

# Valuetronics (VALUE SP)

Share Price: SGD0.43

MCap (USD): 114M

Singapore

Target Price: SGD0.57 (+34%)

ADTV (USD): 0.2M

Technology

**BUY**

(Unchanged)

## More Customers to Come

- Post-briefing note. Expect Valuetronics to exit LED business in next two quarters.
- Industrial sales growing strong, thanks to new customers.
- We cut our FY17-18 EPS by 9-16%. Maintain BUY with new TP of SGD0.57 down from SGD0.62, still based on 9x FY17 P/E.

### LED Reaching the Bottom; New Industrial Customers

2QFY3/16 was down 16% YoY, gross margins up 14.6% (13.1% 2QFY3/15) and net profit down 11% YoY.

Consumer revenue declined 41% YoY in 2QFY3/17, as 90% of LED products are approaching the end of their product life. LED made up 15% of total revenue in 2QFY3/16. We expect the LED decline to continue in the next two quarters, so Consumer revenue will mainly be contributed by consumer lifestyle products, for which revenue has remained stable.

On the bright side, Valuetronics acquired new Industrial customers, including a US-based automotive customer, which already contributed a significant 3-5% to total revenue. The type of electronic product manufactured has not been disclosed, but we understand the new customer is a tier-one supplier serving automotive companies. Valuetronics is the exclusive manufacturer for one of its brands. Management also expects two additional customers in 2HFY3/17, in the printer and telcom industries. Gross margins are expected to expand from 13.1% in FY3/15 to 14.6% in FY3/16, thanks to a better product mix.

### Still Positive; Maintain BUY

We cut our FY15-17 EPS by 9-16% to reflect the quick LED decline. Dividend yields are expected to remain high at 7-8%. The stock trades at 6.5x FY17 P/E or 2.6x ex-cash vs peers' average 9.2x. Maintain BUY with lower TP of SGD0.57 (from SGD0.62), based on 9x FY17 P/E. We expect catalysts from new customers and margin expansion.

FYE Mar (HKD m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	2,433.3	2,429.3	2,035.5	1,978.3	2,097.5
EBITDA	207.3	206.6	187.8	202.2	217.8
Core net profit	147.9	149.2	126.1	135.4	143.9
Core FDEPS (HKD)	0.40	0.41	0.33	0.36	0.38
Core FDEPS growth(%)	23.1	0.9	(18.0)	7.3	6.3
Net DPS (HKD)	0.20	0.20	0.17	0.18	0.19
Core FD P/E (x)	5.7	5.7	6.9	6.5	6.1
P/BV (x)	1.2	1.1	1.0	0.9	0.9
Net dividend yield (%)	8.6	8.6	7.2	7.8	8.3
ROAE (%)	22.4	19.4	15.2	15.2	14.9
ROAA (%)	11.7	10.1	8.4	9.0	9.0
EV/EBITDA (x)	1.3	2.3	1.7	1.5	0.9
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

### Key Data

52w high/low (SGD)	0.53/0.33
3m avg turnover (USDm)	0.2
Free float (%)	66.2
Issued shares (m)	380
Market capitalization	SGD161.6M
Major shareholders:	
-TSE CHONG HING	18.2%
-CHOW KOK KIT	7.7%
-HSBC Global Asset Management (Hong Koi	5.1%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	(1.2)	11.8	23.2
Relative to index (%)	2.7	19.5	40.1

### Maybank vs Market

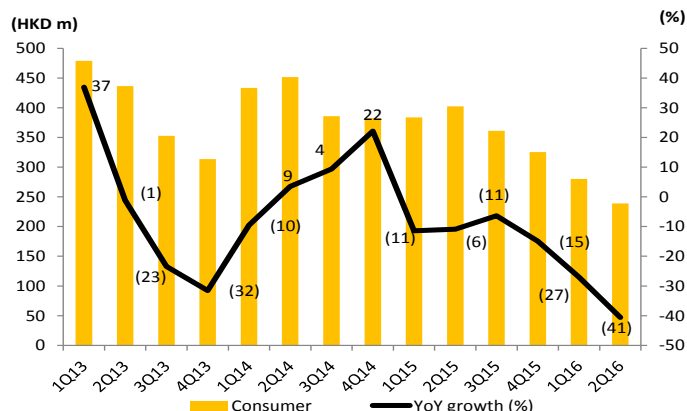
	Positive	Neutral	Negative
Market Recs	3	0	0
	Maybank Consensus		% +/-
Target Price (SGD)	0.57	0.62	(7.7)
'16 PATMI (HKDm)	126	140	(9.9)
'17 PATMI (HKDm)	135	155	(12.7)

Source: FactSet; Maybank

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**Figure 1: Quarterly Consumer revenue**

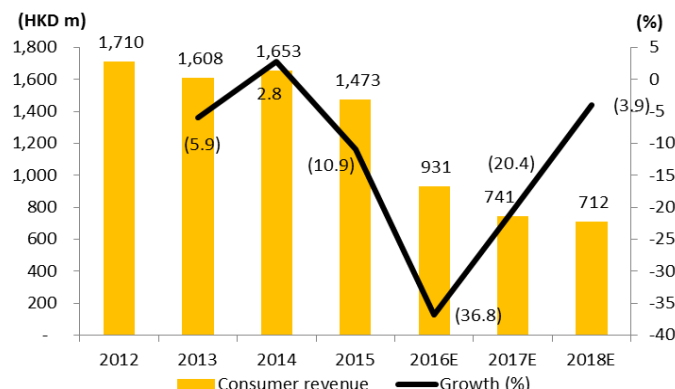
LED division has shrunk significantly. It made up about 15% of total revenue in 2QFY3/16. Expect further decline in next two quarters.



Source: Company

**Figure 2: Yearly Consumer revenue**

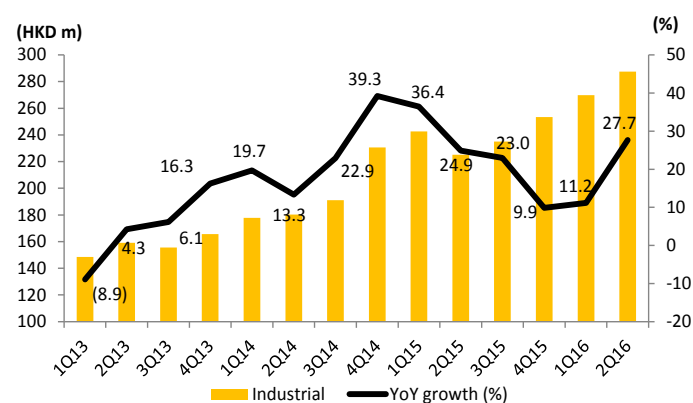
Expect 20-30% YoY drop in FY16-17, as the whole LED division vanishes. As from FY3/17, Consumer revenue will comprise mainly lifestyle products.



Source: Company, Maybank KE

**Figure 3: Quarterly Industrial revenue**

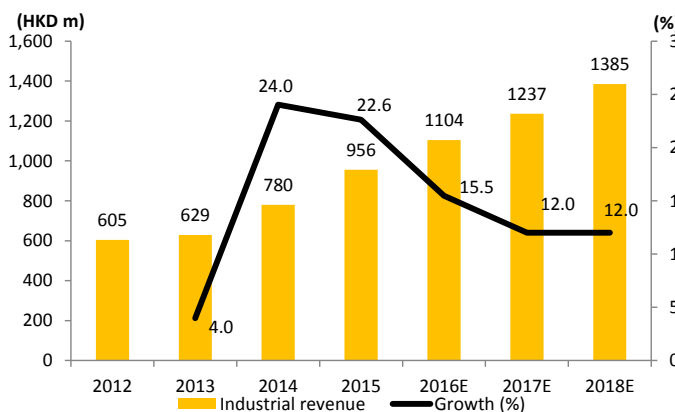
Surged 28% YoY in 2QFY3/16, thanks to existing and new customers, notably a new automotive customer which contributed 3-5% to total revenue.



Source: Company

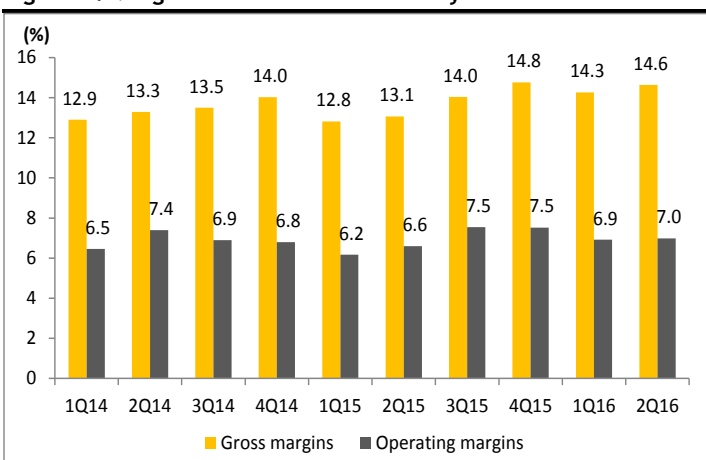
**Figure 4: Yearly Industrial revenue**

Expect 12% YoY growth in Industrial revenue in FY17-18. Existing and new clients to contribute to growth, though China's economic slowdown is a wildcard.



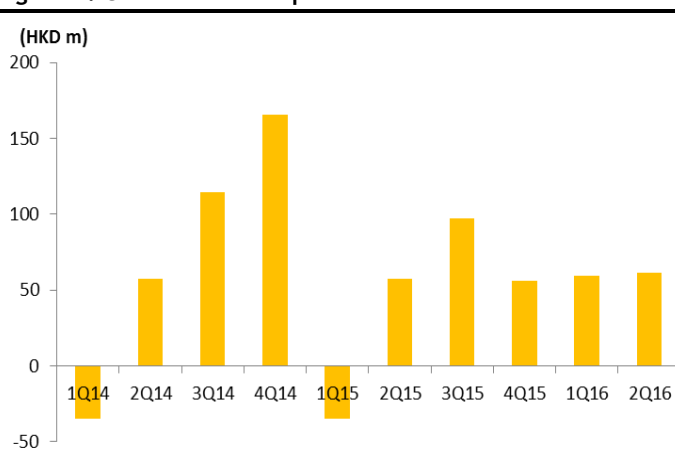
Source: Company, Maybank KE

**Figure 5: Margins have remained healthy**



Source: Company

**Figure 6: Cash flow from operations**



Source: Company

Figure 7: Peer comparisons

	Mkt Cap (USD m)	Revenue (SGD m)	P/E (x)		P/BV (x)		EV/EBITDA (x)		Div yield (%)	Gross margin (%)	ROA (%)	ROE (%)	3-yr EPS growth (%)
			FY1	FY2	FY1	FY2	FY1	FY2					
<b>Valuetronics Holdings Ltd</b>	<b>126</b>	<b>404</b>	<b>7.0</b>	<b>6.5</b>	<b>1.0</b>	<b>1.0</b>	<b>1.8</b>	<b>1.5</b>	<b>7.1</b>	<b>14.6</b>	<b>8.4</b>	<b>15.2</b>	<b>(1.5)</b>
<b>AVERAGE</b>			<b>10.2</b>	<b>9.2</b>	<b>2.1</b>	<b>1.8</b>	<b>3.8</b>	<b>3.3</b>	<b>5.7</b>	<b>17.6</b>	<b>9.0</b>	<b>16.0</b>	<b>29.1</b>
CDW Holding Ltd	68	192	9.7	9.2	1.2	1.1	1.3	1.2	7.7	22.2	7.9	13.1	10.1
Interplex Holdings Ltd	284	1,271	9.7	8.0	1.8	1.5	4.8	4.5	6.5	14.8	4.6	17.6	50.9
Innovalues	176	108	11.9	10.1	3.2	2.7	7.0	5.6	3.3	26.1	17.6	24.8	26.4
Fu Yu Corp Ltd	106	108	9.4	9.4	n.a.	n.a.	2.1	2.0	5.3	12.2	5.9	8.7	n.a.
Sunningdale Tech Ltd	141	254	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12.6	n.a.	n.a.	n.a.

Source: Maybank

FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	5.7	5.8	6.9	6.4	6.1
Core P/E (x)	5.7	5.8	6.9	6.4	6.1
Core FD P/E (x)	5.7	5.7	6.9	6.5	6.1
P/BV (x)	1.2	1.1	1.0	0.9	0.9
P/NTA (x)	nm	nm	nm	nm	nm
Net dividend yield (%)	8.6	8.6	7.2	7.8	8.3
FCF yield (%)	33.5	17.0	14.3	10.0	20.6
EV/EBITDA (x)	1.3	2.3	1.7	1.5	0.9
EV/EBIT (x)	1.6	2.9	2.3	2.0	1.1
<b>INCOME STATEMENT (HKD m)</b>					
Revenue	2,433.3	2,429.3	2,035.5	1,978.3	2,097.5
Gross profit	326.8	331.4	296.7	295.3	315.0
EBITDA	207.3	206.6	187.8	202.2	217.8
Depreciation	(39.7)	(38.0)	(44.9)	(48.9)	(54.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	167.6	168.6	142.9	153.3	162.9
Net interest income / (exp)	(0.7)	(1.0)	(1.0)	(1.0)	(1.0)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	166.9	167.7	141.8	152.3	161.9
Income tax	(19.0)	(18.5)	(15.7)	(16.9)	(18.0)
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	147.9	149.2	126.1	135.4	143.9
Core net profit	147.9	149.2	126.1	135.4	143.9
<b>BALANCE SHEET (HKD m)</b>					
Cash & Short Term Investments	477.9	505.8	547.1	572.4	684.2
Accounts receivable	517.2	517.0	452.3	471.0	476.7
Inventory	198.9	221.9	204.6	202.8	209.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	181.7	171.6	184.7	185.3	205.0
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	45.8	106.3	92.4	92.4	92.4
<b>Total assets</b>	<b>1,421.5</b>	<b>1,522.7</b>	<b>1,481.1</b>	<b>1,523.9</b>	<b>1,667.9</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	354.0	347.4	260.8	230.3	284.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	341.0	367.0	367.0	368.0	382.0
<b>Total Liabilities</b>	<b>695.0</b>	<b>714.1</b>	<b>627.8</b>	<b>598.3</b>	<b>666.0</b>
Shareholders Equity	726.6	808.5	853.3	925.6	1,001.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>726.6</b>	<b>808.5</b>	<b>853.3</b>	<b>925.6</b>	<b>1,001.8</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>1,421.5</b>	<b>1,522.7</b>	<b>1,481.1</b>	<b>1,523.9</b>	<b>1,667.9</b>
<b>CASH FLOW (HKD m)</b>					
Pretax profit	166.9	167.7	141.8	152.3	161.9
Depreciation & amortisation	39.7	38.0	44.9	48.9	54.9
Adj net interest (income)/exp	(1.9)	(3.8)	(1.5)	(1.5)	(1.5)
Change in working capital	100.8	(14.0)	2.0	(46.4)	54.1
Cash taxes paid	(8.8)	(13.4)	(13.4)	(16.9)	(17.0)
Other operating cash flow	0.0	0.0	1.0	2.0	2.0
Cash flow from operations	303.0	176.6	174.5	137.1	254.2
Capex	(20.8)	(29.9)	(50.0)	(50.0)	(75.0)
Free cash flow	282.1	146.6	124.5	87.1	179.2
Dividends paid	(29.2)	(74.6)	(74.5)	(63.0)	(67.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	1.8	(43.0)	1.4	1.4	1.4
Effect of exch rate changes	1.6	(1.1)	0.0	0.0	0.0
Net cash flow	256.4	27.9	51.3	25.4	112.9

FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	10.1	(0.2)	(16.2)	(2.8)	6.0
EBITDA growth	17.5	(0.3)	(9.1)	7.6	7.7
EBIT growth	26.3	0.6	(15.3)	7.3	6.3
Pretax growth	27.1	0.5	(15.4)	7.3	6.3
Reported net profit growth	24.9	0.9	(15.5)	7.3	6.3
Core net profit growth	24.9	0.9	(15.5)	7.3	6.3
<b>Profitability ratios (%)</b>					
EBITDA margin	8.5	8.5	9.2	10.2	10.4
EBIT margin	6.9	6.9	7.0	7.7	7.8
Pretax profit margin	6.9	6.9	7.0	7.7	7.7
Payout ratio	49.2	50.0	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	6.1	6.1	6.2	6.8	6.9
Revenue/Assets (x)	1.7	1.6	1.4	1.3	1.3
Assets/Equity (x)	2.0	1.9	1.7	1.6	1.7
ROAE (%)	22.4	19.4	15.2	15.2	14.9
ROAA (%)	11.7	10.1	8.4	9.0	9.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	55.2	52.6	66.9	75.1	71.0
Days receivable outstanding	73.9	76.6	85.7	84.0	81.3
Days inventory outstanding	32.2	36.1	44.2	43.6	41.7
Days payables outstanding	50.9	60.2	63.0	52.5	51.9
Dividend cover (x)	2.0	2.0	2.0	2.0	2.0
Current ratio (x)	1.7	1.8	2.0	2.1	2.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.0	2.1	2.4	2.5	2.5
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	nm	nm	nm	nm
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.9	1.2	2.5	2.5	3.6
Net debt/ (net cash)	(477.9)	(505.8)	(547.1)	(572.4)	(684.2)

Source: Company; Maybank

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