



CHINA  
DEVELOPMENT  
FINANCIAL

## RESULTS UPDATE

Singapore

# Valuetronics Holdings Limited

(VALUE SP; VLUE.SI)

### Buy - Maintain

Price as of 13 Nov 2015	0.420
12M target price (S\$)	0.670
Previous target price (S\$)	0.670
Upside (%)	59.5

### Trading data

Market Cap (S\$m)	159.7
Issued Shares (m)	380.1
Ave Daily Traded (3-Month) Vol / Val	0.9m / S\$0.3m
52 week lo / hi	S\$0.32 / S\$0.52
Free Float	69.0%

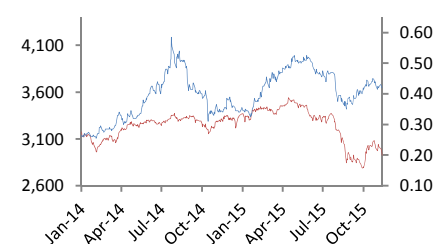
### Major Shareholders

Tse Chong Hing	18.4%
Chow Kok Kit	7.7%

### Previous Recommendations

Date	Rating	Share Price (S\$)	Target Price (S\$)
13-Aug-15	BUY	0.385	0.670
27-May-15	BUY	0.515	0.670
11-Feb-15	BUY	0.400	0.570
7-Nov-14	BUY	0.345	0.540
16-Oct-14	BUY	0.310	0.690

### 12-Mth VALUE SP (Blue) vs. FSSTI



Source: Bloomberg

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## ICE segment continues to surge forward

**Results slightly below; near inflexion point.** VALUE reported 2QFY16 results that were slightly below our expectations. Its revenue of HK\$1,077m (-14% yoy) and net profit of HK\$65.7m (-6.4% yoy) for 1HFY16 formed 45% and 43% of our FY16F estimates, respectively. Revenue decline was expected to happen as the company had previously indicated that it expects to see a decline in the consumer electronics (CE) segment (-41% in revenue). This decline was more than what we had expected (about 90% of the LED products have been accelerated towards end-of-life (EOL)). The industrial and commercial electronics (ICE) segment (+28% in revenue) grew stronger than expected, with the growth coming from existing and new customers. In particular, VALUE added new revenue from a new customer in the auto industry. VALUE's gross margin for 2QFY16 grew yoy to 14.6% from 13.1% as sales mix continued to shift towards the much higher margin industrial and commercial electronics (ICE) segment. While this set of results was a tad weaker than what we had in mind, we think the down trend in revenue from the CE segment in 2QFY16 should not have surprised investors.

**CE could be near the bottom.** Based on our conversation with management, it looks to us that the sequential revenue decline in CE revenue, which had been pressured by LED lighting, could come to an end in 1/2Qs time as 90% of LED lighting products have reached EOL, and the remaining CE product lines consist mainly of consumer lifestyle products (resilient in nature).

**No change to investment thesis.** Our investment thesis for VALUE is anchored on the view that strong growth in the ICE segment, which commands higher gross margin than CE, should over time, further increase VALUE profitability, expand margins, perpetuate growth (see figure 2 & 3), and lower its customer concentration risk. In fact, VALUE's CE/ICE split is now 45%/55%, versus 1QFY13's split of 76%/24%. With this set of results, we believe events are moving in the direction as we have envisioned and hence our investment thesis remains firmly intact.

**Very attractive, maintain BUY.** VALUE is currently trading at only 5.9x FY16F P/E (2.4x ex-cash). We keep our DCF-based TP of S\$0.67, which translates to a FY16F P/E of 9x (6x ex-cash), unchanged. VALUE, which has a potential dividend yield of ~7% and has begun buying back shares last Friday.

### Financials

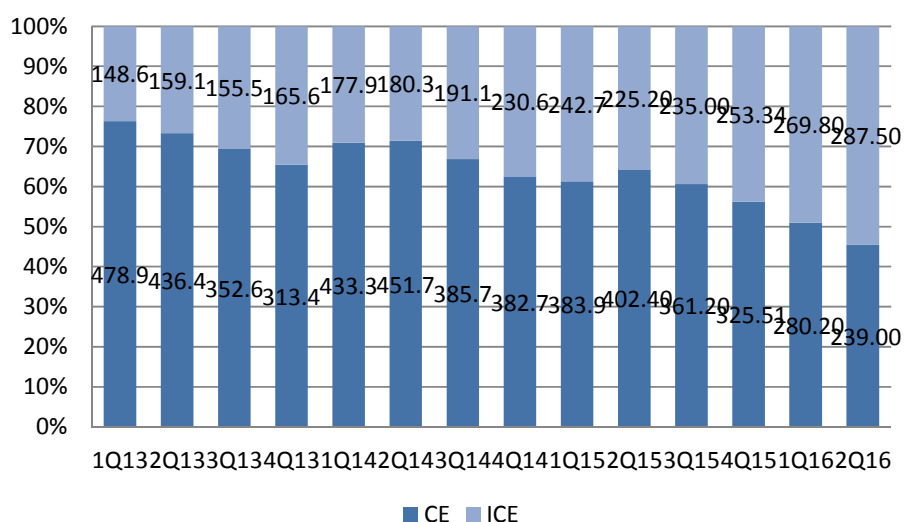
YE Mar (HK\$ m)	2014	2015	2016F	2017F	2018F
Revenue	2433.3	2429.3	2371.8	2588.8	2835.4
EBITDA	207.3	206.6	209.2	235.3	261.9
Core PATMI	147.9	149.2	152.8	173.0	194.2
Core EPS (HKcts)	40.4	39.9	40.9	46.3	51.9
Core EPS growth (%)	23.1	-1.2	2.4	13.2	12.2
Core P/E (x)	5.9	6.0	5.9	5.2	4.6
DPS (HKcts)	20.0	20.0	16.4	18.6	20.8
Dividend Yield (%)	8.3	8.3	6.8	7.7	8.7
EV/EBITDA (x)	2.2	2.2	2.2	1.9	1.7
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
P/B (x)	1.2	1.1	1.0	0.9	0.8
ROE (%)	20.4	18.5	17.2	17.3	17.3

Source: Company data. KGI Fraser

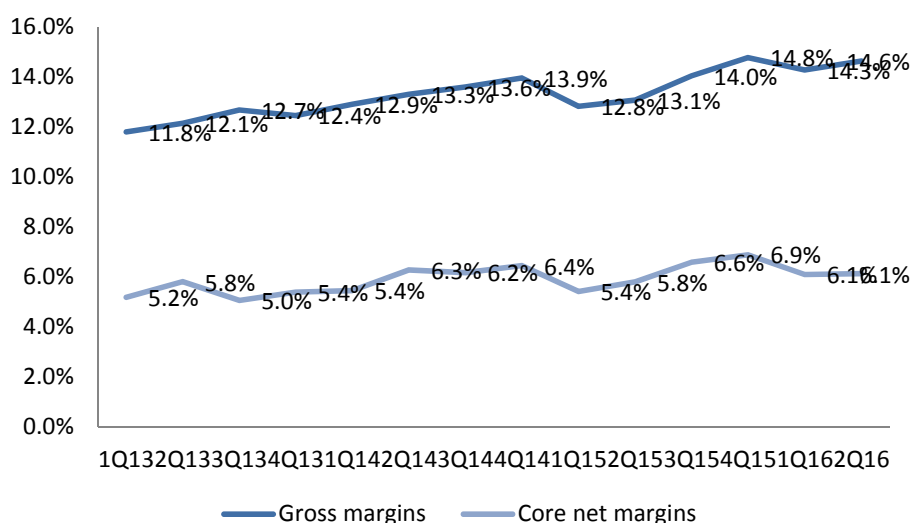
**Figure 1: Results comparison**

FYE Mar (HKDm)	2QFY16	2QFY15	yoy % chg	1QFY16	qoq % chg	2QFY16 Cum	2QFY15 Cum	yoy % chg	Prev FY16F	% of FY16F	Comments (1HFY16 vs. previous FY16F)
Revenue	526.5	627.6	(16.1)	550.0	(4.3)	1,076.6	1,254.2	(14.2)	2,371.8	45%	Slightly lower than expected
Operating costs	(489.8)	(586.2)	(16.4)	(512.0)	(4.3)	(1,001.8)	(1,174.1)	(14.7)	(2,197.5)	46%	Slightly higher than expected
EBITDA	46.5	50.8	(8.3)	47.8	(2.6)	94.4	98.9	(4.6)	209.2	45%	Slightly lower than expected
EBITDA margin (%)	8.8	8.1		8.7		8.8	7.9		8.8		
Depn & amort.	9.8	9.4	5.0	9.7	1.0	19.6	18.8	4.3	34.8	56%	Slightly higher than expected
EBIT	36.7	41.4	(11.3)	38.1	(3.6)	74.8	80.1	(6.6)	174.4	43%	Slightly lower than expected
Interest expense	(0.2)	(0.3)	(27.6)	(0.2)	(22.6)	(0.4)	(0.5)	(12.8)	(0.7)	58%	Slightly higher than expected
Int & Inv income	-	-	nm	-	nm	-	-	nm	-		
Associates' contrib	-	-	nm	-	nm	-	-	nm	-		
Exceptionals	-	-	nm	-	nm	-	-	nm	-		
Pretax profit	36.5	41.2	(11.2)	37.8	(3.5)	74.4	79.6	(6.6)	173.7	43%	Slightly lower than expected
Tax	(4.3)	(4.8)	(10.6)	(4.4)	(0.7)	(8.7)	(9.4)	(8.0)	(20.8)	42%	Slightly lower than expected
Tax rate (%)	11.8	11.8		11.5		11.7	11.9		12.0		
NCI	-	-	nm	-	nm	-	-	nm	-		
<b>Net profit</b>	<b>32.2</b>	<b>36.3</b>	<b>(11.3)</b>	<b>33.5</b>	<b>(3.8)</b>	65.7	70.2	<b>(6.4)</b>	<b>152.8</b>	<b>43%</b>	Slightly lower than expected
<b>Core profit</b>	<b>32.2</b>	<b>36.3</b>	<b>(11.3)</b>	<b>33.5</b>	<b>(3.8)</b>	65.7	70.2	<b>(6.4)</b>	<b>152.8</b>	<b>43%</b>	Slightly lower than expected
EPS (HKcts)	8.6	9.8	(12.7)	8.9	(4.3)	17.5	19.0	(7.8)	41.0	43%	
Core EPS (HKcts)	8.5	9.8	(12.8)	8.8	(3.5)	17.4	18.8	(7.6)	40.9	42%	

Source: Company data, KGI Fraser

**Figure 2: Growing rev. contribution from ICE will continue to boost margins and growth**


Source: Company data, KGI Fraser

**Figure 3: Quarterly margins**


Source: Company data, KGI Fraser

## Summary of Financials

YE 31 Mar

INCOME STATEMENT (HKD m)	2014	2015	2016F	2017F	2018F
<b>Revenue</b>	<b>2,433.3</b>	<b>2,429.3</b>	<b>2,371.8</b>	<b>2,588.8</b>	<b>2,835.4</b>
Cost of sales	(2,106.5)	(2,097.9)	(2,036.2)	(2,215.4)	(2,421.1)
<b>Gross profit</b>	<b>326.8</b>	<b>331.4</b>	<b>335.7</b>	<b>373.4</b>	<b>414.4</b>
Opex	(159.1)	(162.8)	(161.3)	(176.0)	(192.8)
Others	-	-	-	-	1.0
Finance costs	(0.7)	(1.0)	(0.7)	(0.8)	(0.9)
<b>Profit before tax</b>	<b>166.9</b>	<b>167.7</b>	<b>173.7</b>	<b>196.6</b>	<b>221.7</b>
Income tax expense	(19.0)	(18.5)	(20.8)	(23.6)	(26.5)
Non-controlling interests	-	-	-	-	1.0
Discontinued operations	-	-	-	-	-
<b>Profit after tax and minority interest</b>	<b>147.9</b>	<b>149.2</b>	<b>152.8</b>	<b>173.0</b>	<b>196.2</b>
EBITDA	207.3	206.6	209.2	235.3	261.9
EBITDA Margin (%)	8.5	8.5	8.8	9.1	9.2
EPS (HKcts)	40.6	40.0	41.0	46.4	52.1
Book Value per Share (HKcts)	198.33	216.17	237.09	267.01	300.43

BALANCE SHEET (HKD m)	2014	2015	2016F	2017F	2018F
Cash and cash equivalents	477.9	505.8	557.4	659.3	768.4
Trade and other receivables	529.6	535.7	506.1	550.7	601.4
Inventory	198.9	221.9	184.1	200.3	218.9
Other current assets	0.5	8.1	8.1	8.1	8.1
Property, plant and equipment	181.7	171.6	187.1	199.5	209.4
Other non-current assets	33.0	79.5	79.0	78.5	78.0
<b>Total Assets</b>	<b>1,421.5</b>	<b>1,522.7</b>	<b>1,521.8</b>	<b>1,696.4</b>	<b>1,884.2</b>
Trade and other payables	668.1	683.2	604.0	666.7	729.5
Borrowings: Current	-	-	-	-	-
Other Current Liabilities	24.3	29.3	29.3	29.3	29.3
Borrowings: Non-Current	-	-	-	-	-
Other non-current Liabilities	2.6	1.6	1.6	1.6	1.6
Shareholders equity	726.6	808.5	886.8	998.7	1,123.7
Non-controlling interests	-	-	-	-	-
<b>Total Liabilities and Equity</b>	<b>1,421.5</b>	<b>1,522.7</b>	<b>1,521.8</b>	<b>1,696.4</b>	<b>1,884.2</b>

CASH FLOW STATEMENT (HKD m)	2014	2015	2016F	2017F	2018F
Profit before tax	166.9	167.7	173.7	196.6	220.7
Depreciation	39.2	37.5	34.3	37.4	39.9
Other cash from operations	4.8	(1.1)	1.2	1.3	1.3
Change in working capital	100.8	(14.0)	(11.7)	1.9	(6.4)
Interest paid	-	-	(0.7)	(0.8)	(0.9)
Income tax paid	(8.8)	(13.4)	(20.8)	(23.6)	(26.5)
<b>Net Cash from Operations</b>	<b>303.0</b>	<b>176.6</b>	<b>175.9</b>	<b>212.9</b>	<b>228.2</b>
(Purchase)/Disposal of PPE	(20.4)	(28.5)	(49.8)	(49.8)	(49.8)
Other cash from investing	(5.9)	(51.7)	-	-	-
(Dividends paid)	(29.2)	(74.6)	(74.5)	(61.1)	(69.2)
Debt raised / (repaid)	-	-	-	-	-
Equity raised / (purchased)	7.3	7.3	-	-	-
Other cash from financing	-	-	-	-	-
<b>Beginning Cash</b>	<b>221.6</b>	<b>477.9</b>	<b>505.8</b>	<b>557.4</b>	<b>659.3</b>
Foreign Exchange Effect	1.6	(1.1)	-	-	-
<b>End Cash</b>	<b>477.9</b>	<b>505.8</b>	<b>557.4</b>	<b>659.3</b>	<b>768.4</b>

<b>KEY RATIOS</b>	<b>2014</b>	<b>2015</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
<b>Profitability (%)</b>					
Gross Margin	13.4	13.6	14.2	14.4	14.6
EBITDA Margin	8.5	8.5	8.8	9.1	9.2
Net Margin	6.1	6.1	6.4	6.7	6.8
ROE	20.4	18.5	17.2	17.3	17.3
ROA	10.4	9.8	10.0	10.2	10.3
ROIC	27.3	27.0	27.6	29.3	30.4
<b>Growth (% Y-o-Y)</b>					
Revenue	10.1	(0.2)	(2.4)	9.1	9.5
EBITDA	17.5	(0.3)	1.2	12.5	11.3
Net Income	88.0	0.9	2.4	13.2	12.2
EPS	85.6	(1.5)	2.4	13.2	12.2
<b>Financial Structure (x)</b>					
Interest coverage	232.8	176.8	245.0	254.2	260.5
Total Debt/Equity	-	-	-	-	-
Net Gearing	(0.7)	(0.6)	(0.6)	(0.7)	(0.7)
<b>Market Valuation (x)</b>					
Price / Earnings	5.9	6.0	5.9	5.2	4.6
Price / Book	1.2	1.1	1.0	0.9	0.8
Price / Sales	0.4	0.4	0.4	0.3	0.3
EV / EBITDA	2.2	2.2	2.2	1.9	1.7

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<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-10% total return over the next 12 months

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