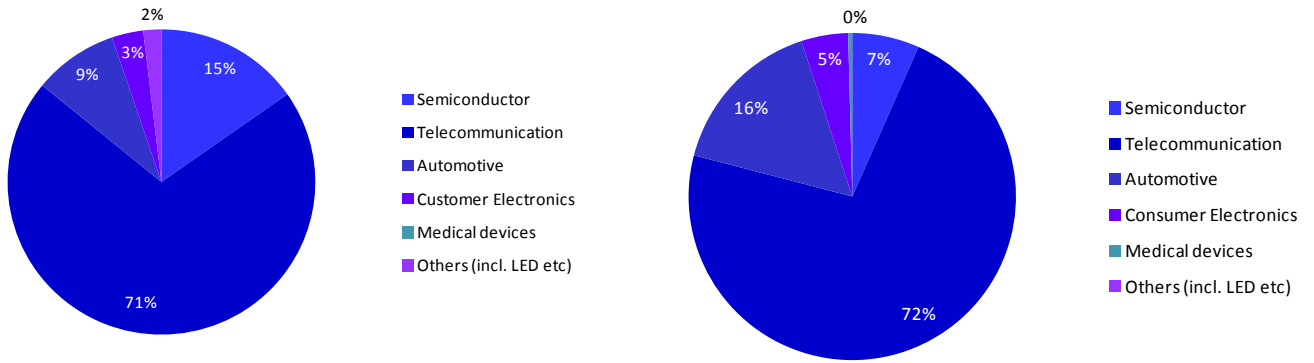
⚡ Undemanding FY18E 10.2x PE, re-rating story still makes sense

We expect Pentamaster's core EPS to grow 40.9% CAGR in FY17-FY20E, driven by gradual GM expansion from both business segments and enjoy economy of scale. Pentamaster is trading at an undemanding valuation 10.2x FY18E PE (~50% discount to peers avg. at 20.2x). We believe Pentamaster still deserves a re-rating story. We arrive its TP at HK\$1.58 based on 14.2x FY18E PE (30% discount to sector average vs. 20% discount in our last report in June 2018 due to markets' lower risk appetite for small caps). **We identify the following upside catalysts for Pentamaster: i) Parent co's 9M18 result (due in mid-Nov), ii) Pentamaster's increasing order-backlog, iii) Faster than expected adoption of 3D sensing and under-glass FP recognition modules and iv) Order wins from medical device clients**

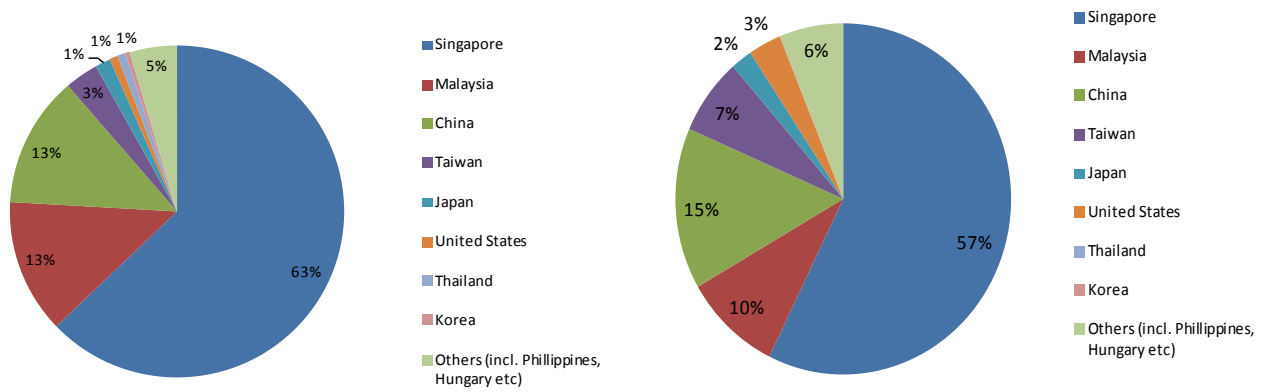
Exhibit 1: Pentamaster's sales breakdown (by industry) in 1Q18 and 2Q18



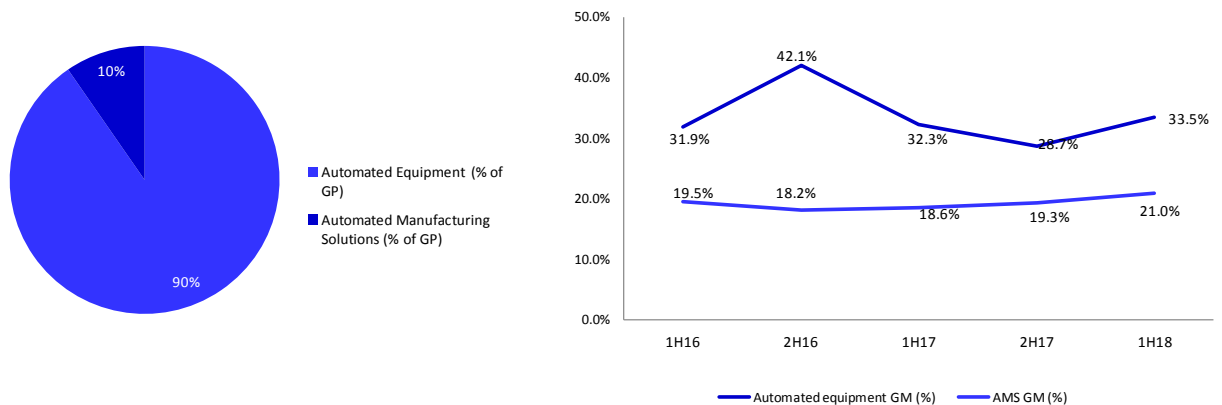
Source: WIND, China Customs, CIRL

Exhibit 2: Pentamaster's sales breakdown (by industry) in 1Q18 and 2Q18


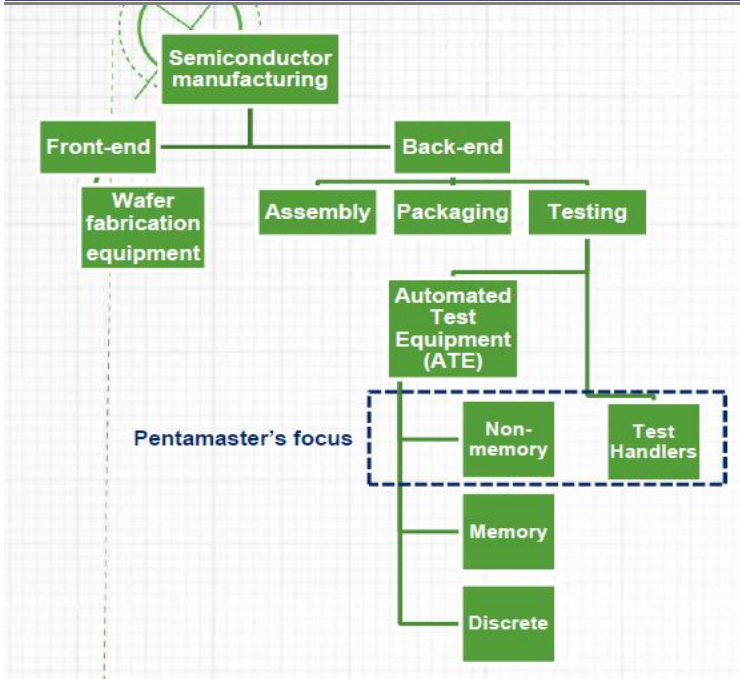
Source: Company data, CIRL

Exhibit 3: Pentamaster's sales breakdown (by where orders are received) in FY17 (left) and 1H18 (right)


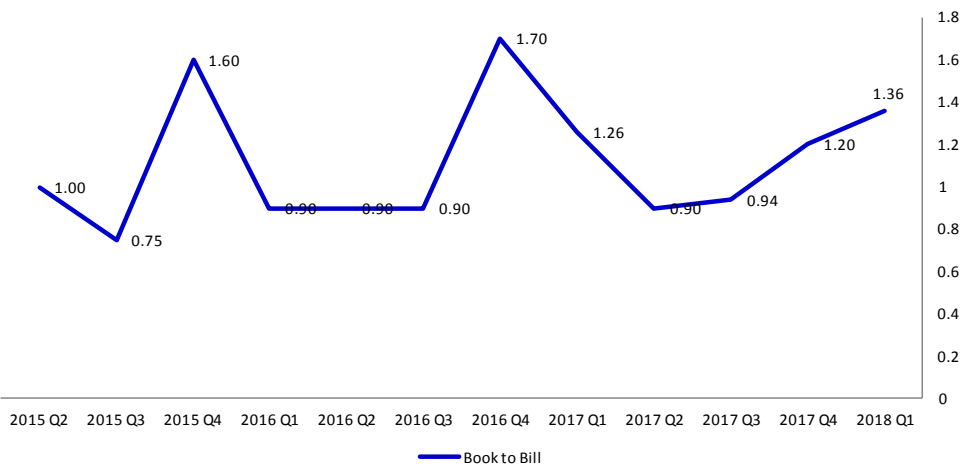
Source: Company data, CIRL

Exhibit 4: Pentamaster's sales breakdown (by where orders are received) in FY17 (left) and 1H18 (right)


Source: Company data, CIRL estimates

Exhibit 5: Pentamster focuses on the back-end testing segment (incl. non-memory ATE & test handlers)


Source: Company data

Exhibit 6: Global backend testing equipment book-to-bill ratio rose for the 3rd consecutive quarter in 1Q18


Source: Bloomberg, CIRC

Exhibit 7: Pentamaster's top 5 customers

Customer	Company Nature	Description	Year began business relationship	Products & solutions provided by Pentamaster	% of 1H17 revenue	% of FY17 revenue	% of 1H18 revenue
Customer A	Parentco listed on SIX Swiss Exchange	Established in Singapore in 1993, and operates as a subsidiary under an Austrian company listed on SIX Swiss Exchange in 2017. Parentco engages in the design and manufacture of advanced sensor solutions. Customer A focuses on micro-optic and high performance optical packaging.	2009	- MEMS & smart sensor test handler solutions; Intelligent sortation system	61.30%	51.70%	56.60%
Customer B	Listed on NASDAQ	Includes design, manufacture, marketing of mobile communication, media devices, personal computers & portable digital music players. It also sells a variety of related software, services, accessories, networking solutions and 3rd party digital contents and applications	2012	- i-ARMS solutions & AMS modules	8.00%	6.60%	7.00%
Customer C	Private Company	A UK company focuses on the design and manufacture of household appliances such as bladeless fans/ heaters, vacuum cleaners, hair dryers	2015	- End product test solutions and ancillary products	7.40%	5.10%	0.30%
Customer D	Carsem Sdn. Bhd. (Listed on the Bursa Malaysia)	Provides turnkey packaging and testing services to the semiconductor industry	2006	- Automation vision inspection handler solutions	5.00%	4.60%	1.00%
Customer E	Dixin Automation Sdn. Bhd.	Trading of automated equipment	2006	- Intelligent sortation system and ancillary products	5.00%	5.90%	0.50%
Top 5 client sales contribution					86.70%	73.90%	65.40%

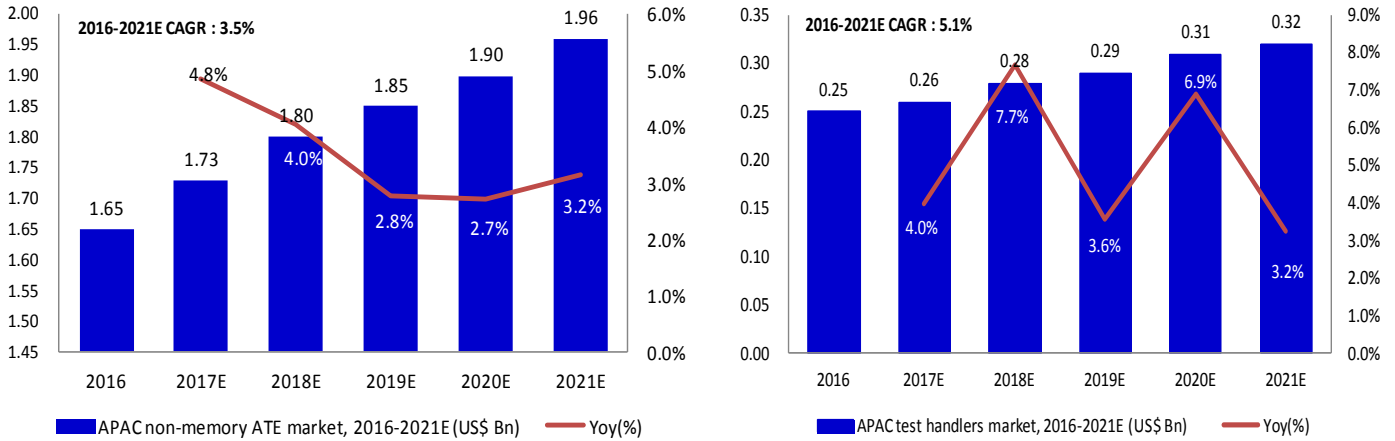
Source: Company data, CIRL

Exhibit 8: Pentamaster's current business segment comparison

Business Segment	Automated Equipment	Automated manufacturing solutions
Key Features	<ul style="list-style-type: none"> - Standardised and customized standalone automated equipment for i) semiconductor electronic components testing for smart sensors & ICs; ii) end product testing for consumer electronics, telecommunication products & LED - Address customers' functionality testing requirements during various stages of their manufacturing process - Part of the back-end semiconductor ATE market 	<ul style="list-style-type: none"> - Customized integrated manufacturing system consisting of automated assembly and test modules, material handling equipment, robotics technology, auto inspection and MES (manufacturing executive system) - Caters to specific manufacturing needs for automation - Part of the back-end semiconductor ATE market
Main products & solutions	<ol style="list-style-type: none"> 1) MEMS (Microelectromechanical systems) & smart sensor test handler solutions 2) Automated vision inspection handler solutions 3) Intelligent sortation system 4) End Product Testing 	<ol style="list-style-type: none"> 1) AMS (Automated Manufacturing Systems) modules 2) i-ARMS solutions
Key Market trends	<ol style="list-style-type: none"> 1) IoT revolution in end user industries has presented new application for semiconductor ICs, particularly those embedded with intelligence (e.g. telecommunications, automotive and medical devices) 2) Due to sheer volume of DUT (such as ICs/sensors) and micro sizes of the test points on each unite, semiconductor ATE is used to verify the DUT according to design specs/ to identify & diagnose faults 	<ol style="list-style-type: none"> 1) Factory automation is typically part of the modern assembly line production where components are integrated/processed with computerization and automation of the whole manufacturing process. 2) Industry 4.0 has been integrating smart automation solutions and real time data exchange into the manufacturing sector. Hence all manufacturers are potential customers
Revenue Contribution	FY15: 61.7%;FY16:71.7% ; FY17: 85.6%	FY15: 38.3%;FY16:28.3% ; FY17: 14.4%

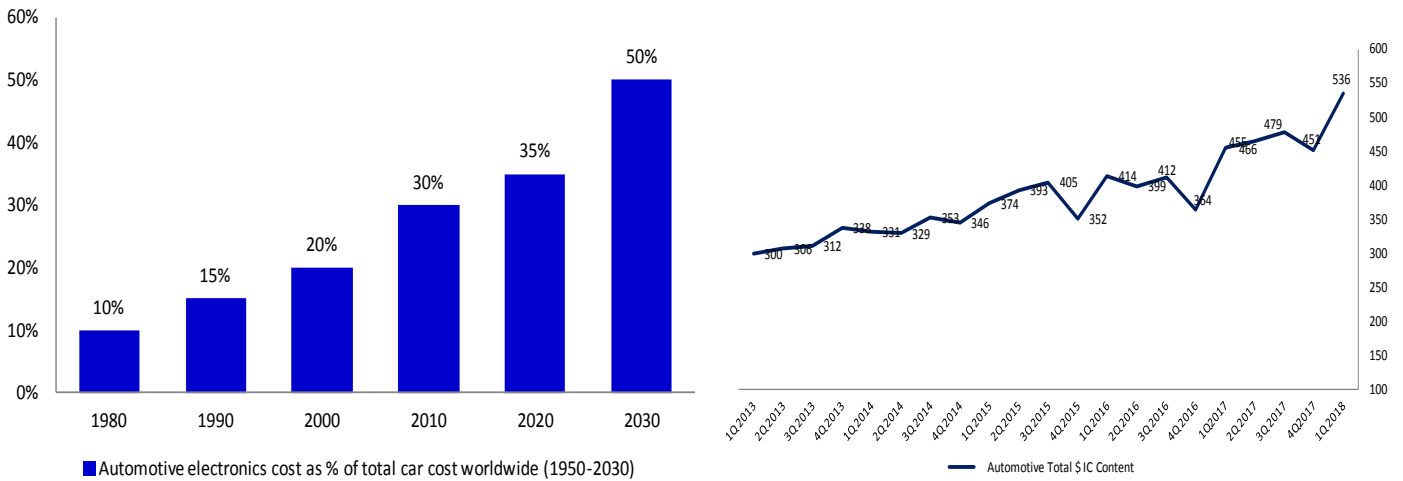
Source: Company data, CIRL

Exhibit 9: Global non-memory ATE and test handlers market expected to grow 3.5%/5.1% CAGR in 2016-2021E



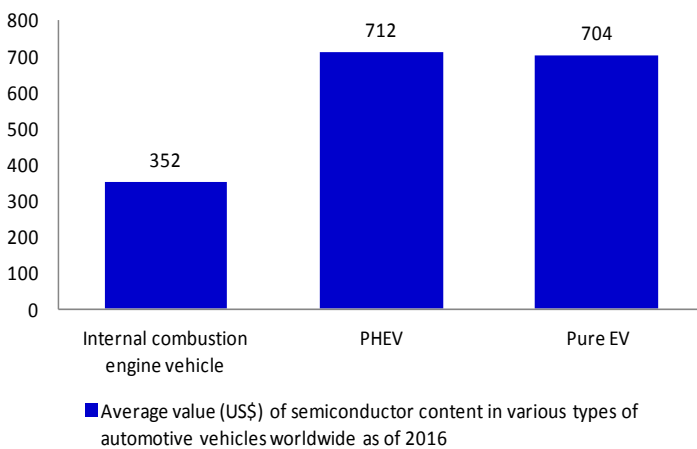
Source: SEMI, Frost & Sullivan, CIRL

Exhibit 10: Automotive electronics cost would account for 50% of total car cost by 2030

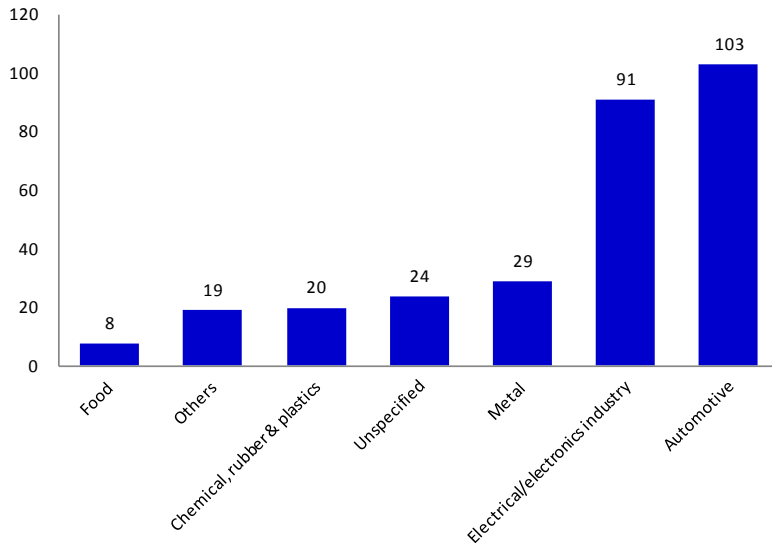


Source: Statista, Bloomberg, CIRL

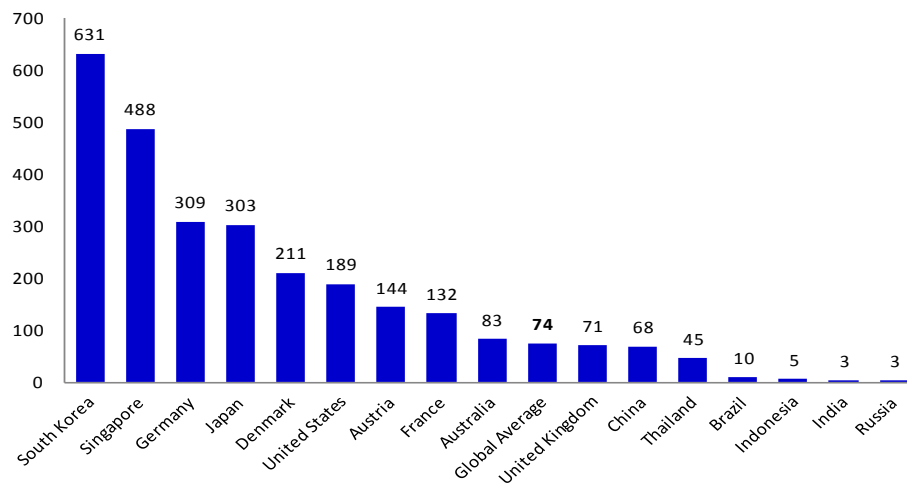
Exhibit 11: Semiconductor contents in PHEVs and EVs are ~1x higher than that of internal combustion engine vehicle



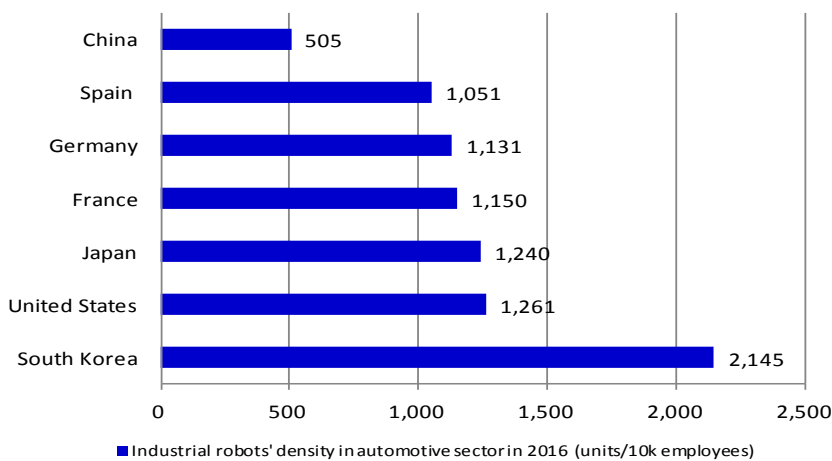
Source: Statista, CIRL

Exhibit 12: New installations of industrial robots worldwide in 2016 ('000 units)


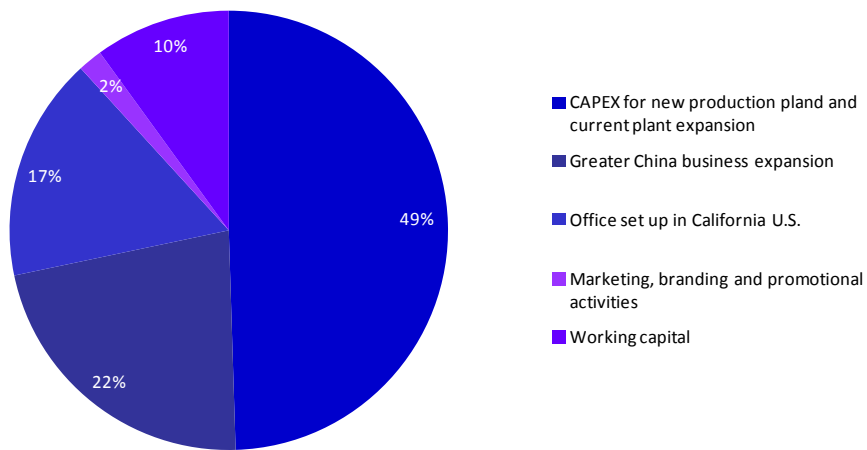
Source: Statista, CIRL

Exhibit 13: 2016 Worldwide Industrial Robots Density (Installed industrial robots/10k employees in manufacturing industry)


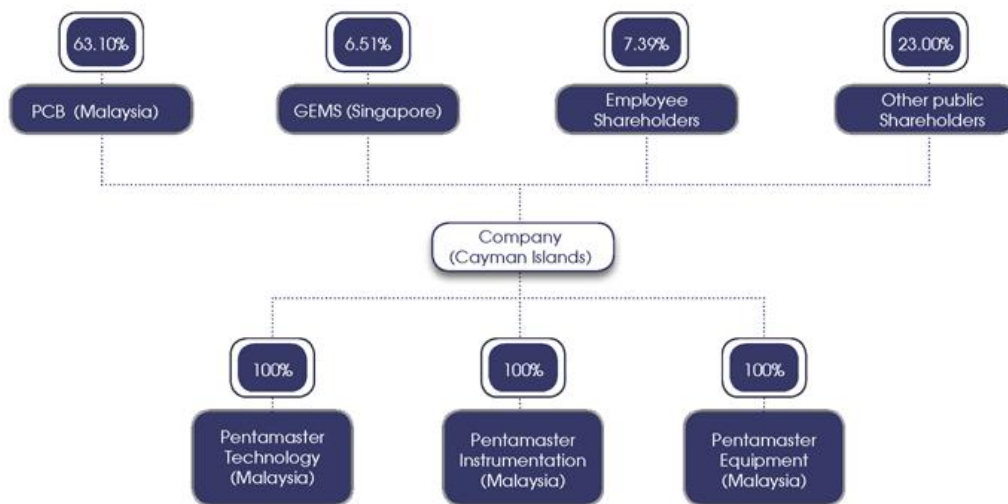
Source: IFR (International Federation of Robots), CIRL

Exhibit 14: Industrial robots' density in automotive sector in 2016 (units/10k employees)


Source: Statista, CIRL

Exhibit 15: Pentamaster's use of net IPO proceeds (~HK\$171mn)


Source: Company prospectus, CIRC

Exhibit 16: Pentamaster shareholding structure


Source: Company data

Exhibit 17: Revenue and GM assumption

Year to Dec (MYR mn)	FY15A	FY16A	FY17A	FY18E	FY19E	FY20E
Segment Revenue						
Automated equipment	45	102	233	348	433	519
Automated Manufacturing Solutions	28	40	39	51	65	84
Group	74	142	272	399	499	604
Segment Revenue Growth						
Automated equipment	-18.2%	123.8%	128.7%	49.4%	24.7%	19.8%
Automated Manufacturing Solutions	44.7%	42.0%	-2.6%	31.3%	27.3%	29.3%
Group	-1.9%	92.5%	91.5%	46.8%	25.0%	21.0%
Segment Gross Margin						
Automated equipment	29.1%	37.0%	30.0%	32.0%	32.0%	32.0%
Automated Manufacturing Solutions	26.4%	18.6%	19.0%	20.0%	21.0%	22.0%
Group	29.0%	31.8%	28.4%	30.5%	30.6%	30.6%

Source: Company data, CIRL estimates

Exhibit 18: Peers' margin comparison

	bloomberg code	ROE (%)	ROA (%)		FY17		
			FY17	FY17	GM (%)	OM (%)	PM (%)
AES- SMT/ automation plays							
ASM PACIFIC	522 HK	27.6	16.4		40%	20%	16%
O-NET TECHNOLOGI	877 HK	12.1	7.5		36%	15%	10%
WUHAN JINGCE E-A	300567 CH	21.3	14.8		46%	22%	19%
SHENZHEN JT AU-A	300400 CH	17.4	12.4		42%	22%	17%
DALIAN ZHIYUN-A	300097 CH	10.2	7.4		46%	23%	19%
SHENZHEN LIAND-A	300545 CH	11.6	6.8		30%	13%	12%
GUANGDONG ZHEN-A	300410 CH	-	-		-	-	16%
ASM INTL NV	ASM NA	22.5	20.9		41%	15%	61%
XCERRA CORP	XCRA US	7.6	5.5		44%	7%	6%
TERADYNE INC	TER US	13.6	8.8		57%	25%	12%
KULICKE & SOFFA	KLIC US	13.0	10.4		46%	12%	14%
COHU INC	COHU US	12.5	8.6		40%	10%	9%
ROCKWELL AUTOMAT	ROK US	35.4	11.6		42%	16%	13%
ATS AUTOMATION	ATA CN	5.2	2.6		25%	7%	3%
KOH YOUNG TECHNO	098460 KS	16.8	13.3		65%	22%	13%
OEM INTL AB-B	OEMB SS	28.3	15.2		N/A	10%	8%
CHROMA ATE	2360 TT	21.5	12.6		47%	20%	17%
FANUC CORP	6954 JP	9.5	8.3		43%	29%	24%
YASKAWA ELECTRIC	6506 JP	10.7	5.4		31%	8%	5%
THK CO LTD	6481 JP	6.7	4.1		26%	9%	6%
ADVANTEST CORP	6857 JP	14.0	6.4		58%	9%	9%
Average		16.2	10.1		42%	15%	15%
PENTAMASTER INTE	1665 HK	45.8	31.4		28%	21%	15%

Source: Bloomberg, CIRL

Exhibit 19: Financial statement
Income statement

Year to Dec (MYR mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	142	272	399	499	604
Gross profit (reported)	45	77	124	158	185
EBITDA	36	49	97	110	126
Depreciation	(3)	(4)	(3)	(6)	(8)
EBIT	33	45	94	105	118
Net interest income (exp.)	(0)	(0)	(0)	(0)	(0)
Associates	0	0	0	0	0
Exceptionals/others	0	0	0	0	0
Profit before tax	33	45	94	105	118
Tax expenses	1	(4)	(5)	(6)	(6)
Minority interest	0	0	0	0	0
Net profit	31	40	89	99	112
Dividends	0	0	0	0	0

Balance sheet

Year to Dec (MYR mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash & equiv	27	82	44	74	127
Trade receivables	32	33	60	73	88
Other receivables	3	8	5	6	2
Inventories	18	122	172	213	262
Other current assets	3	0	0	0	0
Fixed assets	41	46	121	155	187
Intangible assets	1	1	1	0	0
Investment, associates etc	3	0	0	0	0
Total assets	126	291	403	521	667
Account payables	10	25	35	43	53
Other payables	25	135	138	136	137
Short-term debt	0	4	4	4	4
Other current liabs	4	1	1	1	1
Long-term debts	0	0	0	0	0
Deferred tax and others	0	0	0	0	0
Other long-term liabs	1	0	0	0	0
Total liabilities	40	165	177	184	195
Share capital	0	0	0	0	0
Reserves	83	127	226	337	472
Shareholders' equity	83	127	226	337	472
Minorities	4	0	0	0	0
Total equity	87	127	226	337	472
Net cash (debt)	27	78	40	70	123

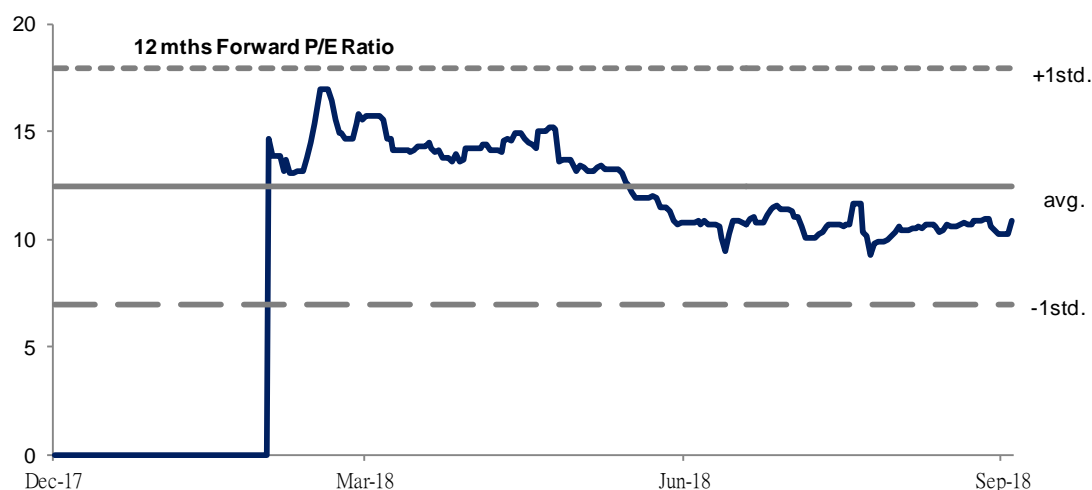
Cash flow

Year to Dec (MYR mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Pre-tax profit	33	45	94	105	118
Taxes paid	1	(4)	(5)	(6)	(6)
Depreciation	3	4	3	6	8
Associates	0	0	0	0	0
CFO bef. WC change	37	45	92	104	120
Change in working cap	2	(25)	(157)	(45)	(54)
Cashflow from operation	39	20	(65)	59	66
CAPEX	(3)	(3)	(80)	(42)	(42)
Free cash flow	36	17	(146)	17	24
Dividends	0	0	0	0	0
Balance sheet adj.	(32)	(2)	160	12	30
Shares issued	0	0	0	0	0
Others	0	0	0	0	0
Net cash flow	5	15	14	29	53
Net cash (debt) start	7	11	27	40	70
Net cash (debt) at year-end	11	27	40	70	123

Ratios

Year to Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Growth rate (%)					
Revenue	92.5	91.5	46.8	25.0	21.0
EBITDA	162.3	35.5	97.7	13.2	14.9
EBIT	210.5	38.0	107.7	11.2	13.1
Net profit	202.2	27.0	123.6	11.2	13.1
Fully diluted EPS	202.1%	45.9%	94.4%	9.7%	13.2%
Margins (%)					
Gross margin (reported)	31.8	28.4	31.2	31.8	30.6
EBITDA	25.6	18.1	24.4	22.1	21.0
EBIT	23.1	16.7	23.6	21.0	19.6
Net margin	22.1	14.6	22.3	19.8	18.5
Other ratios					
ROE (%)	58.1	45.8	39.4	29.3	23.7
ROA (%)	40.8	31.4	22.0	18.9	16.8
Net gearing (%)	(21.3)	(30.6)	(17.9)	(20.7)	(26.1)
Interest coverage (x)	2,187.5	3,772.9	5,337.5	4,746.2	4,435.6
Receivables days	32.9	43.0	54.9	53.1	53.1
Payables days	18.1	19.2	46.1	46.1	46.1
Inventory days	24.7	33.0	228.2	228.2	228.2
Effective tax rate (%)	(3.2)	9.9	5.5	5.5	5.5

Source: Company data, CIRL estimates

Exhibit 7: Pentamaster's 12 month forward P/E Ratio


Source: Bloomberg, CIRL

Exhibit 20: Peers comparison

	bloomberg code	Mkt Cap (HKD mn)	Price (HKD)	Share Price Movement (%)		PER (x)					Yield (%)				
				3M	YTD	FY16	FY17	FY18E	FY19E	FY20E	FY16	FY17	FY18E	FY19E	FY20E
AES- SMT/ automation plays															
ASM PACIFIC	522 HK	33,689	83.30	(16.2)	(23.5)	23.1	12.1	11.9	11.3	10.3	2.3%	3.0%	3.5%	3.7%	4.0%
HAITIAN INTL	1882 HK	28,536	17.88	(1.5)	(23.9)	15.8	12.3	11.2	10.0	9.2	2.2%	2.8%	3.1%	3.5%	3.8%
O-NET TECHNOLOGI	877 HK	3,205	4.00	(13.4)	(20.0)	22.2	14.3	11.2	8.8	7.2	0.0%	0.0%	0.6%	0.7%	0.0%
WUHAN JINGCE E-A	300567 CH	12,722	77.76	(14.7)	2.2	83.2	65.1	36.5	26.7	20.3	0.3%	0.4%	0.8%	1.0%	1.1%
SHENZHEN JT AU-A	300400 CH	4,497	18.47	19.1	20.8	73.5	48.5	32.5	24.4	18.8	0.4%	0.0%	0.8%	1.0%	0.0%
DALIANG ZHIYUN-A	300097 CH	4,201	14.56	(31.7)	(55.1)	35.6	20.3	11.2	8.5	7.2	0.2%	0.5%	0.5%	0.8%	0.7%
SHENZHEN LIANG-A	300545 CH	2,937	20.38	(22.7)	(45.3)	52.8	44.7	14.6	12.6	9.8	0.6%	0.6%	1.0%	1.2%	1.5%
GUANGDONG ZHEN-A	300410 CH	4,992	25.47	(4.7)	(36.2)	48.4	21.0	13.6	10.6	8.9	0.3%	0.5%	0.0%	0.0%	0.0%
ASM INTL NV	ASM NA	22,556	400.66	6.6	(14.5)	20.9	5.9	13.1	11.0	9.7	1.5%	1.8%	2.0%	2.1%	2.3%
XCERRA CORP	XCRA US	6,142	111.84	3.6	45.8	68.6	34.3	13.7	12.5	11.0	0.0%	0.0%	0.0%	0.0%	0.0%
TERADYNE INC	TER US	53,961	289.43	(2.4)	(11.8)	-177.6	28.6	17.7	14.1	11.9	0.6%	0.8%	1.0%	1.1%	1.2%
KULICKE & SOFFA	KLIC US	12,535	185.51	0.0	(2.7)	35.7	15.1	10.3	9.9	8.9	0.0%	0.0%	1.5%	2.0%	2.0%
COHU INC	COHU US	7,714	189.59	1.5	10.2	222.0	20.6	13.6	9.7	8.5	1.0%	1.0%	0.0%	0.0%	0.0%
ROCKWELL AUTOMAT	ROK US	182,969	1,485.57	13.4	(3.5)	34.2	29.7	23.7	21.1	19.4	1.5%	1.6%	1.8%	1.9%	1.9%
ATS AUTOMATION	ATA CN	13,889	147.62	24.8	55.4	57.9	65.7	34.3	25.7	21.7	0.0%	0.0%	0.0%	0.0%	0.0%
KOH YOUNG TECHNO	098460 KS	10,314	753.51	6.8	30.5	50.5	54.3	31.4	25.8	20.7	0.4%	0.6%	0.7%	0.8%	0.9%
OEM INTL AB-B	OEMB SS	4,341	187.36	16.2	21.5	23.7	22.2	-	-	-	2.7%	2.9%	0.0%	0.0%	0.0%
VITROX CORP BHD	VITRO MK	7,388	15.71	48.7	33.7	60.4	49.0	37.7	27.3	22.2	0.4%	0.5%	0.6%	0.9%	1.1%
INARI AMERTRON B	INRI MK	14,306	4.52	8.8	5.6	45.7	32.0	26.1	24.6	19.7	1.1%	1.7%	3.0%	3.3%	3.8%
ELSOFT RESEARCH	ELSR MK	1,792	6.47	33.1	26.7	30.1	32.7	23.5	21.4	21.1	2.9%	3.4%	3.0%	3.4%	3.2%
CHROMA ATE	2360 TT	14,711	35.50	(13.7)	(14.2)	32.5	21.6	17.9	15.2	13.4	2.2%	3.2%	3.8%	4.6%	5.4%
FANUC CORP	6954 JP	307,028	1,504.75	1.7	(19.2)	28.5	31.8	21.7	26.7	25.0	2.1%	1.9%	2.7%	2.3%	2.4%
YASKAWA ELECTRIC	6506 JP	63,440	237.88	(12.5)	(30.4)	43.5	43.3	21.2	18.3	17.2	0.5%	0.6%	1.3%	1.5%	1.7%
THK CO LTD	6481 JP	27,031	201.94	(8.3)	(30.7)	29.1	21.3	9.6	9.8	10.2	1.6%	1.5%	2.9%	3.0%	3.0%
ADVANTEST CORP	6857 JP	33,046	165.59	5.2	15.0	66.8	28.5	26.5	13.4	13.1	0.8%	1.1%	1.2%	2.2%	2.2%
Average		35,118		1.9	(2.5)	50.2	31.0	20.2	16.6	14.4	1.2%	1.5%	1.8%	2.0%	2.3%
PENTAMASTER INTE	1665 HK	1,920	1.20	21.2	N/A	-	-	10.2	9.2	8.1	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Bloomberg, CIRC

Risk Factors

Downside risks include: 1) Slower than expected demand from telecommunication and automotive clients ; 2) Decreasing order backlog; 3) increasing market competition ; 4) FX loss ; 5) market liquidity

Rating Policy

	Rating	Definition
Stock Rating	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
Sector Rating	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

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Analyst Certification

I, Hayman Chiu, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was / were, is / are or will be directly or indirectly, related to the specific recommendations or views expressed in this report / note.

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