

14 October 2014 | Corporate Update

Globetronics Technology Bhd

Riding on the wearable wave

Maintain BUY

Unchanged Target Price (TP): RM5.45

INVESTMENT HIGHLIGHTS

- **Globetronics' strategy of venturing into the healthcare wearable market is in-line with that of global smartphone vendors**
- **This move could be a timely one in the wake of weakening growth in smartphone demand in mature markets**
- **Maintain BUY recommendation with unchanged target price of RM5.45 based on DDM valuation methodology**

Successful technology migration. Globetronics Technology Bhd (GTB) started its business by providing burn-in and visual check services before moving into production of integrated circuits (IC). At present, bulk of its business revolves mainly around: (i) the assembly, manufacturing and testing of sensors; (ii) the assembly and testing of timing and quartz crystal devices; and (iii) the manufacturing of SSL/LED components. Moving forward, the group believes that the sensors segment which is in high demand for the bio and health wearable smart devices to be a key earnings driver.

A move in the right direction. We view GTB's venture into the wearable devices manufacturing supply chain, especially the healthcare segment, is in-line with the move taken by global smartphone vendors such as Apple, Samsung and Google. The healthcare industry is preferred due to its recession-proof attribute which generates sustainable margins. According to GTB's chief executive officer, Mr. Heng Huck Lee, there is a *"surge in demand for medical device outsourcing and contract manufacturers, as brand owners aim to cut down on production costs, particularly for high-volume and low-margin devices."*

New direction by global giants

Apple Inc. on hiring spree. Apple is actively building a new team for its widely expected iWatch and other wearable technology. The hiring is hinged on the development of the sensor technology. According to industry sources, the sensors are expected to monitor everything from blood-sugar levels to nutrition which is beyond the fitness-oriented devices that are currently available on the market.

Samsung's Digital Healthcare Initiative. Samsung is deepening its reach in the healthcare sector with new personal wellness technologies. It announced a USD50m fund to innovate start-ups and technologies in the digital health area. Samsung also unveiled a reference design for a wearable called Simband with the capability of tracking vital signs such as heart rate and blood pressure. This will be linked to a cloud-based platform that can store personal wellness data called the Samsung Architecture for Multimodal Interactions (SAMI).

RETURN STATS	
Price (13 October 2014)	RM4.08
Target Price	RM5.45
Expected Share Price Return	+33.6%
Expected Dividend Yield	+5.6%
Expected Total Return	+39.2%

STOCK INFO	
KLCI	1,797.2
Bursa / Bloomberg	7022 / GTB MK
Board / Sector	Main/ Tech
Syariah Compliant	Yes
Issued shares (mil)	281.0
Par Value (RM)	0.50
Market cap. (RM'm)	1,146.6
Price over NA	4.5x
52-wk price Range	RM2.92 – RM5.20
Beta (against KLCI)	1.25
3-mth Avg Daily Vol	0.6m
3-mth Avg Daily Value	RM2.3m
Major Shareholders (%)	
Wiserite Sdn Bhd	16.74
General Produce Agency	7.29

Google's health platform. In June 2014, Google announced a new health-tracking platform. Google Fit will integrate users' health data from a variety of apps and wearables into one central location. The service will track all of the user's health metrics such as sleep, steps and biking. Adidas and Nike are among the notable sportswear manufacturers which Google has partnered in order to provide the service. In addition, according to online sources, this platform will also be included in the upcoming "L" version of Android, which could be unveiled earliest by this month.

Slower growth in mature market. We opine that the focus into the wearable segment to be a timely move. This is mainly premised on the expectation that demand for smartphones, especially for the mature markets, will plateau eventually. This is in-line with IDC's view that shipment growth of smartphone for the mature markets will reduce to +4.9%yoy in 2014 before dwindling further to +2.7%yoy in 2018. As such, the inflow of wearable devices would help to offset the decline in growth of smartphone shipment.

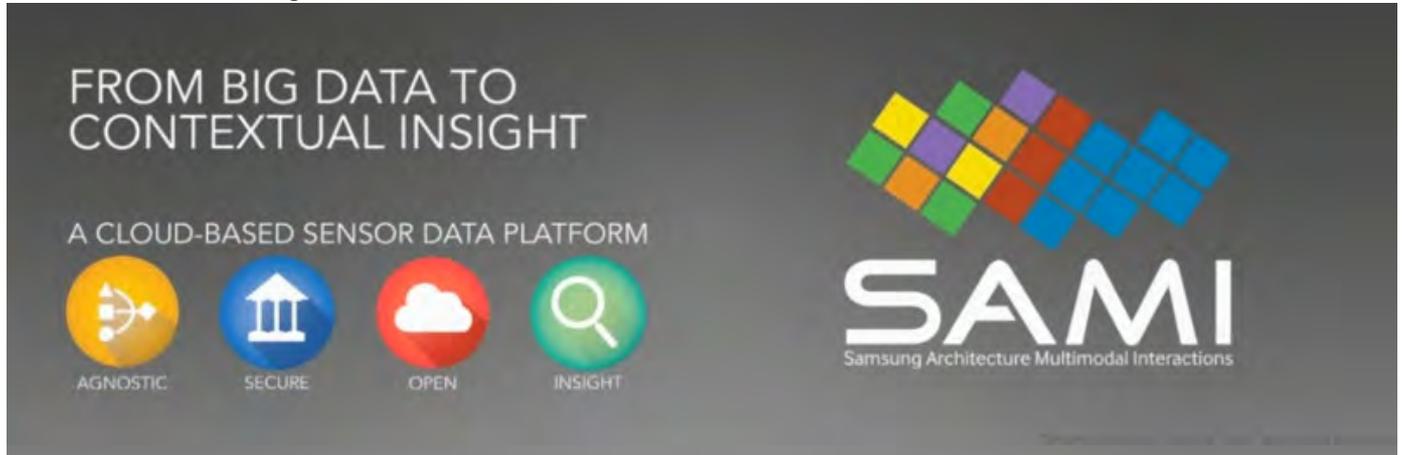
Maintain BUY recommendation. We view that GTB has once again shown its nimbleness and agility to be in-tune with global market movers such as Apple, Samsung and Google. The venture into healthcare wearable is also believed to be a safer approach given its traditionally recession-proof characteristics. On another note, the recent weakness in its share price serves as an attractive entry point to potential investors who would like to ride on the positive vibes of wearable technology. We are reiterating our **BUY** recommendation on GTB with a target price of **RM5.45** based on DDM valuation methodology. 

Illustration 1: Notable hiring by Apple Inc.

Business pillars	Name	Possible contribution
Fitness	Jay Blahnik	A new, Nike Fuel-style system to quantify the effects of a user's daily activity
	Ben Shaffer	Design and manufacturing processes for wearable products, especially as it relates to ergonomics
	- Vacant -	Understanding how the body reacts to exercise and providing feedback on style, intensity and results
Fashion	Paul Deneve	A fashion insider's take on the iWatch's design could help ensure people don't like they're wearing an iPhone on their wrist.
	Angela Ahrendts	If rumors that the iWatch will be closer to a Rolex than an iPod are true, Apple's retail environment will need an update.
	- Vacant -	Swiss horologists are experts at component miniaturization and advanced metallurgy, which could make the iWatch smaller and lighter.
Medical Research	Dr. Roy J.E.M. Raymann	Analyzing users' sleep patterns to help them rest more efficiently and effectively.
Biometric Sensors	Michael O'reilly & Marcelo Malini Lamago	Optoelectronic technology for monitoring blood oxygen saturation, heart rate or blood glucose levels.
	Nancy Dougherty	Dougherty has significant experience in designing "the whole widget" when it comes to wearable medical devices.
	Todd Whitehurst	Apple is thought to have dropped optoelectronic glucose monitoring and could be exploring more invasive solutions.
	Ravi Narasimhan	Apple is said to want the iWatch to be a standalone device, which would likely combine medical sensors with mobile data.

Source: Appleinsider, MIDFR

Illustration 2: Samsung Architecture for Multimodal Interactions



Source: Samsung

Illustration 3: Google's partners



Source: Google Inc.

Illustration 4: Worldwide smartphone forecast (units in millions)

Region	2014* Shipment volumes (m)	2014* Market Share (%)	2014* YoY Growth (%)	2018* Shipment volumes (m)	2018* Market Share (%)	2018* YoY Growth (%)	5 year CAGR (%)
Emerging Markets	920.8	73.5	32.4	1,462.8	79.4	8.3	16.0
Mature Markets	331.5	26.5	4.9	376.3	20.5	2.7	3.6
Total	1,252.3	100.0	23.8	1,839.1	100.0	7.1	12.7

Source: IDC, MIDFR

DIVIDEND DISCOUNT MODEL ASSUMPTIONS

Expected market return	10.00%
Risk free rate	3.75%
Beta	1.18
Terminal growth	5%
Required rate of return	11.13%

INVESTMENT STATISTICS

FYE Dec	2012	2013	2014E	2015F
Revenue (RM m)	290.0	321.4	408.4	502.4
EBIT (RM m)	46.6	60.6	78.8	95.3
Pretax (RM m)	48.3	62.5	80.8	97.3
Net Profit (RM m)	41.3	52.6	67.1	80.8
EPS (sen)	15.3	19.0	24.3	29.3
EPS Growth (%)	52.8	24.1	28.0	20.4
PER (x)	26.7	21.5	16.8	13.9
Net Dividend (sen)	14	18	21	23
Net Dividend (%)	3.4	4.4	5.1	5.6

Source: Announcement, MIDFR estimates

DAILY PRICE CHART



Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected, by -15% or more, over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.