

Innovalues (IP SP)

Share Price: SGD0.76

MCap (USD): 176M

Singapore

Target Price: SGD1.02 (+34%)

ADTV (USD): 0.7M

Technology

BUY

(Unchanged)

3Q15 Beat. Stronger Outlook Ahead

- 3Q15 beat estimates on better-than-expected revenue despite China auto slowdown, and forex gains.
- Expect strong 4Q15, driven by both automotive and office automation. FY15E EPS raised by 6%, FY16E intact.
- Maintain BUY on unchanged TP of SGD1.02, still at 12x FY16E EPS. Catalyst from potential special dividends this year.

What's New

3Q15 beat expectations. Revenue fell 3% YoY on slower China auto sales in Jun-Aug, still slightly higher than we expected. But NP (+61% YoY, +14% QoQ) was 21% ahead of forecast, mainly on forex gains as USD had strong gains against SGD, MYR and THB, its three major operating currencies. 9M15 NP met 79% of FY15 forecast.

Offsetting the weaker automotive (AU) sales, office automation (OA) took up the slack as customers moved more printer production from China to SEA, benefitting Innovalues in Thailand. Gross margin rose 1.1%-pts YoY to 28.4%, but fell QoQ on the lower sales and a retrenchment charge following relocation of AU production from China to Malaysia to take advantage of lower labour costs. This was within the guided range. Excluding this charge, we estimate GP margin to be above 29% (29.9% in 2Q15).

Orders surged in Sep as China auto sales recovered from the summer lull. We expect this momentum to carry into 4Q on strong customer indications for AU and OA as China cut sales tax to stimulate car sales. We also expect margins to improve on lower labour costs post-relocation and higher revenue. FY15E raised 6%. FY16 outlook is also positive, on greater demand from existing customers and rising contributions from new customers.

What's Our View

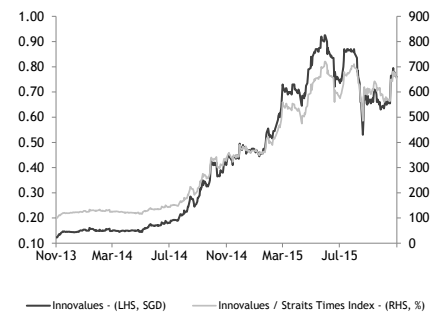
Maintain BUY with unchanged TP of SGD1.02, based on 12x FY16E. Innovalues is a beneficiary of rising global standards for vehicular safety and pollution, particularly critical in light of the VW cheating saga. A net-cash growth stock at 9x FY16 P/E and 4.6% yield. Catalysts include potential special dividends this year.

FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	99.3	108.5	117.8	137.9	158.6
EBITDA	17.3	24.7	35.3	41.1	46.0
Core net profit	6.4	15.8	24.3	27.3	31.0
Core EPS (cts)	2.0	4.9	7.6	8.5	9.6
Core EPS growth (%)	129.8	143.9	53.8	12.4	13.2
Net DPS (cts)	1.2	2.0	3.2	3.5	4.0
Core P/E (x)	37.6	15.4	10.0	8.9	7.9
P/BV (x)	4.2	3.5	2.9	2.4	2.0
Net dividend yield (%)	1.6	2.6	4.2	4.6	5.3
ROAE (%)	11.8	24.8	31.2	29.3	28.0
ROAA (%)	7.5	17.6	23.4	22.0	20.8
EV/EBITDA (x)	2.8	5.6	6.4	5.0	4.1
Net debt/equity (%)	2.1	net cash	net cash	net cash	net cash

Key Data

52w high/low (SGD)	0.93/0.41
3m avg turnover (USDm)	0.7
Free float (%)	52.7
Issued shares (m)	325
Market capitalization	SGD246.7M
Major shareholders:	
-GOH LENG TSE	20.2%
-ONG TIAK BENG	9.0%
-KOH BOON HWEE	6.8%

Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	19.7	(11.6)	85.4
Relative to index (%)	9.9	(7.3)	100.1

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	3	0	0
	Maybank Consensus		% +/-
Target Price (SGD)	1.02	0.99	3.6
'15 PATMI (SGDm)	24	23	6.7
'16 PATMI (SGDm)	27	26	5.1

Source: FactSet; Maybank

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Figure 1: 3Q15 Results Summary

FYE Dec (SGD m)	3Q15	2Q15	3Q14	YoY % chg	QoQ % chg	Remarks
Revenue	28.2	29.5	29.2	(3.3)	(4.4)	Slightly above expectations on late surge in AU orders; OA growth was in line
Gross profit	8.0	8.8	8.0	0.6	(9.3)	Included one-off SGD0.2m China retrenchment charge as OA production shifted to Malaysia
Marketing & distribution costs	(0.5)	(0.6)	(0.5)	(14.4)	(22.5)	
Administrative expenses	(2.9)	(2.7)	(2.6)	12.4	10.3	
Exceptionals	0.0	0.0	0.0	n/m	n/m	
Other operating expenses	(0.1)	(0.0)	(0.1)	n/m	n/m	
Other operating income	3.1	1.0	0.0	n/m	n/m	Mainly from forex gains as USD appreciated against SGD, MYR and THB
EBITDA	9.5	8.5	6.5	45.0	11.6	
Depreciation & amortisation	(1.8)	(1.9)	(1.8)	0.2	(5.2)	
EBIT	7.7	6.6	4.7	61.9	16.5	
Interest income	0.0	0.0	0.0	n/m	n/m	
Interest expense	(0.1)	(0.1)	(0.1)	n/m	n/m	
Share of associates	0.0	0.0	0.0	n/m	n/m	
Pretax profit	7.7	6.5	4.7	64.1	17.2	
Taxation	(0.9)	(0.6)	(0.5)	90.3	49.0	
Minority interests	0.0	0.0	0.0	n/a	n/a	
Net profit	6.7	5.9	4.2	61.0	13.7	
Core net profit	6.7	5.9	4.2	61.0	13.7	

	3Q15	2Q15	3Q14	YoY ppt	QoQ ppt	Remarks
Gross margin (%)	28.4	29.9	27.3	1.1	(1.5)	YoY growth on better operating efficiency, lower QoQ on one-off retrenchment charge
Net margin (%)	23.8	20.0	14.3	9.5	3.8	
Core net margin (%)	23.8	20.0	14.3	9.5	3.8	
Tax rate (%)	12.3	9.7	10.6	1.7	2.6	
Net cash/(debt) SGD m	17.4	18.3	7.5			
Cash collection cycle (days)	78	64	51			
Inventory days	33	33	27			
Receivable days	94	80	67			
Payable days	48	49	42			
Operating cashflow (SGD m)	6.6	5.6	9.6			
Capex (SGD m)	(1.8)	(0.4)	(1.5)			
Free cashflow (SGD m)	4.8	5.2	8.1			

Revenue mix (SGD m)	3Q15	2Q15	3Q14	YoY % chg	QoQ % chg	Remarks
Automotive (AU)	21.8	22.8	23.4	(6.8)	(4.1)	Lower on slower China auto sales, but slightly above our expectations due to late surge in orders in Sep
Office Automation (OA)	6.4	6.6	5.5	16.0	(3.0)	Higher on customers relocating printer production from China to SEA, benefiting Innovalues in Thailand
Others	0.0	0.0	0.2	n/a	n/a	
Total	28.2	29.5	29.2	(3.3)	(4.4)	

Revenue mix (%)	3Q15	2Q15	3Q14
Automotive (AU)	77	77	80
Office Automation (OA)	23	22	19
Others	0	0	1
Total	100	100	100

Source: Company data, Maybank Kim Eng

Figure 2: 9M15 Results Summary

FYE Dec (SGD m)	YTD15	YTD14	YoY % chg	MBKE FY15E	YTD as % of FY forecast
Revenue	86.8	80.6	7.8	117.3	74
Cost of goods sold	(55.4)	(55.1)	0.6	(73.6)	75
Gross profit	25.9	20.4	27.0	36.2	71
Marketing & distribution costs	(1.6)	(1.6)	(1.6)	(2.6)	
Administrative expenses	(8.1)	(7.1)	13.9	(10.5)	
Exceptionals	(8.1)	(7.1)	13.9	(10.5)	
Other operating expenses	(0.1)	(0.2)	(42.1)	(0.2)	
Other operating income	4.6	0.3	1,444.5	2.4	
EBITDA	26.2	16.9	55.4	34.1	77
Depreciation & amortisation	(5.6)	(5.2)	7.9	(7.6)	
EBIT	20.7	11.7	76.4	26.5	78
Interest income	0.1	0.0	238.1	0.1	
Interest expense	(0.2)	(0.3)	(28.5)	(0.4)	
Share of associates	0.0	0.0	n/a	0.0	
Pretax profit	20.5	11.4	79.4	26.1	79
Taxation	(2.4)	(1.1)	122.4	(3.1)	
Minority interests	0.0	0.0	n/a	0.0	
Net profit	18.1	10.4	75.0	23.0	79
Core net profit	18.1	10.4	75.0	23.0	79
	YTD15	YTD14	YoY ppt	MBKE FY15E	
Gross margin (%)	29.8	25.3	4.5	30.9	
Net margin (%)	20.9	12.9	8.0	19.6	
Core net margin (%)	20.9	12.9	8.0	19.6	
Tax rate (%)	11.6	9.3	2.2	11.8	
Net cash/(debt) SGD m	16.9	4.8			
Cash collection cycle (days)	60.0	61.0			
Inventory days	35.0	47.5			
Receivable days	75.0	66.9			
Payable days	50.0	53.5			
Operating cashflow (SGD m)	24.3	18.0			
Capex (SGD m)	(4.7)	(3.9)			
Free cashflow (SGD m)	19.7	14.1			
Revenue mix (SGD m)	YTD15	YTD14	YoY % chg	MBKE FY15E	YTD as % of FY forecast
Automotive (AU)	67.8	64.6	4.9	90.4	75
Office Automation (OA)	18.7	15.6	19.6	25.5	73
Others	0.4	0.4	8.4	0.0	n/a
Total	86.8	80.6	7.8	115.8	75
Revenue mix (%)	YTD15	YTD14		MBKE FY15E	
Automotive (AU)	78	80		79	
Office Automation (OA)	22	19		21	
Others	0	0		0	
Total	100	100		100	

Source: Company data, Maybank Kim Eng

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	27.9	15.4	10.0	8.9	7.9
Core P/E (x)	37.6	15.4	10.0	8.9	7.9
P/BV (x)	4.2	3.5	2.9	2.4	2.0
P/NTA (x)	4.2	3.5	2.9	2.4	2.0
Net dividend yield (%)	1.6	2.6	4.2	4.6	5.3
FCF yield (%)	5.7	8.0	6.7	14.0	12.3
EV/EBITDA (x)	2.8	5.6	6.4	5.0	4.1
EV/EBIT (x)	4.9	7.8	8.2	6.3	5.1

INCOME STATEMENT (SGD m)

Revenue	99.3	108.5	117.8	137.9	158.6
Gross profit	25.8	35.9	43.1	54.3	62.5
EBITDA	17.3	24.7	35.3	41.1	46.0
Depreciation	(7.3)	(7.0)	(7.6)	(8.7)	(9.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	10.0	17.7	27.7	32.5	36.7
Net interest income / (exp)	(0.8)	(0.3)	(0.2)	(0.3)	(0.3)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	2.3	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	9.2	17.4	27.5	32.2	36.4
Income tax	(0.5)	(1.6)	(3.2)	(4.8)	(5.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	8.7	15.8	24.3	27.3	31.0
Core net profit	6.4	15.8	24.3	27.3	31.0

BALANCE SHEET (SGD m)

Cash & Short Term Investments	11.3	22.8	31.1	55.8	75.0
Accounts receivable	17.9	23.9	28.5	29.3	33.7
Inventory	12.7	8.4	12.6	12.8	14.8
Property, Plant & Equip (net)	39.6	38.0	37.4	35.7	33.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	2.4	2.2	2.7	3.0	3.4
Total assets	83.9	95.3	112.3	136.7	160.4
ST interest bearing debt	7.7	7.1	8.4	10.0	11.7
Accounts payable	14.3	15.2	12.6	18.3	21.1
LT interest bearing debt	4.8	1.8	5.8	6.7	7.7
Other liabilities	0.0	1.0	0.0	0.0	0.0
Total Liabilities	27.0	24.7	27.1	35.3	40.9
Shareholders Equity	56.9	70.7	85.2	101.4	119.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	56.9	70.7	85.2	101.4	119.6
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	83.9	95.3	112.3	136.7	160.4

CASH FLOW (SGD m)

Pretax profit	9.2	17.4	27.5	32.2	36.4
Depreciation & amortisation	7.3	7.0	7.6	8.7	9.2
Adj net interest (income)/exp	0.8	0.3	0.2	0.3	0.3
Change in working capital	1.2	(0.6)	(8.9)	4.8	(3.4)
Cash taxes paid	(0.5)	(1.2)	(3.0)	(4.9)	(5.5)
Other operating cash flow	0.0	1.3	0.0	0.0	0.0
Cash flow from operations	18.0	24.3	23.4	41.1	37.1
Capex	(4.3)	(4.9)	(7.0)	(7.0)	(7.0)
Free cash flow	13.7	19.4	16.4	34.1	30.1
Dividends paid	(3.8)	(3.9)	(10.3)	(11.2)	(12.8)
Equity raised / (purchased)	0.2	0.3	0.4	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(10.4)	(4.2)	2.3	1.9	2.2
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(0.7)	(0.2)	(0.5)	(0.1)	(0.1)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(1.0)	11.5	8.3	24.7	19.3

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.2	9.2	8.6	17.0	15.1
EBITDA growth	(28.0)	43.2	42.7	16.5	11.7
EBIT growth	(39.9)	78.1	56.5	17.0	13.2
Pretax growth	(41.1)	89.3	58.5	16.8	13.2
Reported net profit growth	(43.5)	82.2	53.8	12.4	13.2
Core net profit growth	129.8	146.1	53.8	12.4	13.2
Profitability ratios (%)					
EBITDA margin	17.4	22.8	30.0	29.8	29.0
EBIT margin	10.0	16.3	23.5	23.5	23.2
Pretax profit margin	9.2	16.0	23.4	23.3	23.0
Payout ratio	44.0	40.6	42.2	41.1	41.5
DuPont analysis					
Net profit margin (%)	8.7	14.6	20.6	19.8	19.5
Revenue/Assets (x)	1.2	1.1	1.0	1.0	1.0
Assets/Equity (x)	1.5	1.3	1.3	1.3	1.3
ROAE (%)	11.8	24.8	31.2	29.3	28.0
ROAA (%)	7.5	17.6	23.4	22.0	20.8
Liquidity & Efficiency					
Cash conversion cycle	61.6	48.6	63.6	63.6	49.4
Days receivable outstanding	61.0	69.4	80.0	75.4	71.5
Days inventory outstanding	65.3	52.3	50.7	54.9	51.6
Days payables outstanding	64.7	73.1	67.1	66.7	73.7
Dividend cover (x)	2.3	2.5	2.4	2.4	2.4
Current ratio (x)	2.0	2.5	3.5	3.5	3.8
Leverage & Expense Analysis					
Asset/Liability (x)	3.1	3.9	4.1	3.9	3.9
Net debt/equity (%)	2.1	net cash	net cash	net cash	net cash
Net interest cover (x)	12.8	50.8	nm	nm	nm
Debt/EBITDA (x)	0.7	0.4	0.4	0.4	0.4
Capex/revenue (%)	4.3	4.5	5.9	5.1	4.4
Net debt/ (net cash)	1.2	(13.9)	(16.9)	(39.1)	(55.6)

Source: Company; Maybank

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