Pangaea Connectivity (1473 HK)

Riding On The AI Upcycle At Undemanding Valuations

Highlights

- Pangaea is a value-added distributor with two businesses - optical components and industrial laser solutions - riding on the AI upcycle. As of end-Jul 26, it had US$1.15b in sales contracts on hand (vs HK$2.2b revenue in FY26), mainly contributed by indium phosphide photodiode (PD) used in optical modules.
- The company targets FY27/28 revenue growth of over 80%/120% yoy respectively, led by ample order backlog for PD and laser systems. It expects a six-fold/two-fold net profit growth to over HK$200m/about HK$600m in FY27-28 respectively on margin expansion.
- Management is considering a higher dividend payout in view of improving cashflow generation. Based on management's net profit targets and a 40% dividend payout ratio (in FY26), it is now trading at about 8%/19% dividend yield for FY27-28 respectively.

Analysis

- **A value-added distributor riding the AI upcycle.** Pangaea Connectivity (Pangaea) focuses on two growth areas: a) optoelectronic and semiconductor components for high-speed data centre communications, and b) industrial laser solutions for precision manufacturing. For optical components, its 200Gb/s indium phosphide photodiode (PD) is the key growth driver in FY27. For industrial laser, Pangaea expects significant growth of laser systems in FY27, supported by growing demand for high-end PCB processing.
- **Optical components to drive FY27 growth.** Rather than manufacturing components, it works with its key supplier MACOM on solution design, testing, customer qualification and supply-chain support. It supplies optoelectronic and semiconductor components including integrated circuits, lasers, PD (1.6T focused) to clients such as Innolight, Hisense, and Coherent. Notably, PD accounted for the majority of its US$1.15b order backlog as of end-Jul 26. The company aims to broaden its product offerings to transimpedance amplifiers (TIA) and continuous-wave lasers (CW) in the future.

Key Financials

Year to 31 Mar (HK$m)	FY22	FY23	FY24	FY25	FY26
Net turnover	1,224	1,199	1,384	2,128	2,230
EBITDA	35	4	6	81	85
Operating Profit	25	(7)	(4)	69	70
Net Profit	4	(31)	(29)	31	42
Net Profit (adj.)	4	(31)	(29)	31	42
EPS (HK cents)	0.4	(3.1)	(2.9)	3.1	3.7
P/E (x)	279.7	n.a.	n.a.	33.5	27.7
P/BV (x)	3.8	4.2	4.7	4.2	4.0
EV/EBITDA (x)	38.8	394.7	223.4	16.5	15.9
Dividend yield (%)	-	-	-	1.0	1.4
Net margin (%)	0.3	(2.6)	(2.1)	1.4	1.9
Net debt to equity (%)	48.9	75.8	50.2	47.6	39.1
Interest cover (x)	1.7	n.a.	n.a.	2.2	3.3
ROE (%)	1.4	(12.6)	(13.4)	12.5	13.4

Source: Pangaea Connectivity, UOB Kay Hian

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NOT RATED

Share Price	HK$1.035
Target Price	n.a.
Upside	n.a.

Stock Data

Sector	Information Technology
Bloomberg ticker	1473 HK
Shares issued (m)	1,185
Market cap (HK$m)	1,227
Market cap (US$m)	157
3-mth avg daily t'over (US$m)	0.3

Price Performance (%)

52-week high/low				HK$1.86/HK$0.35
1mth	3mth	6mth	1yr	YTD
(13.8)	(19.8)	59.2	187.5	168.8

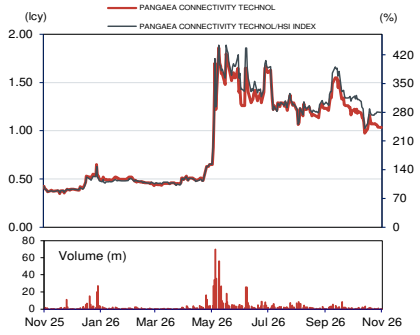
Major Shareholders (%)

Mr. Fung Yui Kong	56.13

Balance Sheet Metrics

FY26 NAV/Share (HK$)	0.26
FY26 Net Debt/Share (HK$)	0.10

Price Chart



Source: Bloomberg

Company Description

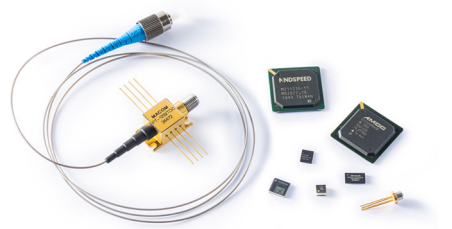
Pangaea Connectivity Technology is a Hong Kong-based value-added distributor of optical components and industrial laser solutions for the telecom and datacom industry.

- **Industrial laser equipment as a second growth engine.** Leveraging its solar-processing experience and laser-tuning know-how, Pangaea expanded into high-end PCB processing, where increasing board complexity requires greater drilling precision. The company expects to deliver over 500 high-power laser systems by end-FY27, which should translate into over US$55m in revenue.
- **Significant earnings growth in FY27-28 on ample order backlog.** Management targets revenue to grow over 80%/120% yoy in FY27-28 respectively, led by its order backlog for PD and laser systems. The company expects net margin expansion to about 6% for its upcoming deliveries, which should support net profit growing about six-fold/two-fold in FY27-28 respectively, up from HK$42m in FY26.
- **Potential dividend step-up.** Management is considering stepping up dividend payout on the back of improving cashflow generation. Based on management's FY27-28 net profit target and a 40% dividend payout ratio in FY26, it is now trading at about 4.9x/2.2x PE and 8%/19% dividend yield for FY27-28 respectively.

Valuation/Recommendation

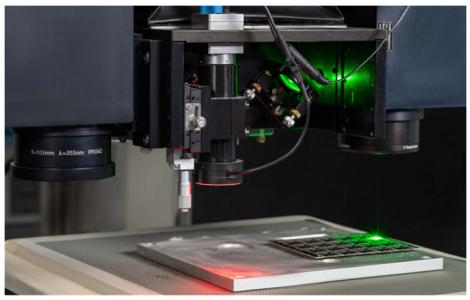
- The company is trading at 4.9x/2.2x PE and 8%/19% dividend yield in FY27-28, based on management's net profit growth target.

Optical IC& Photonics Products



Source: Pangaea Connectivity

Industrial Lasers



Source: Pangaea Connectivity

Profit & Loss

Year to 31 Mar (HK$m)	FY23	FY24	FY25	FY26
Net turnover	**1,199**	**1,384**	**2,128**	**2,230**
EBITDA	4	6	81	85
Deprec. & amort.	(10)	(10)	(13)	(15)
EBIT	**(7)**	**(4)**	**69**	**70**
Total other non-operating income	-	-	-	-
Net interest income/(expense)	(28)	(29)	(31)	(21)
Pre-tax profit	**(34)**	**(33)**	**38**	**49**
Tax	3	4	(7)	(8)
Minorities	-	-	-	-
Net profit	**(31)**	**(29)**	**31**	**42**
Net profit (adj.)	(31)	(29)	31	42

Balance Sheet

Year to 31 Mar (HK$m)	FY23	FY24	FY25	FY26
Fixed assets	43	43	49	42
Other LT assets	45	45	42	39
Cash/ST investment	173	171	180	212
Other current assets	457	589	565	716
Total assets	**718**	**848**	**837**	**1,009**
ST debt	362	281	297	333
Other current liabilities	107	344	291	362
LT debt	-	-	-	-
Other LT liabilities	1	5	5	4
Shareholders' equity	249	218	244	310
Minority interest	-	-	-	-
Total liabilities & equity	**718**	**848**	**837**	**1,009**

Cash Flow

Year to 31 Mar (HK$m)	FY23	FY24	FY25	FY26
Operating	**(13)**	**99**	**42**	**(3)**
Pre-tax profit	(34)	(33)	38	49
Tax	(5)	-	-	(4)
Deprec. & amort.	10	10	13	15
Working capital changes	(22)	97	(34)	(83)
Other operating cashflows	37	25	26	19
Investing	**(11)**	**15**	**(15)**	**4**
Capex (growth)	(9)	(1)	(11)	(2)
Others	(2)	17	(4)	6
Financing	**(72)**	**(116)**	**(27)**	**32**
Dividend payments	-	-	-	(12)
Issue of shares	-	-	-	35
Proceeds from borrowings	1,860	1,586	2,410	2,315
Loan repayment	(1,898)	(1,667)	(2,394)	(2,279)
Others/interest paid	(34)	(35)	(43)	(27)
Net cash inflow (outflow)	**(96)**	**(1)**	**-**	**33**
Beginning cash & cash equivalent	**161**	**65**	**64**	**64**
Changes due to forex impact	-	-	-	-
Ending cash & cash equivalent	**65**	**64**	**64**	**97**

Key Metric

Year to 31 Mar (%)	FY23	FY24	FY25	FY26
Profitability				
Gross margin	10.8	8.5	10.4	10.9
Pre-tax margin	(2.9)	(2.4)	1.8	2.2
Net margin	(2.6)	(2.1)	1.4	1.9
ROA	(4.4)	(3.5)	3.6	4.1
ROE	(12.6)	(13.4)	12.5	13.4
Growth				
Turnover	(2.1)	15.5	53.8	4.8
EBITDA	(89.8)	66.8	1,259.6	4.4
Pre-tax profit	n.a.	n.a.	n.a.	30.3
Net profit	n.a.	n.a.	n.a.	36.1
Net profit (adj.)	n.a.	n.a.	n.a.	36.1
EPS	n.a.	n.a.	n.a.	21.0
Leverage				
Debt to total capital	59.3	56.3	54.9	51.8
Debt to equity	145.6	128.7	121.5	107.5
Net debt/(cash) to equity	75.8	50.2	47.6	39.1
Interest cover	n.a.	n.a.	2.2	3.3

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