

Singapore

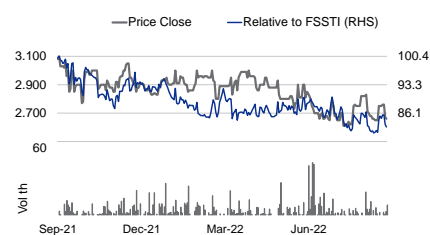


# Powermatic Data Systems Ltd

## A wireless connector

### NON RATED

Current price:	S\$2.66
Consensus Tgt Price:	N/A
Up/downside:	N/A
Reuters:	PMDS.SI
Bloomberg:	PDS SP
Market cap:	US\$66.13m S\$92.98m
Average daily turnover:	US\$0.01m S\$0.01m
Current shares o/s:	34.95m
Free float:	36.0%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-3.3	-8.3	-13.6
Relative (%)	-1.5	-8	-18.2

Major shareholders	% held
Chen Mun	55.6
Ang Bee Yan	8.2

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- Powermatic provides an extensive range of wireless connectivity products and solutions. The group also offers ODM/OEM services for customers.
- The group has an ongoing partnership with Qualcomm since 2014. As of end-Mar 22, Powermatic was debt-free with cash at c.50% of market cap.
- While the chip shortage has affected lead times, management continues to improve on its mitigatory efforts.

### Provider of extensive wireless products and solutions

Powermatic Data Systems (Powermatic) manufactures and distributes wireless connectivity products and solutions. Listed in Singapore since 1992, Powermatic derives revenue across Asia, Europe and US. The group offers a wide range of wireless connectivity products, including wireless radio modules, embedded boards and wireless antennas. Powermatic also offers ODM/OEM services, allowing customisation of both hardware and software according to specific customer requirements.

### Ongoing partnership with Qualcomm

According to the group's FY3/22 annual report, Powermatic enjoyed a strong partnership with Qualcomm, a leading wireless technology incumbent headquartered in US. Powermatic's wholly-owned subsidiary (Compex Systems) is the only authorised design centre appointed by Qualcomm in Southeast Asia, according to Compex Systems's company website. Using this partnership, Powermatic provides Qualcomm Atheros-based (QCA) solutions, offering QCA design information (e.g. reference designs, datasheets), QCA-based system development, driver porting, and relevant support services. The partnership also allows Powermatic to remain abreast of latest trends.

### Easing chip shortage situation but challenges remain

Since the start of CY21, Powermatic has been negatively affected by the global microchip shortage, according to the group's FY21 annual report. The group has engaged in mitigatory efforts, such as redesigning products to use newer generation microchips that are more readily available and requesting customers to place deposits upon order acceptance, as per the group's FY21 annual report. In its FY22 annual report, management highlighted that while the chip shortage situation has begun to ease, near-term procurement challenges will remain due to uncertainty in securing sufficient and timely supplies. Going forward, areas that management expects to see strong growth in include artificial intelligence, Internet of Things, augmented reality and virtual reality.

### Net cash at c.50% of current market cap

Powermatic currently trades at a historical FY22 P/E of 11.4x and P/BV of 1.4x. Although Powermatic does not have a formal dividend policy, the group has been paying dividends over the past 5 years (FY18-22) except for FY20 (no dividends declared) due to a capital reduction exercise conducted in Nov 2020 (see page 4). As of end-Mar 22, Powermatic was debt-free with a net cash position of S\$48m (c.50% of current market cap).

Financial summary	FY18	FY19	FY20	FY21	FY22
<b>FYE 30 Mar (S\$ m)</b>					
Revenue	16.1	21.0	21.8	26.3	27.9
Gross profit	8.1	9.8	11.7	12.9	13.3
Gross profit margin (%)	50.4%	46.8%	54.0%	49.3%	47.7%
Net profit	4.5	7.0	8.7	7.4	8.2
EPS (Scts)	12.95	20.01	24.99	21.23	23.38
EPS yoy growth (%)	8.1%	54.9%	24.8%	-15.0%	10.1%
P/E (x)	20.5	13.3	10.6	12.5	11.4
BVPS (S\$)	1.57	1.68	1.75	1.81	1.96
P/B (x)	1.70	1.58	1.52	1.47	1.36
DPS (Scts)	7.0	8.0	-	5.0	15.0
Dividend yield (%)	2.6%	3.0%	0.0%	1.9%	5.6%
ROE (%)	8.2%	11.9%	14.3%	11.7%	11.9%
Net gearing (X)	net cash	net cash	net cash	net cash	net cash

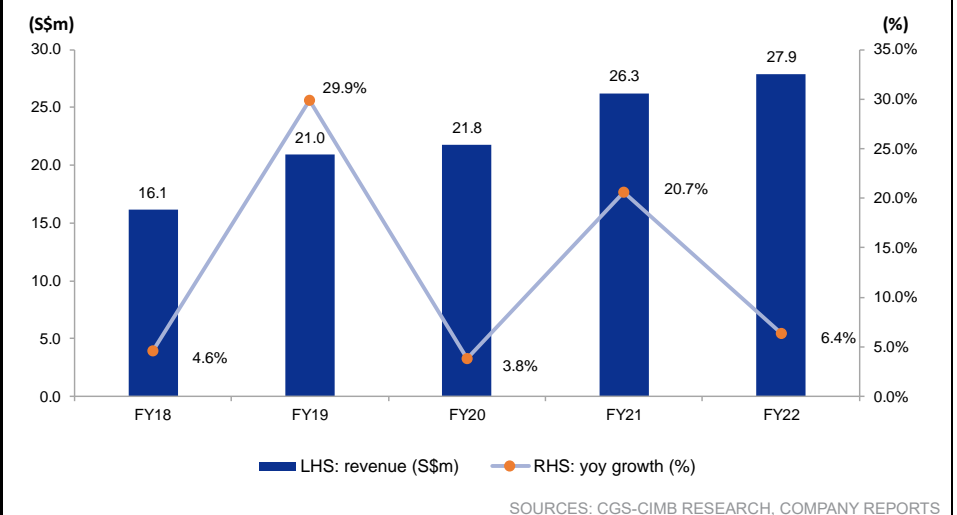
## Financial Performance

### Revenue growth ▶

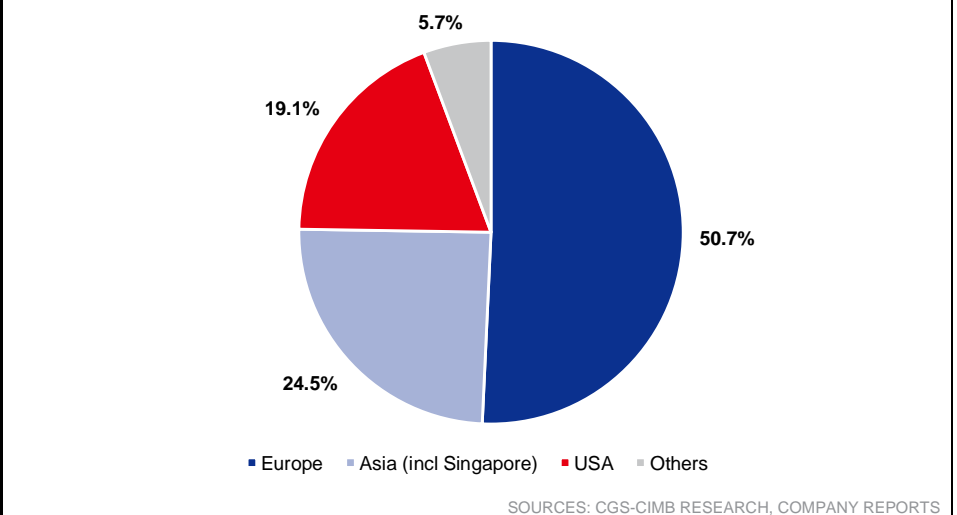
The group's FY18-22 revenue CAGR of 15% was largely driven by sales of its proprietary wireless connectivity products. Revenue grew 5% yoy in FY18 as global demand for wireless products and solutions continued to rise. Revenue increased strongly by 30% yoy in FY19 due to robust repeated business from existing customers as well as new customers secured. Revenue growth slowed to 4% yoy in FY20 on the back of intensifying competition in the wireless connectivity space. Despite the outbreak of Covid-19 in early-2020, Powermatic recorded 21% yoy revenue growth in FY21 due to increased adoption of higher-speed network systems for both individuals and businesses. In FY22, revenue growth slowed to 6% due to headwinds from the global chip shortage and supply chain disruptions, according to the group's FY22 financial results.

In FY22, Powermatic's top customer accounted for 31% of total revenue, according to the group's FY22 annual report. In FY21, the top two customers accounted for 19% and 13% of total revenue, respectively.

**Figure 1: Historical revenue trend (FY18-22)**

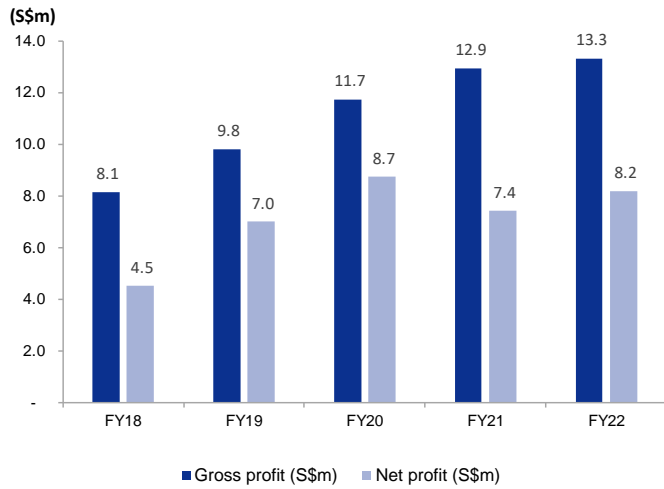


**Figure 2: Revenue by geography in FY22**



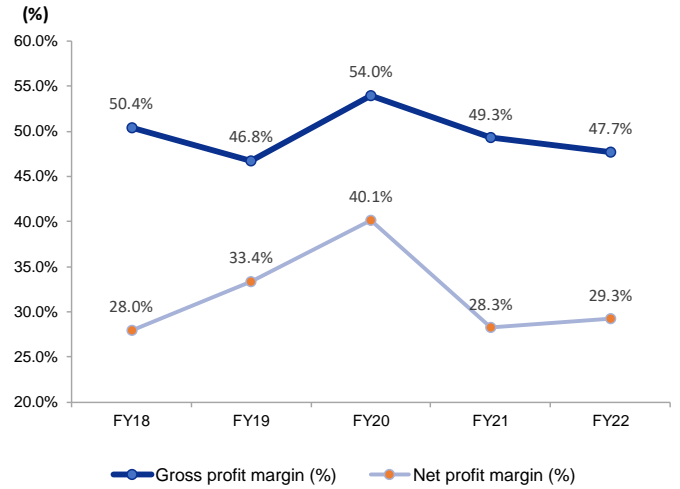
### Margin, cash flow, and dividend trends ➤

**Figure 3: Historical gross profit and net profit trend (FY18-22)**



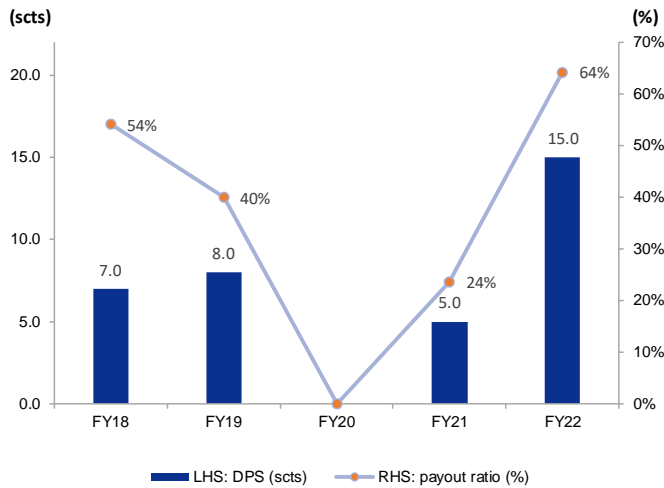
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 4: Historical margin trend (FY18-22)**



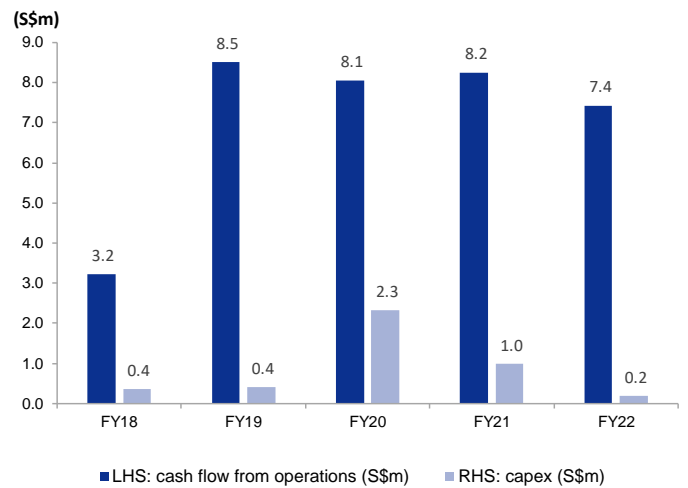
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 5: Historical dividend issuance trend (FY18-22)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

**Figure 6: Historical CFO and capex trend (FY18-22)**



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

### **Capital restructuring initiatives ▶**

On 31 Oct 2019, Powermatic announced that it was reviewing its capital structure and has engaged professionals to advise the board.

On 25 Aug 2020, the group proposed a capital reduction exercise involving a cash distribution to shareholders of S\$0.286 in cash for each ordinary share held. Payment of the cash distribution was made to shareholders on 17 November 2020 (c.S\$10m was returned to shareholders); no dividends were declared in FY20 in view of the capital reduction exercise.

On 11 June 2021, management proposed to dispose of its entire interest in all strata units located at its owned investment properties (7 and 9 Harrison Road). A key reason for the disposal was to achieve a more appropriate valuation of its core wireless connectivity business as management felt that the group's market capitalisation was not reflective of the segment's economic value, according to the group's announcement dated 11 June 2021. This was to be done by effecting a dividend in specie (DIS) of all ordinary shares in the issued share capital of Harrison Pte Ltd (Harrison) to shareholders. The proposed DIS would be conducted on the basis of one Harrison share for every one ordinary Powermatic share held. Upon completion of the DIS, shareholders can either continue to hold the unlisted Harrison shares or sell them for cash at S\$1.12 each (cash alternative). On Dec 2021, the group ultimately decided not to proceed with the proposed DIS due to the cash alternative being deemed unfeasible, according to an announcement made on 30 Dec 2021.

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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022		
643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

## Recommendation Framework

### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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