

19 May 2023

Malaysian Pacific Industries

Dips into the Red in 3QFY23

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MPI's 9MFY23 results disappointed as net profit plunged 79% due to sub-optimal plant utilisation owing to the Chinese New Year holidays and higher energy cost. The group expects uninspiring order replenishment from customers amidst macroeconomic uncertainties. We cut our FY23F and FY24F net profit by 48% and 19%, respectively, but maintain our TP of RM20.00 as we roll forward our valuation base year to FY24F. Maintain UNDERPERFORM.

Below expectations. 9MFY23 core net profit of RM53.2m (-78.6% YoY) missed expectations, coming in at only 33% and 30% of our full-year forecast and the full-year consensus estimates, respectively. The variance against our forecast came mainly from an expected loss in 3QFY23 due to low plant utilisation.

Results' highlights. YoY, 9MFY23 revenue experienced a 13.4% decline primarily due to weaker sales in Asia (-27.6%), offsetting the gains from the USA (2.5%) and Europe (+18.4%). This can largely be attributed to the shorter working days during the quarter due to the Chinese New Year holidays, as well as cautious order replenishment following the reopening of China's borders. Not helping was the higher energy cost which came into effect earlier this year which further increased costs. As a result, 3QFY23 recorded a net loss of RM17.8m which lowered 9MFY23 net profit to RM53.2m (-78.6% YoY).

Impending obstacles. In line with a series of uninspiring tech earnings releases, MPI has also echoed the prevailing challenges associated with escalating energy costs. Not helping, the company faces uninspiring prospects for order replenishment, as customers in China continue to exhibit hesitancy towards committing to larger orders due to the anticipation of forthcoming macroeconomic headwinds. As such, the under-utilisation of its Suzhou plant in China may continue to weigh down on the group's overall performance.

Forecasts. We cut our FY23F and FY24F net profit by 48% and 19%, respectively.

Investment thesis. We like MPI for: (i) its strong exposure in the growing automotive semiconductor segment, (ii) its venture into promising new technology such as gallium nitride and silicon carbide, and (iii) its superior expertise in power management chip packaging for data centres. However, its prospects over the medium term will be clouded by slowing consumer electronics and data centres demand, resulting in sub-optimum plant utilisation.

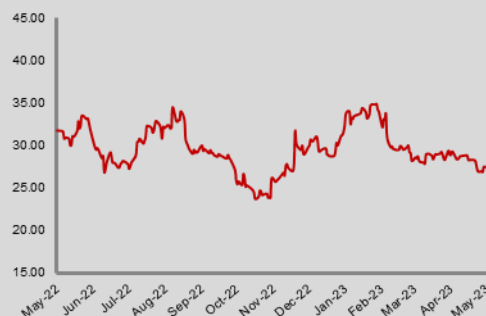
We maintain our TP of RM20.00 on a rolled forward earnings base of FY24F, pegged to an unchanged PER 18x (representing a 20% discount to peer's forward mean). Our TP includes a +5% adjustment based on a 4-star ESG rating as appraised by us (see Page 4). Maintain **UNDERPERFORM**

Risks to our call are: (i) a stronger-than-expected recovery in the global chip sector, (ii) a truce in the Sino-US chip war, and (iii) the USD strengthens.

UNDERPERFORM ↔

Price: **RM27.80**
Target Price: **RM20.00** ↔

Share Price Performance



KLCI	1,428.0
YTD KLCI chg	-4.5%
YTD stock price chg	-3.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MPI MK Equity
Market Cap (RM m)	5,529.3
Shares Outstanding	198.9
52-week range (H)	35.0
52-week range (L)	23.6
3-mth avg daily vol:	190,941
Free Float	26.9%
Beta	0.8

Major Shareholders

Hong Leong Co Malaysia Bhd	56.4%
EPF	5.1%
Eastspring	4.5%

Summary Earnings Table

FY Jun (RM m)	2022A	2023F	2024F
Turnover	2,414	2,052	2,298
EBIT	734.7	355.5	555.5
PBT	439.4	111.0	281.3
Net Profit (NP)	328.9	83.1	210.5
Core NP	328.9	83.1	210.5
Consensus (CNP)	n.a	176.1	278.0
Earnings Revision	n.a	-48%	-19%
Core EPS (sen)	166.2	41.8	105.8
Core EPS growth (%)	21.0	-74.9	153.4
NDPS (sen)	35.0	35.0	35.0
BV/Share (RM)	8.48	8.31	8.84
Core PER (x)	16.7	66.6	26.3
Price/BV (x)	3.3	3.3	3.1
Net Gearing (x)	-0.4	-0.3	-0.2
Net Div. Yield (%)	1.3	1.3	1.3



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Results Highlights								
FYE Jun (RMm)	3Q	2Q	QoQchg	3Q	YoY chg	9M	9M	YoY Chg
	FY23	FY23		FY22		FY23	FY22	
Revenue	471.9	526.4	-10.4%	611.6	-22.8%	1562.3	1804.1	-13.4%
EBIT	-0.6	39.6	-101.6%	112.1	-100.6%	115.1	343.2	-66.5%
PBT	-3.4	37.3	-109.1%	109.9	-103.1%	107.7	338.0	-68.1%
Taxation	-5.0	-5.5	7.4%	-14.0	63.9%	-16.6	-46.1	63.9%
PATAMI	-17.8	18.3	-197.3%	81.4	-121.9%	53.2	248.4	-78.6%
Core PATAMI	-17.8	18.3	-197.3%	81.4	-121.9%	53.2	248.4	-78.6%
Core EPS (sen)	-9.0	9.3	-197.3%	41.1	-121.9%	26.9	125.5	-78.6%
DPS (sen)	25.0	0.0		25.0		35.0	35.0	
EBIT margin	-0.1%	7.5%		18.3%		7.4%	19.0%	
PBT margin	-0.7%	7.1%		18.0%		6.9%	18.7%	
NP margin	-3.8%	3.5%		13.3%		3.4%	13.8%	
Effective tax rate	149.0%	-14.6%		-12.7%		-15.4%	-13.6%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Jun (RM m)	3Q	2Q	QoQchg	3Q	YoY chg	9M	9M	YoY Chg
	FY23	FY23		FY22		FY23	FY22	
Revenue	471.9	526.3	-10.3%	611.6	-22.8%	1562.3	1804.1	-13.4%
Asia	236.8	277.0	-14.5%	387.5	-38.9%	832.8	1150.1	-27.6%
USA	96.0	91.2	5.3%	93.6	2.5%	276.2	269.4	2.5%
Europe	139.1	158.2	-12.1%	130.2	6.8%	453.2	382.7	18.4%
Non-reportable segments	0.1	-0.1	319.0%	0.2	-39.0%	0.1	2.0	-94.1%
Segment profit	-9.2	33.5	-127.6%	111.6	-108.3%	96.3	341.9	-71.8%
Asia	-22.8	6.5	-449.6%	74.2	-130.8%	12.1	229.7	-94.7%
USA	5.6	9.4	-41.1%	15.1	-63.1%	26.1	44.9	-41.8%
Europe	10.4	20.0	-48.0%	22.1	-53.0%	55.6	67.7	-18.0%
Non-reportable segments	-2.3	-2.5	4.8%	0.3	-831.6%	2.5	-0.5	619.4%
Segment profit margin	-2.0%	6.4%		18.3%		6.2%	18.9%	
Asia	-9.6%	2.4%		19.1%		1.5%	20.0%	
USA	5.8%	10.4%		16.1%		9.5%	16.7%	
Europe	7.5%	12.6%		16.9%		12.3%	17.7%	

Source: Company, Kenanga Research

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Peer 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.				
D&O GREEN TECHNOLOGIES BHD	UP	3.97	3.51	-11.6%	4,914.1	Y	12/2023	10.3	14.0	31.6%	35.5%	38.4	28.3	5.2	14.0%	1.7	0.4%
GHL SYSTEMS BHD	OP	0.790	1.05	32.9%	901.8	Y	12/2023	3.0	3.4	21.3%	12.9%	26.3	23.4	1.7	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.20	2.60	18.2%	8,212.5	Y	06/2023	10.2	11.5	-3.2%	12.7%	21.6	19.1	3.2	15.0%	9.7	4.4%
JHM CONSOLIDATION BHD	MP	0.790	0.800	1.3%	478.7	Y	12/2023	5.3	5.9	40.0%	10.6%	14.9	13.5	1.4	9.8%	0.5	0.6%
KELINGTON GROUP BHD	OP	1.34	1.92	43.3%	861.6	Y	12/2023	8.7	9.0	1.1%	3.2%	15.4	14.9	3.0	21.3%	2.4	1.8%
KESM INDUSTRIES BHD	MP	7.08	8.24	16.4%	304.5	Y	07/2023	(10.0)	6.7	-2250.0%	-32.6%	N.A.	106.3	0.9	-1.2%	7.5	1.1%
LGMS BHD	OP	1.14	1.50	31.6%	519.8	Y	12/2023	3.5	5.9	26.2%	69.8%	32.8	19.3	5.2	17.4%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES BHD	UP	27.80	20.00	-28.0%	5,529.3	Y	06/2023	41.8	105.8	-74.7%	153.3%	66.2	26.2	2.7	4.1%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.24	1.50	21.0%	2,571.7	Y	12/2023	5.5	6.5	32.2%	18.6%	22.7	19.2	7.5	39.6%	0.0	0.0%
OPPSTAR BHD	UP	1.86	1.30	-30.1%	1,183.3	N	12/2023	3.1	4.0	18.1%	29.6%	60.4	46.6	41.1	90.7%	0.8	0.4%
P.I.E. INDUSTRIAL BHD	OP	3.45	4.05	17.4%	1,324.9	Y	12/2023	22.5	25.3	22.0%	12.5%	15.3	13.6	2.1	14.6%	7.0	2.0%
SKP RESOURCES BHD	UP	1.10	1.20	9.1%	1,718.6	Y	03/2023	9.7	7.9	-11.1%	-17.9%	11.3	13.9	1.9	17.8%	4.8	4.4%
UNISEM (M) BHD	MP	2.91	2.75	-5.5%	4,694.1	Y	12/2023	8.9	13.8	-41.2%	55.7%	18.9	17.0	1.9	5.9%	6.0	2.1%
Simple Average										-18.8%	27.4%	26.9	21.1	6.0	19.7%		1.4%

Source: Bloomberg, 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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