

29 August 2019

M'sian Pacific Industries

Deep Bargain with 5.6x Ex-Cash PER

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MPI's 4Q19 CNP came in within expectations at RM30.1m (-23% YoY; +79% QoQ), bringing FY19 CNP to RM128m (-10% YoY), forming 96% of consensus estimate and 102% of ours. The group's net cash position further strengthened to RM713m from RM689m in 3Q19. No dividend was declared during the quarter, as usual. Fine-tune FY20E CNP by 1% to RM161m due to housekeeping reasons and we introduce FY21E CNP of RM168m. Maintain OUTPERFORM with a TP of RM12.10.

Within expectations. Malaysian Pacific Industries (MPI)'s 4Q19 core net profit (CNP) came in within expectations at RM30.1m (-23% YoY; +79% QoQ), bringing FY19 CNP to RM128m (-10% YoY). The full-year CNP made up 96% of consensus estimate and 102% of ours. The group's net cash position further strengthened to RM713m from RM689m in 3Q19. No dividend was declared during the quarter, as usual.

YoY, FY19 CNP fell 10% on a 4% revenue dip, led by the US with a 20% decline amid the trade war, but largely offset by 2% growth from Asia. Meanwhile, the quicker pace of decline in CNP is explained by RM17m FX loss (vs. RM15M FX gain in FY18) and higher contribution from the group's 70%-owned subsidiary Carsem (M) Sdn Bhd, which resulted in higher minority interest. **QoQ**, CNP soared 79% as revenue climbed 5%. While we have yet to obtain a detailed industry breakdown, we believe the revenue growth was underpinned by higher smartphone sales from several new model launches towards end-3Q19, which likely boosted the demand for the group's Quad Flat No-leads (QFN) packages and at the same time, Dynacraft's lead frames. The larger increase at the bottom-line is explained by a notable 4ppt expansion in GPM to 16%, likely due to higher capacity utilisation.

A better portfolio to fuel growth. The group has embarked on a portfolio rationalisation exercise that entails weeding out low-margin products while switching focus to automotive sensors, including MEMS and packages used in data servers such as Cu-clip packages for power management chips. The said segments are likely to offer decent growth prospects given rising semiconductor content in automobiles and increasing data needs. In addition, the automotive space is likely to offer higher margins as cars are bigger ticket items, and the segment has a higher barrier to entry due to long and strict qualification processes.

Fine-tune FY20E CNP by 1% to RM161m due to housekeeping reasons and **we introduce FY21E CNP of RM168m.**

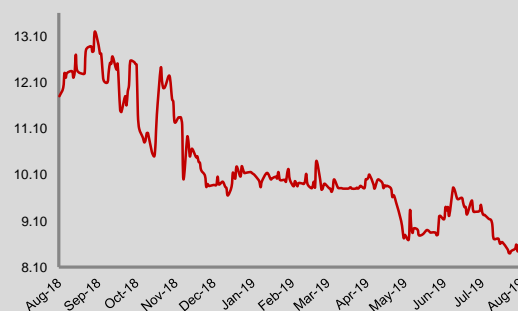
Maintain OUTPERFORM with an unchanged Target Price of RM12.10 based on CY20E PER of 14x, reflecting the group's mid-cycle valuation. We still like MPI for its long-term mission to transform its portfolio into an automotive-centric one, a space which offers brighter growth prospects due to rising semiconductor content in automobiles. In addition, the stock is currently a deep bargain with ex-cash PER of 5.6x after considering its net cash position of RM713m as of 4Q19.

Risks to our call are: (i) weaker-than-expected sales and margins, and (ii) unfavourable currency exchange rates.

OUTPERFORM ↔

Price: **RM8.57**
Target Price: **RM12.10** ↔

Share Price Performance



KLCI	1,589.82
YTD KLCI chg	-6.0%
YTD stock price chg	-13.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MPI MK Equity
Market Cap (RM m)	1,704.5
Shares Outstanding	198.9
52-week range (H)	13.20
52-week range (L)	8.35
3-mth avg daily vol:	82,732
Free Float	35%
Beta	0.9

Major Shareholders

Hong Leong Co Malaysia Bhd	54.2%
Employees Provident Fund Board	6.1%
Malaysian Pacific Industries Bhd	4.3%

Summary Earnings Table

FY Sep (RM m)	2019A	2020E	2021E
Turnover	1,488	1,562	1,640
EBIT	362.7	471.1	494.6
PBT	189.8	237.9	248.9
Net Profit (NP)	128.3	160.9	168.3
Core NP	128.3	160.9	168.3
Consensus (CNP)	N.A.	144.6	163.3
Earnings Revision	N.A.	1%	N.A.
Core EPS (sen)	67.5	84.7	88.6
Core EPS grwth (%)	-9.9	25.4	4.6
NDPS (sen)	27.0	33.0	35.0
BV/Share (RM)	5.47	5.78	6.09
Core PER	12.7	10.1	9.7
Price/BV (x)	1.6	1.5	1.4
Net Gearing (x)	-0.5	-0.6	-0.8
Net Dvd Yield (%)	3.2	3.9	4.1



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Results Highlights								
FYE Jun (RM'm)	4Q19	3Q19	QoQchg	4Q18	YoY chg	FY19	FY18	YoY Chg
Revenue	345.9	330.1	4.8%	393.1	-12.0%	1487.9	1542.3	-3.5%
EBIT	38.5	26.3	46.4%	55.8	-31.0%	188.8	208.1	-9.3%
PBT	40.9	25.5	60.4%	55.1	-25.7%	189.8	207.0	-8.3%
Taxation	-5.2	-4.0	-30.1%	-7.0	25.0%	-29.8	-34.5	13.8%
PATAMI	30.1	16.8	79.3%	39.0	-23.0%	128.3	142.5	-9.9%
Core PATAMI	30.1	16.8	79.3%	39.0	-23.0%	128.3	142.5	-9.9%
Core EPS (sen)	15.8	8.8	79.2%	20.5	-23.0%	67.5	75.0	-9.9%
DPS (sen)	0.0	17.0		0.0		27.0	29.0	
EBIT margin	11.1%	8.0%		14.2%		12.7%	13.5%	
PBT margin	11.8%	7.7%		14.0%		12.8%	13.4%	
NP margin	8.7%	5.1%		9.9%		8.6%	9.2%	
Effective tax rate	-12.7%	-15.7%		-12.6%		-15.7%	-16.7%	

Source: Company, Kenanga Research

Segmental Breakdown								
FYE Jun (RM'm)	4Q19	3Q19	QoQchg	4Q18	YoY chg	FY19	FY18	YoY Chg
Revenue	345.9	330.1	4.8%	393.1	-12.0%	1487.9	1542.3	-3.5%
Asia	217.1	195.2	11.2%	230.3	-5.7%	904.3	888.4	1.8%
USA	49.3	46.7	5.7%	67.0	-26.4%	224.5	281.2	-20.2%
Europe	77.5	86.1	-10.0%	93.9	-17.5%	351.7	365.8	-3.8%
Non-reportable segments	2.0	2.2	-8.9%	1.8	8.9%	7.4	6.9	7.9%
Segment profit	38.5	26.3	46.4%	55.8	-31.0%	188.8	208.1	-9.3%
Asia	25.2	13.3	89.3%	32.8	-23.3%	111.7	124.8	-10.5%
USA	6.1	3.1	94.2%	9.5	-35.9%	28.1	33.2	-15.6%
Europe	7.9	6.7	17.5%	12.8	-38.3%	42.6	45.4	-6.1%
Non-reportable segments	-0.7	3.1	-120.7%	0.7	-195.3%	6.5	4.8	36.1%
Segment profit margin	11.1%	8.0%		14.2%		12.7%	13.5%	
Asia	11.6%	6.8%		14.2%		12.3%	14.0%	
USA	12.4%	6.7%		14.2%		12.5%	11.8%	
Europe	10.2%	7.8%		13.6%		12.1%	12.4%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
D&O GREEN TECHNOLOGIES BHD	0.500	555.0	Y	12/2019	3.7%	10.5%	22.2%	21.8%	18.9	16.5	14.5	1.8	1.8	10.6%	2.2%	0.625	OP
KESM INDUSTRIES BHD	6.81	292.9	N	07/2019	-9.8%	15.1%	-70.7%	74.3%	7.4	25.5	14.6	0.8	0.8	3.2%	2.7%	8.70	OP
MALAYSIAN PACIFIC INDUSTRIES BHD	8.57	1,704.5	N	06/2020	5.0%	5.0%	25.4%	4.6%	12.7	10.1	9.7	1.6	1.5	12.2%	3.9%	12.10	OP
P.I.E. INDUSTRIAL BHD	1.12	430.1	Y	12/2019	5.5%	7.3%	-7.5%	16.2%	10.2	11.0	9.4	1.0	1.0	9.1%	4.5%	1.20	MP
SKP RESOURCES BHD	1.11	1,387.7	Y	03/2020	24.9%	13.3%	21.5%	17.0%	14.3	11.8	10.1	2.3	2.1	19.0%	4.3%	1.20	MP
UNISEM (M) BHD	1.97	1,432.4	Y	12/2019	-6.8%	2.7%	-25.5%	31.4%	15.0	20.3	15.4	1.0	1.0	4.9%	3.0%	2.05	MP

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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