

Valuetronics (VALUE SP)

HOLD

[Prior:SELL]

Valuation may be bottoming

Share Price SGD 0.52
 12m Price Target SGD 0.50 (+1%)
 Previous Price Target SGD 0.50

2HFY22 beat on strong cost control; U/G to Neutral

2HFY22 PATMI of HKD56.9m (-40.5% YoY) beat our and consensus' estimates on lower-than-expected SG&A costs. Our FY23E PATMI is largely unchanged as higher revenue expectation is offset by softer margin expectations. U/G to HOLD from SELL with unchanged TP of SGD0.50 (10.6x FY23E P/E) as we see risk reward turning neutral. Catalyst for rerating would be from evidence of i) easing of supply side issues, coupled with ii) still strong demand outlook.

Sales dip from auto customer shift and chip shortage

2HFY22 revenue fell 14.6% YoY to HKD1.012b. Industrial and commercial electronics (ICE) revenue dropped 28% YoY due to the expected drop in automotive sales from a planned production switch-over to another vendor in North America, as well as some impact from chip shortages. Consumer electronics (CE) jumped 22.8% from a rebound in smart lighting orders on easy YoY base effects. Gross margin fell 3.9ppt YoY to 13.0% on higher component prices and increased labour cost. FY22A SG&A costs accounted for only 91% of our FY22E on lower commissions and stringent cost control.

Areas of friction

We believe a key reason for gross margin erosion is that VALUE had to procure components from the spot market amid current shortages. Our margin assumptions are lower in FY23-24E as we expect this to continue amid current shortages. Demand appeared robust across most products, especially ICE, except smart lighting.

Vietnam updates

The new Vietnam campus in Vin Phuc started mass production for 3 customers in 4QFY22. VALUE is preparing for trial production for new ICE customers, which should contribute to FY23 revenue. They include a hardware customer for retail chain stores, and a customer providing cooling solutions for HPCs. The balance sheet remains healthy with cash (no debt) to market cap at c.70%. Key risk to our view is if the spread of Covid-19 in China results in VALUE's factory needing to shut.

FYE Mar (HKD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	2,282	2,027	2,347	2,509	2,635
EBITDA	263	182	192	229	251
Core net profit	187	114	118	149	166
Core FDEPS (HKD)	0.43	0.26	0.27	0.34	0.38
Core FDEPS growth(%)	4.4	(39.4)	4.1	26.0	11.6
Net DPS (HKD)	0.21	0.10	0.14	0.17	0.19
Core FD P/E (x)	8.1	11.9	10.9	8.7	7.8
P/BV (x)	1.1	1.0	0.9	0.9	0.8
Net dividend yield (%)	6.0	3.2	4.7	5.7	6.4
ROAE (%)	14.5	8.4	8.5	10.2	10.8
ROAA (%)	8.8	5.2	5.4	6.5	7.0
EV/EBITDA (x)	1.5	2.3	1.8	1.1	0.9
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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Company Description

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

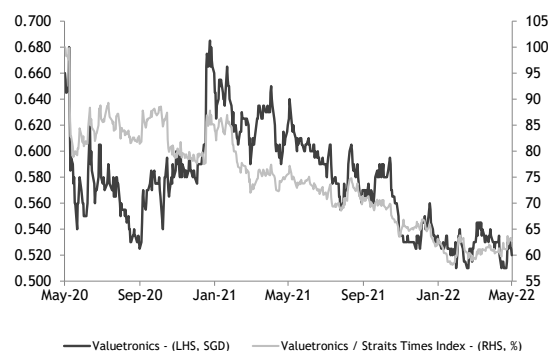
Statistics

52w high/low (SGD)	0.64/0.51
3m avg turnover (USDm)	0.2
Free float (%)	70.7
Issued shares (m)	434
Market capitalisation	SGD225.7M USD164M

Major shareholders:

Dimensional Fund Advisors LP	1.6%
Valuetronics Holdings Ltd.	1.2%
The Caisse de depot et placement du Queb	0.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	1	(16)
Relative to index (%)	3	5	(17)

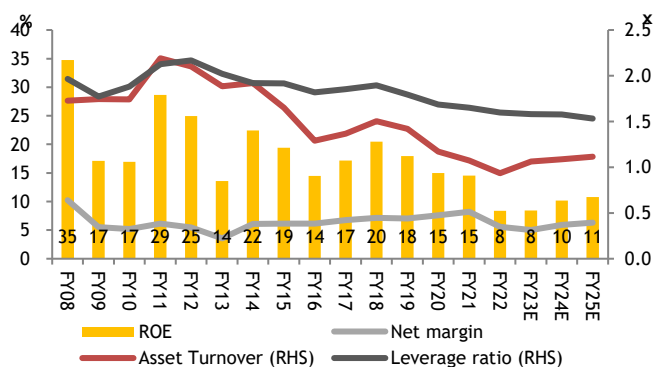
Source: FactSet

ESG@MAYBANK IBG
 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.

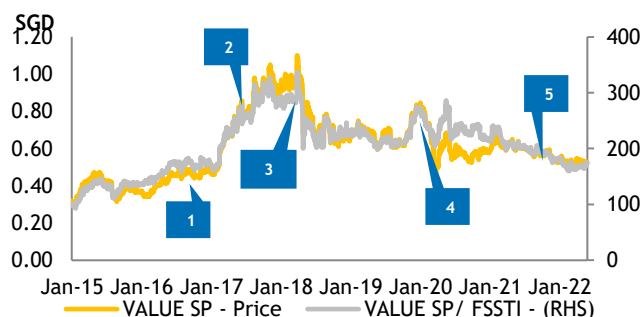
Declining ROEs due to revenue and margin headwinds



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



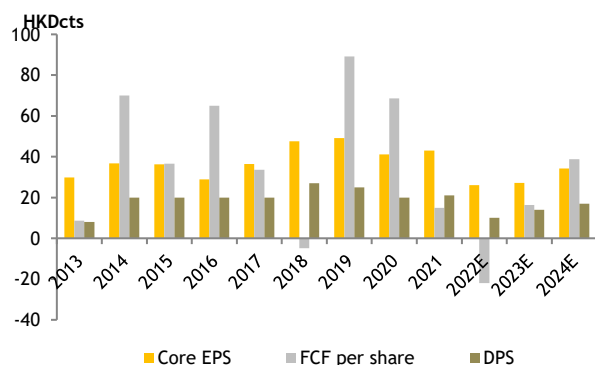
Source: Company, Maybank IBG Research, FactSet

1. Net profit increased 70% in 3QFY17 due to IOT lighting demand and operating leverage.
2. Automotive contracts powered fourth consecutive quarter of growth in ICE.
3. Surprise quarterly earnings miss by key lighting customer.
4. Sell-off due to Covid-19 outbreak in China.
5. Supply chain issues drag FY22 performance

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 FY22.
- 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 IBG Research

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.

Risk Rating & Score ¹	na
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 FY21, 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.
- Vietnam factor achieved ISO 14000 in early 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 FY21, there was no reported incident of discrimination.
- Worker distribution by gender is 45% male and 55% 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 FY21.
- 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 5 hours in FY21 at the group level (FY20: 18 hours). However, training for Vietnam employees averaged 16 hours in FY21.

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.
- 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 FY21, 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 revisions

	FY23E			FY24E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (HKDm)	2,347.1	2,111.1	11.2	2,509.2	2,262.1	10.9
Gross profit (HKDm)	306.1	308.1	-0.6	353.5	339.8	4.0
EBIT (HKDm)	132.0	134.1	-1.5	166.3	159.0	4.6
EBITDA (HKDm)	192.0	197.6	-2.8	229.3	226.4	1.3
Core net profit (HKDm)	118.2	119.9	-1.5	148.9	142.4	4.6
Core EPS (HKD)	0.27	0.28	-1.5	0.34	0.33	4.6
			Chg (ppt)			Chg (ppt)
Gross margin	13.0%	14.6%	-1.5	14.1%	15.0%	-0.9
SGA as % of sales	8.1%	9.0%	-0.9	8.1%	8.7%	-0.6

Source: Maybank IBG Research

Fig 2: 2H22 performance summary

FYE Mar	2HFY22	2HFY21	1HFY21	YoY Chg	HoH Chg	FYE	FYA vs FYE
	(HKD m)	(HKD m)	(HKD m)	(%)	(%)	(HKD m)	
Revenue	1,012.9	1,186.6	1,014.5	-14.6	-0.2	1,989.7	101.9
COGS	(881.7)	(986.3)	(870.9)	-10.6	1.2	(1,708.7)	102.6
Gross profit	131.2	200.3	143.6	-34.5	-8.6	281.1	97.8
Total SGA	(76.2)	(101.9)	(87.0)	-25.2	-12.4	(179.1)	91.1
Other op. inc	7.3	7.0	7.4	4.6	-1.0	16.0	92.1
Other op. exp	0.0	0.0	0.0	nm	nm	0.0	nm
EBIT	62.3	105.4	64.0	-40.9	-2.7	118.0	107.1
EBITDA	94.7	133.5	93.3	-29.1	1.5	175.2	107.3
Finance cost	(0.3)	(0.4)	(0.3)	-17.8	-1.0	(0.8)	72.9
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	62.0	105.0	63.7	-41.0	-2.7	117.2	107.3
Taxation	(5.1)	(9.4)	(7.1)	-45.8	-28.0	(11.7)	104.1
Net profit	56.9	95.6	56.6	-40.5	0.5	105.5	107.7
MI	0.0	0.0	0.0	nm	nm	0.0	nm
PATMI	56.9	95.6	56.6	-40.5	0.5	105.5	107.7
Core PATMI	56.9	95.6	56.6	-40.5	0.5	105.5	107.7
					Change (ppt)		
Gross margin	13.0%	16.9%	14.2%	-3.9	-1.2	14.1%	
EBIT margin	6.2%	8.9%	6.3%	-2.7	-0.2	5.9%	
Core net margin	5.6%	8.1%	5.6%	-2.4	0.0	5.3%	

Source: Company, Maybank IBG Research

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	7.8	12.7	10.9	8.7	7.8
Core P/E (x)	8.1	11.9	10.9	8.7	7.8
Core FD P/E (x)	8.1	11.9	10.9	8.7	7.8
P/BV (x)	1.1	1.0	0.9	0.9	0.8
P/NTA (x)	1.1	1.0	0.9	0.9	0.8
Net dividend yield (%)	6.0	3.2	4.7	5.7	6.4
FCF yield (%)	4.3	nm	5.5	13.0	10.1
EV/EBITDA (x)	1.5	2.3	1.8	1.1	0.9
EV/EBIT (x)	1.9	3.3	2.6	1.6	1.2

INCOME STATEMENT (HKD m)

Revenue	2,281.5	2,027.4	2,347.1	2,509.2	2,634.7
EBITDA	263.2	182.1	192.0	229.3	251.5
Depreciation	(51.2)	(53.1)	(57.3)	(60.3)	(63.3)
Amortisation	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)
EBIT	209.4	126.3	132.0	166.3	185.5
Net interest income / (exp)	(0.7)	(0.6)	(0.7)	(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	208.7	125.7	131.3	165.5	184.7
Income tax	(21.6)	(12.2)	(13.1)	(16.5)	(18.5)
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	187.1	113.5	118.2	148.9	166.2
Core net profit	187.1	113.5	118.2	148.9	166.2

BALANCE SHEET (HKD m)

Cash & Short Term Investments	1,129.4	936.7	944.1	1,034.1	1,080.0
Accounts receivable	490.5	430.7	598.2	501.7	653.2
Inventory	214.1	273.5	341.6	331.7	285.5
Property, Plant & Equip (net)	288.1	318.3	311.0	300.6	287.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	1.0	2.0
Other assets	119.4	136.5	123.2	124.2	125.2
Total assets	2,241.6	2,095.7	2,318.0	2,293.3	2,433.2
ST interest bearing debt	0.0	0.0	0.0	0.0	1.0
Accounts payable	365.2	262.7	464.2	362.6	415.0
LT interest bearing debt	0.0	0.0	0.0	0.0	1.0
Other liabilities	529.0	464.0	428.0	430.0	432.0
Total Liabilities	894.5	727.1	892.2	792.7	849.1
Shareholders Equity	1,347.1	1,368.6	1,425.8	1,500.7	1,584.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,347.1	1,368.6	1,425.8	1,500.7	1,584.1
Total liabilities and equity	2,241.6	2,095.7	2,318.0	2,293.3	2,433.2

CASH FLOW (HKD m)

Pretax profit	208.7	125.7	131.3	165.5	184.7
Depreciation & amortisation	53.9	55.8	60.0	63.0	66.0
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(44.6)	(176.8)	(57.1)	5.8	(51.9)
Cash taxes paid	(14.5)	(17.1)	(13.1)	(16.5)	(18.5)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	203.4	(12.4)	121.1	217.7	180.3
Capex	(138.2)	(83.3)	(50.0)	(50.0)	(50.0)
Free cash flow	65.2	(95.6)	71.1	167.7	130.3
Dividends paid	(82.7)	(43.6)	(61.0)	(74.1)	(82.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	2.0
Other invest/financing cash flow	93.8	(53.6)	(2.7)	(4.7)	(5.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	76.4	(192.8)	7.5	89.0	43.9

FYE 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(3.1)	(11.1)	15.8	6.9	5.0
EBITDA growth	4.9	(30.8)	5.5	19.4	9.7
EBIT growth	6.3	(39.7)	4.5	25.9	11.5
Pretax growth	6.3	(39.7)	4.4	26.0	11.6
Reported net profit growth	4.6	(39.3)	4.1	26.0	11.6
Core net profit growth	4.6	(39.3)	4.1	26.0	11.6
Profitability ratios (%)					
EBITDA margin	11.5	9.0	8.2	9.1	9.5
EBIT margin	9.2	6.2	5.6	6.6	7.0
Pretax profit margin	9.1	6.2	5.6	6.6	7.0
Payout ratio	48.8	38.4	51.6	49.7	49.8
DuPont analysis					
Net profit margin (%)	8.2	5.6	5.0	5.9	6.3
Revenue/Assets (x)	1.0	1.0	1.0	1.1	1.1
Assets/Equity (x)	1.7	1.5	1.6	1.5	1.5
ROAE (%)	14.5	8.4	8.5	10.2	10.8
ROAA (%)	8.8	5.2	5.4	6.5	7.0
Liquidity & Efficiency					
Cash conversion cycle	44.1	67.4	69.0	66.1	66.1
Days receivable outstanding	64.4	81.8	78.9	78.9	78.9
Days inventory outstanding	42.0	50.1	54.2	56.2	49.3
Days payables outstanding	62.3	64.5	64.1	69.0	62.1
Dividend cover (x)	2.0	2.6	1.9	2.0	2.0
Current ratio (x)	2.1	2.3	2.2	2.4	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.9	2.6	2.9	2.9
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)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	6.1	4.1	2.1	2.0	1.9
Net debt/ (net cash)	(1,129.4)	(936.7)	(944.1)	(1,034.1)	(1,078.0)

Source: Company; Maybank IBG Research

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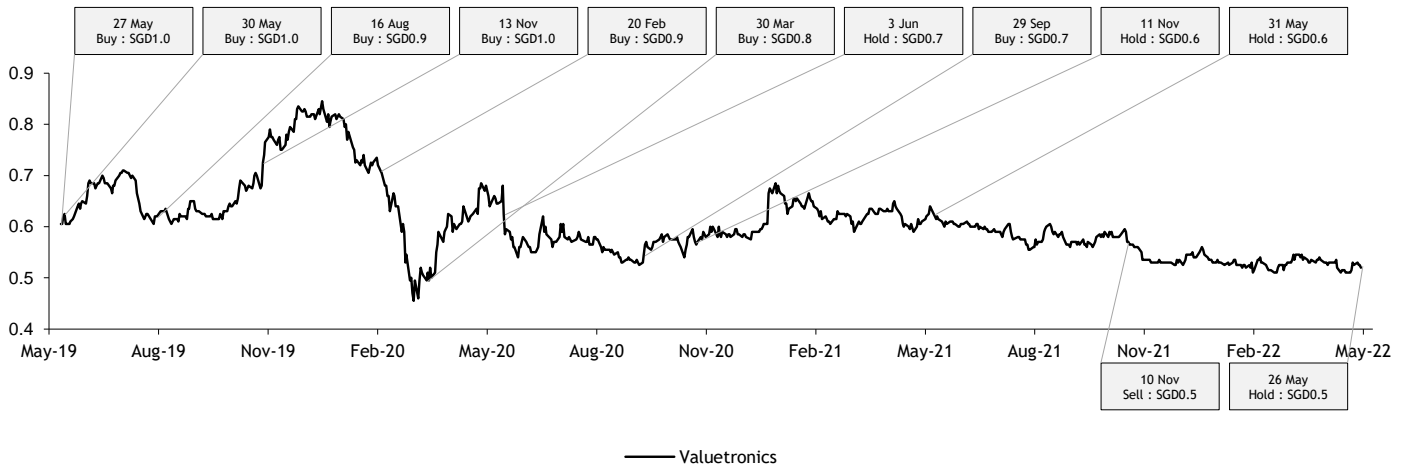
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