

31 October 2018 | 3QFY18 Results Review

Globetronics Technology Berhad

Improvement in profit margin

INVESTMENT HIGHLIGHTS

- 3Q18 normalised earnings improved to RM23.2 (+61.8%yoy) in view of higher volume loadings and improvement in profit margin
- Nonetheless, 9M18 cumulative earnings failed to kept pace with ours and consensus expectations
- Downward revision on earnings to reflect a more conservative stance
- Maintain NEUTRAL with a revised target price of RM2.22

Profit margin trending upwards. Globetronics Technology Bhd (GTB) 3Q18 normalised earnings improved by +61.8%yoy to RM23.2m. The rise in earnings was mainly due to: i) higher volume loadings of products from certain customers in the group, ii) better utilisation of operational resources and facilities. Note that the 3QFY18 normalised profit margin expanded to 26.9% from 16.5% as at 3QFY17.

Below expectation. Cumulatively, GTB's 9M18 normalised earnings amounted to RM47.9m (+73.1%yoy). Nonetheless, the surge in the earnings came in below ours and consensus expectations, both accounting for less than 70% of full year FY18 earnings estimates respectively.

Figure 1: PBT/(LBT) breakdown by geographical segments

Segment	9M18 (RM'000)	9M17 (RM'000)	Variance (%)
South East Asia	48.5	25.4	91.3
North America	2.9	2.9	-0.2
Others	0.0	0.2	n.m.
Total	51.3	28.4	80.6

Source: Company, MIDFR

Impact on earnings. We are lowering FY18 and FY19 earnings to RM74.0m and RM97.6 respectively as we are inputting a more conservative volume growth primarily from the sensor and timing and quartz crystal device segments.


Target price. We are revising our target price downwards to **RM2.22** (previously RM2.34) based on DDM valuation methodology.

Maintain NEUTRAL

Revised Target Price (TP): RM2.22
(previously RM2.34)

RETURN STATS	
Price (30 th October 2018)	RM2.27
Target Price	RM2.22
Expected Share Price Return	-2.2%
Expected Dividend Yield	+3.9%
Expected Total Return	+1.7%

STOCK INFOS	
KLCI	1,685.94
Bursa / Bloomberg	7022 / GTB MK
Board / Sector	Main/ Tech
Syariah Compliant	Yes
Issued shares (mil)	668.9
Market cap. (RM'm)	1,518.3
Price over NA	5.7X
52-wk price Range	RM1.486 – RM2.972
Beta (against KLCI)	0.86
3-mth Avg Daily Vol	2.7m
3-mth Avg Daily Value	RM7.02m
Major Shareholders (%)	
Employee Provident Fund	11.40
General Produce Agency	7.14
KWAP	5.21
Ng Kwong Cheng	4.59

Maintain NEUTRAL. The group has stage recovery in earnings. 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 9M18 financial performance, supported by higher volume loading and expansion in profit margin. Nonetheless, we remain concern on the group's dependency on certain customers. On another note, we opine that the dividend yield of less than four percent is also less attractive. All factors considered, we are maintaining our **NEUTRAL** recommendation at this juncture. 

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%

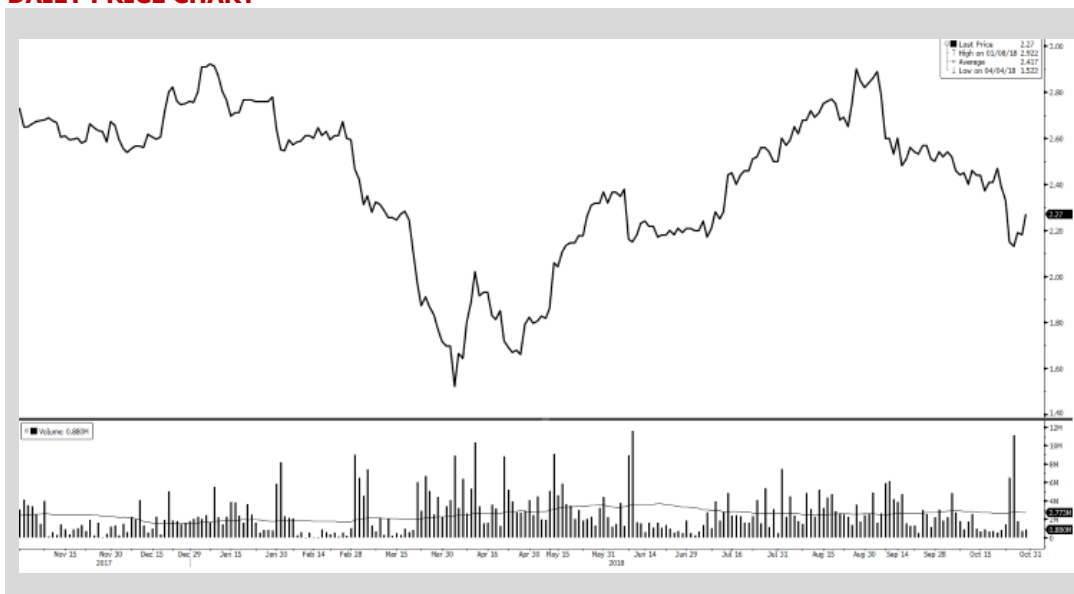
INVESTMENT STATISTICS

FYE 31 st Dec	2016	2017	2018F	2019F
Revenue (RM m)	215.3	304.6	353.5	414.3
EBIT (RM m)	31.2	54.3	79.1	105.1
Pretax (RM m)	33.4	55.9	81.3	107.3
Net Profit (RM m)	25.7	51.1	74.0	97.6
Normalised Net Profit (RM m)	25.5	51.5	74.0	97.6
Normalised EPS (sen)	9.0	18.0	11.1	14.6
Normalised EPS Growth (%)	-64.4	99.9	-38.4	32.0
PER (x)	25.2	12.6	20.5	15.5
Net Dividend (sen)	9	7	7	9
Net Dividend (%)	4.1	3.2	3.2	3.9

Source: Company, MIDFR

*forecast

DAILY PRICE CHART



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GLOBETRONICS TECHNOLOGY BHD: 3Q18 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results			Cumulative		
FYE 31 st Dec	3Q18	% YoY	% QoQ	FY18	FY17	%YoY
Revenue	87.7	0.8	22.6	245.7	199.8	23.0
EBITDA	34.8	42.9	125.8	76.7	47.2	62.5
Depreciation and amortisation	-10.3	12.2	104.1	-25.4	-18.7	35.8
EBIT	24.5	61.4	136.4	51.3	28.5	80.1
Finance costs	-0.3	n.m.	n.m.	-0.9	-0.1	n.m.
Interest income	0.7	-27.1	-6.8	2.1	2.4	-13.1
Associate's contribution	0.0	n.m.	n.m.	0.0	-0.1	n.m.
PBT	24.9	55.3	129.6	52.6	30.7	71.1
Taxation	-1.3	-20.5	-12.2	-4.4	-4.6	-4.2
PAT	23.6	64.2	152.7	48.1	26.1	84.4
Normalised PAT	23.2	61.8	168.5	47.9	27.7	73.1
Normalised EPS (sen)	3.5	60.6	168.3	7.2	4.2	71.8
		+/-ppts	+/-ppts			+/-ppts
EBITDA margin (%)	39.6	11.7	18.1	31.2	23.6	7.6
EBIT margin (%)	27.9	10.5	13.4	20.9	14.3	6.6
Normalised PAT margin (%)	26.9	10.4	13.9	19.6	13.1	6.5
Effective tax rate (%)	5.4	-5.1	-8.7	8.4	15.0	-6.6

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.