



P.I.E. Industrial Bhd

“Expecting softer growth ahead”

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

Main Board

Industrial Products

HOLD

TP: RM3.41

Last Closing Price: RM3.37

Initiated Price: RM3.17

Valuation / Recommendation

Results were below expectations, achieving 25.5% and 16.6% of our full year revenue and profit forecasts for FY23F. 1Q23 revenue was lower qoq (-2.6%), higher yoy (+24.6%) due to higher demand for EMS but partly offset with lower sales from raw cable and wire harness products.

We recommend a HOLD on PIE with a TP of RM3.41 based on FY24F EPS 21.3 sen and PE of 16x which is in line with the 10-year average. While we like the stock for its attractive growth prospects, and diversified customer base, we think that a slow down in business of its customers will impact its profitability in the near term.

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 3Q23. 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 catalyse 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 2nd 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	1Q23	4Q22	qoq %	1Q22	yoy %
Revenue	332.5	341.4	-2.6	266.9	24.6
COGS	-315.2	-302.5	4.2	-247.5	27.4
Gross Profit	17.3	38.9	-55.5	19.4	-10.8
Operating expenses	-7.4	-10.6	-30.2	-5.7	29.8
Other income	8.3	2.8	196.4	8.1	2.5
Investment income	1.3	0.7	85.7	1.8	-27.8
Finance cost	-0.9	-0.6	50.0	-0.03	-
Pretax profit	18.6	25.6	-27.3	23.6	-21.2
Tax	-5.0	-1.8	177.8	-4.8	4.2
Profit after tax	13.6	27.4	-50.4	18.8	-27.7
Extraordinary losses (gains)	-	-	-	-	-
EPS (sen)	3.6	7.1	-49.3	4.9	-26.5
Diluted EPS (sen)	-	-	-	-	-

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)	1,428.54
Expected Share Return (%)	1.2
Expected Dividend Yield (%)	1.4
Expected Total Return (%)	2.6

Price Performance

	1M	3M	12M
Absolute (%)	-2.8	10.5	16.1
Relative to Index (%)	-3.0	12.9	22.8

Share Information

Market Cap (RM m)	1,294.2
Issued Shares (m)	384.0
52W High (RM)	3.76
52W Low (RM)	2.29
Estimated Free Float (%)	34.4
Beta vs FBM KLCI	0.6
3-month Average Vol. (m)	10.1

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

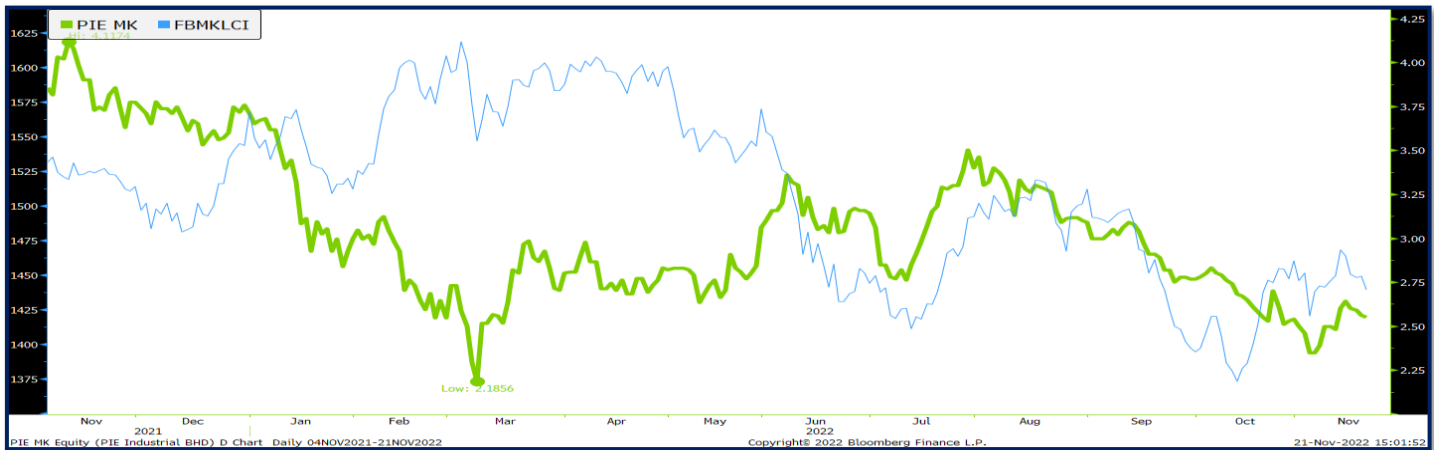
Ronnie Tan

ronnie-tan@mersec.com.my



INVESTMENT STATISTICS	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM m)	686.4	1025.2	1165.3	1305.0	1512.0
EBITDA (RM m)	74.5	93.0	102.8	110.5	131.5
PAT (RM m)	45.6	60.3	70.8	66.5	81.9
EPS (sen)	11.9	15.7	18.4	17.3	21.3
EPS Growth (%)	163.5	32.3	17.4	-6.0	23.2
BV Per Share (sen)	124.3	134.5	146.2	155.8	171.8
PE (x)	28.4	21.5	18.3	19.5	15.8
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	7.1	7.9
ROE (%)	9.5	11.7	12.6	11.1	12.4

Sources: Mercury Securities, Company



Peers Comparison

Company	Bloomberg Ticker	Share Price (MYR)	Market Cap (MYR'm)	FY24F PE (x)	EPS (sen)		EPS Growth		P/BV (x)	
					FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
SKP Resources	SKP MK	1.07	1,671.7	11.0	10.0	9.7	-11.0%	-3.0%	1.1	1.7
Aurelius Tech	ATECH MK	2.38	937.7	12.9	14.0	18.5	25.7%	32.1%	3.4	2.0
V.S. Industry	VSI MK	0.795	3,056.2	12.0	5.3	6.6	17.5%	24.5%	1.3	1.3
Average				12.0						

Sources: Mercury Securities, Bloomberg



PROFIT & LOSS (RM m) FY Dec	FY20A	FY21A	FY22A	FY23F	FY24F
Net Revenue	686.4	1025.2	1165.3	1305.0	1512.0
Gross Profit	51.4	79.1	94.3	91.5	111.3
Other Operating Income	33.8	29.5	16.6	36.6	40.3
EBIT	57.0	74.9	83.8	90.6	110.5
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	90.2	110.2
Interest Income	2.0	0.6	0.0	0.0	0.0
Interest Expense	0.0	0.3	1.4	2.7	2.4
Profit Before Tax	56.6	74.3	82.1	87.5	107.8
Exceptional Items	-	-	-	-	-
Taxation	11.0	14.0	11.3	21.0	25.9
Minority Interests	0.0	0.0	0.0	0.0	0.0
Profit After Tax (PATMI)	45.6	60.3	70.8	66.5	81.9
Preferred Dividends / Adjustments	-	-	-	-	-
Recurring Net Profit	45.6	60.3	70.8	66.5	81.9
BALANCE SHEET (RM m) FY Dec	FY20A	FY21A	FY22A	FY23F	FY24F
Cash & Equivalents	143.7	78.3	43.0	87.6	135.0
Trade & Other Receivables	206.9	256.1	319.3	270.8	306.7
Inventories	163.9	300.9	287.8	315.9	329.4
Other Current Assets	10.9	7.5	3.0	7.5	2.4
Current Assets	522.0	638.3	677.8	696.7	793.2
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
Non-Current Assets	141.5	188.0	211.1	241.8	239.0
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
Current Liabilities	179.7	300.9	318.8	331.6	363.7
Other Non-Current Liabilities	5.9	6.3	8.9	8.8	8.8
Non-current Liabilities	6.3	8.9	8.8	8.8	8.8
Share Capital	83.2	83.2	83.2	83.2	83.2
Retained Profits	377.6	418.8	462.7	507.2	561.3
Other Equity	16.7	14.5	15.4	7.7	15.4
Total Equity	477.5	516.5	561.2	598.1	659.9
CASH FLOW (RM m) FY Dec	FY20A	FY21A	FY22A	FY23F	FY24F
Profit before tax	56.6	74.3	82.1	87.5	107.8
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
Operating profit/(loss) before working capital	71.9	84.8	97.8	105.9	127.3
Change in working capital	-64.2	-106.5	-66.4	48.7	-7.2
Cash generated from operations	7.7	-21.7	31.4	154.6	120.1
Income tax paid	-11.0	-14.0	-11.3	-21.0	-25.9
Interest paid	0.0	-0.3	-1.4	-2.7	-2.4
Cashflow from operations	-3.4	-36.0	18.7	130.9	91.8
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
Net cash (used in)/from investing activities	-23.6	-58.8	-46.1	-29.9	-29.6
Dividends paid	-19.2	-19.2	-26.9	-22.0	-27.9
Changes in bank borrowings	28.3	43.2	27.7	27.7	27.7
Cashflow from financing	9.1	24.0	-0.6	5.7	-0.2

Sources: Mercury Securities, Company

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Registration No. 198401000672 (**113193-W**)

L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur

Telephone: (603) - 6203 7227 Website: www.mercurysecurities.com.my

Email: mercurykl@mersec.com.my