

# Globetronics Technology Bhd

(7022 | GTB MK) Technology | Semiconductors

**Maintain SELL**

## Expecting another contraction in annual earnings

**Revised Target Price: RM1.67**  
(previously RM1.82)

### KEY INVESTMENT HIGHLIGHTS

- **Another dismal quarter whereby the normalised earnings contracted by -38.0%yoy to RM15.1m**
- **Full year FY19 normalised of RM44.4m (-35.7%yoy) came in lower than ours and consensus expectations**
- **Covid-19 outbreak and disruption in China's supply chain could further depressed the group's business outlook**
- **Challenging business environment to limit dividend payout and possibly translates into dividend yield of less than 3%**
- **Maintain SELL with a revised TP of RM1.67**

**Lower quarterly earnings.** Globetronics Technology Bhd (GTB) 4Q19 normalised earnings declined by -38.0%yoy to RM15.1m. The decline in earnings was mainly attributable to lower volume loadings of products from certain customers in the group.

**Worst than expected.** Cumulatively, FY19 normalised earnings contracted by -35.7%yoy to RM44.4m. This came in below ours and consensus expectations, accounting for 91.1% and 88.9% of full year FY19 earnings estimates. Apart from lower capacity utilization and lower production volume, the group was also impacted by phased out of certain matured products of a Japanese customer.

**Impact.** Given the dismal earnings performance and expectation of challenging business environment, we tune down the group's future revenue assumption. As such, FY20 and FY21 have been revised downward to RM41.7m an RM51.7m respectively. This has also lead to lower FY20 and FY21 dividend assumption of 6sen and 7sen respectively.

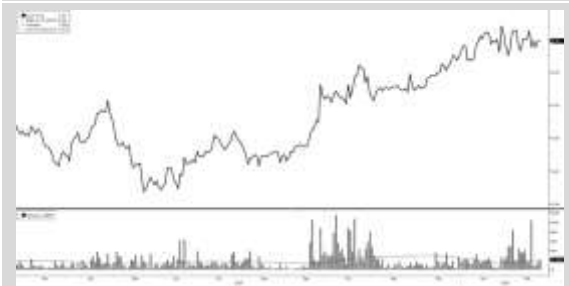
**Target price.** We are rolling forward our valuation base year to FY21. Couple with our dividend adjustments, we derive a new target price of **RM1.67** (previously RM1.82) based on dividend discount model (WACC: 9.88%)

**Maintain SELL.** The soft volume loadings continue to negatively impact the group's well-being as seen in FY19 financial performance. Moving forward, we expect the future earnings of the group to be impacted by the Covid-19 outbreak as well as the disruption in the supply chain in China. This could potentially derail the group's effort to diversify away from the smartphone market. Moreover, we do not expect the dividend payment to be attractive, with anticipated dividend yield of less than three percent. This is a stark difference from the group's historical track record. All factors considered, we are reiterating our **SELL** recommendation.

### RETURN STATISTICS

Price @ 24 <sup>th</sup> February 2020 (RM)	2.39
Expected share price return (%)	-30.1
Expected dividend yield (%)	+2.9
<b>Expected total return (%)</b>	<b>-27.2</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.4	5.1
3 months	2.6	22.7
12 months	25.6	45.3

### KEY STATISTICS

FBM KLCI	1, 490.06
Syariah compliant	Yes
Issue shares (m)	669.03.00
Estimated free float (%)	68.52
Market Capitalisation (RM'm)	1,599.97
52-wk price range (RM)	1.48 – 2.48
Beta vs FBM KLCI (x)	1.08
Monthly velocity (%)	53.96
Monthly volatility (%)	25.55
3-mth average daily volume (m)	2.05
3-mth average daily value (RM'm)	4.88
Top Shareholders (%)	
Employee Provident Fund Board	8.93
General Produce Agency Sdn Bhd	7.14
CIMB Group Holdings Bhd	4.89

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**INVESTMENT STATISTICS**

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
<b>Revenue</b>	328.0	216.3	213.9	231.4	243.6
EBITDA	72.9	42.8	40.4	50.7	56.5
PBT	74.8	46.0	43.4	53.9	59.8
PAT	70.1	44.7	41.7	51.7	57.5
<b>Normalised PAT</b>	69.1	44.4	41.7	51.7	57.5
Normalised EPS (sen)	10.3	6.6	6.3	7.8	8.6
Normalised EPS Growth (%)	33.4	-35.8	-5.8	24.0	11.1
PER (x)	23.1	36.0	38.2	30.8	27.7
Dividend Per Share (sen)	9.0	6.0	6.0	7.0	8.0
Dividend yield (%)	3.8	2.5	2.5	2.9	3.3

Source: Company, MIDFR

**GLOBETRONICS TECHNOLOGY BHD: 4QFY19 RESULTS SUMMARY**

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	4Q19	% YoY	% QoQ	2019	2018	%
Revenue	59.0	-28.3	-11.0	216.3	328.0	-34.0
EBITDA	27.1	-23.4	-7.0	80.9	110.2	-26.5
Depreciation and amortisation	-14.0	0.9	31.5	-38.1	-37.3	2.2
EBIT	13.2	-39.0	-29.1	42.8	72.9	-41.2
Finance cost	0.0	n.m.	n.m.	-0.3	-1.1	n.m.
Finance income	0.9	0.0	20.7	3.4	2.9	17.4
Associate's contribution	0.0	n.m.	n.m.	0.1	0.0	n.m.
PBT	14.0	-37.1	-27.3	46.0	74.8	-38.4
Income tax	0.5	-316.7	-283.8	-1.3	-4.7	-71.6
PAT	14.5	-33.9	-23.3	44.7	70.1	-36.2
Normalised PAT	15.1	-38.0	-17.2	44.4	69.1	-35.7
Normalised EPS (sen)	2.3	-38.1	-17.2	6.6	10.3	-35.8
EBITDA margin (%)		+/-ppts	+/-ppts			+/-ppts
EBIT margin (%)	46.0	2.9	2.0	37.4	33.6	3.8
Normalised PAT margin (%)	22.3	-3.9	-5.7	19.8	22.2	-2.4
Effective tax rate (%)	24.7	-2.1	-3.9	20.7	21.4	-0.7

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.