

Malaysian Pacific Industries Berhad TP: RM29.40 (+15.4%)

Robust Performance Expected to Sustain and Grow

Last Traded: RM25.48

BUY

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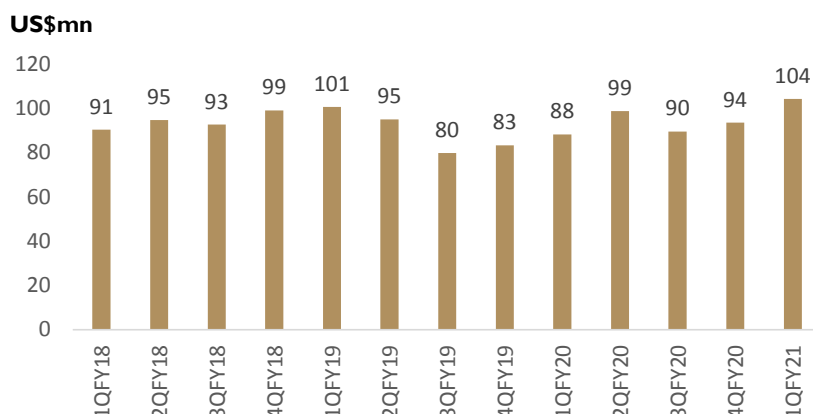
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We emerged from MPI's 1QFY21 investors' briefing remaining sanguine on its growth prospects with management expecting the robust performance to sustain and grow in the quarters ahead as its pipeline remains strong on the back of healthy demand for newer projects including 5G testing, silicon carbide technologies, and MEMS sensors. As such, we have upgraded our FY21-23 earnings estimates by 10-17% after raising sales in the corresponding period by 5-7% to factor in 1QFY21 actual results (which came above our expectations due to stronger-than-expected sales) and stronger earnings visibility. Corresponding to the earnings upgrade and ascribing a higher PE multiple of 26.0x (previously 21.0x), we arrive at a higher TP of RM29.40 (previously RM20.90) against CY21 EPS. Upgrade to Buy.

Record Quarter Driven by New Designs and Customers

To recap, MPI in 1QFY21 achieved record high revenue and net profit of RM440.6mn (+8.7% QoQ, +19.4% YoY) and RM55.3mn (+12.8% QoQ, +50.3% YoY). During the quarter, all end user markets grew both on a QoQ and YoY basis driven by its newer designs and customers. Utilisation was healthy with Ipho's above 90% and Suzhou's >100% (China operations has also been enjoying strong loadings alongside rising localisation by Chinese design houses amid the trade war between the USA and China). By end user market, revenue was led by consumer/communications (31%) and followed by automotive (29%) industrial (27%), and PC/notebook (12%).

Figure 1: Revenue in USD



Source: Company, TA Securities

1QFY21's Robust Performance Expected to Sustain

Going forward, management foresees the group's robust performance sustaining and growing in the quarters ahead as its pipeline remains strong on the back of healthy demand for newer projects including 5G testing (e.g., for RF in automotive and consumer/communications segments), silicon carbide technology

Share Information

Bloomberg Code	MPI MK
Stock Code	3867
Listing	Main Market
Share Cap (mn)	198.9
Market Cap (RMmn)	5,067.9
52-wk Hi/Lo (RM)	26/7.39
12-mth Avg Daily Vol ('000 shrs)	203.0
Estimated Free Float (%)	23.4
Beta	0.5

Major Shareholders (%)

Hong Leong Investment	- 57.5
EPF	- 5.0

Forecast Revision

	FY21	FY22
Forecast Revision (%)	16.6	11.4
Net profit (RMmn)	216.9	233.3
Consensus	195.2	215.3
TA's / Consensus (%)	111.1	108.4
Previous Rating	Hold (Upgraded)	

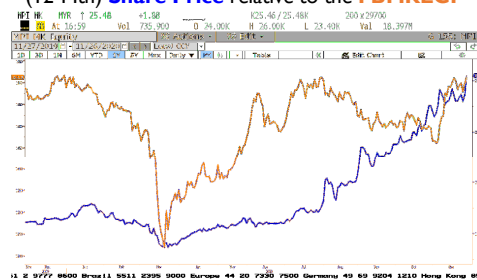
Financial Indicators

	FY21	FY22
Net gearing (x)	Net cash	Net cash
CFPS (RM)	1.9	2.4
P/CFPS (x)	13.5	10.4
ROAA (%)	10.1	9.7
ROAE (%)	14.1	13.6
NTA/Share (RM)	7.7	8.6
Price/ NTA (x)	3.3	3.0

Share Performance (%)

Price Change	MPI	FBM KLCI
1 mth	16.9	7.8
3 mth	69.9	3.9
6 mth	127.9	12.1
12 mth	131.6	1.7

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

(e.g., for power management in electric vehicles and servers in data centres), and MEMS sensors. While near term growth is expected to be broad based across segments, we note that the group’s automotive centric strategy remains intact with target for revenue from the automotive segment to grow towards 50% over the medium-to-longer term. In fact, management highlighted that contributions from the automotive segment would have been stronger if not for the recent slowdown in global automotive sales and falling diesel cars sales.

Continued Investments to Support Growth

Management guided that CAPEX is expected to remain strong in the coming quarters to upgrade machineries, expand capacity, acquire new technologies, and increase automation. In FY21, imminent plans are to acquire new machineries to be fitted at the group’s Suzhou operations, which recently completed the expansion its floor space by ~40%. Meanwhile, backed by its war chest (net cash of RM943.1mn), management remains on the lookout for potential acquisitions including a module company to advance to the next generation of packaging, opportunities in 3D printing to facilitate integration in smaller form factors, and also a design house to introduce more silicon carbide technologies (an area gaining prominent application in electric vehicles and servers in data centres).

Impact

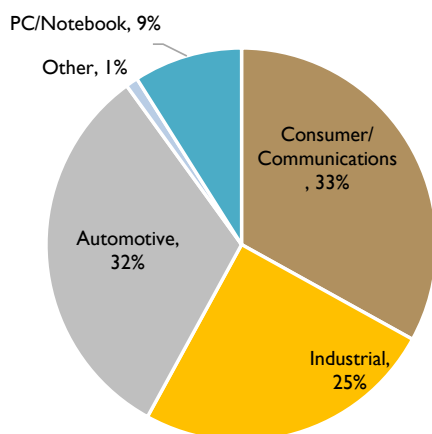
We have upgraded our FY21-23 earnings estimates by 10-17% after raising sales in the corresponding period by 5-7% to factor in IQFY21 actual results which came above our expectations due to stronger-than-expected sales, and stronger earnings visibility, which we expect to be underpinned by MPI’s continued enhancement of its product portfolio with growing exposure to emerging areas including 5G and electric vehicles.

Valuation & Recommendation

Corresponding to the earnings upgrade and ascribing a higher PE multiple of 26.0x (previously 21.0x), we arrive at a higher TP of RM29.40 (previously RM20.90) against CY21 EPS. Upgrade to **Buy**. We continue to like MPI for its strong product pipeline backed by the continued enhancement of its product portfolio and investment in new technologies, and robust balance sheet.

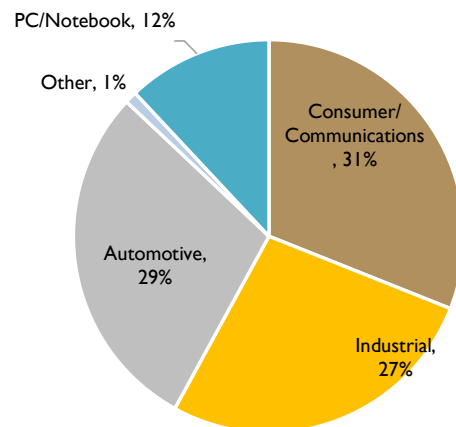
Key downside risks include: 1) prolonged COVID-19 pandemic, 2) escalation in global trade tensions, 3) strengthening of the ringgit against the USD, and 4) surge in commodity prices (i.e., copper and gold).

Figure 1: IQFY20 Revenue Mix – End Segment



Source: Company, TA Securities

Figure 2: IQFY21 Revenue Mix – End Segment



Source: Company, TA Securities

Earnings Summary

P&L					
FYE Jun 30 (RMmn)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,487.9	1,564.6	1,778.0	1,858.0	1,970.0
EBITDA	362.7	388.9	496.5	532.3	580.0
Dep. & amortisation	(173.9)	(179.2)	(190.4)	(203.9)	(214.3)
EBIT	188.8	209.6	306.1	328.4	365.7
Net finance costs	1.0	1.8	12.9	14.7	17.7
Share of associates	0.0	0.0	0.0	0.0	0.0
EI	0.0	0.0	0.0	0.0	0.0
PBT	189.8	211.5	319.0	343.1	383.4
Taxation	(29.8)	(32.7)	(47.8)	(51.5)	(57.5)
MI	(31.7)	(25.8)	(54.2)	(58.3)	(65.2)
Net profit	128.3	153.0	216.9	233.3	260.7
Core net profit	128.3	153.0	216.9	233.3	260.7
EPS (sen)	64.5	76.9	109.1	117.3	131.1
DPS (sen)	27.0	27.0	29.0	29.0	29.0

Ratios					
FYE Jun 30	FY19	FY20	FY21F	FY22F	FY23F
Valuations					
PER (x)	39.5	33.1	23.4	21.7	19.4
EV/EBITDA (x)	14.0	13.0	10.2	9.5	8.7
Dividend yield (%)	1.1	1.1	1.1	1.1	1.1
PBV (x)	4.0	3.7	3.3	3.0	2.6

Profitability ratios (%)					
ROAE	10.1	11.1	14.1	13.6	13.6
ROAA	7.5	7.6	10.1	9.7	9.7
EBITDA margin	24.4	24.9	27.9	28.6	29.4
PBT margin	12.8	13.5	17.9	18.5	19.5

Liquidity ratios (x)					
Current ratio	4.9	3.3	4.5	5.0	5.6
Quick ratio	4.4	3.0	4.0	4.6	5.1

Leverage ratios (x)					
Total liabilities/equity	0.1	0.2	0.2	0.2	0.1
Net debt/equity	Nt. Cash	Nt. Cash	Nt. Cash	Nt. Cash	Nt. Cash
Int. coverage ratio	nm	nm	nm	nm	nm

Growth ratios (%)					
Sales	(3.5)	5.2	13.6	4.5	6.0
Pretax	(8.3)	11.4	50.8	7.6	11.8
Earnings	(9.9)	19.2	41.8	7.6	11.8
Total assets	0.7	17.6	7.0	11.3	11.7

Balance Sheet					
FYE Jun 30 (RMmn)	FY19	FY20	FY21F	FY22F	FY23F
Fixed assets	694.6	746.7	806.3	852.4	888.0
Goodwill	0.0	0.0	0.0	0.0	0.0
Others	0.0	43.0	43.0	43.0	43.0
LT assets	694.7	789.6	849.2	895.3	931.0
Inventories	105.4	117.1	118.5	123.9	131.3
Trade receivables	190.5	262.1	273.5	285.9	303.1
Cash	713.4	835.2	903.6	1,082.6	1,303.3
Others	4.4	5.6	5.6	5.6	5.6
Current assets	1,013.7	1,220.1	1,301.3	1,497.9	1,743.3
Total assets	1,708.4	2,009.7	2,150.5	2,393.3	2,674.3
Trade payables	194.3	329.0	256.3	265.2	278.0
ST borrowings	0.0	9.3	8.3	8.3	8.3
Others	12.8	27.7	27.7	27.7	27.7
Current liabilities	207.1	365.9	292.3	301.1	314.0
LT borrowings	0.0	0.0	0.9	0.9	0.9
Others	2.1	24.7	24.7	24.7	24.7
LT liabilities	2.1	24.7	25.6	25.6	25.6
Share capital	352.4	352.4	352.4	352.4	352.4
Reserves	916.8	1,028.5	1,187.8	1,363.4	1,566.4
Shareholders' funds	1,269.2	1,380.9	1,540.1	1,715.7	1,918.8
MI	230.0	238.2	292.5	350.8	416.0
Total liabilities and equity	1,708.4	2,009.7	2,150.5	2,393.3	2,674.3

Cash Flow					
FYE Jun 30 (RMmn)	FY19	FY20	FY21F	FY22F	FY23F
PBT	189.8	211.5	319.0	343.1	383.4
Dep. & amortisation	173.9	179.2	190.4	203.9	214.3
Net finance cost	(1.0)	(1.8)	(12.9)	(14.7)	(17.7)
Other non-cash	(4.5)	(0.7)	0.0	0.0	0.0
Changes in WC	67.7	55.8	(85.5)	(8.8)	(11.8)
Tax paid	(22.6)	(23.0)	(47.8)	(51.5)	(57.5)
Net finance cost	1.0	1.8	12.9	14.7	17.7
Others	16.9	15.1	0.0	0.0	0.0
Operational cash flow	421.1	438.0	376.0	486.7	528.4
Capex	(194.6)	(249.1)	(250.0)	(250.0)	(250.0)
Others	0.4	0.3	0.0	0.0	0.0
Investing cash flow	(194.2)	(248.8)	(250.0)	(250.0)	(250.0)
Net share issue	0.0	0.0	0.0	0.0	0.0
Dividend paid	(72.3)	(70.0)	(57.7)	(57.7)	(57.7)
Net change in debts	(74.0)	9.3	0.0	0.0	0.0
Others	(17.1)	(10.9)	(0.0)	(0.0)	0.0
Financial cash flow	(163.4)	(71.6)	(57.7)	(57.7)	(57.7)
Net cash flow	63.5	117.5	68.3	179.0	220.7
Opening cash flow	647.6	713.4	835.2	903.6	1,082.6
Forex	2.2	4.3	0.0	0.0	0.0
Closing cash flow	713.4	835.2	903.6	1,082.6	1,303.3

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Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Friday, November 27, 2020, the analyst, Wilson Loo, who prepared this report, has interest in the following securities covered in this report:

(a) nil

Kaladher Govindan – Head of Research

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