

Globetronics Technology (GTB MK)

Tax incentive expiry on the horizon

Revising EPS estimates on higher tax; D/G to HOLD

GTB's existing tax incentives related to its "Pioneer Status" is set to expire in June 2022. As such, we have increased its effective tax rate for FY22-24E to 9-18% and slashed our EPS estimates by 8%-21%. Despite undemanding valuations, we D/G GTB to a HOLD and lower our TP to MYR1.44 (-42%), pegged to 20x FY23 PER, at -1.5SD to the LT mean. We prefer INRI MK (BUY, TP: MYR4.00) as our top sector pick for MY OSATs.

Sensor division's "Pioneer Status" set to expire

GTB's management has alluded that the tax incentives currently in place for the group's Sensor division from its "Pioneer Status" classification will expire on 30 June 2022. To recap, GTB had successfully applied for and received approval from MIDA in 2017 for an extension of the division's Pioneer Status for a further 5 years. As a result, its effective tax rate between FY17-21 ranged from 2.3% to 8.5%, significantly lower than the Malaysian statutory tax rate of 24%.

Capital allowances to cushion higher tax impact

Despite the expiry of the division's Pioneer Status next month, the group still has unabsorbed/carried forward capital allowances that is expected to partially shield the group's overall tax exposure for FY22. Separately, MIDA has also granted GTB additional investment tax allowances and a subsidy grant for any capex investment incurred by its new product platforms - however, these incentives are not expected to be significant.

Imputing for higher effective tax rates in FY22-24E

Considering the net impact of expiring as well as new tax incentives on GTB's bottom-line, we expect its effective tax rate to be at 9%/14%/18% in FY22-24E respectively (from c.2%/3%/5% previously). We have also adjusted its capex allocation for FY22/23E to MYR45m/35m (from MYR30m), in line with mgmt guidance on its new product initiatives. As a result, our core EPS estimates for FY22-24E are lowered by 8%/19%/21%. With a 4Y (FY20-24E) core earnings CAGR of just 2.2%, we have also revised down our valuation peg to 20x FY23 PER, at -1.5SD to the LT mean (from 27x FY23 PER, at mean) to reflect its subdued earnings growth prospects.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	228	206	274	287	301
EBITDA	90	82	78	85	96
Core net profit	50	53	53	50	55
Core EPS (sen)	7.5	7.9	7.9	7.4	8.2
Core EPS growth (%)	9.4	4.7	(0.2)	(5.9)	10.9
Net DPS (sen)	6.0	6.3	6.3	5.9	6.6
Core P/E (x)	35.8	21.0	16.6	17.7	15.9
P/BV (x)	6.1	3.7	2.8	2.7	2.6
Net dividend yield (%)	2.2	3.8	4.8	4.5	5.0
ROAE (%)	17.1	18.0	17.1	15.4	16.4
ROAA (%)	15.0	15.8	15.4	13.9	14.9
EV/EBITDA (x)	18.2	11.2	9.1	8.2	7.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	56	62	69
MKE vs. Consensus (%)	-	-	(5.9)	(20.0)	(19.7)

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HOLD

[Prior:BUY]

Share Price MYR 1.31
 12m Price Target MYR 1.44 (+14%)
 Previous Price Target MYR 2.48

Company Description

OSAT provider for sensors, quartz crystal timing devices, SSL/LED and IC components

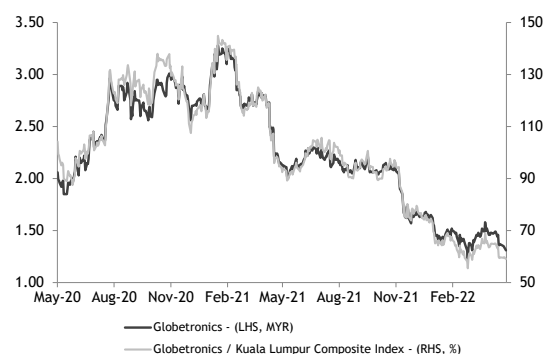
Statistics

52w high/low (MYR) 2.30/1.23
 3m avg turnover (USDm) 0.5
 Free float (%) 61.4
 Issued shares (m) 669
 Market capitalisation MYR877.0M
 USD200M

Major shareholders:

Employees Provident Fund 19.1%
 General Produce Agency Sdn. Bhd. 7.1%
 Public Mutual Bhd. 5.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(14)	(12)	(39)
Relative to index (%)	(11)	(13)	(38)

Source: FactSet

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Risk Rating & Score¹	31.3 (High)
Score Momentum²	-1.6
Last Updated	24 Dec 2021
Controversy Score³ (Updated: 01 Jan 2000)	0 - No reported incidents

Business Model & Industry Issues

- As a multinational provider in a variety of product and services, Globetronics is naturally exposed to environmental, workplace safety, and socio-economic risks. In FY21, the Group recorded zero substantiated cases of corruption and compliance issues.
- Globetronics has several new energy-efficient, environmentally conscious products using the latest technologies in its pipeline. In our view, this signals a strong competitive edge for Globetronics in the industry, going forward.
- Its related party transactions with associates were insignificant. Meanwhile, the founder/Executive Chairman holds less than 10% in the company - low, in our view. Overall, we see limited corporate governance risks for Globetronics.

Material E issues

- In FY21, Globetronics recorded 8,066 kgs of waste disposal (-18.9% YoY), and reused and recycled 158,997 kg of recyclable waste, including 43 kgs of batteries.
- Globetronics has introduced several energy-saving initiatives such as (i) energy-efficient wafer saving processes that saved 29,963m³ of water, (ii) installation of solar panels that led to a reduction of 216,000kg of CO₂ emissions, (iii) energy-efficient chiller and air compressor systems, (iv) preventive maintenance of facilities equipment, and (v) scheduled shutdown of operations.
- Globetronics implemented a ban on plastic straws and a near-total ban on one-time plastics, and planted trees around their factories to reduce CO₂ emissions.
- All their Penang manufacturing factories are certified to ISO 14001, in accordance with local regulations.

Material S issues

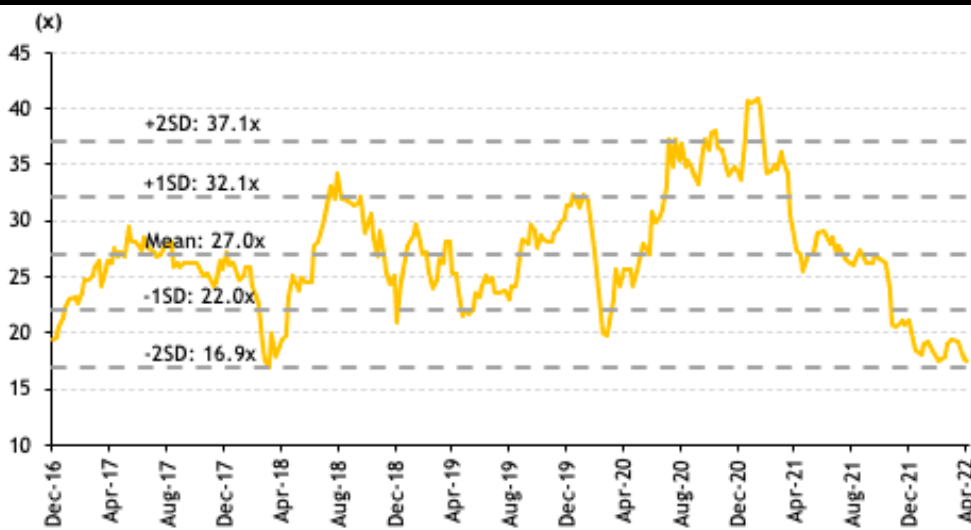
- Globetronics values diversity, as women made up 71%/29%/29% of the overall workforce at group/mgmt /board levels in FY21.
- They emphasise on (i) freely chosen labour, (ii) avoidance of child labour, (iii) non-discrimination in recruitment, and (iv) policies against sexual harassment, fraud, bribery, and corruption with proper reporting channels.
- In FY21, there were 3 factory accidents, no fire incidents and just one near-miss accident - but recorded no fatalities/permanent injuries.
- They invested a total of MYR252,165 (+63% YoY) in employees' training to upgrade the people's competency levels with regards to new products and technologies.
- They actively contributed in various employee welfare activities, and 5 different education and community-based partnership and sponsorship projects in FY21.

Key G metrics and issues

- The board has 7 directors with 2 Non-Independent Executive Directors, of which one is the Founder and Executive Chairman, 4 Independent Non-Executive Directors, and one Non-Independent Non-Executive Director.
- The board is of diverse background with 29% women representation, with 57% of board members above the age of 70 and 29% between the ages of 61-69.
- Against the Group's FY21 reported net profit of MYR52.9m, remuneration for the Chairman and each member were: 0.26% for the Board and ≤0.1% for each committee.
- Globetronics was audited by KPMG PLT in FY21.
- The audit & risk management, remuneration, nomination, and their Employee Share Option Scheme (ESOS) committees are chaired by Independent Non-Executive Directors.
- Ng Kweng Chong, the major shareholder, founder and Executive Chairman holds direct interests in c.7.0m shares (1.0%) and deemed interests in 29.3m shares (4.4%) of the company - via Ng Kweng Chong Holdings Sdn Bhd, Wiserite Sdn Bhd, and Glencare Sdn Bhd.
- Mr Ng Kok Khuan, a Non-Independent Non-Executive director and the nephew of Mr Ng Kweng Chong, holds 0.1m direct and 0.2m deemed interests in the shares of the company (<0.1% each).
- Dato' Heng Huck Lee, the CEO of Globetronics holds 1.8m direct (0.3%) and 0.2m deemed interests (<0.1%) in the shares of the company.
- An independent non-executive director, Ong Huey Min and holds minimal direct and indirect interests of less than 300,000 shares (<0.1%).
- Globetronics recorded insignificant related party transactions with associates in FY21 amounting to MYR2.7m. Elsewhere, there were no controversial transactions.

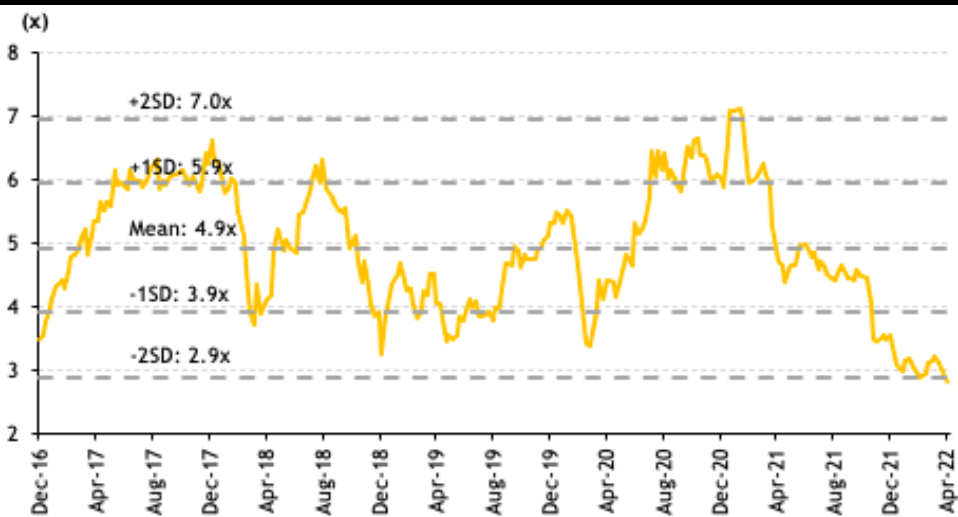
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven 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: Globetronics’s 12M forward PER band (currently trading at 17.4x)



Source: Bloomberg, Maybank IBG Research

Fig. 2: Globetronic’s 12M forward PBV band (currently trading at 2.8x)



Source: Bloomberg, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, target price and rating for GTB. A sharp downturn in the global markets for electronics, especially smartphones, will affect the demand for sensors and other components that GTB produces for its key clients. Additionally, forex volatility, especially USD/MYR, will also affect GTB’s earnings, as over half of the Group’s revenue and COGS are denominated in USD.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	31.4	28.8	16.6	17.7	15.9
Core P/E (x)	35.8	21.0	16.6	17.7	15.9
P/BV (x)	6.1	3.7	2.8	2.7	2.6
P/NTA (x)	6.1	3.7	2.8	2.7	2.6
Net dividend yield (%)	2.2	3.8	4.8	4.5	5.0
FCF yield (%)	4.1	7.0	1.7	4.6	5.9
EV/EBITDA (x)	18.2	11.2	9.1	8.2	7.2
EV/EBIT (x)	33.3	16.9	13.0	12.9	10.9
INCOME STATEMENT (MYR m)					
Revenue	227.5	206.0	274.5	287.0	300.5
EBITDA	90.1	82.0	77.8	85.3	96.1
Depreciation	(40.7)	(28.0)	(23.6)	(30.9)	(32.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	49.3	54.0	54.2	54.4	63.8
Net interest income / (exp)	2.6	2.1	3.5	3.0	3.1
Associates & JV	0.1	0.2	0.2	0.2	0.2
Exceptionals	0.4	1.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	52.0	56.3	57.9	57.6	67.1
Income tax	(1.2)	(2.5)	(5.2)	(8.1)	(12.1)
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	50.8	53.8	52.7	49.6	55.0
Core net profit	50.4	52.8	52.7	49.6	55.0
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	163.7	195.1	169.4	172.7	183.3
Accounts receivable	43.6	32.9	53.4	55.7	58.2
Inventory	5.7	8.2	6.9	7.3	7.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	97.0	68.5	90.0	94.0	91.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	23.7	30.2	30.0	33.1	36.4
Total assets	333.7	334.9	349.7	362.8	377.1
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	36.1	33.2	34.4	34.8	34.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	1.0	1.0	1.0	1.0	1.0
Total Liabilities	36.6	33.9	35.1	35.5	35.6
Shareholders Equity	297.1	301.0	314.6	327.3	341.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	297.1	301.0	314.6	327.3	341.5
Total liabilities and equity	333.7	334.9	349.7	362.8	377.1
CASH FLOW (MYR m)					
Pretax profit	52.0	56.3	57.9	57.6	67.1
Depreciation & amortisation	40.7	28.0	23.6	30.9	32.3
Adj net interest (income)/exp	(2.6)	(2.1)	(3.5)	(3.0)	(3.1)
Change in working capital	3.3	4.1	(12.9)	(2.4)	(2.5)
Cash taxes paid	(0.9)	(1.7)	(5.2)	(8.1)	(12.1)
Other operating cash flow	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Cash flow from operations	92.4	84.4	59.7	74.9	81.5
Capex	(18.4)	(7.0)	(45.0)	(35.0)	(30.0)
Free cash flow	74.0	77.4	14.7	39.9	51.5
Dividends paid	(50.2)	(50.2)	(42.1)	(39.7)	(44.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(4.1)	0.0	0.0	0.0	0.0
Other invest/financing cash flow	1.6	2.5	3.5	3.0	3.1
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	21.3	29.7	(24.0)	3.3	10.6

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	5.2	(9.4)	33.2	4.6	4.7
EBITDA growth	11.3	(8.9)	(5.2)	9.7	12.6
EBIT growth	15.1	9.5	0.4	0.4	17.2
Pretax growth	12.9	8.3	2.8	(0.4)	16.4
Reported net profit growth	13.6	5.9	(2.1)	(5.9)	10.9
Core net profit growth	9.4	4.7	(0.2)	(5.9)	10.9
Profitability ratios (%)					
EBITDA margin	39.6	39.8	28.3	29.7	32.0
EBIT margin	21.7	26.2	19.8	19.0	21.2
Pretax profit margin	22.9	27.3	21.1	20.1	22.3
Payout ratio	79.4	78.5	80.0	80.0	80.0
DuPont analysis					
Net profit margin (%)	22.3	26.1	19.2	17.3	18.3
Revenue/Assets (x)	0.7	0.6	0.8	0.8	0.8
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
ROAE (%)	17.1	18.0	17.1	15.4	16.4
ROAA (%)	15.0	15.8	15.4	13.9	14.9
Liquidity & Efficiency					
Cash conversion cycle	(1.7)	(13.5)	4.3	16.6	17.0
Days receivable outstanding	67.2	66.9	56.6	68.4	68.3
Days inventory outstanding	16.9	20.1	15.0	13.3	13.6
Days payables outstanding	85.8	100.5	67.3	65.2	64.9
Dividend cover (x)	1.3	1.3	1.2	1.2	1.3
Current ratio (x)	5.8	7.0	6.5	6.7	7.2
Leverage & Expense Analysis					
Asset/Liability (x)	9.1	9.9	10.0	nm	nm
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)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	8.1	3.4	16.4	12.2	10.0
Net debt/ (net cash)	(163.7)	(195.1)	(169.4)	(172.7)	(183.3)

Source: Company; Maybank IBG Research

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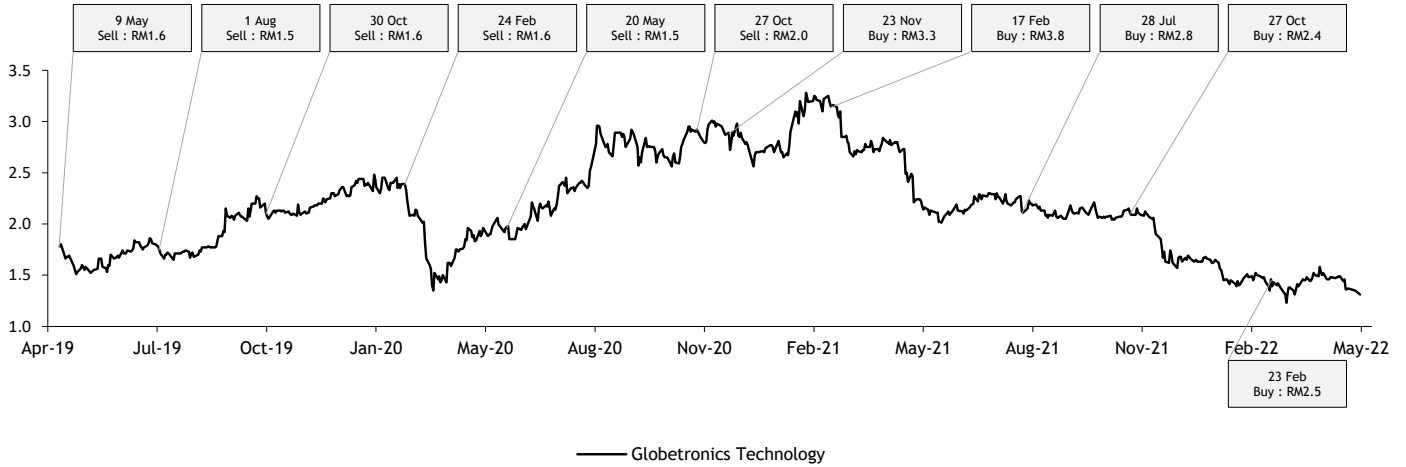
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Historical recommendations and target price: Globetronics Technology (GTB MK)



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