

18 November 2008

BUY
RM3.02

Target Price: RM4.30

P.I.E. Industrial

9M08 net profit below expectations

Stock data

Market cap (RMm) :	193.3
Issued shares (mj):	64.0
52-week range:	RM2.60-RM5.90
3-mth avg daily volume:	1,992 shrs
Bloomberg code:	PIE MK
Syariah	Yes
YTD price chg:	-45.7%
YTD KLCI chg:	-38.8%

Est. free float:	37.4%
Major shareholders:	
<i>Pan Global</i>	51.4%
<i>Lembaga Tabung Haji</i>	5.8%
<i>ICapital.Biz Bhd</i> :	5.3%

Forecast revision

FYE 31 Dec	2008E	2009E
Prev. net profit (RMm):	41.6	47.3
Revision (%):	-27.9%	-26.6%
Revised net profit (RMm):	30.0	34.7

Share price chart

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- **9M08 net profit of RM23.8m was below expectations at 57% of our FY08 net profit of RM41.6m.** 9M07 net profit was 60% of FY08 net profit of RM35.6m. Despite 11.3% high net profit, we had expected better from larger contribution from the wire and harness division which absolute revenue depended on high copper price given the ability to pass through cost and maintain margin. Copper price fell from a high of USD9,300 per mt to current USD3,000 per mt levels.
- **YOY, 9M08 net profit was 11.3% higher.** Lower trading activities contributing only 1.4% resulted in better gross margin of 19% on the back of higher selling prices for its wire and harness products. EMS started off slowly in 1H08 but orders picked up in 3Q08. However, management is expecting orders to fall dramatically in 4Q08 as the economic crisis grips the whole world and capex plans are revised.
- **QoQ, 3Q08 net profit grew 1.1% despite 1.6% lower revenue** as improved contribution from EMS of (60% of total revenue) compensated for the falling revenue from the cable and wire harness division as selling prices are revised downwards in line with falling copper prices.
- **YoY 3Q08 net profit was 14.6% lower as revenue fell 5.1% with lower trading revenue and the gain on forex was 34.6% lower .**
- **Lowering FY08E and FY09E net profit by 27.9% and 26.6% to RM30.0m and RM34.7m respectively.** We are lowering the forecast on the back of low visibility of earnings in 4Q08 and expecting a worse year in FY09 where capex spending would reflect the weak economic conditions believe our forecast and the overall lower copper prices compared to the peak in 2008!
- **Maintain BUY with revised target price of RM4.30 (previous RM7.15)** based on regional CMS players' average FY09E PER of 8x on EPS of 54 sen (previous 12x PER; 65 sen EPS). PIE has net cash of RM85m (RM1.33 per share). It continues to maintain its attractive dividend payout of 66% or 10% dividend yield. Given its strong management competence, we are positive that PIE will ride through these uncertain times much better than its peers given its low operating cost and superior R&D. Its recently acquired factory is already leased out as they reconsider their expansion plans.

Results Highlights

FYE 31 Dec (RMm)	3Q07	4Q07	1Q08	2Q08	3Q08	9M07	9M08	QoQ %	YoY %	9MYoY%
Sales	72.7	80.1	79.1	70.1	69.0	200.82	218.1	-1.6%	-5.1%	8.6%
Cost of Goods Sold	(63.3)	(64.8)	(62.5)	(58.2)	(56.3)	(170.0)	(177.0)	-3.1%	-11.0%	4.1%
Gross Profit	9.33	15.37	16.60	11.93	12.64	30.83	41.17	5.9%	35.4%	33.5%
Gross margin (%)	13%	19%	21%	17%	18%	15%	19%	7.6%	42.6%	22.9%
Other Op Income	6.6	3.9	2.6	4.2	4.3	11.0	11.0	3.6%	-34.5%	0.7%
Admin & Distn Exp	(3.9)	(3.7)	(9.6)	(6.5)	(7.1)	(16.1)	(23.2)	9.2%	80.6%	44.6%
Investment Income	0.6	0.9	0.7	0.8	0.8	1.9	2.3	-5.1%	22.1%	20.3%
Finance Cost	-	-	-	-	-	(0.0)	-	-	-	-
Pretax Profit	12.6	16.5	10.3	10.4	10.6	27.6	31.3	2.1%	-15.9%	13.1%
Taxation	(3.1)	(2.3)	(2.6)	(2.3)	(2.5)	(6.2)	(7.5)	5.6%	-20.1%	19.6%
Tax Rate	24.6%	13.8%	25.6%	22.6%	23.3%	22.6%	23.8%	3.4%	-5.0%	5.7%
MI	-	-	-	-	-	-	-	-	-	-
Net Profit	9.5	14.2	7.6	8.0	8.1	21.39	23.8	1.1%	-14.6%	11.3%
EPS	14.9	22.2	11.9	12.6	12.7	33.4	37.2	1.1%	-14.6%	11.3%

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Results Review

QoQ (RMm)	3Q08	2Q08	Chg	Comments
Revenue	69.0	70.1	-1.6%	Lower orders from all divisions and lower copper price resulted in lower selling prices of wire harness and cable.
Pretax Profit	10.6	10.4	2.1%	High gross margin eroded by higher admin and distribution expenses and lower forex gain
Net Profit	8.1	8.0	1.1%	Same as above with higher tax rate of 23.3%

YoY (RMm)	9M08	9M07	Chg	Comments
Revenue	218.1	200.8	8.6%	Reduced trading activities, but higher contribution from wire and cable harness division on the back of higher selling prices as a result of higher copper prices.
Pretax Profit	31.3	27.6	13.1%	Higher gross margin of 19% on the back of higher manufacturing contribution and lower trading activities
Net Profit	23.8	21.4	11.3%	Same as above.

Earnings Estimates

FYE 31 Dec (RMm)	2006	2007	2008E	2009E	2010E
Revenue	277.6	280.9	306.1	351.4	386.5
EBITDA	25.8	30.7	41.0	47.0	53.2
EBITDA Margin	9.3%	10.9%	13.4%	13.4%	13.8%
Pretax Profit	33.0	44.1	38.5	44.4	50.5
Net Profit	26.2	35.6	30.0	34.7	39.4
Net Profit Growth (%)	54%	36%	-16%	15%	14%
EPS (RM)	0.41	0.56	0.47	0.54	0.62
EPS Growth (%)	54%	36%	-16%	15%	14%
GDPS (sen)	23.0	36.7	31.0	35.7	40.6
NTA/Share	2.7	3.0	3.0	3.2	3.4
Net Gearing		net cash	net cash	net cash	net cash
PER (x)	7.6	5.6	6.7	5.8	5.1
P/NTA (x)	1.2	1.0	1.0	1.0	0.9
Dividend Yield (%)	7.4%	11.8%	9.9%	11.5%	13.0%
EV/EBITDA	4.5	3.8	2.9	2.5	2.2
ROE (%)	15.6%	19.4%	15.5%	16.8%	18.0%

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