

## Trek 2000 (TREK SP)

Technology - Technology

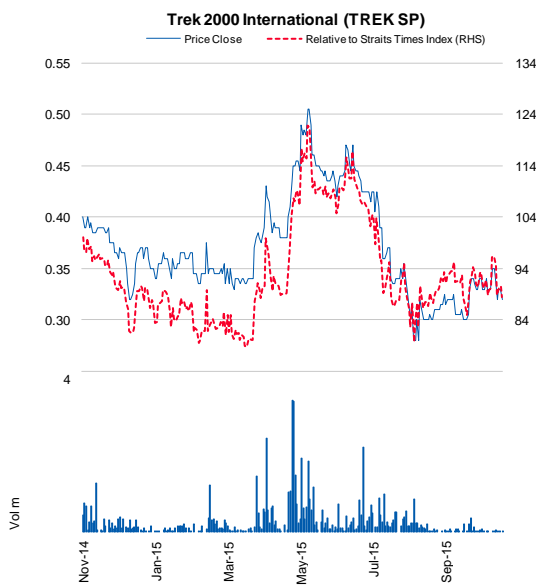
Market Cap: USD73.4m

**Neutral** (from Buy)

 Target Price: **SGD0.31**

 Price: **SGD0.32**

### Gone Off Trek

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (SGD/USD)	0.03m/0.02m
Cons. Upside (%)	-3.1
Upside (%)	-3.1
52-wk Price low/high (SGD)	0.28 - 0.51
Free float (%)	55
Share outstanding (m)	324
<b>Shareholders (%)</b>	
Henn Tan	31.1
Toshiba Corporation	16.3
Osim International	8.8
<b>Share Performance (%)</b>	
	YTD    1m    3m    6m    12m
Absolute	(13.5)    6.7    (5.9)    (22.0)    (20.0)
Relative	(3.0)    2.8    (0.1)    (9.0)    (11.5)

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**Disappointing 3Q15 results despite robust 23.8% YoY topline growth – NPAT fell 27.6% YoY, mainly on a 94.8% rise in R&D costs to USD1.8m and a USD600,000 loss from a subsidiary. Downgrade to NEUTRAL with a SGD0.31 TP (from SGD0.52, 3% downside) as we cut FY15F/FY16F NPAT by 40%/38% to factor in higher R&D costs. Together with OSIM, Trek is trying to advance into the medical technology segment.**

- ◆ **Dragged down by higher research & development (R&D) costs.** Trek 2000 International's (Trek) 3Q15 results were a letdown, mainly due to a 94.8% rise in R&D costs to USD1.8m. Coupled with a USD600,000 loss from subsidiary Racer Group, this caused 3Q15 NPAT to decline by 27.6% to USD550,000 despite revenue surging 23.8% YoY to USD44m. The revenue surge was mainly due to a 25% YoY increase in Trek's interactive consumer solutions segment, which consists of the sales of its *Flucard* and Wifi memory modules. In addition, GPM increased slightly to 8.7% (from 8.5%).
- ◆ **R&D initiatives in the medical technology segment.** Back in June, Trek gained OSIM International (OSIM) (OSIM SP, NEUTRAL, TP: SGD1.50) as a strategic partner in the medical technology segment. OSIM invested a SGD10m equity stake in the company to fund its ongoing R&D expenses. To date, an increase in R&D initiatives has resulted in the filing of three new patents and further developments in the medical technology segment. This increases the groups portfolio of 436 patents granted worldwide.
- ◆ **Downgrade to NEUTRAL with a SGD0.31 TP.** Trek's FY15 has been fairly disappointing. It has simply gone off track partially due to lower margins from the group's interactive consumer solutions business segment as well as higher R&D expenses. Going forward, it is likely for such high R&D expenses to continue as the company is currently collaborating with partners on the development and commercialisation of various products within varied spaces. In addition, Trek has also not announced any new contract wins or continued orders from Rely/Mattel China or other customers to date. As a result, we have lowered our FY15 and FY16 NPAT estimates by 40% and 38% respectively and downgraded our call to NEUTRAL from Buy with a lower of SGD0.31 TP (from SGD0.52), based on 20x FY15F P/E.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (USDm)	74	113	151	102	108
Reported net profit (USDm)	1.01	2.54	3.55	4.12	4.32
Recurring net profit (USDm)	1.01	2.54	3.55	4.12	4.32
Recurring net profit growth (%)	0.0	152.7	39.5	16.0	4.8
Recurring EPS (USD)	0.00	0.01	0.01	0.01	0.01
DPS (USD)	0.002	0.000	0.008	0.008	0.008
Recurring P/E (x)	66.8	26.5	20.7	17.9	17.0
P/B (x)	1.70	1.57	1.32	1.30	1.25
P/CF (x)	32.2	15.2	16.1	15.0	13.1
Dividend Yield (%)	0.9	0.0	3.3	3.3	3.3
EV/EBITDA (x)	18.4	12.2	12.6	10.3	8.8
Return on average equity (%)	0.0	6.2	7.2	7.3	7.5
Net debt to equity (%)		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: Trek's 3Q15 results summary

FYE Dec (SGDm)	2Q15	3Q14	3Q15	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	<b>41.8</b>	<b>35.6</b>	<b>44.1</b>	<b>5.3</b>	<b>23.8</b>	The 23.8% increase YoY was mainly contributed by Interactive Consumer Solutions Business segment which increased by 25.0%.
<b>EBITDA</b>	<b>2.1</b>	<b>1.4</b>	<b>1.3</b>	<b>(35.0)</b>	<b>(3.9)</b>	
<i>EBITDA margin</i>	5%	4%	3%			
Depreciation and amortisation	(1.0)	(0.8)	(1.0)	(4.6)	26.7	
<b>EBIT</b>	<b>1.1</b>	<b>0.6</b>	<b>0.4</b>	<b>(64.2)</b>	<b>(40.6)</b>	
<i>EBIT margin</i>	2.5%	1.8%	0.9%			
Net finance cost	0.1	0.1	0.2	36.5	35.5	
<b>Pretax profit</b>	<b>1.2</b>	<b>0.8</b>	<b>0.6</b>	<b>(52.6)</b>	<b>(27.0)</b>	The decrease was mainly attributable to a 94.5% increase in Research and Development activities related to Medtech and filing of three new patents.
<i>Pretax margin</i>	3%	2%	1%			
Tax	(0.0)	(0.0)	(0.0)	45.5	0.0	
<i>Effective tax rate (%)</i>	-1%	-2%	-3%			
<b>Net profit</b>	<b>1.2</b>	<b>0.8</b>	<b>0.5</b>	<b>(53.5)</b>	<b>(27.6)</b>	
<i>Net margin</i>	3%	2%	1%			

Source: RHB

## Financial Exhibits

<b>Profit &amp; Loss (USDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total turnover	74	113	151	102	108
Cost of sales	(64)	(100)	(135)	(90)	(95)
<b>Gross profit</b>	<b>10</b>	<b>13</b>	<b>16</b>	<b>12</b>	<b>13</b>
Gen & admin expenses	(3)	(4)	(4)	(3)	(3)
Selling expenses	(2)	(2)	(3)	(2)	(2)
Other operating costs	(4)	(5)	(7)	(5)	(5)
<b>Operating profit</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>3</b>
Operating EBITDA	3	5	5	6	6
Depreciation of fixed assets	(2)	(1)	(2)	(1)	(1)
Amortisation of intangible assets	(2)	(2)	(2)	(2)	(2)
<b>Operating EBIT</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>3</b>
Net income from investments	1	1	1	1	1
Other recurring income	-	-	0	1	-
Interest income	0	1	1	1	1
Interest expense	(0)	(0)	(0)	(0)	(0)
<b>Pre-tax profit</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>5</b>
Taxation	(0)	0	0	0	0
Minority interests	(0)	(1)	(0)	(0)	(0)
<b>Profit after tax &amp; minorities</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>Reported net profit</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>Recurring net profit</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>4</b>

Source: Company data, RHB

<b>Cash flow (USDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
<b>Operating profit</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>3</b>
<b>Depreciation &amp; amortisation</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
Other operating cash flow	(1)	(0)	(1)	(1)	(1)
<b>Operating cash flow</b>	<b>2</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>6</b>
Interest received	0	0	-	-	-
Interest paid	(0)	(0)	(0)	(0)	(0)
Tax paid	(0)	(0)	(0)	(0)	(0)
<b>Cash flow from operations</b>	<b>2</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>6</b>
Capex	(3)	(3)	(3)	(3)	(2)
Other new investments	(3)	(2)	0	0	0
Other investing cash flow	2	2	1	1	1
<b>Cash flow from investing activities</b>	<b>(4)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(1)</b>
Dividends paid	(1)	-	(2)	(2)	(2)
Proceeds from issue of shares	-	-	12	-	-
Increase in debt	1	4	2	1	1
Other financing cash flow	(0)	(2)	(8)	(7)	(2)
<b>Cash flow from financing activities</b>	<b>(0)</b>	<b>2</b>	<b>3</b>	<b>(9)</b>	<b>(4)</b>
Cash at beginning of period	7	5	9	12	22
<b>Total cash generated</b>	<b>(2)</b>	<b>4</b>	<b>5</b>	<b>(6)</b>	<b>1</b>
Forex effects	(0)	-	-	-	-
<b>Implied cash at end of period</b>	<b>5</b>	<b>9</b>	<b>14</b>	<b>7</b>	<b>22</b>

Source: Company data, RHB

## Financial Exhibits

<b>Balance Sheet (USDm)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Total cash and equivalents	10	12	15	25	28
Inventories	11	13	14	9	9
Accounts receivable	17	26	35	24	25
Other current assets	4	6	6	6	6
<b>Total current assets</b>	<b>42</b>	<b>58</b>	<b>70</b>	<b>64</b>	<b>69</b>
Total investments	8	10	10	10	10
Tangible fixed assets	11	12	11	11	10
Intangible assets	11	11	12	12	12
Total non-current assets	30	33	33	32	31
<b>Total assets</b>	<b>72</b>	<b>90</b>	<b>103</b>	<b>96</b>	<b>100</b>
Short-term debt	2	7	7	7	7
Accounts payable	21	29	28	19	20
Other current liabilities	1	1	1	1	1
<b>Total current liabilities</b>	<b>24</b>	<b>37</b>	<b>36</b>	<b>26</b>	<b>27</b>
Total long-term debt	1	1	2	3	4
Other liabilities	1	1	1	1	1
<b>Total non-current liabilities</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Total liabilities</b>	<b>26</b>	<b>39</b>	<b>39</b>	<b>31</b>	<b>33</b>
Share capital	30	30	41	41	41
Retained earnings reserve	6	9	9	11	12
Other reserves	4	5	5	5	5
<b>Shareholders' equity</b>	<b>40</b>	<b>43</b>	<b>56</b>	<b>57</b>	<b>59</b>
Minority interests	7	9	9	9	9
<b>Total equity</b>	<b>46</b>	<b>52</b>	<b>64</b>	<b>66</b>	<b>68</b>
<b>Total liabilities &amp; equity</b>	<b>72</b>	<b>90</b>	<b>103</b>	<b>96</b>	<b>100</b>

Source: Company data, RHB

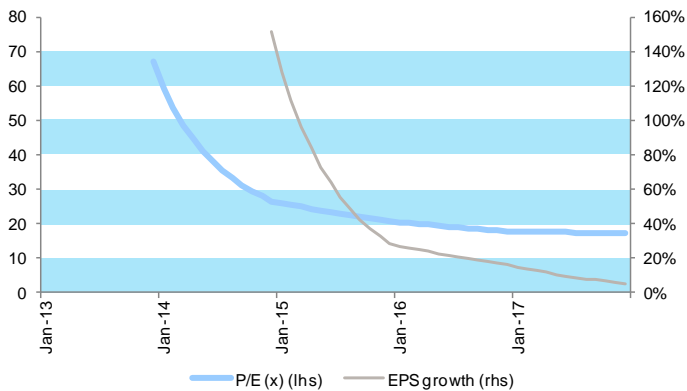
<b>Key Ratios (USD)</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>	<b>Dec-17F</b>
Revenue growth (%)	0.0	52.8	33.7	(32.5)	5.9
Operating profit growth (%)	0.0	3177.6	15.2	18.7	29.2
Net profit growth (%)	0.0	152.7	39.5	16.0	4.8
EPS growth (%)	0.0	151.8	28.1	16.0	4.8
BVPS growth (%)	0.0	8.1	18.8	2.1	3.3
Operating margin (%)	0.1	1.7	1.5	2.5	3.1
Net profit margin (%)	1.4	2.3	2.4	4.0	4.0
Return on average assets (%)	0.0	3.1	3.7	4.1	4.4
Return on average equity (%)	0.0	6.2	7.2	7.3	7.5
Net debt to equity (%)	(15.2)	(8.6)	(9.9)	(22.2)	(25.3)
DPS	0.002	0.000	0.008	0.008	0.008
Recurrent cash flow per share	0.01	0.01	0.01	0.02	0.02

Source: Company data, RHB

## SWOT Analysis

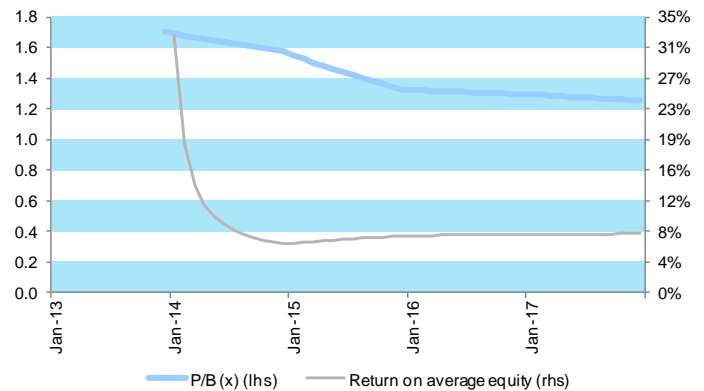


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

## Company Profile

Trek 2000 International Ltd (Trek) is a local creative firm that provides digital compression-based technology system solutions as well as customised engineering services. The company also deal in electronics appliances and components, and the researching and developing computer hardware, software and other related products.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-19	Buy	0.52	0.30
2015-05-11	Buy	0.61	0.45
2015-02-25	Buy	0.61	0.35
2014-10-14	Buy	0.61	0.43
2011-11-11	Buy	0.45	0.32
2011-10-11	Buy	0.45	0.34

Source: RHB, Bloomberg

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**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

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