

21 November 2022

P.I.E. Industrial

Remnant of Labour Issue in 3QFY22

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PIE's 9MFY22 results missed expectations slightly due to lingering labour issues. Nonetheless, 9MFY22 core net profit still grew 12% YoY driven by higher orders from existing customers as well as a new order from an ASIC-based equipment maker. We trim our FY22-23F earnings forecasts by 3% each, reduce our TP by 15% to RM3.15 (from RM3.70) but maintain our OUTPERFORM call.

Below expectations. 9MFY22 core net profit came in slightly below expectations at only 66% and 65% of our full-year forecast and the full-year consensus estimates, respectively. The key variance against our forecast came from lower productivity as the labour shortage issue in 2QFY22 extended further into early 3QFY22.

YoY, 9MFY22 revenue rose 11.4% owing to higher orders received from existing customers as well as the contribution from a new customer which is involved in the ASIC-based equipment for the decentralised finance (DeFi) industry. As a result, 9MFY22 CNP also rose in tandem by 11.6%.

QoQ, 3QFY22 turnover contracted 12% due to the transition of new foreign workers that came in during Aug-Sep. However, its core net profit almost doubled thanks to improved efficiencies, partially due to the new batch of workers who turned out to be highly competent, resulting in reduced over-time charges and unnecessary wastage and downtime.

Banking on a seasonally stronger 4Q. Moving into the subsequent quarter, we expect 4QFY22 to be stronger QoQ owing to its seasonal earnings trend as customers typically push for deliveries to be fulfilled before closing the year off. We learnt that the group has completed the onboarding and selection process of all the new batches of foreign workers. In addition, most of PIE's customers have agreed on the upward revision in ASP in end-3QFY22 which will factor in higher wages as well as cost of raw materials. The new pricing will be reflected in 4QFY22, indicating that margins will see gradual improvements from here on.

Forecasts. We trim FY22F and FY23F CNPs by 3.0% and 2.9% to RM63.9m and RM75.7m, respectively.

We continue to like PIE for: (i) its comprehensive skillset, making it a top-choice EMS provider for MNCs, (ii) various competitive advantages it enjoys as a unit of Foxconn, and (iii) its diversified and evolving client base, from those involved in communication devices, power tools and the latest DeFi equipment.

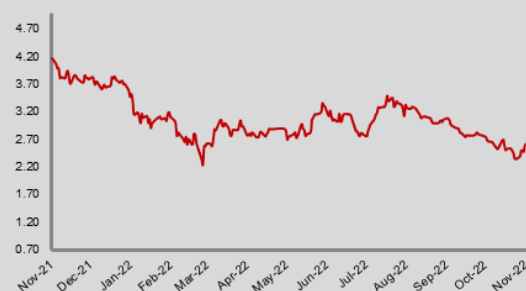
We reduce our TP by 15% to RM3.15 (from RM3.70) to reflect the recent downtrend in the sector's forward PER. Our TP is now based on a lower 16x FY23F PER (from 18x previously), which is still at a premium to the updated peer average forward PER of 13.5x (from 16x previously). The premium is to reflect the group's broader skillset which enables the group to achieve a well-diversified customer portfolio. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain **OUTPERFORM**.

Risks to our call include: (i) loss of orders from/non-renewal of contracts by its key customer, (ii) labour shortage and rising labour cost, (iii) negative reviews on treatment on migrant workers by activists, and (iv) unfavourable currency movements.

OUTPERFORM ↔

Price : RM2.56
Target Price : RM3.15 ↓

Share Price Performance



KLCI 1,449.3
YTD KLCI chg -7.5%
YTD stock price chg -32.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PIE MK Equity
Market Cap (RM m)	983.2
Shares Outstanding	384.0
52-week range (H)	4.05
52-week range (L)	2.16
3-mth avg daily vol:	299,385
Free Float	34%
Beta	0.7

Major Shareholders

Pan Global Holding Co Ltd	51.4%
Wong Nyok Fing	4.2%
Public SmallCap Fund	3.3%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	1025.2	1152.3	1288.2
EBITDA	92.4	102.7	118.1
PBT	74.3	79.9	94.6
Net Profit (NP)	60.3	63.9	75.7
Core NP	60.3	63.9	75.7
Consensus (NP)	n.a	66.5	75.9
Earnings Revision	n.a	-3.0%	-2.9%
Core EPS (sen)	15.7	16.6	19.7
BV/Share (RM)	1.3	1.5	1.6
PER (x)	16.3	15.4	13.0
Price/BV (x)	1.9	1.7	1.6
Net Gearing (x)	0.0	0.0	0.0
NDPS (sen)	0.0	7.0	7.0
Dividend Yield (%)	0.0	2.7	2.7

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Results Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE: Dec (RM m)	FY22	FY22	Chg	FY21	Chg	FY22	FY21	Chg
Revenue	260.6	296.3	-12.1%	240.8	8.2%	823.9	739.3	11.4%
EBIT	20.5	13.2	55.2%	18.0	14.1%	57.3	50.1	14.3%
PBT	20.5	13.2	55.2%	18.0	14.1%	57.3	50.1	14.3%
Taxation	19.9	13.0	54.0%	17.9	11.5%	56.5	50.0	13.0%
Net Profit (NP)	-3.7	-4.7	21.6%	-4.4	17.2%	-13.1	-11.1	-17.7%
Core NP	16.3	8.3	96.8%	13.5	21.0%	43.4	38.9	11.6%
FD core EPS (sen)	16.3	8.3	96.8%	13.5	21.0%	43.4	38.9	11.6%
DPS (sen)	4.2	2.2	96.8%	3.5	21.0%	11.3	10.1	11.6%
	0.0	7.0		0.0		7.0	0.0	
EBIT margin								
Pretax margin	7.9%	4.5%		7.5%		7.0%	6.8%	
CNP margin	7.9%	4.5%		7.5%		7.0%	6.8%	
Effective tax rate	7.7%	4.4%		7.4%		6.9%	6.8%	

Source: Kenanga Research

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Malaysian Technology Peers Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Mkt Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div. Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	OP	3.77	4.45	18.04%	4,664.4	Y	12/2022	11.3	14.4	27.1%	26.6%	33.2	26.3	5.2	16.3%	1.9	0.5%
GHL SYSTEMS BHD	MP	0.700	1.10	57.14%	793.3	Y	12/2022	2.1	2.7	-16.4%	30.2%	34.0	26.1	1.5	4.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.58	2.85	10.47%	9,630.6	Y	06/2023	10.2	11.5	-3.2%	12.7%	25.3	22.4	3.8	15.0%	9.7	3.8%
JHM CONSOLIDATION BHD	MP	0.74	0.90	21.62%	412.6	Y	12/2022	5.7	6.7	15.8%	17.7%	13.0	11.1	1.4	11.6%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.30	1.80	38.46%	835.9	Y	12/2022	7.8	8.1	57.9%	4.0%	16.6	16.0	3.6	23.4%	2.0	1.4%
KESM INDUSTRIES BHD	MP	7.00	6.60	-5.71%	301.1	Y	07/2023	2.8	8.6	500.0%	208.3%	251.2	82.2	0.8	0.3%	7.5	1.1%
LGMS BHD	OP	1.20	1.50	25.00%	547.2	Y	12/2022	2.7	3.5	20.4%	29.0%	44.1	34.1	6.5	22.0%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES BHD	MP	26.10	34.50	32.18%	5,191.2	Y	06/2023	173.0	182.5	4.1%	5.5%	15.1	14.3	2.3	16.0%	35.0	1.3%
P.I.E. INDUSTRIAL BHD	OP	2.56	3.15	23.05%	983.1	Y	12/2022	16.6	19.7	6.0%	18.5%	15.4	13.0	1.7	11.6%	7.0	2.7%
SKP RESOURCES BHD	OP	1.62	2.10	29.63%	2,531.0	Y	03/2023	11.6	12.4	6.3%	7.7%	14.0	13.1	2.8	21.1%	5.8	3.6%
UNISEM (M) BHD	MP	2.61	2.75	5.36%	4,210.1	Y	12/2022	14.4	15.3	17.7%	6.2%	18.1	17.0	1.8	10.4%	6.0	2.3%
Simple Average								23.5	25.9	57.8%	33.3%	43.6	25.1	2.8	13.9%		1.6%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★	☆	
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Foreign Worker Welfare	★	★	★	☆	
	Supply Chain Auditing	★	★	★		
	Waste Disposal / Pollution Control	★	★	★		
	Energy Efficiency	★	★	★		
	Work Site Safety	★	★	★	☆	
	Digital Transformation	★	★	☆		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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