

Valuetronics (VALUE SP)

Many near term headwinds

1HFY22 missed on cost pressures

1HFY22 PATMI of HKD56.6m (-38.1% YoY) missed, accounting for only 39%/41% of our and consensus' FY22E estimates. This was largely due to cost pressures that eroded margins. We slash FY22-24E EPS by 20-27% to factor in an environment with lower-than-historical margins. D/G to SELL with lower TP SGD0.50, as we roll forward to 10.6x FY23E P/E.

Rising component and labour prices weigh on margins

1HFY22 revenue fell 7.3% to HKD1.015b, and was in line with our estimate. Consumer electronics revenue fell 12.5% as orders were cancelled or deferred due to chip shortages. Industrial and commercial electronics decreased 4.8% as expected loss of automotive allocation was offset by growth from printing and sensing customers that are exposed to e-commerce/logistics. Gross and net margin fell 2.8ppt to 14.2%/5.6% respectively, due to higher components and labour costs as well as stronger CNY.

Vietnam on track

Mass production could begin in the new Vietnam campus in 1QCY22. Aside, VALUE is finalising business terms with several new potential customers in Vietnam. VALUE is also trying to identify new sources of supply and negotiate new prices with customers to cope with current headwinds.

Wait for a better entry point

Downside risks to our forecasts include i) sustained or worsening component shortages; ii) continued labour shortage (especially nearer to Lunar New Year); and iii) slower than expected rate of passing costs to customers. Key upside risk is stronger than expected contributions from potential customers in Vietnam in FY23E. Our target multiple of 10.6x is in line with global EMS peers. While the stock looks cheap on FY23E EV/EBITDA, we believe continued near-term weakness and uncertainties may present a more attractive entry point for longer-term investors aiming to position for an eventual recovery.

FYE Mar (HKD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,354	2,282	1,990	2,111	2,262
EBITDA	251	263	175	198	226
Core net profit	179	187	105	120	142
Core FDEPS (HKD)	0.41	0.43	0.24	0.28	0.33
Core FDEPS growth(%)	(16.1)	4.4	(43.7)	13.7	18.7
Net DPS (HKD)	0.20	0.20	0.07	0.08	0.16
Core FD P/E (x)	6.7	8.1	14.1	12.4	10.4
P/BV (x)	1.0	1.1	1.0	1.0	0.9
Net dividend yield (%)	7.2	5.7	2.1	2.3	4.7
ROAE (%)	15.0	14.5	7.6	8.2	9.2
ROAA (%)	8.9	8.8	4.8	5.5	6.2
EV/EBITDA (x)	0.5	1.5	3.7	2.6	1.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	na	na	na
MKE vs. Consensus (%)	-	-	na	na	na

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SELL

[Prior:HOLD]

Share Price SGD 0.59
12m Price Target SGD 0.50 (-13%)
Previous Price Target SGD 0.60

Company Description

Valuetronics is a HK based electronics manufacturing services provider with two facilities in China.

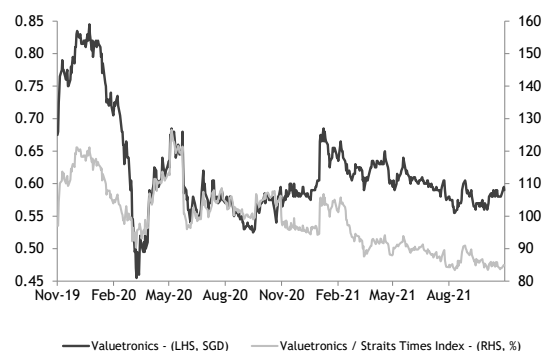
Statistics

52w high/low (SGD) 0.69/0.56
3m avg turnover (USDm) 0.3
Free float (%) 70.7
Issued shares (m) 434
Market capitalisation SGD256.1M
USD190M

Major shareholders:

TSE CHONG HING 17.4%
CHOW KOK KIT 7.3%
LIM CHAI HOCK /TELECHOICE/ 2.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	3	(1)
Relative to index (%)	(1)	(0)	(21)

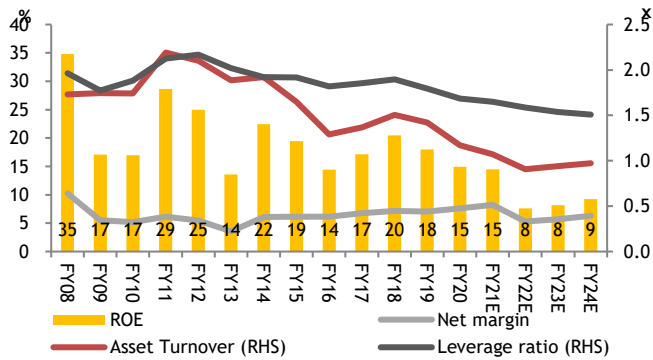
Source: FactSet

ESG@MKE
Tear Sheet Insert

Value Proposition

- An EMS company that manufactures products such as IOT bulbs and in-car connectivity modules, which are in the early part of their product life cycles.
- For certain high mix, low-volume projects, VALUE receives lump-sum pricing, which tend to have better margins. High-mix products make up half of revenues.
- Strengths are design-for-manufacturing and flexibility in adapting to timing and production needs of customers.
- ROE profile dipping from double-digit to single digit in FY22-24E due to multiple headwinds including cost pressures.

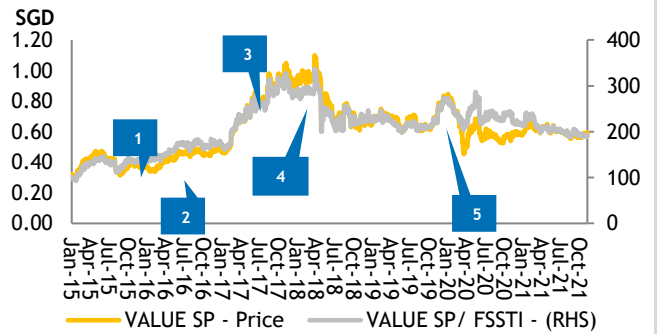
Declining ROEs



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



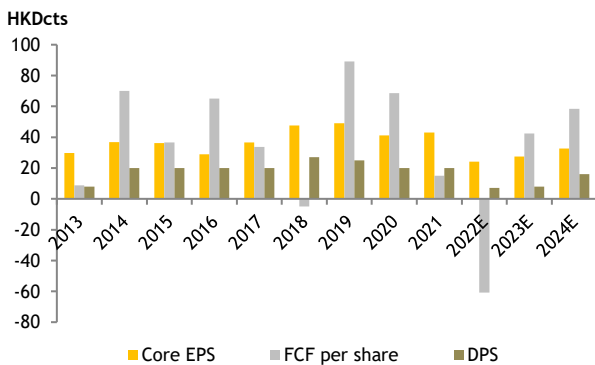
Source: Company, Maybank Kim Eng, FactSet

1. IOT lighting began contributing to revenue.
2. Net profit increased 70% in 3QFY17 due to IOT lighting demand and operating leverage.
3. Automotive contracts powered fourth consecutive quarter of growth in ICE.
4. Surprise quarterly earnings miss by key lighting customer.
5. Sell-off due to Covid-19 outbreak in China.

Financial Metrics

- We expect the significantly reduced automotive allocation, components shortage and rising input prices to result in earnings decline in FY22.
- Clean balance sheet with cash of HKD936.7m and no debt as of 1H22.
- However, VALUE is likely to conserve cash amid current uncertainties. This could result in DPS pay out being at the lower end of its 30-50% policy.

EPS, FCF per share, DPS



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Better-than-expected growth in Vietnam, especially with new customers
- Appreciation of USD vs. RMB or VND.
- Operating leverage from increased production.

Downside

- Weaker-than-expected end-demand for products that are customer or industry specific, as well as driven by adverse economic factors.
- Cost increases for labour and materials.
- Unforeseen pricing erosion for key products.



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Risk Rating & Score ¹	Not Rated
Score Momentum ²	NA
Last Updated	NA
Controversy Score ³	NA

Business Model & Industry Issues

- In the electronics supply chain VALUE is exposed to risks including corruption and conflicts of interests, workplace safety and fair employment, and environmental.
- In FY20, VALUE continued to comply with applicable environmental rules and regulations, anti-competitive behaviour laws, and requirements on health and safety. There were no significant fines or non-monetary sanctions for non-compliance with these policies. There were also no reported incidents of corruption.
- VALUE’s top 100 suppliers are assessed annually on compliance with relevant environmental laws and regulations. The top 100 suppliers are also required to comply with VALUE’s strict no-child-labour policy.

Material E issues

- VALUE has achieved ISO 14000 accreditation for environmental management since 2008 for its China operation. ISO 14000 is based on a plan-do-check-act methodology to support environmental protection, preventing pollution, minimising waste, and reducing energy and material use.
- For its leased factory in Vietnam, VALUE intends to obtain accreditation by 2021.
- Recyclable waste is processed by qualified third-party recycling firms.
- VALUE encourages suppliers to be accredited with ISO 14000. VALUE assesses its top 100 suppliers annually on environmental compliance. Most comply with environmental laws and regulations.

Material S issues

- VALUE is an equal-opportunities employer. In FY20, there was no reported incident of discrimination.
- Worker distribution by gender is 42% male and 58% female.
- VALUE has a strict no-child-labour policy and it expects the same from its suppliers. Its top 100 suppliers comply with this policy.
- From an occupational health and safety perspective, there were no fatal industrial accidents in FY20.
- Employees are given regular training on on-job skills and workplace safety, and specialised training tailored to the individual’s career advancement. Average hours of training per employee were 18 hours in FY20.

Key G metrics and issues

- VALUE’s board consists of five directors, of which two are executives and the remaining three are non-executives and independent (60%).
- The audit, nominating and remunerating committees are chaired by independent directors.
- Key management compensation accounted for 16% of total employee compensation in FY20 (FY19: 17%).
- VALUE does not tolerate corruption in any form. All staff other than production line workers sign an anti-corruption declaration upon joining the company. VALUE has dedicated whistleblowing hotlines and any report is immediately escalated to senior management. There were no reported incidents of corruption in FY20.
- VALUE complied with anti-competitive behaviour laws in FY20, and also has procedures in place to avoid conflicts of interest. VALUE also has measures to protect confidential information for both internal and external stakeholders. Policies on whistleblowing and anti-corruption are regularly reviewed to ensure they are effective.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: Forecast changes

	FY22E			FY23E			FY24E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (HKDm)	1,989.7	1,996.7	-0.4	2,111.1	2,118.7	-0.4	2,262.1	2,248.1	0.6
Gross profit (HKDm)	281.1	320.4	-12.3	308.1	346.6	-11.1	339.8	373.4	-9.0
EBIT (HKDm)	118.0	160.7	-26.6	134.1	176.0	-23.8	159.0	197.8	-19.6
EBITDA (HKDm)	175.2	219.7	-20.3	197.6	242.5	-18.5	226.4	267.3	-15.3
Core net profit (HKDm)	105.5	143.9	-26.7	119.9	157.6	-23.9	142.4	177.3	-19.7
Core EPS (HKD)	0.24	0.33	-26.8	0.28	0.36	-23.9	0.33	0.41	-19.7
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross margin	14.1%	16.0%	-1.9	14.6%	16.4%	-1.8	15.0%	16.6%	-1.6
SGA as % of sales	9.0%	9.0%	0.0	9.0%	9.0%	0.0	8.7%	8.7%	0.0

Source: Maybank Kim Eng

Fig 2: 1H22 performance summary

FYE Mar	1HFY22	1HFY21	2HFY21	YoY Chg	HoH Chg	FYE	1HFY22 vs FY22E
	(HKD m)	(HKD m)	(HKD m)	(%)	(%)	(HKD m)	
Revenue	1,014.5	1,094.9	1,186.6	-7.3	-14.5	1,996.7	50.8
COGS	(870.9)	(909.0)	(986.3)	-4.2	-11.7	(1,676.4)	52.0
Gross profit	143.6	185.9	200.3	-22.8	-28.3	320.4	44.8
Total SGA	(87.0)	(93.4)	(101.9)	-6.8	-14.6	(179.7)	48.4
Other op. inc	7.4	11.4	7.0	-35.1	5.7	20.0	37.0
Other op. exp	0.0	0.0	0.0	nm	nm	0.0	nm
EBIT	64.0	104.0	105.4	-38.4	-39.3	160.7	39.8
EBITDA	93.3	133.5	133.5	-30.1	-30.1	219.7	42.5
Finance cost	(0.3)	(0.3)	(0.4)	-13.6	-17.0	(0.8)	36.6
Associates Inc	0.0	0.0	0.0	nm	nm	0.0	nm
Exceptionals	0.0	0.0	0.0	nm	nm	0.0	nm
Pretax profit	63.7	103.6	105.0	-38.5	-39.3	159.9	39.9
Taxation	(7.1)	(12.1)	(9.4)	-41.6	-24.8	(16.0)	44.4
Net profit	56.6	91.5	95.6	-38.1	-40.8	143.9	39.4
MI	0.0	0.0	0.0	nm	nm	0.0	nm
PATMI	56.6	91.5	95.6	-38.1	-40.8	143.9	39.4
Core PATMI	56.6	91.5	95.6	-38.1	-40.8	143.9	39.4
					Change (ppt)		
Gross margin	14.2%	17.0%	16.9%	-2.8	-2.7	16.0%	
EBIT margin	6.3%	9.5%	8.9%	-3.2	-2.6	8.0%	
Core net margin	5.6%	8.4%	8.1%	-2.8	-2.5	7.2%	

Source: Company, Maybank Kim Eng

Fig 3: Peer comps

Company	BBG Code	MKE Rec	MKE TP (LC)	Price (LC)	FYE mm	Mcap USDm	P/E (x)				EV /EBITDA (x)	PBR (x)	Div yield (%)
							Act	FY1	FY2	FY3			
Valuetronics	VALUE SP	Sell	0.50	0.59	03	192	7.5	14.1	12.4	10.4	3.7	1.0	2.1
Singapore listed EMS and precision engineering peers													
Venture Corp	VMS SP	Hold	19.18	18.75	12	4,058	11.1	18.3	17.0	15.5	10.9	2.1	4.0
Innotek	INNOT SP	NR	-	0.78	12	143	12.7	10.1	8.6	8.2	-	-	2.6
Aztech Global	AZTECH SP	Buy	1.26	1.03	12	592	8.3	10.8	8.2	6.8	5.9	3.1	2.6
Frencken	FRKN SP	Buy	2.00	2.25	12	713	8.3	15.5	13.2	12.4	8.5	2.0	2.0
Average							10.4	16.8	15.2	13.9	9.8	2.2	3.5
High mix low volume EMS peers													
Benchmark Elec	BHE US	NR	-	26.04	12	917	27.4	21.6	18.2	-	-	-	-
Plexus	PLXS US	NR	-	93.23	10	2,634	19.2	17.0	15.8	15.5	10.0	2.6	-
Average							21.3	18.2	16.4	15.5	10.0	1.9	0.0
Global EMS peers													
Hon Hai	2317 TT	NR	-	107.50	12	53,547	14.6	11.0	9.6	8.6	4.2	1.1	4.6
Flex	FLEX US	NR	-	17.92	03	8,434	11.4	10.6	9.7	9.4	6.5	2.4	0.0
Jabil	JBL US	NR	-	64.21	08	9,204	11.4	12.6	11.9	11.1	5.1	4.4	0.5
Pegatron	2938 TT	NR	-	68.50	12	6,570	8.9	9.9	9.7	9.3	4.9	1.0	6.5
SKP Resources	SKP MK	NR	-	1.81	03	681	22.1	23.3	17.6	16.3	14.5	4.3	2.4
V.S. Industry	VSI MK	Hold	1.86	1.51	07	1,391	23.6	18.0	17.0	16.2	9.4	-	3.2
Sanmina	SANM	NR	-	42.91	10	2,793	10.8	10.9	10.5	11.5	-	-	0.0
FIH Mobile	2038 HK	NR	-	1.20	12	1,234	-	-	-	-	-	-	0.0
Celestica	CLS CN	NR	-	13.81	12	1,178	11.0	10.6	9.6	-	5.9	-	0.0
UMC Electronics	6615 JP	NR	-	650	03	162	-	-	-	-	-	-	-
Fabrinet	FN US	NR	-	119.61	06	4,428	25.6	26.1	23.6	22.4	18.0	4.0	-
Average							14.2	12.0	10.7	10.0	5.5	1.7	4.2

Source: FactSet, Bloomberg, Maybank Kim Eng

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	9.4	7.8	14.1	12.4	10.4
Core P/E (x)	6.7	8.1	14.1	12.4	10.4
Core FD P/E (x)	6.7	8.1	14.1	12.4	10.4
P/BV (x)	1.0	1.1	1.0	1.0	0.9
P/NTA (x)	1.0	1.1	1.0	1.0	0.9
Net dividend yield (%)	7.2	5.7	2.1	2.3	4.7
FCF yield (%)	24.7	4.3	nm	12.4	17.0
EV/EBITDA (x)	0.5	1.5	3.7	2.6	1.4
EV/EBIT (x)	0.6	1.9	5.5	3.8	2.1

INCOME STATEMENT (HKD m)

Revenue	2,354.4	2,281.5	1,989.7	2,111.1	2,262.1
EBITDA	250.9	263.2	175.2	197.6	226.4
Depreciation	(51.2)	(51.2)	(54.5)	(60.8)	(64.7)
Amortisation	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)
EBIT	197.0	209.4	118.0	134.1	159.0
Net interest income / (exp)	(0.8)	(0.7)	(0.8)	(0.8)	(0.8)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	196.2	208.7	117.2	133.3	158.2
Income tax	(17.3)	(21.6)	(11.7)	(13.3)	(15.8)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	178.9	187.1	105.5	119.9	142.4
Core net profit	178.9	187.1	105.5	119.9	142.4

BALANCE SHEET (HKD m)

Cash & Short Term Investments	1,091.7	1,129.4	831.8	979.2	1,158.7
Accounts receivable	326.4	490.5	545.2	519.0	472.6
Inventory	227.9	214.1	272.8	241.0	233.0
Property, Plant & Equip (net)	201.1	288.1	373.6	382.8	378.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	1.0
Other assets	166.3	119.4	119.7	120.7	121.7
Total assets	2,013.5	2,241.6	2,143.2	2,242.6	2,365.2
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	291.2	365.2	290.2	302.6	350.5
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	491.0	529.0	431.0	433.0	435.0
Total Liabilities	781.9	894.5	721.1	735.5	785.4
Shareholders Equity	1,231.6	1,347.1	1,422.1	1,507.1	1,579.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,231.6	1,347.1	1,422.1	1,507.1	1,579.8
Total liabilities and equity	2,013.5	2,241.6	2,143.2	2,242.6	2,365.2

CASH FLOW (HKD m)

Pretax profit	196.2	208.7	117.2	133.3	158.2
Depreciation & amortisation	53.9	53.9	57.2	63.5	67.4
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	109.0	(44.6)	(287.1)	71.4	103.2
Cash taxes paid	(18.3)	(14.5)	(11.7)	(13.3)	(15.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	340.8	203.4	(124.5)	254.9	313.0
Capex	(42.5)	(138.2)	(140.0)	(70.0)	(60.0)
Free cash flow	298.3	65.2	(264.5)	184.9	253.0
Dividends paid	(112.8)	(82.7)	(30.5)	(34.9)	(69.7)
Equity raised / (purchased)	0.2	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(63.0)	93.8	(2.7)	(2.7)	(4.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	122.7	76.4	(297.6)	147.3	178.6

FYE 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(16.8)	(3.1)	(12.8)	6.1	7.2
EBITDA growth	(11.5)	4.9	(33.5)	12.8	14.6
EBIT growth	(17.3)	6.3	(43.7)	13.6	18.6
Pretax growth	(12.4)	6.3	(43.8)	13.7	18.7
Reported net profit growth	(10.3)	4.6	(43.6)	13.7	18.7
Core net profit growth	(16.0)	4.6	(43.6)	13.7	18.7
Profitability ratios (%)					
EBITDA margin	10.7	11.5	8.8	9.4	10.0
EBIT margin	8.4	9.2	5.9	6.3	7.0
Pretax profit margin	8.3	9.1	5.9	6.3	7.0
Payout ratio	48.5	46.5	28.9	29.1	49.0
DuPont analysis					
Net profit margin (%)	7.6	8.2	5.3	5.7	6.3
Revenue/Assets (x)	1.2	1.0	0.9	0.9	1.0
Assets/Equity (x)	1.6	1.7	1.5	1.5	1.5
ROAE (%)	15.0	14.5	7.6	8.2	9.2
ROAA (%)	8.9	8.8	4.8	5.5	6.2
Liquidity & Efficiency					
Cash conversion cycle	44.5	44.1	75.9	82.8	62.1
Days receivable outstanding	58.3	64.4	93.7	90.7	78.9
Days inventory outstanding	47.9	42.0	51.3	51.3	44.4
Days payables outstanding	61.7	62.3	69.0	59.2	61.2
Dividend cover (x)	2.1	2.2	3.5	3.4	2.0
Current ratio (x)	2.2	2.1	2.3	2.4	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.6	2.5	3.0	3.0	3.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	nm	147.5	nm	nm
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	1.8	6.1	7.0	3.3	2.7
Net debt/ (net cash)	(1,091.7)	(1,129.4)	(831.8)	(979.2)	(1,158.7)

Source: Company; Maybank

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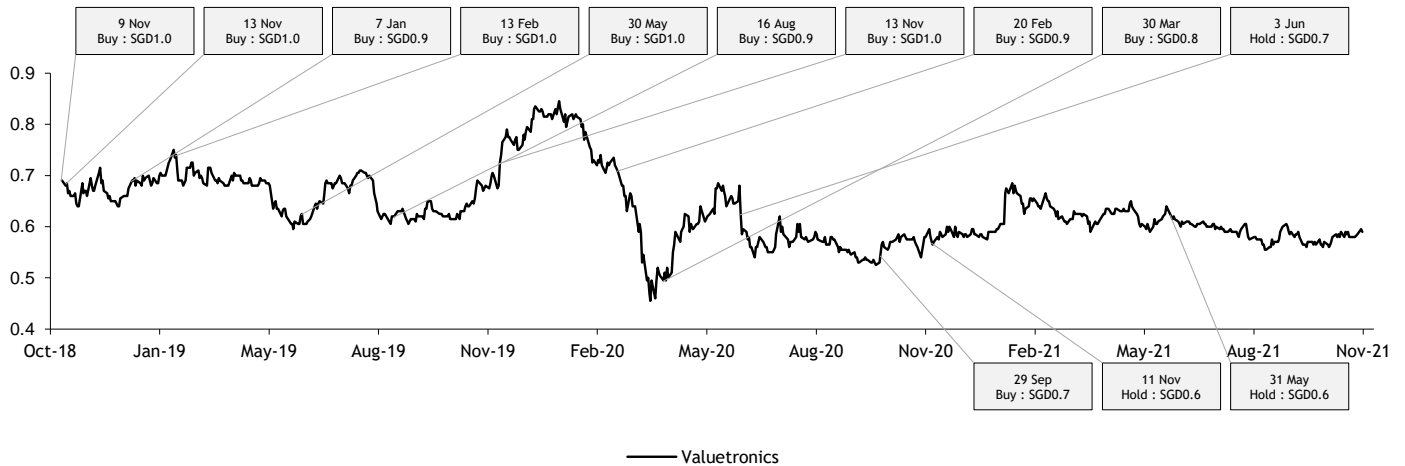
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