

25 April 2018 | 1Q18 Results Preview

Globetronics Technology Berhad

Strong earnings rebound

INVESTMENT HIGHLIGHTS

- **Strong volume loadings lifted 1Q18 normalised earnings by more than three folds**
- **Commendable 1Q18 profit margin of 17.6%**
- **Expecting stronger financial performance in 2H18**
- **Maintain TRADING BUY with a revised price of RM5.53**

Bumper earnings for 1Q18. Globetronics Technology Bhd (GTB) 1Q17 normalised earnings surged by more than three folds to RM16.1m. The rise in earnings was mainly due to higher volume loadings of products from certain customers in the group. Note that the pick-up in volume loadings from the mass production of new products has been observed since 3Q17. The increase in production volume has led to improvement in profit margin to 17.6% as at 1Q18 (previously 9.4%).

Within expectation. The group's 1Q18 normalised earnings made up 17.1% and 20.0% of ours and consensus full year FY18 earnings estimates respectively. This is within ours and consensus expectations as historically the first quarter is usually the weakest quarter. Moreover, we are expecting significant increase in production activities in 2H18 in view of strong volume loadings.

Figure 1: Revenue breakdown by geographical segments

Segment	1Q18 (RM'000)	1Q17 (RM'000)	Variance (RM'000)
South East Asia	82,157	45,512	36,645
North America	4,283	4,293	-10
Others	46	27	19
Total	86,486	49,832	36,654

Source: Company, MIDFR

Impact. No change to our earnings estimates at this juncture.

Target price. We are imputing a more conservative terminal growth of 4.0% (*previously 5.0%*) to factor in: i) uncertainty surrounding the US-China trade war and ii) global slowdown in demand of smart devices. As a result, we are revising our target price to **RM5.53** per share (previously RM6.68) based on DDM valuation methodology.

Maintain TRADING BUY
Revised Target Price (TP): RM5.53
(previously RM6.68)

RETURN STATS	
Price (24 th April 2018)	RM3.95
Target Price	RM5.53
Expected Share Price Return	+40.0%
Expected Dividend Yield	+5.8%
Expected Total Return	+45.8%

STOCK INFOS	
KLCI	1,865.34
Bursa / Bloomberg	7022 / GTB MK
Board / Sector	Main/ Tech
Syariah Compliant	Yes
Issued shares (mil)	285.6
Market cap. (RM'm)	1,128.2
Price over NA	3.6X
52-wk price Range	RM3.50 – RM7.00
Beta (against KLCI)	0.92
3-mth Avg Daily Vol	5.9m
3-mth Avg Daily Value	RM31.1m
Major Shareholders (%)	
Employee Provident Fund	11.53
General Produce Agency	7.17
KWAP	5.61
Ng Kwong Cheng	4.60

Maintain TRADING BUY. The group has stage a strong comeback in 2017 after a disappointing 2016 performance. This was mainly driven by its sensor division. For 2018, the division is expected to perform better in view of the three projects secured for the smart device sector. This would also provide a boost to the group's 1Q18 earnings. Note that, traditionally, the first quarter has been a weak quarter for the semiconductor industry. With the new projects, we opine that the group would be able to, at the very least, maintains its average selling price. Coupled with higher volume loading, we expect the group's profit margin to expand further. Based on historical track record, GTB is one the highest dividend yielding stock in the semiconductor sector. Given the weakness in share price, we view that the expected dividend yield of more than five percent would serve as additional sweetener to investor. All factors considered, we are maintaining our **TRADING BUY** recommendation. 

DIVIDEND DISCOUNT MODEL ASSUMPTIONS

Expected market return	10.0%
Risk free rate	4.0%
Beta	0.98
Terminal growth	4.5%
Required rate of return	9.9%

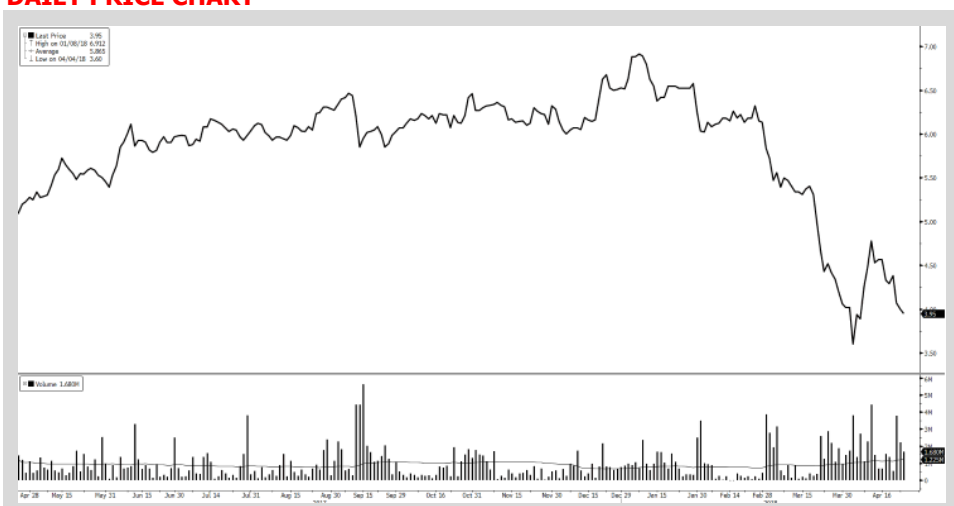
INVESTMENT STATISTICS

FYE 31 st Dec	2016	2017	2018F	2019F
Revenue (RM m)	215.3	304.6	418.4	490.4
EBIT (RM m)	31.2	54.3	101.2	115.9
Pretax (RM m)	33.4	55.9	103.4	118.1
Net Profit (RM m)	25.7	51.1	94.1	107.5
Normalised Net Profit (RM m)	25.5	51.5	94.1	107.5
Normalised EPS (sen)	9.0	18.0	33.3	38.0
Normalised EPS Growth (%)	-64.4	99.9	84.7	14.2
PER (x)	43.6	21.8	11.8	10.3
Net Dividend (sen)	20	21*	22	23
Net Dividend (%)	5.1	5.3	5.6	5.8

Source: Company, MIDFR

*forecast

DAILY PRICE CHART



Martin Foo Chuan Loong
 martin.foo@midf.com.my
 +603 2173 8354

GLOBETRONICS TECHNOLOGY BHD: 1Q18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results				
FYE 31st Dec	1Q18	1Q17	% YoY	4Q17	% QoQ
Revenue	86.5	49.8	73.6	104.8	-17.5
EBITDA	25.5	10.6	139.6	37.8	-32.6
Depreciation and amortisation	-9.0	-5.0	78.3	-13.0	-31.0
EBIT	16.5	5.6	194.9	24.8	-33.5
Finance costs	-0.3	0.0	n.m.	-0.2	n.m.
Interest income	0.6	0.6	-9.4	0.6	-12.7
Associate's contribution	0.0	0.0	n.m.	0.0	n.m.
PBT	16.7	6.2	170.6	25.2	-33.4
Taxation	-1.6	-1.5	2.2	-0.1	n.m.
PAT	15.2	4.7	225.4	25.0	-39.3
Normalised PAT	16.1	4.9	225.4	24.9	-35.5
Normalised EPS (sen)	5.6	1.7	220.7	8.7	-35.9
			+/-ppts		+/-ppts
EBITDA margin (%)	29.4	21.3	8.1	36.1	-6.6
EBIT margin (%)	19.0	11.2	7.8	23.6	-4.6
Normalised PAT margin (%)	17.6	9.4	8.2	23.9	-6.3
Effective tax rate (%)	9.3	24.6	-15.3	0.5	8.8

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.