

20 November 2023

# P.I.E. Industrial

## The Pie is Growing Again

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PIE's 9MFY23 results met expectations. Its 3QFY24, core net profit surged 76% QoQ thanks to improved orders. Indications are pointing to more orders from Customer M (for military use) and Customer A (for restocking). The production of Customer N's new model is underway ahead of its launch in 2024. We fine-tune up our FY24F net profit by 5%, lift our TP by 5% to RM3.80 (from RM3.61) and maintain our OUTPERFORM call.

**Within expectations.** PIE's 9MFY23 core net profit of RM45.6m (+5.1% YoY) accounted for 67% and 71% of our full-year forecast and the full-year consensus estimate, respectively. We deem the results within expectations as we anticipate a seasonally strong 4Q.

**Results' highlights.** YoY, PIE's 9MFY23 revenue grew 11.6%, driven by robust deliveries from its bread-and-butter EMS segment (+24%) which more than offset the decline in the raw wire and cable business (-27%). Net profit grew at a more moderate rate of 5.1%, impacted by earlier temporary slowdowns and adjustment to increased electricity tariffs.

**QoQ,** its 3QFY24, core net profit surged 76% thanks to improved orders from its customers, which was a reversal from the downtrend previously.

**Looking forward to a stronger 4Q.** Aligned with its seasonality, the group is looking forward to a stronger quarter ahead on the back of improved order forecast for key customers. This is based on higher demand for communication related devices from Customer M for military use amid the heightened geopolitical tension in the Middle East, the resumption of orders from Customer A and the gradual ramp-up of a new model for Customer N that is expected to be launched in 2024. Additionally, PIE has secured four new clients with products focusing on sensors, drones, medical devices and smart home devices. As such, the group is committed to continue with its expansion plans, enlarging its existing Plant 5 (100k sq ft) and the construction of Plant 6 (275k sq ft).

**Forecasts.** We raise FY24F earnings by 5% to account for higher contributions from four new customers.

Consequently, we raise our TP by 5% to **RM3.80** (from RM3.61) based on an unchanged 18x FY24F PER, 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).

**Investment thesis.** We continue to like PIE for: (i) its comprehensive skill sets, 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 foreign workers welfare by activists, and (iv) unfavourable currency movements.

**OUTPERFORM** ↔

Price : **RM3.10**  
Target Price : **RM3.80** ↑

### Share Price Performance



KLCI	1,460.6
YTD KLCI chg	-2.3%
YTD stock price chg	19.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PIE MK Equity
Market Cap (RM m)	1,190.5
Shares Outstanding	384.0
52-week range (H)	3.74
52-week range (L)	2.47
3-mth avg daily vol:	254,087
Free Float	34%
Beta	0.7

### Major Shareholders

Pan Global Holding Co Ltd	51.4%
Wong Nyok Fing	5.6%
Kenanga Syariah Growth Fund	4.7%

### Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	1165.3	1229.8	1357.4
EBITDA	104.8	103.7	118.8
PBT	82.1	78.6	93.9
Net Profit (NP)	<b>70.8</b>	<b>67.8</b>	<b>81.0</b>
Core NP	<b>70.8</b>	<b>67.8</b>	<b>81.0</b>
Consensus (NP)	-	64.3	77.8
Earnings Revision (%)	-	-	+5.3
Core EPS (sen)	18.4	17.7	21.1
BV/Share (RM)	1.5	1.6	1.7
PER (x)	16.8	17.6	14.7
Price/BV (x)	2.1	2.0	1.8
Net Gearing (x)	0.1	-	-
NDPS (sen)	7.0	7.0	7.0
Dividend Yield (%)	2.3	2.3	2.3

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Results Highlight								
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
<b>Revenue</b>	<b>300.8</b>	<b>286.5</b>	<b>5.0%</b>	<b>260.6</b>	<b>15.4%</b>	<b>919.8</b>	<b>823.9</b>	<b>11.6%</b>
EBIT	25.2	16.0	56.9%	20.5	22.8%	60.7	57.3	5.9%
PBT	24.7	15.4	59.8%	19.9	23.6%	58.7	56.5	3.9%
Taxation	-4.3	-3.8	-11.4%	-3.7	-16.4%	-3.2	-13.1	75.9%
Net Profit	20.4	11.6	75.8%	16.3	25.3%	45.6	43.4	5.1%
<b>Core Net Profit</b>	<b>20.4</b>	<b>11.6</b>	<b>75.8%</b>	<b>16.3</b>	<b>25.3%</b>	<b>45.6</b>	<b>43.4</b>	<b>5.1%</b>
FD core EPS (sen)	5.3	3.0	75.8%	4.2	25.3%	11.9	11.3	5.1%
DPS (sen)	0.0	0.0		0.0		7.0	7.0	
EBIT margin	8.4%	5.6%		7.9%		6.6%	7.0%	
Pretax margin	8.2%	5.4%		7.7%		6.4%	6.9%	
CNP margin	6.8%	4.0%		6.2%		5.0%	5.3%	
Effective tax rate	-17.3%	-24.8%		-18.4%		-5.4%	-23.2%	

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	3.47	2.30	-33.7%	4,296.9	Y	12/2023	5.2	9.2	-33.7%	77.1%	66.6	37.6	4.8	7.3%	0.9	0.3%
GHL SYSTEMS BHD	OP	0.750	0.980	30.7%	856.1	Y	12/2023	2.7	3.0	8.9%	13.4%	27.9	24.6	1.6	5.8%	0.0	0.0%
INARI AMERTRON BHD	OP	2.97	4.17	40.4%	11,122.0	Y	06/2024	10.4	12.4	20.5%	18.8%	28.4	23.9	4.2	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	1.49	2.15	44.3%	960.7	Y	12/2023	9.7	10.2	12.6%	4.8%	15.4	14.6	3.3	23.5%	2.7	1.8%
KESM INDUSTRIES BHD	MP	7.10	7.06	-0.6%	305.4	Y	07/2024	6.3	10.2	-44.9%	63.0%	114.8	68.7	0.9	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	26.60	27.20	2.3%	5,290.6	Y	06/2024	80.9	118.2	162.5%	46.1%	32.9	22.5	2.5	7.8%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.27	1.70	33.9%	2,633.9	Y	12/2023	3.4	6.8	-16.6%	97.5%	36.9	18.7	8.9	27.2%	0.3	0.2%
OPPSTAR BHD	MP	1.52	1.82	19.7%	967.0	N	12/2023	4.5	6.1	34.0%	36.3%	34.1	25.0	6.1	19.3%	1.1	0.7%
P.I.E. INDUSTRIAL BHD	OP	3.10	3.80	22.6%	1,190.5	Y	12/2023	17.7	21.1	-4.2%	19.5%	17.5	14.7	2.0	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	3.21	2.00	-37.7%	5,178.0	Y	12/2023	4.7	10.0	-68.6%	111.6%	67.8	32.0	2.2	3.2%	6.0	1.9%
Simple Average										-6.4%	38.3%	32.2	23.3	3.4	11.9%		1.3%

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★	☆	
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
<b>SPECIFIC</b>	Foreign Worker Welfare	★	★	★	☆	
	Supply Chain Auditing	★	★	★		
	Waste Disposal / Pollution Control	★	★	★		
	Energy Efficiency	★	★	★		
	Work Site Safety	★	★	★	☆	
	Digital Transformation	★	★	☆		
<b>OVERALL</b>		★	★	★		

☆ 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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