

Globetronics Technology (GTB MK)

Inks deal with Indian IoT device CM

Neutral on deal owing to uncertainties; SELL.

We are neutral on GTB's latest tie-up. Despite the deal effectively guaranteeing GTB a contribution of MYR10.9m over 3Y, we are less upbeat over the deal's "re-investment" portion owing to (i) its counterpart's OSAT inexperience, (ii) lack of established customers, and (iii) uncertainties over exit valuation guarantees. Our FY24-26E forecasts and TP of MYR1.05 (pegged to 21x FY25E PER) remain unchanged; maintain SELL.

Salient terms of signed agreement

GTB has announced that its wholly-owned subsidiary, ISO Technology S/B (ISOT), had entered into an agreement with Kaynes Semicon Pt. Ltd. (KSPL), a wholly-owned subsidiary of Kaynes Technology India Ltd (KAYNES IN; Not Rated) for the provision of OSAT-related "technical services". As part of the deal, KSPL will pay ISOT a sum of USD7.6m (MYR35.9m), of which USD5.3m (MYR25.0m) will be reinvested by ISOT into convertible securities (CCPS) issued by KSPL. In return for the investment, KAYNES is required to provide ISOT with an exit opportunity either via IPO or a strategic sale within 3 years from ISOT's date of subscription to the CCPS.

Background of counterparty

KAYNES is an end-to-end CM for IoT-integrated electronics for a wide range of sectors. Despite its 34 years of mfg experience and 8 production plants, it does not have any prior OSAT experience. It set up KSPL with the specific aim of being its India-based OSAT unit and we understand it has no existing customers. The "technical services" that GTB will render to KSPL include the setup and transfer of a single OSAT line for matured products, such as lower-margin small outline components and general-lighting LEDs.

Question marks over deal structure

At best, the deal guarantees GTB a contribution of MYR10.9m (to be recognised in instalments over a 3Y horizon). Meanwhile, we understand the exit value (MYR25.0m) of its "re-investment" is not guaranteed at this juncture should KAYNES fail to spin-off KSPL by the stipulated deadline post-CCPS subscription. Further, the CCPS will also likely represent a negligible c.2-3% of KSPL's eventual equity value upon full conversion.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	180	132	186	200	214
EBITDA	70	44	64	82	87
Core net profit	47	26	34	41	44
Core EPS (sen)	7.1	3.8	5.0	6.1	6.6
Core EPS growth (%)	(6.2)	(45.6)	31.1	21.0	9.2
Net DPS (sen)	7.0	3.5	4.0	4.9	5.3
Core P/E (x)	16.4	42.2	27.2	22.5	20.6
P/BV (x)	2.6	3.5	2.9	2.8	2.8
Net dividend yield (%)	6.0	2.2	2.9	3.6	3.9
ROAE (%)	15.0	8.6	10.8	12.8	13.6
ROAA (%)	14.3	7.7	9.9	11.7	12.5
EV/EBITDA (x)	8.2	19.9	11.5	8.9	8.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	37	41	44
MIBG vs. Consensus (%)	-	-	(9.1)	(0.7)	0.1

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SELL

Share Price	MYR 1.37
12m Price Target	MYR 1.05 (-20%)
Previous Price Target	MYR 1.05

Company Description

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

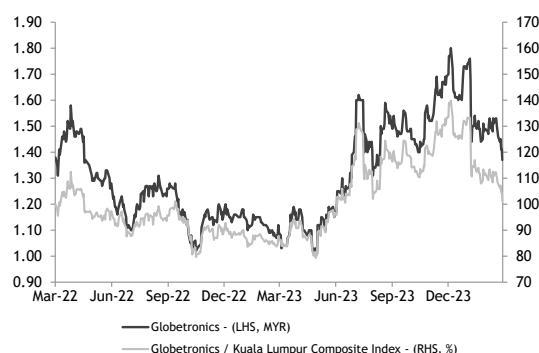
Statistics

52w high/low (MYR)	1.80/1.00
3m avg turnover (USDm)	1.2
Free float (%)	47.7
Issued shares (m)	675
Market capitalisation	MYR924.8M
	USD197M

Major shareholders:

Employees Provident Fund	16.2%
OOI KENG THYE	11.2%
APB Resources Bhd.	10.4%

Price Performance



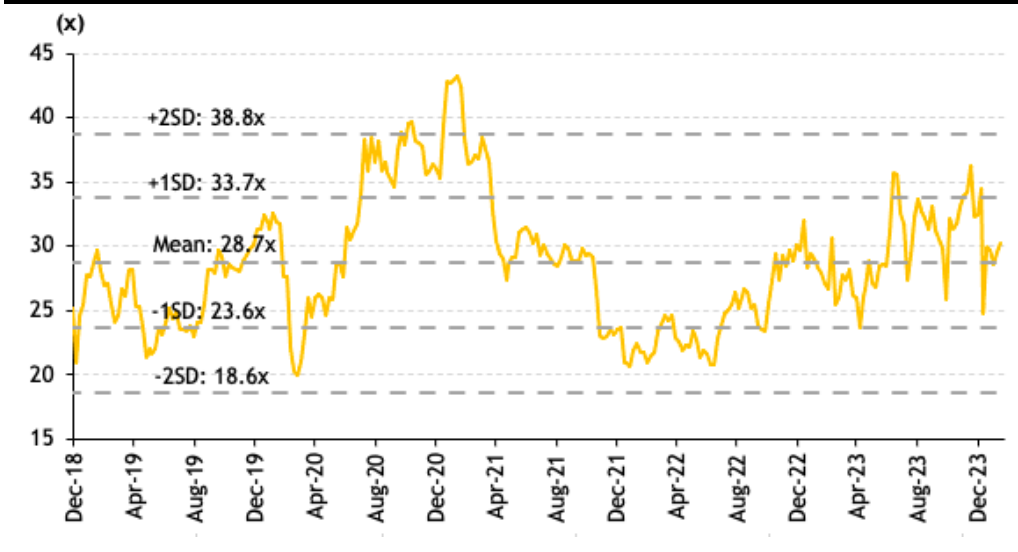
	-1M	-3M	-12M
Absolute (%)	(8)	(19)	27
Relative to index (%)	(10)	(24)	20

Source: FactSet

Acronyms:

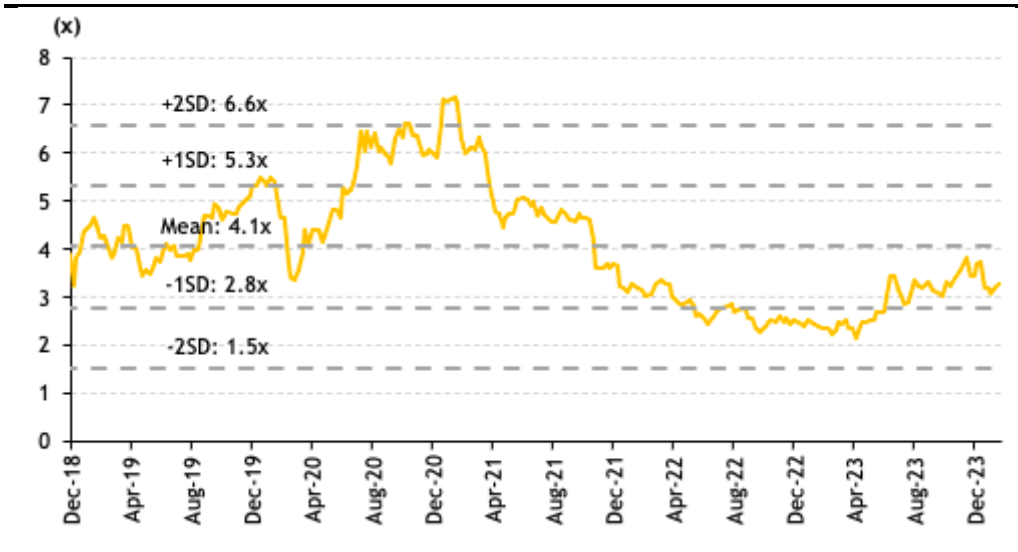
CM - contract manufacturer
CCPS - compulsory convertible preference shares
LED - light-emitting diode
IoT - internet of things
IPO - initial public offering
ISOT - ISO Technology Sdn. Bhd.
KSPL - Kaynes Semicon Pte. Ltd.
OSAT - outsourced assembly & testing

Fig. 1: Globetronics' 12M forward PER band



Source: Bloomberg, Maybank IBG Research

Fig. 2: Globetronics' 12M forward PBV band



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	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	19.0	33.9	27.2	22.5	20.6
Core P/E (x)	16.4	42.2	27.2	22.5	20.6
P/BV (x)	2.6	3.5	2.9	2.8	2.8
P/NTA (x)	2.6	3.5	2.9	2.8	2.8
Net dividend yield (%)	6.0	2.2	2.9	3.6	3.9
FCF yield (%)	7.0	1.7	nm	3.7	5.2
EV/EBITDA (x)	8.2	19.9	11.5	8.9	8.2
EV/EBIT (x)	11.8	29.8	18.9	15.1	13.5
INCOME STATEMENT (MYR m)					
Revenue	180.1	131.8	185.6	199.7	214.0
EBITDA	70.4	43.8	63.9	81.9	87.1
Depreciation	(21.8)	(14.5)	(25.0)	(33.6)	(34.1)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	48.5	29.3	38.9	48.4	53.0
Net interest income / (exp)	2.7	4.7	3.8	3.3	3.4
Associates & JV	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)
Exceptionals	(2.0)	0.6	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	51.0	33.7	42.6	51.5	56.2
Income tax	(5.8)	(7.5)	(8.9)	(10.8)	(11.8)
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	45.2	26.2	33.6	40.7	44.4
Core net profit	47.2	25.7	33.6	40.7	44.4
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	201.5	210.1	181.6	186.3	201.8
Accounts receivable	31.8	20.5	28.5	30.6	32.7
Inventory	9.2	6.2	9.7	9.9	10.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	57.6	72.6	97.6	99.1	90.0
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	26.8	26.6	26.5	26.3	26.2
Total assets	326.8	336.0	343.9	352.1	361.2
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	24.9	26.1	27.2	27.3	27.5
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	2.0	2.0	2.0	2.0
Total Liabilities	26.3	27.9	29.1	29.1	29.3
Shareholders Equity	300.5	308.1	314.9	323.0	331.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	300.5	308.1	314.9	323.0	331.9
Total liabilities and equity	326.8	336.0	343.9	352.1	361.2
CASH FLOW (MYR m)					
Pretax profit	51.0	33.7	42.6	51.5	56.2
Depreciation & amortisation	21.8	14.5	25.0	33.6	34.1
Adj net interest (income)/exp	(2.7)	(4.7)	(3.8)	(3.3)	(3.4)
Change in working capital	(0.1)	9.9	(10.3)	(2.2)	(2.5)
Cash taxes paid	(5.5)	(6.9)	(8.9)	(10.8)	(11.8)
Other operating cash flow	0.3	0.1	0.1	0.1	0.1
Cash flow from operations	64.8	46.7	44.7	68.9	72.8
Capex	(10.2)	(28.2)	(50.0)	(35.0)	(25.0)
Free cash flow	54.6	18.6	(5.3)	33.9	47.8
Dividends paid	(46.9)	(23.4)	(26.9)	(32.6)	(35.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	3.4	0.0	0.0	0.0
Other invest/financing cash flow	4.6	4.6	3.8	3.3	3.4
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	12.3	3.2	(28.5)	4.6	15.6

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	(12.6)	(26.8)	40.8	7.6	7.2
EBITDA growth	(11.1)	(37.8)	45.9	28.2	6.3
EBIT growth	(5.9)	(39.7)	33.0	24.2	9.6
Pretax growth	(5.4)	(33.9)	26.4	21.0	9.2
Reported net profit growth	(12.1)	(42.0)	28.4	21.0	9.2
Core net profit growth	(6.2)	(45.6)	31.1	21.0	9.2
Profitability ratios (%)					
EBITDA margin	39.1	33.2	34.4	41.0	40.7
EBIT margin	27.0	22.2	21.0	24.2	24.8
Pretax profit margin	28.3	25.6	23.0	25.8	26.3
Payout ratio	103.6	89.3	80.0	80.0	80.0
DuPont analysis					
Net profit margin (%)	25.1	19.9	18.1	20.4	20.8
Revenue/Assets (x)	0.6	0.4	0.5	0.6	0.6
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
ROAE (%)	15.0	8.6	10.8	12.8	13.6
ROAA (%)	14.3	7.7	9.9	11.7	12.5
Liquidity & Efficiency					
Cash conversion cycle	(5.8)	(8.1)	(5.8)	4.3	7.6
Days receivable outstanding	64.7	71.4	47.5	53.2	53.2
Days inventory outstanding	30.0	34.4	22.8	27.5	27.0
Days payables outstanding	100.4	113.9	76.1	76.4	72.6
Dividend cover (x)	1.0	1.1	1.3	1.3	1.2
Current ratio (x)	9.2	8.5	7.6	7.8	8.4
Leverage & Expense Analysis					
Asset/Liability (x)	nm	nm	nm	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 (%)	5.7	21.4	26.9	17.5	11.7
Net debt/ (net cash)	(201.5)	(210.1)	(181.6)	(186.3)	(201.8)

Source: Company; Maybank IBG Research

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Malaysia

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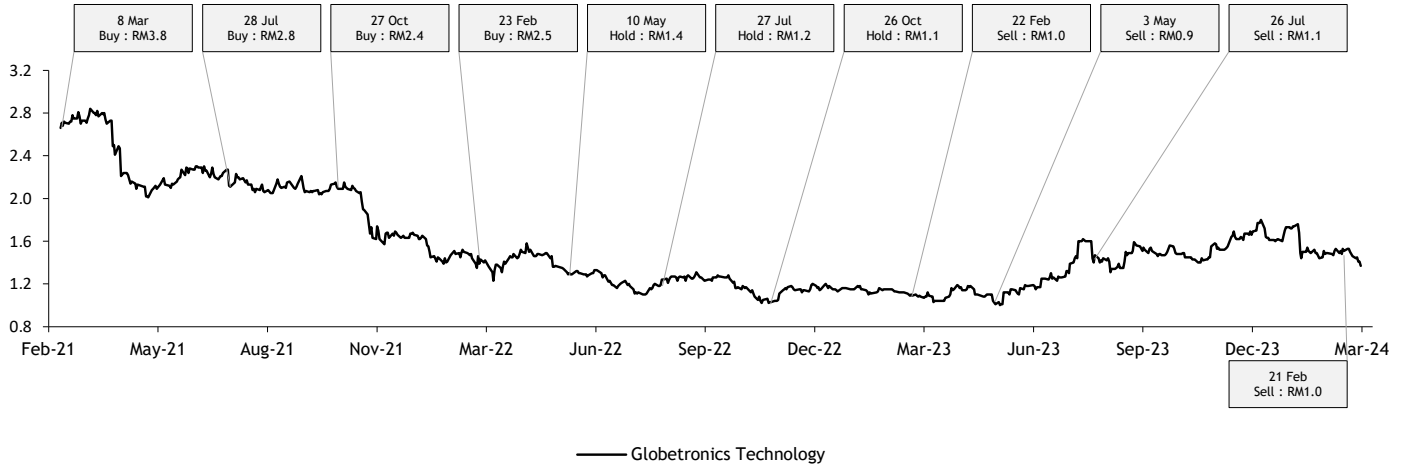
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