

9 October 2024

Technology | Semiconductors

Malaysian Pacific Industries (MPI MK)

Buy (Maintained)

Attractive Risk-Reward; Despite Headwinds Still BUY

Target Price (Return): MYR38.50 (48.0%)
 Price (Market Cap): MYR26 (USD1,147m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (MYR/USD) 10.1m/2.27m

- **Still BUY, new MYR38.50 TP from MYR44.80, 48% upside, c.2% yield.** Malaysian Pacific Industries is set to be negatively impacted by unfavourable FX movements (revenue base is USD-denominated). Its primary earnings driver (loadings) is set to trend higher into 2H24 and FY25 on upticks in automotive and industrial demand, and new programmes and improvements in the Suzhou plant's utilisation. Share price weakness presents an attractive risk-reward opportunity to accumulate and ride on the new semiconductor upcycle, and MPI's China and silicon carbide (SiC) packaging exposure.
- **FX impact.** MPI sales are mainly denominated in USD terms, but will be partially hedged by its USD purchases that typically make up 40-50% of the COGS. A 1% FX depreciation could result in a c.1-3% impact to bottomline, *ceteris paribus*. However, the margins compression stemming from the negative FX movements can be passed on to customers through renegotiations, revised quotations, and engineering and process efficiencies. We factored in the stronger MYR/USD to be in line with our in-house FX assumptions of 4.10, 4.20, and 4.20 from 4.30, 4.30, and 4.30 previously, resulting in downward earnings revisions of 14%, 7%, and 4% for FY25F-27F. Our TP is now lowered to MYR38.50 (inclusive of a 2% ESG premium), based on an unchanged 30x FY25F P/E at +1.5SD from its 5-year mean.
- **FY24 earnings recap.** FY24 revenue of MYR2.1bn (+2.5% YoY) translates into a core PATAMI of MYR182m (excluding the share-based payment for its executive share scheme) met expectations. EBITDA margins improved marginally by 60bps, boosted by favourable FX movements and lower opex. Asia and US revenues were higher 1% and 10%, while Europe sales were flattish. The Suzhou plant continued its profitable trend with better utilisation rates following the upticks in Chinese semiconductor activities. The Ipoh plant saw intermittent slowdowns from automotive clients.
- **Optimism ahead.** Management is cautiously optimistic for a stronger FY25, fuelled by the recovery of the semiconductor sector. The automotive segment is expected to trend higher in China, cushioning weakness from the Ipoh side, but the industrial segment is expected to continue growing. Consumer electronics should also see upticks, with inventory now at healthy levels. Moreover, the structural growth in SiC and gallium nitride or GaN packaging will continue to drive MPI's long-term growth roadmap, in our view.
- **Downside risks:** Slower-than-expected orders, loss of a major customer, technology obsolescence, and unfavourable FX.

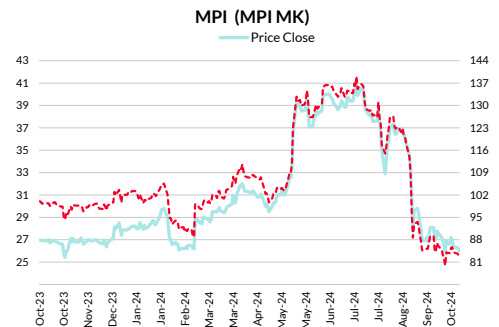
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.7)	(3.4)	(34.0)	(16.9)	(2.6)
Relative	(20.1)	(2.3)	(35.5)	(21.7)	(18.0)
52-wk Price low/high (MYR)	25.4 - 41.0				



Source: Bloomberg

Forecasts and Valuation	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover (MYRm)	2,045	2,095	2,264	2,521	2,651
Recurring net profit (MYRm)	125	182	264	326	363
Recurring net profit growth (%)	(64.3)	45.7	45.3	23.2	11.6
Recurring P/E (x)	43.72	30.01	20.66	16.77	15.03
P/B (x)	2.7	2.6	2.4	2.2	2.0
P/CF (x)	14.14	8.95	17.30	7.89	7.06
Dividend Yield (%)	1.3	1.6	1.8	2.2	2.2
EV/EBITDA (x)	11.50	9.00	7.57	6.19	5.32
Return on average equity (%)	3.1	11.8	12.2	13.8	14.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E: GOOD

MPI has successfully reduced its energy consumption over the years, reflecting its commitment towards the improvement of energy efficiency. Efforts are still ongoing to invest in energy reduction activities. Water conservation programmes and hazardous waste management are also implemented at its factories.

S: GOOD

Employee and workplace safety remains a top priority to the group. Training is provided to employees to obtain the necessary knowledge on managing chemicals at the workplace safely.

G: EXCELLENT

MPI has applied and adopted majority of the best practices of the Malaysian Code on Corporate Governance. Majority of the board members are independent while women directors represent 33% of the board.

Financial Exhibits

Asia	Financial summary (MYR)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Malaysia	Recurring EPS	0.60	0.87	1.26	1.55	1.73
Technology	DPS	0.35	0.42	0.47	0.56	0.57
Malaysian Pacific Industries	BVPS	9.60	9.96	10.75	11.74	12.91
MPI MK	Return on average equity (%)	3.1	11.8	12.2	13.8	14.0
Buy						
	Valuation metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Valuation basis	Recurring P/E (x)	43.72	30.01	20.66	16.77	15.03
MPI is valued at 30x FY25 P/E	P/B (x)	2.7	2.6	2.4	2.2	2.0
	FCF Yield (%)	2.5	7.0	(0.6)	8.1	9.6
Key drivers	Dividend Yield (%)	1.3	1.6	1.8	2.2	2.2
i. New contract wins;	EV/EBITDA (x)	11.50	9.00	7.57	6.19	5.32
ii. Higher volume loadings;	EV/EBIT (x)	50.05	23.22	15.80	11.91	9.72
iii. Weaker MYR against USD.						
	Income statement (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Key risks	Total turnover	2,045	2,095	2,264	2,521	2,651
i. Slower-than-expected orders;	Gross profit	232	333	444	529	588
ii. Loss of major customer;	EBITDA	429	530	654	759	822
iii. Unfavourable FX movements;	Depreciation and amortisation	(330)	(324)	(341)	(364)	(373)
iv. Technology obsolescence.	Operating profit	99	205	314	395	449
	Net interest	17	30	31	31	26
Company Profile	Pre-tax profit	124	331	350	431	481
Malaysian Pacific Industries manufactures, assembles, tests, and markets integrated circuits, semiconductor devices, electronic components, and leadframes to customers worldwide.	Taxation	(16)	(21)	(35)	(43)	(48)
	Reported net profit	61	241	264	326	363
	Recurring net profit	125	182	264	326	363
	Cash flow (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Change in working capital	(77)	(11)	(340)	(60)	(32)
	Cash flow from operations	386	610	316	692	773
	Capex	(252)	(226)	(350)	(250)	(250)
	Cash flow from investing activities	(251)	(224)	(350)	(250)	(250)
	Dividends paid	(106)	(104)	(99)	(118)	(120)
	Cash flow from financing activities	(47)	(271)	(99)	(118)	(120)
	Cash at beginning of period	965	1,053	1,093	961	1,285
	Net change in cash	89	115	(133)	324	404
	Ending balance cash	1,053	1,170	961	1,285	1,689
	Balance sheet (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Total cash and equivalents	1,053	1,093	961	1,285	1,689
	Tangible fixed assets	1,416	1,312	1,321	1,207	1,084
	Total investments	27	26	26	26	26
	Total assets	3,012	2,960	3,121	3,419	3,744
	Short-term debt	172	80	80	80	80
	Total long-term debt	79	12	12	12	12
	Total liabilities	652	494	439	467	478
	Total equity	2,360	2,466	2,682	2,953	3,266
	Total liabilities & equity	3,012	2,960	3,121	3,419	3,744
	Key metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Revenue growth (%)	(15.4)	2.5	8.1	11.4	5.1
	Recurrent EPS growth (%)	(64.3)	45.7	45.3	23.2	11.6
	Gross margin (%)	11.3	15.9	19.6	21.0	22.2
	Operating EBITDA margin (%)	21.0	25.3	28.9	30.1	31.0
	Net profit margin (%)	3.0	11.5	11.7	12.9	13.7
	Dividend payout ratio (%)	119.8	36.5	37.3	36.1	32.9
	Capex/sales (%)	12.3	10.8	15.5	9.9	9.4
	Interest cover (x)	9.74	26.47	42.51	53.47	60.89

Source: Company data, RHB

Emissions And ESG

Trend analysis

Total greenhouse gas (GHG) emissions reduced by c.7% to c.198 kilo tons compared to the previous year. The GHG emissions intensity performance also show improvement in FY23 with a 12% decline.

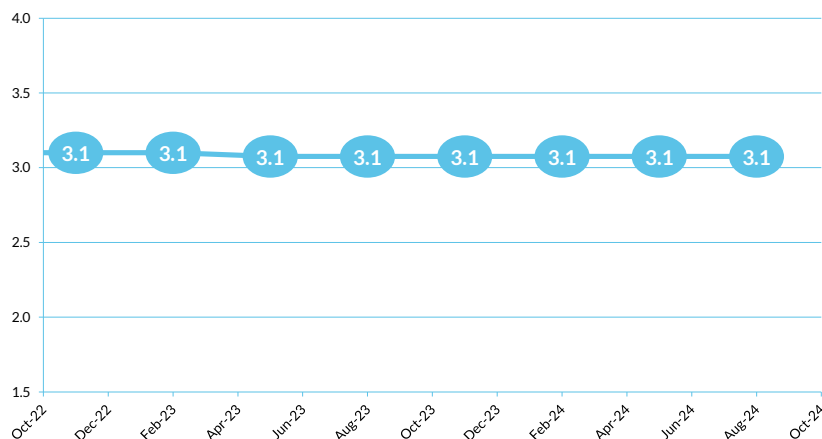
Emissions (tCO2e)	Jun-22	Jun-23	Jun-24
Scope 1	1	1	-
Scope 2	212	197	-
Scope 3	-	-	-
Total emissions	213	198	na

Source: Company data, RHB

Latest ESG-Related Developments

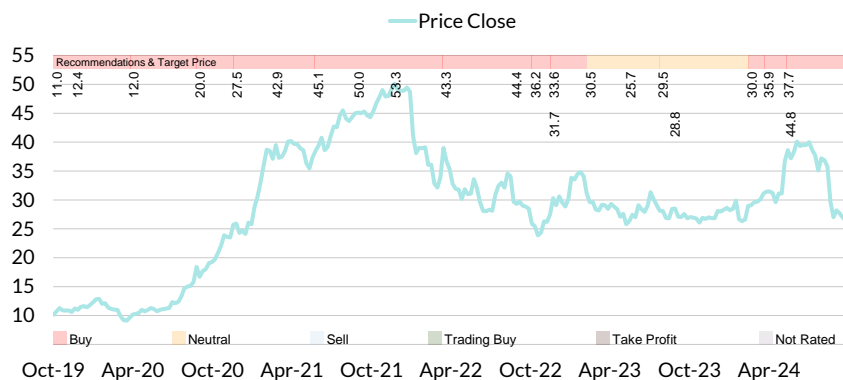
- MPI was awarded the Top Three Performers in ASEAN at The Edge Malaysia ESG Awards, in collaboration with Bursa Malaysia and FTSE Russell held on Nov 2022. MPI is a member of FTSE4Good Bursa Malaysia index with a higher rating on the climate change theme in FTSE's annual assessment. These are attributable to continuous enhancement of its processes & disclosures that are aligned with best practices related to sustainability.
- MPI is committed to address the climate change impact, by identifying initiatives such as resource efficiency improvement and optimisation that aim to reduce emissions and energy consumption which include electrification of fleet, installation of phase change material (PMC) system to compressed air (CDA) dryer, replacement of compressors, and chiller and adding inverters. It set a target of 5% reduction on a 3-year moving average basis.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-28	Buy	44.8	30.7
2024-05-21	Buy	44.8	39.0
2024-05-17	Buy	37.7	36.6
2024-04-01	Buy	35.9	31.9
2024-02-22	Buy	30.0	28.8
2023-11-16	Neutral	28.8	27.0
2023-08-29	Neutral	28.8	27.7
2023-08-02	Neutral	29.5	28.7
2023-05-19	Neutral	25.7	25.7
2023-02-17	Neutral	30.5	31.0
2022-11-25	Buy	31.7	27.4
2022-11-24	Buy	33.6	27.8
2022-10-12	Buy	36.2	25.9
2022-08-30	Buy	44.4	30.8
2022-03-21	Buy	43.3	36.0

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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