

Valuetronics (VALUE SP)

Technology - Technology

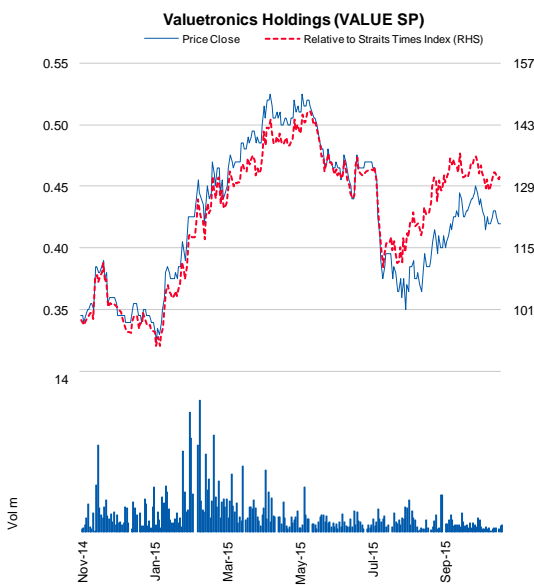
Market Cap: USD112m

Buy (Maintained)

 Target Price: **SGD0.57**

 Price: **SGD0.42**

A New Dawn Ahead

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

| | |
|----------------------------|-------------|
| Avg Turnover (SGD/USD) | 0.32m/0.23m |
| Cons. Upside (%) | 35.7 |
| Upside (%) | 35.7 |
| 52-wk Price low/high (SGD) | 0.33 - 0.53 |
| Free float (%) | 70 |
| Share outstanding (m) | 380 |
| Shareholders (%) | |
| Chong Hing Tse | 18.4 |
| Koh Kit Chow | 7.7 |
| Pyn Rahastoyhtio | 4.7 |

Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------|------|-------|------|--------|------|
| Absolute | 18.3 | (1.2) | 9.1 | (16.0) | 21.7 |
| Relative | 31.4 | 0.8 | 14.5 | (0.7) | 33.2 |

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Valuetronics's 2Q16 earnings missed our expectations slightly, with 1H16 NPAT down 6.4% YoY despite revenue dipping 14.2%, mainly due to the rapid decline in the LED segment which was unexpected. Management has guided that earnings from LED segment should likely be non-existent from 3Q16 onwards. As a result, we have removed the bulk of the LED earnings contribution from 2H16 onwards and lower our FY16 NPAT estimates by 9.8%, resulting in a lower TP of SGD0.57.

- ◆ **Impacted by rapid LED decline.** 2Q16 earnings were impacted negatively by the rapid decline in the LED segment, resulting in revenue contribution from the Consumer Electronics (CE) business segment to drop 40.6% YoY. 2Q16 NPAT was down 11.3% YoY with revenue declining 14.2% YoY. 1H16 NPAT slightly dipped by 6.4% to HKD 65.7m. The strong growth momentum in Industrial and Commercial Electronics (ICE) segment continued in 2Q16, surging 27.7% YoY.
- ◆ **LED revenue contribution to be minimal going forward.** With up to 90% of the existing LED product's life ended in 2Q16, there will only be 10% (HKD38.7m) of revenue left to be recognized in 2H16. This means that LED revenue contribution would likely be non-existent/very minimal going forward. From our estimates, ICE is likely to account for c.57% of FY16's total revenue, with CE making up the remaining 43%.
- ◆ **Staying positive, maintain BUY.** Although the speed of the decline of the LED contribution was somewhat unexpected, we remain positive on the stock for the following reasons. Firstly, LED products has the lowest GPM of 6-8% compared to the rest of the products from Valuetronics and has been suffering cost pressures due to the 10% YoY decline in ASP. Secondly, it is likely to contribute less than 10% of FY16F's NPAT despite accounting for c.30% of FY16F's revenue. Thirdly, factory space and equipment previously used for the LED products can also be used for its other consumer products or fast growing ICE segment. As a result, we have removed LED earnings contribution from our FY16 forecasts and adjusted our FY16 NPAT estimates by 9.8%, resulting in a lower DCF-based TP of SGD0.57 (from SGD0.62) (WACC: 12%, TG: 0%). Going forward, ICE segment growth momentum should likely continue and improve profitability for FY17F. Backed by a 8.2% FY16 yield, we Maintain BUY.

| Forecasts and Valuations | Mar-14 | Mar-15 | Mar-16F | Mar-17F | Mar-18F |
|-------------------------------------|--------|----------|----------|----------|----------|
| Total turnover (HKDm) | 2,433 | 2,429 | 2,079 | 2,258 | 2,405 |
| Reported net profit (HKDm) | 148 | 149 | 137 | 155 | 169 |
| Recurring net profit (HKDm) | 148 | 149 | 137 | 155 | 169 |
| Recurring net profit growth (%) | 88.0 | 0.9 | (8.0) | 13.1 | 9.0 |
| Recurring EPS (HKD) | 0.41 | 0.41 | 0.37 | 0.42 | 0.46 |
| DPS (HKD) | 0.20 | 0.20 | 0.19 | 0.21 | 0.23 |
| Recurring P/E (x) | 5.63 | 5.62 | 6.12 | 5.41 | 4.96 |
| P/B (x) | 1.15 | 1.04 | 0.95 | 0.87 | 0.79 |
| P/CF (x) | 2.75 | 4.74 | 4.68 | 4.58 | 4.20 |
| Dividend Yield (%) | 8.9 | 8.7 | 8.2 | 9.2 | 10.1 |
| EV/EBITDA (x) | 0.66 | 0.45 | 0.14 | (0.16) | (0.43) |
| Return on average equity (%) | 22.4 | 19.4 | 16.2 | 16.7 | 16.7 |
| 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: 2Q16 Results Summary

| FYE Dec (HKDm) | 2Q15 | 1Q16 | 2Q16 | QoQ (%) | YoY (%) | Comments |
|-------------------------------|--------------|--------------|--------------|---------------|---------------|--|
| Revenue | 627.6 | 550.0 | 526.5 | (4.3) | (16.1) | This is largely driven by decline in Consumer Electronics, especially in the LED lighting business |
| EBITDA | 50.8 | 47.8 | 46.6 | (2.6) | (8.3) | The decrease was partially offset by lower selling and distribution costs due to write-back of provision for sales warranties amounting to HKD3.4m |
| <i>EBITDA margin</i> | 8% | 9% | 9% | | | |
| Depreciation and amortisation | (9.4) | (9.7) | (9.8) | 1.0 | 5.0 | |
| EBIT | 41.4 | 38.1 | 36.7 | (3.6) | (11.3) | |
| <i>EBIT margin</i> | 6.6% | 6.9% | 7.0% | | | Improvements in margins are due to change in product sales mix |
| Net finance cost | (0.3) | (0.2) | (0.2) | (22.6) | (27.6) | |
| Pretax profit | 41.2 | 37.8 | 36.5 | (3.5) | (11.2) | |
| <i>Pretax margin</i> | 7% | 7% | 7% | | | |
| Tax | (4.8) | (4.4) | (4.3) | (0.7) | (10.6) | |
| <i>Effective tax rate (%)</i> | -12% | -12% | -12% | | | |
| Net profit | 36.3 | 33.5 | 32.2 | (3.8) | (11.3) | |
| <i>Net margin</i> | 6% | 6% | 6% | | | |

Source: RHB estimates

Financial Exhibits

| Profit & Loss (HKDm) | Mar-14 | Mar-15 | Mar-16F | Mar-17F | Mar-18F |
|--|---------------|---------------|----------------|----------------|----------------|
| Total turnover | 2,433 | 2,429 | 2,079 | 2,258 | 2,405 |
| Cost of sales | (2,106) | (2,098) | (1,777) | (1,927) | (2,046) |
| Gross profit | 327 | 331 | 302 | 332 | 359 |
| Gen & admin expenses | (130) | (145) | (129) | (136) | (144) |
| Selling expenses | (39) | (35) | (33) | (36) | (38) |
| Other operating costs | 10 | 17 | 13 | 13 | 13 |
| Operating profit | 168 | 169 | 153 | 173 | 189 |
| Operating EBITDA | 207 | 207 | 182 | 205 | 223 |
| Depreciation of fixed assets | (39) | (37) | (29) | (32) | (34) |
| Amortisation of intangible assets | (0) | (0) | - | - | - |
| Operating EBIT | 168 | 169 | 153 | 173 | 189 |
| Interest expense | (1) | (1) | (1) | (1) | (1) |
| Pre-tax profit | 167 | 168 | 152 | 172 | 188 |
| Taxation | (19) | (19) | (15) | (17) | (19) |
| Profit after tax & minorities | 148 | 149 | 137 | 155 | 169 |
| Reported net profit | 148 | 149 | 137 | 155 | 169 |
| Recurring net profit | 148 | 149 | 137 | 155 | 169 |

Source: Company data, RHB

| Cash flow (HKDm) | Mar-14 | Mar-15 | Mar-16F | Mar-17F | Mar-18F |
|--|---------------|---------------|----------------|----------------|----------------|
| Operating profit | 168 | 169 | 153 | 173 | 189 |
| Depreciation & amortisation | 40 | 38 | 29 | 32 | 34 |
| Change in working capital | 100 | (15) | 12 | (5) | (4) |
| Other operating cash flow | 4 | (2) | 1 | 1 | 1 |
| Operating cash flow | 312 | 190 | 195 | 201 | 220 |
| Interest paid | - | - | (1) | (1) | (1) |
| Tax paid | (9) | (13) | (15) | (17) | (19) |
| Cash flow from operations | 303 | 177 | 179 | 183 | 200 |
| Capex | (21) | (30) | (45) | (45) | (60) |
| Other investing cash flow | (5) | (50) | - | - | - |
| Cash flow from investing activities | (26) | (80) | (45) | (45) | (60) |
| Dividends paid | (29) | (73) | (69) | (78) | (85) |
| Proceeds from issue of shares | 7 | 7 | 7 | 7 | 7 |
| Other financing cash flow | - | (0) | (0) | (0) | (0) |
| Cash flow from financing activities | (22) | (66) | (61) | (70) | (77) |
| Cash at beginning of period | 222 | 478 | 506 | 579 | 646 |
| Total cash generated | 255 | 31 | 73 | 68 | 62 |
| Forex effects | 2 | (3) | - | - | - |
| Implied cash at end of period | 478 | 506 | 579 | 646 | 709 |

Source: Company data, RHB

Financial Exhibits

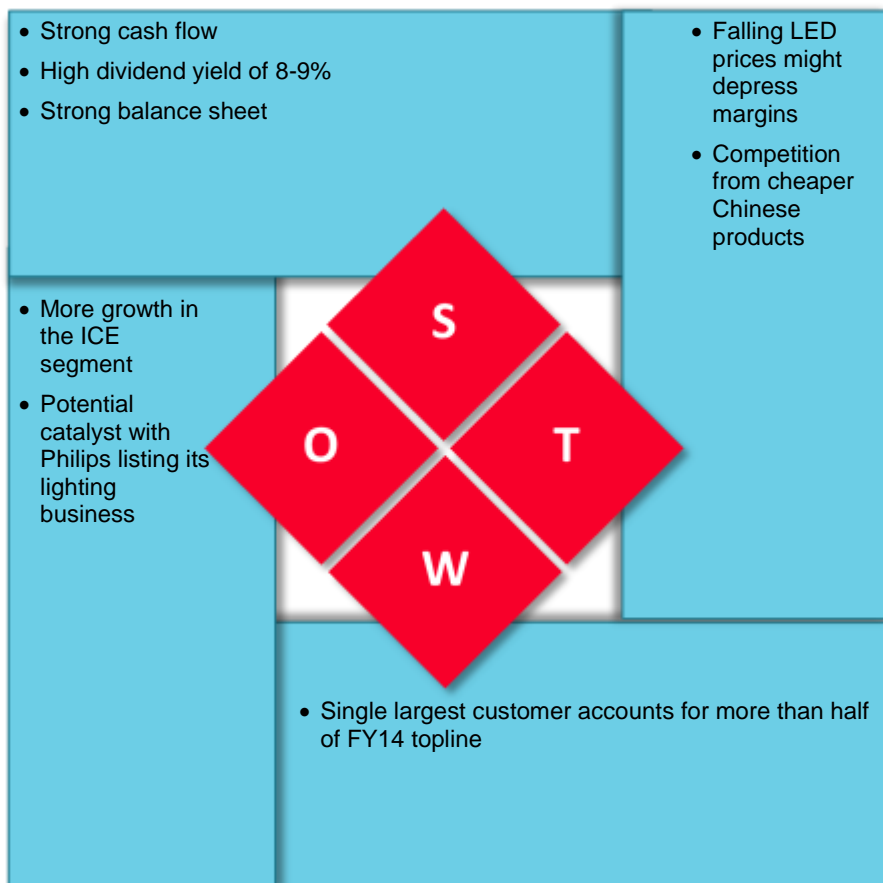
| Balance Sheet (HKDm) | Mar-14 | Mar-15 | Mar-16F | Mar-17F | Mar-18F |
|---------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Total cash and equivalents | 478 | 506 | 579 | 646 | 708 |
| Inventories | 199 | 222 | 168 | 182 | 193 |
| Accounts receivable | 517 | 517 | 442 | 480 | 511 |
| Other current assets | 13 | 27 | 27 | 27 | 27 |
| Total current assets | 1,207 | 1,272 | 1,215 | 1,335 | 1,439 |
| Total investments | 193 | 231 | 247 | 260 | 287 |
| Total other assets | 21 | 20 | 20 | 20 | 20 |
| Total non-current assets | 214 | 251 | 267 | 280 | 307 |
| Total assets | 1,421 | 1,522 | 1,482 | 1,615 | 1,746 |
| Accounts payable | 354 | 347 | 299 | 324 | 344 |
| Other current liabilities | 338 | 365 | 298 | 321 | 340 |
| Total current liabilities | 692 | 713 | 596 | 645 | 684 |
| Other liabilities | 2 | 1 | 1 | 1 | 1 |
| Total non-current liabilities | 2 | 1 | 1 | 1 | 1 |
| Total liabilities | 695 | 714 | 598 | 646 | 685 |
| Share capital | 37 | 37 | 45 | 52 | 59 |
| Retained earnings reserve | 690 | 771 | 840 | 917 | 1,002 |
| Shareholders' equity | 727 | 809 | 884 | 969 | 1,061 |
| Other equity | - | 0 | 0 | 0 | 0 |
| Total equity | 727 | 809 | 884 | 969 | 1,061 |
| Total liabilities & equity | 1,421 | 1,522 | 1,482 | 1,615 | 1,746 |

Source: Company data, RHB

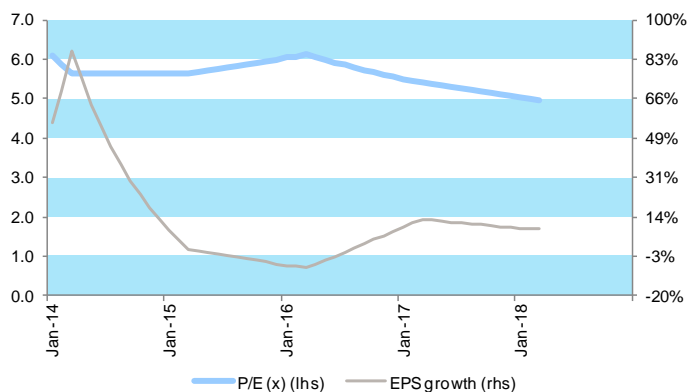
| Key Ratios (HKD) | Mar-14 | Mar-15 | Mar-16F | Mar-17F | Mar-18F |
|-------------------------------|---------------|---------------|----------------|----------------|----------------|
| Revenue growth (%) | 10.1 | (0.2) | (14.4) | 8.6 | 6.5 |
| Operating profit growth (%) | 26.3 | 0.6 | (9.0) | 13.0 | 9.0 |
| Net profit growth (%) | 88.0 | 0.9 | (8.0) | 13.1 | 9.0 |
| EPS growth (%) | 86.6 | 0.1 | (8.0) | 13.1 | 9.0 |
| BVPS growth (%) | 20.9 | 11.3 | 9.4 | 9.6 | 9.5 |
| Operating margin (%) | 6.9 | 6.9 | 7.4 | 7.7 | 7.9 |
| Net profit margin (%) | 6.1 | 6.1 | 6.6 | 6.9 | 7.0 |
| Return on average assets (%) | 11.7 | 10.1 | 9.1 | 10.0 | 10.1 |
| Return on average equity (%) | 22.4 | 19.4 | 16.2 | 16.7 | 16.7 |
| Net debt to equity (%) | (65.8) | (62.6) | (65.4) | (66.7) | (66.7) |
| DPS | 0.20 | 0.20 | 0.19 | 0.21 | 0.23 |
| Recurrent cash flow per share | 0.83 | 0.48 | 0.49 | 0.50 | 0.55 |

Source: Company data, RHB

SWOT Analysis

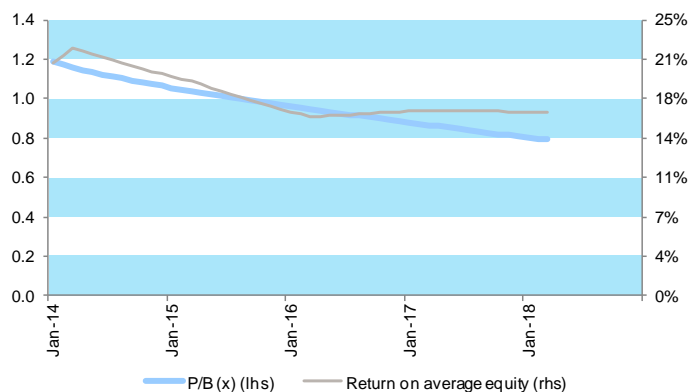


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Valuetronics Holdings Ltd. offers original equipment manufacturing and original design manufacturing services. The Company serves customers in the telecommunications, industrial, commercial electronic products, and consumer electronic products industries.

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2015-08-18 | Buy | 0.60 | 0.37 |
| 2015-05-27 | Buy | 0.64 | 0.52 |
| 2015-03-01 | Buy | 0.64 | 0.44 |

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

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

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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