

19 September 2024

# P.I.E. Industrial

## Client Expansion Fuels Future

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PIE's plan to gear up for mass production for a new client in CY25 at its largest facility, Plant 6, is on track. This will start with assembly before progressing to higher-margin SMT production. It has expanded capacity for Customer A, where its improved IC supply is expected to boost earnings. Additionally, PIE is focusing on higher-margin clients and exploring new business opportunities. We have reduced FY24/FY25 net profit forecast by 22%/6% and lowered our TP to RM6.35. but maintain our OUTPERFORM call.

We recently met with PIE's management and remain optimistic about its promising outlook. The key takeaways from the meeting are as follows:

- PIE is on track to start with a mass production for its recently secured client (related to server and switchers for data centre) in CY25 post completion of the first batch of samples. This new client will occupy the entire Plant 6 (c. 280k sq ft), its latest and largest facility. PIE is planning to start with assembly services first, but will eventually move to higher margin Surface Mount Technology (SMT) production thereafter. Upon a full ramp-up, the Plant 6 will produce approximately one-third of the new customer's global volume.
- PIE has continued to expand its floor space to accommodate the growing demand from Customer A. Since June 2024, the group has fully dedicated Plant 5 (c.100k sq ft) to Customer A and plans to extend it by another 70k sq ft at the rear to meet future demand. Combined with the fully utilized Plant 3 (around 80k sq ft), this represents a threefold increase in floor space to about 250k sq ft. The expansion is well-timed, as the easing of the IC shortage is expected to result in stronger sequential performance with loading volumes for Customer A moving towards optimal levels. Notably, PIE's 2QFY24 net profit surged 78% QoQ, despite flat revenue, mainly due to improved IC supply from Customer A. The project operates on consignment basis, where Customer A supplies all materials, and PIE handles the SMT process and final assembly. As a result, while revenue may appear modest, the impact on the bottom line is significantly more pronounced.
- The group is currently rationalizing its operations by reducing orders from lower-margin customers to allocate capacity and resources for higher-margin clients. Additionally, it is actively engaging in discussions with several potential new customers in the automotive, robotics, medical, and telecommunications sectors. We have yet to impute any expectations in our earnings model. We believe PIE's value proposition lies in its strong track record, positioning it as a highly sought-after EMS vendor, especially as Chinese businesses accelerate their China+1 strategy to mitigate potential punitive US tariffs on Chinese imports.

**Forecasts.** Reduced FY24F/FY25F net profit by 22%/6%, respectively, after removing contributions from lower-margin customer.

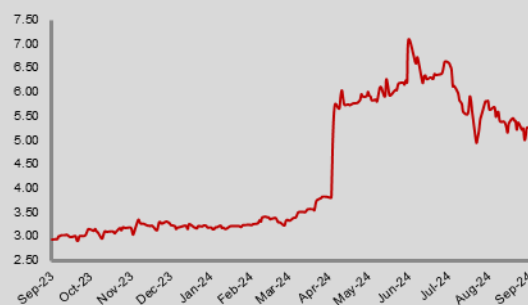
**Valuations.** We lowered our TP to **RM6.35** (from RM6.75 previously) based on FY25F EPS pegged to an unchanged PER of 23.5x, and 10% discount to AI server-related peer such as NATGATE (OP; TP: RM2.30). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

**Investment case.** We continue to like PIE for: (i) its comprehensive skill set, 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**

**OUTPERFORM** ↔

Price : **RM5.20**  
Target Price : **RM6.35** ↓

### Share Price Performance



KLCI 1,660.59  
YTD KLCI chg 14.2%  
YTD stock price chg 60.5%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker PIE MK EQUITY  
Market Cap (RM m) 1,997.0  
Shares Outstanding 384.0  
52-week range (H) 7.28  
52-week range (L) 2.86  
3-mth avg. daily vol. 405,049  
Free Float 28%  
Beta 0.5

### Major Shareholders

Pan Global Holding Co Ltd 51.4%  
Wong Nyok Fing 6.1%  
AmanahRaya Trustees 5.4%

### Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	1,217	1,068	1,606
EBIT	92	84	133
PBT	89	81	129
<b>Net Profit</b>	<b>74</b>	<b>67</b>	<b>104</b>
Consensus	-	89	127
Earnings Revision	-	-21%	-6%
EPS (sen)	19.3	17.5	27.0
EPS Growth (%)	6.0	-9.5	54.6
NDPS (sen)	0.0	0.0	0.0
BV/Share (RM)	1.6	1.8	2.0
Core PER (x)	26.9	29.7	19.2
P/BV (x)	3.3	3.0	2.6
Gearing (x)	0.0	-0.2	-0.3
Net Dvd Yield (%)	-	-	-



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**Malaysian Technology Peers Comparison**

Name	Rating	Last Price @ 18 Sept (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	OP	2.18	2.64	21.1%	2,702.1	Y	12/2024	5.8	9.8	64.2%	67.4%	25.8	18.2	2.8	7.9%	1.0	0.5%
INARI AMERTRON BHD	OP	3.01	4.05	34.6%	11,402.3	Y	06/2025	10.0	12.1	22.0%	21.3%	32.0	25.4	3.9	13.2%	8.0	2.7%
KELINGTON GROUP BHD	OP	3.12	4.16	33.3%	2,145.4	Y	12/2024	16.8	19.8	5.1%	18.1%	19.3	16.0	5.2	30.1%	9.0	2.9%
LGMS BHD	OP	1.25	1.53	22.4%	570.0	Y	12/2024	3.6	5.1	46.4%	41.5%	27.0	19.7	5.8	17.7%	1.0	0.8%
M'SIAN PACIFIC INDUSTRIES BHD	OP	27.10	38.80	43.2%	5,117.2	Y	06/2025	118.4	149.0	87.1%	25.9%	36.4	19.6	2.4	10.8%	35.0	1.3%
NATIONGATE HOLDINGS BHD	OP	1.72	2.30	33.7%	3,915.2	Y	12/2024	5.1	9.2	84.2%	86.6%	30.0	18.7	4.1	16.9%	1.0	0.6%
OPPSTAR BHD	MP	0.825	0.820	-0.6%	528.5	Y	03/2025	2.2	3.3	-11.0%	52.2%	14.6	12.6	3.3	9.0%	1.0	1.2%
P.I.E. INDUSTRIAL BHD	OP	5.20	6.35	22.1%	1,997.0	Y	12/2024	17.5	27.0	-9.4%	54.5%	23.4	18.1	3.0	10.5%	0.0	0.0%
SKP RESOURCES BHD	OP	1.11	1.35	21.6%	1,734.2	Y	03/2025	7.4	8.4	18.8%	14.5%	15.2	13.1	1.6	11.0%	0.0	0.0%
UNISEM (M) BHD	OP	3.16	3.70	17.1%	5,097.3	Y	12/2024	10.2	12.7	100.4%	25.2%	31.1	24.9	2.1	6.8%	8.0	2.5%
<b>Simple Average</b>					<b>35,209.3</b>					<b>39.0%</b>	<b>32.4%</b>	<b>27.5</b>	<b>20.8</b>	<b>3.4</b>	<b>13.4%</b>		<b>1.2%</b>

Source: Kenanga Research

**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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