

P.I.E Industrial Berhad (7095)



PIE in the Oven

By Tan Jia Hui / jiahui@tradeviewcapital.my

BUY (Initiation)

TP: RM 6.95 (+30%)

Current Share Price: RM 5.33

Growth

Investment Horizon

12 months

Valuation

Our target price is based on:

FY25F PE of 21x, which is +1.5SD above its 5-year mean to reflect a premium for AI proxy

Strong support from parent company, Foxconn



We believe PIE is poised to benefit from the escalating geopolitical tension between China and US, as it is a strategic manufacturing hub for Foxconn. Signs of increasing support given by Foxconn are (i) technical assistance by accelerating automation at minimal cost, and transfer of talent from their engineering pool, (ii) allocation of higher margin client, like customer H to PIE. Additionally, PIE benefits from being the preferred supplier for customer A, which handling 30% of customer A's total volume. We believe PIE's strong background and advanced technology know-how will enable it to secure more MNCs.

Buddy with customer A and new product from existing customer



PIE is demonstrating its adaptability in the face of trade diversion by strengthening its partnership with existing customers. This has led to a significant increase in high-margin orders from Customer A, which is expected to boost FY24 profit margins by 5x compared to Customer N. Plant 3 and Plant 5 (80k and 100k sq ft) are dedicated to Customer A's project. With the integrated circuit shortage easing, we anticipate higher production volumes and a projected 10-15% earnings growth in FY25F. Additionally, PIE secured a new product contract from an existing customer, which is likely to contribute to FY26 revenue with better margins than Customer N. PIE reduced involvement with Customer N aligns with their strategic focus and is expected to have minimal long-term impact.

AI server pathway progress

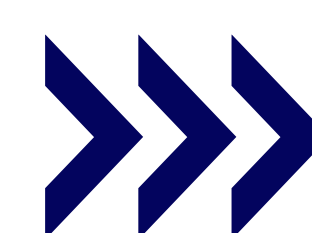
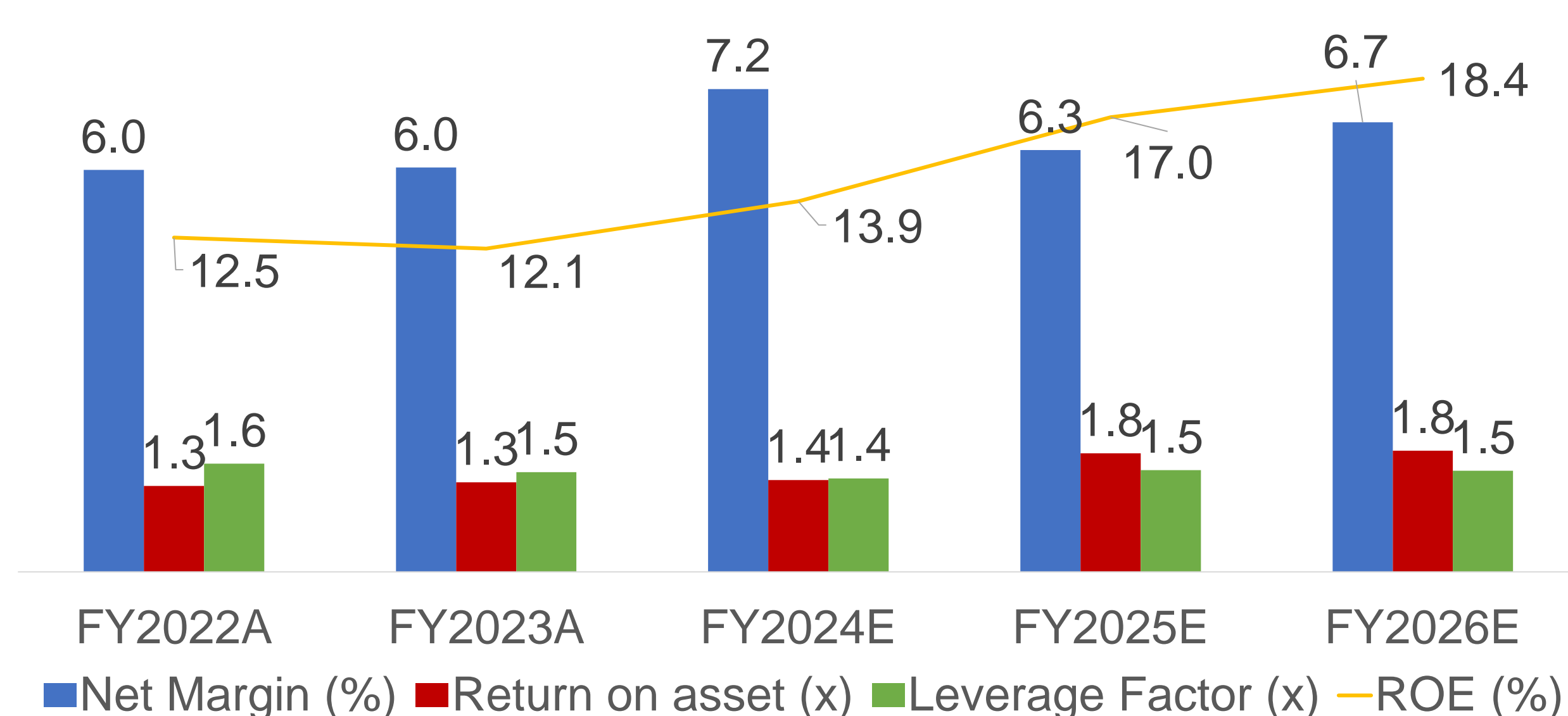


PIE has secured orders from customer H for AI switches and servers, dedicating Plant 6 with 280k sq ft of space for this project. The project is on track for pilot production by the end of 2024, with mass production slated for 2025. Management estimates revenue of RM1b in 2025 and RM1.5b in 2026. However, we conservatively project 80% of this revenue is our estimates due to the slow recovery in semiconductor industry, and estimate almost double margin from the usual projects. We believe this project will bring PIE to the next revenue growth level, driven by its sizable space for client and technical support from Foxconn.

Financial Exhibits

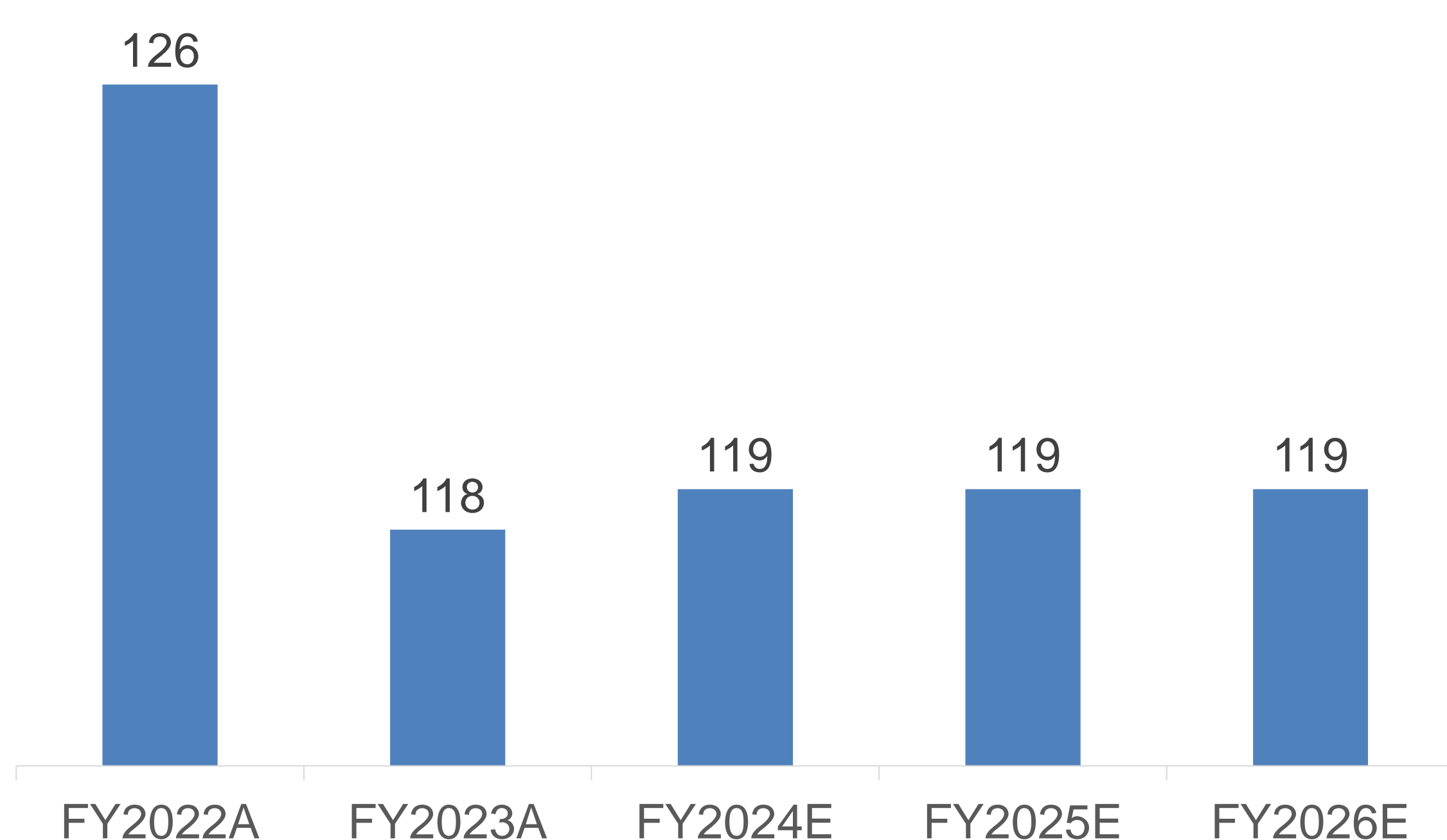
FYE 31 Mar	FY2022A	FY2023A	FY2024E	FY2025E	FY2026E
Revenue (RMm)	1,165.3	1,216.9	1,278.7	2,014.1	2,333.0
EBITDA (RMm)	107.1	111.9	135.8	179.0	215.9
Pretax profit (RMm)	82.1	89.5	111.2	153.1	189.0
Net profit (RMm)	70.0	73.6	92.3	127.0	156.8
EPS (sen)	18.2	19.2	24.0	33.1	40.8
PER (x)	29.2	27.8	22.2	16.1	13.1
Core net profit (RMm)	70.0	73.6	92.3	127.0	156.8
Core EPS (sen)	18.2	19.2	24.0	33.1	40.8
Core EPS growth (%)	3.5	5.1	25.5	37.6	23.5
Core PER (x)	29.2	27.8	22.2	16.1	13.1
Net DPS (sen)	7.0	7.0	9.0	12.0	14.0
Dividend Yield (%)	1.3	1.3	1.7	2.3	2.6
ROE (%)	12.5	12.1	13.9	17.0	18.4
P/BV (x)	3.7	3.4	3.1	2.7	2.4

Return of Equity

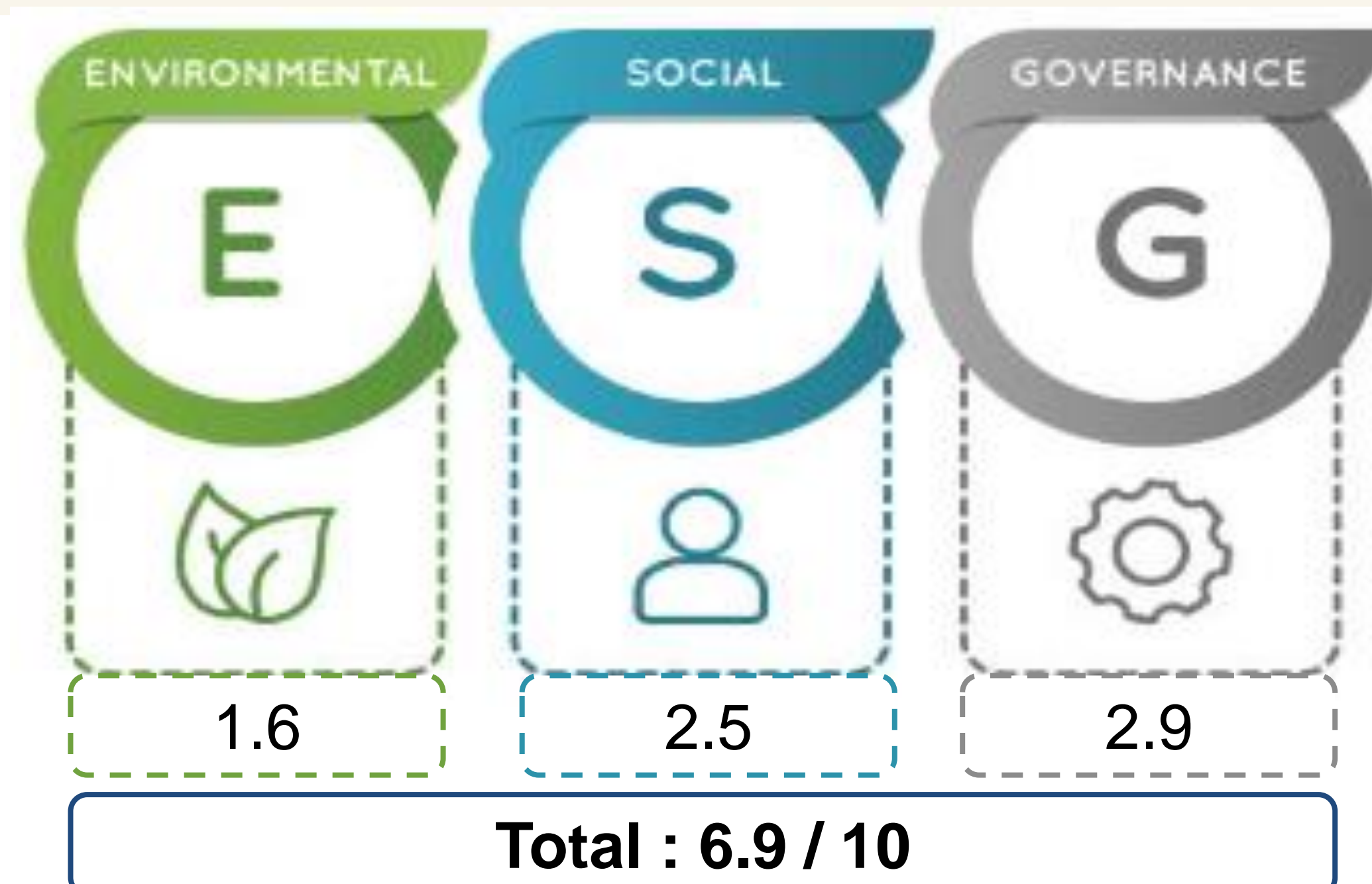


The company's ROE has improved from 12.5% to a projected 17.5% from FY22 to FY26F, driven by more substantial earnings. This indicates better efficiency in generating profit from equity and suggests stronger growth potential.

Cash Conversion Cycle

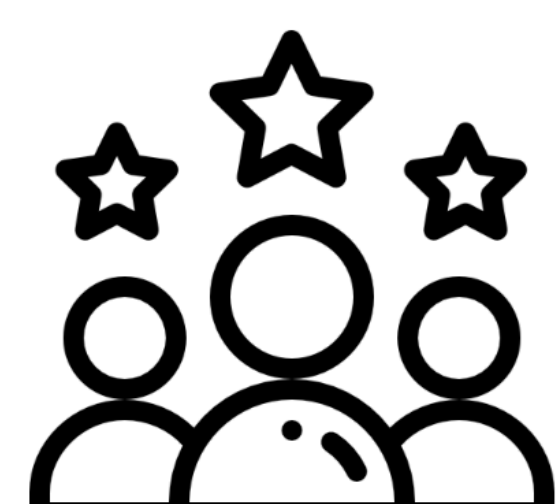


ESG Matrix



Based on FY23 annual report

Key Assumptions



Revenue growth	FY2024E	FY2025E	FY2026E
Customer N	-40%	0%	0%
Customer A	80%	65%	15%
Customer H		New	50%

Company Background

P.I.E. Industries Berhad is a leading Electronics Manufacturing Services (E.M.S.) provider. The company offers various services, including printed circuit board assembly, cable and wire harnesses, and turnkey manufacturing solutions across various industries. As a subsidiary of Foxconn Technology Group, P.I.E. benefits from its parent company's global reach, advanced technologies, and a robust network of industry connections. This strategic relationship enables P.I.E. Industries to stay competitive and deliver high-quality manufacturing services to a worldwide client base.

SWOT Analysis

Strengths

- Backed by strong support from Foxconn
- Building close ties with MNCs
- Leveraging the group's broad customer base to grow in Malaysia
- Net cash company

Weakness

- Dependent on a few customers
- Reliant on skilled technology staffs
- High dependency on oversea markets

Opportunities

- Trade diversion from US-China creates opportunities for new customers
- Further expansion into other sectors like telecommunication, medical and industrial.
- Market niching into high mix product manufacturing of high value

Threat

- Supply chain disruption and slower global recovery
- Project delays may impact revenue recognition
- Risk of losing key customers and management to competitors
- Dependence on foreign workers

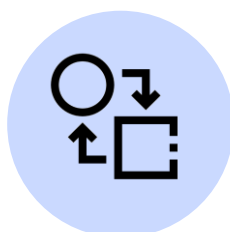
Peer Comparison

Name	Last price	Market Cap	FYE	Earnings Growth			PE		Div. Yield	ROE
				1-yr Fwd	2-yr Fwd	Hist.	1-yr Fwd	2-yr Fwd		
V.S. INDUSTRY BERHAD	0.995	3792.4	07/2025	4.0	29.9	19.4	15.3	12.0	2.8	11.1
SKP RESOURCES BHD	1.05	1640.5	03/2025	26.1	20.4	16.8	13.5	11.2	3.4	10.8
AURELIUS TECHNOLOGIES BHD	2.96	1300.4	12/2023	69.7	20.3	19.9	20.3	16.9	2.5	17.4
NATIONGATE HOLDINGS BHD	1.8	4075.3	12/2024	78.7	57.7	60.7	37.3	23.9	0.6	18.9
Simple Avg										
PIE INDUSTRIAL BHD	5.36	2062.3	12/2024	8.4	54.6	27.4	25.6	16.8	0.6	12.9

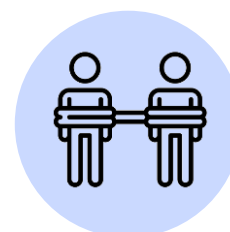
As 10 October 2024

Investment Risk

The following represent the greatest risks to our investment thesis:



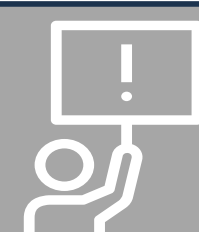
Dependent on imported input material



Dependent on its major customers



Reliant on foreign workers



DISCLOSURE AND DISCLAIMER



This report is prepared and issued by Tradeview Capital Sdn Bhd ("Tradeview") for general circulation only and shall not be construed or considered as an offer, recommendation, invitation and/or solicitation to purchase, subscribe or sell any securities, related investments or financial instruments.

The information contained herein are based on data and sources believed to be reliable at the time of issuance and are subject to change without further notice. Any recommendation and/or opinion contained herein does not have regards to any specific investment objectives, financial condition, risk profile and particular needs of its readers. Readers are encouraged to evaluate any specific investment or strategy based on individual circumstances, risk profile, investment objectives and/or to seek legal, tax, financial and/or other advice prior to executing any investment transaction.

Tradeview does not make any representations and/or guarantee to the accuracy and completeness of the information and opinion contained herein and accepts no liability for any direct or consequential loss arising from the reliance of this report. Tradeview and its affiliates, directors, shareholders, employees and/or agents may have positions in the securities of the company(ies) covered in this report and may from time to time buy or sell any such securities.