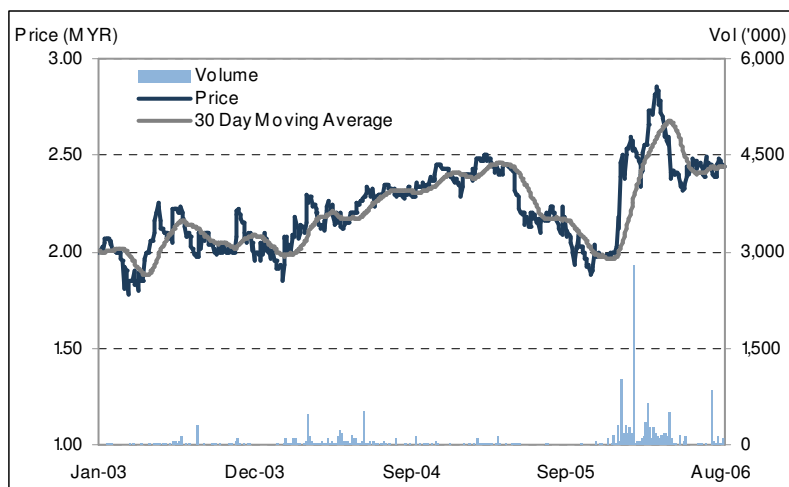


Recommendation: **BUY**Stock Code: **7095**Bloomberg: **PIE MK**Price: **MYR2.44**12-Month Target Price: **MYR2.75**Date: **August 21, 2006****Board:** Main**Sector:** Industrial Products**GICS:** Industrials / Electrical Components & Equipment**Market Capitalization:** MYR154.0 mln

Summary: P.I.E. Industrial Berhad's (PIE) principal activities are the contract manufacturing of industrial electronics devices, and the production and assembly of cables and wires. Other activities include the trading of electronic products.

Analyst: Robert Lin

Results Review & Earnings Outlook

- PIE's 2Q06 net profit of MYR4.9 mln vs. MYR3.9 mln a year ago was in line with our expectations, due to higher revenue, a lower effective tax rate, and income from other investments. This was however partly offset by a lower EBIT margin of 8.7% (from 9.8% in 2Q05), and higher net finance costs. PIE did not propose any interim dividend in 2Q06.
- On a segmental basis, PIE's trading businesses has become the key contributor to its top line, reporting total revenue of MYR11.4 mln in 2Q06 (up from MYR6.7 mln in 2Q05 and MYR8.3 mln in 1Q06). This has dragged its EBIT margin lower due to the thinner profit for the business.
- The group's Thai plant has remained stable during the quarter. Total revenue from its Thai plant reached MYR11.4 mln in 1H06 vs. our full-year estimate of MYR22.8 mln. This, in addition to higher trading revenue, has led to our concern about a slowdown in PIE's contract equipment manufacturing (CEM) business.
- We have fine-tuned our 2006 and 2007 net earnings by 2% to MYR19.3 mln and MYR20.6 mln, respectively, due to lower CEM revenue resulting from slower development of new customers and cyclical downturn of the electronics industry. We also forecast its EBIT margin to drop to 10.2% and 10.0% in 2006 and 2007 (from 10.4% and 10.1%), due to higher revenue contribution from the low-margin trading business.

Key Stock Statistics

FY Dec.	2005	2006F
EPS (sen)	27.4	30.7
PER (x)	8.9	7.9
Dividend/Share (sen)	12.0	14.0
NTA/Share (MYR)	2.39	2.55
Book Value/Share (MYR)	2.42	2.58
Issued Capital (mln shares)	63.1	
52-week Share Price Range (MYR)	1.88 - 2.86	
Major Shareholders:	%	
Pan Global Holding Co. Ltd	53.6	
Lembaga Tabung Haji	7.8	

Recommendation & Investment Risks

- We maintain our Buy recommendation on PIE and a lower 12-month target price of MYR 2.75 (from MYR3.00). We have derived our target by ascribing a revised 8.5x PER (from 9x PER) on our revised 2006 EPS estimate, plus our net projected DPS of MYR0.14 (tax-exempt). Given a 13% upside potential on our revised target price, PIE warrants a Buy call.
- We believe PIE should trade at a lower PER of 8.5x going forward, due to a cyclical downturn in the electronics industry and a delay in adding new CEM customers. While PIE is less vulnerable to the electronics downturn as it is a niche play of industrial electronics, a delay in adding new CEM customers will still lead to lower earnings growth, in our view.
- Nevertheless, despite a downward revision in forecasts and target prices, PIE's earnings still remains sound. As a result, we reiterate our Buy call on the stock.
- Risks to our recommendation and target price include stronger-than-expected competition in the CEM market, which could result in a lower-than-expected margin and a loss of CEM orders from key customers. In addition, earnings volatility of the group's Thai plant is a risk, in our opinion.

Per Share Data

FY Dec.	2003	2004	2005	2006F
Book Value (MYR)	2.13	2.19	2.42	2.58
Cash Flow (sen)	21.4	27.2	34.6	42.7
Earnings (sen)	12.4	18.3	27.4	30.7
Dividend (sen)	12.0	12.0	12.0	14.0
Payout Ratio (%)	98.4	66.1	43.9	45.6
PER (x)	19.7	13.3	8.9	7.9
P/Cash Flow (x)	11.4	9.0	7.0	5.7
P/Book Value (x)	1.1	1.1	1.0	0.9
Dividend Yield (%)	4.9	4.9	4.9	5.7
ROE (%)	5.8	8.5	11.9	12.4
Net Gearing (%)	0.0	0.0	0.0	0.0

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Recommendation: **BUY**

Stock Code: 7095

Bloomberg: PIE MK

Price: MYR2.44

12-Month Target Price: MYR2.75

Date: August 21, 2006

Quarterly Performance

FY Dec. / MYR mln	2Q06	2Q05	% Change
Revenue	63.2	54.1	16.9
Operating Profit (EBIT)	5.5	5.3	3.5
Depreciation	NM	NM	NM
Net Interest Income / (Expense)	0.0	0.2	NM
Pre-tax Profit	6.2	5.5	13.7
Net Profit	4.9	3.9	23.9
Operating Margin (%)	8.7	9.8	-
Pre-tax Margin (%)	9.8	10.1	-
Net Margin (%)	7.7	7.3	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2004	2005	2006F	2007F
Revenue	154.1	203.7	248.5	270.2
Operating Profit (EBIT)	14.4	21.6	25.3	27.0
Depreciation	-5.4	-4.5	-7.5	-7.3
Net Interest Income / (Expense)	-0.2	-0.2	-0.2	-0.2
Pre-tax Profit	14.2	21.3	25.1	26.8
Effective Tax Rate (%)	21.7	20.5	23.0	23.0
Net Profit	11.1	16.9	19.3	20.6
Operating Margin (%)	9.3	10.6	10.2	10.0
Pre-tax Margin (%)	9.2	10.5	10.1	9.9
Net Margin (%)	7.2	8.3	7.8	7.6

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

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Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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