

22 May 2023

P.I.E. Industrial

Seasonally Soft 1QFY23

By **Samuel Tan** / samueltan@kenanga.com.my

PIE's 1QFY23 results met expectations. Its order pipeline from existing customers remains robust. Additionally, the group is in advanced discussions with prospective clients from the server, medical device, and consumer product spaces. We keep our forecasts, TP of RM4.05 and OUTPERFORM call.

Within expectations. PIE's 1QFY23 core net profit came in at RM13.6m (-27.7% YoY), representing 16% each of our full-year forecast and the full-year consensus estimate. We deem the results within expectations as 1Q is seasonally the weakest quarter for PIE.

Results' highlights. YoY, 1QFY23 revenue grew 24.5% thanks to higher order volume across its customers, both new and existing ones. The robust growth from its bread-and-butter electronic manufacturing services (EMS) segment (+41%) more than offset the decline in its raw wire and cable business (-23%). However, 1QFY23 core net profit declined 27.7% as the electricity tariff hikes took effect, coupled with higher administrative and distribution expenses.

Growth trajectory still intact. As per our usual observation, the group typically experiences higher provision for slow-moving inventory in the early part of the year. However, this provision could be reversed in subsequent quarters. Therefore, we remain sanguine on the group's ability to deliver stronger performance moving forward. This would be driven by resilient orders from existing customers as well as Customer A and Customer N which are involved in ASIC-based equipment and household entertainment products, respectively. Furthermore, the group is confident over securing potential new clients operating in the server, medical device and consumer product space. In anticipation of this, PIE has embarked on major renovation and expansion works at its Plant 5 (100k sq ft) and Plant 6 (275k sq ft).

Forecasts. Maintained.

Investment thesis. 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 maintain our TP of RM4.05 based 18x FY23F PER, which is in line with peers' average. 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 foreign workers welfare by activists, and (iv) unfavourable currency movements.

OUTPERFORM ↔

Price : **RM3.46**
Target Price : **RM4.05** ↔

Share Price Performance



KLCI	1,428.5
YTD KLCI chg	-4.5%
YTD stock price chg	33.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PIE MK Equity
Market Cap (RM m)	1,328.8
Shares Outstanding	384.0
52-week range (H)	3.76
52-week range (L)	2.29
3-mth avg daily vol:	568,584
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)	2022A	2023F	2024F
Turnover	1,165.3	1,335.2	1,495.0
EBITDA	104.8	125.2	137.5
PBT	82.1	100.1	112.7
Net Profit (NP)	70.8	86.4	97.2
Core NP	70.8	86.4	97.2
Consensus (NP)	-	84.3	97.2
Earnings Revision (%)	-	-	-
Core EPS (sen)	18.4	22.5	25.3
BV/Share (RM)	1.5	1.6	1.8
PER (x)	18.8	15.4	13.7
Price/BV (x)	2.4	2.1	1.9
Net Gearing (x)	0.1	0.0	0.0
NDPS (sen)	7.0	7.0	7.0
Dividend Yield (%)	2.0	2.0	2.0

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Results Highlight								
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	332.5	341.4	-2.6%	267.0	24.5%	332.5	267.0	24.5%
EBIT	19.5	26.1	-25.5%	23.6	-17.5%	19.5	23.6	-17.5%
PBT	19.5	26.1	-25.5%	23.6	-17.5%	19.5	23.6	-17.5%
Taxation	18.6	25.6	-27.4%	23.6	-21.2%	18.6	23.6	-21.2%
Net Profit (NP)	5.0	-1.8	372.0%	-4.7	204.3%	5.0	-4.7	204.3%
Core NP	13.6	27.4	-50.3%	18.8	-27.7%	13.6	18.8	-27.7%
FD core EPS (sen)	13.6	27.4	-50.3%	18.8	-27.7%	13.6	18.8	-27.7%
DPS (sen)	3.5	7.1	-50.3%	4.9	-27.7%	3.5	4.9	-27.7%
	0.0	0.0		0.0		0.0	0.0	
EBIT margin	5.9%	7.7%		8.8%		5.9%	8.8%	
Pretax margin	5.9%	7.7%		8.8%		5.9%	8.8%	
CNP margin	5.6%	7.5%		8.8%		5.6%	8.8%	
Effective tax rate	4.1%	8.0%		7.1%		4.1%	7.1%	

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	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	-40.62%	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: 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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KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

