

COMPANY RESULTS

Valuetronics (VALUE SP)

FY22: Above Expectations, But Remains Cautious On Its Outlook

VALUE's FY22 net profit of HK\$114m (-39% yoy/+1% hoh) was above our expectations, forming 115% of our full-year estimate, due to a lower-than-expected revenue decline. VALUE's outlook remains cautious as it expects the ripple effect of the supply chain bottlenecks to last beyond 2022. Other uncertainties include the COVID-19 pandemic, the Russia-Ukraine conflict and US-China trade tensions. We raise our FY23 EPS by 8%. Maintain HOLD and target price of S\$0.52.

FY22 RESULTS

Year to 31 Mar (HK\$m)	FY22	FY21	yoy % chg	2HFY22	hoh % chg
Revenue	2,027.4	2,281.5	(11.1)	1,012.9	(0.2)
Gross Profit	274.8	386.2	(28.8)	131.2	(8.6)
Gross Margin (%)	13.6%	16.9%	(3.3 ppt)	13.0%	(1.2 ppt)
Net profit	113.5	187.1	(39.3)	56.9	(0.5)
Net margin (%)	5.6%	8.2%	(2.6 ppt)	5.6%	-

Source: VALUE, UOB Kay Hian

RESULTS

- Results above expectations.** Valuetronics' (VALUE) FY22 net profit of HK\$114m (-39% yoy) was above our expectations, beating our estimate by 15%. The beat was due to a lower-than-expected revenue decline in 2HFY22. Revenue fell 11% yoy due to severe shortages of certain key electronic components that affected VALUE's ability to meet orders. Gross margin fell 3.3ppt to 13.6% due to: a) higher component prices caused by tight supply, and b) China's increased labour and operating costs, under an appreciating renminbi.
- The ICE segment's revenue declined due to its customer switching suppliers and a shortage of components.** VALUE's industrial and commercial electronics (ICE) segment's revenue decreased 17.5% yoy to HK\$1,320.5m in FY22 (FY21: HK\$1,600.8m) due to a significant drop in sales caused by its auto customer switching its production over to another vendor in North America. Furthermore, the shortage of key electronic components also affected order fulfilment for certain ICE customers. On the consumer electronic (CE) front, revenue rose by 3.8% to HK\$706.9m in FY22 (FY21: HK\$680.7m), mainly due to a rebound in orders from smart lighting customers.
- Cautious outlook due to potential headwinds.** VALUE remains cautious on its outlook as it expects the ripple effect of the supply chain bottlenecks to last beyond 2022. VALUE also anticipates potential headwinds from: a) the component shortages, b) the COVID-19 pandemic, c) the Russia-Ukraine conflict, and d) US-China trade tensions.

KEY FINANCIALS

Year to 31 Mar (HK\$m)	2021	2022	2023F	2024F	2025F
Net turnover	2,282	2,027	2,163	2,308	2,463
EBITDA	267	188	202	205	208
Operating profit	209	126	132	140	147
Net profit (rep./act.)	187	114	116	123	129
Net profit (adj.)	187	114	116	123	129
EPS (HK\$ cent)	43.0	26.0	26.7	28.2	29.7
PE (x)	6.9	11.4	11.1	10.5	10.0
P/B (x)	1.0	0.9	0.9	0.9	0.8
EV/EBITDA (x)	1.3	1.8	1.7	1.7	1.6
Dividend yield (%)	7.1	4.7	3.7	3.9	4.1
Net margin (%)	8.2	5.6	5.4	5.3	5.3
Net debt/(cash) to equity (%)	(83.8)	(68.4)	(71.0)	(73.6)	(75.6)
Interest cover (x)	385.9	322.5	163.7	155.9	147.9
ROE (%)	14.5	8.4	8.3	8.3	8.3
Consensus net profit	-	-	114	132	166
UOBKH/Consensus (x)	-	-	1.02	0.94	0.78

Source: VALUE, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.52
Target Price	S\$0.52
Upside	-0.0%

COMPANY DESCRIPTION

Valuetronics Holdings offers original equipment manufacturing and original design manufacturing services. The company serves customers in the telecommunications, industrial, commercial electronic products and consumer electronic products industries.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	VALUE SP
Shares issued (m):	429.9
Market cap (S\$m):	223.5
Market cap (US\$m):	162.9
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

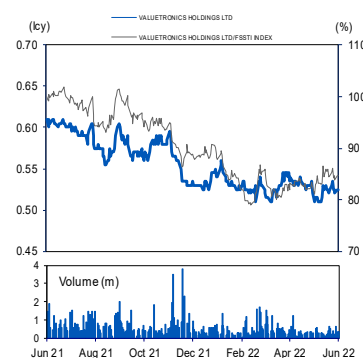
52-week high/low S\$0.615/S\$0.510

1mth	3mth	6mth	1yr	YTD
(1.9)	(1.9)	(1.9)	(16.1)	(4.6)

Major Shareholders

	%
Tse Chong Hing	17.7
Chow Kok Kit	7.5
FY23 NAV/Share (S\$)	0.59
FY23 Net Cash/Share (S\$)	0.42

PRICE CHART



Source: Bloomberg

ANALYST(S)

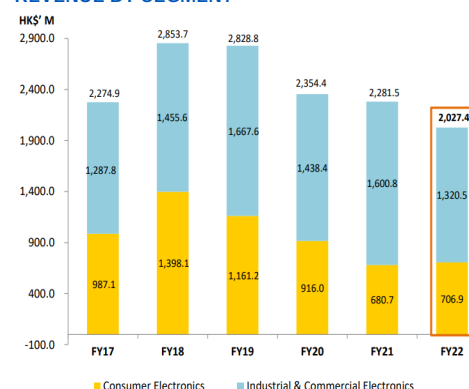
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- **Proposes interim dividend of 4 HK cents/share.** VALUE has recommended a final dividend of 10 HK cents/share for 2HFY22. Together with the interim dividend of 4 HK cents/share for 1HFY22, the total dividend amounts to 14 HK cents/share (vs 21 HK cents in FY21). This represents a payout ratio of 53%.

STOCK IMPACT

- **Vietnam expansion on track.** Even with the ongoing COVID-19 pandemic, VALUE's expansion in Vietnam has remained on track. VALUE's newly constructed Vietnam campus in Vinh Phuc Province has commenced mass production for three customers in the last quarter of FY22, following the successful completion of ISO and customer audits. These mass production projects will serve as a reference for other customers on the readiness and scalability of the Vietnam campus under VALUE's regional manufacturing footprint strategy which targets the diversified needs of global customers.
- **Trial production for new ICE customers.** VALUE is preparing for the trial production for its newly acquired ICE customers, including a hardware provider customer for retail chain stores and a customer providing cooling solutions for high performance computing environments, which is expected to contribute revenue in FY23. Meanwhile, the revenue rebound in the CE segment that was seen in FY22 is not expected to continue in FY23 due to lower customer forecasts and the shortage of components.

REVENUE BY SEGMENT



Source: VALUE, UOB Kay Hian

EARNINGS REVISION/RISK

- **We raise our FY23-24 earnings forecasts by 8%**, after increasing our revenue assumptions by 13% to account for an increase in ASP to pass on extra input costs. On the other hand, we have reduced our gross margin assumption by 0.1ppt to 13.7%/13.6% for FY23/FY24. This is to account for the rising production costs due to the shortage of components and increased labour costs in China.

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of S\$0.52**, pegged to a peers' average of 11x PE (reduced from 12x due to sector de-rating) for FY23.

SHARE PRICE CATALYST

- Additional customers in the new sectors.
- Higher-than-expected dividends and potential M&As.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 6-Jun-22 (lcy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA		ROE 2022 (%)	Yield 2022 (%)	Net Gearing (%)
					2022 (x)	2023 (x)	2022 (x)	2023 (x)	2022 (x)	2023 (x)			
Aztech	AZTECH SP	SGD	0.85	487	7.4	5.9	1.9	1.6	5.5	4.4	28.2	6.1	18.3
Fu Yu	FUYU SP	SGD	0.265	145	10.0	9.7	1.1	1.0	3.9	3.8	11.7	6.0	(45.9)
Hon Hai	2317 TT	TWD	114	53,846	10.7	9.6	1.0	1.0	6.3	5.7	10.2	4.8	(14.9)
Sanmina	SANM US	USD	43.95	2,674	9.7	9.1	n.a.	n.a.	5.1	4.9	15.1	0.0	(9.9)
Venture	VMS SP	SGD	17.90	3,781	15.3	14.0	1.8	1.7	10.5	9.7	12.3	4.5	(29.2)
Average					10.6	9.7	1.5	1.3	6.3	5.7	15.5	4.3	(16.3)
Valuetronics	VALUE SP	SGD	0.52	165	11.4	11.1	0.9	0.8	1.8	1.8	7.5	3.7	(71.0)

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (HK\$m)	2022	2023F	2024F	2025F
Net turnover	2,027.4	2,163.2	2,308.3	2,463.3
EBITDA	188.0	202.0	205.3	207.9
Deprec. & amort.	61.7	70.0	65.6	61.1
EBIT	126.3	132.0	139.7	146.8
Net interest income/(expense)	(0.6)	(1.2)	(1.3)	(1.4)
Pre-tax profit	125.7	130.8	138.4	145.4
Tax	(12.2)	(14.4)	(15.2)	(16.0)
Net profit	113.5	116.4	123.2	129.4
Net profit (adj.)	113.5	116.4	123.2	129.4

BALANCE SHEET

Year to 31 Mar (HK\$m)	2022	2023F	2024F	2025F
Fixed assets	318.3	298.3	277.7	261.6
Other LT assets	91.2	91.2	91.2	91.2
Cash/ST investment	936.7	1,021.8	1,112.6	1,202.4
Other current assets	749.5	796.7	847.1	900.9
Total assets	2,095.7	2,207.9	2,328.5	2,456.0
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	724.1	766.5	813.2	863.0
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	3.0	3.0	3.0	3.0
Shareholders' equity	1,368.6	1,438.4	1,512.3	1,590.0
Total liabilities & equity	2,095.7	2,207.9	2,328.5	2,456.0

CASH FLOW

Year to 31 Mar (HK\$m)	2022	2023F	2024F	2025F
Operating	(10.9)	181.7	185.0	186.5
Pre-tax profit	125.7	130.8	138.4	145.4
Tax	(22.0)	(14.4)	(15.2)	(16.0)
Deprec. & amort.	61.7	70.0	65.6	61.1
Working capital changes	(175.1)	(4.7)	(3.7)	(4.0)
Non-cash items	(1.1)	0.0	0.0	0.0
Other operating cashflows	(0.2)	0.0	0.0	0.0
Investing	(85.2)	(50.0)	(45.0)	(45.0)
Capex (growth)	(92.3)	(50.0)	(45.0)	(45.0)
Investments	2.7	0.0	0.0	0.0
Proceeds from sale of assets	3.1	0.0	0.0	0.0
Others	1.3	0.0	0.0	0.0
Financing	(98.2)	(46.5)	(49.3)	(51.8)
Dividend payments	(87.1)	(46.5)	(49.3)	(51.8)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(11.1)	0.0	0.0	0.0
Net cash inflow (outflow)	(194.4)	85.2	90.8	89.8
Beginning cash & cash equivalent	1,129.4	936.7	1,021.8	1,112.6
Changes due to forex impact	1.6	0.0	0.0	0.0
Ending cash & cash equivalent	936.7	1,021.8	1,112.6	1,202.4

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	9.3	9.3	8.9	8.4
Pre-tax margin	6.2	6.0	6.0	5.9
Net margin	5.6	5.4	5.3	5.3
ROA	5.2	5.4	5.4	5.4
ROE	8.4	8.3	8.3	8.3
Growth				
Turnover	(11.1)	6.7	6.7	6.7
EBITDA	(29.6)	7.5	1.6	1.3
Pre-tax profit	(39.7)	4.0	5.8	5.1
Net profit	(39.3)	2.5	5.8	5.1
Net profit (adj.)	(39.3)	2.5	5.8	5.1
EPS	(39.4)	2.5	5.8	5.1
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(68.4)	(71.0)	(73.6)	(75.6)
Interest cover (x)	322.5	163.7	155.9	147.9

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