

22 May 2023

Malaysian Pacific Industries

Recovery Path Remains Shaky

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MPI anticipates another loss-making quarter in 4QFY23, albeit with reduced losses. Its recovery path in China is still highly uncertain as its customers are still reluctant to commit to sizeable orders, wary of macroeconomic headwinds. It has deferred its new plant in China, for a second time, to Jan 2025 at a fine of USD\$900k. We cut FY23-24F net profit by 76-38% and reduce our TP by 24% to RM15.26 (from RM20.00). Maintain UNDERPERFORM.

We came away from MPI's post-3QFY23 results briefing feeling cautious on its outlook. The key takeaways are as follows:

- MPI highlighted persistent challenges in its operating environment. It anticipates another loss-making quarter in 4QFY23, albeit with reduced losses, due to the underperforming Suzhou plant. With the plant continuing to operate well below breakeven levels, its recovery path is still highly uncertain. Similarly, the group's Ipoh plant, while still maintaining a stable utilisation rate, is experiencing a slight revenue deceleration due to different product mix (i.e. slowdown in demand for power packages from data centres) as well as customer's request for cost reduction for matured packages.
- To curtail the escalation of depreciation expenses, the group has opted to defer the completion of its new plant in China for the second time to January 2025 (previously rescheduled from Dec 2023 to Apr 2024), incurring a fine of US\$900k. The adjustment reflects customers' hesitancy to increase order volumes due to concerns on prevailing macroeconomic uncertainty.
- It will be very careful with capex spending moving forward. It is in discussion with a few potential customers to take up the capacity at its recently completed facility in M-site Ipoh but has yet to secure any. Meanwhile, it is adding a new floor at S-site Ipoh to specifically cater to Silicon carbide (SiC)-related businesses.

Forecasts. We cut our FY23F and FY24F net profit by 76% and 38%, respectively.

Investment thesis. We continue to like MPI for its: (i) growing presence in the high-growth automotive segment, (ii) first mover advantage in the highly promising new technology based on silicon carbide and gallium nitride, 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.

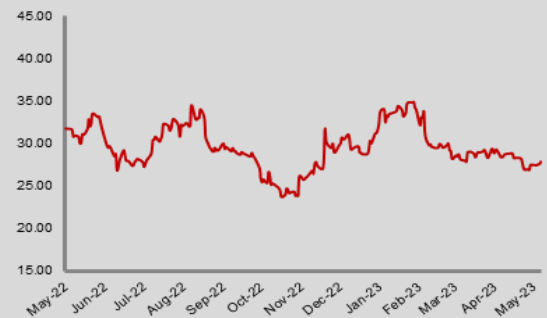
We cut our TP by 24% to RM15.26 (previously RM20.00) based on unchanged 18x FY24F PER, representing a c.20% discount from peer's forward average to factor in the group's unfavourable outlook. Our TP reflects a +5% adjustment based on a 4-star ESG rating as appraised by us (see Page 4). Maintain **UNDERPERFORM**.

Risks to our call are: (i) a quicker-than-expected recovery in the global chip sector, (ii) de-escalation in the Sino-US chip war, and (iii) further strengthening of the USD.

UNDERPERFORM ↔

Price: RM25.70
Target Price: RM15.26 ↓

Share Price Performance



KLCI	1,428.5
YTD KLCI chg	-4.5%
YTD stock price chg	-10.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MPI MK Equity
Market Cap (RM m)	5,111.6
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	295.9	488.9
PBT	439.4	51.5	214.6
Net Profit (NP)	328.9	38.5	160.6
Core NP	328.9	38.5	160.6
Consensus (CNP)	-	120.0	238.4
Earnings Revision	-	-76%	-38%
Core EPS (sen)	166.2	19.4	80.8
Core EPS growth (%)	21.0	-88.3	316.8
NDPS (sen)	35.0	35.0	35.0
BV/Share (RM)	8.4	8.1	8.4
Core PER (x)	15.5	132.6	31.8
Price/BV (x)	3.0	3.2	3.0
Net Gearing (x)	-0.4	-0.3	-0.1
Net Div. Yield (%)	1.3	1.3	1.3

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Income Statement

FY Jun (RM m)	2020A	2021A	2022A	2023F	2024F
Revenue	1,565	1,988	2,414	2,052	2,298
EBITDA	388.9	557.8	734.7	295.9	488.9
EBIT	209.6	358.7	442.3	47.4	210.5
Finance costs	1.9	3.6	7.6	0.7	0.7
PBT	211.5	357.6	439.4	51.5	214.6
Taxation	32.7	32.1	54.4	6.4	26.6
Minority Interest	(25.8)	(53.7)	(56.1)	(6.6)	(27.4)
Net Profit	153.0	271.8	328.9	38.5	160.6
Core Net Profit	153.0	271.8	328.9	38.5	160.6

Balance Sheet

FY Jun (RM m)	2020A	2021A	2022A	2023F	2024F
Fixed Assets	717.0	1,051	1,511	1,880	2,294
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Other FA	72.7	67.7	80.2	80.2	80.2
Inventories	117.1	170.2	206.3	126.2	126.2
Receivables	262.1	285.5	356.1	219.5	219.5
Other CA	0.0	0.0	0.0	0.0	0.0
Cash	835.2	986.0	964.8	555.3	308.0
Total Assets	2,010	2,564	3,119	2,887	3,053
Payables	329.0	444.3	543.8	537.6	576.0
ST Borrowings	9.3	70.7	13.2	0.0	0.0
Other ST Liability	24.9	25.6	31.4	2.7	11.4
LT Borrowings	0.0	12.9	180.1	0.0	0.0
Other LT Liability	24.7	24.6	25.8	23.8	24.7
Minorities Int.	238.2	287.0	321.6	353.5	380.9
Net Assets	1,384	1,699	2,003	1,969	2,060
Treasury Shares	-164	-164	-164	-164	-164
Share Capital	352.4	352.4	352.4	352.4	352.4
Reserves	1,192	1,509	1,812	1,781	1,872
Total Equity	1,381	1,698	2,000	1,969	2,060

Cashflow Statement

FY Jun (RM m)	2020A	2021A	2022A	2023F	2024F
Operating CF	423	567	707	471	514
Investing CF	-234	-495	-742	-617	-692
Financing CF	-71	80	3	-263	-70

Financial Data & Ratios

FY Jun	2020A	2021A	2022A	2023F	2024F
Growth					
Revenue	5.7%	27.1%	21.4%	-15%	12%
EBITDA	9.5%	43.4%	31.7%	-60%	65%
EBIT	15.6%	71.1%	23.3%	-89%	344%
PBT	11.4%	69.1%	22.9%	-88%	317%
Core Net Profit	19.2%	77.7%	21.0%	-88%	317%
Profitability					
EBITDA Margin	24.9%	28.0%	30.4%	14.4%	21.3%
EBIT Margin	13.4%	18.0%	18.3%	2.3%	9.2%
PBT Margin	13.5%	18.0%	18.2%	2.5%	9.3%
Core Net Margin	9.8%	13.7%	13.6%	1.9%	7.0%
Effect. Tax Rate	15.5%	9.0%	12.4%	12.4%	12.4%
ROA	7.6%	10.6%	10.5%	1.3%	5.3%
ROE	11.1%	16.0%	16.4%	2.0%	7.8%
DuPont Analysis					
Net Margin	9.8%	13.7%	13.6%	1.9%	7.0%
Assets Turnover (x)	0.8	0.8	0.8	0.7	0.8
Leverage Factor (x)	1.5	1.5	1.6	1.5	1.5
ROE	11.1%	16.0%	16.4%	2.0%	7.8%
Leverage					
Debt/Asset (x)	0.0	0.0	0.1	0.0	0.0
Debt/Equity (x)	0.0	0.0	0.1	0.0	0.0
Net Cash/(Debt)	826.0	902.4	771.6	542.1	294.8
Net Debt/Equity (x)	-0.6	-0.5	-0.4	-0.3	-0.1
Valuations					
EPS (sen)	80.5	137.4	166.2	19.4	80.8
NDPS (sen)	27.0	30.0	35.0	35.0	35.0
BVPS (RM)	6.0	7.1	8.5	8.1	8.4
PER (x)	31.9	18.7	15.5	132.6	31.8
Net Div. Yield (%)	1.0	1.2	1.3	1.3	1.3
PBV (x)	4.3	3.7	3.1	3.2	3.1
EV/EBITDA (x)	10.6	7.6	6.0	15.7	10.0

Source: 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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	UP	3.90	3.51	-10.00%	4,827.4	Y	12/2023	10.3	14.0	31.6%	35.5%	37.7	27.8	5.1	14.0%	1.7	0.4%
GHL SYSTEMS BHD	OP	0.780	1.05	34.62%	890.4	Y	12/2023	3.0	3.4	21.3%	12.9%	26.0	23.1	1.6	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.21	2.60	17.65%	8,249.8	Y	06/2023	10.2	11.5	-3.2%	12.7%	21.7	19.2	3.2	15.0%	9.7	4.4%
JHM CONSOLIDATION BHD	MP	0.790	0.800	1.27%	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	43.28%	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	16.38%	304.5	Y	07/2023	(10.0)	6.7	-2250%	-32.6%	N.A.	106.3	0.9	-1.2%	7.5	1.1%
LGMS BHD	OP	1.16	1.50	29.31%	529.0	Y	12/2023	3.5	5.9	26.2%	69.8%	33.3	19.6	5.3	17.4%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES BHD	UP	25.70	15.26	-22.18%	5,111.6	Y	06/2023	41.8	105.8	-74.7%	153.3%	61.2	24.2	2.5	4.1%	35.0	1.4%
NATIONGATE HOLDINGS BHD	OP	1.24	1.50	20.97%	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	1.96	1.30	-33.67%	1,247.0	N	12/2023	3.1	4.0	18.1%	29.6%	63.6	49.1	43.3	90.7%	0.8	0.4%
P.I.E. INDUSTRIAL BHD	OP	3.46	4.05	17.05%	1,328.8	Y	12/2023	22.5	25.3	22.0%	12.5%	15.4	13.7	2.1	14.6%	7.0	2.0%
SKP RESOURCES BHD	UP	1.07	1.20	12.15%	1,671.7	Y	03/2023	9.7	7.9	-11.1%	-17.9%	11.0	13.5	1.9	17.8%	4.8	4.5%
UNISEM (M) BHD	MP	2.90	2.75	-5.17%	4,677.9	Y	12/2023	8.9	13.8	-41.2%	55.7%	18.8	16.9	1.9	5.9%	6.0	2.1%
Simple Average										-18.8%	27.4%	26.5	20.8	6.1	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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