



# MALAYSIAN PACIFIC INDUSTRIES

(MPI MK EQUITY, MPIM.KL)

01 Sep 2020

4Q beat expectations

## Company report

## BUY

(Maintained)

### AmInvestment Bank

www.amequities.com.my

03-2036 2333

Rationale for report: Company results

Price	RM15.70
Fair Value	RM17.33
52-week High/Low	RM16.84/RM7.39

### Key Changes

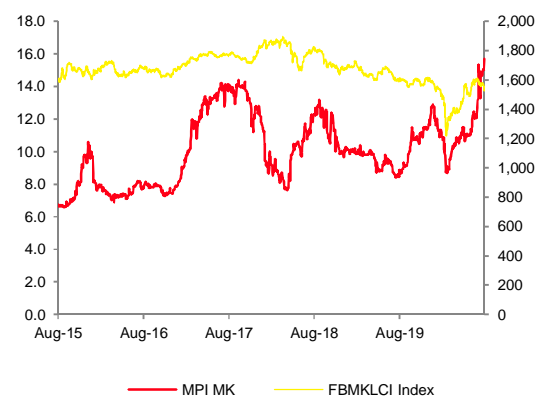
Fair value	↕
EPS	↔

YE to Jun	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	1,564.6	1,482.7	1,534.5	1,589.1
Core net profit (RM mil)	158.0	153.0	161.0	172.5
FD Core EPS (sen)	83.0	80.4	84.6	90.7
FD Core EPS growth (%)	21.9	(3.2)	5.2	7.1
Consensus Net Profit (RM mil)	-	157.1	179.0	-
DPS (sen)	27.0	27.0	27.0	27.0
PE (x)	18.9	19.5	18.6	17.3
EV/EBITDA (x)	5.8	5.1	4.5	7.1
Div yield (%)	1.7	1.7	1.7	1.7
ROE (%)	11.5	10.7	10.5	10.4
Net Gearing (%)	nm	nm	nm	0.0

### Stock and Financial Data

Shares Outstanding (million)	198.9
Market Cap (RM mil)	3,122.7
Book Value (RM/share)	7.26
P/BV (x)	2.2
ROE (%)	11.5
Net Gearing (%)	-
Major Shareholders	Hong Leong Bhd (57.7%) EPF (5.7%) KWAP (2.4%)
Free Float	26.5
Avg Daily Value (RM mil)	3.2

Price performance	3mth	6mth	12mth
Absolute (%)	42.7	43.8	76.4
Relative (%)	37.9	39.8	86.5



### Investment Highlights

- We maintain our **BUY** recommendation on **Malaysian Pacific Industries (MPI)** with a higher fair value of **RM17.33/share**, pegged to a higher **CY21F PE of 22x** (previously RM13.20/share, pegged to CY21F PE of 16x). Our PE re-rating represents a 30% discount to its local sector market-cap weighted average PE to reflect its tighter liquidity.
- **4QFY20 core profit exceeded expectations** at RM52mil, bringing FY20 core profit to RM158mil. This is after stripping off net one-off losses amounting RM5mil as forex losses, share-based payments and provision, and write-off of inventories were offset by dividend income from short-term investments. The results exceeded both our and consensus' forecasts by 16% due to stronger-than-expected 4Q earnings.
- **YoY:** FY20 core profit climbed 13% due to: (i) revenue rising by 5% as sales in Asia rose 11% albeit 4% lower USA and Europe sales, (ii) higher net interest income; and (iii) lower depreciation. EBITDA margins remained steady at 25% despite the impact of the Covid-19 pandemic, supported by better cost controls. Asia, the USA, and Europe contributed 64%, 14% and 22% of total revenue respectively.
- **QoQ:** 4QFY20 core profit more than doubled due to: (i) 8% higher revenue; (ii) lower operating costs following MPI's cost-cutting initiatives; and (iii) lower effective tax rate of 11% for 4QFY20 due to one of its subsidiaries being granted a tax incentive. Asia and the USA sales edged up 10% and 11% respectively while sales to Europe fell by 1%.
- **Outlook:** The group remains cautious on uncertainties relating to the Covid-19 pandemic and ongoing US-China conflict which may impact the quarters ahead. As such, despite the better set of 4Q results, **we keep our forecasts unchanged**. MPI will continue its cost-control measures and portfolio reassessment to mitigate any negative impacts.
- **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; (iii) its move towards producing silicon carbide power products with applications in EVs, and (iv) its strong net cash position of RM826mil as at 30 Jun 2020.

## EXHIBIT 1: FINANCIAL RESULTS SUMMARY

FYE 30 Jun (RM 'mil)	FY19	FY20	YoY (%)	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)
<b>Revenue</b>	<b>1,487.9</b>	<b>1,564.6</b>	<b>5.2</b>	<b>345.9</b>	<b>376.3</b>	<b>405.5</b>	<b>7.7</b>	<b>17.2</b>
<b>EBITDA</b>	<b>376.4</b>	<b>393.9</b>	<b>4.6</b>	<b>85.1</b>	<b>78.1</b>	<b>109.3</b>	<b>39.9</b>	<b>28.4</b>
Depreciation/Amortisation	(173.9)	(179.3)	(3.1)	(44.2)	(45.6)	(44.6)	2.1	(1.1)
<b>EBIT</b>	<b>202.5</b>	<b>214.6</b>	<b>6.0</b>	<b>41.0</b>	<b>32.5</b>	<b>64.6</b>	<b>98.8</b>	<b>57.8</b>
Interest expense	(4.2)	(1.9)	55.4	(1.4)	(0.5)	(0.5)	(7.7)	61.1
Interest income	3.2	3.7	14.7	1.8	1.4	0.9	(36.9)	(50.6)
Pre-Associates profit	201.5	216.4	7.4	41.4	33.4	65.0	94.5	57.1
Associates	-	-	nm	-	-	-	nm	nm
Pre-Exceptionals profit	201.5	216.4	7.4	41.4	33.4	65.0	94.5	57.1
Exceptionals	(11.7)	(5.0)	57.6	(0.5)	0.8	(2.5)	nm	(422.5)
<b>Pre-tax profit</b>	<b>189.8</b>	<b>211.5</b>	<b>11.4</b>	<b>40.9</b>	<b>34.2</b>	<b>62.5</b>	<b>82.5</b>	<b>52.7</b>
Taxation	(29.8)	(32.7)	(9.9)	(5.2)	(8.0)	(6.9)	14.2	(31.8)
Minority interest	(31.7)	(25.8)	18.7	(5.6)	(4.2)	(6.5)	(57.2)	(16.3)
<b>Net Profit</b>	<b>128.3</b>	<b>153.0</b>	<b>19.2</b>	<b>30.1</b>	<b>22.1</b>	<b>49.0</b>	<b>&gt;100</b>	<b>63.2</b>
<b>Core Net Profit</b>	<b>140.1</b>	<b>158.0</b>	<b>12.8</b>	<b>30.5</b>	<b>21.4</b>	<b>51.6</b>	<b>&gt;100</b>	<b>68.9</b>
Basic EPS (sen)	67.53	80.42		15.82	11.60	25.78		
DPS (sen)	27.00	27.00		-	17.00	-		
EBITDA margin (%)	25.3	25.2		24.6	20.8	27.0		
Pretax margin (%)	12.8	13.5		11.8	9.1	15.4		
Effective tax (%)	15.7	15.5		12.7	23.4	11.0		
<b>Segmental Breakdown (RM 'mil)</b>								
<b>Revenue</b>								
Asia	904.3	1,006.6	11.3	217.1	244.2	268.7	10.0	23.8
USA	224.5	214.6	(4.4)	49.3	50.7	56.4	11.3	14.3
Europe	351.7	336.9	(4.2)	77.5	79.7	78.7	(1.2)	1.7
Non-reportable segment	7.4	6.5	(13.2)	2.0	1.6	1.6	(4.9)	(22.1)
<b>Total</b>	<b>1,487.9</b>	<b>1,564.6</b>	<b>5.2</b>	<b>345.9</b>	<b>376.3</b>	<b>405.5</b>	<b>7.7</b>	<b>17.2</b>
<b>Pretax profit</b>								
Asia	111.7	143.4	28.4	25.2	22.4	44.9	>100	78.4
USA	28.1	26.9	(4.1)	6.1	4.8	7.3	50.4	18.6
Europe	42.6	35.5	(16.6)	7.9	4.8	9.9	>100	25.2
Non-reportable segment	6.5	3.8	(40.9)	(0.7)	1.3	0.1	(91.5)	nm
<b>Total</b>	<b>188.8</b>	<b>209.6</b>	<b>11.0</b>	<b>38.5</b>	<b>33.3</b>	<b>62.1</b>	<b>86.4</b>	<b>61.4</b>
<b>EBIT margin (%)</b>								
Asia	12.3	14.2		11.6	9.2	16.7		
USA	12.5	12.5		12.4	9.5	12.9		
Europe	12.1	10.5		10.2	6.0	12.5		
<b>Total</b>	<b>12.7</b>	<b>13.4</b>		<b>11.1</b>	<b>8.9</b>	<b>15.3</b>		

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART

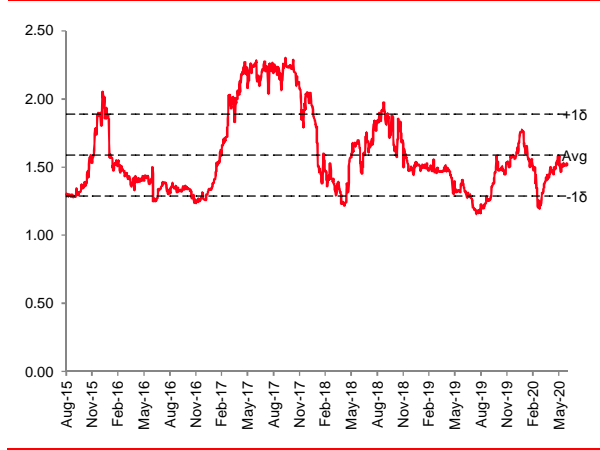
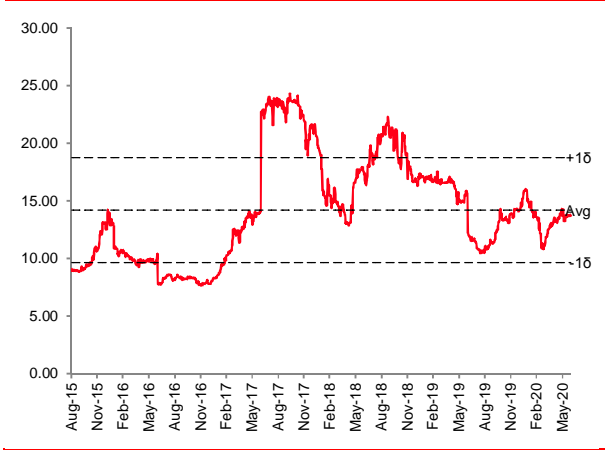


EXHIBIT 3: PE BAND CHART



## EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	1,480.5	1,564.6	1,482.7	1,534.5	1,589.1
EBITDA	362.7	393.9	412.8	427.2	442.4
Depreciation/Amortisation	(173.9)	(192.0)	(198.9)	(205.0)	(206.1)
Operating income (EBIT)	188.8	201.9	213.9	222.2	236.4
Other income & associates	1.1	-	-	1.0	1.0
Net interest	1.0	4.4	5.2	6.4	7.4
<b>Exceptional items</b>	<b>(16.9)</b>	<b>(5.0)</b>	-	-	-
Pretax profit	174.0	211.5	219.1	229.7	244.7
Taxation	(29.8)	(32.7)	(34.4)	(35.9)	(38.2)
<b>Minorities/pref dividends</b>	<b>(31.7)</b>	<b>(25.8)</b>	<b>(31.7)</b>	<b>(32.8)</b>	<b>(34.0)</b>
Net profit	112.5	153.0	153.0	161.0	172.5
Core net profit	129.4	158.0	153.0	161.0	172.5
<b>Balance Sheet (RMmil, YE 30 Jun)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Fixed assets	664.0	717.0	693.0	687.1	478.2
Intangible assets	-	-	-	-	-
<b>Other long-term assets</b>	<b>30.7</b>	<b>29.8</b>	<b>28.8</b>	<b>26.9</b>	<b>25.0</b>
Total non-current assets	694.7	746.7	721.8	714.0	503.2
Cash & equivalent	713.4	835.2	1,034.9	1,180.7	-
Stock	105.4	117.1	94.9	98.2	101.7
Trade debtors	190.5	262.1	214.5	222.0	229.9
<b>Other current assets</b>	<b>4.4</b>	<b>5.6</b>	<b>5.6</b>	<b>5.6</b>	<b>5.6</b>
Total current assets	1,013.7	1,220.1	1,349.9	1,506.5	337.2
Trade creditors	75.0	75.0	64.0	66.2	68.6
Short-term borrowings	-	9.3	-	-	-
<b>Other current liabilities</b>	<b>132.0</b>	<b>281.6</b>	<b>281.6</b>	<b>281.6</b>	<b>281.6</b>
Total current liabilities	207.1	365.9	345.6	347.9	350.2
Long-term borrowings	-	-	-	-	-
<b>Other long-term liabilities</b>	<b>2.1</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>
<b>Total long-term liabilities</b>	<b>2.1</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>
Shareholders' funds	1,269.2	1,380.9	1,482.5	1,591.1	1,711.2
Minority interests	230.0	238.2	270.0	302.8	336.8
BV/share (RM)	6.68	7.26	7.79	8.36	8.99
<b>Cash Flow (RMmil, YE 30 Jun)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Pretax profit	174.0	211.5	219.1	229.7	244.7
Depreciation/Amortisation	173.9	192.0	198.9	205.0	206.1
Net change in working capital	67.7	(83.3)	58.8	(7.6)	(8.0)
<b>Others</b>	<b>(17.6)</b>	<b>134.8</b>	-	-	-
Cash flow from operations	397.9	455.0	476.8	427.1	442.8
Capital expenditure	(194.6)	(249.1)	(194.9)	(201.7)	-
Net investments & sale of fixed assets	3.2	3.3	3.4	4.5	4.7
<b>Others</b>	<b>17.1</b>	<b>26.6</b>	<b>5.2</b>	<b>7.4</b>	<b>8.4</b>
Cash flow from investing	(174.2)	(219.2)	(186.2)	(189.7)	13.0
Debt raised/(repaid)	(74.1)	9.3	-	1.0	1.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(72.3)	(70.0)	(51.4)	(51.4)	(51.4)
<b>Others</b>	<b>(3.2)</b>	<b>(10.3)</b>	-	<b>1.0</b>	<b>1.0</b>
<b>Cash flow from financing</b>	<b>(149.6)</b>	<b>(71.0)</b>	<b>(51.4)</b>	<b>(49.4)</b>	<b>(49.4)</b>
<b>Net cash flow</b>	<b>74.0</b>	<b>164.8</b>	<b>239.3</b>	<b>188.1</b>	<b>406.4</b>
<b>Net cash/(debt) b/f</b>	<b>647.6</b>	<b>713.4</b>	<b>835.2</b>	<b>1,034.9</b>	<b>1,180.7</b>
Net cash/(debt) c/f	723.9	882.5	1,074.5	1,224.0	1,588.1
<b>Key Ratios (YE 30 Jun)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>
Revenue growth (%)	(4.0)	5.7	(5.2)	3.5	3.6
EBITDA growth (%)	(7.0)	8.6	4.8	3.5	3.6
Pretax margin (%)	11.8	13.5	14.8	15.0	15.4
Net profit margin (%)	7.6	9.8	10.3	10.5	10.9
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	17.1	15.5	15.7	15.6	15.6
Dividend payout (%)	45.6	33.6	33.6	31.9	29.8
Debtors turnover (days)	47	61	53	53	53
Stock turnover (days)	28	26	26	23	23
Creditors turnover (days)	20	18	17	15	15

Source: Company, AmInvestment Bank Bhd estimates

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