

Malaysia Technology

Seeing new highs

Maintain POSITIVE on sector

We reiterate our POSITIVE rating on the sector as we remain upbeat on the global semiconductor supply chain's upcycle, as previously articulated in our ASEAN Technology sector update report "*Riding a new wave*", dated Nov 21. This should lead to strong earnings growth for selected Malaysian technology hardware companies in 2021-2022 and support the sector's re-rating to richer valuations. Elsewhere, valuations are also supported by healthy balance sheets and strong domestic liquidity. However, the sector could face 'overvaluation' risks particularly if forward earnings growths start to taper or disappoint. Our BUY picks are Inari (top pick), Globetronics and Frontken.

Macro trends remain strong

We view that the global and domestic technology/semiconductor supply chain is on track to ride an upcycle. This is backed by key catalysts such as: (i) deployment of the 5G network with high adoption rates and stronger demand and supply for 5G devices (i.e. smartphone), and (ii) growing sub-sectors, such as automotive/electric vehicles (EV), Internet of Things (IoT), artificial intelligence (AI), medical/life science and Industry 4.0 (IR4.0). Positively: (i) the World Semiconductor Trade Statistics (WSTS) projects global semiconductor sales to grow 8.4% YoY (2020: +5.1%), and (ii) SEMI (the global industry association) estimates global fab equipment spending to increase by 13% YoY in 2021 (2020: +8%). Elsewhere, Osram (OSR GR; Not Rated) has significantly raised its 2021 outlook with favourable top-line growth estimates, and Taiwan Semiconductor Manufacturing Co Ltd (TSMC; 2330 TT; Not Rated) has guided for a sizeable capex of USD25b-USD28b in 2021 (USD17.2b in 2020) to make advanced chips.

Rich valuations backed by merits

The sector (within our coverage) is currently trading at CY21/22E PER of 39x/37x. We believe the sector's outperformance in share prices and re-rating of valuations are supported by the encouraging outlook of the global semiconductor supply chain, strong near-term earnings growth catalyst, as well as robust domestic liquidity. Meanwhile, most of the technology hardware companies are also backed by healthy balance sheets with a net cash position/low gearing - supportive of M&A opportunities. All in all, we reiterate our POSITIVE rating on the sector, as we think that prospects for the sector will be sustained at this juncture. YTD21, the broad Bursa Malaysia Technology Index has risen 27%, strongly outperforming the KLCI Index, the latter declining -2%.

Picks: Inari, Globetronics, Frontken

Inari remains as our top BUY, premised on strong catalysts from its RF division attributed to its key smartphone end-customer via Broadcom. Our other BUY picks are: (i) Globetronics which is underpinned by volume recovery of selected products and contributions from new products, and (ii) Frontken which has strong earnings prospects from its semiconductor segment and Taiwanese customers.

POSITIVE

[Unchanged]

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MKE: Tech coverage in MY

Stock	BB Ticker	Rec.	Price	TP	U/D (%)
OSAT					
Inari	INRI MK	Buy	3.42	4.10	19.9
Globetronics	GTB MK	Buy	3.15	3.75	19.0
Semiconductor equipment/automation					
ViTrox	VITRO MK	Sell	17.68	16.40	-7.2
Greatech	GREATEC MK	Hold	6.25	6.70	7.2
EMS/precision engineering					
V.S. Industry	VSI MK	Hold	2.99	3.25	8.7
Semiconductor services					
Frontken	FRCB MK	Buy	4.83	5.60	15.9

Note: U/D = upside/downside to TP

Source: Maybank KE, Factset (as at 17 Feb 2021)

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Figure 1: Malaysia and Singapore: peer comparison

Company	BBG code	FYE (Month)	MKE Rec	MKE TP (LC)	Share price (LC)	Market cap (USDm)	P/E (x)			P/B (x)	Div yield (%)
							CY20E	CY21E	CY22E	CY21E	CY21E
OSAT											
Inari Amertron	INRI MK	6	Buy	4.10	3.42	2,814	50.5	36.5	33.3	9.1	2.5
Globetronics	GTB MK	12	Buy	3.75	3.15	523	38.8	30.8	30.5	6.6	2.6
Malaysian Pacific Ind.	MPI MK	6	NR	-	37.58	1,957	41.7	35.1	31.8	4.9	0.8
Unisem	UNI MK	12	NR	-	8.62	1,725	48.9	38.3	34.2	4.0	1.0
KESM Industries	KESM MK	7	NR	-	16.58	177	174.4	46.5	32.0	1.9	0.6
Average							70.9	37.5	32.3	5.3	1.5
Semiconductor equipment/automation							CY20E	CY21E	CY22E	CY21E	CY21E
ViTrox Corp	VITRO MK	12	Sell	16.40	17.68	2,071	73.1	56.3	55.0	12.3	0.5
Greatech	GREATEC MK	12	Hold	6.70	6.25	1,942	86.2	50.7	45.8	17.8	0.0
Pentamaster	PENT MK	12	NR	-	6.40	1,131	64.7	46.2	37.0	7.1	0.2
Mi Technovation	MI MK	12	NR	-	4.92	916	64.7	48.4	33.9	8.2	0.8
Aemulus	AMLS MK	9	NR	-	0.96	144	-	-	-	-	-
Elsoft Research	ELSR MK	12	NR	-	0.93	155	-	-	-	-	-
MMS Ventures	MMSV MK	12	NR	-	1.25	64	-	-	-	-	-
VisDynamics	VHB MK	10	NR	-	1.64	70	-	-	-	-	-
AEM	AEM SP	12	Buy	5.05	4.54	948	13.8	12.6	11.7	4.5	2.0
UMS	UMSH SP	12	Buy	1.41	1.37	554	15.0	12.0	11.2	2.3	2.2
Micro-Mechanics	MMH SP	6	NR	-	3.36	352	-	-	-	7.6	4.3
Average							72.2	50.4	42.9	11.4	0.4
EMS/precision engineering							CY20E	CY21E	CY22E	CY21E	CY21E
V.S. Industry	VSI MK	7	Hold	3.25	2.99	1,404	32.6	21.6	18.0	3.4	2.1
ATA IMS	AIB MK	3	NR	-	2.95	882	22.3	18.9	73.1	3.7	1.8
SKP Resources	SKP MK	3	NR	-	2.39	741	18.7	16.4	13.9	3.6	3.0
D&O Green Tech	DOGT MK	12	NR	-	3.33	962	99.4	56.0	56.4	8.3	0.5
JHM Consolidation	JHMC MK	12	NR	-	2.35	325	56.6	27.8	23.5	4.9	1.0
P.I.E. Industrial	PIE MK	12	NR	-	3.25	310	43.4	24.1	28.8	-	1.8
Venture Corp	VMS SP	12	Buy	23.27	20.28	4,454	19.8	16.1	14.4	2.2	3.7
HI-P Int'l	HIP SP	12	Sell	1.23	2.00	1,338	19.8	17.0	15.8	2.3	2.5
Frencken	FRKN SP	13	Buy	1.39	1.38	444	13.8	11.6	10.5	1.6	2.6
Valuetronics	VALUE SP	3	Hold	0.58	0.65	214	9.8	11.9	12.0	1.2	3.4
Sunningdale Tech	SUNN SP	12	NR	-	1.63	237	16.3	16.3	16.3	0.8	4.9
Average							32.0	21.6	25.7	3.2	2.5
Semiconductor services							CY20E	CY21E	CY22E	CY21E	CY21E
Frontken Corp	FRCB MK	12	Buy	5.60	4.83	1,263	64.1	48.9	40.9	10.3	0.7

Note: As at 17 Feb 2021

Source: Company data, Bloomberg, Factset, Maybank Kim Eng

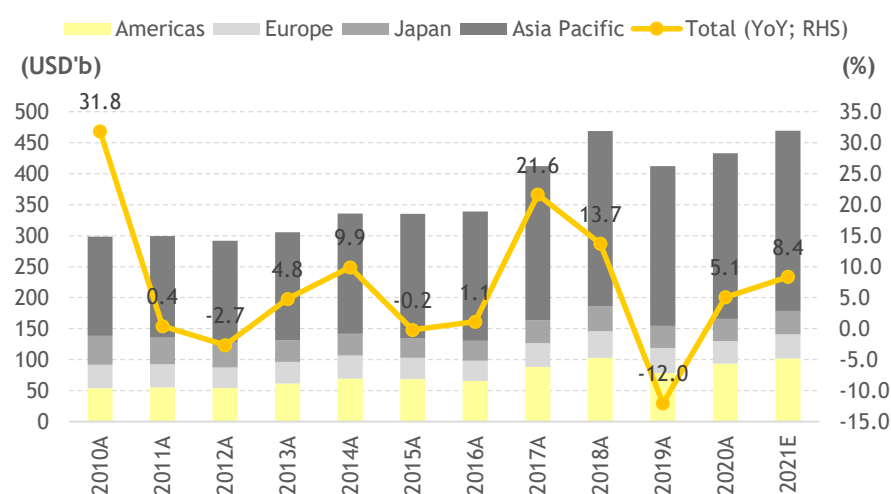
Global semiconductor industry outlook

To recap, WSTS raised their 2021 global semiconductor sales growth to 8.4% YoY in Dec 2020, an optimistic revision from their previous forecast of 6.2% in Jun 2020 - led by an estimated double-digit growth in memory and optoelectronics products. Meanwhile, SEMI (the global industry association) forecasts global fab equipment spending to increase by 8% YoY in 2020 and 13% YoY in 2021. This upcycle will also be driven by the rollout of 5G networks across key cities - accelerated by the growing number of 5G-enabled devices (i.e. smartphones and IoT) and high adoption rates of 5G by key countries (i.e. China, US and South Korea).

We believe the growth and upcycle of the semiconductor industry will benefit tech hardware companies within the supply chain. Zooming into Malaysia, beneficiaries are predominantly OSAT (outsourced semiconductor assembly and testing) companies (i.e. Inari, Globetronics), semiconductor equipment manufacturers (i.e. ViTrox) and semiconductor-related services providers (i.e. Frontken).

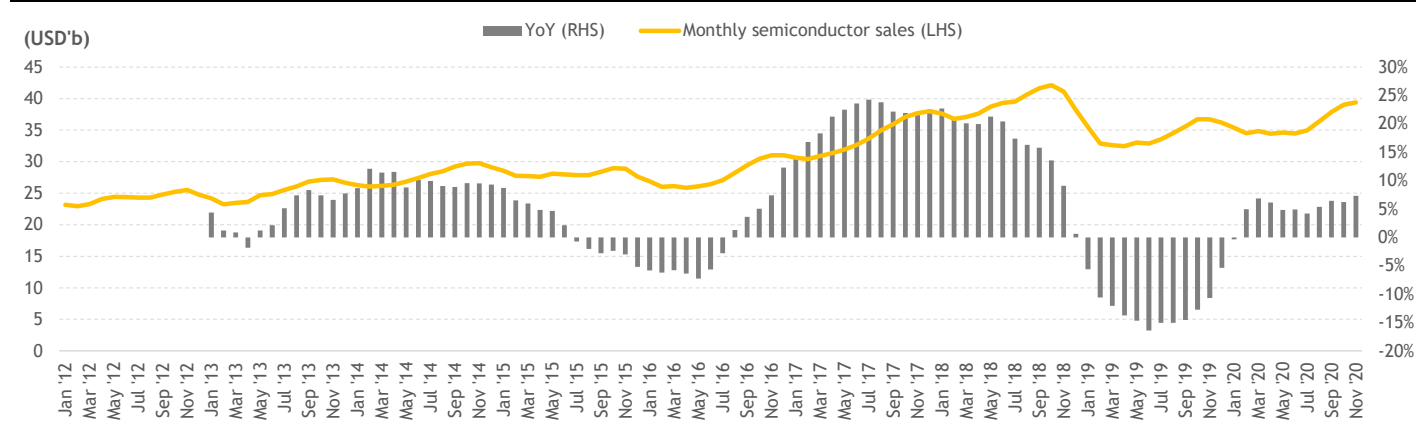
Notably: (i) Osram (OSR GR; Not Rated) has significantly raised its FY21 outlook, with FY21 revenue growth estimate of +10-14% YoY (as at end-Jan 21), attributed to very positive business developments and the rapid recovery of the automotive market in the first quarter, and (ii) Taiwan Semiconductor Manufacturing Co Ltd (TSMC; 2330 TT; Not Rated) is expected to spend between USD25b-USD28b in 2021 to make advanced chips (USD17.2b in 2020).

Figure 2: WSTS: global semiconductor market by regions



Source: World Semiconductor Trade Statistics (WSTS), Maybank Kim Eng

Figure 3: Global semiconductor monthly sales



Source: SIA, WSTS, Maybank Kim Eng

Separately, albeit a lower correlation with the semiconductor supply chain, we believe the near to mid-term outlook remains robust for: (i) VSI, where its existing and new key customers are anticipated to contribute to larger orders, and (ii) Greatech, which rides on the IR4.0 (namely factory automation) and trade war thematic.

Valuations

Figure 4: MKE: Summary of changes in call, TP and valuations

Company	Rec.	Current TP (MYR)	Valuation	Rec.	Previous TP (MYR)	Valuation
Inari Amertron	Buy	4.10	40x CY22E PER (at +2.5SD)	Buy	3.40	36x CY21E PER (at +2.0SD)
Globetronics Technology	Buy	3.75	36x FY22E PER (at +1.0SD)	Buy	3.30	32x FY21E PER (at +0.5SD)
ViTrox Corp	Sell	16.40	51x FY22E PER (at +2.0SD)	Sell	11.60	37x FY21E PER (at +1.0SD)
Greatech Technology	Hold	6.70	49x FY22E PER (at +2.5SD)	Hold	4.45	36x FY21E PER (at +1.5SD)
V.S. Industry	Hold	3.25	20x FY22E PER (at +1.5SD)	Hold	2.60	19x CY21E PER (at +1.0SD)
Frontken Corp	Buy	5.60	47x FY22E PER (at +2.0SD)	Hold	3.60	37x FY21E PER (at +2.0SD)

Source: Company data, Maybank Kim Eng

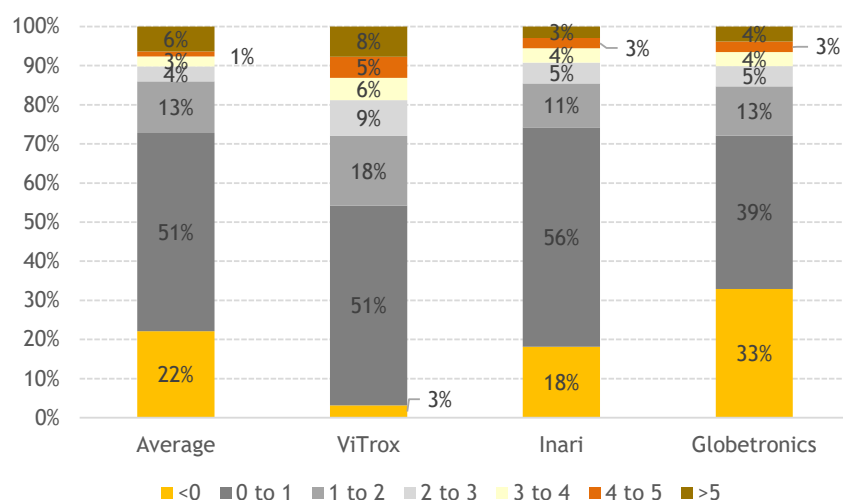
Despite the richer valuations that we peg our TPs to, we highlight the fact that PEG ratios (price-to-earnings growth) within our coverage remains range-bound at 0.4x to 3.6x (Figure 5), based on CY21E PER and 2-year earnings CAGRs (CY20-CY22E). When we analysed ViTrox, Inari and Globetronics's 2012-2020's historical PEG ratios, we noticed that they traded above 1x roughly 25% of the time, which we think is fairly significant. These companies were selected for their long track records as prominent, listed OSATs in Malaysia.

Figure 5: PER, 2-year CAGR and PEG

	PER CY21E (x)	CAGR CY20-22E (%)	PEG (x)
Inari Amertron	36.4	23.2	1.6
Globetronics Technology	31.5	12.8	2.5
ViTrox Corp	55.0	15.2	3.6
Greatech Technology	51.5	37.3	1.4
V.S. Industry	22.1	51.4	0.4
Frontken Corp	50.6	16.1	3.1

Source: Factset, Maybank Kim Eng

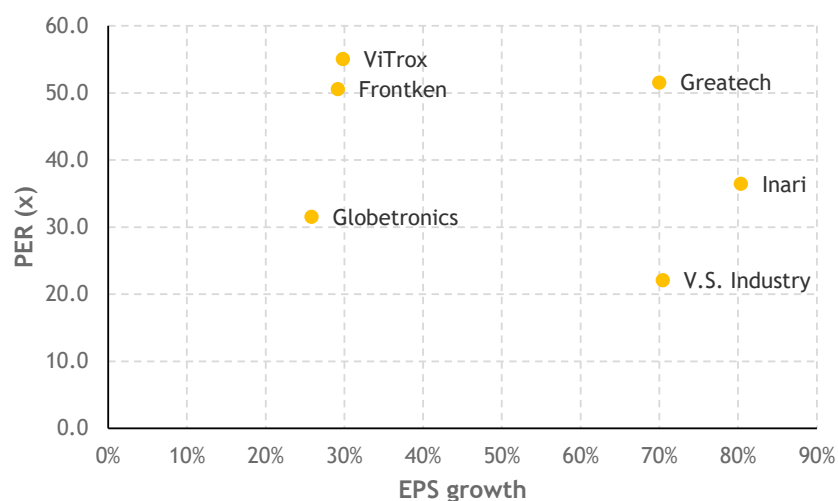
Figure 6: Distribution of 1-year forward PEG ratio between 2012-2020 - ViTrox, Inari and Globetronics



Note: 1-year forward PEG derived from 1-year forward PER and 2-year CAGR

Source: Factset, Maybank Kim Eng

Figure 7: CY21E: PER vs. EPS YoY growth - VS Industry and Inari appear to be in the most ideal growth vs valuation quadrant



Source: Factset, Maybank Kim Eng

Inari Amertron (INRI MK)

Going strong with 5G

Maintain BUY

Inari remains our sector Top Pick - premised on catalysts from the mass deployment of 5G networks and increasing sales of premium 5G smartphones. Our earnings forecasts are unchanged, but we raised our TP to MYR4.10 (+70sen), based on a higher 40x CY22E PER (at +2.5SD; from 36x CY21E PER at +2SD) - in tandem with our sector re-rating. Medium to long-term growth is supported by on-boarding of new products/customers and M&As.

RF-centric growth

We remain upbeat on its RF (radio frequency) division, which we expect to strongly lift near-term earnings growth. In less than a year, Inari has added 14 new SiP (system in package) assembly lines, increasing it to 22 operational lines in total. This implies a favourable, sizeable demand outlook from its key RF customer (Broadcom) and expectation of the end-customer's strong sales of their new 5G smartphones. We also believe there are possibilities for Inari to increase its RF capacity further (particularly in the P34 plant) if demand remains strong in CY21-22. We understand Inari's RF utilisation rate remains at a high 90-95%.

Earnings forecasts unchanged

Our earnings estimates are unchanged, where near-term earnings growth is mainly driven by the RF division (51-53% of the Group's FY21-23E revenue). Meanwhile, its balance sheet is healthy with FY20 net cash of 17sen/share and FCF of 7.9sen/share, which supports future dividends and potential M&A.

Risks

Slower-than-expected deployment of 5G networks globally and lower 5G smartphone sales of leading brands could represent earnings downside for Inari, as it would lead to lower demand for Inari's RF filters. There are also potential earnings risks at its optoelectronics division, particularly if there's a prolonged slowdown of the automotive industry.

FYE Jun (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,153	1,058	1,720	2,048	2,157
EBITDA	303	266	427	491	509
Core net profit	200	163	294	338	356
Core EPS (sen)	6.0	4.8	8.7	10.0	10.5
Core EPS growth (%)	(27.9)	(19.8)	80.4	15.0	5.4
Net DPS (sen)	5.2	4.4	7.9	9.0	9.5
Core P/E (x)	26.6	35.0	39.3	34.2	32.4
P/BV (x)	4.8	4.7	9.3	8.9	8.6
Net dividend yield (%)	3.2	2.6	2.3	2.6	2.8
ROAE (%)	17.6	13.5	24.0	26.6	27.0
ROAA (%)	15.0	11.6	19.5	21.4	21.6
EV/EBITDA (x)	16.2	19.3	25.9	22.6	21.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	259	317	349
MKE vs. Consensus (%)	-	-	13.6	6.4	1.8

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BUY

Share Price	MYR 3.42
12m Price Target	MYR 4.10 (+22%)
Previous Price Target	MYR 3.40

Company Description

Inari Amertron is the biggest semiconductor player in M'sia and one of Broadcom's top OSAT providers in the thriving wireless division.

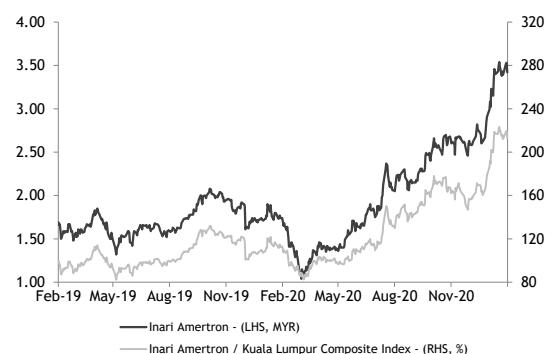
Statistics

52w high/low (MYR)	3.54/1.04
3m avg turnover (USDm)	13.3
Free float (%)	67.8
Issued shares (m)	3,243
Market capitalisation	MYR11.1B
	USD2.8B

Major shareholders:

Insas Bhd.	19.0%
Kumpulan Wang Persaraan	12.8%
Employees Provident Fund	9.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	18	29	97
Relative to index (%)	19	29	88

Source: FactSet



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Business Model & Industry Issues

- Inari is the largest listed technology company on Bursa by market capitalisation - a testament to its niche expertise in back-end wafer processing, assembly and testing of radio frequency & optoelectronic products for a global clientele that includes Broadcom.
- In our view, the company has been largely successful in complying with environmental and occupational health & safety standards. However, female and independent representation on its board has been comparatively low. Meanwhile, Inari continues to uphold human and labour rights, and fair treatment in managing foreign labours.
- Overall, Inari is still largely well-placed to leverage on its competent management team and strong track record to maintain its market-leading position and capitalise on the mass deployment of 5G smartphones in the years to come.

Material E issues

- Energy consumption was approximately 365,000 GJ across the group in FY20 (1.4% decrease from FY19). Energy intensity was also lowered by 13.5% to 6.19 kWh per output unit, with a notable reduction in the Philippines.
- Company has been certified ISO 14001 since 2007 and strives to minimise its environmental impact via pollution-prevention mechanisms. In FY20, it generated 69.7 ktCO₂e of greenhouse gas (GHG) emissions, a marginal reduction of 1.3% vis-a-vis FY19. Emissions intensity also decreased in tandem by 31.7% across the group as a whole. Of the total, direct (Scope 1) GHG emissions amounted to <1% of total emissions with the remaining 99.6% being indirect emissions from electricity usage.
- Achieved its waste reduction target in FY20 by either successfully recovering, recycling or reusing 90.06% of its 574 tonnes of generated waste.
- Management is planning to install solar photovoltaic panels and an energy optimisation system in its premises to reduce GHG emissions further by 6% and 7% respectively.

Material S issues

- Gender inclusivity is at the forefront of management's strategic priorities with 69% of the 5,600-strong workforce being female. Employee turnover rate amongst women has also decreased from 26.7% in FY19 to 13.7% in FY20.
- Employee benefits (including insurance and medical coverage) are generous by industry standards and employees are on average, provided 10 hours of training per year in both vocational and non-technical fields.
- In terms of occupational safety & health (OSH), the group reported just 5 minor workplace injuries over the past three years. OSH training is also mandatory for all staff. Inari strives to uphold human and labour rights and fair treatment in managing foreign labours (i.e. legal work permits, at least minimum wage, prohibition of child labour and forced labour). Approx. 30% of Inari's FY20 workforce was foreign labours.

Key G metrics and issues

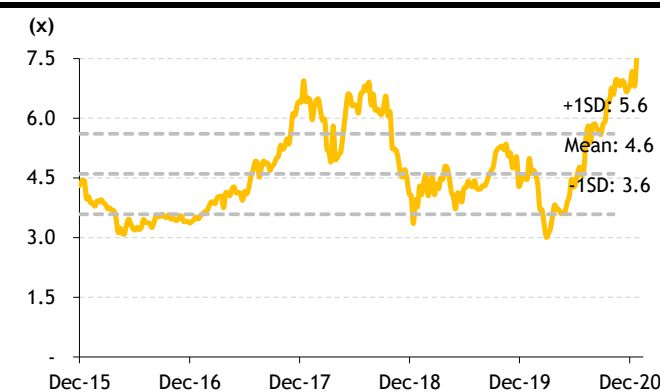
- Independent directors, including the chairman, currently make up 40% of the board or 4 of the 10 members. Although the composition is compliant with Bursa's Main Market Listing requirements, it is not in line with the Malaysian Code on Corporate Governance (MCCG) practise of having at least half the board comprising of independents. The company acknowledges this shortcoming and has set itself a three-year timeline to make the necessary amends.
- Only 10% or 1 of the 10 of the board members is female. Although she is the chairman of the board, it doesn't negate the dearth of diverse perspectives that could arise from a lack of female representation. The company has set itself a three-year timeline to increase female representation to at least 30% to be more in line with MCCG best practises.
- Average tenure of the independent board members is 8.2 years (longest-serving at 10.2 years and shortest at 2.8 years). Leadership churn risk is low with no independent director resigning since June 2012. The board has however not adopted a policy to limit the tenure of its independent directors to nine years with 3 of the 4 existing independent directors having served more than nine years each.
- All 4 board committees are chaired by independent directors and have an independent majority.
- Director's remuneration stands at 5.1% of FY19 net profit. The company's remuneration is based on performance and is benchmarked periodically against peers to ensure compensation is fair and motivating.
- No material related-party transactions to date.
- Grant Thornton has been the external auditor for more than 9 years since the company listed in 2011.
- Inari has undertaken 2 major acquisitions since listing - notably Amertron (Global) in 2013 for USD32m and 9.7% of PCL Technologies at a reasonable 8.4% premium in 2016. Both acquisitions have been value-accretive and successful in increasing shareholder returns.

Figure 1: 12M forward PER band



Source: Bloomberg, Maybank Kim Eng

Figure 2: 12M forward PBV band



Source: Bloomberg, Maybank Kim Eng

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Inari. A sharp turn in the global markets for electronics, especially smartphones, will affect the demand for components that Inari is producing for its key clients (i.e. Broadcom and Osram). Design-in and design-out of components related to Inari's current production will also affect revenue and earnings. Additionally, forex volatility, especially USD/MYR, will affect Inari's earnings, as over 2/3 of its revenue and COGS are denominated in USD.

FYE 30 Jun	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	31.9	35.6	39.3	34.2	32.4
Core P/E (x)	26.6	35.0	39.3	34.2	32.4
P/BV (x)	4.8	4.7	9.3	8.9	8.6
P/NTA (x)	4.8	4.7	9.3	8.9	8.6
Net dividend yield (%)	3.2	2.6	2.3	2.6	2.8
FCF yield (%)	1.6	4.7	1.1	2.3	2.9
EV/EBITDA (x)	16.2	19.3	25.9	22.6	21.8
EV/EBIT (x)	23.6	31.4	33.9	28.8	27.3

INCOME STATEMENT (MYR m)

Revenue	1,152.9	1,058.0	1,720.1	2,047.7	2,157.4
Gross profit	269.4	216.2	412.8	491.4	517.8
EBITDA	303.0	265.5	427.4	490.5	509.3
Depreciation	(94.9)	(102.4)	(100.3)	(104.4)	(103.5)
Amortisation	0.0	0.0	(0.5)	(0.5)	0.5
EBIT	208.2	163.1	326.6	385.6	406.3
Net interest income / (exp)	8.0	9.8	11.3	7.3	6.7
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	216.2	172.9	337.9	392.9	413.1
Income tax	(23.9)	(15.9)	(44.3)	(55.3)	(57.4)
Minorities	(0.6)	(0.7)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	191.7	156.3	293.6	337.6	355.7
Core net profit	200.4	162.8	293.6	337.6	355.7

BALANCE SHEET (MYR m)

Cash & Short Term Investments	429.7	594.6	463.8	437.6	464.3
Accounts receivable	233.0	214.4	328.1	384.7	403.6
Inventory	172.7	145.9	225.6	268.6	283.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	489.5	479.4	499.1	494.6	491.1
Intangible assets	2.2	2.3	1.8	1.3	1.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	13.2	27.6	27.6	27.6	27.6
Total assets	1,340.3	1,464.2	1,546.0	1,614.4	1,671.4
ST interest bearing debt	6.2	5.0	5.0	5.0	5.0
Accounts payable	160.8	199.2	239.8	261.0	268.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	8.7	1.1	1.1	1.1	1.1
Other liabilities	43.0	50.0	50.0	50.0	50.0
Total Liabilities	218.4	255.2	295.9	317.0	324.1
Shareholders Equity	1,118.4	1,204.7	1,245.9	1,293.2	1,343.0
Minority Interest	3.5	4.2	4.2	4.2	4.2
Total shareholder equity	1,122.0	1,208.9	1,250.1	1,297.4	1,347.3
Total liabilities and equity	1,340.3	1,464.2	1,546.0	1,614.4	1,671.4

CASH FLOW (MYR m)

Pretax profit	216.2	172.9	337.9	392.9	413.1
Depreciation & amortisation	94.9	102.4	100.8	104.9	103.0
Adj net interest (income)/exp	(8.0)	(9.8)	(11.3)	(7.3)	(6.7)
Change in working capital	(11.6)	91.1	(152.8)	(78.4)	(26.2)
Cash taxes paid	(35.1)	(21.7)	(44.3)	(55.3)	(57.4)
Other operating cash flow	6.0	2.4	0.0	0.0	0.0
Cash flow from operations	270.5	347.0	241.6	364.1	432.4
Capex	(182.8)	(80.8)	(120.0)	(100.0)	(100.0)
Free cash flow	87.7	266.2	121.6	264.1	332.4
Dividends paid	(217.4)	(140.8)	(252.4)	(290.3)	(305.8)
Equity raised / (purchased)	(3.9)	(1.5)	0.0	0.0	0.0
Change in Debt	30.4	41.0	0.0	0.0	0.0
Other invest/financing cash flow	(2.4)	(12.4)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(105.6)	152.6	(130.8)	(26.1)	26.6

FYE 30 Jun	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(16.2)	(8.2)	62.6	19.0	5.4
EBITDA growth	(18.4)	(12.4)	61.0	14.8	3.8
EBIT growth	(27.6)	(21.6)	100.2	18.1	5.4
Pretax growth	(26.8)	(20.0)	95.4	16.3	5.1
Reported net profit growth	(23.1)	(18.5)	87.8	15.0	5.4
Core net profit growth	(28.7)	(18.8)	80.4	15.0	5.4
Profitability ratios (%)					
EBITDA margin	26.3	25.1	24.8	24.0	23.6
EBIT margin	18.1	15.4	19.0	18.8	18.8
Pretax profit margin	18.8	16.3	19.6	19.2	19.1
Payout ratio	89.7	94.1	90.3	90.3	90.3
DuPont analysis					
Net profit margin (%)	16.6	14.8	17.1	16.5	16.5
Revenue/Assets (x)	0.9	0.7	1.1	1.3	1.3
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.2
ROAE (%)	17.6	13.5	24.0	26.6	27.0
ROAA (%)	15.0	11.6	19.5	21.4	21.6
Liquidity & Efficiency					
Cash conversion cycle	73.4	67.3	47.5	61.9	68.2
Days receivable outstanding	72.8	76.1	56.8	62.7	65.8
Days inventory outstanding	67.9	68.1	51.2	57.2	60.6
Days payables outstanding	67.2	77.0	60.4	57.9	58.1
Dividend cover (x)	1.1	1.1	1.1	1.1	1.1
Current ratio (x)	4.2	4.0	3.7	3.7	3.8
Leverage & Expense Analysis					
Asset/Liability (x)	6.1	5.7	5.2	5.1	5.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	15.9	7.6	7.0	4.9	4.6
Net debt/ (net cash)	(414.8)	(588.4)	(457.6)	(431.5)	(458.1)

Source: Company; Maybank

Globetronics Technology (GTB MK)

BUY on earnings improvements

Maintain BUY

We look forward to Globetronics's improving growth prospects from 1H21 onwards - attributed to its sensor and lighting products, and new customers/products. Our earnings estimates are unchanged. However, based on our sector re-rating, we raise our TP by 45sen to MYR3.75, pegged to a higher 36x FY22E PER at +1.0SD (from 32x FY21 PER at +0.5SD) - in-line with our sector-wide re-rating. Maintain BUY.

Better earnings from existing and new products

We believe near-term earnings will be largely supported by stable and optimal volume loading of its sensor products while growth catalysts will come from new products/customers. This includes the mass production of the gas sensors (new product) and next-generation gesture sensors by 1H21. Meanwhile, normalisation in the volume of laser light products could lift Globetronics' forward revenue as FY20 output of these products was affected by raw material supply issues. We understand that on-boarding of new products (work in progress for a handful) and optimal volume loading of laser light products could potentially make up about 1/4 of GTB's revenue in FY21.

Earnings forecasts intact

We maintain our earnings forecasts. Our mildly conservative, near-term assumptions remain supported by volume recovery of selected products and contributions from some new products. Meanwhile, Globetronics has a healthy balance sheet with net cash of 22sen/share (as at end-Sep 20), potentially building up further.

Risks

Earnings risks could come from: (i) softening of volume from its sensor products, (ii) slower-than-expected onboarding of new customers, and (iii) prolonged weakness of its laser light products due to raw material supply issues.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	328	216	266	316	316
EBITDA	110	81	90	106	106
Core net profit	73	46	54	68	69
Core EPS (sen)	11.0	6.9	8.1	10.2	10.3
Core EPS growth (%)	44.8	(37.4)	18.2	25.8	1.1
Net DPS (sen)	9.0	5.5	6.5	8.2	8.3
Core P/E (x)	15.9	33.9	38.8	30.8	30.5
P/BV (x)	3.9	5.2	6.8	6.6	6.3
Net dividend yield (%)	5.1	2.4	2.1	2.6	2.6
ROAE (%)	24.1	15.0	18.0	21.7	21.0
ROAA (%)	19.0	12.9	15.8	19.1	18.6
EV/EBITDA (x)	9.8	17.6	21.9	18.5	18.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	53	67	69
MKE vs. Consensus (%)	-	-	3.0	1.4	(0.0)

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BUY

Share Price	MYR 3.15
12m Price Target	MYR 3.75 (+21%)
Previous Price Target	MYR 3.30

Company Description

Largest OSAT partner for Epson's quartz crystal and timing devices

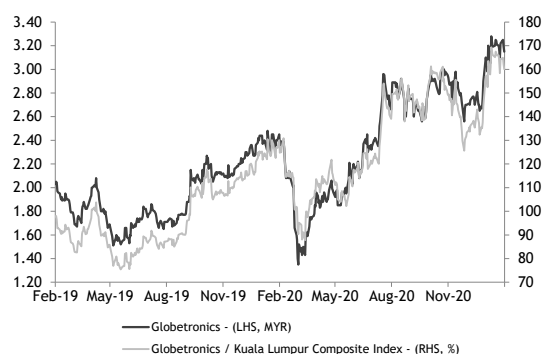
Statistics

52w high/low (MYR)	3.28/1.35
3m avg turnover (USDm)	2.6
Free float (%)	69.9
Issued shares (m)	669
Market capitalisation	MYR2.1B
	USD523M

Major shareholders:

Employees Provident Fund	14.2%
General Produce Agency Sdn. Bhd.	8.6%
Public Mutual Bhd.	5.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	7	7	29
Relative to index (%)	8	7	23

Source: FactSet



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Business Model & Industry Issues

- As a multinational provider in a variety of product and services, Globetronics is naturally exposed to environmental, workplace safety, and socio-economic risks. In FY19, the Group may have had heightened incidences of workplace safety but have also recorded zero substantiated cases of corruption and legal compliance issues.
- Globetronics has several new energy-efficient, environmentally-conscious products using the latest technologies in its pipeline. In our view, this signals a strong competitive edge for Globetronics in the industry, going forward.
- There were significant related party transactions, but only with its associate and several subsidiaries - on property rental, dividend income and provision of services. Meanwhile, the founder/Executive Chairman holds less than 10% in the company - low, in our view. Meanwhile, share options to Executive Directors and senior management was 28%, below the 50% threshold. Overall, we see limited corporate governance risks for Globetronics.

Material E issues

- In FY19, Globetronics recorded 12,980kg of waste disposals (-7.3% YoY), and reused and recycled 127,243kg of recyclable wastes and 163.1kg batteries.
- Globetronics introduced several energy-saving initiatives such as (i) energy-efficient wafer sawing processes that saved 29,963m³ of water in FY19, (ii) installation on solar panels that led to a reduction of 216,000kg of CO₂ emissions in FY19, (iii) energy-efficient chiller and air compressor systems, (iv) preventive maintenance of facilities equipment, and (v) scheduled shutdown of operations.
- Globetronics implemented a ban on plastic straws and a near-total ban on one-time plastics, and planted trees around their factories to reduce CO₂ emissions.
- All their Penang manufacturing factories are certified to ISO 14001, in accordance to local regulations.

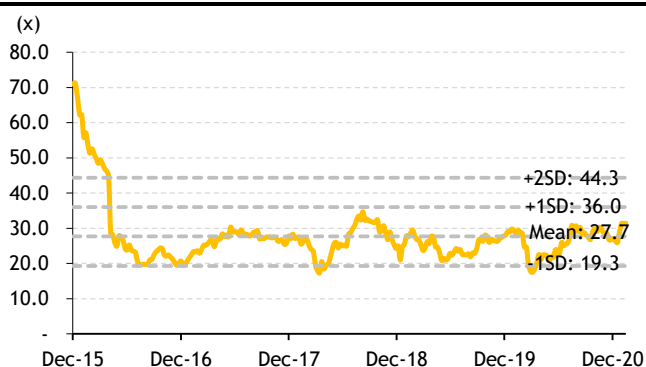
Material S issues

- Globetronics value diversity, which can be seen in their multi-national workforce of 1,300 employees ranging across 4 countries, with 77%/31%/22% of women representation in workforce/management/board levels. Foreign labour contributed 40-50% to its total workforce.
- They emphasise on (i) freely chosen labour, (ii) avoidance of child labour, (iii) non-discrimination in recruitment, and (iv) policies against sexual harassment, fraud, bribery, and corruption with proper reporting channels.
- In FY19, there were 8 factory accidents, 3 fire incidents and 3 near-miss accidents - but recorded no fatalities/permanent injuries.
- They invested a total of 185 training programs and MYR257k for employees' training to upgrade the people's competency levels with regards to new products and technologies. They actively contributed in various employee welfare activities, and 6 different education and community-based partnership and sponsorship projects in FY19.

Key G metrics and issues

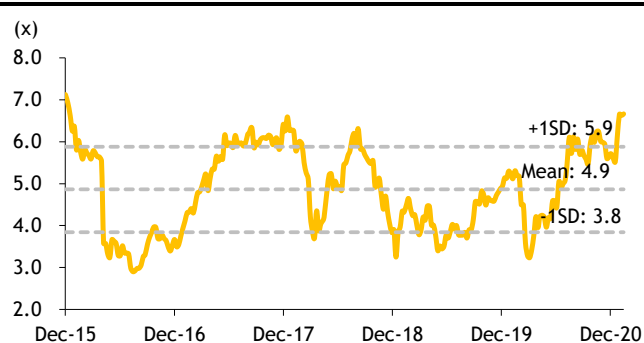
- The board has 9 directors with 2 Non-Independent Executive Directors of which one is the Founder and Executive Chairman, 5 Independent Non-Executive Directors, and 2 Non-Independent Non-Executive Directors.
- The board is of diverse background with 22% women representation, and 22% board members above the age of 70 and 56% between the ages of 61-69.
- Against the Group's FY19 net profit of MYR44.7m, remuneration for the Chairman and each member were: 0.26% for the Board and ≤0.04% for each committee.
- Globetronics was audited by KPMG Plt in FY19.
- The audit & risk management, remuneration, nominating, and their Employee Share Option Scheme (ESOS) committees are chaired by Independent Non-Executive Directors.
- Ng Kweng Chong, the major shareholder, founder and Executive Chairman holds direct interests in c.7.0m shares (1.0%) and deemed interests in 36.0m shares (5.4%) of the company - via Ng Kweng Chong Holdings Sdn Bhd, Wiserite Sdn Bhd, and Glencare Sdn Bhd.
- Mr Ng Kok Khuan, a Non-Independent Non-Executive director and the nephew of Mr Ng Kweng Chong, holds 0.1m direct and 0.2 deemed interests in the shares of the company (<0.1% each).
- Dato' Heng Huck Lee, the CEO of Globetronics holds 1.8m direct (0.3%) and 0.2m deemed interests (<0.1%) in the shares of the company.
- 2 Independent Non-Executive Directors, Ong Huey Min and Yeow Teck Chai holds minimal direct and indirect interests of less than 200,000 shares respectively.
- Allocation of share options to Executive Directors and senior management was at 28% as at 31 Dec 2019.
- Globetronics recorded significant related party transaction in FY19 amounting to MYR52.1m for the Company and MYR2.4m for the Group through transactions with their associates and subsidiaries. Elsewhere, there were no controversial transactions.

Fig. 1: Globetronics 12M forward PER band



Source: Bloomberg, Maybank Kim Eng

Fig. 2: Globetronics 12M forward P/BV band



Source: Bloomberg, Maybank Kim Eng

Risk statement

There are several risk factors for our earnings estimates, target price and rating for GTB. A sharp downturn in the global markets for electronics, especially smartphones, will affect the demand for sensors and other components that GTB is producing for its key clients. Additionally, forex volatility, especially USD/MYR, will also affect GTB's earnings, as over half of the Group's revenue and COGS are denominated in USD.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	22.1	28.1	38.8	30.8	30.5
Core P/E (x)	15.9	33.9	38.8	30.8	30.5
P/BV (x)	3.9	5.2	6.8	6.6	6.3
P/NTA (x)	3.9	5.2	6.8	6.6	6.3
Net dividend yield (%)	5.1	2.4	2.1	2.6	2.6
FCF yield (%)	6.8	6.0	1.9	2.8	3.4
EV/EBITDA (x)	9.8	17.6	21.9	18.5	18.3
EV/EBIT (x)	14.7	33.1	38.0	29.2	28.4

INCOME STATEMENT (MYR m)

Revenue	328.0	216.3	265.9	316.1	316.1
Gross profit	111.5	73.8	85.7	108.4	109.5
EBITDA	109.9	80.7	89.7	105.6	105.6
Depreciation	(37.0)	(37.8)	(37.9)	(38.6)	(37.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	72.9	42.8	51.7	67.0	68.2
Net interest income / (exp)	1.9	3.1	3.8	3.8	4.0
Associates & JV	0.0	0.1	0.1	0.1	0.1
Exceptionals	(3.3)	(1.2)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	74.8	46.0	55.7	71.0	72.3
Income tax	(4.7)	(1.3)	(1.4)	(2.6)	(3.2)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	70.1	44.7	54.3	68.3	69.1
Core net profit	73.4	46.0	54.3	68.3	69.1

BALANCE SHEET (MYR m)

Cash & Short Term Investments	121.0	146.2	145.9	153.7	174.9
Accounts receivable	74.5	41.3	49.8	58.6	58.6
Inventory	12.6	8.3	10.4	12.0	11.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	145.4	118.5	120.6	117.0	109.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	22.5	23.4	23.5	23.6	23.7
Total assets	376.1	337.8	350.2	364.9	378.6
ST interest bearing debt	20.8	4.1	4.1	4.1	4.1
Accounts payable	45.9	34.8	36.3	37.3	37.3
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	4.2	0.0	0.0	0.0	0.0
Other liabilities	4.0	2.0	2.0	2.0	2.0
Total Liabilities	74.9	41.0	42.5	43.6	43.5
Shareholders Equity	301.1	296.8	307.7	321.3	335.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	301.1	296.8	307.7	321.3	335.1
Total liabilities and equity	376.1	337.8	350.2	364.9	378.6

CASH FLOW (MYR m)

Pretax profit	74.8	46.0	55.7	71.0	72.3
Depreciation & amortisation	37.0	37.8	37.9	38.6	37.4
Adj net interest (income)/exp	(1.9)	(3.1)	(3.8)	(3.8)	(4.0)
Change in working capital	9.2	26.2	(9.0)	(9.3)	0.0
Cash taxes paid	(5.3)	(0.5)	(1.4)	(2.6)	(3.2)
Other operating cash flow	2.0	(0.6)	(0.1)	(0.1)	(0.1)
Cash flow from operations	115.9	106.0	79.3	93.7	102.4
Capex	(35.9)	(11.9)	(40.0)	(35.0)	(30.0)
Free cash flow	80.0	94.1	39.3	58.7	72.4
Dividends paid	(57.2)	(50.2)	(43.4)	(54.7)	(55.3)
Equity raised / (purchased)	0.6	0.0	0.0	0.0	0.0
Change in Debt	(20.8)	(20.3)	0.0	0.0	0.0
Other invest/financing cash flow	1.7	1.7	3.8	3.8	4.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	4.3	25.3	(0.4)	7.8	21.2

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	7.7	(34.0)	22.9	18.9	(0.0)
EBITDA growth	32.7	(26.6)	11.1	17.8	(0.0)
EBIT growth	34.2	(41.2)	20.8	29.6	1.7
Pretax growth	33.8	(38.4)	20.9	27.5	1.9
Reported net profit growth	37.1	(36.2)	21.5	25.8	1.1
Core net profit growth	44.8	(37.4)	18.2	25.8	1.1
Profitability ratios (%)					
EBITDA margin	33.5	37.3	33.7	33.4	33.4
EBIT margin	22.2	19.8	19.5	21.2	21.6
Pretax profit margin	22.8	21.3	20.9	22.4	22.9
Payout ratio	85.8	82.2	80.0	80.0	80.0
DuPont analysis					
Net profit margin (%)	21.4	20.7	20.4	21.6	21.9
Revenue/Assets (x)	0.9	0.6	0.8	0.9	0.8
Assets/Equity (x)	1.2	1.1	1.1	1.1	1.1
ROAE (%)	24.1	15.0	18.0	21.7	21.0
ROAA (%)	19.0	12.9	15.8	19.1	18.6
Liquidity & Efficiency					
Cash conversion cycle	28.4	21.0	9.4	17.3	22.5
Days receivable outstanding	92.8	96.4	61.7	61.7	66.8
Days inventory outstanding	21.7	26.4	18.6	19.3	20.8
Days payables outstanding	86.0	101.9	71.0	63.8	65.1
Dividend cover (x)	1.2	1.2	1.3	1.3	1.2
Current ratio (x)	3.1	5.1	5.1	5.4	5.9
Leverage & Expense Analysis					
Asset/Liability (x)	5.0	8.2	8.2	8.4	8.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.2	0.1	0.0	0.0	0.0
Capex/revenue (%)	10.9	5.5	15.0	11.1	9.5
Net debt/ (net cash)	(96.1)	(142.1)	(141.7)	(149.6)	(170.8)

Source: Company; Maybank

ViTrox Corp (VITRO MK)

Valuations remain high

Maintain SELL

We expect sales volume to remain resilient and earnings growth to be supported by the pick-up in the global semiconductor industry, which should lead to higher equipment capex and demand from OSATs. In tandem with our sector upgrade and our expectation of a sector upcycle, we raise our TP to MYR16.40 (from MYR11.60), based on a higher 51x FY22E PER at +2SD (from 37x FY21E PER at +1SD). However, maintain SELL on ViTrox due to lofty valuations. We prefer Inari (INRI MK, SP MYR3.42, BUY, TP MYR4.10) due to stronger earnings growth prospects from RF.

Global demand outlook is commendable

We have a favourable outlook for ViTrox as: (i) we expect the global semiconductor industry to enter into an upcycle (positive for its MVS products); and (ii) mass deployment of 5G networks and rising demand for 5G-related devices (positive for its ABL equipment). Meanwhile, we estimate deliveries would also remain commendable in the upcoming quarters, attributed to pent-up demand/orders due to the pandemic and supply chain disruption in 1H20. As at end-3Q20, the book-to-bill ratio was a healthy 1.1x.

Earnings forecasts unchanged

We maintain our earnings forecasts. Our growth assumptions are mainly supported by rising sales volume and demand for the MVI and AVB products. ViTrox has a healthy balance sheet with net cash of 40sen/share (as at end-Sep 20), supporting potential expansions and/or M&A.

Risks

Slower-than-expected earnings growth due to stiff competition and/or tapering off in global demand for ViTrox's products. For the latter, it would be attributed to slowdown in OSATs' capex due to a downcycle in the global semiconductor supply chain.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	395	340	417	529	544
EBITDA	118	94	121	158	162
Core net profit	107	71	114	148	152
Core EPS (sen)	22.7	15.1	24.2	31.4	32.1
Core EPS growth (%)	30.6	(33.4)	60.4	29.8	2.3
Net DPS (sen)	5.8	4.4	6.2	8.1	8.3
Core P/E (x)	27.8	52.5	73.1	56.3	55.0
P/BV (x)	7.2	7.8	14.7	12.3	10.6
Net dividend yield (%)	0.9	0.6	0.4	0.5	0.5
ROAE (%)	28.4	15.6	21.8	23.8	20.7
ROAA (%)	20.1	12.0	16.6	17.7	15.5
EV/EBITDA (x)	24.4	38.2	68.1	52.1	50.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	110	140	169
MKE vs. Consensus (%)	-	-	4.3	5.9	(9.9)

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SELL

Share Price	MYR 17.68
12m Price Target	MYR 16.40 (-7%)
Previous Price Target	MYR 11.60

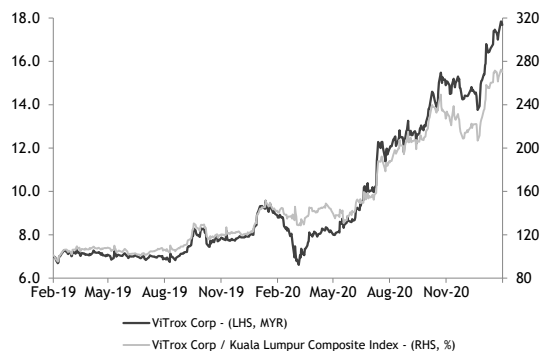
Statistics

52w high/low (MYR)	17.84/6.61
3m avg turnover (USDm)	0.8
Free float (%)	31.1
Issued shares (m)	471
Market capitalisation	MYR8.3B
	USD2.1B

Major shareholders:

CHU JENN WENG	27.0%
SIOW KOK TONG	19.1%
YEOH SHIH HOONG	10.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	17	19	99
Relative to index (%)	18	19	90

Source: FactSet



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Business Model & Industry Issues

- ViTrox has been at the forefront of vision inspection and solutions for the semiconductor and electronic packaging industry. It has 20 years of experience in the industry and an expansive customer base spanning 17 countries. Its products, critical in detecting micro-defects, are used by major chip and circuit board manufacturers in their production lines.
- The company has a commendable track record of increasing shareholder value since its inception and has been keen to emulate Google in creating a healthy and inclusive working environment for its employees - a mission that culminated into the opening of its state-of-the-art Batu Kawan facility in 2018.
- In our view, the company has thus far gone above and beyond to ensure strict compliance with the various environmental, occupational safety & health and corporate governance requirements. With a management team that's driven to create shareholder value, maintain customer satisfaction and ensure the best working environment for its employees, ViTrox is arguably well-placed to maintain its position as one of the market leaders in the industry.

Material E issues

- Took the proactive step of splitting its Environmental Policy from the combined Environmental Safety & Health Policy on 1st September 2019. All relevant environmental permits have also been obtained and maintained, with reporting requirements strictly adhered too.
- Scheduled waste: For FY19, company was well within the limits as outlined in the Environmental Quality Regulations 2005 of the Environmental Quality Act 1974.
- Installed a 458kW industrial-scale solar photovoltaic system at its Batu Kawan factory in August 2018 that generated 720,519 kWh in FY19 - this amounted to approximately RM250k of energy savings and is the equivalent of 500 tonnes of carbon emission offsets.
- Introduced various green initiatives for its employees such as V-Carpooling (involving 260 employees), V-Farm (on-campus programme to produce pesticide-free vegetables, herbs, and fruits for employee consumption, with the excesses donated to charity), and the lauded V-Meal program that utilises the V-Farm produce to provide free and nutritious vegetarian lunches to all employees 4 days a week (76k meals prepared in FY19).

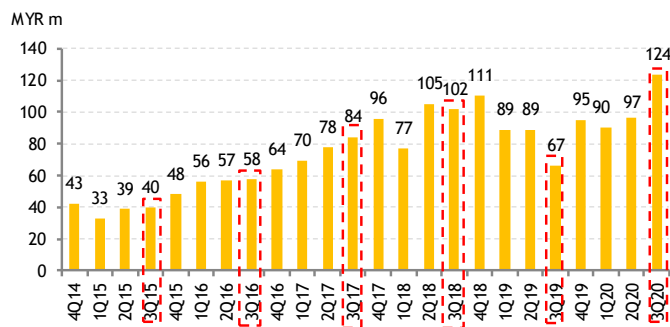
Material S issues

- Occupational safety & health: Notwithstanding the increased in headcount by 11.4% in FY19 (FY18: 709 personnel), management succeeded in slashing impermanent disability incidents by 92.3% to just 1 (FY18: 13) with lost workdays also decreasing by 85.6% (FY19: 2, FY18: 13).
- Training: Management invested in increasing the number of internal employee training sessions by 67.1% to 132 in FY19 (FY18: 79 sessions). To ensure its employees' continuous development, soft-skills training was also prioritised in FY19 with the number of sessions increasing by 32.3% y-o-y to 127 (FY18: 96).
CSR: Contributed MYR203k in FY19 to 15 initiatives (including MYR20k raised for the Buddhist Tzu Chi Society of Malaysia).

Key G metrics and issues

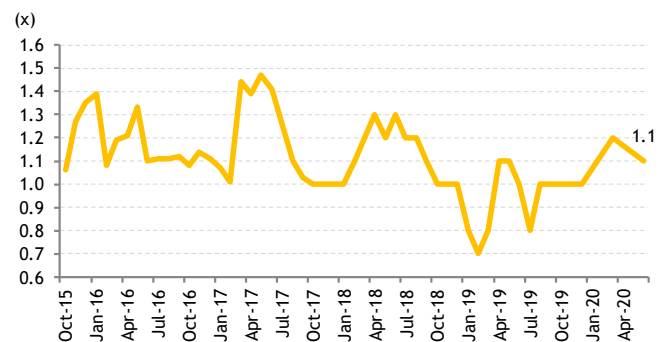
- Independent directors currently form 57.1% of the Board with 4 of the 7 members (FY19: 62.5% of 8 members), including the Chairman - composition is in line with the desired Malaysian Code on Corporate Governance practise of having at least half the Board comprising of independents.
- Average tenure amongst the independent Board members is 11.8 years (longest-serving at 15.3 years and shortest at 2.6 years). Leadership churn risk is very low with only a single independent director who had served for 10 years retiring on 1 Aug 2020. The board has not adopted a policy to limit the tenure of its independent directors to 9 years with 3 of the 4 existing independent directors having cumulatively served more than 12 years each.
- All 4 board committees are chaired by independent directors. Both key board committees - audit & nomination - comprise solely of independents while the remuneration committee is comprised of an independent majority (2 of 3 members). The ESOS committee is the only board committee that has a non-independent majority (3 of 5 members).
- 28.6% or 2 of 7 of the Board are female (up from 25% following the resignation of a male non-independent director in Aug 2020). All key senior management are male.
- Director's remuneration stands at 2.4% and 1.5% of total group-wide employee compensation and FY19 net profit respectively.
- Crowe Malaysia (formerly Crowe Horwath) has been the external auditor for 13 years (since 2007).
- No related party transaction of note since listing.
- No notable controversial or value-dilutive merger & acquisition since listing.

Fig. 1: ViTrox Corp's quarterly revenues



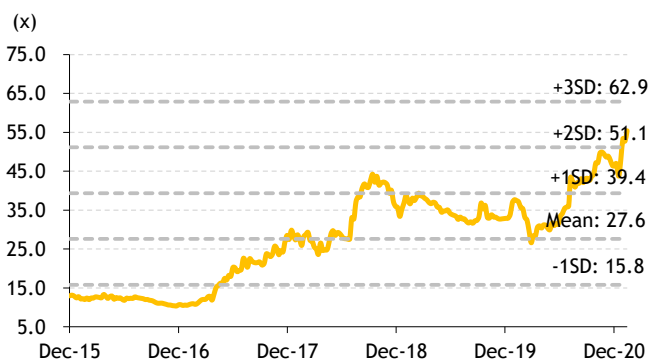
Source: Bursa

Fig. 2: ViTrox Corp's book-to-bill ratio



Source: Company

Fig. 3: ViTrox Corp's 12M fwd PER band



Source: Bloomberg, Maybank Kim Eng

Fig. 4: ViTrox Corp's 12M fwd PBV band



Source: Bloomberg, Maybank Kim Eng

Risk statement

There are several risk factors for our earnings estimates, target price and rating for ViTrox. A sharp downturn in the global markets for electronics will affect the capex spending of OSAT and EMS players involved and this will result in softer demand for ViTrox's inspection equipment. Additionally, forex volatility, especially USD/MYR, will also affect ViTrox's earnings, as over 2/3 of its revenue and about 1/3 of its COGs are denominated in USD.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	29.0	48.8	73.1	56.3	55.0
Core P/E (x)	27.8	52.5	73.1	56.3	55.0
P/BV (x)	7.2	7.8	14.7	12.3	10.6
P/NTA (x)	7.2	7.8	14.7	12.3	10.6
Net dividend yield (%)	0.9	0.6	0.4	0.5	0.5
FCF yield (%)	0.6	1.7	0.4	0.5	1.4
EV/EBITDA (x)	24.4	38.2	68.1	52.1	50.2
EV/EBIT (x)	26.1	42.3	71.1	54.2	52.6

INCOME STATEMENT (MYR m)

Revenue	394.7	339.6	416.6	529.5	544.1
Gross profit	262.2	221.0	279.1	357.4	367.2
EBITDA	118.0	94.3	120.6	157.6	161.8
Depreciation	(6.8)	(6.8)	(4.4)	(5.5)	(6.6)
Amortisation	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
EBIT	110.5	85.2	115.5	151.4	154.5
Net interest income / (exp)	3.0	2.9	2.5	2.0	2.3
Associates & JV	(0.1)	0.5	2.0	2.0	3.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	113.4	71.5	120.0	155.4	159.8
Income tax	(7.6)	(1.8)	(5.6)	(6.9)	(8.0)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	105.7	69.7	114.3	148.4	151.9
Core net profit	107.0	71.3	114.3	148.4	151.9

BALANCE SHEET (MYR m)

Cash & Short Term Investments	148.7	191.6	218.0	250.6	351.9
Accounts receivable	156.7	126.4	191.0	241.1	247.6
Inventory	103.7	111.5	140.9	176.3	181.2
Property, Plant & Equip (net)	155.1	99.1	124.7	149.3	171.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	11.8	88.1	90.1	92.1	95.1
Total assets	576.1	616.7	764.8	909.4	1,047.4
ST interest bearing debt	3.1	7.3	7.3	7.3	7.3
Accounts payable	83.9	68.3	92.1	101.8	103.2
LT interest bearing debt	53.1	41.4	65.4	89.4	112.6
Other liabilities	22.0	17.0	33.0	33.0	34.0
Total Liabilities	162.6	134.3	197.5	232.0	257.2
Shareholders Equity	413.5	482.4	567.3	677.5	790.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	413.5	482.4	567.3	677.5	790.2
Total liabilities and equity	576.1	616.7	764.8	909.4	1,047.4

CASH FLOW (MYR m)

Pretax profit	113.4	71.5	120.0	155.4	159.8
Depreciation & amortisation	7.5	7.5	5.1	6.2	7.3
Adj net interest (income)/exp	(3.0)	(2.9)	(2.5)	(2.0)	(2.3)
Change in working capital	(65.1)	0.1	(55.5)	(75.8)	(10.0)
Cash taxes paid	(6.2)	(4.0)	(5.6)	(6.9)	(8.0)
Other operating cash flow	(0.3)	1.0	(2.0)	(2.0)	(3.0)
Cash flow from operations	46.3	73.3	59.4	74.8	143.8
Capex	(27.8)	(10.5)	(30.0)	(30.0)	(29.0)
Free cash flow	18.5	62.8	29.4	44.8	114.8
Dividends paid	(21.2)	(27.1)	(29.4)	(38.2)	(39.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(2.2)	(6.1)	24.0	24.0	23.2
Other invest/financing cash flow	4.6	2.8	2.5	2.0	2.3
Effect of exch rate changes	(0.5)	0.0	0.0	0.0	0.0
Net cash flow	(0.8)	32.5	26.4	32.6	101.2

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	20.5	(14.0)	22.7	27.1	2.8
EBITDA growth	30.1	(20.1)	27.9	30.7	2.7
EBIT growth	31.5	(22.9)	35.5	31.0	2.1
Pretax growth	31.0	(36.9)	67.7	29.5	2.9
Reported net profit growth	27.4	(34.1)	64.0	29.8	2.3
Core net profit growth	30.6	(33.4)	60.4	29.8	2.3
Profitability ratios (%)					
EBITDA margin	29.9	27.8	28.9	29.8	29.7
EBIT margin	28.0	25.1	27.7	28.6	28.4
Pretax profit margin	28.7	21.1	28.8	29.3	29.4
Payout ratio	25.7	30.0	25.8	25.8	25.8
DuPont analysis					
Net profit margin (%)	26.8	20.5	27.4	28.0	27.9
Revenue/Assets (x)	0.7	0.6	0.5	0.6	0.5
Assets/Equity (x)	1.4	1.3	1.3	1.3	1.3
ROAE (%)	28.4	15.6	21.8	23.8	20.7
ROAA (%)	20.1	12.0	16.6	17.7	15.5
Liquidity & Efficiency					
Cash conversion cycle	139.2	245.7	257.6	275.9	316.9
Days receivable outstanding	128.0	150.0	137.1	146.9	161.7
Days inventory outstanding	238.4	326.6	330.4	331.8	363.9
Days payables outstanding	227.3	230.9	209.9	202.8	208.7
Dividend cover (x)	3.9	3.3	3.9	3.9	3.9
Current ratio (x)	4.0	4.9	5.0	5.5	6.4
Leverage & Expense Analysis					
Asset/Liability (x)	3.5	4.6	3.9	3.9	4.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.5	0.5	0.6	0.6	0.7
Capex/revenue (%)	7.0	3.1	7.2	5.7	5.3
Net debt/ (net cash)	(92.5)	(142.9)	(145.3)	(153.9)	(231.9)

Source: Company; Maybank

Greatech Technology (GREATEC MK)

Awaiting new orders

Maintain HOLD

We expect Greatech's near-term growth catalysts to still come from securing more sizeable contracts from selected industries. We maintain our earnings forecasts but increase our TP to MYR6.70 (+MYR2.25), based on a higher 49x FY22E PER at +2.5SD (from 36x FY21E PER at +1.5SD). Our higher PER peg is premised on sizeable earnings growth of 37% (FY20-22E) and implies a PEG ratio of 1.4x. Maintain HOLD as risk-reward is balanced. We prefer Inari (INRI MK, SP MYR3.42, BUY, TP MYR4.10).

New PLS orders as growth catalysts

Greatech remains committed to maintain its favorable orderbook/earnings from existing customers as well as securing new customers to lift future earnings. We think that major growth catalysts are likely to mainly come from new orders for its Production Line Systems (PLS). Meanwhile, we also believe there are possibilities for: (i) higher PLS demand from Lordstown Motors (RIDE US, Not Rated, SP USD26.46) to cater to their increasing manufacturing needs; and (ii) additional manufacturing facilities by First Solar (FSLR US, Not Rated, SP USD84.69). Greatech's Aug 20 orderbook was a solid MYR295m.

Forecasts are intact

We maintain our moderately bullish earnings estimates at this juncture. This is against the backdrop of 8 targeted new customers with at least two PLS tenders - including the recently-unveiled EV customer, Atlis Motor Vehicles (no further details have been disclosed yet). Meanwhile, Greatech is backed by net cash of 3.5sen/share (as at end-Sep 20) which could build up further and support potential M&As.

Risks

Notwithstanding First Solar's >50% contribution to Greatech's Aug 20 orderbook, we anticipate earnings risks from depletion of orderbook from First Solar if the latter does not expand or add to manufacturing facilities. Elsewhere, there are also earnings risks from tenders for new orders/customers which could fall through.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	220	216	342	522	559
EBITDA	35	60	103	173	193
Core net profit	37	57	91	154	171
Core EPS (sen)	3.0	4.6	7.2	12.3	13.7
Core EPS growth (%)	41.6	54.5	58.2	70.0	10.8
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	na	25.9	86.2	50.7	45.8
P/BV (x)	na	7.6	27.3	17.8	12.8
Net dividend yield (%)	na	0.0	0.0	0.0	0.0
ROAE (%)	57.5	39.4	37.7	42.4	32.5
ROAA (%)	28.8	23.1	22.8	28.7	24.0
EV/EBITDA (x)	110.8	21.4	73.5	42.8	37.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	86	154	171
MKE vs. Consensus (%)	-	-	5.5	0.2	(0.0)

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HOLD

Share Price	MYR 6.25
12m Price Target	MYR 6.70 (+7%)
Previous Price Target	MYR 4.45

Company Description

A niche automation specialist with core expertise in customisable capital equipment for solar photovoltaic industry.

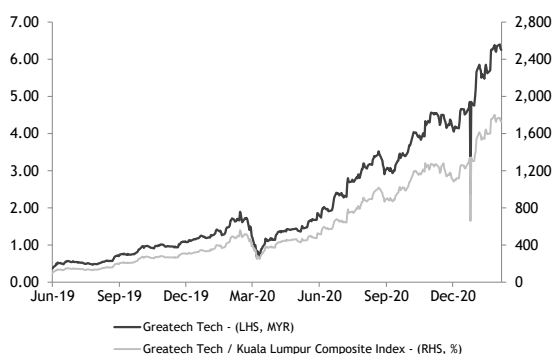
Statistics

52w high/low (MYR)	6.40/0.69
3m avg turnover (USDm)	4.2
Free float (%)	20.0
Issued shares (m)	626
Market capitalisation	MYR3.9B
	USD971M

Major shareholders:

TAN ENG KEE	71.8%
Lth Holdings Sdn. Bhd.	3.2%
Kenanga Investors Bhd.	3.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	9	38	271
Relative to index (%)	11	39	255

Source: FactSet



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Business Model & Industry Issues

- As a leading automation solutions provider, Greatech manages its ESG exposures through energy-saving initiatives, as well as compliance with international and local regulatory requirements, i.e. environmental, and health and safety impacts of its products.
- From a social perspective, Greatech ensures that its employees are well-trained and up-skilled whenever necessary. Only 4% (FY19) of its workforce were foreign employees/expatriate - we deem this as very low, within our tech sector.
- The Group is looking forward to a greater degree of adaptation to sustainable growth with various product expansion and initiatives. In our view, these would sustain Greatech's ESG-compliant operations, going forward.
- Despite the Group CEO's high stake in the company (72%), board composition is well-balanced and there were no notable governance issues in the past.

Material E issues

- Greatech's facilities in Penang are installed with: (i) low-energy lighting and related electrical equipment; and (ii) manufacturing line optimisation; to reduce energy consumption.
- Disposed of 28,440kg of hazardous waste with no significant spills.
- In FY19, 20 employees supported an annual beach-cleaning event in Penang. They collected 40kg of rubbish.
- Did not receive penalties or sanctions concerning environmental issues.
- Working towards switching all operating facilities to low-energy lighting to maximise energy saving.

Material S issues

- Has a diversified workforce of 418 employees spanning across nine countries, where only 4.1% consists of foreign employees and expatriate.
- 75% of its workforce is below the age of 36, while 20% is between 36 and 45 and 4.8% is above 45 years old.
- A champion for women leadership. In FY19, 12.5% of the managerial positions were held by females, and 33.3% of the chief executive positions were held by women.
- An advocate for localisation; 95.9% and 64% of Greatech's workforce and suppliers are Malaysians. Most of Greatech's operations are still in Malaysia.
- The Group has a low Rate of Recordable Work-Related Injuries at 0.51 per 200,000 work hours, with only two work-related injuries and zero fatality in FY19. It also has a low average monthly voluntary turnover of 1.1%.
- In FY19, it provided 12,000 training hours and MYR147,000 was invested to up-skill employees and promote awareness of workplace safety and health, and environmental consciousness.
The Group donated MYR209,640 and took part in community engagements in FY19.

Key G metrics and issues

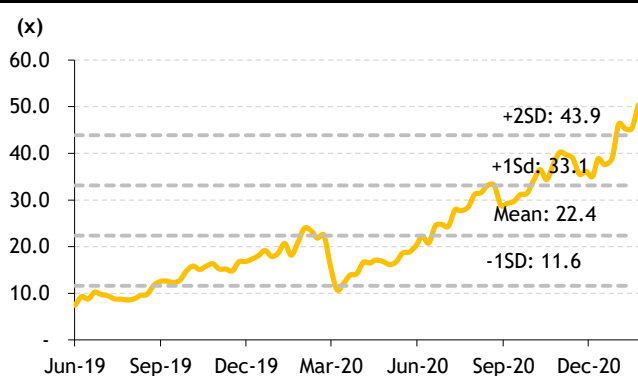
- Greatech's board comprises of 6 directors. 4 are independent non-executive directors, and 2 are executive directors.
- A very experienced and gender-diversified board: all the board members are over the age of 50, and 33.3% are female.
- Tan Eng Kee, Group CEO and executive director, has a substantial indirect interest in the Company with 463,218,750 ordinary shares (c.72%). He also has shares in all the subsidiaries. Dato' Seri Wong Siew Hai also has an indirect interest in the Company with 547,000 ordinary shares (<1%) held through his children.
- 4 other board members hold shares in the company but is of a non-substantial amount of 350,000 ordinary shares or less each (<1%).
- The CEO/the board's total remuneration of MYR1.8m/MYR2.0m for FY19 accounted for 3.5%/ 3.8% of the Group's net profit of MYR57m, respectively.
- Greatech was audited by Messrs BDO PLT. Greatech has also appointed Sterling Business Alignment Consulting as its internal auditor.
- Greatech does not have a dividend payout policy.
- Its 4 non-executive directors are all on the Nominating Committee, Remuneration Committee and Audit & Risk Management Committee.
- The Group appointed KPMG Management & Risk Consulting in FY19 to help implement the Enterprise Risk Management Framework for effective risk management and internal control.
- Notable related party transaction in FY19 was MYR7.6m as remaining balance paid for acquisition of land. Elsewhere, there were no recurring related party transactions.

Fig. 1: Revenue forecast breakdown

Division	Revenue projection based on USD1/MYR4.15 (MYR m)		
	2020E	2021E	2022E
Single automated equipment	55.3	67.0	77.0
Production line system	180.3	337.5	362.5
Upgrading	90.0	90.0	90.0
Parts and services	16.3	27.2	29.1
Total	341.9	521.6	558.5

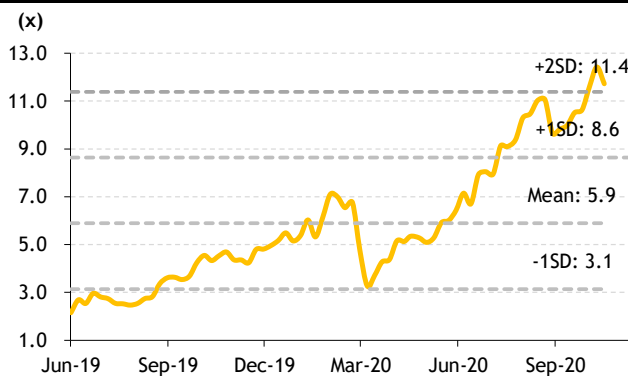
Source: Maybank Kim Eng

Figure 2: 12M forward PER band



Source: Bloomberg, Maybank Kim Eng

Figure 3: 12M forward PBV band



Source: Bloomberg, Maybank Kim Eng

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Greotech. A downturn in the PV industry will affect Greotech's earnings. Additionally, forex volatility, especially USD/MYR, will also affect Greotech's earnings, as over 3/4 of its revenue and about 1/3 of its COGS are denominated in USD.

FYE 30 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	na	18.2	86.2	50.7	45.8
Core P/E (x)	na	25.9	86.2	50.7	45.8
P/BV (x)	na	7.6	27.3	17.8	12.8
P/NTA (x)	na	7.6	27.3	17.8	12.8
Net dividend yield (%)	na	0.0	0.0	0.0	0.0
FCF yield (%)	na	6.2	0.9	1.7	2.1
EV/EBITDA (x)	110.8	21.4	73.5	42.8	37.7
EV/EBIT (x)	nm	22.2	75.3	43.6	38.5

INCOME STATEMENT (MYR m)

Revenue	219.6	215.9	341.9	521.6	558.5
Gross profit	45.2	72.9	124.4	207.1	228.0
EBITDA	34.8	60.1	102.7	173.4	192.8
Depreciation	(2.4)	(2.3)	(2.4)	(3.2)	(4.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	32.4	57.8	100.3	170.2	188.5
Net interest income / (exp)	(0.5)	(0.3)	(0.4)	(0.3)	(0.2)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	31.9	57.6	99.9	169.9	188.3
Income tax	(0.1)	(5.3)	(9.2)	(15.6)	(17.3)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	31.7	52.3	90.7	154.2	171.0
Core net profit	37.1	57.3	90.7	154.2	171.0

BALANCE SHEET (MYR m)

Cash & Short Term Investments	65.0	217.9	292.2	422.3	585.3
Accounts receivable	47.5	30.2	47.8	72.9	78.0
Inventory	3.6	2.9	4.2	6.0	6.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	35.5	37.5	50.2	67.0	72.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	0.7	56.1	56.1	56.1	56.1
Total assets	152.4	344.6	450.3	624.2	798.4
ST interest bearing debt	2.4	1.0	1.0	1.0	1.0
Accounts payable	50.7	85.3	100.3	120.0	123.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	5.7	18.1	18.1	18.1	18.1
Other liabilities	24.0	45.0	45.0	45.0	45.0
Total Liabilities	82.5	149.1	164.0	183.7	186.9
Shareholders Equity	69.9	195.6	286.3	440.6	611.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	69.9	195.6	286.3	440.6	611.5
Total liabilities and equity	152.4	344.6	450.3	624.2	798.4

CASH FLOW (MYR m)

Pretax profit	31.9	57.6	99.9	169.9	188.3
Depreciation & amortisation	2.4	2.3	2.4	3.2	4.3
Adj net interest (income)/exp	0.5	0.3	0.4	0.3	0.2
Change in working capital	19.4	23.4	(3.9)	(7.3)	(2.2)
Cash taxes paid	(0.7)	0.1	(9.2)	(15.6)	(17.3)
Other operating cash flow	23.1	20.5	0.0	0.0	0.0
Cash flow from operations	76.1	104.1	89.2	150.1	173.0
Capex	(12.0)	(12.0)	(15.0)	(20.0)	(10.0)
Free cash flow	64.2	92.1	74.2	130.1	163.0
Dividends paid	(5.7)	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	73.0	0.0	0.0	0.0
Change in Debt	(0.7)	14.0	0.0	0.0	0.0
Other invest/financing cash flow	(2.2)	(23.4)	0.0	0.0	0.0
Effect of exch rate changes	(0.0)	(0.1)	2.8	0.0	0.0
Net cash flow	55.5	155.7	77.1	130.1	163.0

FYE 30 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	133.8	(1.7)	58.3	52.6	7.1
EBITDA growth	63.7	72.8	70.9	68.8	11.2
EBIT growth	65.0	78.7	73.4	69.7	10.8
Pretax growth	65.4	80.7	73.6	70.0	10.8
Reported net profit growth	66.5	64.9	73.5	70.0	10.8
Core net profit growth	41.6	54.5	58.2	70.0	10.8
Profitability ratios (%)					
EBITDA margin	15.8	27.8	30.0	33.2	34.5
EBIT margin	14.7	26.8	29.3	32.6	33.7
Pretax profit margin	14.5	26.7	29.2	32.6	33.7
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	14.4	24.2	26.5	29.6	30.6
Revenue/Assets (x)	1.4	0.6	0.8	0.8	0.7
Assets/Equity (x)	2.2	1.8	1.6	1.4	1.3
ROAE (%)	57.5	39.4	37.7	42.4	32.5
ROAA (%)	28.8	23.1	22.8	28.7	24.0
Liquidity & Efficiency					
Cash conversion cycle	(0.9)	(98.2)	(106.7)	(78.6)	(77.1)
Days receivable outstanding	89.5	64.8	41.1	41.6	48.6
Days inventory outstanding	11.5	8.1	5.8	5.8	6.7
Days payables outstanding	101.9	171.1	153.6	126.0	132.4
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	1.5	2.2	2.7	3.3	4.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	2.3	2.7	3.4	4.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	63.7	nm	nm	nm	nm
Debt/EBITDA (x)	0.2	0.3	0.2	0.1	0.1
Capex/revenue (%)	5.4	5.6	4.4	3.8	1.8
Net debt/ (net cash)	(56.9)	(198.8)	(273.0)	(403.2)	(566.2)

Source: Company; Maybank

V.S. Industry (VSI MK)

Waiting for next catalysts

Raising TP to MYR3.25, but maintain HOLD

We maintain a positive outlook for VSI's near-term earnings potentials, which are mainly supported by orders from existing and new customers. Our earnings forecasts are unchanged, but we raise our TP by 65sen to MYR3.25, based on a higher 20x FY22E PER at +1.5SD (from 19x CY21E PER at +1.0SD). Our higher valuation target is in tandem with our sector upgrade (i.e. strong earnings catalysts and domestic liquidity). However, maintain HOLD on VSI, pending new growth catalysts. We prefer Inari (INRI MK, SP MYR3.42, BUY, TP MYR4.10) due to catalysts from the rollout of 5G telco services.

Mainly organic growth

Our FY21-23E earnings are largely underpinned by favourable organic growth from existing (i.e. UK-based and US-based customers) and new customers (i.e. Victory and Customer Y), which are already factored into our forecasts. For the medium to long term, we believe there is further upside to volume loading and/or addition of model(s), which would represent re-rating catalyst(s). It is also possible it could on-board/secure new customers in the long run.

Forecasts unchanged

Our earnings forecasts are unchanged. Our strong FY21-22E EPS growth of 35-71% YoY is largely attributed to volume ramp-up and orders for additional models from existing customers, Victory's contributions and an exceptionally weaker FY20 (EPS: -36% YoY). In addition, VSI has decent FY20 net cash of 8sen/share and FCF of 11sen/share.

Risks

There are earnings risks from: (i) slowdown or reduction of orders and/or models from existing customers; (ii) significant disruptions to operations (i.e. prolonged closure of multiple facilities due to the pandemic); and (iii) delay in orders from new customers (i.e. Victory).

FYE Jul (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,978	3,243	4,164	5,562	6,058
EBITDA	302	253	438	572	622
Core net profit	196	131	242	326	370
Core EPS (sen)	11.0	7.1	12.1	16.3	17.0
Core EPS growth (%)	8.2	(35.5)	70.5	34.5	4.6
Net DPS (sen)	4.4	2.6	5.4	7.3	7.7
Core P/E (x)	10.9	19.6	24.7	18.4	17.6
P/BV (x)	1.3	1.5	3.5	3.2	3.1
Net dividend yield (%)	3.7	1.9	1.8	2.4	2.6
ROAE (%)	10.9	7.0	14.2	18.1	18.6
ROAA (%)	6.4	4.5	8.4	10.4	10.8
EV/EBITDA (x)	7.9	10.2	13.7	10.5	10.2
Net gearing (%) (incl perps)	3.3	net cash	net cash	net cash	net cash
Consensus net profit	-	-	237	308	370
MKE vs. Consensus (%)	-	-	2.0	5.9	0.0

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HOLD

Share Price	MYR 2.99
12m Price Target	MYR 3.25 (+10%)
Previous Price Target	MYR 2.60

Company Description

VSI Industry Bhd is the 23rd largest EMS provider in the world by revenue, ranked according to Manufacturing Market Insider in 2018.

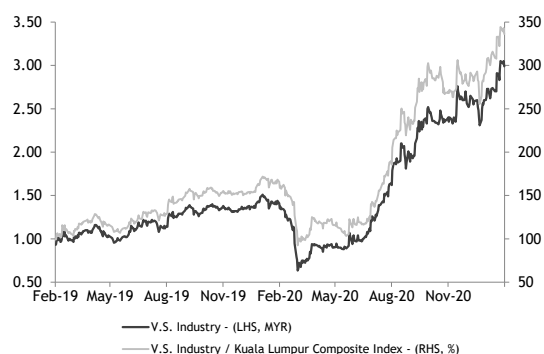
Statistics

52w high/low (MYR)	3.05/0.64
3m avg turnover (USDm)	7.3
Free float (%)	68.6
Issued shares (m)	1,702
Market capitalisation	MYR5.1B
	USD1.3B

Major shareholders:

Kumpulan Wang Persaraan	11.2%
BEH KIM LING	8.1%
GAN CHU CHENG	7.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	15	25	112
Relative to index (%)	16	25	103

Source: FactSet



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Business Model & Industry Issues

- VS Industry is Malaysia's leading integrated electronics manufacturing services (EMS) provider (ranked 4th in ASEAN and consistently in the Global Top 50 for the past 14 years) with a proven track-record of manufacturing office and household electrical & electronic products for established global brand names.
- In our view, the company has solid credentials in complying with the many environmental, safety and regulatory standards in the jurisdictions it currently operates in. Although independent and female representation on its board is relatively low, this is mitigated by its industry-leading fair employment, anti-discrimination and supply-chain sustainability policies.
- With its competent management team and continuous investments in spare production capacity, the company looks well-positioned to take advantage of supply-chain relocation opportunities by multinational appliance manufacturers looking to relocate their base of operations to the ASEAN region as a result of the ongoing US-China trade war.

Material E issues

- All operational processes are certified ISO 14001:2015 - the global industry standard benchmark for environmental management measures. VSI has also been part of the FTSE4Good index since Jun 2018.
- Waste management: VSI has a set of standardised procedures under their Environmental Policy framework for both scheduled and non-scheduled waste management. Volume of recycled waste was up by 26.6% YoY in FY20 at 290 MT (229MT in FY19).
- VSI has an effective noise emission policy to ensure levels are within the DOE's permitted threshold with periodic inspections conducted by a DOSH-approved external consultant. In FY20, all 6 sites achieved 100% compliance.
- Air pollution - Airborne emissions from the group's sites are collected and measured regularly. In FY20, periodic tests (from all four separate on-site chimneys) showed 100% compliance with DOE's regulatory limits.

Material S issues

- Sustainable supply chain: Has an established Supplier Ethical & Environmental Code of Conduct in place. In FY20, the Group engaged with 2,504 local (48.8%; FY19 - 50.1%) and non-local (51.2%; FY19 - 49.9%) suppliers - all of whom are vetted prior to admission into the Group's list of qualified suppliers. The Group aims to procure locally whenever available and feasible.
- Occupational safety & health (- the group strives to minimise work-related accidents and injuries for its 8,000-strong workforce; in FY20, there were 7 reported incidents, including a fatality involving one of its contractors. Management took the incident seriously and responded by strengthening its controls on safety, work permits and standard operating procedures.
- Employee diversity: In FY20, VSI employed more women (57%) than men (43%), with 76% of its workforce being under the age of 30. Also, 59 training programmes were conducted in FY20 (spanning 972 hours, costing MYR400K).

Key G metrics and issues

- Independent directors make up 40% of the board (4 out of 10). Although the composition is compliant with Bursa's Main Market Listing requirements, it falls short of the Malaysian Code on Corporate Governance (MCCG) practise of having $\geq 50\%$ of the board comprising of independent members. The company acknowledges this shortcoming and has set itself a 2-year timeline to meet the recommended 50% composition threshold.
- Female representation on the board is currently lacking too at only 10% or 1 of the 10 of the board members. VSI aims to address this issue within 2-3 years.
- Average tenure amongst the independent board members is 1.5 years (longest serving at 2.7 years and shortest at 2 days). Leadership churn risk is low with no independent director resigning since the group went public in 2005. However, there have been instances of independent directors being re-designated following the award and subsequent exercising of ESOS options.
- The positions of Chairman and CEO are held by different individuals. All 3 board committees (audit & risk, nomination, remuneration) are chaired by and comprised solely of independent directors.
- Director's remuneration is relatively high at 24.6% of FY20 net profit.
- KPMG has been the external auditor for more than 22 years since the company listed on the Main Market of Bursa Malaysia 1998.
- The group has a 43.3% stake in a Hong Kong-listed subsidiary, V.S. International Group (1002 HK, Not Rated; listed on Main Board of HKSE in 2002). In 2017, VSI subscribed to their entire allotted portion of 200m rights issue shares (totalling HKD46m) with proceeds intended for debt repayment, increase manufacturing capacity and working capital.
- Related-party transaction: In Sep 2020, VSI purchased a plot of vacant land for MYR5.07m from one of their executive directors cum substantial shareholder. The land, located close to their primary manufacturing facility, was appraised by an independent third-party and was deemed to be a vital part of the group's expansion plans.

Figure 1: Revenue forecasts of selected key customers

Customer	Revenue forecasts (MYR'm)		
	FY21E	FY22E	FY23E
UK-based	1,518	1,415	1,415
US-based	850	1,275	1,275
Coffeemaker	702	757	816
Pool cleaner	230	281	338
Victory	300	1,100	1,100
Customer Y (Home appliances)	-	200	400

Source: Maybank Kim Eng

Figure 2: V.S. Industry's 12M forward PER



Source: Bloomberg, Maybank Kim Eng

Figure 3: V.S. Industry's 12M forward P/BV



Source: Bloomberg, Maybank Kim Eng

Risk statement

There are several risk factors for our earnings estimates, target price and rating for VSI. Key risks are: (i) weak consumer sentiment would affect demand for premium consumer electronics assembled by VSI; while (ii) USD/MYR forex volatility (we estimate for every +/-1% change in USD/MYR, bottomline impact is +/-0.5%); and (iii) higher labour costs will also affect VSI's margins and profitability. A prolonged impact from Covid-19 is another risk to earnings.

FYE 31 Jul	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	13.2	18.8	24.7	18.4	17.6
Core P/E (x)	10.9	19.6	24.7	18.4	17.6
P/BV (x)	1.3	1.5	3.5	3.2	3.1
P/NTA (x)	1.3	1.5	3.5	3.2	3.1
Net dividend yield (%)	3.7	1.9	1.8	2.4	2.6
FCF yield (%)	5.1	9.7	1.6	3.1	4.6
EV/EBITDA (x)	7.9	10.2	13.7	10.5	10.2
EV/EBIT (x)	11.7	16.1	18.0	13.1	12.5

INCOME STATEMENT (MYR m)

Revenue	3,978.4	3,243.2	4,164.3	5,561.8	6,058.1
Gross profit	370.4	321.3	601.6	816.9	900.6
EBITDA	302.3	253.2	438.2	571.7	622.0
Depreciation	(96.9)	(89.5)	(101.6)	(113.4)	(111.8)
Amortisation	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)
EBIT	203.1	161.3	334.2	455.9	507.9
Net interest income /(exp)	(19.0)	(10.2)	(7.4)	(8.4)	(7.8)
Associates & JV	(2.2)	2.3	2.3	2.3	2.3
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	181.9	153.4	329.1	449.8	502.3
Income tax	(62.4)	(48.9)	(98.7)	(134.9)	(150.7)
Minorities	45.9	12.0	11.8	10.9	18.5
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	165.4	116.5	242.1	325.7	370.1
Core net profit	195.8	131.0	242.1	325.7	370.1

BALANCE SHEET (MYR m)

Cash & Short Term Investments	379.5	404.5	359.2	389.1	516.0
Accounts receivable	994.8	877.6	912.7	1,142.8	1,244.8
Inventory	371.5	331.8	380.7	494.0	536.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	889.0	846.9	945.3	931.8	920.0
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	402.8	364.7	360.0	355.3	350.5
Total assets	3,037.6	2,825.5	2,957.8	3,313.0	3,568.3
ST interest bearing debt	361.5	215.4	215.4	215.4	215.4
Accounts payable	707.9	576.0	742.8	927.4	995.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	77.3	47.0	17.0	17.0	17.0
Other liabilities	106.0	118.0	118.0	118.0	118.0
Total Liabilities	1,253.1	956.7	1,093.5	1,278.1	1,345.9
Shareholders Equity	1,606.5	1,702.4	1,709.7	1,891.2	2,097.1
Minority Interest	178.0	166.4	154.6	143.7	125.3
Total shareholder equity	1,784.5	1,868.8	1,864.3	2,034.9	2,222.3
Total liabilities and equity	3,037.6	2,825.5	2,957.8	3,313.0	3,568.3

CASH FLOW (MYR m)

Pretax profit	181.9	153.4	329.1	449.8	502.3
Depreciation & amortisation	99.2	91.8	103.9	115.8	114.1
Adj net interest (income)/exp	19.0	10.2	7.4	8.4	7.8
Change in working capital	(57.7)	164.3	(41.3)	(151.9)	(69.6)
Cash taxes paid	(62.4)	(48.9)	(98.7)	(134.9)	(150.7)
Other operating cash flow	44.4	(2.3)	(2.3)	(2.3)	(2.3)
Cash flow from operations	224.4	368.6	298.2	284.8	401.7
Capex	(114.4)	(120.0)	(200.0)	(100.0)	(100.0)
Free cash flow	110.0	248.6	98.2	184.8	301.7
Dividends paid	(71.9)	(48.1)	(109.0)	(146.6)	(166.5)
Equity raised / (purchased)	(3.2)	0.0	0.0	0.0	0.0
Change in Debt	(82.5)	0.0	(30.0)	0.0	0.0
Other invest/financing cash flow	(22.4)	(10.3)	(8.3)	(8.3)	(8.3)
Effect of exch rate changes	15.0	21.9	0.0	0.0	0.0
Net cash flow	(55.0)	212.1	(49.1)	29.9	126.9

FYE 31 Jul	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(3.0)	(18.5)	28.4	33.6	8.9
EBITDA growth	5.0	(16.2)	73.1	30.5	8.8
EBIT growth	(1.5)	(20.6)	107.2	36.4	11.4
Pretax growth	3.2	(15.7)	114.6	36.7	11.7
Reported net profit growth	9.1	(29.6)	107.9	34.5	13.6
Core net profit growth	18.7	(33.1)	84.8	34.5	13.6
Profitability ratios (%)					
EBITDA margin	7.6	7.8	10.5	10.3	10.3
EBIT margin	5.1	5.0	8.0	8.2	8.4
Pretax profit margin	4.6	4.7	7.9	8.1	8.3
Payout ratio	47.4	41.3	45.0	45.0	45.0
DuPont analysis					
Net profit margin (%)	4.2	3.6	5.8	5.9	6.1
Revenue/Assets (x)	1.3	1.1	1.4	1.7	1.7
Assets/Equity (x)	1.9	1.7	1.7	1.8	1.7
ROAE (%)	10.9	7.0	14.2	18.1	18.6
ROAA (%)	6.4	4.5	8.4	10.4	10.8
Liquidity & Efficiency					
Cash conversion cycle	54.0	68.2	46.7	36.3	39.8
Days receivable outstanding	87.5	103.9	77.4	66.5	70.9
Days inventory outstanding	38.2	43.3	36.0	33.2	36.0
Days payables outstanding	71.7	79.1	66.6	63.4	67.1
Dividend cover (x)	2.1	2.4	2.2	2.2	2.2
Current ratio (x)	1.7	2.0	1.7	1.8	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	3.0	2.7	2.6	2.7
Net gearing (%) (incl perps)	3.3	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	3.3	net cash	net cash	net cash	net cash
Net interest cover (x)	10.7	15.8	45.0	54.5	65.2
Debt/EBITDA (x)	1.5	1.0	0.5	0.4	0.4
Capex/revenue (%)	2.9	3.7	4.8	1.8	1.7
Net debt/ (net cash)	59.3	(142.1)	(126.8)	(156.7)	(283.5)

Source: Company; Maybank

Frontken Corp. Bhd (FRCB MK)

Improving earnings catalysts; U/G to BUY

Raise TP to MYR5.60 from MYR3.60

We turn more positive on Frontken's earnings outlook, which is supported by the upcycle of the global semiconductor industry and increasing orders from its Taiwanese customers. We raise our FY21-22E earnings by 1-16% and increase our TP to MYR5.60 (+MYR2.00), based on a higher 47x FY22E PER at an unchanged +2SD (from 37x FY21E). Our higher valuation target is also in line with our sector re-rating. Hence, we upgrade Frontken to BUY from HOLD in view of stronger FY21-22E earnings prospects.

Taiwan is the key driver

We remain upbeat on the outlook for the broad semiconductor industry (i.e. higher demand for chips and increase in wafer fab equipment spending), which in turn could result in improved volumes for Frontken, namely via its largest Taiwanese customer. Furthermore, we note that Frontken is planning to expand its facilities in Taiwan (targeted completion in 2022) to take on more orders, namely the upcoming advanced nodes chips (i.e. 3nm and 2nm). Also, we believe there is earnings upside potential from recovery of the O&G sector.

Raising forecasts

We raise our FY21/22E net profit by 1/16% after assuming higher revenue and earnings from its semiconductor segment, particularly from Taiwan. This is also in tandem with plans to expand its facilities in Taiwan. Frontken also has healthy net cash of 24sen/share (as at end-Sep 20), supporting future expansion and M&A.

Risks

There are earnings risks from: (i) downcycle of the global semiconductor sector, which would result in lower capex by upstream companies, (ii) reduction in customers due to stiff competition; and (iii) prolonged weakness of the O&G sector.

FYE Dec (MYR m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	327	340	415	514	567
EBITDA	92	114	130	167	197
Core net profit	54	72	79	103	124
Core EPS (sen)	5.2	6.9	7.5	9.9	11.8
Core EPS growth (%)	52.7	32.4	9.7	31.0	19.7
Net DPS (sen)	1.5	2.5	2.6	3.4	4.0
Core P/E (x)	13.6	33.4	64.1	48.9	40.9
P/BV (x)	2.3	6.4	12.0	10.3	8.8
Net dividend yield (%)	2.1	1.1	0.5	0.7	0.8
ROAE (%)	17.2	20.5	19.7	22.6	23.3
ROAA (%)	12.3	14.8	14.7	17.1	18.1
EV/EBITDA (x)	6.7	19.4	37.4	28.9	24.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	84	108	124
MKE vs. Consensus (%)	-	-	(6.5)	(4.1)	0.2

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BUY

[Prior:HOLD]

Share Price MYR 4.83
 12m Price Target MYR 5.60 (+17%)
 Previous Price Target MYR 3.60

Company Description

Frontken specialises in engineering and precision cleaning services, mostly for semiconductors and O&G markets in Taiwan, Singapore and Malaysia.

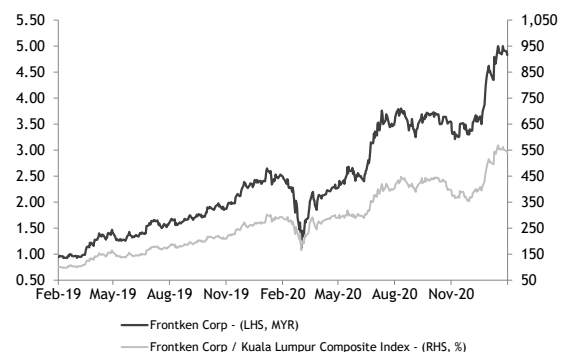
Statistics

52w high/low (MYR) 5.00/1.12
 3m avg turnover (USDm) 4.2
 Free float (%) 57.2
 Issued shares (m) 1,053
 Market capitalisation MYR5.1B
 USD1.3B

Major shareholders:

Dazzle Clean Ltd. 21.5%
 OOI KENG THYE /FRONTKEN/ 15.1%
 Public Mutual Bhd. 3.5%

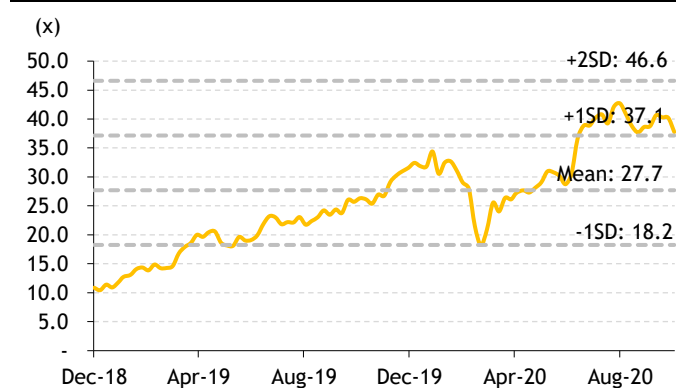
Price Performance



	-1M	-3M	-12M
Absolute (%)	9	36	93
Relative to index (%)	10	36	85

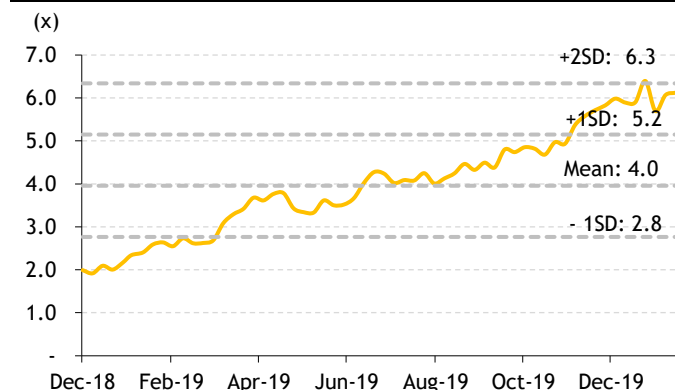
Source: FactSet

Fig 1: 1-year forward PER



Source: Bloomberg, Company data, Maybank KE

Fig 2: 1-year forward PBV



Source: Bloomberg, Company data, Maybank KE

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Frontken. A sharp downturn in the global markets for electronics and/or oil & gas will affect the demand for Frontken's services. Additionally, forex volatility, especially USD/MYR, will also affect Frontken's earnings, as about 1/5 of the Group's revenue is denominated in USD.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	12.0	21.1	64.1	48.9	40.9
Core P/E (x)	13.6	33.4	64.1	48.9	40.9
P/BV (x)	2.3	6.4	12.0	10.3	8.8
P/NTA (x)	2.3	6.4	13.4	12.0	10.3
Net dividend yield (%)	2.1	1.1	0.5	0.7	0.8
FCF yield (%)	7.6	5.5	1.3	2.0	2.2
EV/EBITDA (x)	6.7	19.4	37.4	28.9	24.3
EV/EBIT (x)	8.3	22.4	43.0	32.3	26.7

INCOME STATEMENT (MYR m)

Revenue	327.2	339.9	415.2	513.8	567.1
Gross profit	126.6	148.1	177.4	218.9	251.7
EBITDA	92.5	113.7	130.1	167.0	197.1
Depreciation	(17.3)	(17.8)	(17.0)	(17.5)	(17.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	75.2	98.6	113.1	149.5	179.2
Net interest income /(exp)	0.3	0.4	0.7	0.8	0.8
Associates & JV	0.1	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	75.6	99.0	113.9	150.3	180.0
Income tax	(18.6)	(22.0)	(27.3)	(36.1)	(43.2)
Minorities	(4.7)	(5.1)	(7.6)	(10.9)	(13.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	52.3	71.9	78.9	103.4	123.8
Core net profit	54.3	71.9	78.9	103.4	123.8

BALANCE SHEET (MYR m)

Cash & Short Term Investments	149.9	225.4	226.3	273.3	320.4
Accounts receivable	113.6	93.7	126.9	157.1	173.4
Inventory	13.7	15.1	14.8	18.3	19.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	140.4	125.7	133.7	141.7	149.7
Intangible assets	33.8	33.8	33.8	33.8	33.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	3.7	22.0	23.4	23.4	23.0
Total assets	455.1	515.7	559.0	647.6	719.8
ST interest bearing debt	4.8	0.8	2.7	2.7	2.7
Accounts payable	81.6	84.0	86.9	100.1	82.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	8.9	11.9	1.3	1.3	1.3
Other liabilities	15.0	20.0	18.0	18.0	18.0
Total Liabilities	110.4	117.0	109.1	122.3	104.3
Shareholders Equity	325.0	377.0	423.1	491.3	573.0
Minority Interest	19.6	21.8	26.8	34.0	42.5
Total shareholder equity	344.6	398.7	449.9	525.3	615.5
Total liabilities and equity	455.1	515.7	559.0	647.6	719.8

CASH FLOW (MYR m)

Pretax profit	75.6	99.0	113.9	150.3	180.0
Depreciation & amortisation	17.3	17.8	17.0	17.5	17.9
Adj net interest (income)/exp	(0.3)	(0.4)	(0.7)	(0.8)	(0.8)
Change in working capital	(15.9)	20.9	(30.0)	(20.5)	(35.6)
Cash taxes paid	(14.2)	(19.8)	(27.3)	(36.1)	(43.2)
Other operating cash flow	(0.4)	1.2	0.0	0.0	0.0
Cash flow from operations	63.3	138.6	72.8	110.4	118.3
Capex	(7.5)	(7.0)	(8.0)	(8.0)	(8.0)
Free cash flow	55.8	131.5	64.8	102.4	110.3
Dividends paid	(10.0)	(19.9)	(29.4)	(38.8)	(46.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(17.3)	(13.0)	0.0	0.0	0.0
Other invest/financing cash flow	(0.2)	(5.8)	0.7	0.8	0.8
Effect of exch rate changes	0.3	1.7	0.0	0.0	0.0
Net cash flow	28.7	94.4	36.1	64.4	64.6

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	10.3	3.9	22.1	23.7	10.4
EBITDA growth	42.8	22.9	14.5	28.3	18.0
EBIT growth	62.4	31.1	14.7	32.2	19.8
Pretax growth	63.9	30.9	15.0	32.0	19.7
Reported net profit growth	75.0	37.6	9.8	31.0	19.7
Core net profit growth	52.7	32.4	9.7	31.0	19.7
Profitability ratios (%)					
EBITDA margin	28.3	33.4	31.3	32.5	34.8
EBIT margin	23.0	29.0	27.2	29.1	31.6
Pretax profit margin	23.1	29.1	27.4	29.3	31.7
Payout ratio	30.1	36.4	34.0	34.0	34.0
DuPont analysis					
Net profit margin (%)	16.0	21.2	19.0	20.1	21.8
Revenue/Assets (x)	0.7	0.7	0.7	0.8	0.8
Assets/Equity (x)	1.4	1.4	1.3	1.3	1.3
ROAE (%)	17.2	20.5	19.7	22.6	23.3
ROAA (%)	12.3	14.8	14.7	17.1	18.1
Liquidity & Efficiency					
Cash conversion cycle	(4.4)	(18.6)	(11.1)	5.5	22.5
Days receivable outstanding	115.8	109.8	95.6	99.5	104.9
Days inventory outstanding	24.4	27.0	22.6	20.2	21.6
Days payables outstanding	144.6	155.4	129.4	114.2	104.0
Dividend cover (x)	3.3	2.7	2.9	2.9	2.9
Current ratio (x)	2.8	3.3	3.5	3.8	5.2
Leverage & Expense Analysis					
Asset/Liability (x)	4.1	4.4	5.1	5.3	6.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.1	0.1	0.0	0.0	0.0
Capex/revenue (%)	2.3	2.1	1.9	1.6	1.4
Net debt/ (net cash)	(136.3)	(212.6)	(222.3)	(269.2)	(316.3)

Source: Company; Maybank

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