



Results Note

P.I.E. Industrial Bhd

1Q06 sharply higher YOY

BUY RM2.58

Results Note
(Target: RM3.28)

KLCI: 944.40

- 1Q06 net profit is sharply higher YOY.** 1Q06 net profit rose 180% YOY, as PIE has moved to a different and higher operating level. Its increased level of activities in the contract electronic manufacturing services ("CEM") with a larger client base and inclusion of its 100% owned operations in Thailand since 4Q05, contributed 10% of total revenue, increased its net profit sharply. In addition, higher selling price for its wire and cable harness (in tandem with higher copper and PVC prices) also inflated the revenue base as it passes through some of the increased cost of raw material.
- QOQ lower seasonally.** QOQ, 1Q06 net profit was 56% lower than 4Q05. This is largely due to :
 - Seasonally weaker quarter due to short working months, 3Q and 4Q having traditionally higher orders .
 - CEM product mix was unfavourable in that many of its customers have not introduced new products. As such, the margins in producing "older" products is lower as customers continue to cost down.
 - Higher copper and PVC prices resulted in lower gross margin for wire and cable harness division.
 - Under-provision of salary expense for payment of bonus, resulted in incurring additional RM800,000 bonus expense. PIE conservatively continues to make provision for bonus monthly to avoid lumpy expenses.
 - Absence of tax allowance in 1Q06, where in 4Q05, tax rate was only 6%.
- 1Q06 net profit was better than our forecast.** Given that 1Q06 net profit of RM3.6 million is 14% of our FY06 estimates of RM25.7 million, PIE has actually performed better. In comparison, 1Q05 net profit of RM1.3 million was only 8% of FY05 net profit of RM16.9 million.
- Maintain BUY.** We are maintaining our forecast and recommendation as based on FY06 EPS of 41 sen, it is trading at a low P/E multiple of 6.2x. Our price target of 3.28 is based on a conservative 8x PE multiple.

Results Highlights

YE 31 Dec (RM'000)	4Q05	1Q06	1Q05	KNK	QOQ%	YOY% Comments
Revenue	59,782	57,302	38,058	262,450	-4%	51% YOY, PIE's CEM business has moved to a different phase. QOQ, seasonally lower.
Cost of sales	(50,672)	(50,316)	(34,482)	(218,275)	-1%	46% Higher cost of copper and PVC.
Gross profit	9,110	6,986	3,576	44,175	-23%	95% Higher COS and CEM product mix is "older" models which have lower profit margin
Gross margin (%)	15%	12%	9%	17%		
Other operating income	2,721	2,313	628	3,937	-15%	268% Boosted by sale of scrap copper at high price
Administrative and distribution expenses	(3,209)	(4,924)	(2,646)	(16,361)	53%	86% Higher QOQ, due to under provision for bonus payment of RM800k before CNY
Income from other invmnt	228	436	440	1,890	91%	-1%
Finance costs	(58)	(14)	(1)	(647)	-76%	1300% Higher utilisation of trade financing
Profit before tax	8,792	4,797	1,997	32,995	-45%	140% QOQ lower on higher production cost, lower margin product mix, seasonally lower quarter
Income tax expense	(554)	(1,199)	(713)	(7,259)	116%	68% 4Q05 recognition of tax allowance
Income tax rate (%)	6%	25%	36%	22%		
Profit for the period	8,238	3,598	1,284	25,736	-56%	180% Within expectation, 1Q06 was 14% of our FY06E net profit. 1Q05 was only 8% of FY05 net profit.
Basic EPS (sen)	13.3	5.8	2.1	41.2	-56%	177%
Diluted EPS (sen)	13.2	5.8	2.1	41.0	-56%	179%

Source: Company and Kenanga

- PIE's shareholders have approved a share buyback scheme for up to 10% of its total paid-up capital on 18 May 2006. This would provide support for its share price which at the current price, is undervalued. Given that PIE's parent, Hon Hai Precision Industrial Ltd trades at 13x PE multiple or twice that of PIE, there is significant upside to its valuation.
- PIE's wire and cable harness business may be subjected to the volatility of its raw materials' prices namely copper and PVC in the short term. However, over the long run, it continues to be able to pass on the increased raw materials cost to its customers.
- PIE continues to manage its net profit and margins through the right mix of CMS orders, wire and cable harness business as well as trading division. Given its larger customer base and that it is close to securing a few other large CEM customers, we are confident that its special niche in low volume, high mix CEM would enable PIE to differentiate itself from its competitors and enjoy higher margins.

Earnings Estimates

FYE 31 Dec (RM000)	2004A	2005A	2006F	2007F	2008F
Total Revenue	154,124	203,680	262,450	300,417	343,939
EBITDA	19,791	24,239	36,310	38,964	44,465
EBITDA Margin	12.8%	11.9%	13.8%	13.0%	12.9%
Pretax Profit	14,198	21,322	32,994	35,434	40,720
Net Profit	11,111	16,950	25,736	27,638	31,762
EPS (RM)	0.18	0.27	0.41	0.45	0.51
EPS Growth (%)	47%	51%	52%	7%	15%
PER (x)	14.2	9.4	6.2	5.8	5.0
ROE (%)	8.3%	11.3%	16.2%	16.4%	17.7%
GDPS (RM)	0.12	0.10	0.27	0.29	0.34
Dividend Yield (%)	4.7%	3.9%	10.6%	11.4%	13.1%

Source: Company; Kenanga Estimates

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