20 August 2018 | 2QFY18 Results Review

P.I.E. Industrial Berhad

Expect to catch up in 2nd half

***Maintain* BUY**

***Adjusted* Target Price (TP): RM1.88 (previously RM1.95)**

INVESTMENT HIGHLIGHTS

- **1HFY18 earnings below expectations**
- **2QFY18 net profit slid by 34.8%yoy to RM7.0m**
- **Trimmed our FY18F/FY19F estimates by -3.4%/-3.8%**
- **Maintain BUY with adjusted TP of RM1.88 (from RM1.95)**

1HFY18 earnings below expectations. P.I.E. Industrial Bhd's 1HFY18 (PIE) net profit of RM14.2m missed expectations, making up 30% of ours and consensus' full year estimates. This is mainly due to the longer-than-expected shortage in component supply, which results in delay in deliveries. The company announced a DPS of 6.0 sen, which is within expectation.

Profit for the period declined by 60.6%yoy to RM14.2m as revenue fell by 15.1% to RM286.9m. The decline in revenue is due to the lower demand from its customers particularly from the electronics manufacturing services (EMS) segment (-16.0%yoy to RM277.9m) which is largely attributable to the shortage of raw material supplies. This is cushioned by the 31%yoy increase in trading sales to RM8.9m.

2QFY18 net profit slid by 34.8%yoy to RM7.0m in-line with the 19.6% decrease in sales to RM141.6m The decline in sales is due to the delay in deliveries to its customers because of the continual shortage in certain components. However, gross profit margin for the quarter has improved to 5.3% from 3.4% in 1Q although it is still compressed compared to the 10.6% recorded in 2Q17. This is attributed to operating inefficiencies as a result of the shortage of component supply. Versus 1QFY18, net profit for the quarter dipped by 3.3% in tandem with sales that were 2.5% lower.

We expect 2HFY18 to make up for the slow start in 1HFY18 as plant utilisation is estimated to increase to 90% from 75% earlier in the year. The production ramp up is supported by a few factors including customers trying to make up for the slow progression in the first half, new sources of supplies for the raw materials as well as the seasonally busier second half. On top of that, a strengthening ringgit bodes well for PIE's sales. Every 10% strengthening in USD rate will increase its PBT by ~13%.

RETURN STATS	
Price (17th Aug 2018)	RM1.63
Target Price	RM1.88
Expected Share Price Return	+15.3%
Expected Dividend Yield	+3.7%
Expected Total Return	**+19.0%**

STOCK INFO		
FBMKLCI	1,783.47	
Bursa / Bloomberg	7095 / PIE MK	
Board / Sector	Main/ Industrial	
Syariah Compliant	Yes	
Issued shares (m)	384.04	
Market cap. (RM'm)	625.99	
Price over NA	1.54	
52-wk price Range	RM1.54-RM2.30	
Beta (against KLCI)	1.23	
3-mth Avg Daily Vol	0.78 m	
3-mth Avg Daily Value	RM1.12m	
Major Shareholders (%)		
Pan Global Holding Co Ltd	51.42%	
RHB Asset Management Sdn Bhd	5.45%	
Employees Provident Fund Board	5.01%	
Price Performance (%)	**Absolute**	**Relative**
1 month	0.6	-1.0
3 months	25.4	27.4
12 months	-25.9	-26.2

FY19 expected to be better than FY18 as we anticipate some of the slow deliveries in FY18 to spill over to next year. On top of that, we understand that the new contracts related to industrial printing products and other commercial products contracts that the company is negotiating are going well.

However, we trimmed our FY18F/FY19F earnings by -3.4%/-3.8% in view of the prolonged issue with supply which subsequently affect their operational efficiencies and margins. We expect the strengthening USD to partially offset the weakness in earnings recognition.

Maintain BUY with adjusted TP of RM1.88 (previously RM1.95) due to the changes in our earnings estimates. Our TP is based on unchanged valuation method of 15x PER pegged on FY18 EPS of 12.5 sen. The company is in a net cash position of RM96.2m and dividend yield is expected at 3.7%.

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	662.24	579.29	679.28	697.56	781.26
Pretax Profit (RM'm)	79.95	45.73	63.44	63.37	70.31
Net Profit (RM'm)	**57.59**	**36.07**	**48.01**	**48.16**	**53.44**
EPS (sen)	14.99	9.39	12.50	12.54	13.91
EPS growth (%)	49.53%	-37.37%	33.11%	0.32%	10.96%
PER (x)	10.87	17.36	13.04	13.00	11.71
Net Dividend* (sen)	35.0	5.0	5.0	6.0	6.3
Dividend yield* (%)	21.47%	3.07%	3.07%	3.68%	3.84%
Gearing (x)	0.29	0.00	Net Cash	Net Cash	Net Cash
ROE (%)	15.88%	9.64%	11.94%	11.07%	11.51%
ROA (%)	10.44%	8.14%	6.97%	9.10%	6.91%
NTA per share (RM)	0.67	0.97	1.05	1.13	1.21
Price to NTA (x)	2.45	1.67	1.56	1.44	1.35

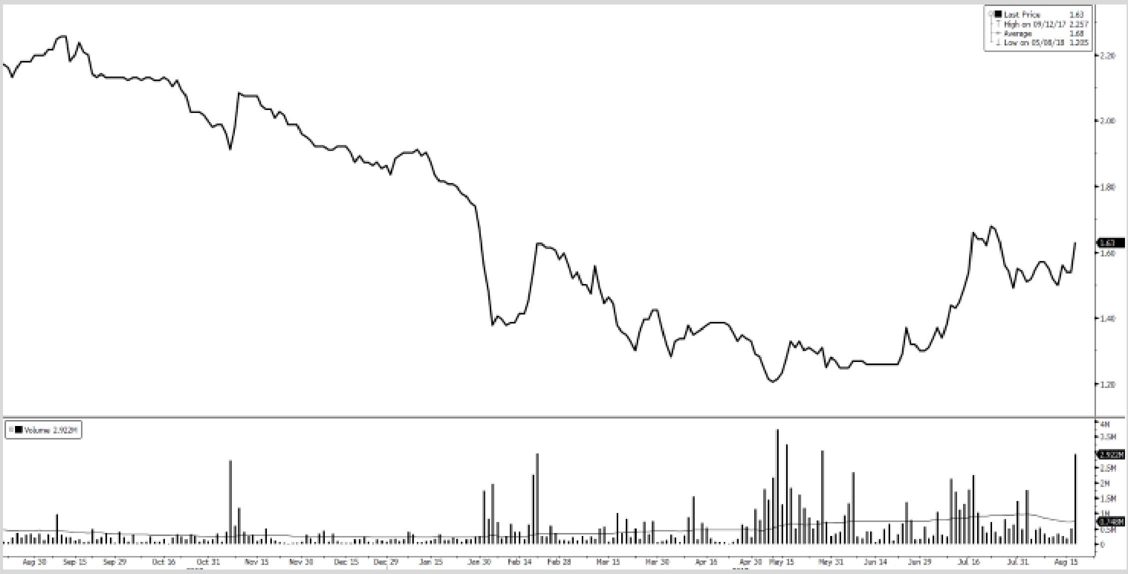
Source: Company, MIDF Research **FY15 figures are based on share base of 76.8m*

PIE: 2QFY18 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	2QFY18	***YoY***	***QoQ***	***FY18***	***YoY***	
Revenue (RM'm)	141.62	-19.57%	-2.51%	286.88	-15.11%	Part of the deliveries being pushed back due to shortage of raw material
Pretax Profit (RM'm)	9.74	-39.62%	0.00%	18.47	-59.62%	
Net Profit (RM'm)	6.98	-34.75%	-3.28%	14.20	-60.63%	Shortage of raw material resulted in lower efficiency
EPS (sen)	1.82	-34.75%	-3.28%	3.70	-60.63%	
Net DPS (sen)	6.00	20.00%	N.M.	6.00	20.00%	
Pretax margin (%/ ppt)	6.9%	-2.3	0.2	6.4%	-7.1	

Source: Company, MIDF Research

DAILY PRICE CHART



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Source: Bloomberg

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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 *rise* 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 *fall* 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.