

# Globetronics Technology Bhd

(7022 | GTB MK) Technology | Semiconductors

## Earnings recovery derailed by the pandemic

### KEY INVESTMENT HIGHLIGHTS

- **2QFY20 normalised earnings plunged by -46.4%yoy to RM4.3m which derailed the group's earnings recovery**
  - **1HFY20 normalised earnings amounted to RM13.6m (+23.4%yoy), in-line with our expectation**
  - **Dividend yield to remain on the lower end as compared to the historical track record**
  - **Valuation remains stretched at more than 20x given the subdued earnings performance**
- Maintain SELL with a revised TP of RM1.77**

**Weaker quarterly earnings.** Globetronics Technology Bhd (GTB) 2QFY20 normalised earnings contracted by -46.4%yoy to RM4.3m after excluding the impact on forex. This was mainly attributable to: i) lower volume loadings and supply chain inventory adjustment from most of the Group's customers, and ii) implementation of the MCO and work from home order which resulted in lower economy of scale.

**Within expectation.** Cumulatively, 1H20 normalised earnings amounted to RM13.6m, an improvement of +23.4%yoy. To recall, 1H19 financial performance was negatively affected by the drastic decline in volume loadings from the group's customers. All in, we view that GTB's 1H20 financial performance came in within our expectation, accounting for 32.7% of full year FY20 earnings estimate. Note that based on historical trend, the group performed much better in the second half of the financial year.

**Impact.** We are adjusting our FY20/21/22 earnings upwards marginally by 2.0%/1.7%/1.5% as we fine-tune our interest income assumption to better reflect the group's cash position.

**Target price.** Subsequent to our earnings adjustment, we are revising our target price to **RM1.77** (previously RM1.67) based on dividend discount model (WACC: 9.88%)

**Maintain SELL.** The advent of the Covid-19 pandemic has put in a dent in the group's recovery in volume loadings as seen in the 2Q20 quarterly result. Coupled with the disruption in the global supply chain, we foresee that the group's volume loading would remain under pressure which would have adverse impact on the profit margin. In addition, the on-going pandemic could potentially derail the group's effort to diversify away from the smartphone market. On a separate note, at current price, we view that the valuation is rather stretched at more than 20x as compared to 5yr historical of 18x. We also 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.

## Maintain SELL

**Revised Target Price: RM1.77**  
(previously RM1.67)

### RETURN STATISTICS

Price @ 28 <sup>th</sup> July 2020 (RM)	2.37
Expected share price return (%)	-25.3
Expected dividend yield (%)	+3.0
<b>Expected total return (%)</b>	<b>-22.3</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	13.9	5.3
3 months	10.7	8.0
12 months	34.0	37.1

### KEY STATISTICS

FBM KLCI	1,609.94
Syariah compliant	Yes
Issue shares (m)	669.45
Estimated free float (%)	64.90
Market Capitalisation (RM'm)	1,586.58
52-wk price range (RM)	1.28 – 2.50
Beta vs FBM KLCI (x)	1.37
Monthly velocity (%)	11.02
Monthly volatility (%)	25.26
3-mth average daily volume (m)	2.47
3-mth average daily value (RM'm)	5.35
Top Shareholders (%)	
Employees Provident Fund	15.90
CIMB Group Holdings Bhd	7.39
General Product Agency Sdn Bhd	7.14

### Analyst(s)

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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	44.3	54.8	60.8
PAT	70.1	44.7	42.5	52.6	58.4
<b>Normalised PAT</b>	69.1	44.4	42.5	52.6	58.4
Normalised EPS (sen)	10.3	6.6	6.4	7.9	8.8
Normalised EPS Growth (%)	33.4	-35.8	-4.0	23.6	11.0
PER (x)	22.9	35.7	37.2	30.1	27.1
Dividend Per Share (sen)	9.0	6.0	6.0	7.0	8.0
Dividend yield (%)	3.8	2.5	2.5	3.0	3.4
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	44.3	54.8	60.8

Source: Company, MIDFR

## GLOBETRONICS TECHNOLOGY BHD: 2QFY20 RESULTS SUMMARY

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	Quarterly			Cumulative		
	2Q20	% YoY	% QoQ	1H20	1H19	% Ytd
Revenue	44.9	-4.5	-16.7	98.8	91.1	8.5
EBITDA	13.9	-8.7	-31.5	34.3	25.6	33.8
Depreciation and amortisation	-9.4	17.5	-4.7	-19.2	-14.5	32.0
EBIT	4.6	-37.3	-56.6	15.1	11.1	36.2
Finance cost	0.0	n.m.	n.m.	0.0	-0.2	n.m.
Finance income	0.8	-22.6	-1.7	1.5	1.9	-16.8
Associate's contribution	0.0	n.m.	n.m.	0.0	0.1	n.m.
PBT	5.3	-38.2	-53.3	16.7	12.8	30.6
Income tax	-0.3	-27.8	-41.6	-0.8	-1.6	-48.1

PAT	5.0	-38.7	-53.9	15.9	11.2	41.6
Normalised PAT	4.3	-46.4	-54.6	13.6	11.0	23.4
Normalised EPS (sen)	0.6	-46.4	-54.6	2.0	1.7	23.3
		+/-ppts	+/-ppts			+/-ppts
EBITDA margin (%)	31.1	-1.4	-6.7	34.7	28.2	6.6
EBIT margin (%)	10.2	-5.3	-9.4	15.3	12.2	3.1
Normalised PAT margin (%)	11.2	-6.2	-9.0	16.1	12.3	3.8
Effective tax rate (%)	5.7	0.8	1.1	4.9	12.3	-7.4

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.