

# Singapore Company Update

# Valuetronics Holdings

Bloomberg: VALUE SP | Reuters: VLUE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 May 2022

## HOLD

Last Traded Price (26 May 2022): S\$0.520 (STI : 3,209.18)  
Price Target 12-mth: S\$0.51 (2% downside) (Prev S\$0.55)

### Analyst

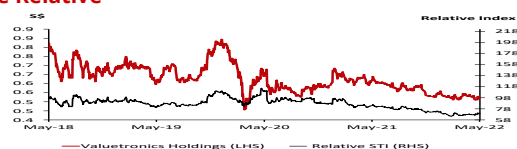
Lee Keng LING +65 6682 3703 leekeng@dbs.com

### What's New

- Weak FY22 results due to supply disruptions, in line
- Margin pressure to persist; financial position remains strong with 69% cash-to-market cap ratio
- Cut FY23F/24F earnings by 18%/23% on weaker margin assumption
- Maintain HOLD with lower TP of S\$0.51; suspending coverage

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

### Price Relative



### Forecasts and Valuation

FY Mar (HK\$m)	2021A	2022A	2023F	2024F
Revenue	2,282	2,027	2,178	2,305
EBITDA	260	186	197	220
Pre-tax Profit	209	126	130	147
Net Profit	187	114	116	132
Net Pft (Pre Ex.)	185	114	116	132
Net Pft Gth (Pre-ex) (%)	3.7	(38.8)	2.5	13.3
EPS (S cts)	7.53	4.57	4.68	5.30
EPS Pre Ex. (S cts)	7.46	4.57	4.68	5.30
EPS Gth Pre Ex (%)	4	(39)	2	13
Diluted EPS (S cts)	7.53	4.57	4.68	5.30
Net DPS (S cts)	3.68	2.42	2.34	2.65
BV Per Share (S cts)	54.2	55.1	57.4	60.1
PE (X)	6.9	11.4	11.1	9.8
PE Pre Ex. (X)	7.0	11.4	11.1	9.8
P/Cash Flow (X)	6.1	nm	17.4	7.3
EV/EBITDA (X)	0.6	1.9	2.1	1.8
Net Div Yield (%)	7.1	4.7	4.5	5.1
P/Book Value (X)	1.0	0.9	0.9	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	14.5	8.4	8.3	9.0
Earnings Rev (%):			(18)	(23)
Consensus EPS (S cts):			3.7	3.9
Other Broker Recs:		B: 0	S: 3	H: 1

## Headwinds to persist

### Investment Thesis:

Headwinds to persist; suspending coverage on re-allocation of resources. Valuetronics continues to be affected by component shortages, the COVID-19 pandemic, Russia-Ukraine conflict, and US-China trade tensions. FY22 earnings plunged by 39% y-o-y due to weak margins, and we expect margins to remain weak in FY23F.

**Strong financial position.** Though the environment remains challenging, the group has a sound balance sheet with no debt. The cash-to-market capitalisation ratio remains high at 69% for FY22. In the longer term, the ramp-up of its Vietnam plant and potential contribution from new customers should help to boost the bottom line.

### Valuation:

Maintain HOLD with a lower TP of S\$0.51. We have lowered our gross margin assumption for FY23F/24F to 13.3%/13.8% from 15.3%/16.3% because of persistent headwinds from component shortages, the COVID-19 pandemic, Russia-Ukraine conflict, and US-China trade tensions. Earnings were cut by 18%/23% as a result. TP is lowered to S\$0.51 (previously S\$0.55), pegged to 11.0x FY23F earnings.

### Where we differ:

We believe in the value of holding on to Valuetronics, given its strong balance sheet, which should help the group to ride through the current challenging environment.

### Key Risks to Our View:

Protraction of the COVID-19 pandemic, slow recovery of the supply chain disruptions, re-escalation of the US-China trade war, customer concentration risk, and/or a cut in dividends.

### At A Glance

Issued Capital (m shrs)	434
Mkt. Cap (S\$m/US\$m)	226 / 164
Major Shareholders (%)	
Tse Chong Hing	17.6
Chow Kok Kit	7.4
HSBC Holdings PLC	5.0
Free Float (%)	70.0
3m Avg. Daily Val (US\$m)	0.17
<b>GIC Industry</b> : Information Technology / Semiconductors & Semiconductor Equipment	



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**WHAT'S NEW****Weak FY22 results due to supply disruptions, in line****Weak FY22 results due to supply disruptions, in line.**

Valuetronics reported net profit of HK\$113.5m, down 38.8% y-o-y, on the back of the 11.1% decline in revenue to HK\$2,027.4m, in line with our expectations. The severe shortages of certain key electronic components have affected the group's ability to meet orders on a timely basis.

**CE outperformed ICE, but it is not sustainable.** Revenue for the Consumer Electronics (CE) segment was up 3.8% to HK\$706.9m and accounts for 35.9% of total revenue, up from 29.8% in FY21. This was mainly due to the rebound of orders from smart lighting customers. However, this is not expected to continue due to lower customer forecasts and the component shortage.

Industrial and Commercial Electronics (ICE) revenue for FY22 decreased by 17.5% y-o-y to HK\$1,320.5m. This was mainly due to the significant drop in sales caused by one of the group's customers switching over production from the group's factory to another vendor in North America. The component shortage also affected order fulfilment for certain ICE customers.

**Margin pressure.** The gross profit margin for FY22 eased to 13.6% from 16.9% in FY21. 2H22 saw a weaker margin of 13.0% vs. 14.2% in 1H22. Overall, net margin was reduced to 5.6% in FY22 from 8.2% in FY21. Margins were eroded by higher component prices due to tight supply and increased labour and operating costs in China as a result of the renminbi appreciation.

**Sound balance sheet with no debt.** The cash-to-market capitalisation ratio remains high at 69% for FY22, though it eased slightly from 74% in FY21.

**Supply chain headwinds and inflationary pressure to persist.** Valuetronics expects the component shortages, together with the cost pressure resulting from inflation, to continue to affect the group's gross profit margin until the global component market is back to normal. Though measures to mitigate the impact are in place, headwinds

are expected to persist. The group has implemented various measures towards this end, including identifying alternative parts, re-engineering products to lower cost, and leveraging the group's supply chain knowledge to identify new sources of supply.

**Vietnam expansion plan on track.** The group's newly constructed Vietnam campus in the Vĩnh Phúc province commenced mass production for three customers in the last quarter of FY2022, following the successful completion of ISO and customer audits.

**Cut FY23F/24F earnings by 18%/23% on weaker margin assumption.** We have lowered our gross margin assumption for FY23F/24F to 13.3%/13.8% from 15.3%/16.3% due to persistent headwinds from component shortages, the COVID-19 pandemic, Russia-Ukraine conflict, and US-China trade tensions. Earnings were cut by 18%/23% as a result. Maintain HOLD with a lower TP of S\$0.51 (previously S\$0.55), pegged to the four-year average PE of c.11x.

We are suspending coverage due to the re-allocation of resources.

**Company Background**

Valuetronics Holdings Limited (VALUE SP) is headquartered in Hong Kong and is an integrated Electronics Manufacturing Service (EMS) provider that offers design, engineering, manufacturing, and supply chain support services for high-quality electronic and electro-mechanical products. It was established in 1992 and listed on the SGX Mainboard in 2007. The group's financial year-end reporting period is in March.

## Valuetronics Holdings

### Interim Income Statement (HK\$m)

FY Mar	2H2021	1H2022	2H2022	% chg_yoy	% chg_hoh
Revenue	1,187	1,015	1,013	(14.6)	(0.2)
Cost of Goods Sold	(986)	(871)	(882)	(10.6)	1.2
<b>Gross Profit</b>	<b>200</b>	<b>144</b>	<b>131</b>	<b>(34.5)</b>	<b>(8.6)</b>
Other Oper. (Exp)/Inc	(98)	(81)	(70)	(28.4)	(13.1)
<b>Operating Profit</b>	<b>102</b>	<b>63</b>	<b>61</b>	<b>(40.3)</b>	<b>(3.0)</b>
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	1	1	1	(15.0)	19.6
Exceptional Gain/(Loss)	2	0	0	-	-
<b>Pre-tax Profit</b>	<b>105</b>	<b>64</b>	<b>62</b>	<b>(41.0)</b>	<b>(2.7)</b>
Tax	(9)	(7)	(5)	(45.8)	(28.0)
Minority Interest	0	0	0	-	-
<b>Net Profit</b>	<b>96</b>	<b>57</b>	<b>57</b>	<b>(40.5)</b>	<b>0.5</b>
Net profit bef Except.	94	57	57	(39.5)	0.5
EBITDA	102	63	61	(40.3)	(3.0)
<b>Margins (%)</b>					
Gross Margins	16.9	14.2	13.0		
Opg Profit Margins	8.6	6.2	6.0		
Net Profit Margins	8.1	5.6	5.6		

Source of all data: Company, DBS Bank

### Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

## Valuetronics Holdings

### Income Statement (HK\$m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenue	2,354	2,282	2,027	2,178	2,305
Cost of Goods Sold	(1,992)	(1,895)	(1,753)	(1,888)	(1,987)
<b>Gross Profit</b>	<b>363</b>	<b>386</b>	<b>275</b>	<b>290</b>	<b>317</b>
Other Opng (Exp)/Inc	(186)	(184)	(151)	(162)	(171)
<b>Operating Profit</b>	<b>177</b>	<b>202</b>	<b>124</b>	<b>128</b>	<b>146</b>
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	19.6	5.04	1.71	1.74	1.58
Exceptional Gain/(Loss)	0.0	1.63	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>196</b>	<b>209</b>	<b>126</b>	<b>130</b>	<b>147</b>
Tax	(17.3)	(21.6)	(12.2)	(13.7)	(15.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>179</b>	<b>187</b>	<b>114</b>	<b>116</b>	<b>132</b>
Net Profit before Except.	179	185	114	116	132
EBITDA	231	260	186	197	220
<b>Growth</b>					
Revenue Gth (%)	(16.8)	(3.1)	(11.1)	7.4	5.8
EBITDA Gth (%)	(14.3)	12.6	(28.5)	6.0	11.8
Opg Profit Gth (%)	(21.0)	14.3	(38.6)	3.4	13.6
Net Profit Gth (Pre-ex) (%)	(16.0)	3.7	(38.8)	2.5	13.3
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	15.4	16.9	13.6	13.3	13.8
Opg Profit Margin (%)	7.5	8.9	6.1	5.9	6.3
Net Profit Margin (%)	7.6	8.2	5.6	5.3	5.7
ROAE (%)	15.0	14.5	8.4	8.3	9.0
ROA (%)	8.9	8.8	5.2	5.4	5.9
ROCE (%)	16.5	14.7	8.5	8.4	9.1
Div Payout Ratio (%)	48.6	48.9	53.0	50.0	50.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

## Valuetronics Holdings

### Interim Income Statement (HK\$m)

FY Mar	2H2020	1H2021	2H2021	1H2022	2H2022
Revenue	987	1,095	1,187	1,015	1,013
Cost of Goods Sold	(830)	(909)	(986)	(871)	(882)
<b>Gross Profit</b>	<b>157</b>	<b>186</b>	<b>200</b>	<b>144</b>	<b>131</b>
Other Oper. (Exp)/Inc	(86.2)	(86.2)	(98.0)	(80.7)	(70.1)
<b>Operating Profit</b>	<b>70.6</b>	<b>99.7</b>	<b>102</b>	<b>63.0</b>	<b>61.1</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	8.59	3.95	1.09	0.78	0.93
Exceptional Gain/(Loss)	0.0	0.0	1.63	0.0	0.0
<b>Pre-tax Profit</b>	<b>79.2</b>	<b>104</b>	<b>105</b>	<b>63.7</b>	<b>62.0</b>
Tax	(4.4)	(12.1)	(9.4)	(7.1)	(5.1)
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>74.9</b>	<b>91.5</b>	<b>95.6</b>	<b>56.6</b>	<b>56.9</b>
Net profit bef Except.	74.9	91.5	94.0	56.6	56.9
EBITDA	70.6	99.7	102	63.0	61.1

### Growth

Revenue Gth (%)	(27.8)	10.9	8.4	(14.5)	(0.2)
EBITDA Gth (%)	(46.4)	41.1	2.7	(38.5)	(3.0)
Opg Profit Gth (%)	(33.4)	41.1	2.7	(38.5)	(3.0)
Net Profit Gth (%)	(28.1)	22.2	4.5	(40.8)	0.5

### Margins

Gross Margins (%)	15.9	17.0	16.9	14.2	13.0
Opg Profit Margins (%)	7.2	9.1	8.6	6.2	6.0
Net Profit Margins (%)	7.6	8.4	8.1	5.6	5.6

### Balance Sheet (HK\$m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Net Fixed Assets	201	288	318	378	381
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	137	88.7	90.6	52.8	56.1
Cash & ST Invts	1,092	1,129	937	873	903
Inventory	228	214	274	358	379
Debtors	326	491	431	495	524
Other Current Assets	29.7	30.7	45.3	45.3	45.3
<b>Total Assets</b>	<b>2,013</b>	<b>2,242</b>	<b>2,096</b>	<b>2,202</b>	<b>2,288</b>
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	291	365	263	338	356
Other Current Liab	482	524	461	424	426
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	8.53	5.07	2.97	13.2	13.2
Shareholder's Equity	1,232	1,347	1,369	1,427	1,493
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Cap. &amp; Liab.</b>	<b>2,013</b>	<b>2,242</b>	<b>2,096</b>	<b>2,202</b>	<b>2,288</b>
Non-Cash Wkg. Capital	(189)	(154)	25.4	136	166
Net Cash/(Debt)	1,092	1,129	937	873	903
Debtors Turn (avg days)	59.2	65.3	82.9	77.6	80.6
Creditors Turn (avg days)	64.3	65.2	67.8	60.3	66.2
Inventory Turn (avg days)	49.9	43.9	52.6	63.4	70.3
Asset Turnover (x)	1.2	1.1	0.9	1.0	1.0
Current Ratio (x)	2.2	2.1	2.3	2.3	2.4
Quick Ratio (x)	1.8	1.8	1.9	1.8	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A
Z-Score (X)	3.7	3.5	3.4	3.5	3.5

Source: Company, DBS Bank

## Valuetronics Holdings

### Cash Flow Statement (HK\$m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Pre-Tax Profit	196	209	126	130	147
Dep. & Amort.	53.9	57.7	61.7	68.5	74.3
Tax Paid	(18.3)	(14.5)	(22.0)	(51.1)	(13.7)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	112	(38.7)	(175)	(73.1)	(31.9)
Other Operating CF	(15.6)	0.01	(1.3)	0.0	0.0
<b>Net Operating CF</b>	<b>328</b>	<b>213</b>	<b>(10.9)</b>	<b>74.4</b>	<b>176</b>
Capital Exp.(net)	(119)	(95.4)	(87.5)	(80.0)	(80.0)
Other Invs.(net)	155	38.6	0.0	0.0	0.0
Invs in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(135)	5.74	2.29	0.0	0.0
<b>Net Investing CF</b>	<b>(98.4)</b>	<b>(51.1)</b>	<b>(85.2)</b>	<b>(80.0)</b>	<b>(80.0)</b>
Div Paid	(113)	(82.7)	(87.1)	(58.2)	(65.9)
Chg in Gross Debt	0.0	0.0	0.0	0.0	0.0
Capital Issues	3.49	1.88	0.0	0.0	0.0
Other Financing CF	(1.2)	(1.3)	(11.1)	0.0	0.0
<b>Net Financing CF</b>	<b>(111)</b>	<b>(82.1)</b>	<b>(98.3)</b>	<b>(58.2)</b>	<b>(65.9)</b>
Currency Adjustments	3.75	(3.6)	1.63	0.0	0.0
Chg in Cash	123	76.4	(193)	(63.8)	30.2
Opg CFPS (S cts)	8.71	10.1	6.60	5.93	8.37
Free CFPS (S cts)	8.42	4.73	(4.0)	(0.2)	3.87

Source: Company, DBS Bank

### Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	01 Jun 21	0.62	0.60	HOLD
2:	11 Nov 21	0.57	0.55	HOLD

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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### DBS Regional Research Offices

#### HONG KONG

##### DBS (Hong Kong) Ltd

Contact: Dennis Lam  
13th Floor One Island East,  
18 Westlands Road,  
Quarry Bay, Hong Kong  
Tel: 852 3668 4181  
Fax: 852 2521 1812  
e-mail: dbsvhk@dbs.com

#### SINGAPORE

##### DBS Bank Ltd

Contact: Paul Yong  
12 Marina Boulevard,  
Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel: 65 6878 8888  
e-mail: groupresearch@dbs.com  
Company Regn. No. 196800306E

#### INDONESIA

##### PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif  
DBS Bank Tower  
Ciputra World 1, 32/F  
Jl. Prof. Dr. Satrio Kav. 3-5  
Jakarta 12940, Indonesia  
Tel: 62 21 3003 4900  
Fax: 6221 3003 4943  
e-mail: indonesiaresearch@dbs.com

#### THAILAND

##### DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul  
989 Siam Piwat Tower Building,  
9th, 14th-15th Floor  
Rama 1 Road, Pathumwan,  
Bangkok Thailand 10330  
Tel. 66 2 857 7831  
Fax: 66 2 658 1269  
e-mail: research@th.dbs.com  
Company Regn. No 0105539127012  
Securities and Exchange Commission, Thailand