

23 May 2023

P.I.E. Industrial Growth Trajectory Intact

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PIE shed light on its margin contraction in 1QFY23, i.e. stemming from plant refurbishment costs, increased depreciation on new equipment, and higher electricity expenses. To mitigate rising electricity cost, the group has initiated solar panel installations across five plants, covering 70% of energy needs. Meanwhile, the recent onboarding of clients in the medical devices and drone industries is expected to drive margin recovery. We maintain our forecasts, TP of RM4.05 and **OUTPERFORM** call.

We came away from an engagement with PIE yesterday feeling reassured of its prospects. The key takeaways are as follows.

- PIE clarified that the contraction in its 1QFY23 margins was mainly attributable to: (i) higher maintenance and refurbishing cost incurred for plant readiness in preparation of new customer acquisitions, (ii) increased depreciation from the two recently purchased SMT lines, (iii) higher electricity cost that was implemented earlier this year, and (iv) shift in product mix with higher revenue proportion from Customer N, which yielded relatively lower margins, further influenced 1QFY23 result.
- As part of its proactive measure to tackle the escalating electricity cost, the group has kickstarted the installation of solar panels across five of its plants, with completion targeted by the end of 2023. Once finalised, the green energy generated is estimated to cover 70% of the group's energy consumption, not only offsetting the increase in cost but yielding additional savings.
- In spite of the challenging climate within the tech space, the group has experienced positive developments in its discussion with prospective clients. It has successfully secured two new US-based clients which are involved in medical product and drone equipment. These clients are expected to contribute positively in FY24, with the possibility of commencing pilot production by the end of FY23. Beyond this, PIE remains actively engaged in discussions with several other clients seeking to leverage the group's capabilities. To accommodate the anticipated growth, it is getting its Plant 5 (c.100k sq ft) up and ready by 3QFY23 followed by Plant 6 (c.280k sq ft) in 1QFY24, which will be its biggest plant.

Forecast. Maintained.

We maintain our **TP of RM4.05** based on unchanged 18x FY23F, in line with peer's forward average. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

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. 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 : **RM3.37**
Target Price : **RM4.05** ↔

Share Price Performance



KLCI	1,419.0
YTD KLCI chg	-5.1%
YTD stock price chg	29.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PIE MK Equity
Market Cap (RM m)	1,294.2
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	1165.3	1335.2	1495.0
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)	-	72.4	78.5
Ergs Revision (%)	-	-	-
Core EPS (sen)	18.4	22.5	25.3
BV/Share (RM)	1.5	1.6	1.8
PER (x)	18.3	15.0	13.4
Price/BV (x)	2.3	2.1	1.9
Net Gearing (x)	0.1	0.0	0.0
NDPS (sen)	7.0	7.0	7.0
Dividend Yield (%)	2.1	2.1	2.1

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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.				
D&O GREEN TECHNOLOGIES BHD	UP	3.80	3.51	-7.6%	4,703.7	UP	12/2023	10.3	14.0	31.6%	35.5%	36.8	27.1	5.0	14.0%	1.7	0.4%
GHL SYSTEMS BHD	OP	0.800	1.05	31.3%	907.5	OP	12/2023	3.0	3.4	21.3%	12.9%	26.7	23.7	1.7	6.5%	0.0	0.0%
INARI AMERTRON BHD	MP	2.21	2.60	17.6%	8,249.8	MP	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	0.760	0.800	5.3%	460.6	MP	12/2023	5.3	5.9	40.0%	10.6%	14.3	12.9	1.3	9.8%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.35	1.92	42.2%	868.1	OP	12/2023	8.7	9.0	1.1%	3.2%	15.5	15.0	3.1	21.3%	2.4	1.8%
KESM INDUSTRIES BHD	MP	6.98	8.24	18.1%	300.2	MP	07/2023	(10.0)	6.7	-2250.0%	-32.6%	N.A.	104.8	0.8	-1.2%	7.5	1.1%
LGMS BHD	OP	1.15	1.50	30.4%	524.4	OP	12/2023	3.5	5.9	26.2%	69.8%	33.0	19.4	5.3	17.4%	0.0	0.0%
MALAYSIAN PACIFIC INDUSTRIES BHD	UP	25.30	15.26	-39.7%	5,032.1	UP	06/2023	41.8	105.8	-74.7%	153.3%	60.2	23.9	2.5	4.1%	35.0	1.4%
NATIONGATE HOLDINGS BHD	OP	1.24	1.50	21.0%	2,571.7	OP	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	1.94	1.30	-33.0%	1,234.2	UP	12/2023	3.1	4.0	18.1%	29.6%	63.0	48.6	42.9	90.7%	0.8	0.4%
P.I.E. INDUSTRIAL BHD	OP	3.37	4.05	20.2%	1,294.2	OP	12/2023	22.5	25.3	22.0%	12.5%	15.0	13.3	2.1	14.6%	7.0	2.1%
SKP RESOURCES BHD	UP	0.970	1.20	23.7%	1,515.5	UP	03/2023	9.7	7.9	-11.1%	-17.9%	10.0	12.3	1.7	17.8%	4.8	4.9%
UNISEM (M) BHD	MP	2.90	2.75	-5.2%	4,677.9	MP	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%	26.1	20.5	6.1	19.7%		1.5%

Source: Kenanga Research

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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