P.I.E Industrial

Better 2H Ahead

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MARKET PERFORM ↔

Price : **RM1.39**

Target Price : **RM1.45** ↑

2QFY20 CNL of RM0.57m brings 1H20 CNL to RM3.03m. We deem this within expectation as we expect a strong 2HFY20 that will be able to meet our full-year CNP forecast of RM15.7m. Revenue rose 10.6% QoQ, showing positive recovery from the previous quarter which was plagued by the MCO. Having all capacity back online since June as well as the new customer on board, we expect 3QFY20 to return to the black. We keep our earnings forecasts and maintain MARKET PERFORM with a higher Target Price of RM1.45.

Within expectation. The group recorded 2QFY20 CNL of RM0.57m which is an improvement from 1QFY20 (last quarter's) CNL of RM2.46m, bringing 1HFY20 CNL to RM3.03m. We deem this to be within expectation as we anticipate a stronger 2H that will be able to meet our full-year CNP forecast of RM15.7m.

Results' highlight. 2QFY20 revenue rose 10.6% QoQ to RM111.4m as the group managed to recover marginally from the movement control order (MCO) restriction in the previous quarter. 1HFY20 revenue fell 36% YoY to RM212.1m with decline seen across all segments. The electronic manufacturing services (EMS) segment (> 70% of group sales) fell 37% YoY. Revenue from raw wire and wire harness fell 27% YoY and 43% YoY, respectively.

Returning to the black. We expect the 3Q to return to the black as the group has resumed to full capacity since June. The group is currently working aggressively to clear backlogs as well as new orders for 3Q. Currently, the workforce has resumed to 90% (vs. 75% in June) and the group is still looking to hire more operators in anticipation of new orders.

With regards to its new customer, the group has been working hard to get the new equipment qualified via remote inspection. The group is seeing very positive progress and expects to commence operation next month with contribution to be seen in 4Q and more significantly in FY21. Recall that the Covid-19 outbreak halted the qualification progress in April due to travel restriction, causing a delay in work commencement.

We keep our earnings forecasts as we expect a strong 2H to surpass the minimal losses in the earlier two quarters. With the plant running at full capacity to clear backlogs coupled with new orders flowing in, we believe the group will be able to meet our FY20E CNP of RM15.7m.

Maintain MARKET PERFORM with a higher Target Price of RM1.45 (previously RM1.22). To reflect a positive recovery in the 2H, we base our valuation on a higher 14x FY21E (previously 12x), in line with its 5-year mean.

Risks to our call include: (i) lower/higher-than-expected sales, (ii) loss of orders from its key customers, and (iii) adverse/favourable currency translations.

Share Price Performance

KLCI	1,564.59
YTD KLCI chg	-1.5%
YTD stock price chg	-4.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PIE MK Equity
Market Cap (RM m)	533.8
Shares Outstanding	384.0
52-week range (H)	1.65
52-week range (L)	0.72
3-mth avg daily vol:	721,491
Free Float	35%
Beta	0.7

Major Shareholders

Pan Global Holding Co Ltd	51.4%
Employees Provident Fund	4.2%
Mak Tian Meng	4.1%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	659.3	484.7	751.1
EBITDA	61.3	38.7	69.3
PBT	45.8	21.0	52.2
Net Profit (NP)	**36.6**	**15.7**	**39.1**
Core NP	**36.6**	**15.7**	**39.1**
Consensus (NP)	N.M	25.5	41.3
Earnings Revision	N.M	0%	0%
Core EPS (sen)	9.5	4.1	10.2
BV/Share (RM)	1.2	1.2	1.3
PER (x)	13.4	31.3	12.6
Price/BV (x)	1.1	1.2	1.1
Net Gearing (x)	-0.4	-0.5	-0.4
NDPS (sen)	5.0	2.0	5.0
Dividend Yield (%)	3.4	1.4	3.4

Result Highlight

FYE: Dec (RM m)	2Q FY20	1Q FY20	QoQ Chg	2Q FY19	YoY Chg	1H FY20	1H FY19	YoY Chg
Revenue	**111.4**	**100.7**	**10.6%**	**180.6**	**-38.3%**	**212.1**	**332.2**	**-36.2%**
EBIT	-0.4	-0.1	-238.4%	8.8	-104.8%	-0.5	10.3	-105.3%
PBT	-0.4	-1.8	76.9%	8.7	-104.9%	-2.3	10.2	-122.1%
Taxation	-0.1	-0.6	76.6%	-0.7	78.5%	-0.8	-1.4	43.8%
Net Profit (NP)	-0.6	-2.5	76.8%	8.0	-107.1%	-3.0	8.8	-134.4%
Core NP	**-0.6**	**-2.5**	**76.8%**	**8.0**	**-107.1%**	**-3.0**	**8.8**	**-134.4%**
FD core EPS (sen)	-0.1	-0.6	76.8%	2.1	-107.1%	-0.8	2.2	-135.2%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	-0.4%	-0.1%		4.9%		-0.3%	3.1%	
Adjusted EBIT margin	-0.4%	-0.1%		4.9%		-0.3%	3.0%	
Pretax margin	-0.4%	-1.8%		4.8%		-1.1%	3.1%	
CNP margin	-0.5%	-2.4%		4.5%		-1.4%	2.6%	
Effective tax rate	34.8%	34.4%		-7.9%		34.4%	-13.5%	

Source: Kenanga Research

Operating segment

FYE: Dec (RM m)	2Q FY20	1Q FY20	QoQ Chg	2Q FY19	YoY Chg	1H FY20	1H FY19	YoY Chg
Revenue	**111.4**	**100.7**	**10.6%**	**180.6**	**-38.3%**	**212.1**	**332.2**	**-36.2%**
Manufacturing	111.3	100.5	10.7%	180.1	-38.2%	211.8	327.6	-35.4%
Trading	0.0	0.1	-56.1%	0.5	-93.9%	0.1	4.6	-97.9%
Others	0.1	0.1	-11.8%	0.0	228.0%	0.2	0.0	264.6%

Source: Kenanga Research

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Malaysian Technology Peers 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	0.80	895.2	Y	12/2020	-5.7%	6.5%	-15.5%	43.5%	24.0	28.0	19.8	1.6	1.4	10.9%	2.0%	0.86	OP
JHM CONSOLIDATION BHD	1.55	864.3	Y	06/2020	-10.1%	36.6%	-26.7%	71.6%	30.2	42.4	24.7	5.2	5.0	17.1%	11.9%	2.00	OP
INARI AMERTRON BHD	2.06	6,730.0	Y	12/2020	5.9%	24.7%	3.6%	58.2%	23.8	22.9	14.5	3.6	3.0	13.1%	1.2%	2.50	OP
KESM INDUSTRIES BHD	8.50	365.6	Y	07/2020	-23%	24.0%	-37.0%	366%	53.7	84.5	18.1	1.0	0.9	2.0%	1.1%	7.40	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	14.90	3,131.9	Y	06/2020	2.2%	9.0%	7.6%	29.0%	12.8	12.5	9.7	1.6	1.6	10.5%	3.0%	13.30	OP
P.I.E. INDUSTRIAL BHD	1.39	533.8	Y	12/2020	13.5%	13.5%	24.3%	15.0%	15.5	36.3	14.6	1.3	1.2	3.5%	1.4%	1.45	MP
SKP RESOURCES BHD	1.44	1,802.8	Y	03/2020	18.9%	24.2%	-30.4%	-0.8%	9.5	9.6	6.6	1.6	1.4	15.8%	5.2%	1.56	OP
UNISEM (M) BHD	3.20	2,191.4	Y	12/2020	-7.0%	15.9%	40.2%	28.0%	36.0	25.7	20.0	1.7	1.6	6.4%	1.9%	3.00	MP

Source: 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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