HLIB Research
PP 9484/12/2012 (031413)

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BUY (Initiate)

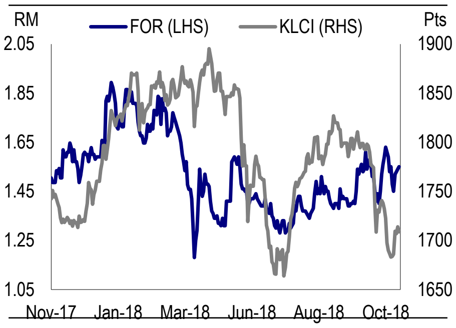
Target Price:	**RM2.19**
Previously:	**N.A.**
Current Price:	**RM1.55**

Capital upside	41.3%
Dividend yield	4.8%
Expected total return	46.1%

Sector coverage: Manufacturing

Company description: FPI is a leading contract manufacturer for speakers, audio components, and musical instruments.

Share price



Historical return (%)	**1M**	**3M**	**12M**
Absolute	-0.6	14.0	2.6
Relative	3.3	18.7	4.6

Stock information

Bloomberg ticker	FOR MK
Bursa code	9172
Issued shares (m)	247
Market capitalisation (RM m)	383
3-mth average volume ('000)	988
SC Shariah compliant	No

Major shareholders

Wistron Corp	28.0%
Yayasan Pelaburan Bumiputra	7.4%
Chang Song Hai	5.3%

Earnings summary

FYE (Dec)	FY17	FY18f	FY19f
PATMI – core (RM m)	39.3	30.5	40.6
EPS – core (sen)	15.9	12.3	16.4
P/E (x)	9.7	12.6	9.5

Formosa Prosonic Industries

Sonic boom

FPI is expected to experience solid growth ahead on the back of (1) bullish speaker market outlook; (2) robust expansion; (3) synergistic partnership with parent company Wistron who is also a global EMS leader; and (4) beneficiary of the US-China trade war. FPI has a strong balance sheet and been paying out generous dividend for the past 10 years. We initiate coverage with BUY rating with TP of RM2.19, pegged to 13x of average FY19-20 EPS.

Established in 1989. Formosa Prosonic Industries Berhad (FPI) is one of the leading manufacturers of high quality sound system in Malaysia with a strong team of audio experts each of whom has over 30 years of experience in designing, manufacturing and marketing of sound system products to worldwide multinational companies.

Bullish speaker market outlook. According to Technavio, global speaker market will post a 4-year CAGR growth of 17% from 2018-2022 to reach USD27bn, the key factor driving the growth of the market is the rise in popularity of wireless streaming of audio device. The behavioral shift in how people listen to music inside and outside their homes will boost demand for portable speakers and sound bar.

Demand upcycle leading to robust expansion. The new plant will enable the group to ramp up production capacity by 20% in FY19. FPI has already secured a contract with one of their existing customers for manufacturing a new series of smart portable audio, which will take up 50% of new plant's capacity. The remaining will be use to broaden its scope of service including ODM orders to strengthen its position in the market as a contract manufacturer.

Synergistic partnership with global leader. Wistron, focuses on ICT products, LCD TVs, handheld devices and equipment for medical applications in Taiwan, holds a controlling stake of 28% in FPI. Having said that, FPI has a 20 acres vacant land beside Wistron's 22-acre-built factory which is currently not utilised in Port Klang. We see potential synergy between FPI and Wistron if the latter decides to relocate some productions from China to Malaysia in order to evade the trade tariffs. FPI has the ability to provide audio components for electronic gadgets like laptop, speaker, and central processing unit (CPU).

Beneficiary of the US-China trade war. The tech sector is one of the biggest losers in the USD250bn tariff list implemented by Washington on Chinese imports as the tariffs would make imported electronic components more expensive. Malaysia will benefit from this trade war, given its (1) strategic location; (2) relatively cheaper labour; and (3) expertise in the E&E sector.

Financials. FY18 is projected to be another record-breaking year for top line, however bottom line would be slightly dragged by higher cost. Moving forward, we are bullish on FY19's growth on the back of (1) additional new production line; (2) stronger USD against RM; and (3) potential business inflow from China. We like its bulletproof balance sheet where it is in a net cash position of RM126m or 50.7 sen per share (33% of total market cap) as end of 2Q18.

Strong track record of dividend payout. FPI does not have a dividend policy. However, the company has been paying out generous dividends over the past 10 years (average payout: 76%). Moving forward we are projecting a DPS of 7-13 sen for FY18-20 based on a payout of 60%, translating to a dividend yield of 4.8 - 8.4%.

Initiate coverage with a **BUY** rating with fair value of **RM2.19**, pegged to 13x of average FY19-20 EPS. This valuation is in line with the average PE of the global EMS industry.

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Cash	170.6	149.3	158.6	177.2	186.5
Receivables	73.9	91.2	102.4	112.2	121.2
Inventories	29.6	39.2	39.8	43.2	46.3
PPE	87.4	101.4	103.1	104.2	104.8
Others	18.7	17.0	16.7	16.4	16.1
Assets	**380.2**	**398.1**	**420.7**	**453.2**	**474.9**
Payables	85.5	107.8	119.7	130.0	139.2
Debt	-	-	-	-	-
Others	6.8	3.6	3.6	3.6	3.6
Liabilities	**92.2**	**111.4**	**123.3**	**133.6**	**142.9**
Shareholder's equity	251.9	275.9	286.6	308.9	321.3
Minority interest	36.1	10.8	10.8	10.8	10.8
Equity	**288.0**	**286.7**	**297.4**	**319.7**	**332.1**

Income Statement

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Revenue	340.6	461.2	499.5	552.8	584.4
EBITDA	26.4	52.8	45.0	58.0	61.4
EBIT	18.6	44.3	35.4	47.8	50.6
Finance cost	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Profit before tax	20.6	47.4	38.1	50.7	53.6
Tax	(0.3)	(6.9)	(7.6)	(10.1)	(10.7)
Net profit	20.3	40.5	30.5	40.6	42.9
Reported PATAMI	18.0	41.0	30.5	40.6	42.9
Exceptionals	(4.6)	(1.7)	-	-	-
Core PATAMI	**13.4**	**39.3**	**30.5**	**40.6**	**42.9**

Cash Flow Statement

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Profit before taxation	20.6	47.4	38.1	50.7	53.6
D&A	7.8	8.5	9.6	10.2	10.7
Working capital	(6.0)	(10.4)	0.1	(2.9)	(2.9)
Taxation	(3.8)	(4.2)	(7.6)	(10.1)	(10.7)
Others	(12.1)	(5.6)	-	-	-
CFO	**6.4**	**35.7**	**40.2**	**47.9**	**50.7**
Capex	(19.0)	(23.0)	(11.0)	(11.0)	(11.0)
Others	42.0	4.6	-	-	-
CFI	**23.1**	**(18.5)**	**(11.0)**	**(11.0)**	**(11.0)**
Dividends	(17.3)	(14.8)	(19.8)	(18.3)	(30.4)
Others	-	(23.6)	-	-	-
CFF	**(17.3)**	**(38.5)**	**(19.8)**	**(18.3)**	**(30.4)**
Net cash flow	**12.2**	**(21.2)**	**9.4**	**18.6**	**9.3**
Beginning cash	158.2	170.6	149.3	158.6	177.2
Ending cash	170.6	149.3	158.6	177.2	186.5

Valuation & Ratios

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Core EPS (sen)	5.4	15.9	12.3	16.4	17.3
P/E (x)	28.6	9.7	12.6	9.5	8.9
EV/EBITDA (x)	9.4	4.6	5.2	3.7	3.4
DPS (sen)	6.0	8.0	7.4	12.3	13.0
Dividend yield (%)	3.9	5.2	4.8	7.9	8.4
BVPS (RM)	1.0	1.1	1.2	1.2	1.3
P/B (x)	1.5	1.4	1.3	1.2	1.2
EBITDA margin	7.7	11.5	9.0	10.5	10.5
EBIT margin	5.5	9.6	7.1	8.6	8.7
PBT margin	6.0	10.3	7.6	9.2	9.2
Net margin	3.9	8.5	6.1	7.3	7.3
ROE (%)	5.3	14.3	10.6	13.1	13.3
ROA (%)	3.5	9.9	7.3	9.0	9.0
Net gearing	CASH	CASH	CASH	CASH	CASH

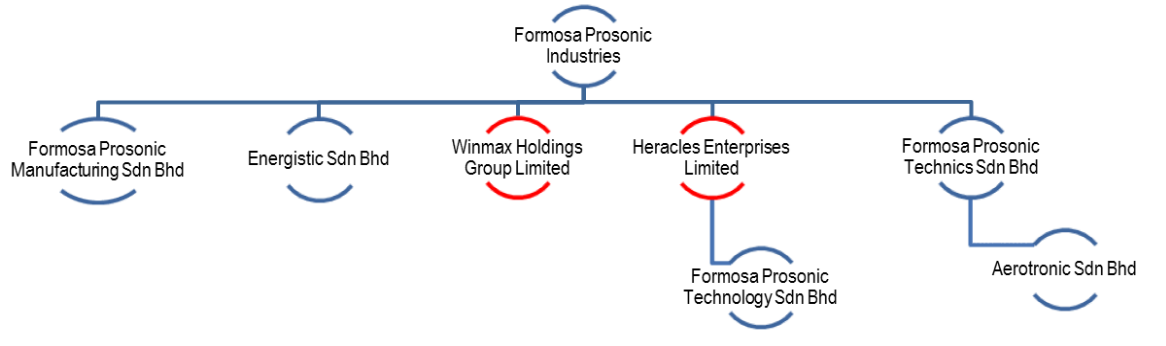
Assumptions

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
RM:USD			4.1	4.1	4.1

Company Background

Formally established in 1989. Formosa Prosonic Industries Berhad (FPI) is one of the leading manufacturers of high quality sound system in Malaysia with a strong team of audio experts each of whom has over 30 years of experience in designing, manufacturing and marketing of sound system products to worldwide multinational companies. They specialise in woodworking, plastic injection, driver units, PCB assembly and finished-products assembly as well as Original Design Manufacturer (ODM) services. The group was listed on the main board of Bursa Malaysia Securities Berhad since June 1994. Working on 954k sqft of land area, the group is strategically located at Sungai Petani and Port Klang and armed with 2,257 numbers of workers (89% are foreign workers).

Figure #1 Company structure



FPI, HLIB

Diversify from conventional speakers. Conventional speakers have been the pillar of FPI's business for the past 20 years. The group has evolved from manufacturing only conventional speaker systems to smart audio systems and musical instrument components. Moving into a different segment augurs well for a better growth prospect of FPI. The group is strived to engage more in marketing activities in response to market changes in its bid to enlarge its products range to cover more smart home audio system in addition to the conventional audio systems.

Audio system and component segment. FPI provides and assembles a variety of audio component and speakers for renowned Japanese and American brands like Sony, Panasonic, Sharp, Bose and etc. The growing trend of internet of things (IoT) is encouraging consumers to buy connected household entertainment systems such as smart (voice activation with artificial intelligence (AI)), portable and wireless speakers. Speakers are riding along with the growing penetration of technologies including in-house entertainment systems and are expected to propel home and commercial audio equipment markets growths. Over the years, FPI has position itself well and had been involved in designing and developing wireless and Bluetooth speakers with innovative functionality and seamless connectivity.

Figure #2 Audio products

FPI

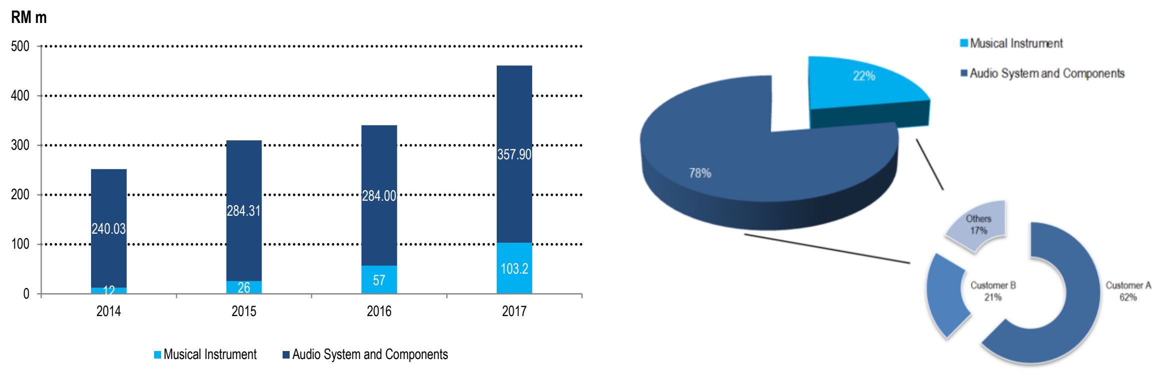
Musical instrument segment. The group works closely with Roland, Korg and Casio. Roland contributes up to 80% of total musical instrument segmental revenue. Roland is a Japanese company established in Osaka in 1972 and has been focusing on musical instruments since then. Favourite among both beginners and professionals, Roland is one of the top brands in the global electronic music and produces one of the best electronic drums in the world.

Figure #3 Musical instruments

FPI

Musical instrument segment growing. In FY14, musical instruments represented only 4.8% of the group's revenue, but this had grown to 22.4% of total revenue by FY17, representing a 3-year CAGR of 58.3%. The group is positive on growing its musical instrument segment given its strategic alliances with branded musical instrument customers. This bodes well for FPI, as musical instrument drives a higher margin as compared to audio system and components.

Figure #4 Revenue-mix as for FY14-17



HLIB Research

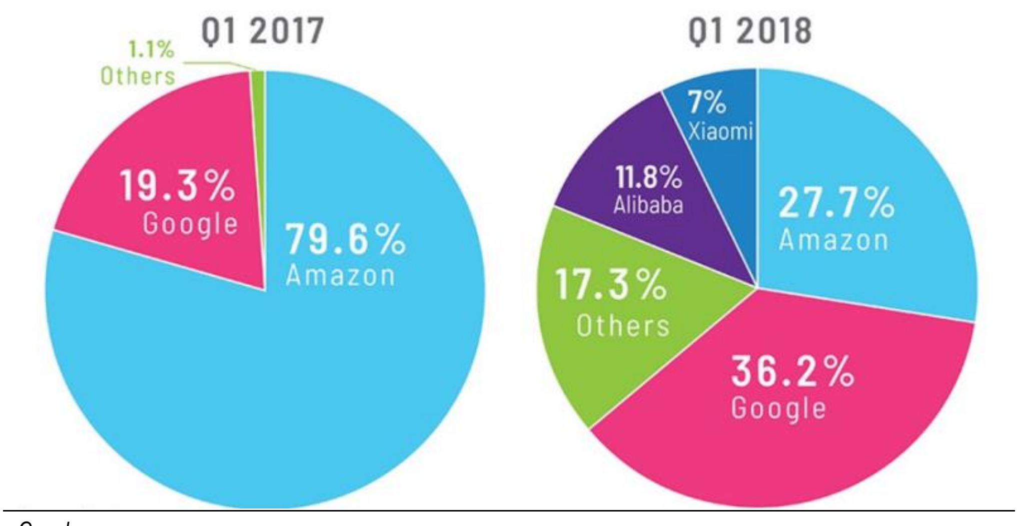
Investment Thesis

Strong fundamental drivers

Speaker market booming. According to Technavio, global speaker market will post a 4-year CAGR growth of 17% from 2018-2022 to reach USD27bn, the key factor driving the growth of the market is the rise in popularity of wireless streaming of audio device. In the report it was highlighted that the smart speaker segment will see a higher incremental growth as compared to portable speakers. The home audio segment led the market in 2017 with a market share close to 48%, followed by smart and portable speaker segments, respectively. However, it is predicted that the smart speaker segment will dominate the market by 2022, which is expected to exhibit an incremental growth of close to 12% over the forecasted period, followed by portable speaker segment. FPI is well positioned for the change in trend as their major customers have started venturing into the smart speaker segment.

Riding together with Sony's growth. Last year Sony has step its foot into producing smart speaker, they came out with LF-S50G, which is comparable to Google's Google Home. Demand for smart speakers that are powered by AI has been booming. The smart speaker market is expected to witness a significant growth due to the increasing penetration of smart homes across the globe. Although Sony is late into the smart audio market, expert believes that the leading Amazon and Google smart speakers would start losing their grounds to other competitors. According to a research firm Canalys, smaller brands are slowly taking up market share (Figure #5).

Figure #5 Smart speaker sales market share



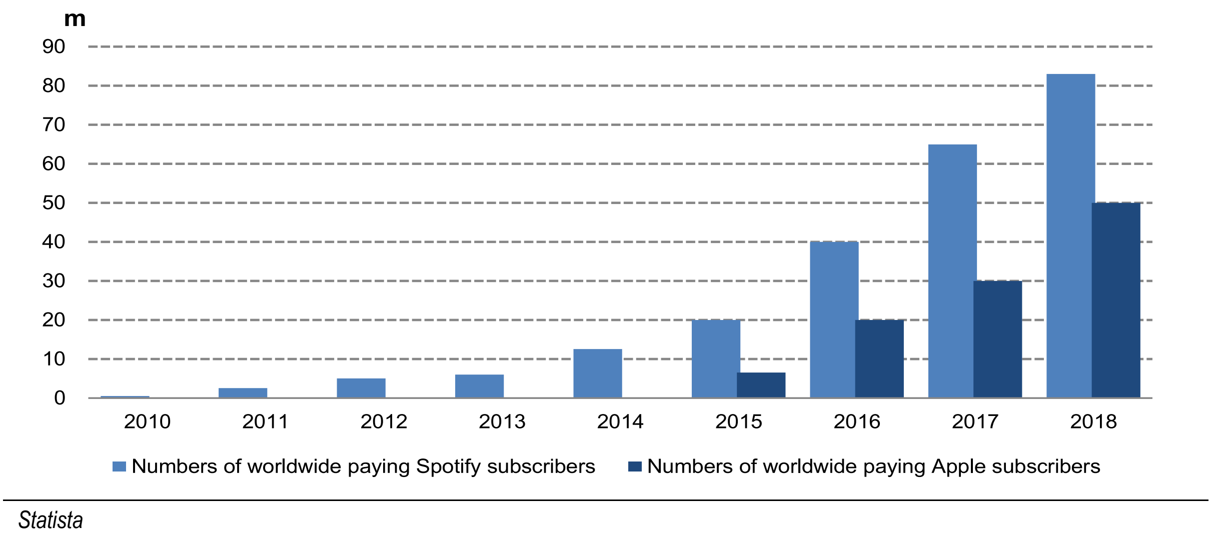
Canalys

Growing trend of IoT increases dependency on smart devices

Exponential growth in movie and music streaming services. The speedy proliferation of internet of things (IoT) has resulted in billions of interconnected devices.The exponential growth of the music industry and the increasing number of music streaming services such as Spotify and Apple Music (Figure #6) is propelling the growth of the global wireless, portable, Bluetooth speaker markets. According to Arizton, 40% of Bluetooth speaker market share is dominated by Bose, Harman International (Samsung), Beats Electronics (Apple) and Sony.

Smart home, smart gadget, smart everything. The growing penetration of wireless home audio devices and a shorter repurchase cycle leading to technological disruptions in the market will boost the demand for Bluetooth speakers. With the development of voice-enabled devices by Amazon and Google, traditional companies in the home audio equipment market are also developing similar products. This will boost demand for portable speaker, as the behavioral shift in how people listen to music inside and outside their homes, stream music from smartphone to compatible speakers. Smart speakers are expected to grow beyond smart home, into hotels, retails, hospital and other business establishments.

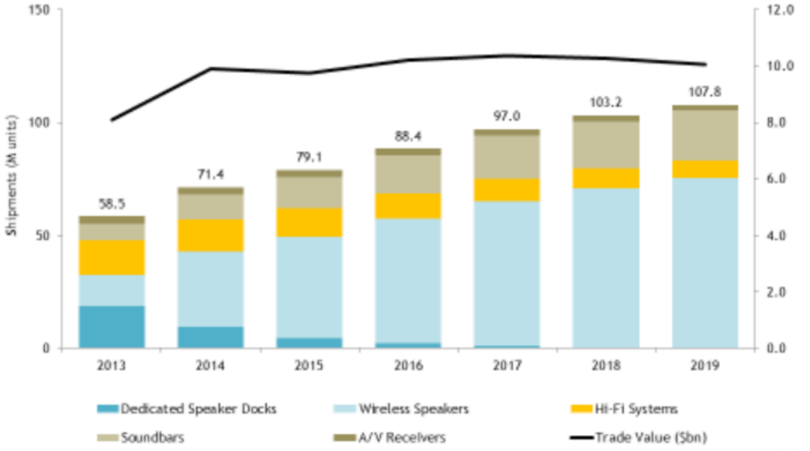
Figure #6 Number of subscribers on top music streaming services



Statista

Soundbar is the way to go, as demand for flat panel TV increases. The demand for soundbars is expected to increase with the advances in technology. With the growth of flat panel TVs, the sound quality of some TVs has been compromised due to the larger display size, which in turn would have increased demand of soundbars. Besides that, the ability of soundbars to connect and stream with other portable devices including smartphones and tablets is creating further market interest. According to the NPD Group, about 36% of the total soundbar owners connect these devices to at least one portable device. This may be the main growth driver for the home audio equipment market.

Figure #7 Worldwide home audio unit shipments



Futuresource

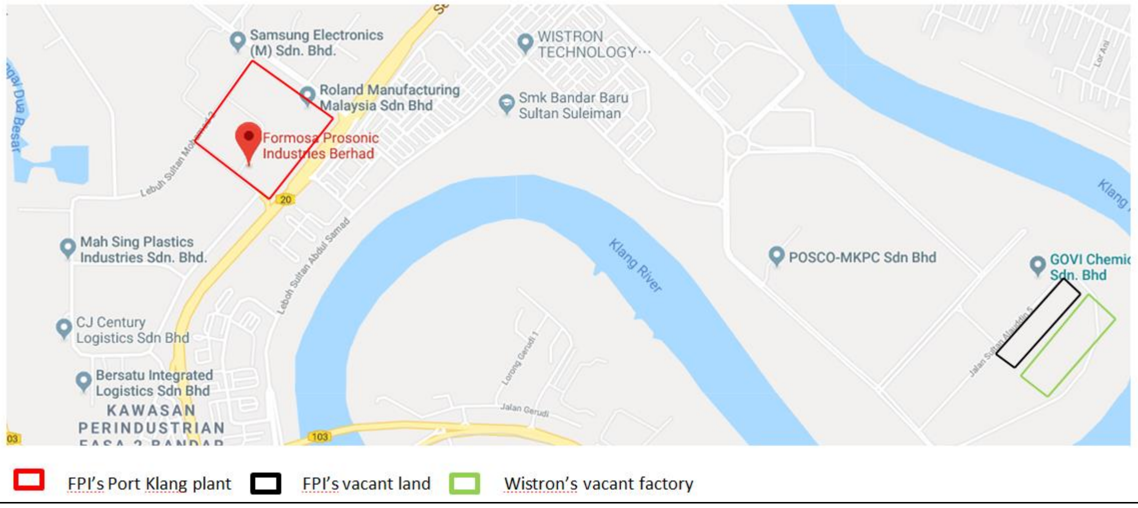
Even musical instruments are now equipped with technology. Acoustic pianos are rarely used nowadays, for practical purposes digital pianos and keyboards are preferred. Digital pianos can be compact, portable, have less than 88 keys while look like the classic grand piano. Meanwhile, the music industry has seen steady growth in digital keyboard sales over the past year. The trend can be attributed to a combination of things, including companies offering more high-end amenities on less expensive instrument lines and a better acceptance of technology among consumers. Furthermore, electronic drums have gain traction over the past few years as it is designed to keep noise ratio down. Studies have shown that internet has made learning of music instrument easier. The emergence of social media and music-related platforms such as Facebook and SoundCloud have resulted in the rise in number of independent musicians to almost six times between 2005 and 2015.

Demand upcycle leading to robust expansion

Ramping up production capacity for audio segment. FPI has spent a total of RM15m on a 60k sqft new plant located at Port Klang in FY18, which the group is targeting to employ additional 400-500 foreign workers. The new plant will enable the group to ramp up production capacity by 20%. FPI has already secured a contract with one of their existing customers for manufacturing a new series of smart portable audio, which will take up 50% of new plant's capacity. The remaining capacity will be use to broaden its scope of service including ODM orders, the group is looking to expand into this segment and strongly believe that ODM will strengthen its market position as a contract manufacturer (CM). With the expansion, FPI will be operating on a total land size of 23 acres and armed with 2,600 workers.

Synergistic partnership with Wistron. Wistron, a major ODM that focuses on ICT products, LCD TVs, handheld devices and equipment for medical applications in Taiwan, holds a controlling stake of 28% in FPI. Wistron is a CM for big global brands like Apple, Dell, Hewlett-Packard and Microsoft and the company has most of its operations in China (Figure #8). Having said that, FPI has a 20 acre vacant land beside Wistron's 22 acre built factory (Figure #9) which is currently not utilised in Port Klang. We see potential synergy between FPI and Wistron if the latter decides to relocate some productions from China to Malaysia in order to evade trade tariffs. FPI has the ability to provide audio components for electronic gadgets like laptop, speaker, and central processing unit (CPU).

Figure #8 Port Klang manufacturing site



Google Map

Figure #9 Wistron's Port Klang vacant factory

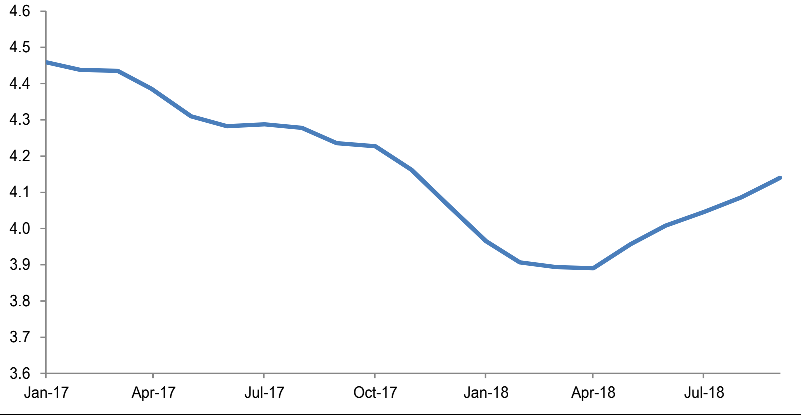
Google Map

USD boost

Benefit from weaker Ringgit. Ringgit has depreciated 4.7% YTD against the USD (Figure #10). As an exporter, stronger USD bodes well for FPI as all of their sales are denominated in USD while 60% of their total cost are denominated in RM. The 40% cost in USD term is due to the procurement of direct materials such as resin, wood and metal parts which are imported from abroad.

Our in-house forecast of USD/RM is RM4.10-4.25/USD as we expect less favourable global growth outlook, and the continued monetary policy normalisation process in US and euro area.

Figure #10 USD/MYR



Bloomberg

Benefit from US-China trade war

Trade tension makes it less appealing to manufacture gadgets in China. The tech sector is one of the biggest losers in the USD250bn tariff list implemented by Washington on Chinese imports as the tariffs would make imported electronic components more expensive. The 25% implied import taxes are charge on goods that are shipped out from China factories into America including wide range of electronics goods (Figure #11). Giant CMs like Foxconn, Pegatron, Flextronics, Wistron, USI and Venture have most of their productions concentrated in Asia, mainly China (Figure #12). These CMs are companies that design, assemble, produce, and test electronic components for multinational companies like Apple, Sony and Intel.

Figure #11 Electronics subjected to tariff

USD34bn list:	
8525.xx.xx	Television cameras
8529.xx.xx	Color TV
8536.xx.xx	Electrical relays
8537.xx.xx	Touch screens without display, boards, panels, consoles, desks, cabinets and other bases, equipped with apparatus for electric control
8543.xx.xx	Touch screens without display capabilities for incorporation in apparatus having a display
9033.xx.xx	Touch screens without display capabilities for incorporation in apparatus having a display
USD200bn list:	
8508.xx.xx	Vacuum cleaner
8509.xx.xx	Electromechanical kitchen waste disposers (disposals), with self-contained electric
8510.xx.xx	Hair clippers, shavers
8512.xx.xx	Electrical lighing equipment and visual signaling for motor vehicles or cycles
8514.xx.xx	Microwave ovens
8516.xx.xx	Electric radiators
8517.xx.xx	Wired or wireless communication apparatus
8518.xx.xx	Microphones, amplifiers, handsets PCB, loudspeakers, headphones, earphones
8519.xx.xx	Sound reproducing apparatus
8521.xx.xx	Video recording apparatus
8525.xx.xx	Television cameras, digital cameras and video camera recorders
8528.xx.xx	Video monitors, CRT, projectors, TV
9006.xx.xx	Photographic cameras
9007.xx.xx	Cinematographic cameras

USTR

Figure #12 Electronics subjected to tariff

No	Company	Factories	Notable Customers
1	Hon Hai (Foxconn)	China, Europe, India, Malaysia	Acer, Amazon, Apple, Blackberry, Cisco,Dell, HP, IBM, Intel, Nintendo, Sony, Visio, Xiomi
2	Pegatron	Taiwan, Mexico, Middle East	Acer, Apple, ASUS, Epson, Sony, Toshiba
3	Flextronics	China	Ford, Google, HP, J&J, NEC, Oracle, Pace, Q-Cells, Siemens, Sunpower, Xerox
4	Jabil Circuit	California, Singapore, Spain	Agilent, Apple, Cisco, EchoStar, Ericsson, GE, HP, IBM, Medtronic, Motorola, NetApp, Nokia, Siemens Network, Novartis, Pace, Sunpower, Valeo
5	Wistron	China, Europe, America, Malaysia	Apple, HP, Dell
6	Sanmina	North America, Europe	Advanced Digital Broadcast, AT&T, Brunswick, Canon, Ciena, Citizen, Dell, Deibold, GE, Harman, HP, IBM, Illumina, Panasonic, Philips, RF Surgical, Seagate, Trane
7	Celestica	America, Europe, China	Agilent, Alcatel-Lucent, Applied Materials, Baxter, Carrier, Cisco, EMC, HP, Hitachi, Honeywell, IBM, Juniper, NEC, Oracle
8	Benchmark Electronics	America, Europe, China	Applied Materials, ARRIS Solutions, Emerson, IBM
9	Shenzhen Kaifa	China	ENEL, Epson, Hitachi, Huawei, Kingston, ResMed, Samsung, Seagate, Western Digital, ZTE
10	Plexus	China	ABB, AMX, ARRIS Group, Coca-Cola, Draeger, Dragonwave, GE, General Dynamics, Gotham Networks, Harmonic, Honeywell Aerospace, Inovonics, Juniper, Motorola, MNS, Patientline, Siemens, Tellular, Visual Networks

MMI

After a series of tit-for-tat. With the trade war, multinational companies are making plans to reroute their production arm away from China to other South East Asia countries such as Thailand, Singapore, Philippines, Malaysia, and Vietnam. This is very crucial for businesses that are heavily involved in the final stage of the supply chain including electronic manufacturing services (EMS) or CM. With the tariff, China goods would likely turn uncompetitive in terms of pricing. Hence, we are positive that Malaysia will benefit from this trade war, given its (1) strategic location; (2) relatively cheaper labour; and (3) expertise in the E&E sector. According to American Malaysian Chamber of Commerce (AMCHAM), Malaysia will be able to act as an alternative regional production hub for several goods replacing China to avoid the additional tariffs imposed by the US on Chinese made products.

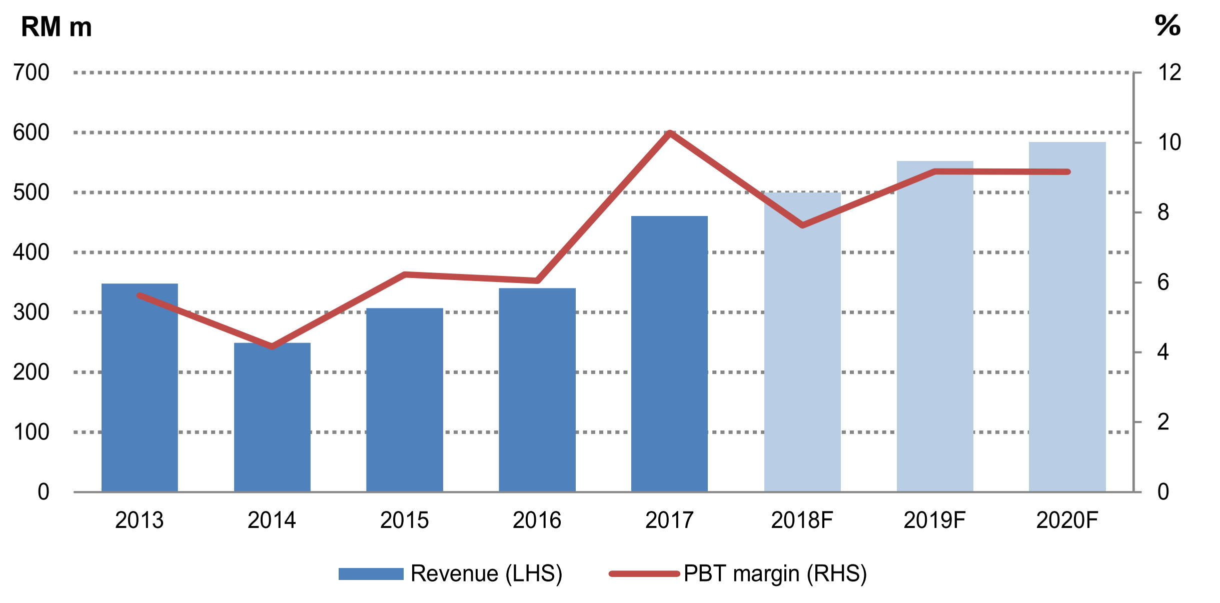
Tech scandal in China adds doubt over reliability. Aside from infamous counterfeits in China, the latest scandal of SuperMicro super spy-chip further place China's reliability in doubt. According to Bloomberg, Chinese spies have infiltrated the supply chain for servers used by nearly 30 US companies, including government contractors, Apple, and Amazon. Electronics produced in China may be viewed as unsafe due to the latest news, this gives multinational companies more of a reason to reroute their production away from China.

Financials

Multiyear top line growth. Top line grew by a 3-year CAGR of 22.3% from FY14-17, thanks to the group's initiatives in expanding into different business segment. We are expecting to see another 2-year CAGR growth of 8.7% for FY18-20 on the back of stronger musical instrument demand as well as FPI's client's smart audio venture.

Bulletproof balance sheet. FPI has an unleveraged balance sheet, and has a net cash position of 50.7 sen per share (33% of total market cap) as of 2Q18. The group has disposed its regional (China and UK) businesses, and now only focus on Malaysia segment. Outstripping off the disposed segments, Malaysia segment has recorded a steady 5-year revenue CAGR growth of 5.8% from 2013-2017. We are expecting the growth trend to be extrapolated on the back of (1) capacity expansion; (2) stronger USD against RM; and (3) potential new business inflow from China.

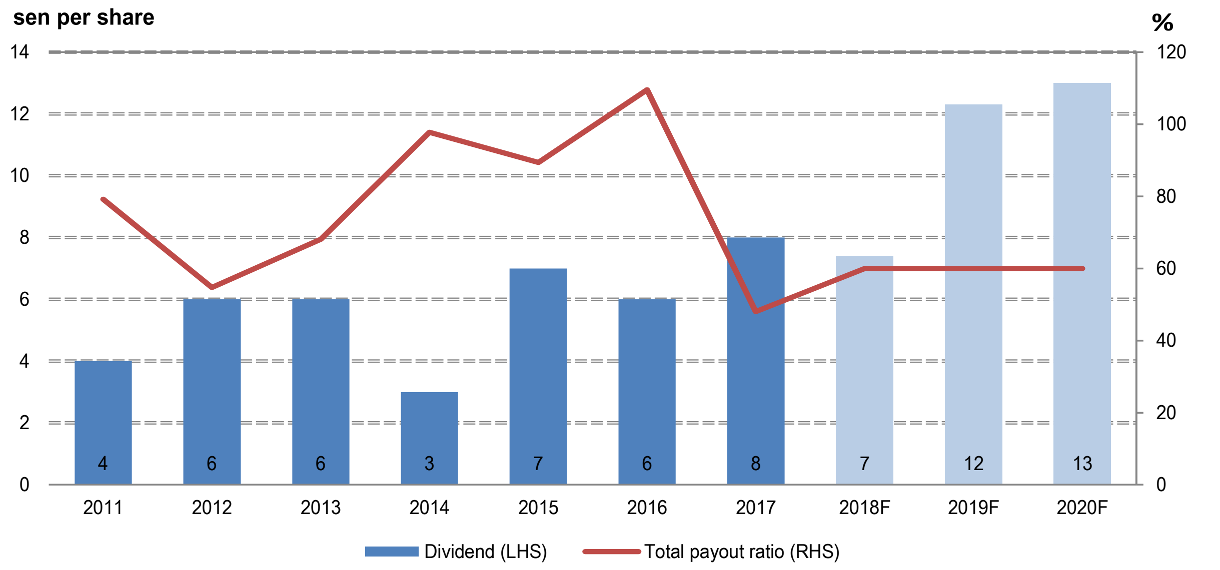
Figure #13 Malaysia segment sales contribution and PBT margin



HLIB

Generous dividend payout. While it does not have a dividend policy, the company has been paying out generous dividends over the past 10 years (Figure #14) with a payout ratio ranging from 50% to 107% (average: 76%). Moving forward, with no bulky capital expenditure (CAPEX) we think that the group will be able to maintain good dividend payout. We project that dividend will maintain at the current payout. Moving forward we are projecting a DPS of 7-13 sen per share for FY18-20 based on a payout of 60%, translating to a dividend yield of circa 4.8-8.4%.

Figure #14 Dividend payout



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3Q18 results commentary. FPI's 1H18 revenue had grown by 23.3% YoY, the revenue growth trajectory appears to be sustainable into 2H18. We opine that 3Q18 revenue will be another quarterly all-time high. 1H18 core earnings of RM12.3m declined by 10.5% YoY despite a 23.3% revenue surge this is due mainly to (1) foreign labour levy; (2) higher raw material cost; and (3) R&D outlay of new products.

Risk

Customer concentration. The firm's top 2 customers accounted for about 64.8% of total sales. Losing any of these big customers would have a harmful negative effect on both top and bottom line in a rapid pace.

Regional and domestic competition. The EMS space is highly competitive, with operating margins across the industry in the low-to-mid-single digits. Price war can affect big brands to shift their orders to other CMs. However, we opine that this risk is low as FPI is an unique music-centric EMS player in the region.

Change in Government policy. Government policy can make a huge difference to company's profitability. For instance, the hike in minimum wage would negatively affect the company as it is heavily dependent on foreign labour.

Shortages of raw materials. CMs are facing ongoing constraints in particular component supplies, including display panels, optical disc drives and chipsets. The recent shortages have inhibited full-throttle assembly activity among CMs.

Valuation & Recommendation

FPI currently trades at FY18-20 P/E of 12.6x, 9.5x and 8.9x and these are reduced to an undemanding 8.5x, 6.4x and 6.0x on an ex-cash basis. This is not reflecting its solid fundamentals and very much undervalued when compared to industry average forward PE of 13x (Figure #15). We opine that FPI deserve a fair valuation of 13x given the firm's shift in service to musical instrument (that drives a higher margin) and its move from OEM to ODM.

Initiate with a **BUY** with TP of **RM2.19.** As such, we use global contract manufacturer as the point of reference (refer to Figure #15) which implies 1-year forward PE of 13x. Hence, we opine that FPI is justified for a valuation based on 1-year forward (average of FY19/20) PE of 13x, leading to a fair value of **RM2.19** per share, implying an upside potential of 41%. We initiate coverage on FPI with a **BUY** rating.

Figure #15 **Peers comparison**

Company	FYE	Price (Local)	Market Cap (USD m)	P/E (x) 2018	P/E (x) 2019	P/B (x) 2018	P/B (x) 2019	Gross DY (%) 2018
Malaysia								
ATA IMS BHD	Mar	1.64	1,881.1	14.91	11.71	3.8	3.2	2.5%
PIE INDUSTRIAL	Dec	1.57	602.9	12.56	11.21	1.4	1.3	3.9%
SKP RESOURCES BH	Mar	1.27	1,587.7	11.76	9.92	2.5	2.3	4.3%
UCHI TECH BHD	Dec	2.92	1,309.8	18.25	16.69	4.7	4.3	9.1%
VS INDUSTRY BHD	Jul	1.61	2,819.5	14.91	12.29	1.5	1.4	3.2%
Foreign								
VENTURE CORP LTD	Dec	14.75	4,251.0	11.27	10.76	1.8	1.7	4.5%
WISTRON CORP	Mar	18.65	53,073.8	11.41	8.99	0.8	0.7	6.3%
FOXCONN TECH	Apr	66.3	93,780.4	9.34	8.89	0.6	0.6	5.1%
PLEXUS CORP	Sep	60.18	1,916.0	15.52	13.69	2.0	1.8	0.0%
CTS CORP	Dec	27.82	920.5	18.24	16.71	N/A	N/A	N/A
BENCHMARK ELECTR	Dc	23.69	1,103.6	16.92	14.25	N/A	N/A	1.9%
FABRINET	Jun	46.55	1,714.5	14.00	12.43	N/A	N/A	N/A
SHENZHEN KAIFA-A	Dec	5.69	8,371.5	14.59	13.55	N/A	N/A	N/A
DBG TECHNOLOGY-A	Jan	15.27	5,416.0	24.63	17.96	3.0	2.5	N/A
SHENZHEN ZOWEE-A	Feb	8.76	5,080.6	25.03	17.63	N/A	N/A	N/A
AVERAGE				**15.56**	**13.11**	**2.21**	**1.97**	**0.04**

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Disclaimer

1. As of 07 November 2018, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:
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2. As of 07 November 2018, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
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Stock rating definitions

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +15% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating definitions

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.