

# Greatech Technology (GREATEC MK)

## 4Q21 underwhelmed

### Favourable LT risk-reward ratio; maintain BUY

4Q21 results were below expectations as supply chain disruptions weighed on its ability to deliver/bill a key customer in the quarter. We have revised down our FY22-24E CNP forecasts by 13-18% and lower our valuation peg to 40x FY23 PER, at +0.5SD to the LT mean (from 42x PER at +1SD) to incorporate potential execution risks in FY22. Imputing for both, our revised TP is MYR6.60 (-22%); with an expected upside of 52% despite more conservative valuation peg, LT risk-reward remains highly favourable.

### 4Q21 results below expectations

Excluding exceptional items amounting to MYR0.3m, GREATEC's 4Q21 core net profit came in at MYR28m (-9 YoY, -flat QoQ). With cumulative FY21 core earnings of MYR146.2m (+58% YoY), full-year results did not meet expectations, at just 93%/91% of our/the street's full year CNP estimates.

### Supply chain disruptions weigh on top-line

4Q21 turnover of MYR75.4 contracted 1% YoY/21% QoQ, weighed down by lower PLS contributions from billing deferrals (c.MYR20m) as a result of lockdown-induced component shortages/supplier fulfilment lags that affected its key PV customer (accounts for 90% of outstanding O/B). The shortfall in PLS turnover was partially mitigated by an increase in SAE and SP/services revenue, although mgmt expects PLS revenue to normalise in subsequent quarters. Positively, EBIT margins were sequentially higher QoQ (+10ppts) owing to c.MYR9.5m reversal of unused warranty provisions.

### Revising estimates but risk-reward still positive

Despite challenging circumstances, GREATEC still grew its bottom-line (ex-El) by an impressive 57.8% in FY21. However, we are cautious about recurring supply chain bottlenecks that could dampen its FY22 performance. Hence, we have dialled down our FY22-24E earnings forecast by 17%/18%/13% to account for (i) revised PLS contributions in-line with mgmt's latest guidance on quarterly run-rates (max. of MYR150m in FY22), (ii) reduced GP margins from increased labour costs as mgmt plans to increase its workforce by c.350 ppl in-line with the expansion in BKIII and (iii) higher eff. tax rates of 7.5%/10% in FY23/24 as its pioneer status is likely to expire in Mar-23. Despite this, GREATEC is still on track to achieve a 3Y (FY21-24E) CNP CAGR of 18.7%, with enviable exposure to key growth industries (EV/LS/PV) and a high-quality current O/B (MYR547). With its share price declining 37% since early-Jan and GREATEC now trading below its LT mean, we opine that valuations are undemanding - maintain BUY.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	261	402	581	649	727
EBITDA	94	150	194	244	298
Core net profit	93	146	174	207	245
Core EPS (sen)	7.4	11.7	13.9	16.5	19.5
Core EPS growth (%)	61.6	57.8	19.0	18.9	18.3
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	61.2	58.5	31.3	26.3	22.3
P/BV (x)	19.8	19.8	9.0	6.7	5.2
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	36.4	39.5	33.6	29.2	26.2
ROAA (%)	23.2	27.5	24.6	22.7	21.4
EV/EBITDA (x)	57.3	54.9	26.2	20.3	15.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	215	267	na
MKE vs. Consensus (%)	-	-	(19.2)	(22.5)	na

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# BUY

Share Price	MYR 4.35
12m Price Target	MYR 6.60 (+52%)
Previous Price Target	MYR 8.45

### Company Description

A niche automation specialist with core expertise in customisable capital equipment for solar photovoltaic industry.

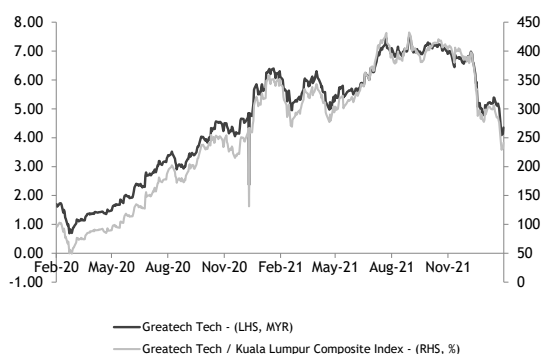
### Statistics

52w high/low (MYR)	7.50/4.09
3m avg turnover (USDm)	4.1
Free float (%)	27.0
Issued shares (m)	1,252
Market capitalisation	MYR5.4B
	USD1.3B

### Major shareholders:

TAN ENG KEE	65.7%
AlA Bhd.	3.4%
Kenanga Investors Bhd.	3.1%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(9)	(38)	(31)
Relative to index (%)	(14)	(41)	(31)

Source: FactSet

### Acronyms

BKIII - Batu Kawan III (upcoming facility)  
 EV - electric vehicle  
 LS - life sciences  
 O/B - order book  
 PLS - Production Line System  
 PV - photovoltaic (solar panels)  
 SAE - Single Automated Equipment  
 SP - spare parts

CAGR - compounded annual growth rate  
 CNP - core net profit  
 EBIT - earnings before interest and tax  
 El - exceptional item  
 GP - gross profit  
 LT - long-term  
 PER - price-earnings ratio  
 SD - standard deviation  
 TP - target price

**Fig. 1: Results summary**

FY Dec (MYR m)	Quarterly results					Cumulative		
	4Q21	3Q21	%QoQ	4Q20	%YoY	12M21	12M20	%YoY
Turnover	75.4	95.3	(20.9)	76.3	(1.2)	402.2	261.1	54.0
EBIT	30.4	29.3	3.7	30.2	0.8	145.9	91.0	60.3
Interest expense	(0.1)	(0.1)	3.2	(0.2)	(40.6)	(0.7)	(0.9)	(28.8)
<b>Pre-tax profit</b>	<b>30.3</b>	<b>29.2</b>	<b>3.7</b>	<b>29.9</b>	<b>1.1</b>	<b>145.2</b>	<b>90.1</b>	<b>61.2</b>
Taxation	(2.5)	(0.2)	>100.0	(1.4)	78.7	(3.5)	(2.2)	56.5
<b>Net profit</b>	<b>27.7</b>	<b>29.0</b>	<b>(4.3)</b>	<b>28.5</b>	<b>(2.8)</b>	<b>141.8</b>	<b>87.8</b>	<b>61.4</b>
Exceptional items	0.3	(0.9)	n.m.	2.2	n.m.	4.5	4.8	n.m.
<b>Net profit (ex-EI)</b>	<b>28.0</b>	<b>28.1</b>	<b>(0.2)</b>	<b>30.7</b>	<b>(8.7)</b>	<b>146.2</b>	<b>92.7</b>	<b>57.8</b>
	4Q21	3Q21	+/- ppt	4Q20	%YoY	12M21	12M20	+/- ppt
EBIT margin (%)	40.3	30.8	9.6	39.5	0.8	36.3	34.9	1.4
Net profit (ex-EI) margin (%)	37.1	29.4	7.7	40.2	(3.0)	36.4	35.5	0.9
Effective tax rate (%)	8.4	0.7	7.7	4.8	3.6	2.4	2.5	(0.1)

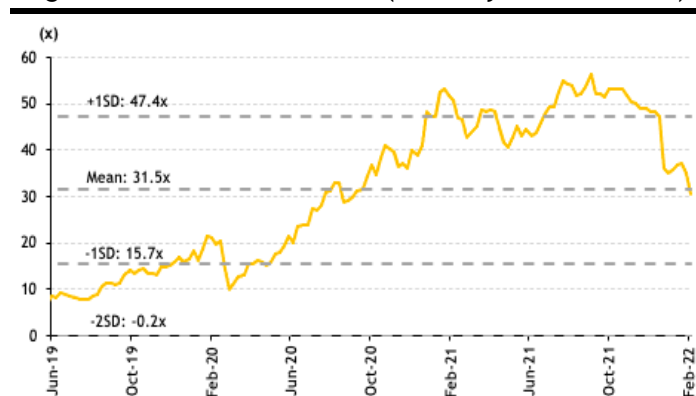
Source: Company, Maybank IBG Research

**Fig. 2: Historical and forecast revenue breakdown**

Division	Revised revenue forecasts (MYR m)			Initial revenue forecasts (MYR m)		
	2022E	2023E	2024E	2022E	2023E	2024E
Single automated equipment	77.0	87.0	97.0	77.0	87.0	97.0
Production line system	423.3	477.9	541.7	518.3	568.7	634.2
Upgrading	50.0	50.0	50.0	50.0	100.0	100.0
Parts and services	30.3	33.8	37.9	35.5	41.6	45.7
<b>Total</b>	<b>580.5</b>	<b>648.7</b>	<b>726.5</b>	<b>680.8</b>	<b>797.2</b>	<b>876.9</b>

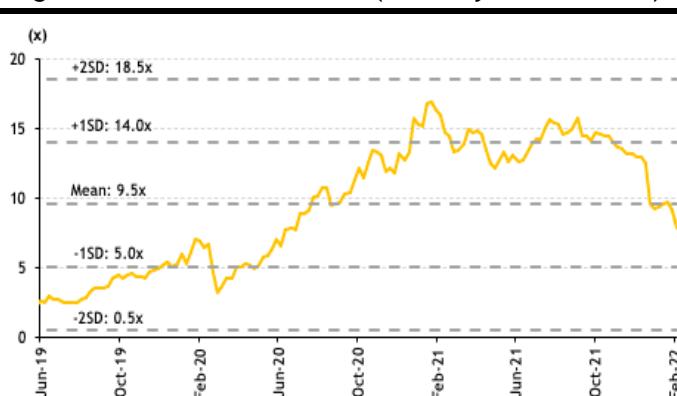
Source: Maybank IBG Research

**Fig. 3: Greatech's 12M fwd PER (currently trades at 30.4x)**



Source: Bloomberg, Maybank IBG Research

**Fig. 4: Greatech's 12M fwd PBV (currently trades at 7.9x)**



Source: Bloomberg, Maybank IBG Research

## Risk statement

There are several risk factors for our earnings estimates, target price and rating for Greatech. A downturn in the PV/EV industries will affect Greatech's earnings. Additionally, forex volatility, especially USD/MYR, will also affect Greatech's earnings, as >2/3 of its revenue and about 1/3 of its COGS are denominated in USD.

FYE 30 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	35.4	55.0	31.3	26.3	22.3
Core P/E (x)	61.2	58.5	31.3	26.3	22.3
P/BV (x)	19.8	19.8	9.0	6.7	5.2
P/NTA (x)	19.8	19.8	9.0	6.7	5.2
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	1.3	0.4	1.1	2.6	3.8
EV/EBITDA (x)	57.3	54.9	26.2	20.3	15.9
EV/EBIT (x)	59.8	56.8	27.7	22.1	17.4
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	261.1	402.2	580.5	648.7	726.5
EBITDA	94.3	150.2	194.3	243.9	297.6
Depreciation	(3.8)	(4.9)	(10.9)	(19.9)	(25.5)
Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	90.4	145.2	183.3	223.8	272.0
Net interest income / (exp)	(0.3)	0.0	(0.4)	(0.4)	(0.4)
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	90.1	145.2	182.9	223.4	271.6
Income tax	(2.2)	(3.5)	(9.1)	(16.8)	(27.2)
Minorities	0.0	0.0	0.2	0.2	0.2
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	87.8	141.8	174.0	206.9	244.6
Core net profit	92.7	146.2	174.0	206.9	244.6
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	285.5	320.4	379.4	518.5	723.9
Accounts receivable	41.5	93.4	134.8	150.6	168.6
Inventory	11.7	12.3	19.1	20.3	21.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	64.5	107.4	196.5	251.6	276.1
Intangible assets	0.0	0.0	(0.1)	(0.3)	(0.4)
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	51.5	75.1	77.5	77.5	77.5
<b>Total assets</b>	<b>454.7</b>	<b>608.6</b>	<b>807.2</b>	<b>1,018.3</b>	<b>1,267.5</b>
ST interest bearing debt	1.4	1.1	1.1	1.1	1.1
Accounts payable	98.5	114.2	139.1	143.5	148.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	17.2	15.0	15.0	15.0	15.0
Other liabilities	51.0	47.0	47.0	47.0	47.0
<b>Total Liabilities</b>	<b>168.0</b>	<b>177.6</b>	<b>202.4</b>	<b>206.8</b>	<b>211.5</b>
Shareholders Equity	286.7	431.0	605.0	811.9	1,056.5
Minority Interest	0.0	0.0	(0.2)	(0.4)	(0.6)
<b>Total shareholder equity</b>	<b>286.7</b>	<b>431.0</b>	<b>604.8</b>	<b>811.5</b>	<b>1,055.9</b>
<b>Total liabilities and equity</b>	<b>454.7</b>	<b>608.6</b>	<b>807.2</b>	<b>1,018.3</b>	<b>1,267.5</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	90.1	145.2	182.9	223.4	271.6
Depreciation & amortisation	3.9	5.0	11.0	20.0	25.6
Adj net interest (income)/exp	0.3	0.0	0.4	0.4	0.4
Change in working capital	(0.9)	(18.3)	(23.3)	(12.6)	(14.7)
Cash taxes paid	(2.2)	(3.5)	(9.1)	(16.8)	(27.2)
Other operating cash flow	10.8	(1.6)	0.0	0.0	0.0
Cash flow from operations	103.2	126.4	161.4	214.1	255.4
Capex	(29.5)	(89.1)	(100.0)	(75.0)	(50.0)
Free cash flow	73.7	37.3	61.4	139.1	205.4
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.7	0.0	0.0	0.0
Change in Debt	(0.5)	(2.5)	0.0	0.0	0.0
Other invest/financing cash flow	1.4	(6.4)	0.0	0.0	0.0
Effect of exch rate changes	(4.2)	3.9	0.0	0.0	0.0
<b>Net cash flow</b>	<b>70.4</b>	<b>33.1</b>	<b>61.4</b>	<b>139.1</b>	<b>205.4</b>

FYE 30 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	20.9	54.0	44.3	11.7	12.0
EBITDA growth	56.6	59.3	29.3	25.5	22.0
EBIT growth	56.3	60.7	26.2	22.1	21.5
Pretax growth	56.5	61.2	25.9	22.1	21.6
Reported net profit growth	68.0	61.4	22.8	18.9	18.3
Core net profit growth	61.6	57.8	19.0	18.9	18.3
<b>Profitability ratios (%)</b>					
EBITDA margin	36.1	37.4	33.5	37.6	41.0
EBIT margin	34.6	36.1	31.6	34.5	37.4
Pretax profit margin	34.5	36.1	31.5	34.4	37.4
Payout ratio	0.0	0.0	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	33.6	35.2	30.0	31.9	33.7
Revenue/Assets (x)	0.6	0.7	0.7	0.6	0.6
Assets/Equity (x)	1.6	1.4	1.3	1.3	1.2
ROAE (%)	36.4	39.5	33.6	29.2	26.2
ROAA (%)	23.2	27.5	24.6	22.7	21.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(157.0)	(85.9)	(40.2)	(35.2)	(31.4)
Days receivable outstanding	49.4	60.3	70.7	79.2	79.1
Days inventory outstanding	17.7	18.6	15.7	18.5	18.5
Days payables outstanding	224.1	164.9	126.7	132.9	129.0
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	2.5	2.9	3.1	3.9	5.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.7	3.4	4.0	4.9	6.0
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	nm	nm	nm
Debt/EBITDA (x)	0.2	0.1	0.1	0.1	0.1
Capex/revenue (%)	11.3	22.2	17.2	11.6	6.9
Net debt/ (net cash)	(266.9)	(304.3)	(363.3)	(502.4)	(707.8)

Source: Company; Maybank

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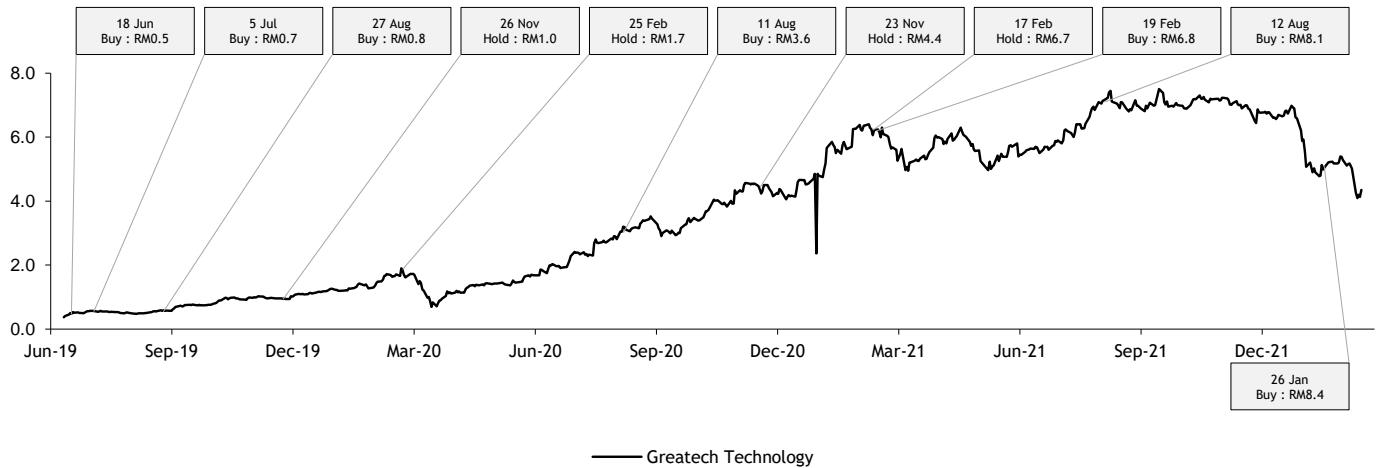
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