

CDW Holding (CDW SP)

Technology - Electronics

Market Cap: USD59.7m

Neutral (Maintained)

 Target Price: **SGD0.17**

 Price: **SGD0.18**

Keep An Eye On 4Q15

 Macro ◆◆
 Risks ◆
 Growth ◆◆◆
 Value ◆◆◆


Source: Bloomberg

Avg Turnover (SGD/USD)	0.03m/0.02m
Cons. Upside (%)	-5.6
Upside (%)	-5.0
52-wk Price low/high (SGD)	0.15 - 0.24
Free float (%)	47
Share outstanding (m)	474
Shareholders (%)	
Mikuni Co Limited	50.3

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.9	(4.3)	(0.6)	(12.7)	21.8
Relative	19.0	(0.8)	3.8	2.3	32.7

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As forewarned in our Sep 2015 update note, CDW's 3Q15 was dismal, with topline down 33.2% YoY to USD27.5m and NPAT plunging 89.9% to USD0.2m, mainly due to a decrease in backlight unit sales as its key customer in Japan loses market share. The outcome of its initiatives to improve demand for its current products can only be seen in 4Q15. With SGD0.14 net cash/share and a 9.5% FY15 yield, we retain our NEUTRAL call with a DCF-backed TP of SGD0.17 (5% downside).

- ◆ **Dismal 3Q15.** CDW's 3Q15 was in line with estimates as we had expected a very weak 3Q15 previously. Its topline decreased 33.2% YoY to USD27.5m while NPAT plunged 89.9% to USD0.2m, mainly due to a decline in backlight unit sales as its key customer in Japan loses market share.
- ◆ **New-generation light guide.** CDW has successfully co-developed a new-generation light guide which offers the features of flexibility and ultra-thin thickness, suitable for small- to medium-sized liquid-crystal display (LCD) panels in smartphones, tablets, notebooks and computers. Depending on the reception of the market, this product may be the future driver for CDW.
- ◆ **Keep a close eye on 4Q15.** Management has implemented many initiatives to improve demand for its current products. In addition, its major key customer had also launched a new model of touch LCD in June to compete with that of Japan Display Inc (JDI) (6740 JP, NR). The results of all its initiatives can only be seen in 4Q15. Management has also shared that it is in talks with other LCD panel providers in China, Taiwan and Japan to supply its backlight units to them. If secured, this will be a major positive for CDW in terms of demand and may also help reduce its key customer concentration risk.
- ◆ **Backed by SGD0.14 net cash/share; maintain NEUTRAL.** The company still has net cash of SGD0.14/share and is backed by a strong FY15 dividend yield of 9.5%. A potential turnaround in 4Q15 will depend on how well these initiatives take off and its success in diversifying its customer base by securing other LCD panel providers in China, Taiwan and Japan as its new customers. Maintain NEUTRAL with an unchanged DCF-backed TP of SGD0.17 (WACC: 12%, TG: 0%)

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (USDm)	175	152	124	125	127
Reported net profit (USDm)	11.3	8.4	10.2	6.1	6.4
Recurring net profit (USDm)	9.26	8.36	5.30	6.12	6.36
Recurring net profit growth (%)	(18.6)	(9.7)	(36.6)	15.5	4.0
Recurring EPS (USD)	0.02	0.02	0.01	0.01	0.01
DPS (USD)	0.01	0.01	0.01	0.01	0.01
Recurring P/E (x)	6.4	7.1	11.3	9.8	9.4
P/B (x)	0.86	0.85	0.80	0.79	0.78
P/CF (x)	na	5.25	9.72	7.90	7.30
Dividend Yield (%)	9.3	9.5	9.5	9.5	9.5
EV/EBITDA (x)	0.90	0.43	0.38	0.60	0.77
Return on average equity (%)	17.1	12.0	14.0	8.1	8.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			0.0	0.0	0.0

Source: Company data, RHB

Figure 1: 3Q15 results review

FYE Dec (USDm)	3Q14	2Q15	3Q15	QoQ (%)	YoY (%)	Comments
Revenue	41.2	26.4	27.5	4.4	(33.2)	The decline was due to inadequate product appeal and cost competition of its key customer, hence losing market share to competitor
EBITDA	3.0	6.5	0.6	(90.6)	(79.6)	Administrative expenses dropped slightly due to cost controls and a weakening JPY
<i>EBITDA margin</i>	<i>7%</i>	<i>24%</i>	<i>2%</i>			
Depreciation and amortisation	(0.5)	(0.5)	(0.5)	(1.6)	6.2	
EBIT	2.5	5.9	0.1	(98.2)	(95.7)	
<i>EBIT margin</i>	<i>6.1%</i>	<i>22.6%</i>	<i>0.4%</i>			
Net finance cost	0.5	0.3	0.3	(8.3)	(41.5)	Finance costs remained low as the group maintained a low gearing policy in a low interest rate environment
Pretax profit	3.0	6.3	0.4	(93.5)	(86.5)	
<i>Pretax margin</i>	<i>7%</i>	<i>24%</i>	<i>1%</i>			
Tax	(1.0)	(0.4)	(0.2)	(45.2)	(79.5)	
<i>Effective tax rate (%)</i>	<i>-33%</i>	<i>-6%</i>	<i>-50%</i>			
Net profit	2.0	5.9	0.2	(96.5)	(89.9)	
<i>Net margin</i>	<i>5%</i>	<i>22%</i>	<i>1%</i>			

Financial Exhibits

Profit & Loss (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	175	152	124	125	127
Cost of sales	(137)	(118)	(97)	(98)	(99)
Gross profit	39	34	27	27	28
Gen & admin expenses	(26)	(22)	(19)	(19)	(19)
Other operating costs	0	0	(1)	0	0
Operating profit	13	12	7	9	9
Operating EBITDA	16	14	8	10	11
Depreciation of fixed assets	(3)	(2)	(1)	(2)	(2)
Amortisation of intangible assets	(0)	-	-	-	-
Operating EBIT	13	12	7	9	9
Interest expense	(0)	(0)	(0)	(0)	(0)
Exceptional income - net	3	-	7	-	-
Pre-tax profit	15	11	14	8	9
Taxation	(4)	(3)	(3)	(2)	(2)
Profit after tax & minorities	11	8	10	6	6
Reported net profit	11	8	10	6	6
Recurring net profit	9	8	5	6	6

Source: Company data, RHB

Cash flow (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	13	12	7	9	9
Depreciation & amortisation	3	2	1	2	2
Change in working capital	(10)	3	1	(0)	(0)
Other operating cash flow	(5)	(2)	(0)	(0)	(0)
Operating cash flow	1	15	10	10	11
Interest received	(0)	(0)	-	-	-
Interest paid	(0)	(0)	(0)	(0)	(0)
Tax paid	(6)	(3)	(3)	(2)	(2)
Cash flow from operations	(6)	11	6	8	8
Capex	(1)	(1)	(5)	(5)	(5)
Other investing cash flow	12	5	-	-	-
Cash flow from investing activities	10	4	(5)	(5)	(5)
Dividends paid	(6)	(6)	(6)	(6)	(6)
Proceeds from issue of shares	1	-	-	-	-
Increase in debt	20	59	(1)	(1)	(1)
Other financing cash flow	(24)	(50)	-	-	-
Cash flow from financing activities	(9)	3	(7)	(7)	(7)
Cash at beginning of period	53	52	69	71	68
Total cash generated	(4)	18	(6)	(4)	(4)
Forex effects	(1)	(1)	-	-	-
Implied cash at end of period	48	69	63	67	65

Source: Company data, RHB

Financial Exhibits

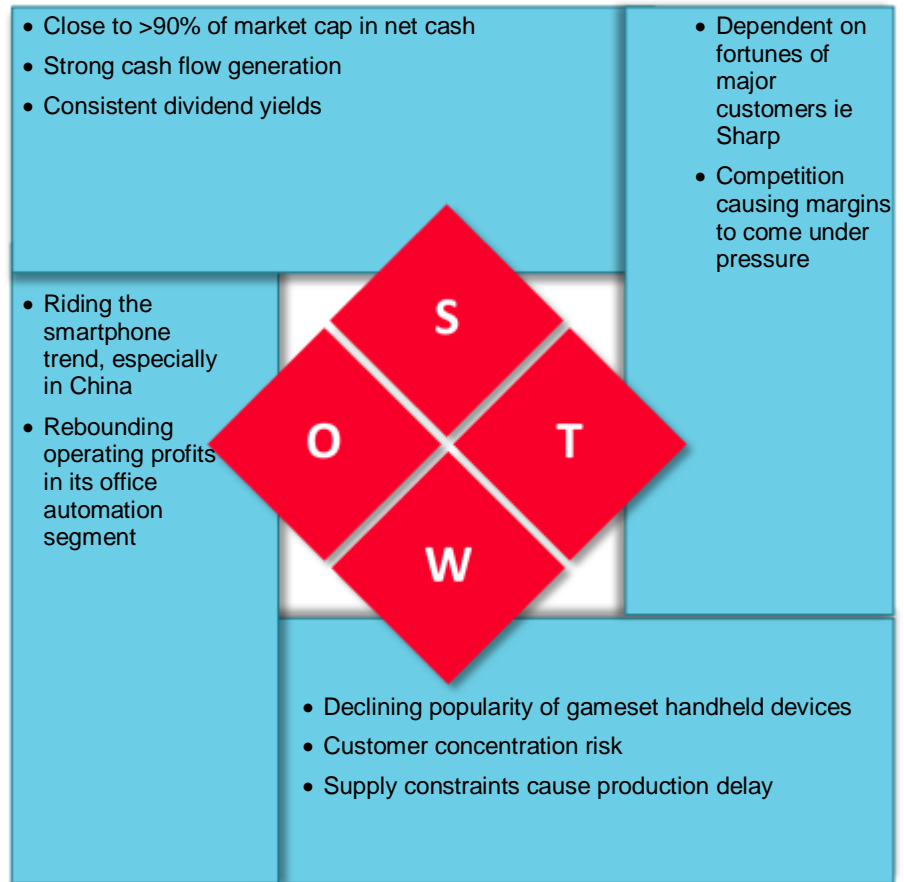
Balance Sheet (USDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	52	69	72	69	66
Inventories	12	11	9	9	9
Accounts receivable	33	29	21	22	22
Total current assets	97	108	102	99	97
Tangible fixed assets	10	9	13	16	19
Total other assets	3	2	4	4	4
Total non-current assets	13	11	17	20	23
Total assets	110	119	119	119	120
Short-term debt	3	11	11	11	11
Accounts payable	30	30	25	25	25
Other current liabilities	2	3	3	3	3
Total current liabilities	36	43	38	38	38
Total long-term debt	3	4	4	4	4
Other liabilities	2	1	1	1	1
Total non-current liabilities	5	6	6	6	6
Total liabilities	41	49	43	43	44
Share capital	10	10	10	10	10
Retained earnings reserve	59	60	65	65	66
Shareholders' equity	69	70	75	76	76
Minority interests	0	0	-	-	-
Other equity	0	0	0	0	0
Total equity	69	70	75	76	76
Total liabilities & equity	110	119	119	119	120

Source: Company data, RHB

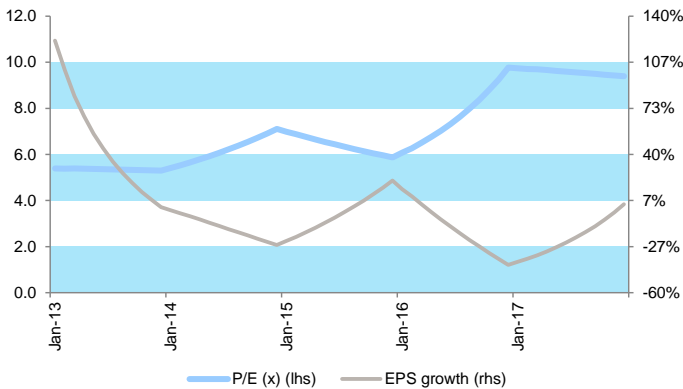
Key Ratios (USD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(10.8)	(13.3)	(18.5)	0.9	2.0
Operating profit growth (%)	(29.7)	(10.2)	(37.9)	18.4	3.9
Net profit growth (%)	(1.1)	(25.7)	21.7	(39.9)	4.0
EPS growth (%)	2.0	(25.5)	21.1	(39.9)	4.0
BVPS growth (%)	11.5	0.7	7.1	0.6	0.9
Operating margin (%)	7.4	7.7	5.9	6.9	7.0
Net profit margin (%)	6.4	5.5	8.2	4.9	5.0
Return on average assets (%)	9.8	7.3	8.6	5.1	5.3
Return on average equity (%)	17.1	12.0	14.0	8.1	8.4
Net debt to equity (%)	(65.2)	(76.6)	(75.0)	(70.7)	(67.1)
DPS	0.01	0.01	0.01	0.01	0.01
Recurrent cash flow per share	(0.01)	0.02	0.01	0.02	0.02

Source: Company data, RHB

SWOT Analysis

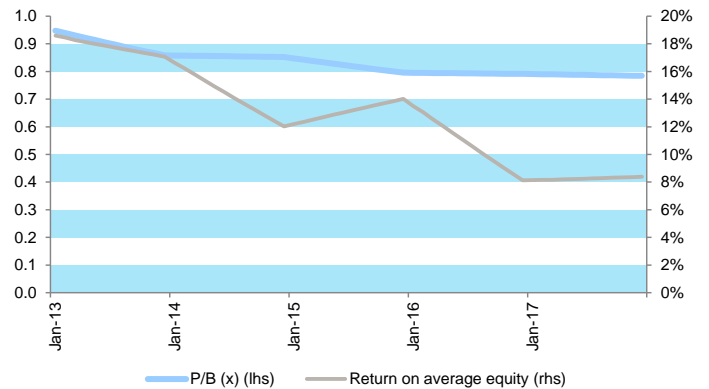


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

CDW Holding Limited produces and supplies precision components for mobile communication equipment, gamebox entertainment equipment, consumer and information technology equipment, office equipment, and electrical appliances. The company operates through three segments: LCD Backlight Units, Office Automation, and LCD Parts and Accessories.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-09-03	Neutral	0.17	0.17
2015-08-25	Neutral	0.18	0.16
2015-04-26	Buy	0.31	0.20

Source : RHB, Bloomberg

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