

M'sian Pacific Industries

Another Record Quarterly Earnings

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MPI registered yet another all-time high quarterly earnings in 2QFY21 with CNP of RM67m (+49% YoY; +21% QoQ). 1HFY21 CNP of RM122.3m (+50% YoY) came above expectations at 64%/62% of our/consensus estimates. 1HFY21 revenue jumped 18%, spurred by higher demand for RFFE modules, power management chips, as well as automotive sensors. We anticipate order pipeline to remain strong on the back of 5G adoption, and higher web computing usage. Maintain **OUTPERFORM** with a higher TP of RM43.00.

Above expectation. MPI registered yet another all-time high quarterly earnings in 2QFY21 with CNP of RM67m (+49% YoY; +21% QoQ), which led 1HFY21 CNP to RM122.3m (+50% YoY). The numbers came in above expectations, representing 64% of our, and 62% of consensus, full-year estimates. The group remains the richest company in the tech space with a net cash position of RM918m (RM4.60/share). No dividend was declared which is within expectations.

YoY, 2QFY21 CNP jumped 48% to RM67m while revenue increased 17% to RM413.8m, marking a new high in quarterly profit and revenue despite realising forex losses of RM1.1m. Revenue from Asia (+17%), USA (+27%) and Europe (+13%) rose across the board thanks to higher utilisation in both its Ipoh and Suzhou plants which benefited from the group's healthy product mix. Operationally, EBIT margin increased 3.2ppt to 19% while net profit margin climbed 3ppt higher to 13.9%. Cumulatively, 1HFY21 CNP rose 49% to RM122.3m on 18% increase in revenue to RM924.5m. **QoQ**, 2QFY21 CNP climbed 21% as revenue rose 9.8%.

Robust earnings ahead. Moving into 3QFY21, we expect the group earnings to remain healthy owing to increasing demand for its power management chip packaging service that is mainly used for data centres and laptops. We believe data centres around the world will continue to expand due to higher web computing usage (such as video conferencing, e-learning, and media streaming). Orders for radio-frequency front-end (RFFE) packaging modules are expected to remain elevated thanks to 5G adoption in smartphones along with China's move to source components locally, benefiting its Suzhou plant. Furthermore, the group's venture into silicon carbide (SiC) power modules offers promising prospects given its increasing popularity among EV manufacturers.

We raise our FY21E and FY22E CNP by 15% each to RM219.8m and RM244.3m, representing growth of 44% and 11%, respectively.

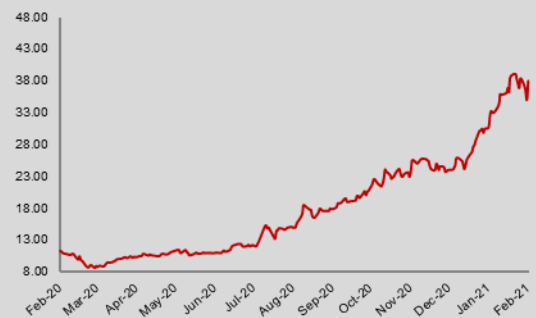
Maintain OUTPERFORM with a higher Target Price of RM43.00 (previously RM29.00) based on higher 35x CY21E PER (previously 27x), at +2SD to 3-year mean. We like MPI for its long-term mission to transform its portfolio into an automotive-centric one; a space which we believe offers bright growth prospects due to rising semiconductor content in automobiles.

Risks to our call are: (i) weaker-than-expected sales and margins, (ii) unfavourable currency exchange rates, and (iii) further disruption from the US-China trade war.

OUTPERFORM ↔

Price: **RM38.00**
Target Price: **RM43.00** ↑

Share Price Performance



KLCI	1,581.5
YTD KLCI chg	-2.8%
YTD stock price chg	46.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MPI MK Equity
Market Cap (RM m)	7,558.1
Shares Outstanding	198.9
52-week range (H)	39.88
52-week range (L)	7.39
3-mth avg daily vol:	121,498
Free Float	26.5%
Beta	0.6

Major Shareholders

Hong Leong Co Malaysia Bhd	56.4%
EPF	5.0%
Amanah Saham Nasional Bhd	3.6%

Summary Earnings Table

FY Jun (RM m)	2020A	2021E	2022E
Turnover	1,565	1,721	1,893
EBIT	388.9	497.7	551.2
PBT	211.5	303.8	337.6
Net Profit (NP)	153.0	219.8	244.3
Core NP	153.0	219.8	244.3
Consensus (CNP)	N.A.	197.9	228.7
Earnings Revision	N.A.	+15%	+15%
Core EPS (sen)	80.5	115.6	128.5
Core EPS growth (%)	25.4	43.7	11.1
NDPS (sen)	27.0	29.0	30.0
BV/Share (RM)	6.01	6.59	7.36
Core PER (x)	47.2	32.9	29.6
Price/BV (x)	6.3	5.8	5.2
Net Gearing (x)	-0.6	-0.6	-0.7
Net Div. Yield (%)	0.7	0.8	0.8

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Results Highlights								
FYE Jun (RM m)	2Q21	1Q21	QoQ chg	2Q20	YoY chg	1H21	1H20	YoY Chg
Revenue	483.9	440.6	9.8%	413.8	17.0%	924.5	782.9	18.1%
EBIT	91.8	73.7	24.5%	65.3	40.5%	165.5	114.2	44.9%
PBT	91.1	73.1	24.6%	65.5	39.1%	164.2	114.8	43.0%
Taxation	-10.0	-7.3	-36.4%	-11.9	16.4%	-17.3	-17.8	3.2%
PATAMI	67.0	55.3	21.2%	45.1	48.7%	122.3	81.9	49.4%
Core PATAMI	67.0	55.3	21.2%	45.1	48.7%	122.3	81.9	49.4%
Core EPS (sen)	34.0	28.0	21.2%	23.7	43.3%	62.0	43.1	44.0%
DPS (sen)	0.0	10.0		0.0		10.0	10.0	
EBIT margin	19.0%	16.7%		15.8%		17.9%	14.6%	
PBT margin	18.8%	16.6%		15.8%		17.8%	14.7%	
NP margin	13.9%	12.6%		10.9%		13.2%	10.5%	
Effective tax rate	-10.9%	-10.0%		-18.2%		-10.5%	-15.5%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Jun (RM m)	2Q21	1Q21	QoQ chg	2Q20	YoY chg	1H21	1H20	YoY Chg
Revenue	483.9	440.6	9.8%	413.8	17.0%	924.5	782.9	18.1%
Asia	306.9	288.4	6.4%	262.8	16.8%	595.3	493.6	20.6%
USA	69.6	63.8	9.1%	54.9	26.7%	133.5	107.5	24.1%
Europe	106.6	87.3	22.1%	94.5	12.8%	193.9	178.4	8.7%
Non-reportable segments	0.8	1.0	-22.1%	1.5	-45.6%	1.9	3.3	-42.8%
Segment profit	91.2	73.1	24.8%	65.3	39.7%	164.4	114.2	43.9%
Asia	60.8	50.2	21.1%	44.2	37.3%	110.9	76.1	45.9%
USA	12.7	9.7	31.2%	8.2	53.6%	22.3	14.8	50.3%
Europe	19.7	13.5	45.7%	11.9	66.2%	33.2	20.9	59.2%
Non-reportable segments	-1.9	-0.2	-676.9%	1.0	-292.6%	-2.1	2.4	-187.1%
Segment profit margin	18.9%	16.6%		15.8%		17.8%	14.6%	
Asia	19.8%	17.4%		16.8%		18.6%	15.4%	
USA	18.2%	15.1%		15.0%		16.7%	13.8%	
Europe	18.5%	15.5%		12.5%		17.1%	11.7%	

Source: Company, Kenanga Research

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Peer 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 DivYld (%)	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.			
D&O GREEN TECHNOLOGIES BERHAD	3.99	4,644.4	Y	12/2019	44.3%	21.9%	102.4%	21.3%	79.9	39.5	32.5	9.6	8.3	21.0%	0.9%	4.20	OP
INARI AMERTRON BHD	3.64	12,068.9	Y	06/2020	37.4%	24.9%	80.1%	15.8%	67.6	38.1	32.9	8.9	8.5	23.3	2.5%	4.00	OP
JHM CONSOLIDATION BHD	2.44	1,360.5	Y	12/2020	5.9%	24.7%	3.6%	58.2%	23.8	22.9	14.5	3.6	3.0	13.1%	1.6%	2.35	MP
KELINGTON GROUP BHD	2.48	797.1	Y	12/2020	-8.2%	22.3%	-44.7%	130%	20.8	40.3	17.5	3.3	3.3	8.1%	0.6%	3.10	OP
KESM INDUSTRIES BERHAD	15.9	683.9	Y	07/2020	14.6%	5.3%	19158%	34.2%	3768	24.5	18.2	1.0	1.0	5.0%	1.1%	10.60	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	38	7,558.1	Y	06/2020	10.0%	10.0%	44.0%	11.1%	47.5	32.9	29.6	5.8	5.2	14.2%	0.8%	43.00	OP
P.I.E. INDUSTRIAL BERHAD	3.47	1,332.6	Y	12/2020	-6.0%	76.0%	-46.0%	185%	22.5	41.8	14.7	1.8	1.8	4.0%	1.4%	3.30	OP
SKP RESOURCES BHD	2.39	2,987.2	Y	03/2020	23.7%	2.4%	67.3%	32.2%	40.8	24.4	18.5	4.9	4.4	18.0%	2.7%	3.00	OP
UNISEM (M) BERHAD	8.97	7,174.2	Y	12/2020	18.5%	7.0%	64.3%	8.5%	45.7	27.8	25.6	3.7	3.4	7.8%	0.7%	10.00	OP

Source: Bloomberg, 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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