

16 November 2023

Malaysian Pacific Industries

Second Consecutive Quarterly Profit

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MPI's 1QFY24 results met expectations with a second consecutive quarterly core net profit which more than doubled QoQ on a 6% expansion in top line thanks to a recovery in orders, particularly from the US. We maintain our forecasts but raise our TP by 13% to RM27.20 (from RM24.05) to reflect an upward trend in its peer's valuations. Maintain MARKET PERFORM.

Within expectations. MPI's 1QFY24 core net profit of RM16.5m (-68.7% YoY) made up only 10% of both our full-year forecast and the full-year consensus estimate. However, we deem the results within expectations as we anticipate better earnings during the remaining quarters on a recovery in orders.

Results' highlights. YoY, MPI's 1QFY23 revenue declined 9% due to lower orders from the Asian (-21.8%) and European (-7.6%) regions, partially cushioned by a substantial increase in orders from the US (+34.4%), which now made up 23% of the group's revenue (vs. 15.8% in 3QFY22). This points to a tepid recovery in demand in Asia, particularly China, on soft demand for consumer electronics owing to cautious spending by consumers.

On a brighter note, on a QoQ basis, its 1QFY24 revenue climbed 6.4% while its core net profit more than doubled (albeit from a low base), indicating the recovery momentum has extended from 4QFY23.

Turning the corner. We are optimistic about the group's sustained recovery momentum, underpinned by its ability to rein in costs (e.g. labour reduction at the Suzhou plant, China) and optimise supply-chain efficiency. That said, it is still a pale shadow to its former self during the peak of the recent up-cycle and not spared the slowdown in the global semiconductor demand. We are mindful that there are high expectations on MPI given its stature as one of the most resilient tech-related companies in trying times.

Forecasts. Maintained

We raise our TP by 13% to **RM27.20** (previously RM24.05) on a higher CY24F PER of 26x (previously 23x), to reflect an upward trend in its peer's valuations. Our TP reflects a 5% premium based on a 4-star ESG rating as appraised by us (see Page 4).

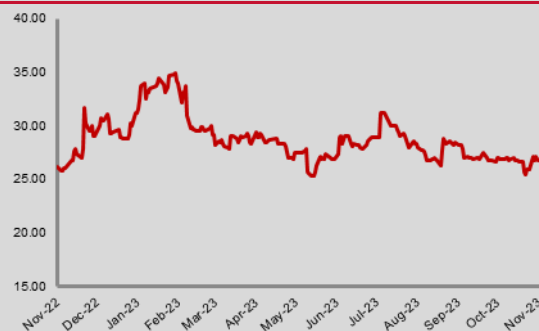
Investment thesis. We like MPI for: (i) its strong exposure in the growing automotive semiconductor segment, (ii) its venture into promising new technology such as gallium nitride and silicon carbide, and (iii) its superior expertise in power management chip packaging for data centres. However, its prospects over the medium term will be rather muted in the absence of a significant recovery in chip demand from the consumer electronics sector as well as data centres. Maintain **MARKET PERFORM**.

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

MARKET PERFORM ↔

Price: **RM27.18**
Target Price: **RM27.20** ↑

Share Price Performance



KLCI	1,466.8
YTD KLCI chg	-1.9%
YTD stock price chg	-5.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MPI MK Equity
Market Cap (RM m)	5,406.0
Shares Outstanding	198.9
52-week range (H)	35.0
52-week range (L)	25.16
3-mth avg daily vol:	98,463
Free Float	26.8%
Beta	0.9

Major Shareholders

Hong Leong Co Malaysia Bhd	56.4%
Eastspring	4.5%
EPF	2.9%

Summary Earnings Table

FY Jun (RM m)	2023A	2024F	2025F
Turnover	2,045	2,290	2,634
EBIT	437.6	612.6	753.8
PBT	124.3	326.2	476.5
Net Profit (NP)	61.3	160.9	235.1
Core NP	61.3	160.9	235.1
Consensus (CNP)	-	171.0	278.0
Earnings Revision	-	-	-
Core EPS (sen)	30.9	80.9	118.2
Core EPS growth (%)	-81.4	161.7	46.1
NDPS (sen)	35.0	35.0	35.0
BV/Share (RM)	8.41	7.99	7.92
Core PER (x)	87.9	33.6	23.0
Price/BV (x)	3.2	3.4	-
Net Gearing (x)	-0.5	-0.6	-0.7
Net Div. Yield (%)	1.3	1.3	1.3



16 November 2023

Results Highlights

FYE Jun (RM m)	1Q	4Q	QoQ chg	1Q	YoY chg	3M	3M	YoY Chg
	FY24	FY23		FY23		FY24	FY23	
Revenue	513.2	482.4	6.4%	564.0	-9.0%	513.2	564.0	-9.0%
EBIT	37.6	19.4	94.1%	76.1	-50.5%	37.6	76.1	-50.5%
PBT	35.1	16.7	110.9%	73.8	-52.4%	35.1	73.8	-52.4%
Taxation	-5.1	0.5	-1223.2%	-6.1	17.1%	-5.1	-6.1	17.1%
PATAMI	16.5	8.1	103.0%	52.7	-68.7%	16.5	52.7	-68.7%
Core PATAMI	16.5	8.1	103.0%	52.7	-68.7%	16.5	52.7	-68.7%
Core EPS (sen)	8.3	4.1	103.0%	26.6	-68.7%	8.3	26.6	-68.7%
DPS (sen)	10.0	25.0		10.0		10.0	10.0	
EBIT margin	7.3%	4.0%		13.5%		7.3%	13.5%	
PBT margin	6.8%	3.5%		13.1%		6.8%	13.1%	
NP margin	3.2%	1.7%		9.3%		3.2%	9.3%	
Effective tax rate	-14.5%	2.7%		-8.3%		-14.5%	-8.3%	

Source: Company, Kenanga Research

Segmental Breakdown

FYE Jun (RM m)	1Q	4Q	QoQ chg	1Q	YoY chg	3M	3M	YoY Chg
	FY24	FY23		FY23		FY24	FY23	
Revenue	513.2	482.4	6.4%	564.0	-9.0%	513.2	564.0	-9.0%
Asia	249.5	238.3	4.7%	319.0	-21.8%	249.5	319.0	-21.8%
USA	119.7	106.2	12.7%	89.0	34.4%	119.7	89.0	34.4%
Europe	144.0	138.0	4.4%	155.9	-7.6%	144.0	155.9	-7.6%
Non-reportable segments	0.0	0.0	860.0%	0.1	-9.4%	0.0	0.1	-9.4%
Segment profit	27.9	10.9	156.5%	72.1	-61.3%	27.9	72.1	-61.3%
Asia	8.3	-8.1	202.1%	28.4	-70.7%	8.3	28.4	-70.7%
USA	14.0	8.1	72.3%	11.1	26.3%	14.0	11.1	26.3%
Europe	17.1	11.3	51.6%	25.3	-32.4%	17.1	25.3	-32.4%
Non-reportable segments	-11.6	-0.4	-2729.3%	7.3	-258.7%	-11.6	7.3	-258.7%
Segment profit margin	5.4%	2.3%		12.8%		5.4%	12.8%	
Asia	3.3%	-3.4%		8.9%		3.3%	8.9%	
USA	11.7%	7.7%		12.5%		11.7%	12.5%	
Europe	11.9%	8.2%		16.2%		11.9%	16.2%	

Source: Company, Kenanga Research

16 November 2023

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.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	UP	3.45	2.30	-33.3%	4,272.1	Y	12/2023	5.2	9.2	-33.7%	77.1%	66.2	37.4	4.8	7.3%	0.9	0.3%				
GHL SYSTEMS BHD	OP	0.770	0.980	27.3%	879.0	Y	12/2023	2.7	3.0	8.9%	13.4%	28.6	25.2	1.6	5.8%	0.0	0.0%				
INARI AMERTRON BHD	OP	3.00	4.17	39.0%	11,234.4	Y	06/2024	10.4	12.4	20.5%	18.8%	28.7	24.2	4.3	14.9%	9.9	3.3%				
JHM CONSOLIDATION BHD	MP	0.780	0.700	-10.3%	469.7	Y	12/2023	3.1	4.6	-17.8%	48.7%	24.9	16.8	1.4	5.9%	0.5	0.6%				
KELINGTON GROUP BHD	OP	1.52	2.15	41.4%	980.1	Y	12/2023	9.7	10.2	12.6%	4.8%	15.7	14.9	3.4	23.5%	2.7	1.8%				
KESM INDUSTRIES BHD	MP	7.00	7.06	0.9%	301.1	Y	07/2024	6.3	10.2	-44.9%	63.0%	113.2	67.7	0.8	0.8%	0.0	0.0%				
LGMS BHD	OP	1.00	1.32	32.0%	456.0	Y	12/2023	3.1	5.3	12.7%	70.4%	32.2	18.9	4.7	15.7%	0.0	0.0%				
MALAYSIAN PACIFIC INDUSTRIES BHD	MP	27.18	27.20	0.1%	5,406.0	Y	06/2024	80.9	118.2	162.5%	46.1%	33.6	23.0	2.6	7.8%	35.0	1.3%				
NATIONGATE HOLDINGS BHD	OP	1.22	1.70	39.3%	2,530.2	Y	12/2023	3.4	6.8	-16.6%	97.5%	35.5	17.9	8.6	27.2%	0.3	0.2%				
OPPSTAR BHD	MP	1.62	1.82	12.3%	1,030.6	N	12/2023	4.5	6.1	34.0%	36.3%	36.3	26.6	6.5	19.3%	1.1	0.7%				
P.I.E. INDUSTRIAL BHD	OP	3.13	3.61	15.3%	1,202.1	Y	12/2023	17.7	20.0	-4.2%	13.4%	17.7	15.7	2.0	11.7%	7.0	2.2%				
SKP RESOURCES BHD	MP	0.830	0.950	14.5%	1,296.8	Y	03/2024	6.3	7.1	-31.6%	12.5%	13.2	11.7	1.5	11.4%	3.2	3.9%				
UNISEM (M) BHD	UP	3.26	2.00	-38.7%	5,258.6	Y	12/2023	4.7	10.0	-68.6%	111.6%	68.8	32.5	2.2	3.2%	6.0	1.8%				
Simple Average										-6.4%	37.9%	32.5	23.6	3.4	11.9%		1.2%				

Source: Bloomberg, Kenanga Research

16 November 2023

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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