

GLOBETRONICS

(GTB MK EQUITY, GNIC.KL)

23 Feb 2022



Company report

AmInvestment Bank

Team Coverage

03 2036 2333

Rationale for report: Company results

BUY

(Maintained)

Price	RM1.35
Fair Value	RM1.63
52-week High/Low	RM3.14/RM1.35

Key Changes

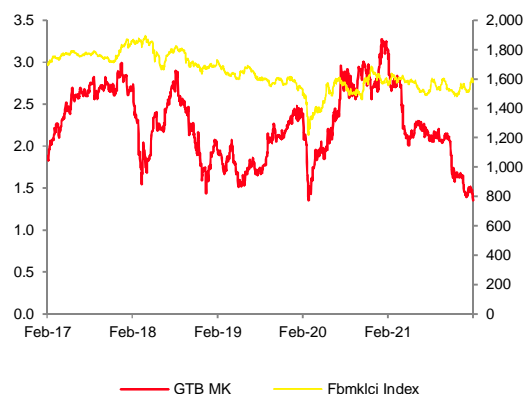
Fair value	↕
EPS	↔

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	206.0	220.3	262.0	280.1
Core net profit (RM mil)	52.9	60.7	63.1	67.6
FD Core EPS (sen)	7.9	9.1	9.4	10.1
FD Core EPS growth (%)	5.1	14.6	4.0	7.1
Consensus Net Profit (RM mil)	-	59.0	65.0	75.0
DPS (sen)	8.0	9.0	9.5	9.5
PE (x)	17.1	14.9	14.3	13.4
EV/EBITDA (x)	9.3	6.7	6.5	12.8
Div yield (%)	4.9	5.6	5.9	5.9
ROE (%)	17.8	20.4	21.3	20.5
Net Gearing (%)	nm	nm	nm	0.0

Stock and Financial Data

Shares Outstanding (million)	669.4
Market Cap (RM mil)	903.8
Book Value (RM/share)	0.44
P/BV (x)	3.0
ROE (%)	17.8
Net Gearing (%)	-
Major Shareholders	EPF (18.7%) CIMB Group Holdings (7.1%) General Produce Agency Sdn Bhd (5.4%)
Free Float	63.2
Avg Daily Value (RM mil)	3.2

Price performance	3mth	6mth	12mth
Absolute (%)	(27.0)	(34.9)	(56.2)
Relative (%)	(29.3)	(37.4)	(56.3)



Investment Highlights

- We maintain our BUY recommendation on Globetronics Technology (GTB) with a lower fair value of RM1.63/share, pegged to a normalised 18x FY22F PE (previously RM2.36/share pegged to a higher FY22F PE of 24x). The target PE represents GTB's 3-year average forward PE and implies a 10% discount to our benchmark target PE for outsourced semiconductor assembly and test (OSAT) players of 20x given GTB's smaller market capitalisation.
- GTB's 4QFY21 core profit of RM17mil came in within consensus and exceeded our expectations, bringing FY21 core profit to RM51mil, after excluding a one-off reversal of inventories written down of RM2mil. This was 1% above consensus and 12% above our estimates. However, we maintain our forecasts as the effective tax rate is expected to increase following the expiry of its pioneer tax status this year.
- The group's FY21 sales declined 23% YoY to RM206mil, primarily due to lower volume loadings from its customers in the sensor business. However, the group's FY21 PBT margin was able to improve 4% points to 27%, thanks to better product mix.
- We expect GTB's margin to continue improving, following the group's decision to discontinue its quartz crystal timing device (QCTD) business in 4QFY21, which historically carried lower margins.
- Moving into FY22F, GTB's key sensor segment growth is expected to remain soft as its key customers are still caught in the ongoing supply chain disruption. Furthermore, the completion of GTB's factory expansion will be delayed to mid-April 2022 from the initially planned January 2022, further impeding this division's growth potential.
- To recap, the group's current tax incentives (pioneer status) will expire on June 2022. However, the impact will be partially cushioned by an unabsorbed tax allowance, which we have factored into our FY22F assumptions.
- GTB's outlook continues to be driven by the co-development of next-generation sensors with its customer. However, we remain cautious on its progress amid travel restrictions and lockdowns arising from new Covid-19 variants, which hinder site certifications and qualifications by potential customers.

- Nevertheless, we believe GTB is undervalued at the current price and investors should take the opportunity to accumulate the stock. We continue to like GTB due to its:
 - (i) robust margin arising from its sensor business which consistently accounts for 60% of total group revenue;
 - (ii) strength in smart sensors with new generation demand expected to drive growth ahead; and
 - (iii) riding on the growing automotive segment by ramping up laser automotive headlamps in its solid state lighting/light emitting diode division.

EXHIBIT 1: FINANCIAL RESULTS SUMMARY

FY Ended 31 Dec	FY20	FY21	YoY (%)	4QFY20	3QFY21	4QFY21	QoQ (%)	YoY (%)
Revenue	227.5	206.0	(9.4)	63.1	55.7	48.6	(12.7)	(23.1)
EBITDA	87.8	79.4	(9.5)	27.6	22.7	22.2	(2.5)	(19.8)
Depreciation/Amortisation	(40.5)	(27.6)	31.7	(11.5)	(5.7)	(5.6)	0.4	50.8
EBIT	47.3	51.8	9.6	16.2	17.1	16.5	(3.2)	2.2
Interest expense	-	-	nm	-	-	-	nm	nm
Interest income	2.6	1.6	(39.7)	0.6	0.4	0.5	10.3	(13.7)
Pre-Associates profit	49.9	53.4	7.0	16.7	17.5	17.0	(2.9)	1.7
Associates	0.1	0.0	(14.0)	0.0	0.0	(0.1)	nm	nm
Pre-Exceptionals profit	50.0	53.4	7.0	16.8	17.6	16.9	(3.6)	1.1
Exceptionals	2.0	2.0	(1.0)	0.4	(0.4)	1.0	nm	>100
Pre-tax profit	52.0	55.5	6.7	17.1	17.2	18.0	4.7	4.8
Taxation	(1.2)	(2.5)	(111.7)	(0.3)	(0.9)	(0.1)	92.6	76.5
Minority interest	-	-	nm	-	-	-	nm	nm
Net Profit	50.8	52.9	4.2	16.9	16.3	17.9	10.0	6.1
Core Net Profit	48.8	50.9	4.4	16.5	16.7	16.9	1.1	2.4
Basic EPS (sen)	7.59	7.91		2.52	2.43	2.67		
DPS (sen)	7.50	20.50		2.50	5.00	7.50		
GP margin (%)	37.9	47.7		37.9	41.9	47.7		
EBITDA margin (%)	38.6	38.6		43.8	40.9	45.6		
Pretax margin (%)	22.9	26.9	4.07	27.1	30.8	37.0		
Effective tax (%)	2.3	4.5		1.6	5.1	0.4		
Segmental Breakdown (RM 'mil)								
Revenue								
South East Asia	214.4	196.7	(8.2)	60.4	53.9	46.8	(13.1)	(22.5)
North America	11.1	9.1	(18.5)	2.7	1.7	1.7	(0.3)	(37.2)
Others	2.0	0.2	(88.0)	0.0	0.1	0.1	(44.6)	13.3
Total	227.5	206.0	(9.4)	63.1	55.7	48.6	(12.7)	(23.1)
Pretax profit								
South East Asia	47.1	52.1	10.5	16.0	16.3	17.0	4.4	6.3
North America	1.5	1.3	(13.1)	0.4	0.2	0.3	23.5	(28.1)
Others	0.7	(0.1)	nm	0.1	0.0	(0.0)	nm	nm
Total	49.4	53.3	8.0	16.6	16.6	17.3	4.4	4.5
Pretax margin (%)								
South East Asia	22.0	26.5		26.5	30.3	36.4		
North America	13.7	14.7		15.2	14.0	17.3		
Others	35.7	(46.4)		286.7	33.7	(37.3)		
Total	21.7	25.9		26.2	29.8	35.6		

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: OSAT PLAYERS COMPARISON

Stock	Mkt Cap (RM'mil)	FYE	Beta (x)	PE (x)		FY22F	CY22F	CY22F	CY22F ROE
				CY22F	CY23F	Earnings Growth (%)	Net gearing (%)	EV/EBITDA (x)	(%)
INARI	11,521.3	Jun	0.71	22.2	19.7	20.3	Net Cash	17.2	20.3
MPI	7,080.7	Jun	0.44	20.3	18.5	21.6	Net Cash	9.1	18.0
UNISEM	4,726.3	Dec	0.51	17.9	16.7	24.3	Net Cash	8.4	11.3
GTB	923.8	Dec	0.86	15.3	13.9	17.4	Net Cash	8.1	17.4
Average				20.4	18.4	20.9		10.7	16.8

Source: AmInvestment Bank Bhd

EXHIBIT 3: PB BAND CHART

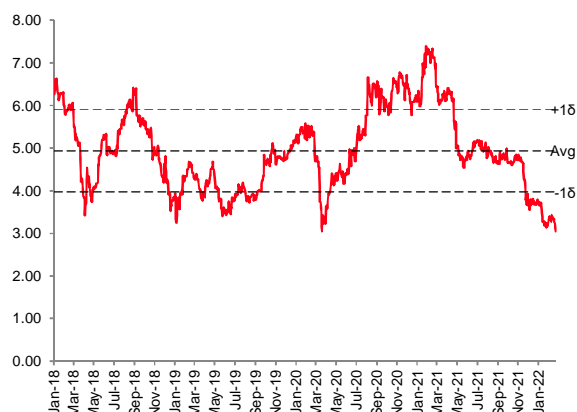


EXHIBIT 4: PE BAND CHART

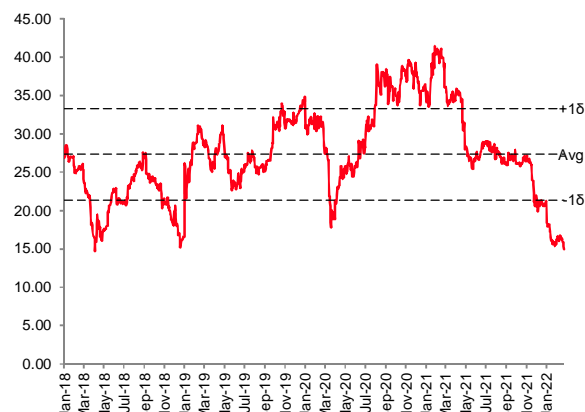


EXHIBIT 5: ESG RATING

Overall	★	★	★		
Energy efficiency	★	★	★	★	
Recycling & waste management	★	★	★	★	
Supply chain management	★	★	★		
Industry 4.0 implementation	★	★	★		
Employee wellbeing	★	★	★		
Human capital development	★	★	★	★	
Corporate social responsibility	★	★	★		
Board diversity	★	★	★		
Accessibility & transparency	★	★	★	★	

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us from 1-star to 5-star.

Source: AmInvestment Bank

EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	227.5	206.0	220.3	262.0	280.1
EBITDA	90.2	81.1	109.9	111.6	70.8
Depreciation/Amortisation	(40.8)	(27.2)	(45.9)	(48.4)	-
Operating income (EBIT)	49.4	53.9	64.1	63.1	70.8
Other income & associates	-	-	-	-	-
Net interest	2.6	1.6	2.6	3.0	-
Exceptional items	0.4	-	-	-	-
Pretax profit	52.0	55.5	66.7	66.1	70.8
Taxation	(1.2)	(2.5)	(6.0)	(3.0)	(3.2)
Minorities/pref dividends	-	-	-	-	-
Net profit	50.8	52.9	60.7	63.1	67.6
Core net profit	50.4	52.9	60.7	63.1	67.6
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	97.0	103.3	81.7	62.0	296.6
Intangible assets	-	-	-	-	-
Other long-term assets	23.1	23.1	23.1	23.1	23.1
Total non-current assets	120.1	126.4	104.7	85.1	319.7
Cash & equivalent	163.7	145.5	165.1	175.0	-
Stock	5.7	4.7	4.6	6.0	6.4
Trade debtors	43.6	39.5	42.2	50.2	53.7
Other current assets	0.7	0.7	0.7	0.7	1.7
Total current assets	213.6	190.4	212.6	231.9	61.8
Trade creditors	0.4	0.4	0.4	0.4	0.4
Short-term borrowings	-	-	-	-	-
Other current liabilities	-	-	-	-	-
Total current liabilities	0.4	0.4	0.4	0.4	0.4
Long-term borrowings	-	-	-	-	-
Other long-term liabilities	36.2	32.6	27.9	37.8	53.0
Total long-term liabilities	36.2	32.6	27.9	37.8	53.0
Shareholders' funds	297.1	296.5	296.9	296.4	363.9
Minority interests	-	-	-	-	-
BV/share (RM)	0.44	0.44	0.44	0.44	0.54
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	52.0	55.5	66.7	66.1	70.8
Depreciation/Amortisation	40.8	27.2	45.9	48.4	-
Net change in working capital	(1.0)	5.1	(2.6)	(9.4)	(3.9)
Others	(5.5)	(3.9)	(8.5)	(5.8)	(3.0)
Cash flow from operations	86.3	83.8	101.5	99.4	63.9
Capital expenditure	(17.7)	(50.0)	(24.2)	(28.8)	(310.9)
Net investments & sale of fixed assets	8.4	1.6	2.6	3.0	-
Others	(5.0)	-	-	-	-
Cash flow from investing	(14.3)	(48.4)	(21.6)	(25.8)	(310.9)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(50.2)	(53.6)	(60.3)	(63.6)	(63.6)
Others	(4.1)	-	-	-	-
Cash flow from financing	(54.3)	(53.6)	(60.3)	(63.6)	(63.6)
Net cash flow	17.7	(18.1)	19.6	9.9	(310.6)
Net cash/(debt) b/f	146.2	163.6	145.5	165.1	175.0
Net cash/(debt) c/f	163.6	145.5	165.1	175.0	(135.6)
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	5.2	(9.4)	6.9	18.9	6.9
EBITDA growth (%)	11.7	(10.1)	35.5	1.5	(36.5)
Pretax margin (%)	22.9	26.9	30.3	25.2	25.3
Net profit margin (%)	22.3	25.7	27.5	24.1	24.1
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	2.3	4.5	9.0	4.5	4.5
Dividend payout (%)	98.8	101.1	99.3	100.8	94.1
Debtors turnover (days)	68	74	68	64	68
Stock turnover (days)	11	9	8	7	8
Creditors turnover (days)	2	1	1	1	1

Source: Company, AmInvestment Bank Bhd estimates

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