

# M'sian Pacific Industries

## Pipeline Intact

By Samuel Tan | [samueltan@kenanga.com.my](mailto:samueltan@kenanga.com.my)

We came away from MPI's 2QFY20 Analysts' Briefing learning that the company's pipeline is still intact and utilisation rate has resumed to peak levels. Bottom-line for the subsequent quarter is expected to be lower QoQ on seasonality while YoY should be flat to marginal growth. Its Suzhou plant continues to benefit from the long-standing trade war, as orders are being diverted to locals. Trimmed FY20E CNP by 14% to RM138m to factor in higher overtime wages. Maintain OP with a lower TP of RM13.30, representing 21% upside.

**3Q to be flat YoY.** We expect lower bottom-line on a QoQ basis but the numbers should hold on a YoY basis. 3Q has always been seasonally weaker for the group given the nature of its products. Management reiterated that its pipeline is full and there is no cancellation of orders due to the Covid-19 outbreak. If there are any delays in raw material supply, conversion could be back-loaded.

Worth noting that MPI's Suzhou plant was the only OSAT in the area that was running during the extended Chinese New Year break, while its peers were closed for weeks. During mid-January, before the Covid-19 outbreak was confirmed, management took early precaution to quarantine 52% of its workforce in the factory in order to keep production running (2 shifts per day). Operators were provided with lodging, food and face mask in the plant itself. As such, revenue for 3Q should see strong YoY growth but will be offset by higher overtime wages.

**Expansion in China still on track.** Workforce in the Suzhou plant has resumed to healthy levels and is currently running at 104% utilisation rate. The group has planned to build a second floor at its existing plant which could potentially double the capacity. Barring any further hiccups, the construction is estimated to be completed by July 2020. This is to cater for more jobs from Huawei which is heavily loading up on local suppliers in order to reduce its reliance on US vendors.

**Silicon carbide to drive automotive segment.** The newly acquired US customer has set up its first line of equipment in MPI's Ipoh plant for the packaging of silicon carbide (SiC) power modules. SiC power modules are gaining rapid adoption in electric vehicles (EV), as it promises faster charging speed and longer driving range for the same amount of battery capacity compared to normal silicon. We reckon that the end customer is likely to be Tesla given that Tesla has been increasing demand for SiC power modules while the US customer has set aside US\$1bil to increase production by 30x to meet market demand.

**Robust balance sheet.** With net cash of RM797m as at end-2QFY20, we are confident that the group will have no issue funding the expansion in Suzhou, with sufficient financial clout left for potential merger and acquisition opportunities.

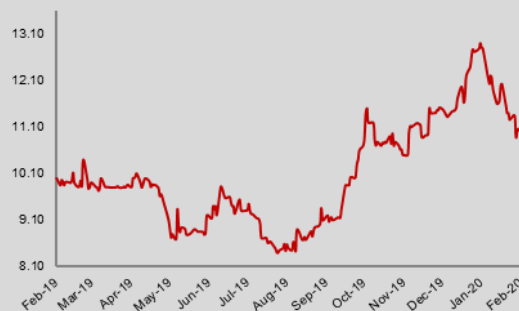
**Trimmed FY20E CNP by 14% to RM138m** to account for higher operating cost in its Suzhou plant during the extended Chinese New Year break.

**Maintain OUTPERFORM with a higher Target Price of RM13.30** (previously RM14.00) based on higher CY20E PER of 16x, representing +1.5SD from its 5-year mean. Our higher PER is justified by the group's long-term objective to transform its portfolio into an automotive-centric one, a space which offers brighter growth prospects due to rising semiconductor content in automobiles.

## OUTPERFORM ↔

Price: RM11.00  
Target Price: RM13.30 ↓

### Share Price Performance



KLCI 1,505.59  
YTD KLCI chg -5.2%  
YTD stock price chg -3.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MPI MK Equity
Market Cap (RM m)	2,187.9
Shares Outstanding	198.9
52-week range (H)	12.96
52-week range (L)	8.33
3-mth avg daily vol:	106,803
Free Float	32%
Beta	0.9

### Major Shareholders

Hong Leong Co Malaysia Bhd	53.8%
KWAP	2.4%
Public Small Cap Fund	2.2%

### Summary Earnings Table

FY Jun (RM m)	2019A	2020E	2021E
Turnover	1,480	1,513	1,649
EBIT	355.3	428.0	508.4
PBT	189.8	204.3	263.5
Net Profit (NP)	128.3	138.1	178.2
Core NP	128.3	138.1	178.2
Consensus (CNP)	N.A.	149.7	171.4
Earnings Revision	N.A.	-14.2%	4%
EPS (sen)	71.3	72.7	93.8
EPS growth (%)	-5.4	13.3	29.0
NDPS (sen)	27.0	27.0	29.0
BV/Share (RM)	5.77	5.75	6.16
Core PER	15.7	15.4	11.9
Price/BV (x)	1.9	1.9	1.8
Net Gearing (x)	-0.6	-0.7	-0.8
Net Div Yield (%)	2.4	2.4	2.6



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## Income Statement

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	1,544.5	1,542.3	1,480.5	1,513.1	1,649.2
EBITDA	444.6	390.0	355.3	428.0	508.4
EBIT	251.6	208.1	181.4	192.6	251.8
Finance costs	2.4	3.2	3.2	0.0	0.0
PBT	251.0	207.0	189.8	204.3	263.5
Taxation	32.2	34.5	29.8	32.0	41.3
Minority Interest	(40.8)	(30.0)	(31.7)	(34.1)	(44.0)
Net Profit	177.9	142.5	128.3	138.1	178.2
Core Net Profit	183.3	145.9	128.3	138.1	178.2

## Balance Sheet

FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Fixed Assets	671.2	646.7	664.0	575.0	478.1
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	106.6	115.7
Receivables	275.8	248.9	190.5	194.7	212.3
Other CA	0.0	0.0	0.0	0.0	0.0
Cash	535.8	647.6	713.4	921.2	1,180.0
<b>Total Assets</b>	<b>1,630.6</b>	<b>1,695.9</b>	<b>1,708.4</b>	<b>1,832.6</b>	<b>2,021.2</b>
Payables	205.5	210.6	194.3	196.5	213.3
ST Borrowings	63.5	75.0	0.0	0.0	0.0
Other ST Liability	2.0	5.1	12.8	13.7	17.7
LT Borrowings	28.6	0.0	0.0	0.0	0.0
Other LT Liability	2.2	0.3	2.1	2.2	2.9
Minorities Int.	209.0	217.4	230.0	264.1	308.1
<b>Net Assets</b>	<b>1,120.0</b>	<b>1,187.5</b>	<b>1,269.2</b>	<b>1,356.0</b>	<b>1,479.1</b>
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	1,167.5	1,290.6
<b>Total Equity</b>	<b>1,120.0</b>	<b>1,187.5</b>	<b>1,269.2</b>	<b>1,356.0</b>	<b>1,479.1</b>

## Cashflow Statement

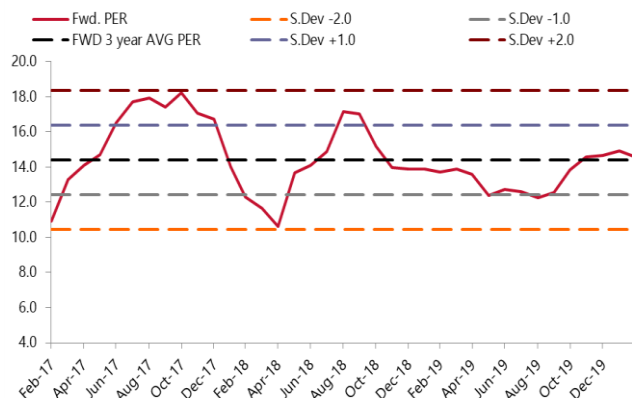
FY Jun (RM m)	2017A	2018A	2019A	2020E	2021E
Operating CF	357.8	350.2	366.7	405.6	473.6
Investing CF	(126.8)	(168.3)	(195.0)	(146.5)	(159.7)
Financing CF	(15.5)	(72.1)	(123.7)	(51.3)	(55.1)
Change In Cash	215.6	109.8	63.5	207.8	258.8
Free CF	228.8	179.5	172.1	259.1	313.9

Source: Kenanga Research

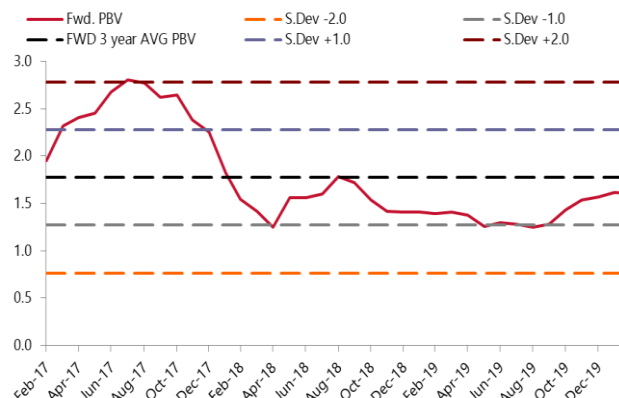
## Financial Data &amp; Ratios

FY Jun	2017A	2018A	2019A	2020E	2021E
<b>Growth</b>					
Revenue	6%	0%	-4%	2%	9%
EBITDA	9%	-12%	-9%	20%	19%
EBIT	27%	-17%	-13%	6%	31%
PBT	28%	-18%	-8%	8%	29%
Core Net Profit	22%	-20%	-12%	8%	29%
<b>Profitability</b>					
EBITDA Margin	28.8%	25.3%	24.0%	28.3%	30.8%
EBIT Margin	16.3%	13.5%	12.2%	12.7%	15.3%
PBT Margin	16.2%	13.4%	12.8%	13.5%	16.0%
Core Net Margin	11.9%	9.5%	8.7%	9.1%	10.8%
Effect. Tax Rate	12.8%	16.7%	15.7%	15.7%	15.7%
ROA	11.2%	8.6%	7.5%	7.5%	8.8%
ROE	16.4%	12.3%	10.1%	10.2%	12.0%
<b>DuPont Analysis</b>					
Net Margin (%)	11.9%	9.5%	8.7%	9.1%	10.8%
Assets Turnover (x)	0.9	0.9	0.9	0.8	0.8
Leverage Factor (x)	1.5	1.4	1.3	1.4	1.4
ROE (%)	16.4%	12.3%	10.1%	10.2%	12.0%
<b>Leverage</b>					
Debt/Asset (x)	0.1	0.0	0.0	0.0	0.0
Debt/Equity (x)	0.1	0.1	0.0	0.0	0.0
Net Cash/(Debt)	443.8	572.6	713.4	921.2	1180.0
Net Debt/Equity (x)	-0.4	-0.5	-0.6	-0.7	-0.8
<b>Valuations</b>					
EPS (sen)	96.5	76.8	71.3	72.7	93.8
NDPS (sen)	27.0	29.0	27.0	27.0	29.0
BVPS (RM)	4.80	5.11	5.77	5.75	6.16
PER (x)	11.6	14.6	15.7	15.4	11.9
Net Div. Yield (%)	2.4	2.6	2.4	2.4	2.6
PBV (x)	2.33	2.19	1.94	1.95	1.82
EV/EBITDA (x)	4.3	4.6	4.3	2.8	1.9

## Fwd Core PER Band



## Fwd PBV Band



Source: Bloomberg, Kenanga Research

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## Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			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.		
<b>STOCKS UNDER COVERAGE</b>																	
D&O GREEN TECHNOLOGIES BHD	0.770	866.5	Y	12/2020	11.6%	6.6%	29.2%	16.8%	24.7	19.1	16.4	2.4	2.2	11.5%	1.3%	0.910	OP
KESM INDUSTRIES BHD	9.35	402.2	Y	07/2020	13.8%	5.4%	237.6%	17.1%	64.1	19.5	16.2	1.1	1.1	5.8%	1.0%	10.80	OP
MALAYSIAN PACIFIC INDUSTRIES	11.00	2,187.9	Y	06/2020	2.2%	9.0%	7.6%	29.0%	15.4	15.1	11.7	1.9	1.9	10.5%	2.5%	13.30	OP
PIE INDUSTRIAL BHD	1.40	537.7	Y	12/2019	5.5%	7.3%	-7.5%	16.2%	12.7	13.7	11.8	1.3	1.2	9.1%	3.6%	1.40	MP
SKP RESOURCES BHD	1.37	1,712.8	Y	03/2020	18.9%	24.2%	-30.4%	-0.8%	17.7	17.8	12.3	2.9	2.7	15.8%	2.8%	1.56	OP
UNISEM (M) BERHAD	2.11	1,534.2	Y	12/2019	2.7%	15.9%	56.0%	22.5%	N.A.	15.3	12.5	1.1	1.1	7.3%	2.8%	2.00	UP

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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

