KENANGA RESEARCH

Results Note

11 August 2008

BUY
RM4.86

Target Price: RM7.15

P.I.E. Industrial

1H08 net profit within expectations

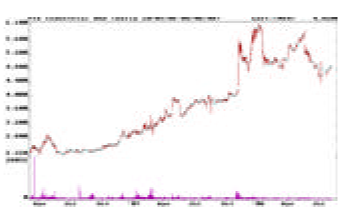
Stock data

Market cap (RMm):	311.0
Issued shares (m):	64.0
52-week range:	RM3.52-RM6.10
3-mth avg daily volume:	13,693 shrs
Bloomberg code:	PIE MK
Syariah	Yes
YTD price chg:	-18.0%
YTD KLCI chg:	-21.9%
Est. free float:	37.4%
Major shareholders:	
Pan Global	*51.42%*
Lembaga Tabung Haji:	*5.82%*
ICapital.Biz Bhd:	*5.32%*

Forecast revision

FYE 31 Dec	2008E	2009E
Revision (%):	-	-
Net profit (RMm):	41.6	47.3

Share price chart



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- **1H08 net profit of RM15.7m was within expectations at 38% of our FY08** net profit of RM41.6m. 1H07 net profit was 33% of FY08 net profit of RM35.6m. 1H performance is typically lower than 2H as the peaking of orders typically coincide with year end as capex budgets are fulfilled.

- **YOY, 1H08 net profit was 32% higher.** Lower trading activities contributing only 2% of revenue compared with 3.9% in 1H07, resulted in higher gross margin of 19% v 17% in 1H07. In addition, higher foreign exchange gain as reflected in 53% increase in other operating income also bolstered net profit.

- **QoQ, 2Q08 net profit grew 5.4% despite revenue falling 11.3% as** it was compensated by RM1.6m higher foreign exchange gain and RM3.1m lower administration and distribution expenses (less provision for doubtful debts). Lower orders from clients on the wire and cable harness division and EMS is seasonally lower.

- **Similarly 2Q08 net profit was 13% higher YOY** on the back of foreign exchange gain.

- **Maintaining FY08E and FY09E net profit of RM41.6m and RM47.3m respectively.** We believe our forecast is reflective of the current conditions. Its new plant, purchased and refurbished at a low cost of RM20m should reduce overall production cost given that PIE can revert to operating on one shift.

- **Maintain BUY with target price of RM7.15** based on regional CMS players' average FY08E PER of 11x on EPS of 65 sen. We remains very positive on PIE's future prospects as they continue to be able to maintain profit margin despite rising cost environment as more orders are being secured from existing and new clients who are more reluctant to place orders with smaller EMS companies given higher risk of non deliveries given more difficult operating environment. PIE continues to benefit from utilising Hon Hai group R&D only when it needs it and also lower materials and component cost from group acquisition.

Results Highlights

FYE 31 Dec (RMm)	2Q07	3Q07	4Q07	1Q08	2Q08	1H07	1H08	QoQ %	YoY %	1HYoY%
Sales	69.0	72.7	80.1	79.1	70.1	128.2	149.2	-11.3%	1.6%	16.4%
Cost of Goods Sold	(57.2)	(63.3)	(64.8)	(62.5)	(58.2)	(106.7)	(120.6)	-6.9%	1.7%	13.1%
Gross Profit	11.80	9.33	15.37	16.60	11.93	21.5	28.53	-28.1%	1.1%	32.7%
Gross margin (%)	17%	13%	19%	21%	17%	17%	19%	-19.0%	-0.4%	14.0%
Other Op Income	2.3	6.6	3.9	2.6	4.2	4.4	6.7	63.4%	84.5%	53.5%
Admin & Distn Exp	(6.4)	(3.9)	(3.7)	(9.6)	(6.5)	(12.1)	(16.1)	-32.1%	1.6%	32.9%
Investment Income	0.7	0.6	0.9	0.7	0.8	1.3	1.5	14.1%	10.2%	19.5%
Finance Cost	(0.0)	-	-	-	-	(0.0)	-			
Pretax Profit	8.4	12.6	16.5	10.3	10.4	15.0	20.6	1.2%	24.2%	37.6%
Taxation	(1.3)	(3.1)	(2.3)	(2.6)	(2.3)	(3.1)	(5.0)	-10.8%	86.4%	58.9%
Tax Rate	15.0%	24.6%	13.8%	25.6%	22.6%	20.9%	24.1%	-11.9%	50.1%	15.5%
MI	-	-	-	-	-	-	-			
Net Profit	7.1	9.5	14.2	7.6	8.0	11.9	15.7	5.4%	13.1%	32.0%
EPS	11.1	14.9	22.2	11.9	12.6	18.6	24.5	5.4%	13.1%	32.0%

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Results Review

QoQ (RMm)	2Q08	1Q08	Chg	Comments
Revenue	70.1	79.1	-11.3%	Lower orders from wire harness and cable division as well as EMS customers.
Pretax Profit	10.4	10.3	1.2%	Lower gross margin compensated by lower admin and distribution expenses while forex gain boosted profits
Net Profit	8.0	7.6	5.4%	Same as above with lower tax rate of 20.9%

YoY (RMm)	1H08	1H07	Chg	Comments
Revenue	149.2	128.2	16.4%	Reduced trading activities, higher contribution from wire and cable harness division YoY
Pretax Profit	20.6	15.0	37.6%	Higher gross margin of 19% on the back of higher manufacturing contribution. Higher other operating income from forex gain
Net Profit	15.7	11.9	32.0%	Same as above.

Earnings Estimates

FYE 31 Dec (RMm)	2006	2007	2008E	2009E	2010E
Revenue	277.6	280.9	362.7	416.8	458.5
EBITDA	25.8	30.7	56.0	63.6	71.4
EBITDA Margin	9.3%	10.9%	15.4%	15.2%	15.6%
Pretax Profit	33.0	44.1	53.3	60.6	68.4
Net Profit	26.2	35.6	41.6	47.3	53.4
Net Profit Growth (%)	54%	36%	17%	14%	13%
EPS (sen)	0.41	0.56	0.65	0.74	0.83
EPS Growth (%)	54%	36%	17%	14%	13%
GDPS (sen)	23.0	36.7	42.9	48.8	55.0
NTA/Share	2.7	3.0	3.1	3.3	3.6
Net Gearing	net cash	net cash	net cash	net cash	net cash
PER (x)	11.9	8.7	7.5	6.6	5.8
P/NTA (x)	1.8	1.6	1.6	1.5	1.3
Dividend Yield (%)	4.7%	7.6%	8.8%	10.0%	11.3%
EV/EBITDA	8.9	7.4	4.1	3.6	3.2
ROE (%)	15.6%	19.4%	21.0%	22.1%	23.0%

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