

27 February 2007

BUY
RM3.20

Target Price: RM4.00

P.I.E. Industrial

FY06 results within expectations

Stock data

Market cap (RMm):	201.9
Issued shares (m):	63.1
52-week range:	RM2.07-RM3.46
3-mth avg daily volume:	115,183

Bloomberg code:	PIE MK
Syariah	Yes
YTD price chg:	12.7%
YTD KLCI chg:	16.1%

Est. free float:	41.5%
Major shareholders:	
<i>Pan Global Holding Co. Ltd:</i>	52.1%
<i>Lembaga Tabung Haji:</i>	6.4%

Consensus

FYE 31 Dec	2007E	2008E
Net profit (RMm):	na	na
EPS (sen):	na	na

Forecast

FYE 31 Dec	2007E	2008E
Revision (%)	-	-
Net Profit (RMm)	27.6	31.8

Share price chart


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- **FY06 net profit was within expectations.** FY06 net profit of RM26.2m was 2% above our estimate of RM25.7m. 6% higher revenue than our forecast arose from its low margin trading activities and actual income tax rate of 21% as opposed to our 22% resulted in the higher net profit.
- **QoQ, 4Q06 net profit was 50% higher** on the back of other more than doubling of income arising from bond investment as well as lower tax rate of 15% arising from some overprovision of tax as well as investment incentives enjoyed by its Thailand subsidiary and also recognition of certain non taxable income.
- **FY06 Gross margin improved to 13.9% on the back of better product mix** from its Contract Electronic Manufacturing (CEM) division where it has secured some new manufacturing contracts in FY06 which has higher margins than the older products. In addition, there is also lower operating cost from its Thailand subsidiary.
- **Maintaining forecast for FY07 and FY08.**
- **Maintain BUY with revised target price of RM4.00 using 9x PER multiple on FY07 EPS of 44.1sen.** We are using a 1x high PER multiple to reflect the improved outlook for P.I.E as it continues to be able to secure more CEM contracts and the sector. Outsourcing continues to be the perennial trend of electronic companies seeking to increase profit margin and market share at the same time while making the product more affordable.
- **Gross dividend could be as high as 27 sen giving a yield of 8.4%.** While its dividend payout for FY06 is expected to be announced in a weeks time, PIE has a dividend payout policy of 66% of its net profit which they have maintained consistently.

Financial Highlights

FYE 31 Dec (RMm)	4Q05	1Q06	2Q06	3Q06	4Q06	FY05	FY06	QoQ%	YoY%	YTD YoY%
Sales	59.8	57.3	63.2	71.6	85.4	203.7	277.6	19.3%	42.9%	36.3%
Cost of Goods Sold	(50.7)	(50.3)	(54.6)	(60.1)	(74.1)	(176.8)	(239.1)	23.3%	46.2%	35.3%
Gross Profit	9.1	7.0	8.6	11.5	11.3	26.9	38.5	-1.7%	24.5%	43.0%
Gross margin (%)	15.2%	12.2%	13.6%	16.1%	13.3%	13.2%	13.9%			
Pretax Profit	8.8	4.8	6.2	9.5	12.4	21.3	33.0	30.2%	41.3%	54.6%
Taxation	(0.6)	(1.2)	(1.3)	(2.5)	(1.8)	(4.4)	(6.8)	-26.0%	228.7%	55.3%
Tax Rate	6%	25%	21%	26%	15%	21%	21%			
MI	-	-	-	-	-	-	-	0.0%	0.0%	0.0%
Net Profit	8.2	3.6	4.9	7.1	10.6	16.9	26.2	49.8%	28.7%	54.4%
EPS	13.7	6.0	8.1	11.8	17.6	28.2	43.5	49.8%	28.7%	54.4%

Results Review

QoQ (RMm)	4Q FY06	3Q FY06	Chg	Comments
Revenue	85.4	71.6	19.3%	Higher contribution from low margin trading division
Pretax Profit	12.4	9.5	30.2%	Largely attributed to more than doubling of other investment income to RM5.3m from RM2.2m in 3Q06.
Net Profit	10.6	7.1	49.8%	Besides increased investment income, tax rate was unusually low at 15% arising from writebacks of overprovision and lower tax rate of its foreign subsidiary in Thailand.

YoY (RMm)	FY06	FY05	Chg	Comments
Revenue	277.6	203.7	36.3%	Higher value new CEM contracts and increased trading activities
Pretax Profit	21.3	12.4	54.6%	New CEM contracts has higher margin and also investment income was 127% higher YOY
Net Profit	26.2	16.9	54.4%	Same as above. Tax rate remain below statutory rate as it continues to enjoy foreign investment tax incentives in Thailand while some income in Malaysia are not taxable.

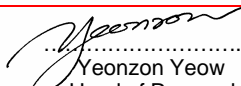
Earnings Estimates

FYE 31 Dec (RMm)	2005	2006	2007E	2008E	2009E
Total Revenue	203.7	277.6	300.4	343.9	378.3
EBITDA	24.2	25.8	39.0	44.5	46.8
EBITDA Margin	11.9%	9.3%	13.0%	12.9%	12.4%
Pretax Profit	21.3	33.0	35.3	40.7	42.9
Net Profit	16.9	26.2	27.6	31.8	33.5
Net Profit Growth (%)	53%	54%	5%	15%	5%
EPS (sen)	0.27	0.41	0.44	0.50	0.53
EPS Growth (%)	51%	52%	5%	15%	5%
GDPS (sen)	18.0	27.6	29.0	33.4	35.3
NTA/Share	2.4	2.7	2.7	2.9	3.1
Net Gearing		net cash	net cash	net cash	net cash
PER (x)	11.7	7.7	7.3	6.4	6.0
P/NTA (x)	1.3	1.2	1.2	1.1	1.0
Dividend Yield (%)	5.6%	8.6%	9.1%	10.5%	11.0%
EV/EBITDA	6.5	6.1	4.0	3.5	3.4
ROE (%)	11.3%	15.6%	16.3%	17.7%	17.5%

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