



# P.I.E. Industrial Bhd

## “Strong Orders to Catalyze Growth”

**Bloomberg: PIE MK | Reuters: PIEN.KL | Stock Code: 7095**

**Main Board**

**Industrial Products**

**BUY**

**TP: RM3.96**

**Last Closing Price: RM3.50**

### Valuation / Recommendation

Results were above expectations, achieving 98.5% and 119.2% of our full year revenue and profit forecasts for FY22. 4Q22 revenue was higher qoq (+31.0%), higher yoy (+19.4%) due to higher demand for EMS but partly offset with lower sales from raw cable and wire harness products.

We revise our FY23 and FY24 revenue and profit forecasts upward by 3.3% - 8.8% and 18.8% - 23.8% due to capacity expansions and higher contributions from existing customers. We maintain a BUY recommendation on PIE with a higher TP of RM3.96 based on FY23F EPS 21.4 sen and PE of 18.5x in line with its peer's average. We like the stock for its attractive growth prospects, and diversified customer base. The target price represents a potential return of 14.5% over the current price.

### Investment Highlights

**Proven track record and strong support from Foxconn.** PIE was able to maintain profitable since inception, achieving a 10-year revenue CAGR of 11.4% from FY12 to FY21. Operations were unaffected during the Covid-19 pandemic as the company was classified under essential services. With the strong support from Foxconn Technology Group, which is PIE's indirect major shareholder, the company can benefit from its network to improve its profit margins by leveraging on the raw materials.

**Strong orders from existing customers.** Customer N was secured in FY20, involved in the video games business. A full-year revenue contribution from this customer was realised in FY21, contributing approximately 40% to total revenue, allowing the company to achieve a record-breaking revenue above RM1bn. As of Feb 2023, 8 SMT lines had been commissioned for this customer. With increased capacity and smoother production arising from more consistent volume from the customer, we expect the customer to contribute approximately 35% to revenue in FY23.

The company dedicated plant 3 with a floor space of 120,000 sq ft and 6 SMT lines to a new customer namely Customer A, involved in the supercomputing cloud business secured in FY21. Customer A currently contributes approximately 7% to PIE's total revenue. The company plans to dedicate plant 5 which has a floor space of 100,000 sq ft to this customer. Plant 5 is currently under renovation, expected to complete within 1H23. With plant 5 ready, this will double its capacity for Customer A.

We expect higher contribution from Customer A in FY23 on the premise of increased capacity and higher orders, and we opine that this could potentially catalyze PIE's earnings moving forward, driven by higher margins with the consignment of raw materials. Orders from customer N and A remained strong with its SMT lines running at full utilisation rate, and we do not rule out any possibilities of further expansion by PIE to cater for more orders from its existing and pipeline of customers.

**Capacity expansion.** The company is currently expanding its plant 6 by constructing a 2<sup>nd</sup> building next to the existing plant with a built up area of 155,000 sq ft, expected to complete by end of 2023. The expansion will increase plant 6's built-up area to 270,000 sq ft and will be able to house more than 30 SMT lines for its existing and pipeline of new customers.

**Arrival of more workers.** In tandem with the expansion plans, the company brought in additional foreign workers which arrived in 3Q22. The additional workers replaced some inefficient existing workers to produce higher productivity and output. Running at double shifts on 24 hours a day, we expect RM80m worth of backlog orders to be cleared by 1H23.

**Risk factor.** Fluctuation of raw material prices and labour shortages.

RESULTS (RM m) FY Dec	4Q22	3Q22	qoq %	4Q21	yoy %
Revenue	341.4	260.6	31.0	285.9	19.4
COGS	302.5	240.5	25.8	262.9	15.1
Gross Profit	38.9	20.1	93.5	23.0	69.1
Operating expenses	10.6	5.2	103.9	6.8	55.9
Other income	2.8	4.4	-36.4	7.2	-61.1
Investment income	0.7	1.3	-46.2	1.4	-50.0
Finance cost	0.6	0.6	-	0.1	500.0
Pretax profit	25.6	19.9	28.6	24.7	3.6
Tax	-1.8	3.6	-	2.9	-
Profit after tax	27.4	16.3	68.1	21.8	25.7
Minority interest	-	-	-	-	-
PATMI	27.4	16.3	68.1	21.8	25.7
Extraordinary losses (gains)	-	-	-	-	-
Core net profit	27.4	16.3	68.1	21.8	25.7
EPS (sen)	7.1	4.2	69.1	5.7	24.6
Core EPS (sen)	7.1	4.2	69.1	5.7	24.6

### Business Overview

P.I.E. Industrial Berhad is an electronic manufacturing services (EMS) provider, specialising in the data-collection, telecommunication, and medical industries. The company can provide a complete integrated one-stop EMS service to major MNCs. Through its subsidiaries, the company has operation in contract manufacturing services, manufactures raw wires and cables, and trades personal computer peripheral products.

### Stock Return Information

KLCI (pts)	1,433.08
Expected Share Return (%)	13.1
Expected Dividend Yield (%)	1.4
Expected Total Return (%)	14.5

### Price Performance

	1M	3M	12M
Absolute (%)	13.6	32.1	33.1
Relative to Index (%)	15.8	34.9	42.4

### Share Information

Market Cap (RM m)	1344.1
Issued Shares (m)	384.0
52W High (RM)	3.56
52W Low (RM)	2.29
Estimated Free Float (%)	34.4
Beta vs FBM KLCI	0.8
3-month Average Vol. (m)	5.45

### Top 3 Shareholders (%)

Pan Global Holdings Co Ltd	51.42
Wong Nyok Fing	4.21
Public Smallcap Fund	3.34

Sources: Mercury Securities, Company, Bloomberg

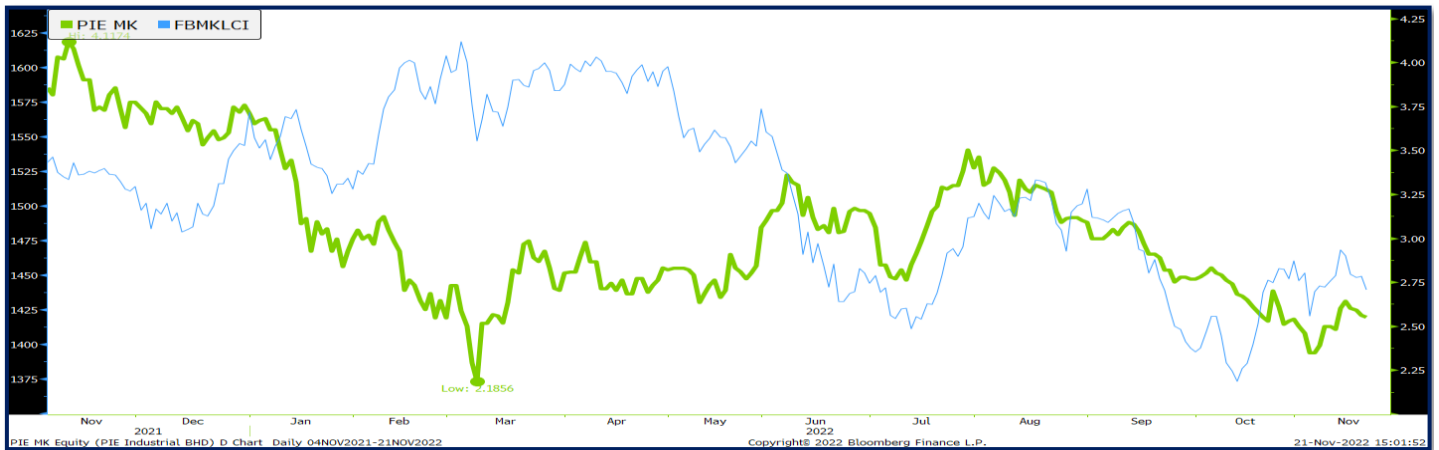
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INVESTMENT STATISTICS	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM m)	686.4	1025.2	1165.3	1305.0	1512.0
EBITDA	74.5	93.0	102.8	131.1	151.7
PATMI	45.6	60.3	70.8	82.1	97.2
EPS (sen)	11.9	15.7	18.4	21.4	25.3
EPS Growth (%)	163.5	32.3	17.4	16.0	18.4
BV Per Share (sen)	124.3	134.5	146.2	158.5	177.2
PE (x)	29.6	22.4	19.0	16.4	13.9
Dividend Yield (%)	1.4	1.4	1.4	1.4	1.4
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
ROA (%)	6.9	7.3	8.0	8.4	8.8
ROE (%)	9.5	11.7	12.6	13.5	14.3

Sources: Mercury Securities, Company



## Peers Comparison

Company	Bloomberg Ticker	Share Price (MYR)	Market Cap (MYR'm)	FY23F PE (x)	EPS (sen)		EPS Growth		P/BV (x)	
					FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
SKP Resources	SKP MK	1.35	2,109.2	13.1	10.3	11.0	9.1%	9.1%	2.4	2.2
Aurelius Tech	ATECH MK	2.96	1,166.2	28.2	10.5	16.0	25.0%	60.0%	5.3	5.3
V.S. Industry	VSI MK	0.850	3,270.2	14.2	6.0	7.0	50.0%	16.7%	1.4	1.3
Average				18.5						

Sources: Mercury Securities, Bloomberg



<b>PROFIT &amp; LOSS (RM m) FY Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>
Net Revenue	686.4	1025.2	1165.3	1305.0	1512.0
Gross Profit	51.4	79.1	94.3	112.1	131.5
Other Operating Income	33.8	29.5	16.6	36.6	40.3
EBIT	57.0	74.9	83.8	111.1	130.7
Administrative & Distribution Expenses	26.0	28.6	27.4	30.9	34.0
Other Operating Expenses	4.6	6.1	0.0	6.9	7.4
Profit from operations	54.6	74.0	83.5	110.8	130.4
Interest Income	2.0	0.6	0.0	0.0	0.0
Interest Expense	0.0	0.3	1.4	2.7	2.4
<b>Profit Before Tax</b>	<b>56.6</b>	<b>74.3</b>	<b>82.1</b>	<b>108.1</b>	<b>128.0</b>
Exceptional Items	-	-	-	-	-
Taxation	11.0	14.0	11.3	25.9	30.7
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Profit After Tax (PATMI)</b>	<b>45.6</b>	<b>60.3</b>	<b>70.8</b>	<b>82.1</b>	<b>97.2</b>
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	45.6	60.3	70.8	82.1	97.2
<b>BALANCE SHEET (RM m) FY Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>
Cash & Equivalents	143.7	78.3	43.0	98.1	162.2
Trade & Other Receivables	206.9	256.1	319.3	294.1	360.4
Inventories	163.9	300.9	287.8	324.5	324.5
Other Current Assets	10.9	7.5	3.0	7.5	2.4
<b>Current Assets</b>	<b>522.0</b>	<b>638.3</b>	<b>677.8</b>	<b>739.1</b>	<b>869.3</b>
Property, Plant & Equipment	83.6	124.5	163.9	173.6	182.3
Investment Properties	47.0	47.4	21.5	50.0	48.0
Other Non-Current Assets	8.8	10.9	16.0	25.7	18.2
<b>Non-Current Assets</b>	<b>141.5</b>	<b>188.0</b>	<b>211.1</b>	<b>241.8</b>	<b>239.0</b>
Trade & Other Payables	149.0	227.6	211.2	239.5	281.7
Short-Term Borrowings	28.3	71.5	105.6	90.0	80.0
Other Current Liabilities	4.0	2.5	1.8	2.1	2.1
<b>Current Liabilities</b>	<b>179.7</b>	<b>300.9</b>	<b>318.8</b>	<b>331.6</b>	<b>363.7</b>
Other Non-Current Liabilities	5.9	6.3	8.9	8.8	8.8
<b>Non-current Liabilities</b>	<b>6.3</b>	<b>8.9</b>	<b>8.8</b>	<b>8.8</b>	<b>8.8</b>
Share Capital	83.2	83.2	83.2	83.2	83.2
Retained Profits	377.6	418.8	462.7	517.7	581.9
Other Equity	16.7	14.5	15.4	7.7	15.4
<b>Total Equity</b>	<b>477.5</b>	<b>516.5</b>	<b>561.2</b>	<b>608.6</b>	<b>680.4</b>
<b>CASH FLOW (RM m) FY Dec</b>	<b>FY20A</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23F</b>	<b>FY24F</b>
Profit before tax	56.6	74.3	82.1	108.1	128.0
Depreciation	17.8	18.4	19.3	20.3	21.3
Interest income	-2.0	-0.6	0.0	0.0	0.0
Interest expense	0.0	0.3	1.4	2.7	2.4
Other operating cash flow	-0.6	-7.6	-5.0	-4.6	-4.2
<b>Operating profit/(loss) before working capital</b>	<b>71.9</b>	<b>84.8</b>	<b>97.8</b>	<b>126.5</b>	<b>147.4</b>
Change in working capital	-64.2	-106.5	-66.4	16.8	-24.2
<b>Cash generated from operations</b>	<b>7.7</b>	<b>-21.7</b>	<b>31.4</b>	<b>143.3</b>	<b>123.3</b>
Income tax paid	-11.0	-14.0	-11.3	-25.9	-30.7
Interest paid	0.0	-0.3	-1.4	-2.7	-2.4
<b>Cashflow from operations</b>	<b>-3.4</b>	<b>-36.0</b>	<b>18.7</b>	<b>114.6</b>	<b>90.1</b>
Capital expenditure	-29.0	-65.7	-46.4	-30.0	-30.0
Other investing cash flow	5.4	6.8	0.3	0.1	0.4
<b>Net cash (used in)/from investing activities</b>	<b>-23.6</b>	<b>-58.8</b>	<b>-46.1</b>	<b>-29.9</b>	<b>-29.6</b>
Dividends paid	-19.2	-19.2	-26.9	-27.1	-33.1
Changes in bank borrowings	28.3	43.2	27.7	27.7	27.7
<b>Cashflow from financing</b>	<b>9.1</b>	<b>24.0</b>	<b>-0.6</b>	<b>0.6</b>	<b>-5.4</b>

Sources: Mercury Securities, Company

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Published and printed by:

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