

P.I.E. Industrial Berhad

(7095 | PIE MK) Industrial Products | Electrical components

Demand and supply chain disrupted

KEY INVESTMENT HIGHLIGHTS


- **1QFY20 earnings below expectation**
- **Earnings for the quarter plunged into a loss of RM2.5m as revenue fell by 33.6%yoy**
- **2QFY20 earnings may be dampened by the Movement Control Order**
- **Downgrade to NEUTRAL with an adjusted TP of RM1.20 (previously RM1.60)**

1QFY20 earnings below expectation. P.I.E. Industrial Bhd's (PIE) core net profit (CNP) of RM2.0m missed ours and consensus' earnings forecast. We have excluded inventories written down of RM4.3m. Earnings for the quarter made up 4.4% of full year estimates.

Earnings for the quarter plunged into a loss of RM2.5m as revenue fell by 33.6%yoy. If we exclude the write-off, the CNP of RM2.0m was actually a huge improvement from RM0.5m a year ago. During the quarter, the Covid-19 pandemic and the US-China trade war had resulted in a drop in customer demand for its products and services. Sequentially, core net profit fell by -84.57%qoq as revenue dropped by 37.3%qoq.

2QFY20 earnings may be dampened by the Movement Control Order (MCO) as production and shipment were disrupted. Management expects production to fully resume from June onwards if the pandemic is well contained. Looking past the pandemic, PIE's electronic manufacturing services (EMS) segment is expected to improve in the longer run premised on its vertically integrated manufacturing facilities. On top of that, we believe that it may also be a beneficiary of the US-China trade war. In the near-term though, outlook is clouded by any potential disruption in supply chain, weaker-than-expected demand, wild swing in foreign exchange rates as well as raw material prices.

Earnings for FY20E/FY21F revised by -25.2%/-11.9% respectively to reflect the uncertainties ahead. Subsequently, we expect CNP for FY20E/FY21F at RM35.4m and RM43.5m respectively.

Downgrade to Neutral with a revised TP of RM1.20 (previously RM1.60). Due to the downward revision in our earnings forecast, we think that capital gain in the near-term may be limited. Our TP is pegged to 13x PER FY20F EPS of 9.21sen. Estimated dividend yield is 4.7%. PIE's net cash of RM167.4m as of end-March will be able to help it overcome any near-term headwind. 

Downgrade to NEUTRAL

(previously BUY)

Adjusted Target Price: RM1.20

(Previously RM1.60)

RETURN STATISTICS

Price @ 30 th June 2020 (RM)	1.28
Expected share price return (%)	-6.4
Expected dividend yield (%)	+4.7
Expected total return (%)	-1.7

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	5.0	3.4
3 months	18.4	29.1
12 months	-10.1	-3.8

KEY STATISTICS

FBM KLCI	1,500.97
Syariah compliant	Yes
Issue shares (m)	384.04
Estimated free float (%)	33.08
Market Capitalisation (RM'm)	491.57
52-wk price range	RM0.70 - RM1.61
Beta vs FBM KLCI (x)	1.15
Monthly velocity (%)	0.00
Monthly volatility (%)	19.30
3-mth average daily volume (m)	0.29
3-mth average daily value (RM'm)	0.36
Top Shareholders (%)	
Pan Global Holding Co Ltd	51.42
EPF	4.21
Mak Tian Meng	4.07

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INVESTMENT STATISTICS

FYE Dec	FY18	FY19	FY20E	FY21F	FY22F
Revenue (RM'm)	661.26	659.34	611.30	794.69	890.05
Pretax Profit (RM'm)	55.35	45.78	46.56	57.22	66.08
Net Profit (RM'm)	43.12	36.55	35.38	43.49	50.22
Core Net Profit (RM'm)	37.67	39.74	35.38	43.49	50.22
EPS (sen)	11.23	9.52	9.21	11.32	13.08
Core EPS (sen)	9.81	10.35	9.21	11.32	13.08
Core EPS growth	-11.0%	5.5%	-5.9%	22.9%	15.5%
PER (x)	11.40	13.07	13.89	11.30	9.79
Net Dividend (sen)	5.0	5.0	6.0	6.0	5.9
Dividend yield	3.9%	3.9%	4.7%	4.7%	4.6%
Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
ROE	10.03%	8.37%	7.21%	8.14%	8.60%
ROA	9.10%	6.91%	9.06%	7.05%	6.97%
NTA per share (RM)	1.11	1.17	1.13	0.97	1.23
Price to NTA (x)	1.15	1.10	1.13	1.32	1.04

Source: Company, MIDFR

PIE: 1QFY20 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	1QFY20	YoY	QoQ	3MFY20	YoY
Revenue (RM'm)	100.70	-33.60%	-37.31%	100.70	-33.60%
Pretax Profit (RM'm)	-2.46	-267.55%	-118.95%	-2.46	-267.55%
Net Profit (RM'm)	-2.46	-417.98%	-122.41%	-2.46	-417.98%
Core Net Profit (RM'm)	1.99	268.21%	-84.57%	1.99	268.21%
EPS (sen)	-0.64	-417.98%	-122.40%	-0.64	-417.98%
Net DPS (sen)	0.00	N.M.	N.M.	0.00	N.M.
Pretax margin (%/ ppt)	-2.4%	-3.4	-10.5	-0.02	-3.4

Source: Company, MIDFR

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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.