

21 May 2007

BUY
RM3.88

Target Price: RM4.50

P.I.E. Industrial

Fast-Forwarding FY08 forecast to FY07 on strong 1Q07
Stock data

Market cap (RMm):	245.2
Issued shares (m):	63.9
52-week range:	RM2.32-RM3.98
3-mth avg daily volume:	107,653 shrs
Bloomberg code:	PIE MK
Syariah	Yes
YTD price chg:	28.0%
YTD KLCI chg:	23.8%

Est. free float:	42.29%
Major shareholders:	
<i>Pan Global</i>	51.53%
<i>Lembaga Tabung Haji</i>	6.18%

Forecast revision

FYE 31 Dec	2007E	2008E
Revision (%):	14	17
Net profit (RMm):	31.5	37.3

Share price chart


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- **1Q07 net profit was above expectations.** 1Q07 net profit of RM4.8m on annualised basis where 1Q traditionally contributes about 15% would be RM31.8m. This was 15% above our estimate of RM26.7m. The higher profit came from the better contribution from contract electronic manufacturing (CEM) division where manufacturing contributed 95.7% of revenue and 100% of net profit as trading division incurred small loss of RM63,000.
- **QoQ, 1Q07 net profit was 55% lower** on the back of an expected seasonally weaker 1Q compared to 4Q07. In addition, investment income was 60% lower in 1Q07 compared to 4Q06 where PIE traditionally realise their fixed income investment, resulting in higher investment income of RM5.3m compared to RM2.1m in 1Q07.
- **1Q07 gross margin improved to 16% on the back of better product mix** in its Contract Electronic Manufacturing (CEM) division, lower contribution from low margin trading division. 1Q07 gross margin was higher than both 1Q06 and 4Q06 of 12% and 13% respectively. In addition, there is also lower operating cost from its Thailand subsidiary.
- **Revising FY07 and FY08 net profit forecast up by 14% and 17% to RM31.5m and RM37.2m respectively.** We have assumed better contribution from CEM division given that contracts worked on 2 years ago are beginning to see commercial fruition. In addition, PIE is confident of securing more contracts (assembling commercial bar code scanners and infrared devices) from one of its major clients which just merged with a competitor.
- **Maintain BUY with revised target price of RM4.50 using 9x PER multiple on FY07 EPS of 50.0sen.** P.I.E is trading at 7.8x FY07 PER multiple and has a net cash per share of 97 sen. Prospects remain bright as it continues to be able to secure more CEM contracts in light of expanding global outsourcing needs.
- **Gross dividend could be as high as 33 sen giving a yield of 8.6%.** PIE has a dividend payout policy of 66% of its net profit. FY06's 23 sen dividend will be paid on 12 June 07 to shareholders registered on 25 May 07. They have also declared 1Q07 interim dividend of 3 sen per share.

Results Highlights

FYE 31 Dec (RMm)	1Q06	2Q06	3Q06	4Q06	1Q07	QoQ %	YoY %
Sales	57.3	63.2	71.6	85.4	59.2	-30.7%	3.2%
Cost of Goods Sold	(50.3)	(54.6)	(60.1)	(74.1)	(49.5)	-33.2%	-1.7%
Gross Profit	7.0	8.6	11.5	11.3	9.70	-14.4%	38.9%
Gross margin (%)	12%	14%	16%	13%	16%		
Other Op Income	2.3	2.0	2.2	5.3	2.1	-59.8%	-8.3%
Admin & Distn Exp	(4.9)	(5.1)	(4.7)	(4.8)	(5.7)	19.0%	16.1%
Investment Income	0.4	0.8	0.5	0.6	0.5	-13.8%	22.9%
Pretax Profit	4.8	6.2	9.5	12.4	6.6	-46.5%	38.5%
Taxation	(1.2)	(1.3)	(2.5)	(1.8)	(1.9)	2.8%	56.1%
Net Profit	3.6	4.9	7.1	10.6	4.8	-55.0%	32.6%
EPS	6.0	8.1	11.8	17.6	7.5	-57.4%	25.6%

Results Review

QoQ (RMm)	1Q07	4Q 06	Chg	Comments
Revenue	59.2	85.4	-30.7%	Typically 4Q is the seasonal highest quarter supplying the Christmas holiday season. Higher trading revenue of 17% in 4Q06 compared with 4.5% in 1Q07.
Pretax Profit	6.6	12.4	-46.5%	1Q07 pretax profit margin of 11% compared to 14.5% reflected the higher demand in 4Q06 enabled PIE to quote better pricing
Net Profit	4.8	10.6	--55.0%	Lower arising from tax breaks for Thai subsidiary which contribution was higher in 4Q06 in addition to over provision of tax.

YoY (RMm)	1Q07	1Q06	Chg	Comments
Revenue	59.2	57.3	3.2%	Higher on larger contract manufacturing (CEM) orders. Trading revenue fell to 4.3% from 14.5% of total revenue.
Pretax Profit	6.6	4.8	38.5%	Better pretax margin of 11.1% compared to 8.3% on higher CEM contribution.
Net Profit	4.8	3.6	32.6%	9.1% net margin compared with 6.3% in 1Q06.

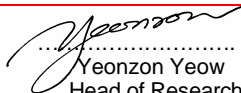
Earnings Estimates

FYE 31 Dec (RMm)	2005	2006	2007E	2008E	2009E
Total Revenue	203.7	277.6	317.8	369.7	423.6
EBITDA	24.2	25.8	44.1	51.7	58.7
EBITDA Margin (%)	11.9	9.3	13.9	14.0	13.9
Pretax Profit	21.3	33.0	40.4	47.8	54.7
Net Profit	16.9	26.2	31.5	37.3	42.6
EPS (sen)	27.3	41.4	49.9	59.0	67.5
EPS Growth (%)	50.6	51.7	20.5	18.2	14.4
PER (x)	14.2	9.4	7.8	6.6	5.7
ROE (%)	11.3	15.6	18.5	20.4	21.6
GDPS (sen)	18.0	27.6	33.2	39.3	44.9
P/NTA (x)	1.6	1.5	1.4	1.3	1.2
Dividend Yield (%)	4.6%	7.1%	8.6%	10.1%	11.6%
EV/EBITDA	8.3	7.8	4.6	3.9	3.4
ROE (%)	11.3%	15.6%	18.5%	20.4%	21.6%

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