

30 August 2019

M'sian Pacific Industries

Returning With A Vengeance

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We came away from MPI's 4Q19 Analysts' Briefing with our positive conviction reaffirmed. Earnings are expected to pick up momentum in subsequent quarters on the back of major expansion in Suzhou and previous NPI. M&A hunt continues in the EMS and raw material segments, backed by strong net cash position of RM713m. Potential re-inclusion into Shariah-compliant list in November 2019 is also a catalyst. Positive prospects are juxtaposed with an attractive ex-cash PER of c.6x. No changes to FY20-21E CNP of RM161-168m. Maintain OP with TP of RM12.10.

Earnings to be buoyed by previous NPI... The group is expected to post stronger earnings sequentially in 1Q20, backed by a full pipeline of new product introductions (NPI) earlier. Ongoing investments in automation and the earlier discontinuation of unprofitable production lines (c.USD19m/year worth of business weeded out) are also beginning to bear fruit.

...and major expansion in Suzhou. The earnings momentum will likely continue into 2Q20 with contributions from multiple newly acquired customers for its Suzhou plant –the upshot of the US-China trade war which prompted Chinese design houses to shift to local outsourced assembly and test (OSAT) players. The Suzhou plant, which has been running at c.93% capacity, is currently undergoing major expansion with new machines arriving in September 2019 and operations commencing in November 2019. Recall, the Suzhou division currently contributes c.30% of group revenue and is expected to climb to c.50% post-expansion.

Possible M&A on solid balance sheet. The group continues its hunt for potential mergers and acquisitions (M&A) in the electronic manufacturing services (EMS) and raw material (e.g. substrate manufacturers) segments, which would equip the group with capability to manufacture full electronic modules rather than just individual packaged integrated circuits (IC) currently. This is backed by its sturdy net cash position of RM713m as of 4Q19.

Potential re-inclusion into Shariah-compliant list. The group has taken the necessary steps to comply with the Shariah screening criteria and is hopeful of regaining its Shariah-compliant status upon the next review period in November 2019. If successful, we believe this could to a certain extent instill positive sentiment in MPI.

Cheap valuation unwarranted. These positive prospects are juxtaposed with an attractive ex-cash PER of c.6x.

No changes in FY20-21E CNP of RM161-168m as management's updates were in line with our view.

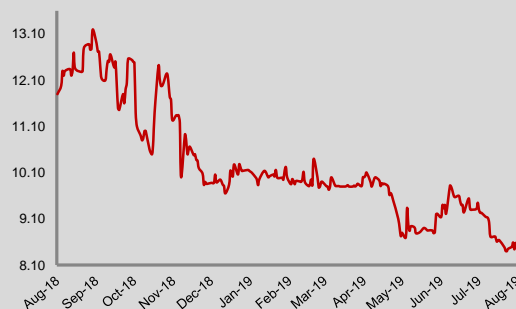
Maintain OUTPERFORM with an unchanged Target Price of RM12.10 based on CY20E PER of 14x, reflecting the group's mid-cycle valuation. We still like MPI for its long-term mission to transform its portfolio into an automotive-centric one, a space which offers brighter growth prospects due to rising semiconductor content in automobiles. In addition, the stock is currently a deep bargain with ex-cash PER of c.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: **RM8.44**
Target Price: **RM12.10** ↔

Share Price Performance



KLCI	1,595.18
YTD KLCI chg	-5.6%
YTD stock price chg	-15.2%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MPI MK Equity
Market Cap (RM m)	1,678.7
Shares Outstanding	198.9
52-week range (H)	13.20
52-week range (L)	8.33
3-mth avg daily vol:	83,790
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-ESOS	4.3%

Summary Earnings Table

FY Jun (RM m)	2019A	2020E	2021E
Turnover	1,488	1,562	1,640
EBIT	362.7	470.0	492.6
PBT	189.8	238.0	248.9
Net Profit (NP)	128.3	160.9	168.3
Core NP	128.3	160.9	168.3
Consensus (CNP)	N.A.	141.8	153.8
Earnings Revision	N.A.	0%	0%
EPS (sen)	67.5	84.7	88.6
EPS growth (%)	-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	12.5	10.0	9.5
Price/BV (x)	1.5	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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Income Statement

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	1,544.5	1,542.3	1,487.9	1,562.3	1,640.5
EBITDA	444.6	390.0	362.7	470.0	492.6
EBIT	251.6	208.1	188.8	233.8	244.7
Finance costs	2.4	3.2	3.2	0.0	0.0
PBT	251.0	207.0	189.8	238.0	248.9
Taxation	32.2	34.5	29.8	37.3	39.0
Minority Interest	(40.8)	(30.0)	(31.7)	(39.7)	(41.6)
Net Profit	177.9	142.5	128.3	160.9	168.3
Core Net Profit	183.3	145.9	128.3	160.9	168.3

Balance Sheet

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	671.2	646.7	664.0	579.1	331.1
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Other FA	37.1	34.6	35.0	35.0	35.0
Inventories	110.8	118.1	105.4	110.1	115.7
Receivables	275.8	248.9	190.5	252.1	264.7
Other CA	0.0	0.0	0.0	0.0	0.0
Cash	535.8	647.6	713.4	778.5	1,162.3
Total Assets	1,630.6	1,695.9	1,708.4	1,754.7	1,908.7

Payables	205.5	210.6	194.3	202.9	213.2
ST Borrowings	63.5	75.0	93.4	0.0	0.0
Other ST Liability	2.0	5.1	12.8	5.5	5.7
LT Borrowings	28.6	0.0	0.0	0.0	0.0
Other LT Liability	2.2	0.3	2.1	2.6	2.7
Minorities Int.	209.0	217.4	230.0	269.8	311.3
Net Assets	1,120.0	1,187.5	1,175.8	1,274.0	1,375.8
Treasury Shares	(163.8)	(163.8)	(163.8)	(163.8)	(163.8)
Share Capital	352.4	352.4	352.4	352.4	352.4
Reserves	931.4	999.0	1,080.7	1,178.9	1,280.7
Total Equity	1,120.0	1,187.5	1,269.2	1,367.4	1,469.2

Cashflow Statement

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	357.8	350.2	366.7	372.5	450.3
Investing CF	(126.8)	(168.3)	(195.0)	(151.3)	0.0
Financing CF	(15.5)	(72.1)	(32.9)	(156.1)	(66.5)
Change In Cash	215.6	109.8	138.8	65.1	383.8
Free CF	228.8	179.5	172.1	221.2	450.3

Source: Kenanga Research

Financial Data & Ratios

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Growth (%)					
Revenue	6%	0%	-4%	5%	5%
EBITDA	9%	-12%	-7%	30%	5%
EBIT	27%	-17%	-9%	24%	5%
PBT	28%	-18%	-8%	25%	5%
Core Net Profit	22%	-20%	-12%	25%	5%

Profitability (%)

EBITDA Margin	28.8%	25.3%	24.4%	30.1%	30.0%
EBIT Margin	16.3%	13.5%	12.7%	15.0%	14.9%
PBT Margin	16.2%	13.4%	12.8%	15.2%	15.2%
Core Net Margin	11.9%	9.5%	8.6%	10.3%	10.3%
Effect. Tax Rate	12.8%	16.7%	15.7%	15.7%	15.7%
ROA	11.2%	8.6%	7.5%	9.2%	8.8%
ROE	16.4%	12.3%	10.1%	11.8%	11.5%

DuPont Analysis

Net Margin (%)	11.9%	9.5%	8.6%	10.3%	10.3%
Assets Turnover (x)	0.9	0.9	0.9	0.9	0.9
Leverage Factor (x)	1.5	1.4	1.3	1.3	1.3
ROE (%)	16.4%	12.3%	10.1%	11.8%	11.5%

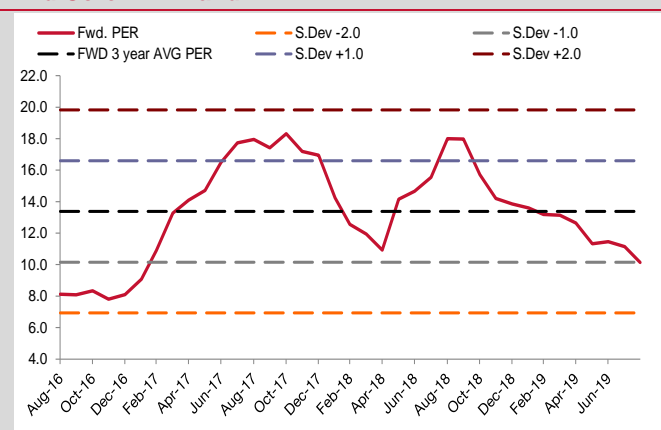
Leverage

Debt/Asset (x)	0.1	0.0	0.1	0.0	0.0
Debt/Equity (x)	0.1	0.1	0.1	0.0	0.0
Net Cash/(Debt)	443.8	572.6	619.9	778.5	1162.3
Net Debt/Equity (x)	-0.4	-0.5	-0.5	-0.6	-0.8

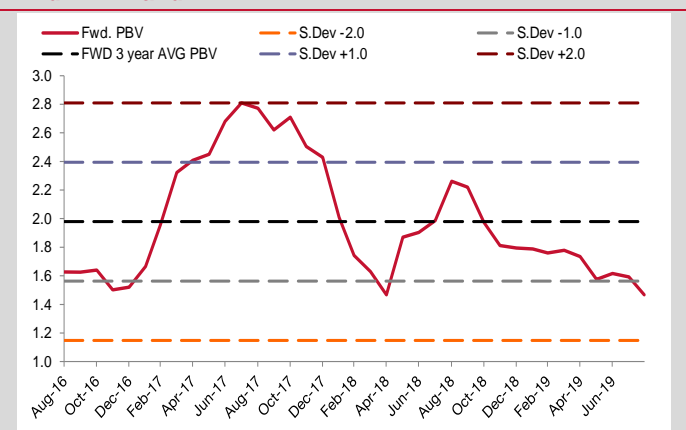
Valuations

EPS (sen)	96.5	76.8	67.5	84.7	88.6
NDPS (sen)	27.0	29.0	27.0	33.0	35.0
BVPS (RM)	4.80	5.11	5.47	5.78	6.09
PER (x)	8.7	11.0	12.5	10.0	9.5
Net Div. Yield (%)	3.2	3.4	3.2	3.9	4.1
PBV (x)	1.76	1.65	1.54	1.46	1.38
EV/EBITDA (x)	3.0	3.1	3.2	2.1	1.2

Fwd Core PER Band



Fwd PBV Band



Source: Bloomberg, 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.		
STOCKS UNDER COVERAGE																	
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	6.75	290.3	N	07/2019	-9.8%	15.1%	-70.7%	74.3%	7.4	25.2	14.5	0.8	0.8	3.2%	2.7%	8.70	OP
MALAYSIAN PACIFIC INDUSTRIES	8.44	1,678.7	N	06/2020	5.0%	5.0%	25.4%	4.6%	12.5	10.0	9.5	1.5	1.5	11.8%	3.9%	12.10	OP
PIE INDUSTRIAL BHD	1.11	426.3	Y	12/2019	5.5%	7.3%	-7.5%	16.2%	10.1	10.9	9.4	1.0	1.0	9.1%	4.5%	1.20	MP
SKP RESOURCES BHD	1.09	1,362.7	Y	03/2020	18.9%	14.1%	16.0%	17.1%	14.1	12.1	10.3	2.3	2.1	18.2%	4.1%	1.15	MP
UNISEM (M) BERHAD	1.92	1,396.0	Y	12/2019	-6.8%	2.7%	-25.5%	31.4%	14.6	19.8	15.0	1.0	1.0	4.9%	3.1%	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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