Singapore Company Guide

Interplex Holdings Ltd.

Edition 1 Version 1 | Bloomberg: INTX SP | Reuters: INTP.SI **Refer to important disclosures at the end of this report**

DBS Group Research. Equity 22 Oct 2015

BUY

Last Traded Price: S$0.70 (**STI :** 3,025.70)
Price Target: S$0.83 (19% upside) (Prev S$0.85)

Potential Catalyst: Expansion into new markets
Where we differ: We have below-consensus forecasts

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Singapore Research Team

Price Relative

Forecasts and Valuation

FY Jun (US$ m)	2015A	2016F	2017F	2018F
Revenue	970	977	990	1,009
EBITDA	111	123	136	147
Pre-tax Profit	58	61	73	81
Net Profit	43	46	55	61
Net Pft (Pre Ex.)	40	46	55	61
EPS (S cts)	11.1	11.9	14.1	15.7
EPS Pre Ex. (S cts)	10.3	11.9	14.1	15.7
EPS Gth (%)	150	7	19	11
EPS Gth Pre Ex (%)	132	15	19	11
Diluted EPS (S cts)	10.9	11.6	13.8	15.4
Net DPS (S cts)	2.8	3.6	4.9	5.5
BV Per Share (S cts)	47.3	55.6	64.7	74.9
PE (X)	6.3	5.9	5.0	4.5
PE Pre Ex. (X)	6.8	5.9	5.0	4.5
P/Cash Flow (X)	5.1	3.1	2.7	2.5
EV/EBITDA (X)	4.3	3.6	3.0	2.5
Net Div Yield (%)	4.0	5.1	7.0	7.8
P/Book Value (X)	1.5	1.3	1.1	0.9
Net Debt/Equity (X)	1.0	0.7	0.5	0.2
ROAE (%)	24.6	23.1	23.4	22.5
Earnings Rev (%):		33	-	-
Consensus EPS (S cts):		12.7	15.5	18.3
Other Broker Recs:		B: 3	S: 0	H: 0

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

GROWTH WITH BETTER EARNINGS QUALITY

Maintain BUY on quality earnings growth. While revenue growth is projected to be fairly modest due to a mixed outlook for its various segments, we expect greater operational efficiencies to lift net margins from 4.5% in FY15 to 6.1% in FY18, driving core net earnings at 14.9% CAGR. At just 5.9x FY16 PE, we rate Interplex Holdings a BUY with 19% upside to TP of $0.83, based on 7x FY16 PE. A decent prospective yield of 5.1% is also on offer.

While revenue growth is projected to be modest… While single-digit growth is expected for various core segments (automotives, industrial products, etc), uncertainties surround the end-demand for others (mass storage, imaging, etc) – weighing on overall revenue growth.

…Opportunities for cross-selling and cost-cuts should lift margins and boost earnings. As the Group leverages on Interplex Industries' relationship with leading OEMs to exploit cross-selling opportunities and amid consolidation of operations, we expect net margins improvement from c.4.5% in FY15 to c.6.1% in FY18, which could help grow core earnings by c.51.9% from US$40.4m in FY15 to US$61.4m in FY18, along with revenue improvement of c.4.1%.

Valuation:

Maintain BUY, TP of S$0.83. We have lowered our target price to S$0.83, which is pegged at 7x FY16F PE from 11x previously as peers have since de-rated. Similar to the historical average, this implies a 36% discount to larger peers. Against core EPS growth of 14.9% CAGR, we believe our valuation multiple of 7x earnings is reasonable. Share price should rerate as earnings are delivered.

Key Risks to Our View:

Slowdown in the global economy could pose significant challenges. Segments such as consumer electronics and automotives are subject to fluctuations in discretionary spending, which puts pressure on profits during slowdowns.

At A Glance

Issued Capital (m shrs)	546
Mkt. Cap (Sm/USm)	382 / 274
Major Shareholders	
Standard Chartered (%)	29.7
Metcom Group (%)	28.0
Commonwealth Bank of Australia (%)	10.8
Free Float (%)	31.5
3m Avg. Daily Val (US$m)	0.11

ICB Industry : Industrials / Industrial

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Expansion into new geographies. The acquisition of Interplex Industries provides Interplex Holdings with immediate exposure to new markets such as India, Hungary, Mexico and the US, whose recovery should help cushion weaker consumer sentiment in China, from which c.56% of FYE Jun-15 revenue originated. Contribution from Interplex's Mexico factory is expected to kick in from 2016-2017 as contracts are delivered, and should pave the way for further expansion into Latin America and the US in the longer term.

Demand for automotive products. While this segment can be vulnerable to fluctuations in end-market demand, the Group is engaged in the manufacture of automotive products with longer life cycles, which delivers more steady performance. We expect 7-8% y-o-y growth from FY15-18 but are more positive longer term as the Group continues to meet growing demand for products (i.e. sensor housing) used in electrical interface of car components and controls.

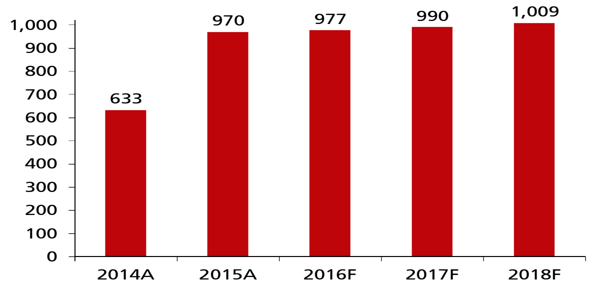
Higher infrastructure spending in China and Europe. Demand for Interplex Holdings' industrial products are tied to infrastructure spending in China and Europe - particularly from the power generation industry. With higher infrastructure spending in Europe expected in FY16 and beyond, we expect earnings from this segment to strengthen ahead, by 3-4% y-o-y from FY15-18.

New programme launches for Networking and Enterprise Servers segment. After having discontinued its low margin business for this segment in FY15, sustained sales growth from existing products and new programme launches could improve segmental revenue by c.21% from FY15-18.

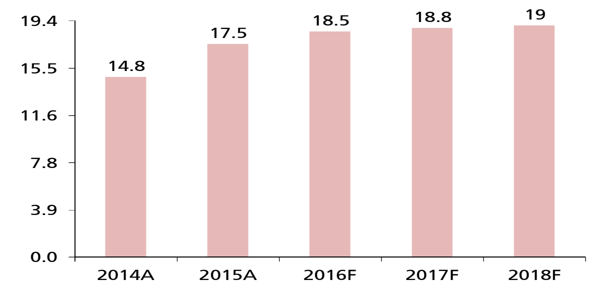
But expect modest growth in overall revenue between FY15 and FY18 of 1.3% CAGR. Despite single-digit growth expected in various core segments, uncertainty in the Imaging and Consumer Electronics segments and weakness in Mass Storage after the company moved out of the cleanroom business will likely weigh on revenue growth.

However, the focus on higher-margin business and synergies from further integration with Interplex Industries should help lift margins and deliver core EPS growth of 14.9% CAGR. With further integration, we expect further margin improvement as Interplex Holdings continues to roll out automation initiatives amid ongoing efforts to rationalise labour and consolidate operations to achieve better economies of scale. This could lift net margins from 4.5% in FY15 to 6.1% in FY18 – driving core EPS up c.51.0% from S$0.104 in FY15 to S$0.157 in FY18.

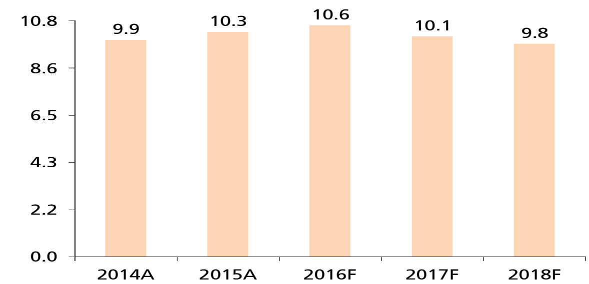
Revenue



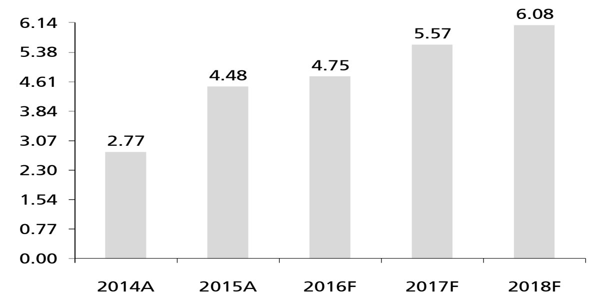
Gross Margin (%)



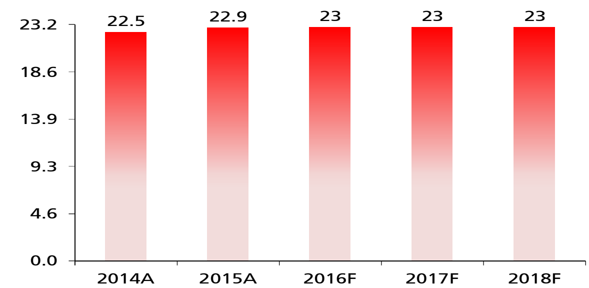
Operating Costs as % of Revenue (%)



Net Margin (%)



Effective Tax Rate (%)



Source: Company, DBS Bank

Balance Sheet:

Leverage should decline as Interplex Holdings pares down loan used to finance the acquisition of Interplex Industries in FY15. With positive free cash flows estimated between US$49.4m and US$68.0m from FY16-18, we expect net debt ratio to fall from 1.1x in FY15 to 0.3x in FY18 – closer to pre-acquisition levels as Interplex Holdings pares down its loan.

Capital expenditures to normalise from c.US$173m in FY15 to US$40m in FY18. While Interplex Holdings is open to driving earnings through inorganic growth, we do not expect any M&A to take place over the next three years as Interplex Industries and Amtek Engineering have yet to fully integrate, and as potential synergies between the two remain largely untapped.

We thus expect reduced capital expenditures of US$40m in FY16 to finance the expansion in Hangzhou, and US$40m in FY17 and FY18, as the company continues to develop automation initiatives.

Share Price Drivers:

Development of higher-margin products. Interplex Holdings can leverage on Interplex Industries' expertise in the integrated production of metal and plastic parts to deliver greater customisation and value-add to customers. If successful, these higher-margin products could lift earnings further.

Riding on "next-shoring" trend to serve new markets. "Next-shoring" refers to the development of products closer to where they are intended for sale to increase the speed at which products are replenished, which has gained popularity amid higher costs of shipping and rising wages in Asia. Gaining entry into Hungary, Mexico and the US through its acquisition of Interplex Industries, Interplex Holdings can leverage on its diversified geographic footprint as a platform to serve the manufacturing needs of these new markets.

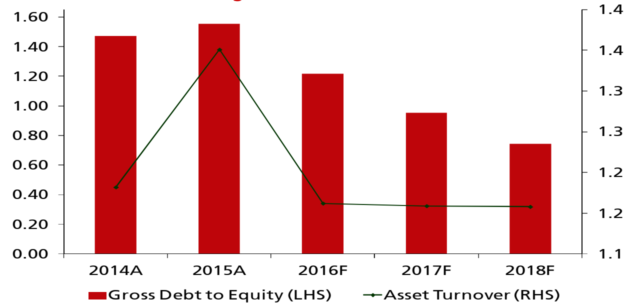
Key Risks:

Global economic slowdown. With exposure across some of the globe's main manufacturing regions, a global economic slowdown could pose significant challenges to Interplex Holdings as many of its industry segments such as Consumer Electronics and Automotives are sensitive to fluctuations in the global economy.**<b >**If so, it could have a significant impact on Interplex Holdings' revenues and profitability.

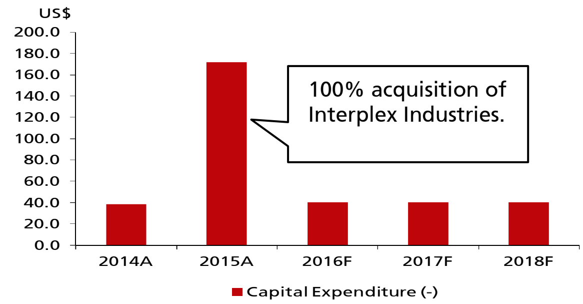
COMPANY BACKGROUND

Interplex is a precision engineering service provider. Its main segments include automotive, networking and enterprise servers, industrial products, mass storage and telecommunications segments.

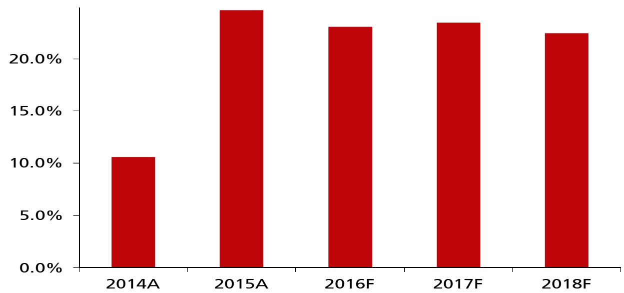
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)

PB Band (x)

Source: Company, DBS Bank

Key Assumptions

FY Jun	2014A	2015A	2016F	2017F	2018F
Revenue	633	970	977	990	1,009
Gross Margin (%)	14.8	17.5	18.5	18.8	19.0
Operating Costs as % of	9.93	10.3	10.6	10.1	9.75
Net Margin (%)	2.77	4.48	4.75	5.57	6.08
Effective Tax Rate (%)	22.5	22.9	23.0	23.0	23.0

Segmental Breakdown

FY Jun	2014A	2015A	2016F	2017F	2018F
Revenues (US$ m)					
Networking and	181	164	176	188	200
Automotive	88	254	272	291	314
Industrial Electronics and	90	174	179	184	188
Consumer Electronics	84	80	78	74	69
Others	76	73	64	54	45
Total	**633**	**970**	**977**	**990**	**1,009**

Given the mixed outlook, we expect decline in tooling revenue.

Income Statement (US$ m)

FY Jun	2014A	2015A	2016F	2017F	2018F
Revenue	633	970	977	990	1,009
Cost of Goods Sold	(539)	(800)	(796)	(804)	(817)
Gross Profit	**94**	**169**	**181**	**186**	**192**
Other Opng (Exp)/Inc	(61)	(100)	(103)	(100)	(98)
Operating Profit	**33**	**70**	**77**	**86**	**94**
Other Non Opg (Exp)/Inc	(3)	3	3	3	3
Associates & JV Inc	1	2	2	2	2
Net Interest (Exp)/Inc	(8)	(20)	(20)	(18)	(17)
Exceptional Gain/(Loss)	0	3	0	0	0
Pre-tax Profit	**23**	**58**	**61**	**73**	**81**
Tax	(5)	(13)	(14)	(17)	(19)
Minority Interest	0	(1)	(1)	(1)	(1)
Preference Dividend	0	0	0	0	0
Net Profit	**18**	**43**	**46**	**55**	**61**
Net Profit before Except.	18	40	46	55	61
EBITDA	51	111	123	136	147
Growth					
Revenue Gth (%)	1.1	53.1	0.8	1.3	1.9
EBITDA Gth (%)	(15.1)	116.6	10.4	10.5	8.2
Opg Profit Gth (%)	1.1	112.8	10.9	11.5	8.4
Net Profit Gth (Pre-ex) (%)	(34.7)	130.3	14.8	18.8	11.3
Margins & Ratio					
Gross Margins (%)	14.8	17.5	18.5	18.8	19.0
Opg Profit Margin (%)	5.2	7.2	7.9	8.7	9.3
Net Profit Margin (%)	2.8	4.5	4.7	5.6	6.1
ROAE (%)	10.6	24.6	23.1	23.4	22.5
ROA (%)	3.3	6.0	5.5	6.5	7.0
ROCE (%)	6.7	10.7	10.5	11.6	12.2
Div Payout Ratio (%)	50.5	25.1	30.0	35.0	35.0
Net Interest Cover (x)	4.1	3.5	3.8	4.8	5.5

Source: Company, DBS Bank

Quarterly / Interim Income Statement (US$ m)

FY Jun	4Q2014	1Q2015	2Q2015	3Q2015	4Q2015
Revenue	152	226	263	243	238
Cost of Goods Sold	(130)	(186)	(217)	(201)	(197)
Gross Profit	**22**	**40**	**46**	**42**	**41**
Other Oper. (Exp)/Inc	(14)	(24)	(26)	(24)	(23)
Operating Profit	**7**	**16**	**20**	**18**	**18**
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	1	0	1	0
Net Interest (Exp)/Inc	(4)	(5)	(5)	(5)	(5)
Exceptional Gain/(Loss)	(1)	(5)	0	0	8
Pre-tax Profit	**3**	**7**	**15**	**13**	**21**
Tax	(1)	(3)	(4)	(3)	(3)
Minority Interest	0	0	0	0	0
Net Profit	**2**	**4**	**11**	**10**	**18**
Net profit bef Except.	2	9	11	11	10
EBITDA	12	25	31	28	27
Growth					
Revenue Gth (%)	3.4	48.4	16.6	(7.8)	(1.7)
EBITDA Gth (%)	18.9	105.5	20.8	(8.7)	(2.0)
Opg Profit Gth (%)	24.8	139.1	22.7	(9.1)	2.7
Net Profit Gth (Pre-ex) (%)	(28.2)	254.1	29.7	(6.2)	(5.5)
Margins					
Gross Margins (%)	14.2	17.7	17.6	17.3	17.3
Opg Profit Margins (%)	4.4	7.2	7.5	7.4	7.8
Net Profit Margins (%)	1.2	1.8	4.3	4.2	7.5

One-off gain of $8m on disposal of properties.

Balance Sheet (US$ m)

FY Jun	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	131	218	217	212	202
Invts in Associates & JVs	9	11	12	14	16
Other LT Assets	13	138	138	138	138
Cash & ST Invts	229	105	115	130	152
Inventory	48	92	91	91	92
Debtors	140	218	219	222	227
Other Current Assets	30	54	54	54	54
Total Assets	**600**	**835**	**847**	**862**	**881**
ST Debt	97	141	141	141	141
Creditor	110	138	137	137	139
Other Current Liab	47	136	141	143	145
LT Debt	163	161	136	111	86
Other LT Liabilities	5	65	65	65	65
Shareholder's Equity	167	185	217	253	293
Minority Interests	10	10	10	11	12
Total Cap. & Liab.	**600**	**835**	**847**	**862**	**881**
Non-Cash Wkg. Capital	61	89	87	87	89
Net Cash/(Debt)	(32)	(197)	(162)	(121)	(75)
Debtors Turn (avg days)	81.3	67.3	81.7	81.4	81.2
Creditors Turn (avg days)	78.0	59.5	66.4	66.0	65.7
Inventory Turn (avg days)	34.4	33.6	44.2	43.8	43.7
Asset Turnover (x)	1.2	1.4	1.2	1.2	1.2
Current Ratio (x)	1.8	1.1	1.1	1.2	1.2
Quick Ratio (x)	1.4	0.8	0.8	0.8	0.9
Net Debt/Equity (X)	0.2	1.0	0.7	0.5	0.2
Net Debt/Equity ex MI (X)	0.2	1.1	0.7	0.5	0.3
Capex to Debt (%)	14.8	56.9	14.4	15.9	17.6
Z-Score (X)	2.3	2.3	2.4	2.4	2.4

Net debt-to-equity ratio should decline as company pares down loan used to finance the acquisition of Interplex Industries.

Source: Company, DBS Bank

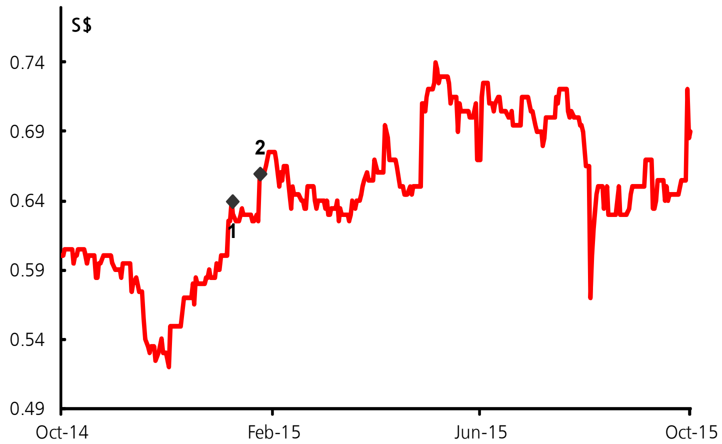
Cash Flow Statement (US$ m)

FY Jun	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	23	58	61	73	81
Dep. & Amort.	20	37	41	45	49
Tax Paid	(4)	(11)	(9)	(14)	(17)
Assoc. & JV Inc/(loss)	(1)	(2)	(2)	(2)	(2)
Chg in Wkg.Cap.	16	(15)	(2)	(3)	(4)
Other Operating CF	(1)	(13)	0	0	0
Net Operating CF	**54**	**54**	**89**	**100**	**108**
Capital Exp.(net)	(39)	(172)	(40)	(40)	(40)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	12	6	0	0	0
Net Investing CF	**(26)**	**(166)**	**(40)**	**(40)**	**(40)**
Div Paid	(14)	(10)	(14)	(19)	(21)
Chg in Gross Debt	(26)	10	(25)	(25)	(25)
Capital Issues	0	0	0	0	0
Other Financing CF	150	0	0	0	0
Net Financing CF	**109**	**1**	**(39)**	**(44)**	**(46)**
Currency Adjustments	(1)	(14)	0	0	0
Chg in Cash	136	(124)	10	15	22
Opg CFPS (US cts.)	6.9	12.6	16.8	18.7	20.5
Free CFPS (US cts.)	2.7	(21.6)	9.1	10.9	12.5

Sufficient operating cash flows to pare down debt.

Source: Company, DBS Bank

Target Price & Ratings History



***Note** : Share price and Target price are adjusted for corporate actions.*

S.No.	Date	Closing Price	Target Price	Rating
1:	28 Jan 15	0.64	0.74	BUY
2:	13 Feb 15	0.66	0.85	BUY

Source: DBS Bank

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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