



## Company report

# MALAYSIAN PACIFIC INDUSTRIES

(MPI MK EQUITY, MPIM.KL)

21 May 2020

*Better positioned to weather uncertainties ahead*

## BUY

(Maintained)

## AmInvestment Bank

www.amequities.com.my

03-2036 2333

**Rationale for report: Company update**

Price	RM10.82
Fair Value	RM12.06
52-week High/Low	RM12.96/RM7.39

### Key Changes

Fair value	↔
EPS	↔

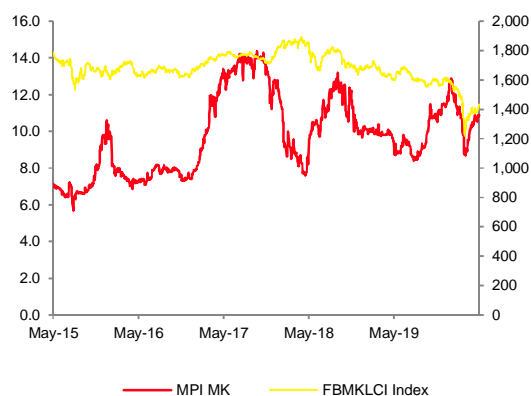
YE to Jun	FY19	FY20F	FY21F	FY22F
Revenue (RM mil)	1,480.5	1,442.0	1,482.7	1,534.5
Core net profit (RM mil)	145.2	135.6	152.8	160.4
FD Core EPS (sen)	76.4	71.4	80.4	84.4
FD Core EPS growth (%)	28.8	(6.6)	12.7	5.0
Consensus Net Profit (RM mil)	-	142.1	163.0	172.0
DPS (sen)	27.0	27.0	27.0	27.0
PE (x)	14.3	15.3	13.6	12.9
EV/EBITDA (x)	3.9	3.6	3.0	2.6
Div yield (%)	2.5	2.5	2.5	2.5
ROE (%)	10.4	10.3	10.9	10.6
Net Gearing (%)	nm	nm	nm	nm

### Stock and Financial Data

Shares Outstanding (million)	198.9
Market Cap (RM mil)	2,172.0
Book Value (RM/share)	6.68
P/BV (x)	1.6
ROE (%)	10.4
Net Gearing (%)	-

Major Shareholders	Hong Leong Bhd (57.7%) EPF (5.7%) KWAP (2.4%)
Free Float	26.5
Avg Daily Value (RM mil)	0.8

Price performance	3mth	6mth	12mth
Absolute (%)	(1.3)	2.8	14.9
Relative (%)	5.6	14.7	28.6



### Investment Highlights

- We maintain our **BUY** recommendation on **Malaysian Pacific Industries (MPI)** with unchanged forecasts and fair value of RM12.06/share, pegged to an FY21F PE of 15x.

- Key takeaways from MPI's 3QFY20 briefing are as follows:

- **Results summary:** 3QFY20 core profit came in at RM21mil, 3% higher YoY in tandem with a 14% increase in revenue as sales in Asia and the USA offset sales decline in Europe. The higher sales in Asia was mainly due to growth in Carsem Suzhou's sales.

On a QoQ basis, core profit fell 56% as sales across all geographical segments declined due to Covid-19 containment measures taken at MPI's production facilities. Revenue by end user market for 3QFY20 and 2QFY20 is as in Exhibit 1.

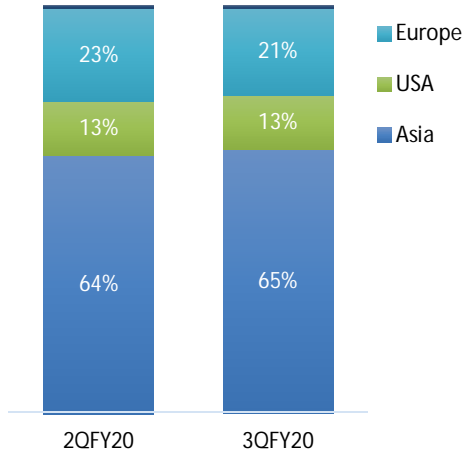
- **Higher costs relating to movement control (MCO):** The group said that it had incurred higher costs during the MCO in 3Q and 4Q across its subsidiaries i.e. Carsem (Malaysia), Carsem Suzhou and Dynacraft Industries, consisting of free meals, additional overtime payments, bonus payment and incentives for employees, costs of sanitization and disinfection, and protective equipment such as masks.

- **Outlook:** According to McKinsey & Co, the semiconductor industry is set to decline by 5–15% in 2020 (Exhibit 3). As seen across the industry, MPI has also experienced some deferral of its orders due to uncertainties relating to the Covid-19 pandemic and thus, sees a tough few quarters ahead.

**We believe that MPI is better prepared to weather the impacts of Covid-19** given its strategies implemented in recent years such as its portfolio rationalization, investments in Carsem Suzhou for capacity expansion, and broadening its customer base. Furthermore, it is in a strong net cash position of RM809mil as at 31 March 2020.

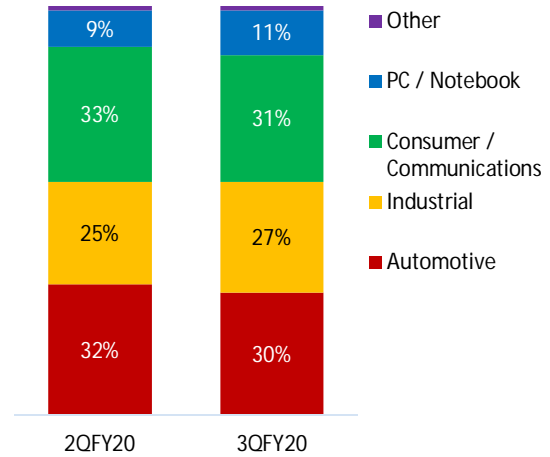
- We continue to like MPI despite short-term headwinds relating to Covid-19, expecting recovery from FY21F onwards. MPI's mid-to-long-term prospects are positive due to: (i) its portfolio rationalization strategy that focuses on higher-margin specialized projects; (ii) its leading market position in the ultra-thin MLP and increased R&D in MEMS sensors riding on the IoT wave; and (iii) its move towards producing silicon carbide power products with applications in EVs.

**EXHIBIT 1: REVENUE BY OPERATING SEGMENT**



Source: Company, AmInvestment Bank Bhd.

**EXHIBIT 2: REVENUE BY END USER MARKET**



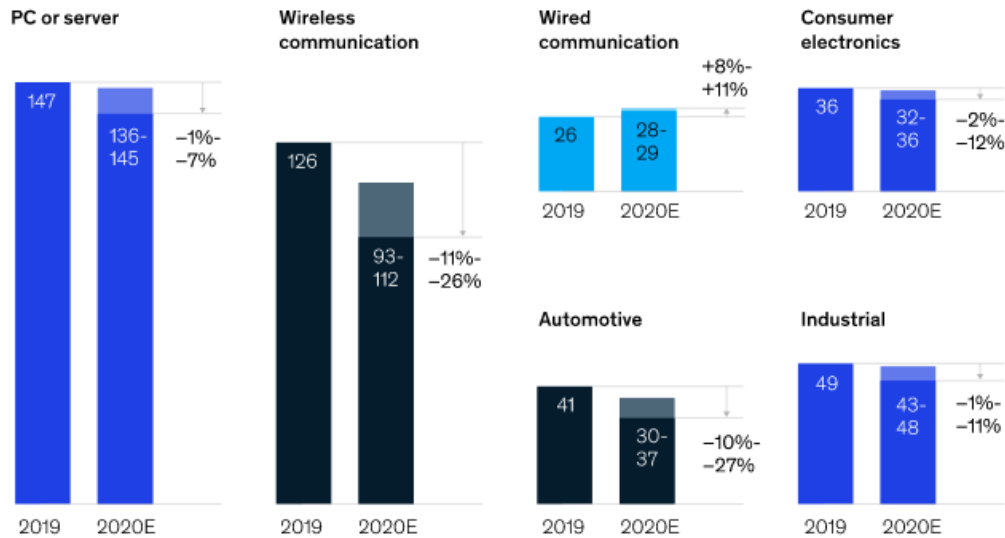
Source: Company, AmInvestment Bank Bhd.

**EXHIBIT 3: CORONAVIRUS IMPLICATIONS FOR THE SEMICONDUCTOR INDUSTRY**

The semiconductor market as a whole will decline by 5 to 15 percent in 2020.

Estimated change in semiconductor sales demand, by application type,<sup>1</sup> \$ billion

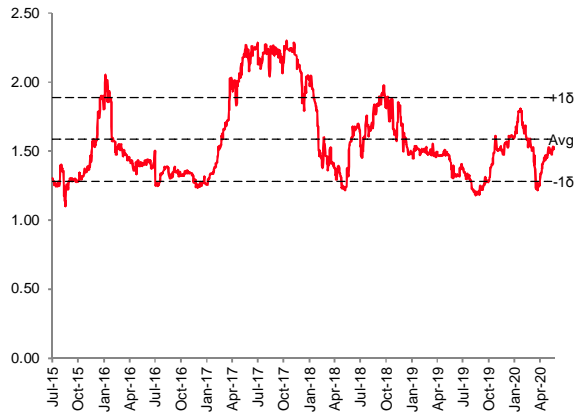
■ Significant demand decline  
■ Moderate demand decline  
■ Demand increase



<sup>1</sup>Products include memory, microcomponents, logic, analog, discrete, optoelectronic, and sensors/actuators. The estimates for 2020 were calculated using a 2019 baseline and percentages have been rounded. Source: IHS; McKinsey analysis

Source: McKinsey & Company.

**EXHIBIT 4: PB BAND CHART**



**EXHIBIT 5: PE BAND CHART**



## EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY18	FY19	FY20F	FY21F	FY22F
Revenue	1,542.3	1,480.5	1,442.0	1,482.7	1,534.5
EBITDA	390.0	374.6	385.0	412.8	427.2
Depreciation/Amortisation	(181.9)	(173.9)	(192.0)	(198.9)	(205.0)
Operating income (EBIT)	208.1	200.7	193.0	213.9	222.2
Other income & associates	(29.7)	1.1	-	-	1.0
Net interest	(1.2)	1.0	4.4	4.9	5.8
<b>Exceptional items</b>	<b>(0.3)</b>	<b>(16.9)</b>	-	-	-
Pretax profit	177.0	189.8	197.4	218.8	229.0
Taxation	(34.5)	(29.8)	(31.0)	(34.3)	(35.8)
<b>Minorities/pref dividends</b>	<b>(30.0)</b>	<b>(31.7)</b>	<b>(30.9)</b>	<b>(31.7)</b>	<b>(32.8)</b>
Net profit	112.5	128.3	135.6	152.8	160.4
Core net profit	112.7	145.2	135.6	152.8	160.4
<b>Balance Sheet (RMmil, YE 30 Jun)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Fixed assets	646.7	664.0	699.6	693.0	687.1
Intangible assets	-	-	-	-	-
<b>Other long-term assets</b>	<b>31.6</b>	<b>30.7</b>	<b>29.8</b>	<b>28.8</b>	<b>26.9</b>
Total non-current assets	678.3	694.7	729.3	721.8	714.0
Cash & equivalent	647.6	713.4	791.2	926.4	1,072.2
Stock	118.1	105.4	103.5	103.6	107.2
Trade debtors	210.0	190.5	195.1	200.6	207.6
<b>Other current assets</b>	<b>41.9</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>
Total current assets	1,017.6	1,013.7	1,094.2	1,234.9	1,391.4
Trade creditors	86.8	75.0	75.0	75.0	77.6
Short-term borrowings	75.0	-	-	-	-
<b>Other current liabilities</b>	<b>128.8</b>	<b>132.0</b>	<b>132.0</b>	<b>132.0</b>	<b>132.0</b>
Total current liabilities	290.7	207.1	207.0	207.1	209.7
Long-term borrowings	-	-	-	-	-
<b>Other long-term liabilities</b>	<b>0.3</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>
<b>Total long-term liabilities</b>	<b>0.3</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>
Shareholders' funds	1,187.5	1,269.2	1,353.5	1,455.0	1,564.1
Minority interests	217.4	230.0	260.9	292.6	325.5
BV/share (RM)	6.25	6.68	7.12	7.66	8.23
<b>Cash Flow (RMmil, YE 30 Jun)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Pretax profit	177.0	189.8	197.4	218.8	229.0
Depreciation/Amortisation	181.9	173.9	192.0	198.9	205.0
Net change in working capital	29.0	67.7	(2.7)	(5.5)	(7.0)
<b>Others</b>	<b>(26.3)</b>	-	-	-	-
Cash flow from operations	361.5	431.4	386.8	412.2	427.0
Capital expenditure	(170.7)	(194.6)	(230.0)	(194.9)	(201.7)
Net investments & sale of fixed assets	0.7	3.2	3.3	3.4	4.5
<b>Others</b>	<b>14.8</b>	<b>17.1</b>	<b>4.4</b>	<b>4.9</b>	<b>6.8</b>
Cash flow from investing	(155.2)	(174.2)	(222.3)	(186.5)	(190.4)
Debt raised/(repaid)	(9.2)	(74.1)	-	-	1.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(76.1)	(72.3)	(51.3)	(51.3)	(51.3)
<b>Others</b>	<b>(3.2)</b>	<b>(3.2)</b>	-	-	<b>1.0</b>
<b>Cash flow from financing</b>	<b>(88.5)</b>	<b>(149.6)</b>	<b>(51.3)</b>	<b>(51.3)</b>	<b>(49.3)</b>
<b>Net cash flow</b>	<b>117.8</b>	<b>107.5</b>	<b>113.2</b>	<b>174.4</b>	<b>187.4</b>
<b>Net cash/(debt) b/f</b>	<b>535.8</b>	<b>647.6</b>	<b>713.4</b>	<b>791.2</b>	<b>926.4</b>
Net cash/(debt) c/f	649.0	757.3	826.6	965.7	1,114.8
<b>Key Ratios (YE 30 Jun)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20F</b>	<b>FY21F</b>	<b>FY22F</b>
Revenue growth (%)	0.1	(4.0)	(2.6)	2.8	3.5
EBITDA growth (%)	(12.3)	(3.9)	2.8	7.2	3.5
Pretax margin (%)	11.5	12.8	13.7	14.8	14.9
Net profit margin (%)	7.3	8.7	9.4	10.3	10.5
Interest cover (x)	178.7	nm	nm	nm	nm
Effective tax rate (%)	19.5	15.7	15.7	15.7	15.6
Dividend payout (%)	49.0	40.0	37.8	33.6	32.0
Debtors turnover (days)	50	47	49	49	49
Stock turnover (days)	27	28	26	25	25
Creditors turnover (days)	21	20	19	18	18

Source: Company, AmInvestment Bank Bhd estimates

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