

07 November 2018 | 3QFY18 Results Review

P.I.E. Industrial Berhad

FY18 orders carried forward to FY19

INVESTMENT HIGHLIGHTS

- **9MFY18 earnings below estimates**
- **3QFY18 net profit jumped by 57.8%yoy to RM14.1m**
- **FY19 to rebound from a challenging FY18**
- **Maintain BUY with an adjusted TP of RM1.86 (from RM1.88)**

9MFY18 earnings below estimates. P.I.E. Industrial Bhd's (PIE) core net profit (CNP) of RM22.5m for the first nine months missed our expectation, making up 47% of ours and 49% of consensus' full year estimates. The negative deviation is mainly due to the prolonged shortage in component supply.

Core net profit for 9MFY18 declined 24%yoy to RM22.5m as revenue dipped 7% to RM461.3m. The drop in CNP for the period is mainly due to the slower-than-expected delivery in orders which led to production inefficiency and subsequently lower profitability. Electronics manufacturing services (EMS) sales was lower by 11.0% to RM339.1m while raw wire and cables segment improved by 3.0% to RM93.0m.

3QFY18 net profit jumped by 57.8%yoy to RM14.1m as revenue increased by 10.4%yoy to RM174.4m. Notwithstanding a challenging 1HFY18, we believe that 3QFY18 is a turning point in the prolonged component shortage situation which has plagued the company since 1HFY17. The surge in the quarterly CNP is attributed to the higher sales, better product mix and reversal of impairment of trade receivables. The improvement in sales is due to the higher demand for electronics manufacturing services (EMS) from existing customers (+12.4%yoy to RM133.5m) and wire harness products (+1.2%yoy to RM30.4m).

Sequentially, CNP soared 92.9% as revenue improved by 23.2%. The much higher CNP compared to 2QFY18 was mainly due to the improvement in operational efficiency that stemmed from higher deliveries to customers. During the quarter, PIE's customers had sourced for raw materials in the open market, which eased the problem of input components in the manufacturing process. As a result, PIE was able to ramp up its production.

We trim our FY18F and FY19F CNP estimates by -20.7% to RM38.2m and -10.7% to RM47.7m respectively. We also cut our FY18F/FY19F revenue assumption by -8.8% and -7.9% to RM636.4m and RM719.2m. This came as we revise our order replenishment rate and profit margin.

Maintain BUY

Adjusted Target Price (TP): RM1.86
(previously RM1.88)


RETURN STATS

Price (5 th November 2018)	RM1.57
Target Price	RM1.86
Expected Share Price Return	+18.8%
Expected Dividend Yield	+3.8%
Expected Total Return	+22.6%

STOCK INFO

KLCI	1,708.8	
Bursa / Bloomberg	7095 / PIE MK	
Board / Sector	Main/ Industrial	
Syariah Compliant	Yes	
Issued shares (m)	384.04	
Market cap. (RM'm)	602.9	
Price over NA	1.54	
52-wk price Range	RM1.20-RM2.12	
Beta (against KLCI)	1.13	
3-mth Avg Daily Vol	0.79 m	
3-mth Avg Daily Value	RM1.55m	
Major Shareholders (%)		
Pan Global Holding Co Ltd	51.42%	
RHB Asset Management Sdn Bhd	5.24%	
Employees Provident Fund Board	5.01%	
Price Performance (%)	Absolute	Relative
1 month	-2.4	-1.0
3 months	+13.8	+4.2
12 months	-17.9	-17.8

FY19 to rebound from a challenging FY18. We expect higher orders in FY19 from new and existing customers. Some orders not met in FY18 may also be carried forward into FY19. On top of that, we also anticipate a recovery in PIE's profit margin as the problems in component ease. This allows PIE to plan better and also to further improve its production efficiency. Furthermore, we expect better product mix to also contribute to an improving margin next year albeit that might be partially offset by higher operating costs that include higher labour cost. We estimate that the impact of higher minimum wage to PIE's operating profit is limited to about 1%.

Maintain BUY with an adjusted TP of RM1.86 (previously RM1.88) as we roll over the base year to FY19 pegged to an unchanged valuation method of 15x PER, based on its 5-year average. We believe that the worst from the impact of the component shortage is over for PIE as its customers widen their sources of supply. Looking ahead, we are more upbeat with its FY19 outlook that is underpinned by higher leads from existing and new customers. The TP of RM1.86 is derived from FY19F EPS of 12.4 sen. Current share price implies forward PER of 12.7x, which is lower than its 5-year PER average of 15.0x. The company is in a net cash position of RM82.8m and at current price. Its dividend yield is expected to be at 3.8%. 

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	662.24	579.29	679.28	636.44	719.18
Pretax Profit (RM'm)	79.95	45.73	63.44	44.93	62.81
Net Profit (RM'm)	57.59	36.07	48.01	38.19	47.67
Core Net Profit (RM'm)	67.48	38.59	42.31	38.19	47.67
EPS (sen)	14.99	9.39	12.50	9.94	12.41
Core EPS (sen)	17.57	10.05	11.02	9.94	12.41
Core EPS growth	75.2%	-42.8%	9.6%	-9.7%	24.8%
PER (x)	10.47	16.72	12.56	15.79	12.65
Net Dividend* (sen)	35.0	5.0	5.0	6.0	6.0
Dividend yield* (%)	22.3%	3.2%	3.2%	3.8%	3.8%
Gearing (x)	0.29	0.00	Net Cash	Net Cash	Net Cash
ROE (%)	15.88%	9.64%	11.94%	8.99%	10.60%
ROA (%)	10.44%	8.14%	6.97%	9.10%	6.91%
NTA per share (RM)	0.67	0.97	1.05	1.11	1.17
Price to NTA (x)	2.36	1.61	1.50	1.42	1.34

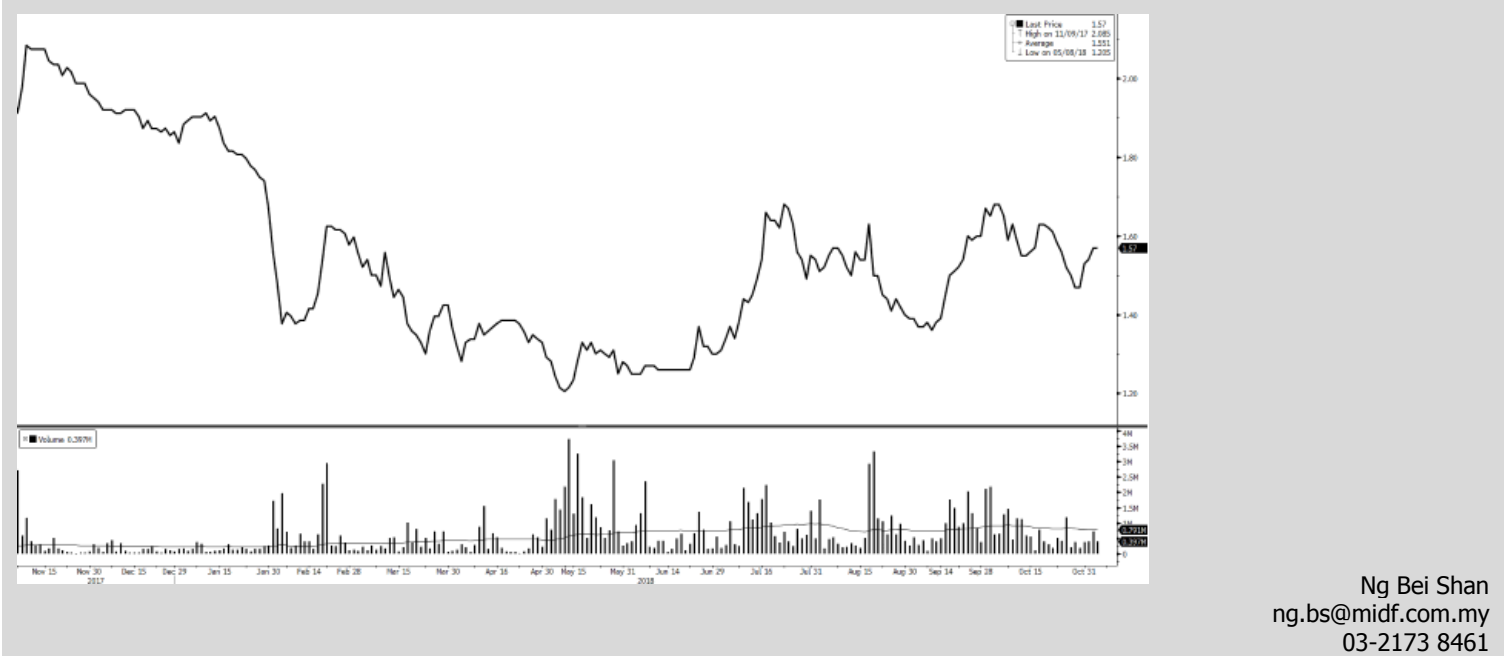
Source: Company, MIDF Research *FY15 figures are based on share base of 76.8m

PIE: 3QFY18 Results Summary

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		Comments
	3QFY18	YoY	QoQ	9MFY18	YoY	
Revenue (RM'm)	174.42	10.35%	23.16%	461.30	-7.00%	Orders resuming as customers resolve supply issue
Pretax Profit (RM'm)	8.12	222.73%	-16.60%	26.59	-17.51%	
Net Profit (RM'm)	8.12	335.16%	16.32%	22.32	-38.12%	
Core Net Profit (RM'm)	14.12	57.82%	92.92%	22.47	-24.06%	Higher revenue and better efficiency
EPS (sen)	2.11	331.50%	16.32%	5.81	-7.58%	
Net DPS (sen)	0.00	N.M.	N.M.	6.0	20.00%	
Pretax margin (%/ ppt)	4.7%	3.1	-2.2	5.8%	-0.7	

Source: Company, MIDF Research

DAILY PRICE CHART



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 <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.