

Malaysian Pacific Industries

A Bumpy Recovery Path

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There was a brief uptick for MPI's smartphone related packages but not significant enough to turn the company around. It has shifted its break-even guidance for its operations in China by five months to Apr 2024 (from Nov 2023). It also guided for reduced earnings visibility at the automotive segment. We keep our earnings forecasts, TP of RM27.20 and MARKET PERFORM call.

We came away from MPI's post-2QFY24 results briefing with mixed feelings. The key takeaways are as follows:

- Losses from its Suzhou plant in China narrowed further thanks to a 15% sequential revenue improvement on the back of brief uptick in orders for communication related packages (which goes into the latest Chinese flagship smartphone). It acknowledged that this was not significant enough to turn the company around. As a result, it has shifted its guidance for the breakeven timing for its operations in China by five months to Apr 2024 (from Nov 2023). The group will continue to implement strategic and efficient cost-control measures for expenses and material costs.
- The group has observed early indications of Western automotive customers considering hydrogen as an alternative energy source for vehicles, aiming to counter the increasing dominance of Chinese brands in the electric vehicle (EV) race. Consequently, MPI is proactively securing its position in the supply chain and is in preliminary discussions with two potential customers. Meanwhile, its Suxiang plant (to be completed in 1QCY25), which will double its existing capacity in China, will primarily focus on the automotive sector. This positions the group to capitalize on the expanding influence of EVs in China.
- Overall, the group hopes for marginal improvements in 2QFY24 and is optimistic about its recovery path. However, it acknowledges that the journey will be challenging as order visibility for automotive is reduced (compared to 6-9 months visibility), with certain customers making weekly revisions. Despite these challenges, the group remains positive about its SiC business in the long run. It is actively expanding its capacity, adding 76k sq ft in M-site and 39k sq ft in S-site in Ipoh. This expansion aims to accommodate increased demand from Western customers and potentially Chinese customers looking to relocate their back-end processes outside of China.

Forecasts. Maintained.

We keep our TP by of **RM27.20** based on an unchanged CY24F PER of 26x, in line with peer's forward average. Our TP reflects a 5% premium based on a 4-star ESG rating as appraised by us (see Page 4).

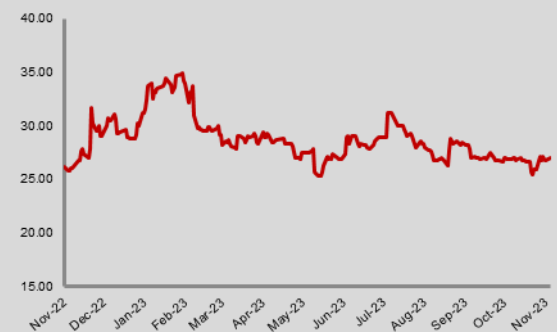
Investment thesis. We like MPI for: (i) its strong exposure in the growing automotive semiconductor segment, (ii) its venture into promising new technology such as gallium nitride and silicon carbide, and (iii) its superior expertise in power management chip packaging for data centres. However, its prospects 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: **RM27.00**
Target Price: **RM27.20** ↔

Share Price Performance



KLCI	1,464.7
YTD KLCI chg	-2.3%
YTD stock price chg	-5.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MPI MK Equity
Market Cap (RM m)	5,370.2
Shares Outstanding	198.9
52-week range (H)	35.0
52-week range (L)	25.16
3-mth avg daily vol:	98,015
Free Float	26.8%
Beta	0.9

Major Shareholders

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

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)	-	165.0	274.2
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)	86.8	33.2	22.7
Price/BV (x)	3.2	3.4	3.4
Net Gearing (x)	-0.5	-0.6	-0.7
Net Div. Yield (%)	1.3	1.3	1.3

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Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2021A	2022A	2023A	2024F	2025F	FY Jun	2021A	2022A	2023A	2024F	2025F
Revenue	1,988	2,414	2,045	2,290	2,634	Growth					
EBITDA	557.8	734.7	437.6	669.7	875.5	Revenue	27%	21.4%	-15%	12%	15%
EBIT	358.7	442.3	107.2	299.6	449.9	EBITDA	43%	31.7%	-40%	53%	31%
Finance costs	3.6	7.6	10.1	0.7	0.7	EBIT	71%	23.3%	-76%	180%	50%
PBT	357.6	439.4	124.3	326.2	476.5	PBT	69%	22.9%	-72%	162%	46%
Taxation	32.1	54.4	16.2	42.5	62.0	Core Net Profit	78%	21.0%	-81%	162%	46%
Minority Interest	(53.7)	(56.1)	(46.8)	(122)	(179)	Profitability					
Net Profit	271.8	328.9	61.3	160.9	235.1	EBITDA Margin	28.0%	30.4%	21.4%	29.2%	33.2%
Core Net Profit	271.8	328.9	61.3	160.9	235.1	EBIT Margin	18.0%	18.3%	5.2%	13.1%	17.1%
						PBT Margin	18.0%	18.2%	6.1%	14.2%	18.1%
						Core Net Margin	13.7%	13.6%	3.0%	7.0%	8.9%
						Effect. Tax Rate	9.0%	12.4%	13.0%	13.0%	13.0%
						ROA	10.6%	10.5%	2.0%	5.3%	6.8%
						ROE	16.0%	16.4%	3.0%	7.6%	10.3%
						DuPont Analysis					
						Net Margin	13.7%	13.6%	3.0%	7.0%	8.9%
						Assets Turnover (x)	0.8	0.8	0.7	0.8	0.8
						Leverage Factor (x)	1.5	1.6	1.5	1.4	1.5
						ROE	16.0%	16.4%	3.0%	7.6%	10.3%
						Leverage					
						Debt/Asset (x)	0.0	0.1	0.0	0.0	0.0
						Debt/Equity (x)	0.0	0.1	0.0	0.0	0.0
						Net Cash/(Debt)	902.4	771.6	960.4	1239	1738
						Net Debt/Equity (x)	-0.5	-0.4	-0.5	-0.6	-0.8
						Valuations					
						EPS (sen)	137.4	166.2	30.9	80.9	118.2
						NDPS (sen)	30.0	35.0	35.0	35.0	35.0
						BVPS (RM)	7.13	8.5	8.4	8.0	7.9
						PER (x)	19.5	16.2	86.8	33.2	22.7
						Net Div. Yield (%)	1.1	1.3	1.3	1.3	1.3
						PBV (x)	3.8	3.2	3.2	3.4	3.4
						EV/EBITDA (x)	7.9	6.2	10.0	6.8	5.0

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	3.51	2.30	-34.5%	4,346.4	Y	12/2023	5.2	9.2	-33.7%	77.1%	67.4	38.0	4.9	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	2.99	4.17	39.5%	11,196.9	Y	06/2024	10.4	12.4	20.5%	18.8%	28.6	24.1	4.3	14.9%	9.9	3.3%
JHM CONSOLIDATION BHD	MP	0.760	0.700	-7.9%	460.6	Y	12/2023	3.1	4.6	-17.8%	48.7%	24.3	16.4	1.4	5.9%	0.5	0.7%
KELINGTON GROUP BHD	OP	1.50	2.15	43.3%	967.2	Y	12/2023	9.7	10.2	12.6%	4.8%	15.5	14.7	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%
M'SIAN PACIFIC INDUSTRIES BHD	MP	27.00	27.20	0.7%	5,370.2	Y	06/2024	80.9	118.2	162.5%	46.1%	33.4	22.8	2.5	7.8%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.26	1.70	34.9%	2,613.2	Y	12/2023	3.4	6.8	-16.6%	97.5%	36.6	18.5	8.8	27.2%	0.3	0.2%
OPPSTAR BHD	MP	1.55	1.82	17.4%	986.1	N	03/2024	4.5	6.1	34.0%	36.3%	34.8	25.5	6.3	19.3%	1.1	0.7%
P.I.E. INDUSTRIAL BHD	OP	3.03	3.61	19.1%	1,163.6	Y	12/2022	17.7	20.0	-4.2%	13.4%	17.1	15.2	1.9	11.7%	7.0	2.3%
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	3.29	2.00	-39.2%	5,307.0	Y	12/2023	4.7	10.0	-68.6%	111.6%	69.5	32.8	2.2	3.2%	6.0	1.8%
Simple Average										-6.4%	37.9%	32.5	23.6	3.4	11.9%		1.3%

Source: Bloomberg, 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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