

15 April 2020

Technology | Design & Manufacturing & Distribution

Technology

Overweight (Maintained)

Disrupted By COVID-19 Pandemic; OVERWEIGHT

Stocks Covered 5
 Rating (Buy/Neutral/Sell): 5/0/0
 Last 12m Earnings Revision Trend: Negative

- **MAINTAIN sector OVERWEIGHT, correction represents opportunity.**

With countries going into lockdown and global supply chains disrupted, Singapore-listed manufacturing stocks have undergone a severe correction. However, some companies under our coverage have solid net cash balance sheets and attractive yields, while others (in the semiconductor sector) should see positive growth despite the ongoing COVID-19 pandemic. Valuations are attractive, and our Top Picks are Avi-Tech, Fu Yu, and Frencken.

Top Picks

Target Price

Avi-Tech	SGD0.50
Fu Yu Corp	SGD0.28
Frencken Group	SGD0.90

- **Still positive on semiconductors, Avi-Tech and Frencken are good proxies.**

The semiconductor sector should still fare well, despite the pandemic wreaking havoc on a multitude of industries. With UMS (UMS SP, NR) and AEM (AEM SP, NR) both having rerated upwards by almost 30% in the last two weeks, we believe Avi-Tech and Frencken are also good proxies that should ride on this trend. Avi-Tech's margins should continue to improve, due to strong growth from burn-in services which fetch much higher gross margins. It has also net cash of over SGD30m, while offering an attractive yield of 7.1% for FY20F. Meanwhile, we expect to see growth in Frencken's semiconductor business, but other segments should be negatively impacted. As such, we cut FY20-21F EPS by 10%, but maintain a BUY call, with a lower TP of SGD0.90.

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- **Net cash companies will likely pull through better than peers.** In the time of this pandemic, cash is king – companies with net cash and positive operating cash flow will likely survive this crisis, and emerge stronger than their peers. Fu Yu, Avi-Tech and Valuetronics, as well as Venture, fall in this category, with each offering attractive yields.

- **The worst is over; Valuetronics upgraded to BUY.** With 80% of its China staff having returned to work as of 23 Mar, coupled with the improving situation in that country, the worst is over for Valuetronics. We feel that the significant correction in its stock price in recent months has already been priced in, thus reflecting the earnings decline. Valuations are now attractive, on top of decent yields and a net cash balance sheet. As such, we upgraded our call on this stock to BUY, with a lower DCF-based TP of SGD0.66

- **Maintain BUY on Venture, with a lower TP of SGD16.60.** We cut FY20F earnings by 13%, which resulted in a lower TP of SGD16.60, pegged to 15x FY20F P/E. With its net cash balance sheet and solid yield of 4.5%, we believe that Venture will likely survive this crisis and come out stronger despite net profit taking a temporary hit in FY20F.

- **Despite earnings cuts, valuations remain attractive.** Although we toned down projections on disruptions to production as a result of the global lockdown – with lower demand and a supply chain disruption – the sector's valuation remains attractive, at these levels.

Company Name	Rating	Target Price(SGD)	% Upside (Downside)	P/E (x) Dec-20F	P/B (x) Dec-20F	Yield (%) Dec-20F
Avi-Tech Electronics	BUY	SGD0.50	40.8	10.4	1.2	7.1
Frencken Group	BUY	SGD0.90	26.8	7.5	0.9	4.0
Fu Yu Corp	BUY	SGD0.28	24.4	8.1	1.0	7.1
Valuetronics	BUY	SGD0.66	11.9	8.6	1.1	6.4
Venture Corp	BUY	SGD16.60	6.5	14.1	1.7	4.5

Source: Company data, RHB

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Technology | Semiconductors

Avi-Tech Electronics (AVIT SP)

Buy (Maintained)

Little Disruption From COVID-19; Keep BUY

Target Price (Return): SGD0.50 (+39%)
 Price: SGD0.36
 Market Cap: USD42.9m
 Avg Daily Turnover (SGD/USD) 0.13m/0.09m

- **Keep BUY, DCF-based SGD0.50 TP implies 39% upside with c.7% FY20F (Jun) yield.** Avi-Tech Electronics reported a strong 2Q20, with PATMI surging 46.7% YoY to SGD1.4m. The semiconductor sector's slowdown has likely bottomed out for the company, and its quarterly performance should improve ahead. FY20 should be a much better year, with earnings having likely bottomed in FY19. We remain positive on the stock, and expect to see FY20F EPS up by 12% YoY.

- **Likely a strong FY20F, led by the burn-in revenue segment.** With the sector slowdown in effect since 2018, we believe the correction has bottomed – so the outlook should improve, especially with China and the US having struck a phase 1 trade deal. Avi-Tech's performance should continue to pick up in 2HFY20, with strong growth from burn-in services, which has much higher gross margins. This, coupled with previously-done cost-cutting measures, should help improve margins as well. GPM improved significantly to 39.7% in 2QFY20, from 27.9% 1QFY19. We expect it to continue booking robust numbers, as we move into 2HFY20.

- **Little impact from COVID-19.** As its factory is in Singapore, production is not impacted despite the "circuit breaker" introduced in Singapore to stem the spread of COVID-19. Avi-Tech is also considered a part of the supply chain for essential goods. However, we understand that its clients' supply chain has been disrupted slightly. This may impact its FY21F performance, if the COVID-19 pandemic worsens further, with lockdowns further extended globally.

- **7% yield.** With a net cash balance sheet and strong operating FCF, management should continue to reward shareholders with attractive dividends despite the drop in profits. For FY19, DPS totalled 2.3 SG cents, which translated to a PATMI payout ratio of 84.7%. A higher interim DPS of 1 cent was paid in 2QFY20 vs 0.8 cents a year ago, due to its strong performance. We expect management to reward shareholders with the same or more going forward, despite a special dividend given in FY19.

- **Maintain BUY.** Management is actively exploring M&A opportunities and hopes to close a deal by end-1H20. Any potential earnings-accretive M&A should be a positive. With a net cash balance sheet and good dividends, we are positive on the stock. Investors have been well rewarded – if we look at its dividend trends – even when earnings were at the bottom of the cycle

- **A key downside risk** is a slowdown in the economy. The opposite situation presents an upside risk.

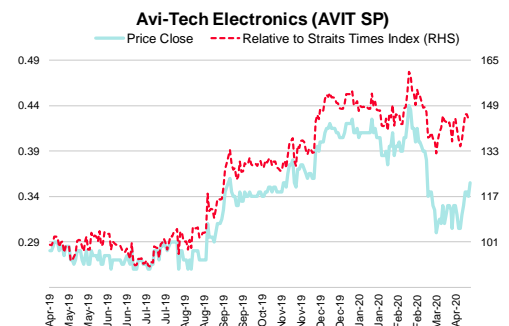
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.5)	9.2	(13.4)	2.9	29.1
Relative	4.9	11.7	8.1	20.7	52.1
52-wk Price low/high (SGD)				0.26	– 0.44



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (SGDm)	36	34	35	36	37
Recurring net profit (SGDm)	5	5	6	6	6
Recurring net profit growth (%)	(30.9)	(4.5)	22.0	5.2	5.2
Recurring P/E (x)	12.49	13.07	10.71	10.19	9.69
P/B (x)	1.3	1.2	1.2	1.1	1.1
P/CF (x)	8.06	9.97	9.00	8.34	7.75
Dividend Yield (%)	7.3	6.5	7.0	7.0	7.0
EV/EBITDA (x)	3.98	3.75	3.18	3.05	2.85
Return on average equity (%)	10.0	9.5	11.2	11.4	11.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Technology | Semiconductors

Financial Exhibits

Asia	Financial summary (SGD)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Singapore	Recurring EPS	0.03	0.03	0.03	0.03	0.04
Technology	DPS	0.03	0.02	0.03	0.03	0.03
Avi-Tech Electronics	BVPS	0.28	0.29	0.30	0.31	0.33
AVIT SP	Return on average equity (%)	10.0	9.5	11.2	11.4	11.5
Buy						
	Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Valuation basis	Recurring P/E (x)	12.49	13.07	10.71	10.19	9.69
DCF	P/B (x)	1.3	1.2	1.2	1.1	1.1
	FCF Yield (%)	11.8	8.8	6.2	5.4	6.3
Key drivers	Dividend Yield (%)	7.3	6.5	7.0	7.0	7.0
i. Attractive dividend yield;	EV/EBITDA (x)	3.98	3.75	3.18	3.05	2.85
ii. Sector correction	EV/EBIT (x)	4.83	4.58	3.72	3.62	3.44
Key risks	Income statement (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Economic recession	Total turnover	35.7	33.6	34.6	35.6	36.8
	Gross profit	9.9	10.5	11.9	12.3	12.6
	EBITDA	6.9	7.0	8.3	8.8	9.4
	Depreciation and amortisation	(1.2)	(1.3)	(1.2)	(1.4)	(1.6)
	Operating profit	5.7	5.7	7.1	7.4	7.8
	Net interest	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
	Pre-tax profit	5.7	5.7	7.1	7.4	7.8
	Taxation	(0.8)	(1.1)	(1.4)	(1.5)	(1.5)
	Reported net profit	4.9	4.6	5.7	6.0	6.3
	Recurring net profit	4.9	4.6	5.7	6.0	6.3
	Cash flow (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Change in working capital	0.8	(0.6)	(0.2)	(0.2)	(0.2)
	Cash flow from operations	7.5	6.1	6.7	7.3	7.8
	Capex	(0.4)	(0.8)	(3.0)	(4.0)	(4.0)
	Cash flow from investing activities	1.9	(3.8)	(3.0)	(4.0)	(4.0)
	Dividends paid	(5.3)	(3.6)	(4.3)	(4.3)	(4.3)
	Cash flow from financing activities	(5.7)	(3.6)	(4.3)	(4.3)	(4.3)
	Cash at beginning of period	23.5	31.2	33.9	33.8	33.2
	Net change in cash	3.7	(1.3)	(0.5)	(1.0)	(0.4)
	Ending balance cash	27.2	29.8	33.3	32.8	32.8
	Balance sheet (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Total cash and equivalents	32.7	34.5	34.4	33.8	33.8
	Tangible fixed assets	12.7	12.1	13.8	16.3	18.5
	Total investments	0.5	0.0	0.0	0.0	0.0
	Total assets	54.6	56.6	58.4	60.6	63.2
	Total liabilities	6.1	7.1	7.0	7.2	7.3
	Total equity	48.5	49.5	51.4	53.5	55.9
	Total liabilities & equity	54.6	56.6	58.4	60.6	63.2
	Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Revenue growth (%)	(10.7)	(5.9)	3.0	3.1	3.1
	Recurrent EPS growth (%)	(30.9)	(4.5)	22.0	5.2	5.2
	Gross margin (%)	27.9	31.4	34.4	34.4	34.4
	Operating EBITDA margin (%)	19.4	20.8	23.9	24.7	25.7
	Net profit margin (%)	13.6	13.8	16.4	16.7	17.1
	Capex/sales (%)	1.1	2.3	8.7	11.2	10.9
	Interest cover (x)	815	1,144	1,415	1,487	1,564

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-17	Buy	0.50	0.41
2020-02-17	Buy	0.50	0.41
2019-11-18	Buy	0.41	0.37
2019-11-07	Buy	0.41	0.37
2019-09-10	Neutral	0.31	0.31
2019-07-16	Neutral	0.27	0.28
2019-02-14	Neutral	0.30	0.30
2018-11-13	Neutral	0.34	0.31
2018-09-12	Neutral	0.38	0.35

Source: RHB, Bloomberg

15 April 2020

Technology | Software & Services

Frencken Group (FRKN SP)

Buy (Maintained)

Resilient Despite Disruption; Keep BUY

Target Price (Return): SGD0.90 (+27%)
 Price: SGD0.71
 Market Cap: USD213m
 Avg Daily Turnover (SGD/USD) 0.99m/0.70m

- **BUY, new DCF-backed TP of SGD0.90** from SGD1.05, 27% upside with 4% FY20F yield. With the COVID-19 pandemic causing a global lockdown, a few of Frencken's factories – like those in Malaysia and China – have halted operations temporarily. That said, management revealed that most of its other factories around the world have resumed normal operations. As such, the supply impact to customers should be minimal. We remain bullish in our outlook for this company.

- **Factories in Singapore not impacted by “circuit breaker”.** As it is a part of the supply chain for essential products such as semiconductors and healthcare equipment, Frencken's Singapore division is not impacted by the government-implemented “circuit breaker”.

- **Malaysian factories closed for two weeks.** To comply with Malaysia's Movement Control Order (MCO), Frencken closed its factories there for two weeks in March. Since then, its mechatronics manufacturing operation in Bangi has received approval from the Malaysian Government to resume operations – albeit with a reduced number of workers during the MCO.

- **Riding on the semiconductor sector uplift.** Frencken's semiconductor segment is likely to record strong double-digit growth this year, riding on the uplift in the semiconductor space. Management also guided for YoY growth in 1Q20F, as a result of increased sales from customers in Asia and Europe. Based on our channel checks and the performance of companies in the supply chain on the semiconductor sector, we believe that this segment will be a key positive catalyst for Frencken's EPS growth in 2020.

- **Decrease in earnings estimate is not as severe as that of other peers.** Management remains bullish in its outlook, as the company should benefit from its key customer's new product in the industrial automation segment in FY20F, despite expecting a drop just for 1Q20F. We remain bullish on its semiconductor business, which should still chart YoY growth this year. However, with global supply chains impacted by the COVID-19 pandemic as well the temporary shutdown in some its factories, we expect other segments to be negatively impacted. As such, this should lower FY20-21F EPS by 10%. These cuts should likely be smaller than that of some peers, as we expect its earnings to still remain quite resilient. As a result, our DCF-backed TP drops to SGD0.90, from SGD1.05. Maintain BUY.

- **Key risks** include an economic slowdown, and customers delaying orders

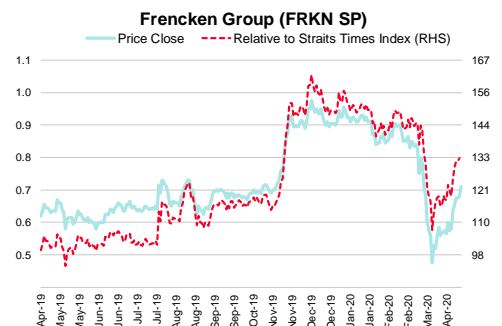
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(23.3)	4.4	(22.0)	2.9	18.3
Relative	(2.9)	6.9	(0.5)	20.7	41.3
52-wk Price low/high (SGD)				0.48	0.98



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	626	659	618	649	683
Recurring net profit (SGDm)	33	46	40	42	45
Recurring net profit growth (%)	33.6	38.4	(12.6)	5.1	6.2
Recurring P/E (x)	9.04	6.55	7.50	7.13	6.72
P/B (x)	1.1	1.0	0.9	0.8	0.8
P/CF (x)	10.29	3.02	9.83	4.80	4.54
Dividend Yield (%)	3.0	4.2	4.0	4.2	4.5
EV/EBITDA (x)	4.84	2.83	3.45	2.94	2.43
Return on average equity (%)	11.7	15.1	12.9	12.4	12.1
Net debt to equity (%)	0.6	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Technology | Software & Services

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.08	0.11	0.09	0.10	0.11
Technology	DPS	0.02	0.03	0.03	0.03	0.03
Frencken Group	BVPS	0.63	0.70	0.77	0.84	0.91
FRKN SP	Return on average equity (%)	11.7	15.1	12.9	12.4	12.1
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	9.04	6.55	7.50	7.13	6.72
DCF	P/B (x)	1.1	1.0	0.9	0.8	0.8
	FCF Yield (%)	1.6	28.0	1.8	12.5	13.7
Key drivers	Dividend Yield (%)	3.0	4.2	4.0	4.2	4.5
Demand for customers' products;	EV/EBITDA (x)	4.84	2.83	3.45	2.94	2.43
	EV/EBIT (x)	6.60	3.84	4.62	3.96	3.29
Key risks						
i. Worsening trade war affecting consumer sentiment;	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
ii. Economic slowdown;	Total turnover	626	659	618	649	683
iii. Weaker demand for customer's products;	Gross profit	102	111	104	110	116
iv. FX fluctuation risk.	EBITDA	61	80	68	73	77
	Depreciation and amortisation	(16)	(21)	(17)	(19)	(20)
	Operating profit	45	59	51	54	57
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	40	54	50	52	56
	Taxation	(10)	(11)	(10)	(10)	(11)
	Reported net profit	30	42	40	42	45
	Recurring net profit	33	46	40	42	45
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(26.8)	26.0	(28.3)	0.0	0.0
	Cash flow from operations	29.0	99.0	30.5	62.3	66.0
	Capex	(24.3)	(15.2)	(25.0)	(25.0)	(25.0)
	Cash flow from investing activities	(23.2)	(11.7)	(25.0)	(25.0)	(25.0)
	Dividends paid	(10.1)	(9.1)	(12.0)	(12.7)	(13.4)
	Cash flow from financing activities	(1.8)	(19.1)	(12.0)	(12.7)	(13.4)
	Cash at beginning of period	68.2	67.1	122.4	114.5	137.8
	Net change in cash	4.0	68.2	(6.6)	24.7	27.5
	Ending balance cash	67.1	122.4	116.6	139.7	166.2
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	67	122	115	138	164
	Tangible fixed assets	97	92	100	107	113
	Total investments	5	5	5	5	5
	Total assets	464	506	523	558	596
	Short-term debt	67	53	53	53	53
	Total long-term debt	1	0	0	0	0
	Total liabilities	196	208	196	202	209
	Total equity	268	298	326	356	387
	Total liabilities & equity	464	506	523	558	596
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	21.5	5.3	(6.3)	5.1	5.3
	Recurrent EPS growth (%)	31.5	37.9	(12.6)	5.1	6.2
	Gross margin (%)	16.3	16.9	16.9	16.9	16.9
	Operating EBITDA margin (%)	9.8	12.2	11.1	11.2	11.2
	Net profit margin (%)	4.8	6.4	6.5	6.5	6.5
	Capex/sales (%)	3.9	2.3	4.0	3.9	3.7
	Interest cover (x)	17.7	20.4	17.6	18.5	19.5

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-03-08	Buy	1.05	0.83
2019-11-11	Buy	0.82	0.76
2019-08-13	Buy	0.82	0.65
2019-06-12	Buy	0.82	0.63
2019-05-10	Buy	0.82	0.62

Source: RHB, Bloomberg

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Technology | Software & Services

Fu Yu Corp (FUYU SP)

Buy (Maintained)

Solid Net Cash Manufacturer; Maintain BUY

Target Price (Return): SGD0.28 (+27%)
 Price: SGD0.22
 Market Cap: USD115m
 Avg Daily Turnover (SGD/USD) 0.81m/0.59m

- **Maintain BUY with a new DCF-backed TP of SGD0.28 from SGD0.32, 27% upside plus c.7% yield** from its net cash position and attractive yield. Fu Yu faced minor disruption with the temporary closure of its Malaysia factories in March due to the MCO, and lower operating capacity from logistics issues. Coupled with the disruption in China, we lower FY20F PATMI by 14%. However, factories globally have resumed operations, and Singapore production remains intact despite the recent circuit breaker.

- **Factories globally back in operation.** Its factories in China were disrupted during the Lunar New Year period due to China's lockdown. With the Movement Control Order (MCO) in Malaysia, the group also closed its Malaysia factories on 18-31 Mar 2020. However, it has since managed to obtain approvals to resume operations in China and Malaysia, and with the Singapore factories unaffected by the circuit breaker recently implemented, all factories globally are likely to be operational.

- **Net cash balance sheet to weather the storm.** With management learning from past mistakes during the manufacturing crisis, its prudent approach has provided Fu Yu with a net cash balance sheet representing close to 60% of its market cap. Coupled with its rich cash flow generation, we believe that the company will be able to weather the storm and likely to come out stronger than its competitors.

- **High yield of 7.4% for FY20F.** With a sound balance sheet (net cash of SGD88.5m), positive operating cash flow of SGD15-20m pa, and improving business, we expect Fu Yu to continue rewarding shareholders with attractive dividends. We expect DPU to be maintained at 1.6 SG cents for FY20F, at the very least, and potentially increase if PATMI rises far above our forecast.

- **Maintain one of our Top Picks – stable and resilient.** We expect Fu Yu's positive growth momentum to continue with further new projects in the medical and consumer as well as automotive fronts. The closure of its Shanghai factory and new redevelopment of its Singapore factory should see margins improving. With a strong net cash balance sheet able to weather the storm and still be able to reward investors with attractive dividends, we maintain BUY and a lower DCF-based TP of SGD0.28. The company is also an attractive target for privatisation or acquisition.

- **Key risks** to our call: economic slowdown, trade war worsening, and COVID-19 spread worsening.

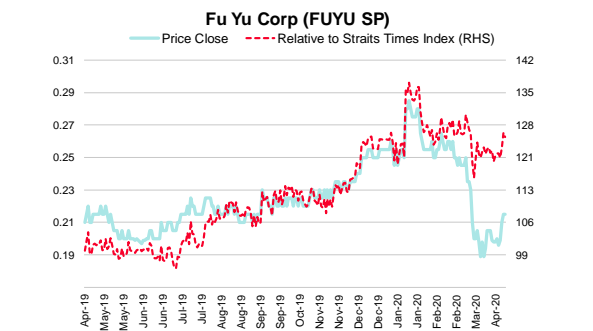
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.7)	(8.5)	(14.0)	(4.5)	2.4
Relative	4.5	(0.9)	6.8	12.3	25.1
52-wk Price low/high (SGD)	0.19 – 0.29				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	198	194	175	180	186
Recurring net profit (SGDm)	12	18	21	19	19
Recurring net profit growth (%)	123.4	50.0	13.9	(10.5)	4.5
Recurring P/E (x)	13.27	8.85	7.77	8.68	8.31
P/B (x)	1.0	1.0	0.9	0.9	0.9
P/CF (x)	7.05	6.09	6.37	6.04	5.99
Dividend Yield (%)	7.4	7.4	7.4	7.4	7.4
EV/EBITDA (x)	3.03	1.92	1.89	1.87	1.66
Return on average equity (%)	7.4	7.7	12.4	10.6	10.7
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Technology | Software & Services

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.02	0.02	0.03	0.02	0.03
Technology	DPS	0.02	0.02	0.02	0.02	0.02
Fu Yu Corp	BVPS	0.22	0.22	0.23	0.24	0.25
FUYU SP	Return on average equity (%)	7.4	7.7	12.4	10.6	10.7
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	13.27	8.85	7.77	8.68	8.31
DCF-backed TP of SGD0.28	P/B (x)	1.0	1.0	0.9	0.9	0.9
	FCF Yield (%)	9.7	11.9	7.4	10.4	10.5
Key drivers	Dividend Yield (%)	7.4	7.4	7.4	7.4	7.4
More cost cutting as well as getting more customers with better project margins to increase its utilisation rate as well as overall margins	EV/EBITDA (x)	3.03	1.92	1.89	1.87	1.66
	EV/EBIT (x)	4.36	2.93	2.42	2.52	2.22
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	198	194	175	180	186
Economic slowdown or recession	Gross profit	35	42	45	43	44
	EBITDA	23	34	35	33	34
Company Profile	Depreciation and amortisation	(7)	(12)	(8)	(8)	(9)
Fu Yu Corp, an investment holding company, manufactures and supplies high-precision injection moulds and plastic parts in Asia. It is engaged in the manufacturing and sub-assembly of precision plastic parts and components; fabrication of precision moulds and dies; and trading and management services. It serves the information technology, telecommunications, automotive, medical, electronic, and electrical appliance sectors. Fu Yu Corporation Limited was founded in 1978 and is headquartered in Singapore.	Operating profit	16	22	27	24	25
	Net interest	0	(0)	(0)	(0)	(0)
	Pre-tax profit	16	16	27	24	25
	Taxation	(4)	(4)	(6)	(6)	(6)
	Reported net profit	12	13	21	19	19
	Recurring net profit	12	18	21	19	19
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	2.8	1.9	(3.0)	(0.2)	(1.1)
	Cash flow from operations	23.0	26.6	25.4	26.8	27.0
	Capex	(7.2)	(7.3)	(13.5)	(10.0)	(10.0)
	Cash flow from investing activities	(4.9)	(1.7)	(13.5)	(10.0)	(10.0)
	Dividends paid	(12.0)	(12.0)	(12.0)	(12.0)	(12.0)
	Cash flow from financing activities	(32.9)	(17.2)	(12.1)	(12.1)	(12.1)
	Cash at beginning of period	95.4	80.3	88.5	88.3	93.1
	Net change in cash	(14.8)	7.7	(0.1)	4.7	5.0
	Ending balance cash	80.5	88.5	88.3	93.1	98.0
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	84	88	88	93	98
	Tangible fixed assets	45	54	60	62	63
	Total investments	9	8	8	8	8
	Total assets	212	219	223	232	241
	Total liabilities	47	55	51	53	54
	Total equity	164	164	172	179	186
	Total liabilities & equity	212	219	223	232	241
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	1.4	(1.8)	(10.0)	3.3	3.3
	Recurrent EPS growth (%)	123.4	50.0	13.9	(10.5)	4.5
	Gross margin (%)	17.8	21.9	25.5	23.6	23.9
	Operating EBITDA margin (%)	11.6	17.5	19.9	18.1	18.3
	Net profit margin (%)	6.2	6.5	11.9	10.3	10.5
	Capex/sales (%)	3.7	3.8	7.7	5.5	5.4
	Interest cover (x)		49	2,473	2,215	2,314

Source: Company data, RHB

13 April 2020

Technology | Software & Services

Figure 1: DCF valuation

	Total (SGDm)	FY20F	FY21F	FY22F	Terminal Value
EBIT		27.2	24.4	25.5	
EBIT(1-T)		20.8	18.7	19.5	
Less: Capex		(13.5)	(10.0)	(10.0)	
Add: Depreciation & Amortisation		7.5	8.3	8.6	
Less: Change in Non-cash WC		(3)	(0.2)	(1.1)	
FCFF		11.9	16.8	17.0	131.0
Present Value of FCFF		10.5	13.2	11.8	90.8
Total FCFF	126.3				
Add: Cash	83.9				
Less: Value of Debt	-				
Less: Minority Interest	-				
Target Equity Value	210.2				
No. of shares (basic)	753				
Intrinsic Share Price (SGD)	0.28				

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-27	Buy	0.32	0.25
2020-01-15	Buy	0.29	0.28
2019-11-14	Buy	0.24	0.23
2019-10-04	Buy	0.24	0.22
2019-08-14	Buy	0.24	0.22
2019-07-09	Buy	0.24	0.22
2019-05-10	Buy	0.24	0.21
2019-02-28	Buy	0.24	0.21
2018-11-15	Buy	0.23	0.17

Source: RHB, Bloomberg

15 April 2020

Technology | Electronics

Valuetronics (VALUE SP)

Buy (from Neutral)

Benefiting From China's Recovery; U/G To BUY

Target Price (Return): SGD0.66 (+12%)
 Price: SGD0.59
 Market Cap: USD181m
 Avg Daily Turnover (SGD/USD) 1.56m/1.11m

- **Upgrade to BUY from Neutral, new DCF-backed TP of SGD0.66** from SGD0.76, 12% upside with c.7% FY20F (Mar) yield. China is starting to recover from the COVID-19 pandemic, and the lockdown has been lifted in Wuhan, while restrictions in other parts of the country have eased. As of 23 Mar, 80% of Valuetronics employees in China have resumed work. With a continuous recovery and as stabilisation improves, the worst may be over for this company.

- **Revenue and profit may be negatively impacted.** Valuetronics announced that the reduced production days and the temporary drop in production capacity in February and early March will result in a revenue decline for the six months ending 31 Mar, vs the corresponding period last year. We had expected margins to be impacted as well, and already pared down FY20F estimates in our last report. However, with the global supply chain now affected by the pandemic, and as demand has decreased, we also expect its FY21 performance to be impacted as well. As a result, we lower our FY21F PATMI by 7% to reflect this. That said, the worst is likely over – unless there is a deterioration in recovery.

- **Attractive FY20F dividend yield of c.7%.** With a solid net cash balance sheet and a good track record of rewarding shareholders, we expect Valuetronics to still be able to reward shareholders with attractive dividends despite this crisis, representing a yield of c.7% FY20F. This is despite a likely YoY cut in dividend payments, due to the significant correction in its share price from the COVID-19 pandemic.

- **Worst likely over, correction represents opportunity.** With 80% of its staff in China back at work as of 12 Mar, coupled with the improving situation in China, we think the worst is over for Valuetronics. The significant correction over the recent months has reflected the earnings decline, so valuations are now attractive – made more so by its attractive yield and net cash balance sheet. Premised on this, we cut our FY21F PATMI and upgrade our stock rating to BUY, with a lower DCF-backed TP of SGD0.66.

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

Analyst

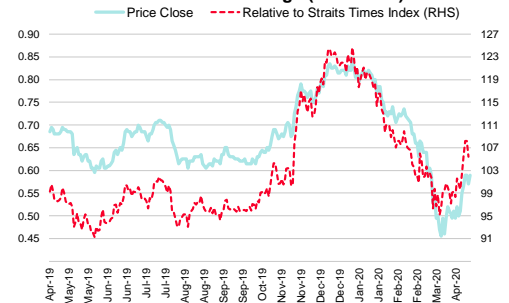
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(28.1)	8.3	(27.2)	(6.4)	(13.9)
Relative	(7.7)	10.8	(5.7)	11.4	9.1
52-wk Price low/high (SGD)				0.46	– 0.85

Valuetronics Holdings (VALUE SP)



Source: Bloomberg

Forecasts and Valuation	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Total turnover (HKDm)	2,854	2,829	2,687	2,419	2,540
Recurring net profit (HKDm)	205	199	176	159	168
Recurring net profit growth (%)	32.9	(2.6)	(11.8)	(9.9)	5.7
Recurring P/E (x)	5.98	6.58	7.96	8.83	8.35
P/B (x)	1.2	1.2	1.1	1.1	1.0
P/CF (x)	19.30	3.25	9.55	6.41	5.94
Dividend Yield (%)	8.4	7.7	6.9	6.2	6.6
EV/EBITDA (x)	0.99	0.53	0.63	0.39	0.18
Return on average equity (%)	20.5	18.0	14.7	12.4	12.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (HKD)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Singapore	Recurring EPS	0.54	0.49	0.41	0.37	0.39
Technology	DPS	0.27	0.25	0.22	0.20	0.21
Valuetronics	BVPS	2.80	2.67	2.86	3.02	3.20
VALUE SP	Return on average equity (%)	20.5	18.0	14.7	12.4	12.4
Buy						
	Valuation metrics	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Valuation basis	Recurring P/E (x)	5.98	6.58	7.96	8.83	8.35
DCF valuation	P/B (x)	1.2	1.2	1.1	1.1	1.0
	FCF Yield (%)	(1.5)	27.2	(0.2)	4.9	4.0
Key drivers	Dividend Yield (%)	8.4	7.7	6.9	6.2	6.6
Strong growth in its ICE segment	EV/EBITDA (x)	0.99	0.53	0.63	0.39	0.18
	EV/EBIT (x)	1.15	0.64	0.75	0.51	0.25
Key risks						
Economic recession						
	Income statement (HKDm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Company Profile	Total turnover	2,854	2,829	2,687	2,419	2,540
Valuetronics provides original equipment manufacturing and original design manufacturing services. The company serves customers in the telecommunications, industrial, commercial electronic products, and consumer electronic products industries.	Gross profit	415	430	403	362	380
	EBITDA	268	270	233	233	259
	Depreciation and amortisation	(38)	(45)	(35)	(55)	(71)
	Operating profit	230	225	198	179	189
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	230	224	198	178	188
	Taxation	(25)	(25)	(22)	(20)	(21)
	Reported net profit	205	199	176	159	168
	Recurring net profit	205	199	176	159	168
	Cash flow (HKDm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
	Change in working capital	(182)	158	(65)	5	(3)
	Cash flow from operations	63	404	147	219	236
	Capex	(82)	(47)	(150)	(150)	(180)
	Cash flow from investing activities	(52)	(32)	(150)	(150)	(180)
	Dividends paid	(114)	(107)	(97)	(87)	(92)
	Cash flow from financing activities	(94)	(98)	(97)	(90)	(100)
	Cash at beginning of period	753	671	930	830	812
	Net change in cash	(82)	274	(100)	(22)	(45)
	Ending balance cash	671	930	830	809	767
	Balance sheet (HKDm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
	Total cash and equivalents	671	930	830	812	775
	Total investments	260	272	386	482	591
	Total assets	1,969	2,013	2,076	2,074	2,183
	Total liabilities	907	854	837	764	797
	Total equity	1,062	1,160	1,239	1,310	1,385
	Total liabilities & equity	1,969	2,013	2,076	2,074	2,183
	Key metrics	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
	Revenue growth (%)	25.4	(0.9)	(5.0)	(10.0)	5.0
	Recurrent EPS growth (%)	32.9	(9.1)	(17.3)	(9.9)	5.7
	Gross margin (%)	14.5	15.2	15.0	15.0	15.0
	Operating EBITDA margin (%)	9.4	9.5	8.7	9.6	10.2
	Net profit margin (%)	7.2	7.1	6.5	6.6	6.6
	Dividend payout ratio (%)	55.7	53.7	55.0	55.0	55.0
	Capex/sales (%)	2.9	1.7	5.6	6.2	7.1
	Interest cover (x)	337	374	330	298	315

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-20	Neutral	0.76	0.71
2020-02-18	Neutral	0.76	0.72
2019-11-14	Buy	0.81	0.74
2019-08-16	Neutral	0.61	0.62
2019-05-31	Neutral	0.61	0.61
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

15 April 2020

Technology | Electronics

Venture Corp (VMS SP)

Buy (Maintained)

Impacted By Global Lockdown; Still BUY

Target Price (Return):	SGD16.60 (+6%)
Price:	SGD15.58
Market Cap:	USD3,177m
Avg Daily Turnover (SGD/USD)	26.8m/19.1m

- Maintain BUY, new SGD16.60 TP** from SGD19.30, 6% upside with 4.5% FY20F yield. With regards to the COVID-19 pandemic and countries going into lockdown, Venture has been significantly impacted. Its production is mainly in Malaysia, where a government-mandated Movement Control Order has been in effect. Although its Singapore and China units have resumed operations, the temporary halt in production at some of its factories compels us to cut FY20F PATMI by 13%, which leads to a lower TP.
- Supply chain likely impacted.** With the global supply chain disrupted due to the COVID-19 pandemic, Venture swiftly implemented corrective action to stabilise its assured supply. Previously, it expected to fulfil most, if not all, orders – inclusive of any backlog in 1Q20, and starting from 2Q20. However, with a global pandemic in effect and many countries in a lockdown, the global supply chain is impacted. This will eventually negatively affect Venture, unless the company takes further action.
- Stronger 2H20F ahead.** Management expects its outlook to improve in 2H20, supported by traction with new and existing partners. This will also be supported by several product introductions by existing partners across multiple technology domains like life sciences, healthcare & wellness, instrumentation & networking, and communications. It also expects to gain momentum with several new partners in life sciences and genomics, as well as healthcare & wellness – and contributions from these partnerships should improve after 2020.
- FY19 dividend level (SGD0.70) likely to be maintained for FY20F.** Management declared a total DPS of SGD0.70 for FY19, implying a 56% payout of NPAT. Venture also guided that it is looking to pay out sustainable dividends, so we expect FY20 DPS to be likely the same or higher than of FY19, resulting in a FY20F yield of at least 4.7% despite the pandemic
- Still a BUY despite earnings cut.** We cut FY20F earnings by 13%, which results in a lower TP of SGD16.60, pegged to 15x FY20F P/E. With its net cash balance sheet and decent dividend yield, we believe that Venture will likely survive this crisis and come out stronger despite a temporary earnings blip in FY20F. Maintain BUY, as total upside (with dividends) is still more than 10%.
- Key risks** are decelerating economic growth, a worsening of the US-China trade war, and deteriorating conditions due to the COVID-19 pandemic.

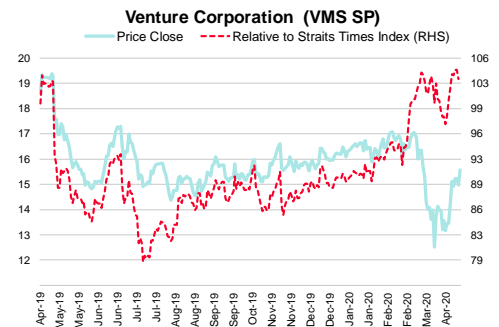
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.8)	1.8	(6.2)	1.3	(16.5)
Relative	16.6	4.3	15.3	19.1	6.5
52-wk Price low/high (SGD)					12.5 – 19.4



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	3,485	3,488	3,279	3,410	3,478
Recurring net profit (SGDm)	370	365	318	340	349
Recurring net profit growth (%)	(0.7)	(1.4)	(12.8)	6.8	2.8
Recurring P/E (x)	12.08	12.34	14.15	13.25	12.91
P/B (x)	1.9	1.8	1.7	1.6	1.5
P/CF (x)	17.00	6.36	11.34	12.36	11.76
Dividend Yield (%)	4.5	4.5	4.5	4.5	4.5
EV/EBITDA (x)	8.21	7.02	7.60	7.02	6.48
Return on average equity (%)	16.4	15.0	12.4	12.6	12.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	1.29	1.26	1.10	1.18	1.21
Technology	DPS	0.70	0.70	0.70	0.70	0.70
Venture Corp	BVPS	8.13	8.70	9.11	9.59	10.08
VMS SP	Return on average equity (%)	16.4	15.0	12.4	12.6	12.3
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	12.08	12.34	14.15	13.25	12.91
15x FY20F P/E	P/B (x)	1.9	1.8	1.7	1.6	1.5
	FCF Yield (%)	4.6	14.6	7.7	7.0	8.5
Key drivers	Dividend Yield (%)	4.5	4.5	4.5	4.5	4.5
Value creation and margin improvement	EV/EBITDA (x)	8.21	7.02	7.60	7.02	6.48
	EV/EBIT (x)	8.80	7.72	8.49	7.77	7.14
Key risks						
Economic slowdown						
Company Profile	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Venture Corp is a leading global electronics services and integrated solutions provider, with a diversified portfolio of customers worldwide.	Total turnover	3,485	3,488	3,279	3,410	3,478
	Gross profit	954	936	857	891	909
	EBITDA	454	470	415	434	444
	Depreciation and amortisation	(31)	(43)	(43)	(42)	(41)
	Operating profit	423	427	372	392	403
	Net interest	8	2	2	3	3
	Pre-tax profit	433	430	375	399	408
	Taxation	(63)	(65)	(57)	(60)	(60)
	Reported net profit	370	365	318	340	349
	Recurring net profit	370	365	318	340	349
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(147)	298	34	(20)	(11)
	Cash flow from operations	263	707	397	364	384
	Capex	(58)	(50)	(50)	(50)	0
	Cash flow from investing activities	(57)	(50)	(50)	(50)	0
	Dividends paid	(230)	(202)	(202)	(202)	(203)
	Cash flow from financing activities	(219)	(202)	(202)	(201)	(201)
	Cash at beginning of period	752	713	1,168	1,313	1,427
	Net change in cash	(13)	455	145	113	183
	Ending balance cash	713	1,168	1,313	1,427	1,612
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	713	1,168	1,313	1,427	1,612
	Tangible fixed assets	231	238	244	252	211
	Total investments	24	24	24	24	24
	Total assets	3,185	3,365	3,445	3,615	3,785
	Short-term debt	2	2	2	2	2
	Total liabilities	778	795	757	785	800
	Total equity	2,406	2,571	2,688	2,830	2,985
	Total liabilities & equity	3,185	3,365	3,445	3,615	3,785
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	(13.3)	0.1	(6.0)	4.0	2.0
	Recurrent EPS growth (%)	(2.4)	(2.1)	(12.8)	6.8	2.6
	Gross margin (%)	27.4	26.8	26.1	26.1	26.1
	Operating EBITDA margin (%)	13.0	13.5	12.7	12.7	12.8
	Net profit margin (%)	10.6	10.5	9.7	10.0	10.0
	Dividend payout ratio (%)	62.2	55.4	63.6	59.5	58.0
	Capex/sales (%)	1.7	1.4	1.5	1.5	0.0
	Interest cover (x)	431	316	275	290	298

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-27	Buy	19.3	16.5
2019-11-11	Neutral	16.3	15.6
2019-08-13	Buy	16.3	15.3
2019-06-26	Neutral	16.3	16.0
2019-04-26	Neutral	19.0	17.5
2019-02-25	Buy	19.0	18.1
2018-11-05	Buy	19.0	14.8
2018-08-06	Buy	na	18.6

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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