



Malaysian Pacific Industries (MPI MK)

Hang in there

- MPI returned to the Shariah stocklist in Nov 2019 after addressing its conventional cash level. We are sanguine over its business prospects given increasing demand from China.
- MPI is investing over RM30m into its Suzhou plant and is expected to complete by 2QFY20. The plant currently runs at 104% utilisation rate.
- Nonetheless, near term earnings risks are inherent amidst the slowdown in global automotive industry. However, MPI aims to sustain EBITDA margin at 24-27% through effective cost control and focusing on high margin products.
- We reinstate our BUY call with an EV/ROIC-derived (based on GGM formula) TP of RM12.75 which values the stock at 18x/13x FY20/21F PE.

Returns to Shariah-compliant list

MPI returned to the Shariah-compliant stocklist as at 28 Nov 2019 after addressing its conventional cash level (Table 1). As at FY19, MPI's cash conventional account to total asset was at 12%, below the 33% threshold set by the Shariah Advisory Council Securities Commission (SACSC) benchmark (Table 2).

Surge in demand from China market

During 1QFY20 analyst briefing, management guided that the demand from China is growing across all segments (consumer, automotive and industrial). Currently, the Suzhou plant runs at 104% utilisation rate. MPI plans to invest over RM30m for Phase 1, to be completed by 2QFY20. It expects the investment to payoff in FY21 given strengthening sales pipeline in China.

Long-term prospects remain intact

We are sanguine over its long long-term business prospects as we expect earnings to grow at 3-year CAGR of 16% over FY19-21F on better contribution from the automotive and industrial segment. Besides, MPI aims to sustain EBITDA margin at 24-27% by focusing on high margin products from automotive segment and effective cost control.

Reinstate with a BUY, RM12.75 TP

We reinstate our BUY recommendation with an EV/ROIC-derived (based on GGM formula) TP of RM12.75 (WACC: 9.2%, 1%). This implies an FY20/21F PE of 18x/13x. We believe this is fair as we expect better global demand for sensors within the automotive space, where MPI intends to focus on, which bodes well with its aim to improve margins.

BUY ▲

Share Price RM11.12

Target Price RM12.75 ▲ +14.7%

Price Chart (RM)



Share Performance (%)	1m	3m	12m
Absolute	3.9	24.9	13.3
vs FBM KLCI	0.5	34.6	8.0

Stock Data

Mkt Cap (RM)	2,211.7
Free float (%)	41.2
Issued shares (m)	198.9
52w H/L (RM)	11.54 / 8.33
3m avg daily volume (m)	203,230

Major Shareholders (%)

Hong Leong Malaysia	52.6
MPI	3.9
KWAP	2.4

FYE Jun (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Turnover	1,542	1,488	1,496	1,542	1,569
EBITDA	418	357	378	428	439
PBT	207	190	205	269	283
Core Profit	171	122	144	189	199
Consensus NP			150	168	168
EPS (sen)	85.9	61.4	72.5	95.2	100.3
PER (x)	12.9	18.1	15.3	11.7	11.1
DPS (sen)	29.0	27.0	25.0	29.0	33.0
D. Yield (%)	2.6	2.4	2.2	2.6	3.0
P/B (x)	1.6	1.7	1.4	1.2	1.1

Key Ratios (%)

ROE	12.5	8.4	9.2	11.0	10.5
EBITDA margin	27.1	24.0	25.3	27.8	28.0
Pretax margin	13.4	12.8	13.7	17.4	18.0
Net margin	11.1	8.2	9.6	12.3	12.7

Source: Bloomberg, BIMB Securities

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Table 1: Cash & cash equivalents

Type	Islamic accounts/instruments (RM m)	Conventional accounts/instruments (RM m)	Total (RM m)
Deposits with licensed banks	505.5	116.1	621.6
Cash & bank balances	2.6	89.2	91.8
Total	508.0	205.3	713.4

Source: Company, BIMB Securities

Table 2: Shariah review as of FY19

Business Activity Benchmark	MPI	SACSC Benchmark
Non-Permissible Income to turnover	0.3%	5%
Financial Ratios Benchmark	MPI	SACSC Benchmark
Cash conventional account to Total Asset	12.0%	33%
Conventional debt to total asset	-	33%

Source: Company, Shariah Advisory Council Securities Commission (SACSC), BIMB Securities

Table 3: TP derivation breakdown

Item	RM m	Remarks
WACC (%)	9.2	
Long term growth	1.0	
EV/ROIC multiple	3.1	
Total equity value (RM)	3,249.8	
No. of shares	198.9	
Equity value per share (RM)	12.75	Implies FY20/21F PE of 18x/13x

Source: Company, BIMB Securities

Income Statement					
FYE Jun (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1,542	1,488	1,496	1,542	1,569
Operating cost	(1,124)	(1,131)	(1,118)	(1,113)	(1,130)
EBITDA	418	357	378	428	439
Depreciation & amortisation	(182)	(174)	(174)	(160)	(158)
EBIT	237	183	204	268	281
Interest income	2	4	3	3	4
Interest expense	(3)	(3)	(3)	(3)	(3)
Pretax profit	207	190	205	269	283
Income tax	(35)	(30)	(30)	(39)	(41)
Core net profit	171	122	144	189	199
Balance Sheet					
FYE Jun (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Non-Current Asset	678	695	678	641	656
Current Asset	1,018	1,014	1,243	1,450	1,614
Total Asset	1,696	1,708	1,921	2,092	2,270
Non-Current Liabilities	0	2	0	0	0
Current Liabilities	291	207	287	286	289
Total Liabilities	291	209	287	286	290
Total Equity	1,405	1,499	1,634	1,805	1,981
Total liabilities & equity	1,696	1,796	1,921	2,092	2,270
Cash Flow					
FYE Jun (RM m)	FY18	FY19	FY20F	FY21F	FY22F
Cash flow from operating activities (CFO)	374	404	348	378	395
Cash flow from investing activities (CFI)	(170)	(194)	(180)	(123)	(173)
Cash flow from financing activities (CFF)	(88)	(146)	(50)	(58)	(66)
Net change in cash & cash equivalent	116	64	118	197	157

Source: Company, BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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