

26 February 2008

BUY
RM5.05

Target Price: RM7.15

P.I.E. Industrial

FY07 net profit above expectations

Stock data

Market cap (RMm):	323.2
Issued shares (m):	64.0
52-week range:	RM2.90-RM6.10
3-mth avg daily volume:	57,479 shrs
Bloomberg code:	PIE MK
Syariah	Yes
YTD price chg:	-14.3%
YTD KLCI chg:	-5.1%
Est. free float:	37.4%
Major shareholders:	
<i>Pan Global:</i>	51.42%
<i>Lembaga Tabung</i>	5.82%
<i>Haji:</i>	
<i>ICapital.Biz</i>	5.32%

Forecast revision

FYE 31 Dec	2008E	2009E
Revision (%):	7.2%	6.9%
Net profit (RMm):	41.6	47.3

Share price chart

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- **FY07 net profit was 13% above our FY07 net profit of RM31.5m.** The actual income tax rate was lower at 19.3% compared to our 22%. In addition operating margin was sharply better at 16% compared to our 13% given higher contribution from contract manufacturing services (CMS) division compared to trading division.
- **YOY, FY07 net profit was 36% higher.** Operating margin was 2% higher at 16% while contribution from other income rose 26.6% from their investment in money market instruments. PIE has cash of RM81m or RM1.26 per share. Meanwhile operating expenses only rose a mere 1.3%. This is admirable given the current cost of inflation across the board driven by high commodity prices.
- **QoQ, 4Q07 net profit rose 49.3%** on significantly lower tax rate and sharp improvement in operating margin to 19% from 13% in 3Q07. 4Q07 turnover was 10.3% on the back of a seasonally stronger quarter.
- **YOY, 4Q07 net profit was 34% higher** on the back of higher operating margins with lower trading revenue. Expense were lower as PIE made extra provision for bonus in 4Q06 where, in 4Q07 they have already reversed the extra the made earlier in 1H07.
- **Revising upwards FY08 and FY09 net profit forecast by 7.2% and 6.9% to RM41.6m and RM47.3m respectively.** Despite rising cost PIE can amazingly improve margins. With the new plant being refurbished, the reversion to one shift will lower staff cost further compensating for any increase in raw material cost.
- **Maintain BUY with revised target price of RM7.15** based on regional EMS players' average FY08E PER of 11x on EPS of 65 sen. We remains very positive on PIE's future prospects even as crude oil prices will increase resin prices as its value add, competitive pricing and timely delivery will ensure customer loyalty and enable PIE to secure more contracts. Its net cash position will enable it to buy forward raw materials while it enjoys Hon Hai/Foxconn group discount. While total dividend has not been declared we are positive of their maintaining 66% payout ratio or dividend yield of 7.3% in for FY07.

Results Highlights

FYE 31 Dec (RMm)	4Q06	1Q07	2Q07	3Q07	4Q07	FY07	FY06	QoQ %	YoY %	FY YoY%
Sales	85.4	59.2	69.0	72.7	80.1	280.9	277.6	10.3%	-6.2%	1.2%
Cost of Goods Sold	(74.1)	(49.5)	(57.2)	(63.3)	(64.8)	(234.8)	(239.1)	2.3%	-12.6%	-1.8%
Gross Profit	11.3	9.70	11.80	9.33	15.37	46.20	38.46	64.6%	35.5%	20.1%
Gross margin (%)	13%	16%	17%	13%	19%	16%	14%	49.3%	44.5%	18.7%
Other Op Income	5.3	2.1	2.3	6.6	3.9	14.9	11.8	-40.5%	-25.6%	26.6%
Admin & Distn Exp	(4.8)	(5.7)	(6.4)	(3.9)	(3.7)	(19.8)	(19.5)	-6.9%	-23.5%	1.3%
Investment Income	0.6	0.5	0.7	0.6	0.9	2.8	2.3	37.1%	38.4%	20.8%
Finance Cost	-	-	(0.0)	-	-	(0.0)	(0.1)			-98.2%
Pretax Profit	12.4	6.6	8.4	12.6	16.5	44.1	33.0	30.6%	32.6%	33.8%
Taxation	(1.8)	(1.9)	(1.3)	(3.1)	(2.3)	(8.5)	(6.8)	-26.5%	25.0%	25.3%
Tax Rate	14.7%	28.2%	15.0%	24.6%	13.8%	19.3%	20.6%	-43.8%	-5.7%	-6.4%
MI	-	-	-	-	-	-	-			
Net Profit	10.6	4.8	7.1	9.5	14.2	35.6	26.2	49.3%	34.0%	36.0%
EPS	16.6	7.5	11.1	14.9	22.2	55.6	40.9	49.3%	34.0%	36.0%

Results Review

QoQ (RMm)	4Q FY07	3Q FY07	Chg	Comments
Revenue	80.1	72.7	10.3%	Traditionally best quarter. EMS with new clients and increased order from Datalogic.
Pretax Profit	16.5	12.6	30.6%	Pretax profit margin 20.5% compared to 17.3% arose from new contracts where price down has not taken effect while trading activities reduces considerably.
Net Profit	14.2	9.5	49.3%	Sharply lower tax rate arising from higher contribution of wire and cable harness plant in Thailand with more preferable tax regime compared to Malaysia.

YoY (RMm)	FY07	FY06	Chg	Comments
Revenue	280.9	277.6	1.2%	Overall higher contribution from manufacturing division while trading fell 78% to RM8.2m from RM38.9m.
Pretax Profit	44.1	33.0	33.8%	Higher profit margin of 15.7% compared to 11.9% in FY06, from higher contribution from CMS activities. In addition, cable and wire harness segment for industrial equipment/machineries is specialized and attract higher margins.
Net Profit	35.6	26.2	36.0%	Lower income tax from more contribution from Thailand subsidiary and overall improvement in contribution from manufacturing.

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
PER (x)	12.4	9.1	7.8	6.8	6.1
P/NTA (x)	1.9	1.7	1.6	1.5	1.4
Dividend Yield (%)	4.6%	7.3%	8.5%	9.7%	10.9%
EV/EBITDA	9.4	7.9	4.3	3.8	3.4
ROE (%)	15.6%	19.4%	21.0%	22.1%	23.0%

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Published and printed by:

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