

Malaysia

ADD (no change)

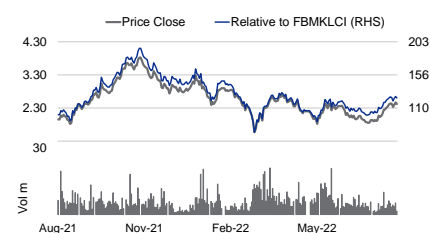
Consensus ratings*: Buy 4 Hold 0 Sell 0

| | |
|-------------------------|------------|
| Current price: | RM2.42 |
| Target price: | RM4.30 |
| Previous target: | RM4.50 |
| Up/downside: | 77.7% |
| CGS-CIMB / Consensus: | 13.2% |
| Reuters: | GTCY.KL |
| Bloomberg: | GENE MK |
| Market cap: | US\$370.4m |
| | RM1,649m |
| Average daily turnover: | US\$2.68m |
| | RM11.80m |
| Current shares o/s: | 682.5m |
| Free float: | 56.4% |

*Source: Bloomberg

Key changes in this note

- FY23F EPS increased by 6.6%.
- FY24F EPS increased by 10%.
- FY25F EPS increased by 11.5%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|------|------|
| Absolute (%) | 29.4 | 13.1 | 34.9 |
| Relative (%) | 25.2 | 18.3 | 34.5 |

| Major shareholders | % held |
|--------------------|--------|
| Chen Khai Voon | 19.6 |
| Chin Kem Weng | 7.9 |
| Tan Moon Teik | 6.1 |

Analyst(s)

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Genetec Technology Bhd

Preferred proxy for global EV & ES transition

- We expect Genetec to deliver stronger yoy and qoq net profit growth in 1QFY23F, driven by healthy order backlog from the EV & ES segment.
- We believe Tesla's plans to build up to 12 Gigafactories by 2030F will translate to healthy order visibility for Genetec. FY23-25F EPS lifted 7-12%.
- Reiterate Add with a lower RM4.30 TP, based on a lower 35x CY23F P/E.

1QFY3/23F earnings preview

Genetec Technology (Genetec) is scheduled to release its 1QFY3/23F results on 29 Aug 2022. We see stronger sales and net profit growth on qoq and yoy basis on the back of robust order backlog for electric vehicles (EV) and energy storage (ES). Genetec had total RM270m order backlog as of end-May 2022, out of which 86.7% was related to the EV & ES segment while the hard disk drive (HDD) segment accounted for 12.7%. Hence, we expect the group to recognise a portion of these orders in 1QFY23F.

Riding on a leading North America EV maker's expansion plan

According to Genetec's FY3/22 Annual Report, its top 3 customers made up 95% of the group's FY22 revenue (vs. 81% in FY21), driven by Customer C, where revenue surged 5.8x yoy from RM28.2m in FY3/21 to RM163.9m in FY3/22. We believe Customer C is leading North American EV manufacturer, Tesla (TSLA US, NR). We see exciting growth prospects for Genetec on the back of Tesla's aggressive expansion plan to build 20m EVs per year by 2030F. Tesla CEO Elon Musk highlighted during Tesla's 2022 Annual Meeting last week that the company plans to have up to 12 Gigafactories globally to meet its target and it could announce its next factory location by end of 2022. Overall, we believe new EV plant expansion will translate into higher demand for automated manufacturing solutions and this should bode well for Genetec's order visibility.

Raising FY23-25F EPS by 6.6-11.5%

We raise our FY23-25F EPS to account for higher contribution from the EV & ES segment on the back of growing demand for e-mobility solutions, such as integrated brake control (IBC) and electronic brake boosters (EBB) for hybrid and EVs. We expect the EV & ES segment to account for 85-90% of the group's revenue in FY23-25F. Genetec is also in discussions with its key customer for potentially adding a new electrolyte filler production line system for the battery cell assembly process. This could be a new growth driver for the group as it offers higher content value per line compared to the formation process.

Reiterate Add with a lower RM4.30 TP

We retain our Add call on the stock with a lower RM4.30 TP as we peg our valuation to a lower 35x CY23F P/E, which is 0.5 s.d. above the Malaysian automated test equipment sector's 5-year mean P/E of 30x, vs. 40x at 1 s.d. above mean previously in view of slower global growth. Nevertheless, we think Genetec should still trade at a premium given its unique customer exposure and as a proxy for global EV transition given its highest revenue exposure to EV & ES in the Malaysian tech sector.

Financial Summary

| | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|--------------------------------|---------|---------|---------|---------|---------|
| Revenue (RMm) | 97.1 | 223.6 | 285.3 | 339.7 | 397.7 |
| Net Profit (RMm) | (4.2) | 56.4 | 74.8 | 86.9 | 101.1 |
| Core EPS (RM) | 0.00 | 0.08 | 0.11 | 0.13 | 0.15 |
| Core EPS Growth | (95%) | 18194% | 33% | 16% | 16% |
| FD Core P/E (x) | 5,191 | 27 | 22 | 19 | 16 |
| Price To Sales (x) | 14.72 | 7.39 | 5.79 | 4.86 | 4.15 |
| DPS (RM) | - | - | 0.022 | 0.025 | 0.030 |
| Dividend Yield | 0.00% | 0.00% | 0.91% | 1.05% | 1.22% |
| EV/EBITDA (x) | NA | 25.61 | 18.35 | 15.64 | 13.15 |
| P/FCFE (x) | 106.2 | NA | 89.8 | 38.6 | 24.5 |
| Net Gearing | (29.8%) | 38.1% | 21.3% | 5.7% | (8.1%) |
| P/BV (x) | 18.38 | 10.82 | 7.77 | 5.86 | 4.55 |
| ROE | 0.3% | 49.0% | 41.0% | 35.2% | 31.4% |
| % Change In Core EPS Estimates | | | 6.6% | 10.0% | 11.5% |
| CGS-CIMB/Consensus EPS (x) | | | 0.97 | 0.96 | 0.99 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Key catalysts and downside risks ►

We see higher-than-expected orderbook replenishment for its EV & ES segments, a rise in institutional funds' holdings, expansion into new customers or verticals, and potential interest in Genetec as an ESG play as potential re-rating catalysts for the stock.

Meanwhile, lower orderbook replenishment due to delays in customers finalising their plans and appreciation in the ringgit against the US\$ are potential downside risks to our call.

Figure 1: Historical annual and projected FY23-25F revenue, core net profit and margin

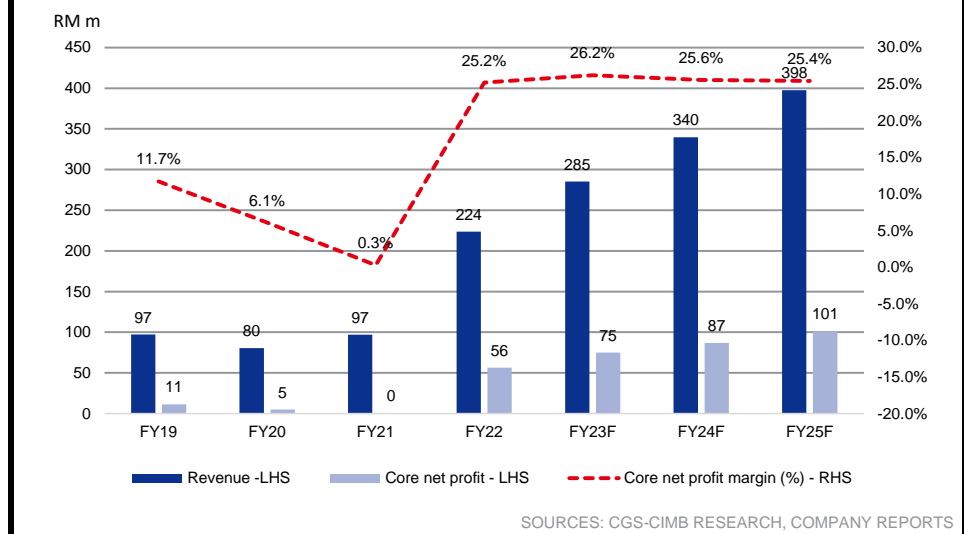


Figure 2: Genetec's order backlog as of May 2022

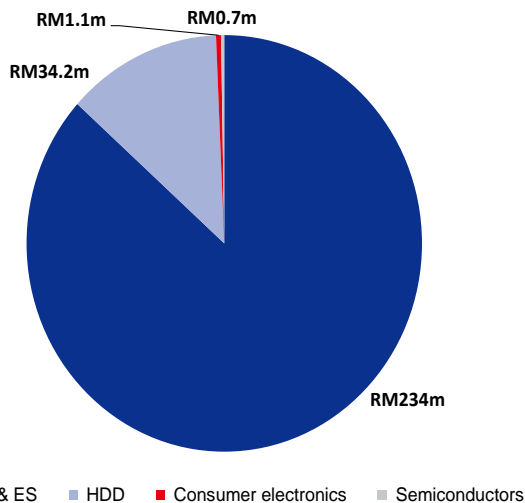


Figure 3: Genetec revenue breakdown by segment in FY3/22

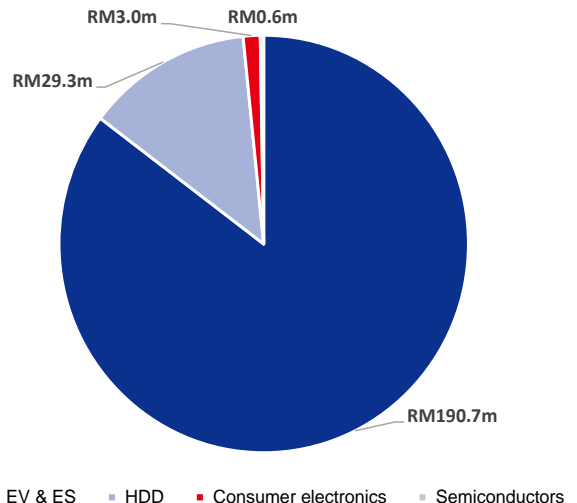


Figure 4: Earnings revision

| (RM m) | Previous | | | Revised | | | Changes (%) | | |
|---------------|----------|-------|-------|---------|-------|-------|-------------|-------|-------|
| | FY23F | FY24F | FY25F | FY23F | FY24F | FY25F | FY23F | FY24F | FY25F |
| Revenue | 275 | 319 | 372 | 285 | 340 | 398 | 3.9 | 6.3 | 6.8 |
| EBITDA | 88 | 99 | 113 | 93 | 108 | 125 | 5.9 | 9.1 | 10.4 |
| EBIT | 85 | 94 | 107 | 90 | 103 | 119 | 6.2 | 9.5 | 10.9 |
| Pretax profit | 80 | 90 | 104 | 85 | 99 | 116 | 6.5 | 9.9 | 11.3 |
| Net profit | 70 | 79 | 91 | 75 | 87 | 101 | 6.6 | 10.0 | 11.5 |
| EPS (sen) | 10 | 12 | 13 | 11 | 13 | 15 | 6.6 | 10.0 | 11.5 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

ESG in a nutshell



In terms of ESG, we like Genetec for its growing business exposure to electric vehicles (EVs) as an alternative to gasoline-powered cars. Genetec's products allow EV makers to manufacture more EVs (renewable products) as replacements for petrol cars. This will promote lower fossil fuel usage, which reduces carbon footprint and cuts wastage.

In terms of ESG disclosure, Genetec's sustainability statement is based on the Economic, Environment and Social Reporting Guide in Paragraph 30, Appendix 9C of the ACE Market Listing Requirements of Bursa Malaysia. We expect Genetec to improve its ESG disclosure going forward as it continues to grow its businesses.

Keep your eye on

Two of the company's four independent directors have served more than nine years. In addition, its board of directors only has one woman director among seven members.

Implications

We are negative on this aspect. According to the latest update by the Malaysian Code of Corporate Governance (MCCG) in 2021, the tenure of independent directors should be nine years without any extension. In addition, the MCCG suggests that at least 30% of board members should be female.

ESG highlights

Since 2014, the company has continued to invest and explore opportunities in the EV space. In FY18, the company managed to secure the world's largest EV maker as its first customer in the EV space.

Implications

We are positive on this development as Genetec's products help its customers produce renewable products (EVs and ES) as replacement for other non-renewable products, such as petrol cars and batteries.

Trends

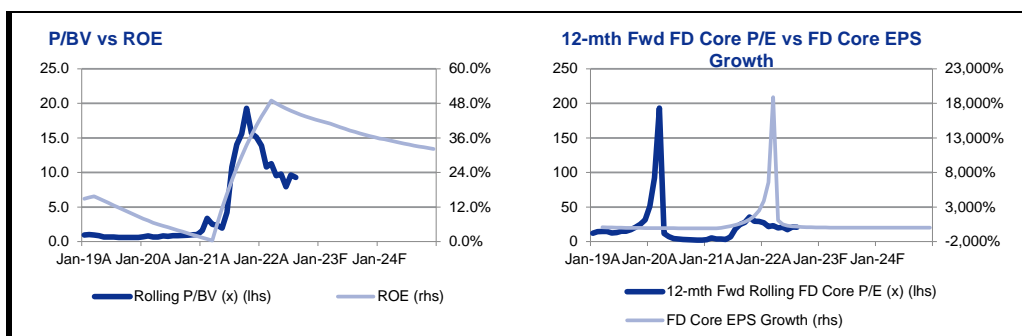
The company expanded its revenue exposure to the EV & ES segment from 1% in FY20 to 73% in FY22. We expect this percentage to grow in tandem with the increase in orders from its first EV customer.

Implications

We are positive on this matter. With growing demand for EVs worldwide, the company stands a good chance of growing its businesses while at the same time helping the world reduce fossil fuel use, in our view.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

| (RMm) | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|---|---------------|---------------|---------------|---------------|---------------|
| Total Net Revenues | 97.08 | 223.56 | 285.26 | 339.68 | 397.71 |
| Gross Profit | 12.71 | 81.18 | 115.47 | 135.48 | 157.70 |
| Operating EBITDA | (1.39) | 67.20 | 93.22 | 107.62 | 124.69 |
| Depreciation And Amortisation | (2.69) | (3.27) | (3.50) | (4.53) | (5.68) |
| Operating EBIT | (4.08) | 63.93 | 89.72 | 103.09 | 119.01 |
| Financial Income/(Expense) | (0.74) | (1.63) | (4.37) | (3.85) | (3.50) |
| Pretax Income/(Loss) from Assoc. | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Non-Operating Income/(Expense) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Profit Before Tax (pre-EI) | (4.83) | 62.29 | 85.36 | 99.24 | 115.50 |
| Exceptional Items | | | | | |
| Pre-tax Profit | (4.83) | 62.29 | 85.36 | 99.24 | 115.50 |
| Taxation | 0.44 | (4.16) | (7.68) | (8.93) | (10.40) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | (4.39) | 58.14 | 77.68 | 90.31 | 105.11 |
| Minority Interests | 0.14 | (1.74) | (2.85) | (3.40) | (3.98) |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Profit | (4.25) | 56.40 | 74.82 | 86.91 | 101.13 |
| Recurring Net Profit | 0.27 | 56.40 | 74.82 | 86.91 | 101.13 |
| Fully Diluted Recurring Net Profit | 0.27 | 56.40 | 74.82 | 86.91 | 101.13 |

Cash Flow

| (RMm) | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|----------------------------------|---------------|-----------------|----------------|----------------|----------------|
| EBITDA | (1.39) | 67.20 | 93.22 | 107.62 | 124.69 |
| Cash Flow from Invt. & Assoc. | (3.36) | (4.97) | (8.16) | (8.71) | (9.54) |
| Change In Working Capital | 18.96 | (160.80) | (32.48) | (21.74) | (17.98) |
| (Incr)/Decr in Total Provisions | 0.87 | 1.90 | 4.67 | 4.18 | 3.86 |
| Other Non-Cash (Income)/Expense | 2.69 | 3.27 | 3.50 | 4.53 | 5.68 |
| Other Operating Cashflow | 2.76 | (1.17) | 0.00 | 0.00 | 0.00 |
| Net Interest (Paid)/Received | (0.87) | (1.90) | (4.67) | (4.18) | (3.86) |
| Tax Paid | (0.18) | (4.77) | (7.68) | (8.93) | (10.40) |
| Cashflow From Operations | 19.49 | (101.24) | 48.39 | 72.76 | 92.45 |
| Capex | (9.01) | (8.13) | (20.00) | (25.00) | (25.00) |
| Disposals Of FAs/subsidiaries | 0.08 | 11.00 | 0.00 | 0.00 | 0.00 |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | | | | | |
| Cash Flow From Investing | (8.93) | 2.87 | (20.00) | (25.00) | (25.00) |
| Debt Raised/(repaid) | 2.48 | 77.32 | (10.00) | (5.00) | 0.00 |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | | 0.00 | (14.96) | (17.38) | (20.23) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (0.65) | 2.52 | 0.00 | 0.00 | 0.00 |
| Cash Flow From Financing | 1.83 | 79.85 | (24.96) | (22.38) | (20.23) |
| Total Cash Generated | 12.39 | (18.52) | 3.43 | 25.38 | 47.23 |
| Free Cashflow To Equity | 13.04 | (21.05) | 18.39 | 42.76 | 67.45 |
| Free Cashflow To Firm | 11.48 | (96.43) | 33.22 | 52.19 | 71.74 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (RMm) | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|--------------------------------------|--------------|---------------|---------------|---------------|---------------|
| Total Cash And Equivalents | 43.40 | 32.23 | 35.96 | 61.67 | 109.26 |
| Total Debtors | 24.20 | 165.54 | 195.60 | 214.30 | 229.12 |
| Inventories | 11.65 | 46.49 | 55.44 | 66.68 | 78.37 |
| Total Other Current Assets | 0.34 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Current Assets | 79.58 | 244.26 | 287.00 | 342.65 | 416.74 |
| Fixed Assets | 35.72 | 40.79 | 57.29 | 77.76 | 97.08 |
| Total Investments | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Intangible Assets | 5.06 | 5.06 | 5.06 | 5.06 | 5.06 |
| Total Other Non-Current Assets | 4.04 | 4.04 | 4.04 | 4.04 | 4.04 |
| Total Non-current Assets | 44.82 | 49.89 | 66.40 | 86.87 | 106.19 |
| Short-term Debt | 10.24 | 87.72 | 82.72 | 77.72 | 77.72 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 19.51 | 33.91 | 40.44 | 48.64 | 57.17 |
| Other Current Liabilities | 0.84 | 1.61 | 1.61 | 1.61 | 1.61 |
| Total Current Liabilities | 30.60 | 123.24 | 124.77 | 127.97 | 136.50 |
| Total Long-term Debt | 8.06 | 5.84 | 0.84 | 0.84 | 0.84 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 1.48 | 4.28 | 4.28 | 4.28 | 4.28 |
| Total Non-current Liabilities | 9.55 | 10.11 | 5.11 | 5.11 | 5.11 |
| Total Provisions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Liabilities | 40.15 | 133.36 | 129.89 | 133.08 | 141.61 |
| Shareholders' Equity | 77.76 | 152.60 | 212.45 | 281.98 | 362.89 |
| Minority Interests | 6.50 | 8.20 | 11.05 | 14.45 | 18.43 |
| Total Equity | 84.26 | 160.80 | 223.51 | 296.43 | 381.31 |

Key Ratios

| | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 21% | 130% | 28% | 19% | 17% |
| Operating EBITDA Growth | (156%) | N/A | 39% | 15% | 16% |
| Operating EBITDA Margin | (1.4%) | 30.1% | 32.7% | 31.7% | 31.4% |
| Net Cash Per Share (RM) | 0.042 | (0.090) | (0.070) | (0.025) | 0.045 |
| BVPS (RM) | 0.13 | 0.22 | 0.31 | 0.41 | 0.53 |
| Gross Interest Cover | (4.45) | 32.95 | 18.57 | 23.32 | 27.77 |
| Effective Tax Rate | 0.00% | 6.67% | 9.00% | 9.00% | 9.00% |
| Net Dividend Payout Ratio | NA | NA | 18.1% | 18.1% | 18.1% |
| Accounts Receivables Days | 127.8 | 154.9 | 231.0 | 220.8 | 203.5 |
| Inventory Days | 50.3 | 74.5 | 109.6 | 109.4 | 110.3 |
| Accounts Payables Days | 83.23 | 68.48 | 79.92 | 79.83 | 80.45 |
| ROIC (%) | (6%) | 112% | 36% | 34% | 34% |
| ROCE (%) | (4.0%) | 35.8% | 32.0% | 30.3% | 28.6% |
| Return On Average Assets | (3.3%) | 30.6% | 27.6% | 26.2% | 24.9% |

Key Drivers

| | Mar-21A | Mar-22A | Mar-23F | Mar-24F | Mar-25F |
|------------------------------------|---------|---------|---------|---------|---------|
| EV/ES GP margins (%) | 0.0% | 40.5% | 44.5% | 43.5% | 43.5% |
| Automotive - Non-EV GP margins (%) | 0.0% | 36.0% | 45.0% | 45.0% | 44.5% |
| Others GP margins (%) | 0.0% | 15.0% | 14.5% | 14.5% | 14.5% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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| | | | | | |
|---------------------|-----------|-----------|---------|----------|------------------|
| Score Range: | 90 - 100 | 80 – 89 | 70 - 79 | Below 70 | No Survey Result |
| Description: | Excellent | Very Good | Good | N/A | N/A |

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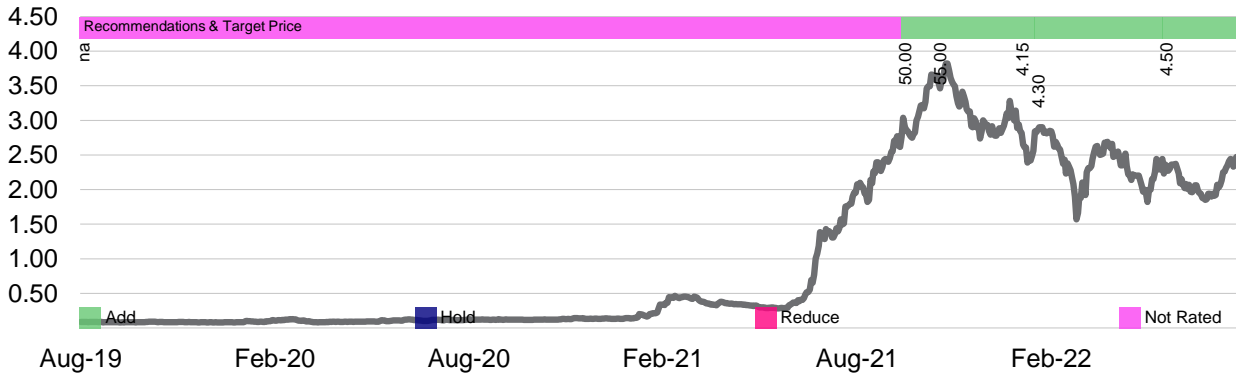
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| Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022 | | |
|--|-------------------------|--------------------------------|
| 643 companies under coverage for quarter ended on 30 June 2022 | | |
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 68.4% | 0.8% |
| Hold | 24.6% | 0.0% |
| Reduce | 7.0% | 0.2% |

Spitzer Chart for stock being researched (2 year data)

Genetec Technology Bhd (GENE MK)

— Price Close



Recommendation Framework

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
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