



AmInvestment Bank

Company report

MALAYSIAN PACIFIC INDUSTRIES

(MPI MK EQUITY, MPIM.KL)

26 Nov 2020

A better-than-expected 1QFY21; higher sales in Asia

HOLD

(Downgraded)

AmInvestment Bank

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03-2036 2333

Rationale for report: Company results

Price	RM23.60
Fair Value	RM22.21
52-week High/Low	RM24.98/RM7.39

Key Changes

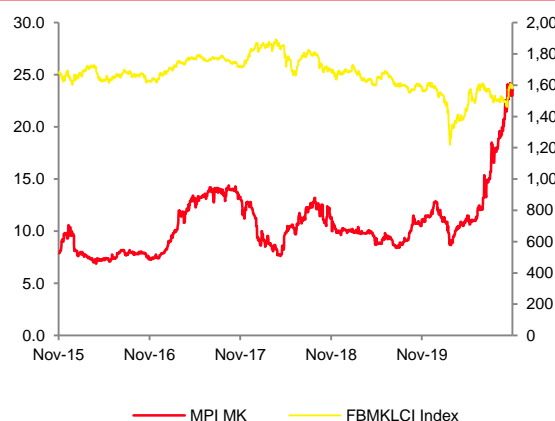
Fair value	📈
EPS	📈

YE to Jun	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	1,558.1	1,700.8	1,795.3	1,878.3
Core net profit (RM mil)	158.0	195.5	206.9	216.6
FD Core EPS (sen)	83.0	102.8	108.7	113.8
FD Core EPS growth (%)	21.9	23.7	5.8	4.7
Consensus Net Profit (RM mil)	-	177.6	193.6	206.2
DPS (sen)	27.0	27.0	27.0	27.0
PE (x)	28.4	23.0	21.7	20.7
EV/EBITDA (x)	10.1	8.4	7.6	7.0
Div yield (%)	1.1	1.1	1.1	1.1
ROE (%)	11.5	13.5	12.9	12.3
Net Gearing (%)	nm	nm	nm	nm

Stock and Financial Data

Shares Outstanding (million)	198.9
Market Cap (RM mil)	4,694.0
Book Value (RM/share)	7.26
P/BV (x)	3.3
ROE (%)	11.5
Net Gearing (%)	-
Major Shareholders	Hong Leong Bhd (57.5%) EPF (5.0%) KWAP (3.9%)
Free Float	23.4
Avg Daily Value (RM mil)	7.1

Price performance	3mth	6mth	12mth
Absolute (%)	57.5	111.1	124.8
Relative (%)	53.3	89.8	123.9



Investment Highlights

- **We downgrade our BUY call on Malaysian Pacific Industries (MPI) to HOLD after the recent run-up in its share price.** We have a **higher fair value of RM22.21/share** (previously RM19.53/share), **pegged to an unchanged CY21F PE of 21x** representing a 25% discount to our benchmark target forward PE of 28x for outsourced semiconductor assembly and test (OSAT) companies due to its tighter liquidity.
- Our benchmark target forward PE of 28x represents a 20% premium above its 3-year historical forward PE of 23x as prospects brighten due to innovations such as 5G, 3D sensors, and electric vehicles, which progress has been accelerated by Covid-19.
- **We raise our FY21F–FY23F forecasts by 13–15%** after raising our volume and margin assumptions based on better operational efficiencies amid increased automation and digitalization of its operations.
- **MPI's 1QFY21 results exceeded expectations**, recording a core profit of RM58mil which accounted for 34% and 33% of our and consensus' full-year estimates respectively. This is after excluding a RM3mil exceptional loss from forex losses which were partially offset by gross dividend income from short-term investments.
- **YoY:** 1QFY21 core profit soared by 60% due to:
 - 19% higher revenue as sales rose across all its geographical segments but mainly from 25% increase in sales in Asia which was likely boosted by better contribution from its Carsem Suzhou operations. Meanwhile, sales from the USA and Europe climbed by 21% and 4% respectively;
 - a 2.2ppt improvement in EBITDA margins which we believe is from better operational efficiency relating to the higher revenue;
 - lower effective tax rate of 10% (vs. 12% in 1QFY20); and
 - After he stripping off a RM3mil exceptional loss in 1QFY21 vs. RM1mil exceptional gain in 1QFY20.
- **QoQ:** 1QFY21 core profit rose 12% in tandem with a 9% rise in revenue as sales rose by 7%, 12% and 11% in Asia, the USA, and Europe respectively.
- **Outlook:** MPI is cautious of the challenging operating environment due to Covid-19 uncertainties. However, the group will continue to improve its operational efficiencies and focus on product development in chosen sectors.

- **We continue to like MPI despite uncertainties relating to Covid-19, but opine that the stock is fairly valued at the current share price.** The group's positive prospects arise from: (i) its portfolio rationalization strategy that focuses on higher-margin specialized projects; (ii) its leading market position in the ultra-thin MLP and increased R&D in MEMS sensors; (iii) its move towards producing silicon carbide power products with applications in EVs, servers, and renewable energy; and (iv) its strong net cash position of RM761mil as at 30 Sep 2020 which allows for strategic investments and M&A opportunities.

EXHIBIT 1: FINANCIAL RESULTS SUMMARY

FYE 30 Jun (RM 'mil)	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)
Revenue	369.1	405.5	440.6	8.7	19.4
EBITDA	92.5	109.3	119.7	9.6	29.5
Depreciation/Amortisation	(44.5)	(44.6)	(43.3)	3.1	2.7
EBIT	48.0	64.6	76.5	18.3	59.4
Interest expense	(0.2)	(0.5)	(0.6)	(21.1)	(238.9)
Interest income	0.7	0.9	0.6	(30.6)	(6.3)
Pre-Associates profit	48.4	65.0	76.4	17.6	57.8
Associates	-	-	-	nm	nm
Pre-Exceptionals profit	48.4	65.0	76.4	17.6	57.8
Exceptionals	0.9	(2.5)	(3.4)	(32.6)	nm
Pre-tax profit	49.3	62.5	73.1	17.0	48.2
Taxation	(5.9)	(6.9)	(7.3)	(6.3)	(23.3)
Minority interest	(6.6)	(6.5)	(10.5)	(60.1)	(58.9)
Net Profit	36.8	49.0	55.3	12.8	50.3
Core Net Profit	36.1	51.6	57.8	12.1	60.0
Basic EPS (sen)	19.36	25.78	28.05		
DPS (sen)	10.00	-	-		
EBITDA margin (%)	25.0	27.0	27.2		
Pretax margin (%)	13.4	15.4	16.6		
Effective tax (%)	12.0	11.0	10.0		
Segmental Breakdown (RM 'mil)					
Revenue					
Asia	230.8	268.7	288.4	7.3	24.9
USA	52.6	56.4	63.8	13.2	21.4
Europe	83.9	78.7	87.3	10.9	4.0
Non-reportable segment	1.8	1.6	1.0	(33.2)	(40.3)
Total	369.1	405.5	440.6	8.7	19.4
Pretax profit					
Asia	31.8	44.9	50.2	11.8	57.8
USA	6.6	7.3	9.7	33.1	46.2
Europe	9.0	9.9	13.5	37.1	50.1
Non-reportable segment	1.5	0.1	(0.2)	nm	nm
Total	48.9	62.1	73.1	17.7	49.6
EBIT margin (%)					
Asia	13.8	16.7	17.4		
USA	12.5	12.9	15.1		
Europe	10.7	12.5	15.5		
Total	13.2	15.3	16.6		

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART

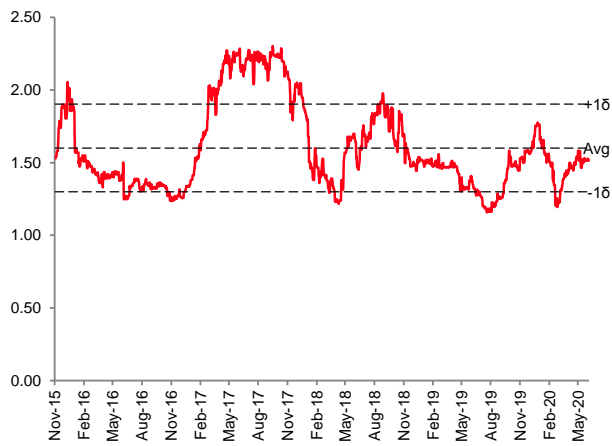


EXHIBIT 3: PE BAND CHART



EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,480.5	1,558.1	1,700.8	1,795.3	1,878.3
EBITDA	362.7	384.1	455.2	480.5	502.8
Depreciation/Amortisation	(173.9)	(174.5)	(194.2)	(205.7)	(215.7)
Operating income (EBIT)	188.8	209.6	261.1	274.8	287.0
Other income & associates	1.1	13.9	-	1.0	1.0
Net interest	1.0	1.8	3.4	3.8	4.8
Exceptional items	(11.7)	(5.0)	-	-	-
Pretax profit	179.1	211.5	264.5	279.6	292.8
Taxation	(29.8)	(32.7)	(40.9)	(43.1)	(45.1)
Minorities/pref dividends	(31.7)	(25.8)	(28.1)	(29.7)	(31.1)
Net profit	117.7	153.0	195.5	206.9	216.6
Core net profit	129.4	158.0	195.5	206.9	216.6
Balance Sheet (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	664.0	717.0	829.5	857.7	886.7
Intangible assets	-	-	-	-	-
Other long-term assets	30.7	29.8	28.8	26.9	25.0
Total non-current assets	694.7	746.7	858.3	884.6	911.6
Cash & equivalent	713.4	835.2	897.1	1,046.6	1,208.4
Stock	105.4	117.1	121.5	128.2	134.1
Trade debtors	190.5	262.1	247.1	260.8	272.8
Other current assets	4.4	5.6	5.6	5.6	5.6
Total current assets	1,013.7	1,220.1	1,271.2	1,441.2	1,621.0
Trade creditors	75.0	114.2	103.3	109.0	114.1
Short-term borrowings	-	9.3	9.3	9.3	9.3
Other current liabilities	132.0	242.4	242.4	242.4	242.4
Total current liabilities	207.1	365.9	355.0	360.7	365.7
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	2.1	0.8	0.8	0.8	0.8
Total long-term liabilities	2.1	0.8	0.8	0.8	0.8
Shareholders' funds	1,269.2	1,380.9	1,525.0	1,679.5	1,843.7
Minority interests	230.0	238.2	266.4	296.0	327.1
BV/share (RM)	6.68	7.26	8.02	8.83	9.69
Cash Flow (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Pretax profit	179.1	211.5	264.5	279.6	292.8
Depreciation/Amortisation	173.9	174.5	194.2	205.7	215.7
Net change in working capital	67.7	35.8	(0.2)	(13.7)	(11.9)
Others	(17.6)	11.3	-	-	-
Cash flow from operations	403.0	433.0	458.5	471.6	496.6
Capital expenditure	(194.6)	(249.1)	(306.1)	(233.4)	(244.2)
Net investments & sale of fixed assets	3.2	0.4	0.4	1.4	1.4
Others	17.1	29.5	5.2	6.6	7.5
Cash flow from investing	(174.2)	(219.2)	(300.6)	(225.4)	(235.2)
Debt raised/(repaid)	(74.0)	9.3	-	1.0	1.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(72.3)	(70.0)	(51.4)	(51.4)	(51.4)
Others	(3.2)	(10.7)	(0.3)	0.7	0.7
Cash flow from financing	(149.5)	(71.5)	(51.7)	(49.7)	(49.7)
Net cash flow	79.2	142.3	106.2	196.5	211.6
Net cash/(debt) b/f	647.6	713.4	835.2	897.1	1,046.6
Net cash/(debt) c/f	729.1	860.0	941.4	1,094.6	1,259.3
Key Ratios (YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue growth (%)	(4.0)	5.2	9.2	5.6	4.6
EBITDA growth (%)	(7.0)	5.9	18.5	5.6	4.6
Pretax margin (%)	12.1	13.6	15.6	15.6	15.6
Net profit margin (%)	7.9	9.8	11.5	11.5	11.5
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	16.6	15.5	15.5	15.4	15.4
Dividend payout (%)	43.6	33.6	26.3	24.8	23.7
Debtors turnover (days)	47	61	53	53	53
Stock turnover (days)	28	26	26	25	25
Creditors turnover (days)	20	22	23	22	22

Source: Company, AmlInvestment Bank Bhd estimates

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