

25 May 2009

BUY
RM4.48

Target Price: RM4.84

Stock data

Market cap (RMm) :	271.4
Issued shares (m) :	640
52-week range:	RM2.60-RM5.50
3-mth avg daily volume:	18,953 shrs
Bloomberg code:	PIE MK
Syariah	Yes
YTD price chg:	+16.5%
YTD KLCI chg:	+19.2%
Est. free float:	37.4%
Major shareholders:	
<i>Pan Global</i>	51.42%
<i>Lembaga Tabung</i>	5.82%
Haji:	
<i>ICapital.Biz Bhd:</i>	5.32%

Forecast revision

FYE 31 Dec	2009E	2010E
	24.1	25.0
Revision (%):	10.3%	12.0%
Net profit (RMm):	26.6	28.0

Share price chart

 Yeonzon Yeow
 yeonzon@kenanga.com.my
 Tel: 603-2713 2292

P.I.E. Industrial

1Q09 net profit above expectations

- **1Q09 net profit of RM5.9m was above expectations at 24% of our full year forecast of RM24.1m. Typically, 1Q09 contribution is about 13% to 17% of full year profit.** The better than expected performance was a result of pick up in orders after the rundown of inventory in 4Q08 where sentiments were at their worse. Both Electronic Manufacturing Services (EMS) division and Cable and Wire Harness division reported better than expected demand while gross margin remain intact at 21%.
- **YOY, 1Q09 net profit was 23% lower as 1Q08 was historically one of the highest quarters in terms of revenue achieved.** The higher 1Q08 net profit was driven by higher selling prices on the back of higher raw material and component prices. Despite lower selling prices and volume, 1Q09 gross margin remain intact while provisions for bonus was lower, cost savings with 10% lower foreign labour and some gain on FOREX translation also boosted the net profit.
- **QoQ, 1Q09 net profit was 42% lower as fourth quarter is traditionally the strongest quarter .**
- **Upgrade FY09E and FY10E net profit by 10.3% and 12.0% to RM26.6m and RM28.0m respectively.** Improved visibility and effective expansion of business within existing clients and effective cost saving has helped PIE maintain its competitive edge. PIE is also trying to secure new EMS contracts for a new product. Should the contract materialise, PIE would require RM10m investment into capex which they can easily afford.
- **Maintain BUY with revised target price of RM4.84 (previous RM3.90)** based on 11x PER which is a 5x discount to regional EMS players' average FY10E PER of 16x on EPS of 44 sen. The 5x discount is to account for the low trading liquidity and small market capitalisation. PIE's net cash continues to grow and stand at RM112m (RM1.75 per share). The current market consolidation is positive to PIE in some way as customers turn to more efficient EMS players with strong production competence and have competitive pricing given the ability to leverage of a large group.

Results Highlights

FYE 31 Dec (RMm)	1Q08	2Q08	3Q08	4Q08	1Q09	QoQ %	YoY %
Sales	79.1	70.1	69.0	73.6	46.0	-37.6%	-41.9%
Cost of Goods Sold	(62.5)	(58.2)	(56.3)	(58.8)	(36.4)	-38.1%	-41.7%
Gross Profit	16.60	11.93	12.64	14.88	9.56	-35.7%	-42.4%
Gross margin (%)	21%	17%	18%	20%	21%	3.0%	-0.9%
Other Op Income	2.6	4.2	4.3	(1.6)	2.2	-231.8%	-15.5%
Admin & Distn Exp	(9.6)	(6.5)	(7.1)	(1.8)	(5.5)	198.6%	-42.5%
Investment Income	0.7	0.8	0.8	0.9	0.7	-16.7%	0.4%
Finance Cost	-	-	-	-	-	-	-
Pretax Profit	10.3	10.4	10.6	12.2	6.9	-43.6%	-32.6%
Taxation	(2.6)	(2.3)	(2.5)	(2.1)	(1.0)	-50.5%	-60.2%
Tax Rate	25.6%	22.6%	23.3%	17.3%	15.1%	-12.4%	-40.9%
MI	-	-	-	-	-	-	-
Net Profit	7.6	8.0	8.1	10.1	5.9	-42.1%	-23.1%
EPS	11.9	12.6	12.7	15.8	9.2	-42.1%	-23.1%

Results Review

QoQ (RMm)	1Q09	4Q08	QoQ %	Comments
Revenue	46.0	73.6	-37.6%	Surprising pickup in inventory replenishment. But pale in comparison with 4Q08 which seasonally is the highest quarterly contribution.
Pretax Profit	6.9	12.2	-43.6%	Margins remain intact. Some FOREX gains and lower bonus provision
Net Profit	5.9	10.1	-42.1%	Same as above

YoY (RMm)	1Q09	1Q08	YoY %	Comments
Revenue	46.0	79.1	-41.9%	1Q08 was the best first quarter. Prices of copper and other components were still high in 1Q08 while demand enabled maintenance of margin. 1Q09 saw lower selling prices but margins remains stable.
Pretax Profit	6.9	10.3	-32.6%	Lower bonus provisions.
Net Profit	5.9	7.6	-23.1%	Same as above in addition to lower tax rate of 15%.

Earnings Estimates

FYE 31 Dec (RMm)	2007	2008	2009E	2010E	2011E
Revenue	280.9	291.8	294.1	308.7	324.0
EBITDA	30.7	46.6	36.4	38.1	40.5
EBITDA Margin	10.9%	16.0%	12.4%	12.3%	12.5%
Pretax Profit	44.1	43.5	34.1	35.9	39.1
Net Profit	35.6	33.9	26.6	28.0	30.5
Net Profit Growth (%)	36%	-5%	-22%	5%	9%
EPS (RM)	0.56	0.53	0.42	0.44	0.48
EPS Growth (%)	36%	-5%	-22%	5%	9%
GDPS(sen)	36.7	35.0	27.5	28.9	31.5
NTA/Share	3.0	3.1	3.2	3.3	3.5
Net Gearing	net cash	net cash	net cash	net cash	net cash
PER (x)	8.1	8.4	10.8	10.2	9.4
P/NTA (x)	1.5	1.5	1.4	1.3	1.3
Dividend Yield (%)	8.2%	7.8%	6.1%	6.4%	7.0%
EV/EBITDA	6.6	4.4	5.6	5.4	5.0
ROE (%)	19.4%	17.4%	13.0%	13.1%	13.6%

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia

Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com


Yeonzon Yeow
Head of Research