

5 June 2020

Technology | Electronics

Valuetronics (VALUE SP)

Sell (from Buy)

Pain Before Gain; D/G To SELL

Target Price (Return): SGD0.50 (-15%)
 Price: SGD0.59
 Market Cap: USD182m
 Avg Daily Turnover (SGD/USD) 2.26m/1.49m

- **Downgrade to SELL (from Buy) with new SGD0.50 TP from SGD0.66, 15% downside.** Valuetronics guided FY21F earnings will be significantly lower compared to FY20 and highlighted that some of its customers in the auto and consumer electronics segments are planning to switch over to other suppliers in North America to serve the US market in FY21. We cut our FY21F EPS by 14% to reflect the lower revenue expected.

- **Losing customers due to diversification.** With the conflict between the US and China over the origins of COVID-19 fanning broader tensions on trade and technology, the Trump Administration continues to push US companies to move their supply chains out of China. Clients of Valuetronics have also signalled to diversify their production out of the group's China factories, with some having already diversified to its Vietnam factory. However, several clients in the auto and consumer electronics segments are planning to switch over to other suppliers in North America to serve the US market in FY21 (Mar). In FY20, c.39% of the group's revenue was shipped to the US. As a result, we expect revenue to drop by 20% in FY21F across both segments.

- **Dividends likely to be cut.** With the tough times ahead, we expect management to conserve its cash pile and as such, it will likely cut dividends especially when earnings are likely to be weaker. As a result, we expect a 5% yield for FY21F

- **Vietnam expansion in line.** Valuetronics' expansion to Vietnam has progressed as planned. Following the commencement of mass production in Jun 2019 at the first leased manufacturing facility in Hanoi, it successfully launched the trial production in its second facility located at a 4,000 sqm leased standard factory in May 2020. In Nov 2019, it also signed a sub-lease agreement to acquire a 52,541 sqm piece of land in an industrial park – run by a Japanese group – for the development of the group's own Vietnam campus, which is expected to commence mass production by 4QFY22. Capex for the construction of the Vietnam campus is estimated at HKD200m and will be financed using internal cash resources.

- **Key downside risks** are an economic slowdown, FX risks, raw material price fluctuations, and further earnings downside if the trade war or pandemic escalates.

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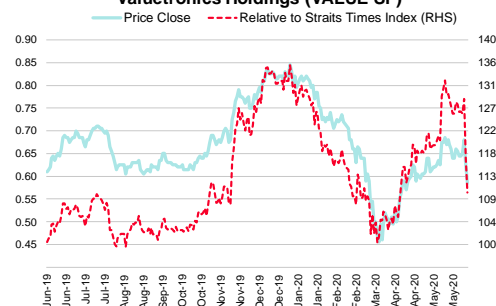
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(28.7)	(4.1)	(8.6)	(24.0)	(4.1)
Relative	(12.7)	(9.7)	1.9	(9.7)	9.8
52-wk Price low/high (SGD)	0.46 – 0.85				

Valuetronics Holdings (VALUE SP)



Source: Bloomberg

Forecasts and Valuation	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total turnover (HKDm)	2,829	2,354	1,884	1,921	1,961
Recurring net profit (HKDm)	199	179	136	138	140
Recurring net profit growth (%)	(2.6)	(10.3)	(24.3)	1.7	1.6
Recurring P/E (x)	6.60	7.85	10.37	10.20	10.03
P/B (x)	1.2	1.1	1.1	1.0	1.0
P/CF (x)	3.26	4.29	na	7.45	6.91
Dividend Yield (%)	7.6	8.0	5.3	5.4	5.5
EV/EBITDA (x)	0.44	0.32	0.99	0.65	0.38
Return on average equity (%)	17.9	14.9	10.7	10.4	10.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (HKD)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Singapore	Recurring EPS	0.49	0.41	0.31	0.32	0.32
Technology	DPS	0.25	0.26	0.17	0.17	0.18
Valuetronics	BVPS	2.70	2.84	2.99	3.13	3.27
VALUE SP	Return on average equity (%)	17.9	14.9	10.7	10.4	10.1
Sell						
	Valuation metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Valuation basis	Recurring P/E (x)	6.60	7.85	10.37	10.20	10.03
DCF valuation	P/B (x)	1.2	1.1	1.1	1.0	1.0
	FCF Yield (%)	27.1	17.3	(10.0)	4.5	2.0
Key drivers	Dividend Yield (%)	7.6	8.0	5.3	5.4	5.5
Customers diversifying production base	EV/EBITDA (x)	0.44	0.32	0.99	0.65	0.38
	EV/EBIT (x)	0.53	0.41	1.21	0.86	0.54
Key risks						
Economic recession						
Company Profile	Income statement (HKDm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Valuetronics. 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.	Total turnover	2,829	2,354	1,884	1,921	1,961
	Gross profit	430	363	274	279	285
	EBITDA	270	251	187	207	222
	Depreciation and amortisation	(45)	(54)	(34)	(52)	(64)
	Operating profit	225	197	153	156	158
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	224	196	152	155	157
	Taxation	(25)	(17)	(17)	(17)	(17)
	Reported net profit	199	179	136	138	140
	Recurring net profit	199	179	136	138	140
	Cash flow (HKDm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Change in working capital	158	111	(171)	(1)	(2)
	Cash flow from operations	404	328	(1)	189	203
	Capex	(47)	(85)	(140)	(125)	(175)
	Cash flow from investing activities	(32)	(98)	(140)	(125)	(175)
	Dividends paid	(107)	(113)	(75)	(76)	(77)
	Cash flow from financing activities	(98)	(111)	(78)	(84)	(85)
	Cash at beginning of period	671	930	1,053	838	826
	Net change in cash	274	119	(218)	(20)	(57)
	Ending balance cash	930	1,053	838	826	777
	Balance sheet (HKDm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Total cash and equivalents	930	1,053	838	826	777
	Total investments	272	223	329	402	513
	Total assets	2,013	2,013	1,902	1,975	2,048
	Total liabilities	842	780	608	618	629
	Total equity	1,172	1,233	1,294	1,356	1,419
	Total liabilities & equity	2,013	2,013	1,902	1,975	2,048
	Key metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Revenue growth (%)	(0.9)	(16.8)	(20.0)	2.0	2.1
	Recurrent EPS growth (%)	(9.1)	(15.9)	(24.3)	1.7	1.6
	Gross margin (%)	15.2	15.4	14.5	14.5	14.5
	Operating EBITDA margin (%)	9.5	10.7	9.9	10.8	11.3
	Net profit margin (%)	7.1	7.6	7.2	7.2	7.1
	Dividend payout ratio (%)	53.7	63.0	55.0	55.0	55.0
	Capex/sales (%)	1.7	3.6	7.4	6.5	8.9
	Interest cover (x)	374	258	200	204	207

Source: Company data, RHB

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Figure 1: Valuetronics' DCF valuation

	Total (HKDm)	FY21F	FY22F	FY23F	Terminal Value
EBIT		153	155.5	158.1	
EBIT(1-T)		136.2	138.5	140.7	
Less: Capex		(140)	(125)	(175)	
Add: Depreciation & Amortisation		34	51.6	64.0	
Less: Change in Non-cash WC		(170)	(0.8)	(0.8)	
FCFF		200	65.9	30.5	296.6
Present Value of FCFF		178.7	52.5	21.7	253.0
Total FCFF	434				
Add: Cash	838				
Less: Value of Debt	-				
Less: Minority Interest	-				
Target Equity Value	1187				
No. of shares (basic)	423.8				
Intrinsic Share Price (SGD)	0.50				

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-14	Buy	0.66	0.59
2020-02-20	Neutral	0.76	0.71
2019-11-14	Buy	0.81	0.74
2019-08-16	Neutral	0.61	0.62
2019-05-27	Neutral	0.67	0.61
2019-02-14	Neutral	0.78	0.71
2018-11-13	Buy	0.82	0.69
2018-09-25	Buy	0.92	0.70

Source: RHB, Bloomberg

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Analyst	Company
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