

12 July 2022

## P.I.E. Industrial Factories Humming

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Despite recent softness in the decentralised finance (DeFi) space, orders for ASIC hardware from its new Chinese customer as well as other products from its customer base have remained robust. This is attributable to PIE being in the sweet spot as (i) the ASIC hardware customer is pushed to relocate out from China, (ii) PIE is the preferred vendor in Malaysia that can handle the manufacturing complexity required, and (iii) PIE is able to leverage on the purchasing power of its parent company, Foxconn to ensure component supply. Maintain OUTPERFORM with a higher TP of RM4.10.

Key takeaways from our recent meeting are presented below.

1. We learnt that orders from its newly secured Chinese customer (relating to ASIC hardware) remain robust as we observed buzzing manufacturing lines with highly dense workstation arrangement during our visit. Being pushed to relocate out from China and identifying PIE as the preferred local vendor that has the capability to handle such complex manufacturing requirements explains the strong order pipeline despite the temporarily dampened sentiment in the DeFi space. After taking back a previously leased out factory (120k sq ft) in April 2022, PIE has started occupying a small area for incremental orders while the remaining space is undergoing minor renovations which will be ready by 3QFY22.
2. Against the backdrop of rising inflation and the general market fear of corporates facing margin compression, we take comfort in knowing that PIE will still be able to maintain or even potentially grow its margins as the group is fortunately able to leverage on Foxconn's purchasing power and engineering expertise in streamlining its operation to reduce waste and improve yield.
3. Another positive development is the approval for foreign worker recruitment. While only receiving approval for a couple hundred workers (vs. application for 1,000 workers), the group believes that this would be sufficient to fuel its growth plan for FY22 and FY23. We understand that this is a common allocation practice as that many EMS companies also received lower number of workers than requested. PIE will conduct the recruitment in batches and complete the entire process by August.

**We maintain our FY22F and FY23F earnings forecasts of RM77.8m and RM86.9m, respectively.**

**Maintain OUTPERFORM with a higher Target Price of RM4.10** (previously RM3.70) as we roll over our earnings base year to FY23F pegged to an unchanged PER of 18x. Our valuation represents a slight premium to peers' forward average of 16.5x, justified by its strong clientele which allows for margin expansion despite an inflationary environment.

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

# OUTPERFORM ↔

Price : **RM2.82**  
Target Price : **RM4.10** ↑

### Share Price Performance



KLCI	1,533.35
YTD KLCI chg	-9.0%
YTD stock price chg	-25.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PIE MK Equity
Market Cap (RM m)	1,083.0
Shares Outstanding	384.0
52-week range (H)	4.25
52-week range (L)	2.16
3-mth avg daily vol:	547,850
Free Float	34%
Beta	0.5

### Major Shareholders

Pan Global Holding Co Ltd	51.4%
Employees Provident Fund	4.2%
Mak Tian Meng	3.3%

### Summary Earnings Table

FY Dec (RM'm)	2021A	2022F	2023F
Turnover	1025.2	1213.2	1357.2
EBITDA	92.8	120.1	132.0
PBT	74.7	97.2	108.6
<b>Net Profit (NP)</b>	<b>60.7</b>	<b>77.8</b>	<b>86.9</b>
<b>Core NP</b>	<b>60.7</b>	<b>77.8</b>	<b>86.9</b>
Consensus (NP)	n.a	75.4	84.8
Erngs Revision (%)	n.a	0.0	0.0
Core EPS (sen)	15.8	20.3	22.6
BV/Share (RM)	1.3	1.5	1.7
PER (x)	17.8	13.9	12.5
Price/BV (x)	2.1	1.8	1.7
Net Gearing (x)	0.0	0.0	0.0
NDPS (sen)	0.0	7.0	7.0
Dividend Yield (%)	0.0	2.5	2.5



12 July 2022

## 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.			
D&O GREEN TECHNOLOGIES BHD	3.70	4,577.4	Y	12/2022	28.0%	15.3%	34.0%	15.5%	41.4	30.9	26.8	6.0	5.1	17.1%	0.5%	4.50	OP
GHL SYSTEMS BHD	1.12	1,278.5	Y	12/2022	22.7%	7.0%	22.1%	13.9%	61.7	50.5	44.4	3.4	3.2	6.3%	0.0%	1.40	MP
INARI AMERTRON BHD	2.67	9,899.5	Y	06/2022	22.5%	7.0%	20.7%	7.1%	26.0	24.2	22.6	6.3	3.9	15.9%	3.7%	3.30	OP
JHM CONSOLIDATION BHD	1.11	618.9	Y	12/2022	10.7%	15.2%	38.6%	15.8%	25.9	18.7	16.1	2.8	2.4	12.6%	0.4%	1.40	MP
KELINGTON GROUP BHD	1.14	733.0	Y	12/2022	59.6%	1.7%	38.9%	1.8%	22.8	16.7	16.4	3.8	3.2	19.4%	1.5%	1.90	OP
KESM INDUSTRIES BHD	6.30	271.0	Y	07/2022	-0.2%	4.6%	-54.3%	294%	84.6	185.0	46.9	0.9	1.0	1.1%	0.7%	7.50	MP
MALAYSIAN PACIFIC INDUSTRIES BHD	28.20	5,608.9	Y	06/2022	18.0%	6.0%	19.4%	5.5%	22.6	19.0	18.0	4.4	3.8	16.6%	1.1%	32.90	OP
P.I.E. INDUSTRIAL BHD	2.82	1,083.0	Y	12/2022	18.3%	11.9%	28.2%	11.7%	17.8	13.9	12.5	2.1	1.8	13.1%	2.5%	4.10	OP
SKP RESOURCES BHD	1.50	2,343.5	Y	03/2023	17.3%	7.7%	27.5%	6.3%	13.6	12.8	11.9	2.9	2.6	20.0%	3.9%	2.10	OP
UNISEM (M) BHD	2.26	3,645.6	Y	12/2022	14.0%	10.0%	22.1%	11.3%	23.9	19.6	176	2.2	2.0	10.4%	2.0%	3.75	OP

Source: Kenanga Research

12 July 2022

**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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