

18 April 2024

P.I.E. Industrial

A Slice of AI Pie

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PIE, we understand, via referral from a key shareholder, has secured a new sizeable AI server client that will take up the entire Plant 6 (c. 280k sq ft), its largest facility. We understand that PIE will be the new customer's sole contract manufacturer outside of China. We raise our FY25F earnings forecast by 10%, lift our TP by 69% to RM6.75 (from RM4.00) and reiterate our OUTPERFORM call.

We understand that PIE, via referral from a key shareholder, has secured a new sizeable AI server client that will take up the entire Plant 6 (c. 280k sq ft), its largest facility. We also understand that this is part and parcel of the key shareholder's diversification strategy. A fast-track project, the qualification processes will be completed followed by small production before the year is out, paving the way for mass production in 2025. Ultimately, Plant 6 will produce approximately one-third of the new customer's global volume.

Separately, we understand that Plant 5 (approximately 100k sq ft) has been completed and is in the final stages of equipment installation. This entire plant will be dedicated to Customer A and is set to commence operations by the end of May, doubling the floor space allocation for Customer A, which currently occupies the entirety of Plant 3. The increased demand is driven by new model launches from Customer A, as well as a robust order pipeline, aligning with the optimism in the DeFi market.

The group has also successfully on-boarded four smaller customers with products related to: (i) drone device for light shows, (ii) diagnostic device for oral cancer, (iii) smart home, and (iv) industrial sensors. The drone device and smart home customer have begun production with the diagnostic device for oral cancer to follow in March. Contributions from these new customers are expected to collectively account for c.8%–12% of total group revenue in FY24.

Forecasts. We raise our FY25F net profit forecast by 10% to account for higher contribution from the new customer related to AI servers.

Valuations. Correspondingly, we raise our TP by 69% to **RM6.75** (from RM4.00) based on a rolled-forward FY25F EPS pegged to a higher PER of 23.5x (from 18x) to reflect a premium for AI proxy, in-line with AI-related peer such as NATGATE (OP; TP: RM1.58). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Investment case. 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 and power tools to 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 of migrant workers by activists, and (iv) unfavourable currency movements.

OUTPERFORM ↔

Price : **RM4.94**
Target Price : **RM6.75** ↑

Share Price Performance



KLCI	1,540.4
YTD KLCI chg	5.9%
YTD stock price chg	52.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PIE MK Equity
Market Cap (RM m)	1,897.2
Shares Outstanding	384.0
52-week range (H)	4.94
52-week range (L)	2.61
3-mth avg. daily vol.	144,855
Free Float	34%
Beta	0.8

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)	2023A	2024F	2025F
Turnover	1216.9	1357.4	1941.5
EBITDA	108.7	128.9	157.5
PBT	89.0	102.9	133.1
Net Profit (NP)	73.7	85.3	110.3
Core NP	73.7	85.3	110.3
Consensus (NP)	-	89.4	104.0
Earnings Revision (%)	-	-	+10.2
Core EPS (sen)	19.2	22.2	28.7
BV/Share (RM)	1.6	1.7	2.0
PER (x)	25.7	22.3	17.2
Price/BV (x)	3.1	2.8	2.5
Net Gearing (x)	0.0	0.0	0.1
NDPS (sen)	7.0	7.0	7.0
Dividend Yield (%)	1.4	1.4	1.4

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	1,025.2	1,165.3	1,216.9	1,357.4	1,941.5	Growth					
EBITDA	92.4	104.8	108.7	128.9	157.5	Turnover	49.4%	13.7%	4.4%	11.5%	43.0%
Depre & Amort.	-18.4	-24.1	-22.4	-30.0	-29.6	EBITDA	24.2%	13.3%	3.7%	18.6%	22.2%
Operating Profit	74.1	80.7	86.3	98.9	127.9	Operating Profit	30.8%	8.9%	6.9%	14.7%	29.3%
Interest Exp	-0.3	-1.4	-2.7	-3.9	-5.2	PBT	31.2%	10.4%	8.4%	15.6%	29.4%
Associate	0.0	0.0	0.0	0.0	0.0	Adj. Net Profit	32.3%	17.4%	4.2%	15.6%	29.4%
PBT	74.3	82.1	89.0	102.9	133.1	Profitability					
Taxation	-14.0	-11.3	-15.2	-17.6	-22.8	EBITDA Margin	9.0%	9.0%	8.9%	9.5%	8.1%
Minority Interest	1.0	2.0	3.0	3.0	3.0	Operating Margin	7.2%	6.9%	7.1%	7.3%	6.6%
PATAMI	60.3	70.8	73.7	85.3	110.3	PBT Margin	7.3%	7.0%	7.3%	7.6%	6.9%
Core PATAMI	60.3	70.8	73.7	85.3	110.3	Core Net Margin	5.9%	6.1%	6.1%	6.3%	5.7%
						Effective Tax Rate	28%	18.9%	13.7%	17.1%	17.1%
						ROA	7.3%	8.0%	8.1%	8.3%	8.7%
						ROE	11.7%	12.6%	12.1%	12.8%	14.7%
						DuPont Analysis					
						Net Margin	5.9%	6.1%	6.1%	6.3%	5.7%
						Assets T/O (x)	1.2	1.3	1.3	1.3	1.5
						Lvg. Factor (x)	1.6	1.6	1.5	1.5	1.7
						ROE	11.7%	12.6%	12.1%	12.8%	14.7%
						Leverage					
						Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
						Debt/Equity (x)	0.1	0.2	0.1	0.1	0.2
						Net Debt/Equity (x)	0.0	0.1	0.0	0.0	0.1
						Valuations					
						Core EPS (sen)	15.7	18.4	19.2	22.2	28.7
						DPS (sen)	0.0	7.0	7.0	7.0	7.0
						BVPS (RM)	1.3	1.5	1.6	1.7	2.0
						PER (x)	31.5	26.8	25.7	22.3	17.2
						Div. Yield (%)	0.0	1.4	1.4	1.4	1.4
						P/BV (x)	3.7	3.4	3.1	2.8	2.5
Balance Sheet											
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F						
Fixed Assets	131.6	163.9	186.9	183.8	181.1						
Int Assets	1.7	1.7	1.7	1.7	1.7						
Other FA	55.1	45.5	46.0	46.0	46.0						
Inventories	300.9	287.8	277.1	307.1	446.0						
Receivables	256.1	319.3	330.8	368.9	527.7						
Other CA	3.0	7.5	3.0	3.0	3.0						
Cash	78.3	63.2	62.9	120.6	61.5						
Total Assets	826.7	888.8	907.6	1,031.5	1,267.3						
Payables	229.4	211.2	220.2	244.1	354.4						
ST Borrowings	71.5	105.6	67.5	98.5	129.5						
Other ST Liabs.	1.6	2.1	0.5	11.1	22.1						
LT Borrowings	0.0	0.0	0.0	0.0	0.0						
Other LT Liabs.	7.3	8.8	10.4	10.4	10.4						
Net Assets	516.8	561.2	609.0	667.4	750.8						
Shr. Equity	516.8	561.2	609.0	667.4	750.8						
Minority Interest	1.0	2.0	3.0	3.0	3.0						
Total Equity	516.8	561.2	609.0	667.4	750.8						
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F						
Operating CF	-26.1	29.8	117.0	80.7	-36.4						
Investing CF	-59.4	-46.0	-45.0	-26.9	-26.9						
Financing CF	22.2	-0.6	-67.6	4.1	4.1						
Change In Cash	-63.3	-16.8	4.4	57.9	-59.1						

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.				
D&O GREEN TECHNOLOGIES BHD	MP	3.09	3.60	16.5%	3,826.3	Y	12/2024	8.5	12.0	133.7%	41.6%	36.5	25.8	3.9	10.8%	1.4	0.5%
GHL SYSTEMS BHD	OP	0.640	0.880	37.5%	724.9	Y	12/2024	2.4	2.8	-3.5%	15.8%	26.8	23.2	1.4	5.2%	0.0	0.0%
INARI AMERTRON BHD	OP	3.13	4.05	29.4%	11,763.6	Y	06/2024	9.9	12.1	14.0%	22.1%	31.7	25.9	4.5	14.1%	9.3	3.0%
JHM CONSOLIDATION BHD	MP	0.570	0.700	22.8%	342.4	Y	12/2024	4.7	5.2	94.5%	11.0%	12.2	11.0	1.0	8.5%	0.5	0.9%
KELINGTON GROUP BHD	OP	2.57	3.40	32.3%	1,709.9	Y	12/2024	16.1	19.4	1.0%	20.5%	15.9	13.2	4.0	27.7%	4.5	1.8%
KESM INDUSTRIES BHD	MP	6.20	7.06	13.9%	266.7	Y	07/2024	6.2	10.3	-46.2%	67.2%	100.3	60.0	0.7	0.7%	0.0	0.0%
LGMS BHD	OP	1.09	1.16	6.4%	497.0	Y	12/2024	4.6	5.6	88.4%	21.8%	23.5	19.3	4.8	22.2%	0.9	0.8%
MSIAN PACIFIC INDUSTRIES BHD	MP	30.82	24.30	-21.2%	6,131.0	Y	06/2024	59.6	118.3	93.5%	98.3%	51.7	26.1	3.0	5.8%	35.0	1.1%
NATIONGATE HOLDINGS BHD	OP	1.60	1.58	-1.3%	3,318.3	Y	12/2024	6.3	6.9	114.8%	9.6%	25.4	23.2	6.2	27.4%	1.0	0.6%
OPPSTAR BHD	OP	1.20	1.72	43.3%	767.9	Y	03/2024	3.4	5.7	3.3%	66.7%	34.9	20.9	5.0	15.1%	0.9	0.8%
P.I.E. INDUSTRIAL BHD	OP	4.94	6.75	36.6%	1,897.2	Y	12/2024	22.2	28.7	15.7%	29.3%	22.3	17.2	2.8	13.4%	7.0	1.4%
SKP RESOURCES BHD	MP	0.850	0.850	0.0%	1,328.0	Y	03/2024	5.7	6.4	-38.4%	13.1%	14.9	13.3	1.6	10.3%	2.8	3.3%
UNISEM (M) BHD	MP	3.59	2.95	-17.8%	5,791.0	Y	12/2024	10.2	12.7	100.1%	24.9%	35.3	28.3	2.4	6.8%	6.0	1.7%
Simple Average										31.4%	30.1%	30.3	23.3	3.2	12.9%		1.2%

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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