

20 November 2007

BUY
RM5.05

Target Price: RM7.08

P.I.E. Industrial

9M07 results within expectations
Stock data

 Market cap (RMm): 323.2
 Issued shares (m): 64.0
 52-week range: RM2.67-RM5.65
 3-mth avg daily volume: 58,934 shrs

 Bloomberg code: PIE MK
 Syariah: Yes
 YTD price chg: 70.0%
 YTD KLCI chg: 25.1%

 Est. free float: 37.4%
 Major shareholders:
 Pan Global: 51.42%
 Lembaga Tabung 5.82%
Haji:
 ICapital.biz: 5.32%

Forecast revision

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

Share price chart

 Yeonzon Yeow
 yeonzon@kenanga.com.my
 Tel: 603-2713 2292

- 9M07 net profit was with expectations.** 9M07 net profit of RM21.4m or 68% of FY07 forecast of RM31.5m was within expectations as 4Q0 is traditionally the strongest quarter contributing as high as 40% of total net profit. The second half is traditionally stronger with profit contribution ranging from 60% to 70% of full year forecast. The Contract Electronic Manufacturing (CEM) division made RM24.5m compared to a slight loss of RM.5m from its trading division as PIE focus on CEM. Net margin was 10.7% compared to 8.1% in 9M06.
- 3Q07 net profit was 34% and 38% higher YoY and QoQ respectively due to:** 1) Higher other income arising from write-back of earlier provisions from obsolete stock which was sold. This sale of obsolete stock at very low prices has also reduced the gross margin as historical cost was recognised in cost of sale. 2) The absence of provision for bonus payment also reduced administrative cost as PIE had made sufficient provisions earlier.
- Maintaining FY07 and FY08 net profit forecast.** PIE remains spot on in delivery of earning and meeting expectations. Their products being industrial / commercial equipment is less sensitive to pricing pressures like consumer electronic products. Given their smaller quantities and higher product mix or variations, PIE is able to command better margins especially with value add from the design stage. Its cable and wire harness division focusing on higher margin industrial machineries, marine and ship engines and control systems also boost bottom line significantly.
- Maintain BUY with target price of RM7.08** based on regional EMS players' average FY08E PER of 12x on EPS of 59 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 as well as attract more orders from them and also new customers.

Results Highlights

FYE 31 Dec (RMm)	3Q06	4Q06	1Q07	2Q07	3Q07	9M07	9M06	QoQ %	YoY %	9M YoY %
Sales	71.6	85.4	59.2	69.0	72.7	200.8	192.1	5.3%	1.5%	4.5%
Cost of Goods Sold	(60.1)	(74.1)	(49.5)	(57.2)	(63.3)	(170.0)	(165.0)	10.7%	5.4%	3.0%
Gross Profit	11.5	11.3	9.7	11.8	9.3	30.8	27.1	-20.9%	-19.1%	13.7%
Gross margin (%)	16%	13%	16%	17%	13%	15%	14%	-24.8%	-20.3%	8.7%
Other Op Income	2.2	5.3	2.1	2.3	6.6	11.0	6.5	191.7%	198.7%	68.9%
Admin & Distn Exp	(4.7)	(4.8)	(5.7)	(6.4)	(3.9)	(16.1)	(14.7)	-38.6%	-15.9%	9.3%
Investment Income	0.5	0.6	0.5	0.7	0.6	1.9	1.7	-14.3%	25.9%	13.5%
Finance Cost	-	-	-	(0.0)	-	(0.0)	(0.1)	-	-	-98.2%
Pretax Profit	9.5	12.4	6.6	8.4	12.6	27.6	20.5	50.8%	32.2%	34.5%
Taxation	(2.5)	(1.8)	(1.9)	(1.3)	(3.1)	(6.2)	(5.0)	146.3%	25.9%	25.3%
Tax Rate	25.8%	14.7%	28.2%	15.0%	24.6%	22.6%	24.2%	63.4%	-4.8%	-6.8%
MI	-	-	-	-	-	-	-	-	-	-
Net Profit	7.1	10.6	4.8	7.1	9.5	21.4	15.6	33.8%	34.4%	37.5%
EPS	11.1	16.6	7.5	11.1	14.9	33.4	24.3	33.8%	34.4%	37.5%

Results Review

QoQ (RMm)	3Q07	2Q07	Chg	Comments
Revenue	72.7	69.0	5.3%	3Q is traditionally a stronger quarter but marginal increase is due to lower trading activities as PIE concentrate on contract manufacturing
Pretax Profit	12.6	8.4	50.8%	Pretax profit margin 17.3% compared to 12.1% is a result of reversal of provision for bonus as well as 191% increase in other income arising from write back of provision on sale of obsolete stocks.
Net Profit	9.5	7.1	33.8%	Same as above but blunted by higher tax rate 25% compared to 15%.

YoY (RMm)	9M07	9M06	Chg	Comments
Revenue	200.8	192.1	4.5%	Overall higher demand from manufacturing division while trading fell 77% to RM5.7m from RM24.3m.
Pretax Profit	27.6	20.5	34.5%	Higher other income of 69% and slightly higher margin from manufacturing as trading decreases
Net Profit	21.4	15.6	37.5%	Lower income tax from more contribution from Thailand subsidiary and overall improvement in manufacturing and other income.

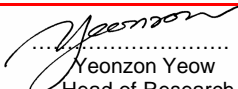
Earnings Estimates

FYE 31 Dec (RMm)	2005	2006	2007E	2008E	2009E
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
Net Profit Growth (%)	53%	54%	20%	18%	14%
EPS (sen)	0.26	0.41	0.49	0.58	0.67
EPS Growth (%)	46%	54%	20%	18%	14%
GDPS (sen)	18.0	27.6	33.2	39.3	44.9
NTA/Share	2.4	2.7	2.7	2.9	3.2
Net Gearing		net cash	net cash	net cash	net cash
PER (x)	19.1	12.4	10.3	8.7	7.6
P/NTA (x)	2.1	1.9	1.9	1.7	1.6
Dividend Yield (%)	3.6%	5.5%	6.6%	7.8%	8.9%
EV/EBITDA	11.5	10.8	6.3	5.4	4.8
ROE (%)	11.3%	15.6%	18.5%	20.4%	21.6%

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KENANGA INVESTMENT BANK BERHAD (15678-H) (formerly known as K&N Kenanga Bhd)
8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com


Yeonzon Yeow
Head of Research