

# Globetronics Technology Bhd

(7022 | GTB MK) Technology | Semiconductors

**Maintain SELL**

Turnaround hopes hinge on "supply chain relevance"

**Unchanged Target Price: RM1.67**

## KEY INVESTMENT HIGHLIGHTS

- **1QFY20 normalised earnings recovered by +161.2%yoy in comparison with a poor 1QFY19 financial performance**
- **We are expecting earnings on quarter-over-quarter basis to be less volatile moving forward**
- **Covid-19 outbreak and disruption in China's supply chain could further depressed the group's business outlook**
- **Dividend yield to remain on the lower end as compared to historical track record**
- **Maintain SELL with an unchanged TP of RM1.67**

**Partial recovery in quarterly earnings.** Globetronics Technology Bhd (GTB) 1QFY20 normalised earnings improved by +161.2%yoy to RM9.4m. The improvement in earnings was mainly attributable to higher volume loadings of products and significant increase in economy of scale from certain customers in the group. Note that in 1QFY19, the group's financial performance was severely impacted by the drastic reduction in production volume.

**Within expectation.** All in, GTB's 1QFY20 financial performance came in within ours but below consensus expectations, accounting for 22.6% and 14.9% of full year FY20 earnings estimates respectively. This was an improvement in comparison to 1QFY19 whereby the earnings consist of less than 10% of FY19 full year earnings. Moving forward, we are expecting a more stable earnings performance on a quarter-over-quarter comparison.

**Impact.** No change to our earnings estimates at this juncture.

**Target price.** We are maintaining our target price of **RM1.67** 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, which is a stark difference from the group's historical track record. All factors considered, we are reiterating our **SELL** recommendation.



## RETURN STATISTICS

Price @ 20 <sup>th</sup> May 2020 (RM)	1.97
Expected share price return (%)	-15.2
Expected dividend yield (%)	+3.6
<b>Expected total return (%)</b>	<b>-11.6</b>

## SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.1	0.5
3 months	21.6	-9.3
12 months	19.5	33.7

## KEY STATISTICS

FBM KLCI	1,435.12
Syariah compliant	Yes
Issue shares (m)	669.45
Estimated free float (%)	66.61
Market Capitalisation (RM'm)	1,318.81
52-wk price range (RM)	1.29 – 2.45
Beta vs FBM KLCI (x)	1.51
Monthly velocity (%)	11.02
Monthly volatility (%)	25.26
3-mth average daily volume (m)	3.36
3-mth average daily value (RM'm)	6.07
Top Shareholders (%)	
Employees Provident Fund	14.21
General Product Agency Sdn Bhd	7.14
CIMB Group Holdings Bhd	6.60

## Analyst

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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)	19.0	29.7	31.5	25.4	22.9
Dividend Per Share (sen)	9.0	6.0	6.0	7.0	8.0
Dividend yield (%)	4.6	3.0	3.0	3.6	4.1

Source: Company, MIDFR

## GLOBETRONICS TECHNOLOGY BHD: 1QFY20 RESULTS SUMMARY

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	Quarterly				
	1Q20	1Q19	% YoY	4Q19	% QoQ
Revenue	53.9	44.0	22.4	59.0	-8.5
EBITDA	20.4	9.8	107.8	27.1	-24.9
Depreciation and amortisation	-9.8	-6.6	49.7	-14.0	-29.7
EBIT	10.6	3.2	225.3	13.2	-19.8
Finance cost	0.0	-0.1	n.m.	0.0	n.m.
Finance income	0.8	0.9	-10.2	0.9	-10.0
Associate's contribution	0.1	0.2	n.m.	0.0	n.m.
PBT	11.4	4.2	172.0	14.0	-18.5
Income tax	-0.5	-1.1	-53.2	0.5	-194.7
PAT	10.9	3.1	252.1	14.5	-25.1
Normalised PAT	9.4	3.6	161.2	15.1	-37.7
Normalised EPS (sen)	1.4	0.5	161.0	2.3	-37.7
			+/-ppts		+/-ppts
EBITDA margin (%)	37.8	22.3	15.5	46.0	-8.2
EBIT margin (%)	19.6	7.4	12.2	22.3	-2.7
Normalised PAT margin (%)	20.2	7.0	13.2	24.7	-4.5
Effective tax rate (%)	4.5	26.3	-21.7	-3.9	8.4

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.