

01 July 2020

P.I.E Industrial

Dips into the Red

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1QFY20 CNL of RM3.6m is tracking below our/consensus' full year estimate of RM45.4m CNP. The group saw lower loading volume as its plant was in total shutdown during the earlier phase of the MCO. We expect the second quarter to remain soft due to inadequate operators in April and May while June only saw 75% of its workforce utilised. The group should return to the black from 3Q onwards. Slashed FY20E and FY21E CNP by 65% and 25% to RM15.7 and RM39.1m, respectively. Maintain MARKET PERFORM with a lower Target Price of RM1.22 (previously RM1.40).

Below expectation. 1QFY20 dipped into the red, recording a CNL of RM3.6m, below our/consensus' forecast of RM45.4m as it was adversely impacted by the global pandemic. The group saw a decline in loading volume towards the end of January with worsening conditions towards February. Not helping was the initial phase of the movement control which was enforced starting mid-March that brought its plant to a total halt in that month.

Results' highlight. 1QFY20 revenue plummeted 33.6% YoY to RM100.7m. The decline was seen across all segments with the electronic manufacturing services (EMS) segment (c.73% of group sales) being the worst performer, declining 36% YoY. Revenue from raw wire and cable dipped 10% while wire harness (c.3.6% of group sales) fell 37%.

Picking up the pace. Looking ahead, we expect the second quarter to see slight improvement but still remain soft considering the group was in total lockdown in the month of April, coupled with less than adequate workforce returning in May. Workforce was at 75% in June, as there were some operators that were not able to return to work. The group should return to the black from 3Q onwards.

Earlier this year, the group was in the midst of having its new equipment audited by a potential new customer. However, the Covid-19 outbreak has halted the progress till now, resulting in higher depreciation charges while contribution from this new customer has yet to kick in. On a positive note, the group is still optimistic that the new customer will continue with the decision to outsource the manufacturing process to PIE but contributions will be deferred until international travel is permitted for the customer to carry out qualification process on site.

We slashed our FY20E and FY21E CNP by 65% and 25% to RM15.7 and RM39.1m, respectively. We factor in lower loading volume coupled with delayed timeline for new product introduction due to the travel restriction which is hindering the potential customer as mentioned above from carrying out the qualification process.

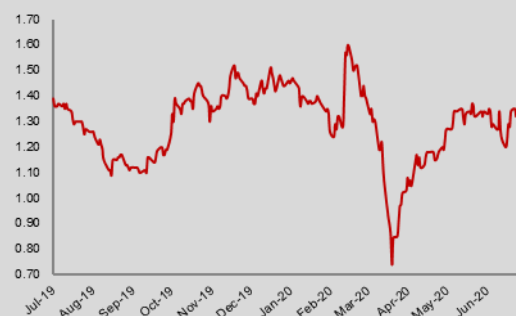
Maintain MARKET PERFORM with a lower Target Price of RM1.22 (previously RM1.40). Our valuation is based on 12x PER (in line its 5-year mean) as we roll forward our earnings base to FY21E.

Risks to our call include: (i) lower/higher-than-expected sales, (ii) loss of orders from its key customers, and (iii) adverse/favourable currency translations.

MARKET PERFORM ↔

Price : RM1.28
Target Price : RM1.22 ↔

Share Price Performance



KLCI 1,500.97
YTD KLCI chg -5.5%
YTD stock price chg -11.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PIE MK Equity
Market Cap (RM m)	491.6
Shares Outstanding	384.0
52-week range (H)	1.65
52-week range (L)	0.72
3-mth avg daily vol:	623,489
Free Float	35%
Beta	0.7

Major Shareholders

Pan Global Holding Co Ltd	51.4%
Employees Provident Fund	4.2%
Mak Tian Meng	4.1%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	659.3	484.7	751.1
EBITDA	61.3	38.7	69.3
PBT	45.8	21.0	52.2
Net Profit (NP)	36.6	15.7	39.1
Core NP	36.6	15.7	39.1
Consensus (NP)	N.M	45.4	52.3
Erngs Revision	N.M	-65%	-25%
Core EPS (sen)	9.5	4.1	10.2
BV/Share (RM)	1.2	1.2	1.3
PER (x)	13.4	31.3	12.6
Price/BV (x)	1.1	1.1	1.0
Net Gearing (x)	-0.4	-0.5	-0.4
NDPS (sen)	0.0	2.0	5.0
Dividend Yield (%)	0.0	1.4	3.4



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Result Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE: Dec (RM m)	FY20	FY19	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	100.7	160.6	-37.3%	151.7	-33.6%	100.7	151.7	-33.6%
EBIT	-1.7	13.1	-112.6%	1.5	-212.9%	-1.7	1.5	-212.9%
PBT	-1.8	13.0	-114.1%	1.5	-224.3%	-1.8	1.5	-224.3%
Taxation	-0.6	-2.0	68.7%	-0.7	9.5%	-0.6	-0.7	9.5%
Net Profit (NP)	-3.6	11.0	-132.5%	1.1	-425.4%	-3.6	1.1	-425.4%
Core NP	-3.6	13.4	-126.5%	1.1	-425.4%	-3.6	1.1	-425.4%
FD core EPS (sen)	-0.9	3.5	-126.5%	0.1	-758.0%	-0.9	0.1	-758.0%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	-1.6%	8.2%		1.0%		-1.6%	1.0%	
Adjusted EBIT margin	0.0%	0.0%		0.8%		0.0%	0.8%	
Pretax margin	-1.8%	8.1%		1.0%		-1.8%	1.0%	
CNP margin	-3.5%	8.4%		0.7%		-3.5%	0.7%	
Effective tax rate	34.4%	-15.5%		-47.2%		34.4%	-47.2%	

Source: Kenanga Research

Operating segment								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE: Dec (RM m)	FY20	FY19	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	100.7	160.6	-37.3%	151.7	-33.6%	100.7	151.7	-33.6%
Manufacturing	100.5	160.5	-37.4%	147.6	-31.9%	100.5	147.6	-31.9%
Trading	0.1	0.1	6.5%	4.1	-98.4%	0.1	4.1	-98.4%
Others	0.1	0.1	24.0%	0.0	304.3%	0.1	0.0	304.3%

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
D&O GREEN TECHNOLOGIES BHD	0.72	812.5	Y	12/2020	-5.7%	6.5%	-15.5%	43.5%	24.0	28.0	19.8	1.6	1.4	10.9%	2.0%	0.86	OP
JHM CONSOLIDATION BHD	1.34	747.1	Y	12/2020	5.9%	24.7%	3.6%	58.2%	23.8	22.9	14.5	3.6	3.0	13.1%	1.2%	2.00	OP
KESM INDUSTRIES BHD	7.41	318.7	Y	07/2020	-23%	24.0%	-37.0%	366%	53.7	84.5	18.1	1.0	0.9	2.0%	1.1%	7.40	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	11.00	2,311.9	Y	06/2020	2.2%	9.0%	7.6%	29.0%	12.8	12.5	9.7	1.6	1.6	10.5%	3.0%	13.30	OP
P.I.E. INDUSTRIAL BHD	1.28	491.6	Y	12/2020	-26%	55%	-57%	149%	13.4	31.3	12.6	1.1	1.1	3.4%	1.6%	1.22	MP
SKP RESOURCES BHD	1.35	1,692.8	Y	03/2020	18.9%	24.2%	-30.4%	-0.8%	9.5	9.6	6.6	1.6	1.4	15.8%	5.2%	1.56	OP
UNISEM (M) BHD	2.05	1,501.4	Y	12/2020	-7.0%	15.9%	40.2%	23.2%	N.A.	14.0	12.6	1.0	1.0	7.3%	3.1%	1.80	MP

Source: Kenanga Research

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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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