

21 March 2022

Technology | Semiconductors

Malaysian Pacific Industries (MPI MK)

Buy (Maintained)

Factoring In The Rising Interest Rate Trajectory

Target Price (Return): MYR43.30 (28.1%)
 Price (Market Cap): MYR33.80 (USD1,602m)
 ESG score: 3.10 (out of 4)
 Avg Daily Turnover (MYR/USD) 16.4m/3.92m

- **Still BUY, lower MYR43.30 TP from MYR53.30, 28% upside with c.1% FY23F (Jun) yield.** Following the first federal funds rate (FFR) hike, and upward revision of our in-house FFR forecasts, we bake in the aggressive rate hike expectation and high bond yields into our valuation parameters by lowering the target P/E to 26x from 32x. The current valuation of below 20x FY23 P/E presents a compelling entry level to its earnings visibility, recovery in the automotive sector, China's localisation efforts, and its adoption of new packaging technology.

- **The start of a rate hike cycle.** With the US Federal Reserve's hawkish tone alluding to another six rate hikes after last week's 25 basis-point hike, the dust has settled, and the market is seemingly pricing in the aggressive expectations. Nonetheless, with the aggressive rate hike expectations baked in by the market, fewer rate hikes (than the expectation baked in number) would be positive for the market, should the high inflation scenario be contained. Our in-house economist is rulling out a stagflation event risk and expects the current UST10YR and MGS10YR yields to peak at around 2.0-2.2% and 3.65-3.75%, which are still relatively lower than the 2018-2019 levels.

- **Lowering our target P/E valuation.** Following the first FFR hike and upward revision of our in-house FFR forecasts to 1.75-2.0% (from 1%) by end-2022 and to 2.25-2.50% (from 1.5%) end-2023, we take the opportunity to build in the new expectations and cut our CY22 target P/E for MPI to 26x (+1SD from the 5-year mean) from 32x (+3SD from the 5-year mean). Consequently, our TP is reduced to MYR43.30, after imputing a 2% ESG premium, based on our proprietary methodology and MPI's 3.1 ESG score.

- **Reiterate BUY.** We expect resilient demand for OSATs, amid chip shortages and production bottlenecks, following robust shipments growth of 14% YoY for silicon wafers in 4Q21. BUY on current share price weakness, as we remain upbeat on MPI's earnings visibility, with additional capacity coming on stream, the recovery in the automotive sector, China's localisation efforts, and its adoption of new packaging technology. Also, its rock solid balance sheet with a net cash per share of MYR4.23 should enable inorganic growth opportunities.

- **Downside risks:** Slower-than-expected orders and stronger-than-expected MYR vs USD.

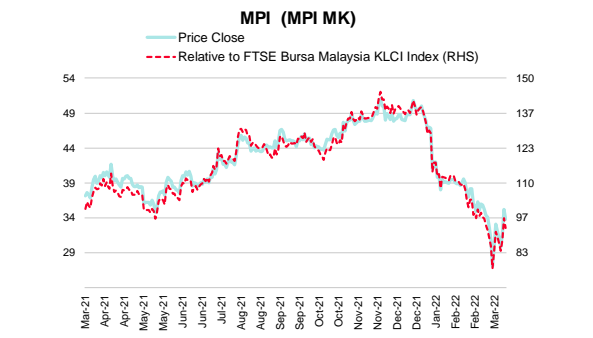
Analyst

Lee Meng Horng
 +603 9280 8866
lee.meng.horng@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(31.5)	(6.0)	(30.7)	(24.7)	(11.8)
Relative	(33.0)	(5.3)	(36.6)	(27.5)	(9.5)
52-wk Price low/high (MYR)	27.1 – 51.0				



Source: Bloomberg

Forecasts and Valuation	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Total turnover (MYRm)	1,565	1,988	2,154	2,336	2,486
Recurring net profit (MYRm)	164	259	313	373	415
Recurring net profit growth (%)	13.3	57.3	21.1	18.9	11.3
Recurring P/E (x)	43.13	27.42	22.64	19.04	17.10
P/B (x)	5.1	4.2	3.6	3.2	2.7
P/CF (x)	16.78	12.79	52.86	11.65	10.52
Dividend Yield (%)	0.9	0.9	0.9	0.9	0.9
EV/EBITDA (x)	16.95	12.80	11.16	9.45	8.31
Return on average equity (%)	11.5	16.8	17.2	17.8	17.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.10 (out of 4)

E: GOOD

MPI has successfully reduced its energy consumption over the years, reflecting its commitment towards the improvement of energy efficiency. Efforts are still ongoing to invest in energy reduction activities. Water conservation programmes and hazardous waste management are also implemented at its factories.

S: GOOD

Employee and workplace safety remains a top priority to the group. Training is provided to employees to obtain the necessary knowledge on managing chemicals at the workplace safely.

G: EXCELLENT

MPI has applied and adopted majority of the best practices of the Malaysian Code on Corporate Governance. Majority of the board members are independent while women directors represent 33% of the board.

Financial Exhibits

Asia	Financial summary (MYR)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Malaysia	Recurring EPS	0.78	1.23	1.49	1.78	1.98
Technology	DPS	0.32	0.32	0.32	0.32	0.32
Malaysian Pacific Industries	BVPS	6.58	8.09	9.26	10.72	12.37
MPI MK	Return on average equity (%)	11.5	16.8	17.2	17.8	17.1
Buy						
	Valuation metrics	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Valuation basis	Recurring P/E (x)	43.13	27.42	22.64	19.04	17.10
MPI is valued at 26x CY22 P/E	P/B (x)	5.1	4.2	3.6	3.2	2.7
	FCF Yield (%)	2.4	0.8	(1.6)	5.1	6.0
Key drivers	Dividend Yield (%)	0.9	0.9	0.9	0.9	0.9
i. New contract wins	EV/EBITDA (x)	16.95	12.80	11.16	9.45	8.31
ii. Higher loadings	EV/EBIT (x)	32.46	21.37	16.90	13.68	11.73
iii. Weaker MYR against USD						
	Income statement (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Key risks	Total turnover	1,565	1,988	2,154	2,336	2,486
i. Fluctuation in orders	Gross profit	263	386	488	569	627
ii. Slower-than-expected E&E market	EBITDA	375	497	593	678	739
iii. Stronger MYR against USD	Depreciation and amortisation	(179)	(199)	(201)	(210)	(216)
	Operating profit	196	297	392	469	524
	Net interest	2	(1)	1	1	1
	Pre-tax profit	211	345	408	485	540
	Taxation	(33)	(32)	(35)	(41)	(46)
	Reported net profit	153	259	313	373	415
	Recurring net profit	164	259	313	373	415
	Cash flow (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Company Profile	Change in working capital	56	24	(440)	(45)	(35)
Malaysian Pacific Industries manufactures, assembles, tests and markets integrated circuits, semiconductor devices, electronic components and leadframes to customers worldwide.	Cash flow from operations	423	555	134	609	674
	Capex	(249)	(495)	(250)	(250)	(250)
	Cash flow from investing activities	(234)	(495)	(250)	(250)	(250)
	Dividends paid	(70)	(78)	(67)	(67)	(67)
	Cash flow from financing activities	(71)	80	(67)	(67)	(67)
	Cash at beginning of period	713	835	986	803	1,095
	Net change in cash	118	140	(183)	292	357
	Ending balance cash	835	973	803	1,095	1,452
	Balance sheet (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Total cash and equivalents	835	986	803	1,095	1,452
	Tangible fixed assets	717	1,051	1,100	1,140	1,175
	Total investments	30	29	29	29	29
	Total assets	2,010	2,564	2,707	3,101	3,543
	Short-term debt	9	71	71	71	71
	Total long-term debt	0	13	13	13	13
	Total liabilities	391	580	416	434	450
	Total equity	1,619	1,985	2,291	2,667	3,094
	Total liabilities & equity	2,010	2,564	2,707	3,101	3,543
	Key metrics	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Revenue growth (%)	5.2	27.1	8.3	8.5	6.4
	Recurrent EPS growth (%)	13.3	57.3	21.1	18.9	11.3
	Gross margin (%)	16.8	19.4	22.7	24.4	25.2
	Operating EBITDA margin (%)	24.0	25.0	27.5	29.0	29.7
	Net profit margin (%)	9.8	13.0	14.5	15.9	16.7
	Dividend payout ratio (%)	43.9	25.9	21.4	18.0	16.2
	Capex/sales (%)	15.9	24.9	11.6	10.7	10.1
	Interest cover (x)	104	83	125	150	167

Source: Company data, RHB

Recommendation Chart

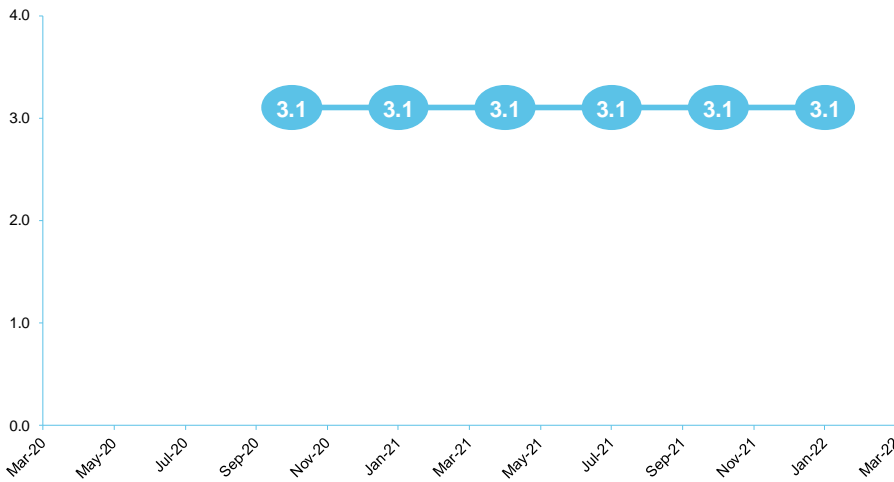


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-11-25	Buy	53.3	48.7
2021-09-01	Buy	50.0	45.0
2021-05-31	Buy	45.1	39.1
2021-02-26	Buy	42.9	37.0
2020-11-26	Buy	27.5	25.5
2020-09-01	Buy	20.0	17.0
2020-04-03	Buy	12.0	9.5
2019-11-27	Buy	12.4	11.1
2019-08-29	Buy	11.0	8.4
2019-05-27	Buy	11.2	8.7
2019-02-22	Neutral	11.2	10.0
2019-01-16	Neutral	9.4	10.2
2018-05-18	Neutral	9.1	8.2

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

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PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470