

28 May 2018 | 1QFY18 Results Review

P.I.E. Industrial Berhad

Expect a stronger 2HFY18

INVESTMENT HIGHLIGHTS


- **1QFY18 earnings below expectation**
- **Profit for the quarter fell 37.7% yoy to RM7.2m**
- **Expect better second half of FY18**
- **Maintain BUY with adjusted TP of RM1.95**

1QFY18 earnings below expectation. P.I.E. Industrial Bhd's (PIE) profit of RM7.2m was below our expectation, making up 13% of our full year forecast and consensus' estimates. No dividend was declared for the quarter as expected.

Profit for the quarter fell 37.7% yoy to RM7.2m as revenue dipped by 10.3% to RM145.3m. The decline in revenue is due to the lower demand from its customers particularly from the electronics manufacturing services (EMS) segment (-12.3% yoy to RM140.7m), which is slightly offset by higher sales from trading segment that more than tripled to RM4.2m. Moreover, gross profit for the quarter was compressed to 3.4% (from 11.5% in 1QFY17) due to lower margin from product mix and higher cost of sales. Qoq, earnings decreased by 70% mainly due to seasonality on top of the reasons mentioned earlier.

Expect better second half of FY18. We believe that 2H18 earnings should improve as PIE is working on higher margin contracts that include industrial printing products as well as other commercial products which are expected to only start contribution from 2HFY18 onwards. Furthermore, second half is also seasonally stronger.

Trim FY18F/FY19F earnings estimates by 9.8%/9.0% to RM49.8m/RM55.5m respectively. We have now assumed lower revenue and profit margins in view of the higher cost of sales.

Maintain BUY with adjusted TP of RM1.95 (previously RM2.16) following the changes in our earnings estimates. Our TP is based on unchanged valuation method of 15x PER on FY18 EPS of 12.97 sen. The company is in a net cash position of RM99.9m and dividend yield is expected at 3.7%. Currently valuation is deemed attractive following the correction in its share price. PIE's fundamentals are still intact as it continues to explore and replenishes new orders. 

Maintain BUY

Adjusted Target Price (TP): RM1.95
(Previously RM2.16)

RETURN STATS	
Price (25 th May 2018)	RM1.34
Target Price	RM1.95
Expected Share Price Return	44.1%
Expected Dividend Yield	3.7%
Expected Total Return	47.8%

STOCK INFO		
KLCI	1,797.40	
Bursa / Bloomberg	7095 / PIE MK	
Board / Sector	Main/ Industrial	
Syariah Compliant	Yes	
Issued shares (m)	384.04	
Market cap. (RM'm)	518.46	
Price over NA	1.27	
52-wk price Range	RM1.27-RM2.37	
Beta (against KLCI)	1.22	
3-mth Avg Daily Vol	0.63 m	
3-mth Avg Daily Value	RM0.88m	
Major Shareholders (%)		
Pan Global Holding Co Ltd	51.42%	
RHB Asset Management Sdn Bhd	5.68%	
Kenanga Unit Trust Bhd	1.99%	
Price Performance (%)	Absolute	Relative
1 month	-3.6	0.0
3 months	-9.4	-15.5
12 months	-41.7	-42.5

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	662.24	579.29	679.28	724.13	811.03
Pretax Profit (RM'm)	79.95	45.73	63.44	65.55	72.99
Net Profit (RM'm)	57.59	36.07	48.01	49.82	55.47
EPS (sen)	14.99	9.39	12.50	12.97	14.44
EPS growth (%)	49.53%	-37.37%	33.11%	3.77%	11.36%
PER (x)	9.00	14.38	10.80	10.41	9.35
Net Dividend* (sen)	35.0	5.0	5.0	5.0	5.5
Dividend yield* (%)	25.93%	3.70%	3.70%	3.70%	4.07%
Gearing (x)	0.29	0.00	Net Cash	Net Cash	Net Cash
ROE (%)	15.88%	9.64%	11.94%	11.31%	11.68%
ROA (%)	10.44%	8.14%	6.97%	9.10%	6.91%
NTA per share (RM)	0.67	0.97	1.05	1.15	1.24
Price to NTA (x)	2.03	1.39	1.29	1.18	1.09

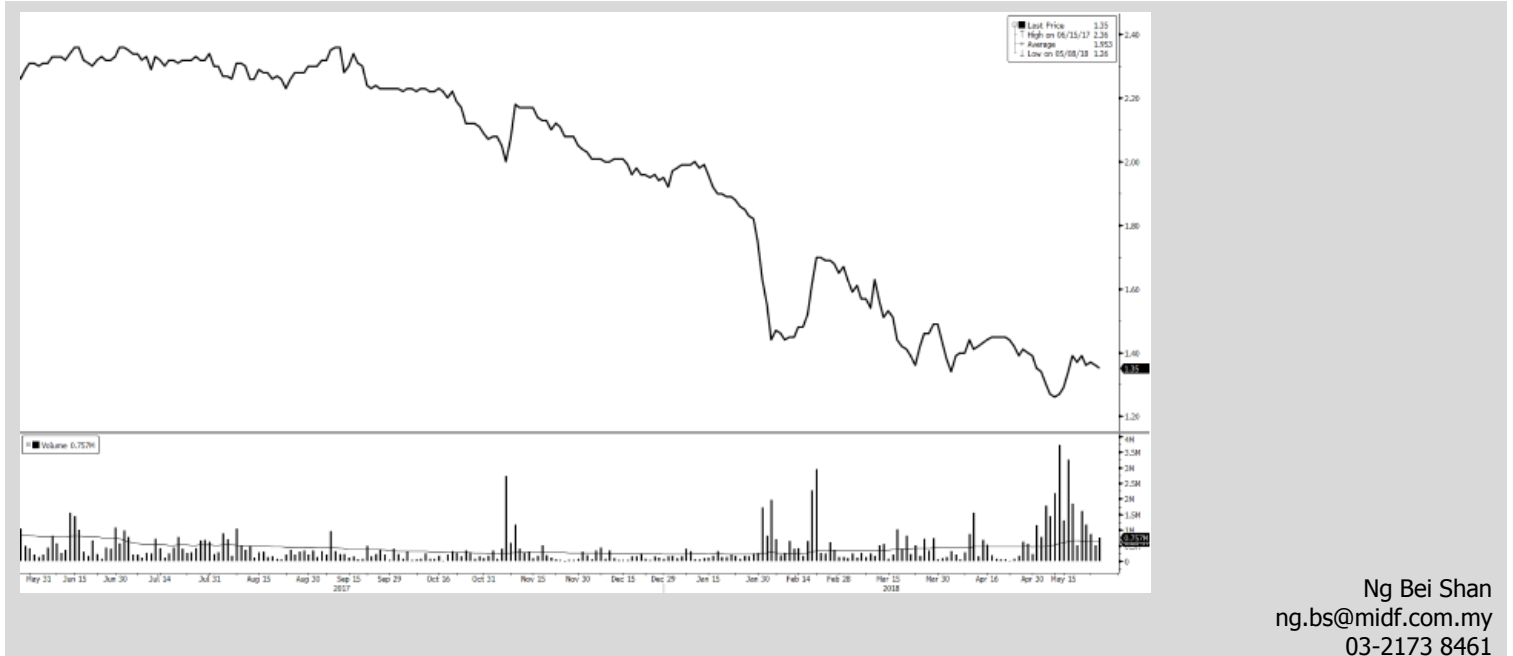
Source: Company, MIDF Research *FY15 figures are based on share base of 76.8m

PIE: 1QFY18 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	1QFY18	YoY	QoQ	FY18	YoY	
Revenue (RM'm)	145.26	-10.3%	-20.7%	145.26	-10.3%	Lower demand from existing customers
Pretax Profit (RM'm)	9.74	-39.6%	-68.8%	9.74	-39.6%	
Net Profit (RM'm)	7.22	-37.7%	-69.8%	7.22	-37.7%	Lower profit margin and stronger ringgit
EPS (sen)	1.88	-37.7%	-69.8%	1.88	-37.7%	
Net DPS (sen)	0	N.M.	N.M.	0.00	N.M.	
Pretax margin (%/ppt)	6.7%	-3.3	-10.3	6.7%	-3.3	Higher cost of goods sold

Source: Company, MIDF Research

DAILY PRICE CHART



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Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.