



## Company report

# GLOBETRONICS TECHNOLOGY

(GTB MK EQUITY, GNIC.KL)

27 April 2022

Uninspiring 1Q dragged by lower sales

**HOLD**

(Downgraded)

## AmInvestment Bank

Team Coverage

03 2070 2444

Rationale for report: Company results

Price	RM1.46
Fair Value	RM1.53
52-week High/Low	RM2.44/RM1.20

## Key Changes

Fair value	⬇️
EPS	⬇️

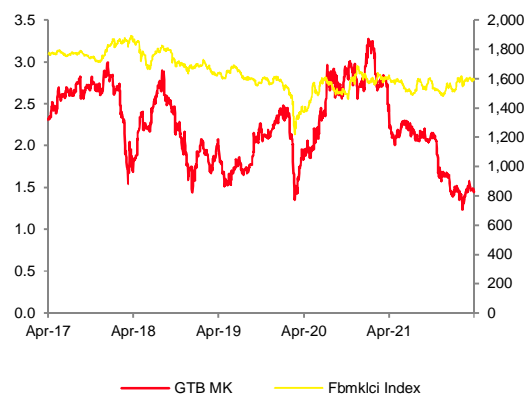
YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	206.0	220.3	262.0	280.1
Core net profit (RM mil)	52.9	57.1	50.3	61.1
FD Core EPS (sen)	7.9	8.5	7.5	9.1
FD Core EPS growth (%)	5.1	7.8	(11.9)	21.5
Consensus Net Profit (RM mil)	-	55.3	62.8	67.9
DPS (sen)	7.5	9.0	9.5	9.5
PE (x)	18.5	17.1	19.4	16.0
EV/EBITDA (x)	9.6	7.9	7.8	6.7
Div yield (%)	5.1	6.2	6.5	6.5
ROE (%)	17.7	18.9	16.5	18.1
Net Gearing (%)	nm	nm	nm	0.0

## Stock and Financial Data

Shares Outstanding (million)	669.4
Market Cap (RM mil)	977.4
Book Value (RM/share)	0.45
P/BV (x)	3.2
ROE (%)	17.7
Net Gearing (%)	-

Major Shareholders	EPF (19.2%) General Produce Agency Sdn Bhd (7.1%) Ng Kweng Chong (5.4%)
Free Float	347.1
Avg Daily Value (RM mil)	2.1

Price performance	3mth	6mth	12mth
Absolute (%)	2.9	(30.6)	(39.8)
Relative (%)	(2.3)	(31.1)	(38.8)



## Investment Highlights

- We downgrade our recommendation on Globetronics Technology (GT) to HOLD from BUY with a lower fair value of RM1.53/share (previously RM1.63/share), pegged to an unchanged FY22F PE of 18x. We make no price adjustment based on our 3-star ESG rating.
- Our target PE represents GT'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 GT's smaller market capitalisation and lower growth prospect.
- However, we have reduced our FY22F–FY24F earnings by 6%–25% as GT's 1QFY22 core net profit of RM9mil was below expectations, accounting for only 15% of our earlier FY22F estimate and 17% of consensus'. As a comparison, 1Q accounted for 23% of FY21 core earnings.
- The lower profit projections are due to our assumption that the group's effective tax rate will resume at 24% (from 6%) after the expiry of its pioneer status on June 2022.
- Southeast Asian revenue, which contributed 97% to the group's 1QFY22, declined 22% YoY to RM41mil. This is due to GT's continuing to be impacted by lower volume loadings from its key customers in the sensor business.
- GT's 1QFY22 core profit declined 45% QoQ to RM9mil as lower volume loadings from key customers further affected GT's quarterly performance. Evidently, we see an apparent diseconomy of scale reflected in its 1QFY22 EBITDA margin, which was cut by 10% points QoQ to 36%.
- Growth for the group's key sensor segment, which historically contributed more than 60% of the group's revenue, is expected to remain soft until 1HFY22 as key customers are still caught in the ongoing supply chain disruptions.
- GT has multiple projects in the pipeline, which include next-generation optical sensors for advanced driver assistance systems (ADAS) in vehicles as well as robotic systems. However, management does not expect the new products to be commercialised at least until the end of 2022.

- While we continue to view the group's outlook favourably, and note that lower volume loadings from key customers due to supply chain bottlenecks are transitory in nature, we opine that GT is fairly priced currently at a FY22F PE of 17x, near its 3-year average of 18x. The group's positive prospect will depend on its project delivery of next generation sensors, where the segment is rapidly expanding at a projected compounded annual growth rate (CAGR) of 28% from 2021 to 2030, according to Allied Market Research.

## EXHIBIT 1: FINANCIAL RESULTS SUMMARY

FY Ended 31 Dec	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)
<b>Revenue</b>	55.4	48.6	42.6	(12.2)	(23.0)
<b>EBITDA</b>	21.4	22.2	15.4	(30.4)	(27.9)
Depreciation/Amortisation	(9.4)	(5.6)	(5.6)	0.4	39.9
<b>EBIT</b>	12.1	16.5	9.8	(40.6)	(18.6)
Interest expense	-	-	-	nm	nm
Interest income	0.3	0.5	0.4	(28.7)	14.0
Pre-Associates profit	12.4	17.0	10.2	(40.3)	(17.8)
Associates	0.1	(0.1)	(0.2)	(125.3)	nm
Pre-Exceptionals profit	12.4	16.9	10.0	(41.2)	(19.8)
Exceptionals	0.5	1.0	0.1	(88.3)	(76.7)
<b>Pre-tax profit</b>	12.9	18.0	10.1	(43.9)	(22.1)
Taxation	(0.4)	(0.1)	(0.6)	(876.9)	(57.2)
Minority interest	-	-	-	nm	nm
<b>Net Profit</b>	12.5	17.9	9.4	(47.2)	(24.6)
<b>Core Net Profit</b>	12.0	16.9	9.3	(44.7)	(22.4)
Basic EPS (sen)	1.87	2.67	1.41		
GP margin (%)	36.2	47.7	40.5		
EBITDA margin (%)	38.7	45.6	36.2		
Pretax margin (%)	23.4	37.0	23.6		
Effective tax (%)	3.1	0.4	6.3		
<b>Segmental Breakdown (RM 'mil)</b>					
<b>Revenue</b>					
South East Asia	53.0	46.8	41.1	(12.2)	(22.3)
North America	2.4	1.7	1.5	(13.2)	(38.2)
Others	0.0	0.1	0.0	(64.7)	(60.0)
<b>Total</b>	<b>55.4</b>	<b>48.6</b>	<b>42.6</b>	<b>(12.2)</b>	<b>(23.0)</b>
<b>Pretax profit</b>					
South East Asia	12.4	17.0	9.6	(43.4)	(22.2)
North America	0.2	0.3	0.2	(40.1)	(27.6)
Others	(0.1)	(0.0)	(0.1)	(663.2)	(25.0)
<b>Total</b>	<b>12.5</b>	<b>17.3</b>	<b>9.7</b>	<b>(44.1)</b>	<b>(22.7)</b>
<b>Pretax margin (%)</b>					
South East Asia	23.4	36.4	23.4		
North America	10.2	17.3	12.0		
Others	(257.8)	(37.3)	(805.6)		
<b>Total</b>	<b>22.6</b>	<b>35.6</b>	<b>22.7</b>		

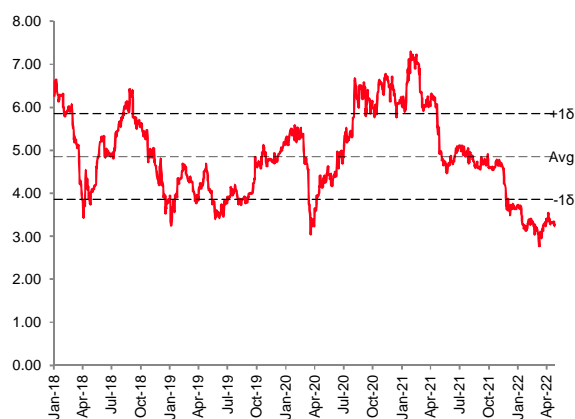
Source: Company, AmInvestment Bank Bhd

**EXHIBIT 2: OSAT PLAYERS COMPARISON**

Stock	Mkt Cap (RM mil)	FYE	Beta (x)	PE (x)		FY22F Earnings Growth (%)	CY22F Net gearing (%)	CY22F EV/EBITDA (x)	CY22F ROE (%)
				CY22F	CY23F				
INARI	10,377.7	Jun	0.50	24.2	19.8	20.3	Net Cash	15.4	20.3
MPI	6,173.7	Jun	0.23	17.6	15.5	21.6	Net Cash	7.5	18.4
UNISEM	4,516.6	Dec	0.11	18.2	16.2	24.3	Net Cash	9.2	10.0
<b>GT</b>	<b>964.0</b>	<b>Dec</b>	<b>0.44</b>	<b>17.6</b>	<b>15.5</b>	<b>17.0</b>	<b>Net Cash</b>	<b>9.6</b>	<b>17.7</b>
Average				20.4	17.5	20.8		10.4	16.6

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	109.1	110.1	70.9
Depreciation/Amortisation	(40.8)	(27.2)	(45.9)	(48.4)	-
Operating income (EBIT)	49.4	53.9	63.3	61.7	70.9
Other income & associates	-	-	-	-	-
Net interest	2.6	1.6	3.5	4.5	-
<b>Exceptional items</b>	<b>0.4</b>	-	-	-	-
Pretax profit	52.0	55.5	66.8	66.2	70.9
Taxation	(1.2)	(2.5)	(9.7)	(15.9)	(17.0)
<b>Minorities/pref dividends</b>	-	-	-	-	-
Net profit	50.8	52.9	57.1	50.3	53.9
Core net profit	50.4	52.9	57.1	50.3	53.9
<b>Balance Sheet (RMmil, YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Fixed assets	97.0	68.5	81.7	62.0	296.6
Intangible assets	-	-	-	-	-
<b>Other long-term assets</b>	<b>23.1</b>	<b>29.6</b>	<b>29.6</b>	<b>29.6</b>	<b>29.6</b>
Total non-current assets	120.1	98.1	111.2	91.6	326.2
Cash & equivalent	163.7	195.1	248.3	242.4	-
Stock	5.7	8.2	4.6	10.3	6.4
Trade debtors	43.6	32.9	35.2	41.9	44.8
<b>Other current assets</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>1.6</b>
Total current assets	213.6	236.8	288.7	295.2	52.8
Trade creditors	0.4	-	-	-	-
Short-term borrowings	-	-	-	-	-
<b>Other current liabilities</b>	-	-	-	-	-
Total current liabilities	0.4	-	-	-	-
Long-term borrowings	-	-	-	-	-
<b>Other long-term liabilities</b>	<b>36.2</b>	<b>33.9</b>	<b>31.3</b>	<b>42.3</b>	<b>59.0</b>
<b>Total long-term liabilities</b>	<b>36.2</b>	<b>33.9</b>	<b>31.3</b>	<b>42.3</b>	<b>59.0</b>
Shareholders' funds	297.1	301.0	297.8	284.5	338.3
Minority interests	-	-	-	-	-
BV/share (RM)	0.44	0.45	0.44	0.42	0.51
<b>Cash Flow (RMmil, YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Pretax profit	52.0	55.5	66.8	66.2	70.9
Depreciation/Amortisation	40.8	27.2	45.9	48.4	-
Net change in working capital	(1.0)	7.9	34.6	(12.4)	1.1
<b>Others</b>	<b>(5.5)</b>	<b>(2.4)</b>	<b>(13.0)</b>	<b>(20.2)</b>	<b>(16.8)</b>
Cash flow from operations	86.3	88.2	134.2	82.0	55.1
Capital expenditure	(17.6)	(12.6)	(24.2)	(28.8)	(310.9)
Net investments & sale of fixed assets	8.4	6.5	3.5	4.5	-
<b>Others</b>	<b>(5.0)</b>	<b>(0.9)</b>	-	-	-
Cash flow from investing	(14.2)	(7.1)	(20.7)	(24.3)	(310.9)
Debt raised/(repaid)	-	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(50.2)	(50.2)	(60.3)	(63.6)	(63.6)
<b>Others</b>	<b>(4.1)</b>	-	-	-	-
<b>Cash flow from financing</b>	<b>(54.3)</b>	<b>(50.2)</b>	<b>(60.3)</b>	<b>(63.6)</b>	<b>(63.6)</b>
<b>Net cash flow</b>	<b>17.8</b>	<b>30.9</b>	<b>53.2</b>	<b>(5.9)</b>	<b>(319.4)</b>
<b>Net cash/(debt) b/f</b>	<b>146.2</b>	<b>163.7</b>	<b>195.1</b>	<b>248.3</b>	<b>242.4</b>
Net cash/(debt) c/f	163.7	195.1	248.3	242.4	(77.0)
<b>Key Ratios (YE 31 Dec)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Revenue growth (%)	5.2	(9.4)	6.9	18.9	6.9
EBITDA growth (%)	11.7	(10.1)	34.5	0.9	(35.7)
Pretax margin (%)	22.9	26.9	30.3	25.3	25.3
Net profit margin (%)	22.3	25.7	25.9	19.2	19.2
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	2.3	4.5	14.5	24.0	24.0
Dividend payout (%)	98.8	94.8	105.6	126.5	118.1
Debtors turnover (days)	68	68	56	54	56
Stock turnover (days)	11	12	11	10	11
Creditors turnover (days)	2	-	-	-	-

Source: Company, AmInvestment Bank Bhd estimates

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