

25 September 2018

Technology | Electronics

Valuetronics

Buy (Maintained)

Minimal Flooding Impact

Maintain BUY and DCF-based TP of SGD0.92, 33% upside. Management clarified that the flooding at its plant in China had caused minimal impact to operations. It has since resumed production of its consumer electronics products. It also guided that <10% of topline would likely be impacted by the recent USD200bn additional tariffs. We note that the recent correction has placed Valuetronics at an attractive valuation – of just 7.9x F19F P/E, accompanied by a 6.3% yield. Management would be implementing more overtime shifts to catch up on production.

Production resumes after power outage solved. After the flash flood on 17 Sep 2018, Valuetronics' Danshui plant resumed operations after local power was restored on 21 Sep. We understand that the finished goods and machines, which were located at the higher floors, were not impacted by the flood – only the raw materials were damaged. However, management has already procured new raw materials and implemented more overtime shifts to catch up with the production delay caused by the flash flood. It also guided to have full insurance coverage on inventory. As such, we maintain our FY19F EPS forecast with no changes.

Looking into ASEAN – additional tariffs to have minimal impact. Management guided that the current delivery arrangement with customers is based on a free on board (FOB) agreement, where Valuetronics' responsibility of the goods is only until the pre-agreed port of departure. After that, all responsibilities, whether goods are damaged etc, would belong to the customer. As a result, the customer bears the tariffs. However, the company is likely to give a discount out of goodwill, and to maintain a good relationship with customers. As a whole, management guided for <10% of revenue to be affected by the additional USD200bn tariffs.

Dividends continue to be attractive – FY19F (Mar) yield of 6.3%. We expect management to continue rewarding shareholders with higher dividends, especially when performance improves. A total DPS of HKD0.27 has been declared for FY18, and we expect more dividends to be paid out in FY19 with a higher payout ratio due to the strong balance sheet. We are projecting an attractive FY19 dividend yield of 6.3%.

Fundamentals intact, a buying opportunity. We expect growth to continue in FY19 due to healthy growth drivers of the industrial and commercial electronics (ICE) and automotive segments. Maintain BUY, as we believe Valuetronics' fundamentals and growth drivers will remain intact, coupled with the attractive FY19F dividend yield of 6.3%.

Key risks include economic slowdown, forex risks, and raw material price fluctuations.

Target Price: SGD0.92
Price: SGD0.69
Market Cap: USD218m
Bloomberg Ticker: VALUE SP

Share Data

Avg Daily Turnover (SGD/USD) 5.1m/3.7m
52-wk Price low/high (SGD) 0.60 - 1.11
Free Float (%) 75.1
Shares outstanding (m) 433
Estimated Return 33%

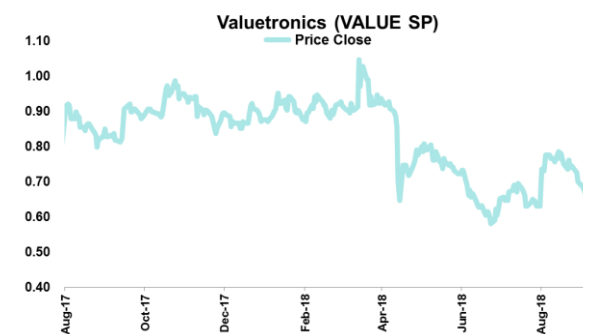
Shareholders (%)

Chong Hing Tse 17.5
HSBC 9.4
Kok Kit Chow 7.4

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(23.8)	(9.3)	(0.9)	(27.0)	(20.2)
Relative	(18.4)	(9.5)	1.2	(21.1)	(20.2)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
Total turnover (HKDm)	2275	2854	2995	3145	3291
Reported net profit (HKDm)	154	205	215	228	242
Recurring net profit (HKDm)	154	205	215	228	242
Recurring net profit growth (%)	27.9	32.9	4.9	6.1	6.0
Recurring EPS (HKD)	0.41	0.54	0.50	0.53	0.56
DPS (HKD)	0.20	0.27	0.25	0.26	0.28
Recurring P/E (x)	8.9	6.7	7.9	7.5	7.0
P/B (x)	1.5	1.3	1.4	1.3	1.2
P/CF (x)	8.5	21.5	5.8	6.4	5.9
Dividend Yield (%)	5.6	7.5	6.3	6.7	7.1
EV/EBITDA (x)	1.8	1.3	3.2	2.8	2.3
Return on average equity (%)	17.2	20.5	18.1	17.2	16.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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