P.I.E. Industrial Berhad

***Maintain* BUY**

(7095 | PIE MK) Industrial Products | Electronical components

To a more robust 2HFY22

***Revised* Target Price: RM3.86**

(from RM3.45)

KEY INVESTMENT HIGHLIGHTS

- **Core PAT of RM26.7m came in well within expectation**
- **Higher labour cost due to the revised minimum wage**
- **2HFY22 earnings to be driven by incoming foreign labour and the commencement of the new plant**
- **Earnings estimates remain unchanged**
- **Maintain BUY with a revised TP of RM3.86**

Within expectation. P.I.E. Industrial Berhad (PIE) reported core PAT of RM26.7m in 1HFY22 which made up 39% of ours and 35% of consensus full-year estimates respectively. We deem this to be well within our expectation as we are expecting a stronger 2HFY22.

Quarterly. PIE's core PAT of RM7.9m (-44.5%yoy) in 2QFY22 took a dip despite recording higher order volume mainly due to higher labour cost following the increment in minimum wage and provision for slow moving inventories. The effective tax rate was also higher at 36.1% (2QFY21: 22.4%). On a quarter-on-quarter basis, core PAT declined by -58.0%qoq attributable to similar reasons.

Cumulatively. For the 6-month period, core PAT was flat at RM26.7m (+0.3%yoy) despite 2QFY22 being weaker as 1HFY21 was a low base due to the 60% workforce restriction during MCO 3.0 in Penang. However, revenue was higher at RM563.3m (+13.0%yoy) thanks to the orders from its 2 newly acquired customers – Customer R (consumer robotics products) and Customer A (cryptocurrency mining equipment).

Outlook. We expect 2HFY22 to be more robust with the recruitment of new foreign workers and the commencement of operations of its new 120k sq ft plant. Despite getting the approval for lower number of foreign workers than requested, PIE is confident that it would be sufficient to stabilise its production activities and support its growth plan in the near-term. The recruitment process has started and is expected to be completed by end-August. PIE's earnings would be driven by its factory capacity expansion plan which is being fueled by strong demand from its existing and newly acquired major customers as it is almost fully utilising its existing capacity. We are looking at an additional c.25% in capacity in the coming quarters.

Maintain BUY. We maintain our **BUY** call on PIE with a higher TP of **RM3.86** (from RM3.45) as we rollover our base year to FY23F pegged to an unchanged PER of 19x. Our valuation represents a slight premium to its peers' forward average PER of 18x, but we believe it is justified given its ability to leverage on Foxconn's purchasing power and its strong customer base which allows for margin expansion. Downside risks include: (1) inability to fulfill orders due to any delays in its expansion plan and labour shortage and (2) loss of orders from its major customers.

RETURN STATISTICS	
Price @ 12th August 2022 (RM)	3.28
Expected share price return (%)	+17.7
Expected dividend yield (%)	+2.4
Expected total return (%)	**+20.1**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	19.6	13.1
3 months	5.1	25.7
12 months	4.8	4.5

KEY STATISTICS	
FBM KLCI	1,506.56
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star rating)	☆☆
Issue shares (m)	384.04
Estimated free float (%)	34.40
Market Capitalisation (RM'm)	1,267.34
52-wk price range	RM2.15 - RM4.25
Beta vs FBM KLCI (x)	0.61
Monthly velocity (%)	22.40
Monthly volatility (%)	25.13
3-mth average daily volume (m)	0.45
3-mth average daily value (RM'm)	1.39
Top Shareholders (%)	
Pan Global Holding Co Ltd	51.42
Wong Nyok Fing	4.21
Public Smallcap Fund	3.34

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research @midf.com.my

INVESTMENT STATISTICS

Income Statement	FY20A	FY21A	FY22E	FY23F	FY24F
Revenue	686.4	1,025.2	1,258.1	1,321.9	1,388.9
PBT	56.6	74.7	92.0	102.8	106.8
PAT	45.6	60.7	69.9	78.1	81.2
Core PAT	45.9	53.2	69.9	78.1	81.2
Core EPS (sen)	11.9	15.8	18.2	20.3	21.1
PER (x)	27.6	20.8	18.0	16.1	15.5
DPS (sen)	5.00	5.00	7.00	8.00	8.50
Dividend yield (%)	1.5%	1.5%	2.1%	2.4%	2.6%

Source: Company, MIDF

PIE: 2QFY22 RESULTS SUMMARY

	Quarterly					Cumulatively		
Income Statement	**2QFY22**	**1QFY22**	**2QFY21**	**QoQ**	**YoY**	**1HFY22**	**1HFY21**	**YoY**
Revenue	296.3	267.0	235.4	11.0%	25.9%	563.3	498.5	13.0%
Gross profit	15.9	19.4	21.8	-18.3%	-27.0%	35.3	33.5	5.4%
EBIT	13.1	23.5	17.0	-44.2%	-22.9%	36.7	31.7	15.6%
PBT	13.0	23.6	17.2	-45.1%	-24.7%	36.5	32.1	13.8%
Tax expense	(4.7)	(4.7)	(3.8)	1.4%	-21.7%	(9.4)	(6.7)	-40.8%
PAT	8.3	18.8	13.4	-56.1%	-38.0%	27.1	25.4	6.7%
Core PAT	7.9	18.8	14.2	-58.0%	-44.5%	26.7	26.6	0.3%
EPS (sen)	2.2	4.9	3.5	-56.1%	-38.0%	7.1	6.6	6.7%
Core EPS (sen)	2.1	4.9	3.7	-58.0%	-44.5%	6.9	6.9	0.3%
EBIT margin (%)	4.4%	8.8%	7.2%			6.5%	6.4%	
PBT margin (%)	4.4%	8.8%	7.3%			6.5%	6.4%	
Core PAT (%)	2.7%	7.0%	6.0%			4.7%	5.3%	
Effective tax rate (%)	-36.1%	-20.1%	-22.4%			-25.8%	-20.8%	

Source: Company, MIDF

SEGMENTAL REVENUE BREAKDOWN

Segments	2QFY22	1QFY22	2QFY21	QoQ	YoY	1HFY22	1HFY21	YoY
Manufacturing	296.2	235.3	266.9	25.9%	11.0%	563.2	498.4	13.0%
EMS	219.9	184.8	199.1	19.0%	10.4%	419.0	398.5	5.1%
Raw wire & cable	72.0	46.5	64.0	54.8%	12.6%	136.0	91.9	47.9%
Wireharness	4.4	4.0	3.9	8.6%	12.5%	8.2	8.0	2.8%
Trading	0.1	0.1	0.0	5.6%	39.0%	0.1	0.1	6.5%
Others	0.0	0.01	0.0	n.m.	n.a.	0.001	0.03	-96.6%

Source: Company, MIDF

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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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology