

28 February 2018 | 4Q17 Results Preview

Globetronics Technology Berhad

Expecting bumper earnings for 1Q18

INVESTMENT HIGHLIGHTS

- Stellar 4Q17 earnings lifted the group's full year FY17 earnings higher by +102.3%yoy to RM51.5m
- Contribution from the sensor and timing and quartz devices segment made up 70% of the group's revenue
- Expecting FY18 to another record year in view of new project wins
- Upgrade to **TRADING BUY** with a higher target price of **RM6.68**

Surge in 4Q17 earnings. Globetronics Technology Bhd (GTB) 4Q17 normalised earnings surged by more than seven fold to RM24.96m. The rise in earnings was mainly due to higher volume loadings and mass production of new products. As a result, the group's profit margin also improved to 23.9%. To recall in 4Q16, the group's earnings performance was severely impacted by the reduction in end customer's demand.

FY17 earnings surpassed expectation. The stellar 4Q17 earnings performance contributed to the +102.3%yoy improvement in full year FY17 normalised earnings of RM51.5m. This came in above our expectations by a variance of more than five percent.

Table 1: Full year FY17 revenue breakdown by product (%)

Products	(%)
Assembly, manufacturing and testing of sensors i.e. proximity sensors and wearable sensors	36
Assembly and testing of timing and quartz crystal devices	34
Wafer processing, separation, die sorting services and manufacturing of SSL/LED components	25
Integrated circuits and small outline components / ICs	4
Total	100

Source: Company, MIDFR


Impact. We are revising upwards FY18 earnings estimates to RM94.1m to account for expected higher contribution from the sensor division. Post our earnings adjustment, we now expect the sensor division to account for more than 50% of the group's FY18 revenue as compared to 36% achieved for FY17.

Upgrade to TRADING BUY
(previously **NEUTRAL**)
Higher Target Price (TP): RM6.68
(previously **RM5.31**)

RETURN STATS	
Price (27 th February 2018)	RM6.22
Target Price	RM6.68
Expected Share Price Return	+7.4%
Expected Dividend Yield	+3.7%
Expected Total Return	+11.1%

STOCK INFOS	
KLCI	1,763.34
Bursa / Bloomberg	7022 / GTB MK
Board / Sector	Main/ Tech
Syariah Compliant	Yes
Issued shares (mil)	282.9
Market cap. (RM'm)	1,756
Price over NA	3.6X
52-wk price Range	RM2.67 – RM6.35
Beta (against KLCI)	0.87
3-mth Avg Daily Vol	0.8m
3-mth Avg Daily Value	RM4.6m
Major Shareholders (%)	
Employee Provident Fund	9.98
General Produce Agency	7.19
Wiserite	6.25
Manulife	5.21

Target price. We are updating our valuation base year to FY19 and derive a new target price of **RM6.68** per share (previously RM5.31) based on DDM valuation methodology.

Upgrade to 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. Thus, we view that the expected dividend yield of approximately four percent would serve as additional sweetener to investor. All factors considered, we are upgrading our recommendation to **TRADING BUY** from neutral previously. 

DIVIDEND DISCOUNT MODEL ASSUMPTIONS

Expected market return	10.0%
Risk free rate	4.0%
Beta	0.98
Terminal growth	5%
Required rate of return	9.9%

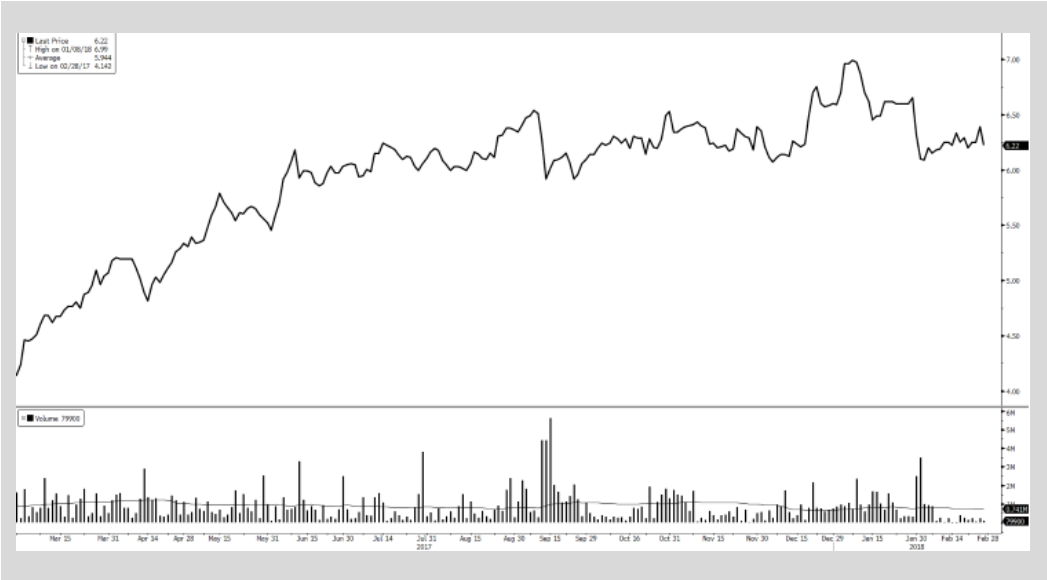
INVESTMENT STATISTICS

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)	68.5	34.2	18.5	16.2
Net Dividend (sen)	20	21*	22	23
Net Dividend (%)	3.2	3.4	3.6	3.7

Source: Company, MIDFR

*forecast

DAILY PRICE CHART



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GLOBETRONICS TECHNOLOGY BHD: 4Q17 RESULTS SUMMARY

<i>(All in RM'm unless stated otherwise)</i>	Quarterly Results					
	4Q17	% YoY	% QoQ	FY17	FY16	%YoY
FYE 31st Dec						
Revenue	104.8	124.2	20.4	304.6	215.3	41.4
EBITDA	37.8	141.6	59.7	80.0	49.0	63.3
Depreciation and amortisation	-13.0	70.2	63.6	-25.7	-17.8	44.2
EBIT	24.8	210.0	57.7	54.3	31.2	74.3
Finance costs	-0.2	n.m.	n.m.	-0.3	0.0	n.m.
Interest income	0.6	-6.7	37.6	1.9	2.3	-15.0
Associate's contribution	0.0	n.m.	n.m.	-0.1	0.0	n.m.
PBT	25.2	188.7	56.6	55.9	33.4	67.0
Taxation	-0.1	-95.0	-93.0	-4.7	-7.7	-38.8
PAT	25.0	293.3	74.1	51.1	25.7	98.9
Normalised PAT	24.9	707.1	76.7	51.5	25.5	102.3
Normalised EPS (sen)	8.7	697.8	76.4	18.0	9.0	99.9
		+/-ppts	+/-ppts			+/-ppts
EBITDA margin (%)	36.1	2.6	8.9	26.3	22.8	3.5
EBIT margin (%)	23.6	6.5	5.6	17.8	14.5	3.4
Normalised PAT margin (%)	23.9	10.3	7.4	16.8	11.9	4.8
Effective tax rate (%)	0.5	-26.5	-10.0	8.5	23.1	-14.6

Source: Company, MIDFR

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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.