

01 August 2018 | 2QFY18 Results Review

Globetronics Technology Berhad

Positives priced-in

INVESTMENT HIGHLIGHTS

- 2QFY18 normalised earnings grew by +6.9%yoy, underpinned by high volume loadings and improvement in profit margin
- 1HFY18 normalised earnings kept pace with our expectation
- Positives priced-in at current market valuation
- Revert to NEUTRAL with an unchanged target price of RM2.34 per share

Better financial performance. Globetronics Technology Bhd (GTB) 2QFY18 normalised earnings improved by +6.9%yoy to RM8.6m. 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 3QFY17. The increase in production volume has led to improvement in profit margin to 13.1% as at 2QFY18 (2QFY17: 11.2%).

Within our expectation. Cumulatively, GTB's 1HFY18 normalised earnings amounted to RM24.7m (+85.1%yoy). This came in within ours but above consensus expectations, accounting for 26.2% and 32.9% of full year FY18 earnings estimates respectively.

Figure 1: Revenue breakdown by geographical segments

Segment	1H18 (RM'000)	1H17 (RM'000)	Variance (RM'000)
South East Asia	149,390	103,911	45,479
North America	8,516	8,782	-266
Others	107	61	46
Total	158,013	112,754	45,259

Source: Company, MIDFR

Target price. We are maintaining our target price of **RM2.34** (post corporate exercises) based on DDM valuation methodology.

Revert to NEUTRAL. 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 has been reflected in its 1HFY18 financial performance, supported by higher volume loading and expansion in profit margin.

Revert to NEUTRAL
(previously Trading Buy)

Unchanged Target Price (TP): RM2.34

RETURN STATS	
Price (31 th July 2018)	RM2.50
Target Price	RM2.34
Expected Share Price Return	-6.4%
Expected Dividend Yield	+3.9%
Expected Total Return	-2.5%

STOCK INFOS	
KLCI	1,784.25
Bursa / Bloomberg	7022 / GTB MK
Board / Sector	Main/ Tech
Syariah Compliant	Yes
Issued shares (mil)	667.0
Market cap. (RM'm)	1,667.9
Price over NA	5.7X
52-wk price Range	RM1.52 – RM2.92
Beta (against KLCI)	0.66
3-mth Avg Daily Vol	3.0m
3-mth Avg Daily Value	RM6.4m
Major Shareholders (%)	
Employee Provident Fund	11.98
General Produce Agency	7.16
KWAP	5.61
Ng Kwong Cheng	4.60

However, we view that this positive outcome has been priced-in into current valuation. In 2QFY18, GTB's share price has appreciated by 30.1%. Due to the steep rise in share price, we opine that dividend yield is also less attractive at below four percent. Moreover, we do not discount the possibility that chipmakers could face great risk in escalating trade tensions between US and China. All factors considered, we are reverting our recommendation to **NEUTRAL** from TRADING BUY previously.



DIVIDEND DISCOUNT MODEL ASSUMPTIONS

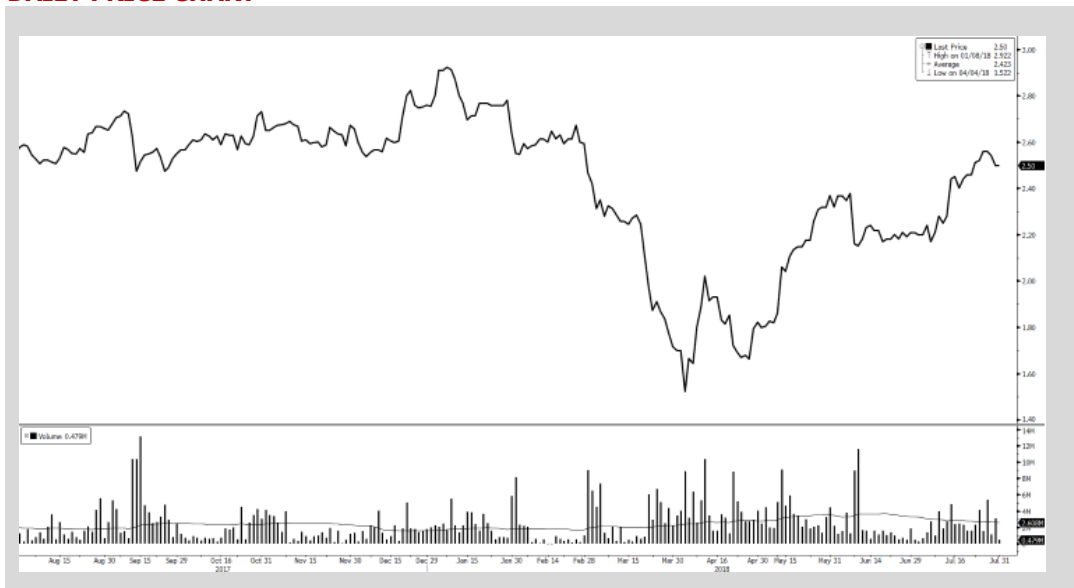
Expected market return	10.0%
Risk free rate	4.0%
Beta	0.98
Terminal growth	4.5%
Required rate of return	9.9%

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	14.1	16.1
Normalised EPS Growth (%)	-64.4	99.9	-21.7	14.2
PER (x)	27.7	13.9	17.7	15.5
Net Dividend (sen)	20	21	9	10
Net Dividend (%)	8.0	8.4	3.7	3.9

Source: Company, MIDFR
*forecasts

DAILY PRICE CHART



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GLOBETRONICS TECHNOLOGY BHD: 2Q18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results			Cumulative		
FYE 31 st Dec	2Q18	% YoY	% QoQ	FY18	FY17	%YoY
Revenue	71.5	13.7	-17.3	158.0	112.8	40.1
EBITDA	15.4	37.4	-39.5	39.7	19.9	99.3
Depreciation and amortisation	-5.0	51.8	-43.9	-12.9	-6.6	95.2
EBIT	10.4	31.3	-37.1	26.8	13.3	101.4
Finance costs	-0.3	n.m.	n.m.	-0.6	0.0	n.m.
Interest income	0.8	27.5	40.8	1.3	1.4	-3.0
Associate's contribution	0.0	n.m.	n.m.	0.0	0.0	n.m.
PBT	10.9	28.3	-35.1	27.6	14.7	88.4
Taxation	-1.5	8.5	-2.0	-3.1	-2.9	5.2
PAT	9.3	32.3	-38.5	24.5	11.7	109.1
Normalised PAT	8.6	6.9	-46.2	24.7	13.3	85.1
Normalised EPS (sen)	1.3	5.8	-46.8	3.7	2.0	83.3
		+/-ppts	+/-ppts			+/-ppts
EBITDA margin (%)	21.5	3.7	-7.9	25.1	17.7	7.5
EBIT margin (%)	14.5	1.9	-4.6	17.0	11.8	5.2
Normalised PAT margin (%)	13.1	1.8	-4.5	15.5	10.4	5.1
Effective tax rate (%)	14.0	-2.6	4.7	11.2	20.0	-8.8

Source: Company, MIDFR

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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.