

COMPANY RESULTS

**Globetronics Technology (GTB MK)**

9M23: Below Expectations; Trudging Across Choppy Waters

We expect a soft 4Q23 performance amid weaker seasonality in Dec 23 alongside the sluggish ramp-up in its sensor segment. Cut 2023/24 earnings by 18%/18%. The company is rationalising its lower-margin business and pursuing new programmes with its existing and new customers. While Globetronics is still not fully out of the woods yet, the game changer could be the fruition of its active engagements with potential Chinese and Taiwanese customers. Maintain HOLD. Target price: RM1.52.

9M23 RESULTS

Year to 31 Dec (RMm)	3Q23	qoq% chg	yoy % chg	9M23	yoy % chg
Revenue	34.6	9.9	(24.8)	99.3	(27.2)
Gross profit	15.5	40.9	(8.2)	37.9	(29.6)
EBITDA	13.6	18.3	(30.4)	33.0	(36.9)
Operating profit	10.2	26.4	(30.8)	22.6	(37.5)
Finance cost	0.0	nm	nm	0.0	nm
Pre-tax profit	11.3	26.8	(25.0)	25.5	(31.2)
Tax	(1.8)	(3.6)	(22.7)	(5.5)	55.4
Net Profit	9.5	34.7	(25.4)	19.9	(40.4)
Core Net Profit	9.0	136.8	(20.5)	15.9	(48.4)
Margins (%)	qoq ppt chg		yoy ppt chg		yoy ppt chg
Gross	44.7	9.8	8.1	38.1	(1.3)
EBITDA	39.3	2.8	-3.2	33.2	(5.1)
PBT	32.6	4.3	-0.1	25.6	(1.5)
Core net profit	26.1	14.0	1.4	16.0	(6.6)

Source: Globetronics, UOB Kay Hian

RESULTS

- **Below expectations.** Globetronics Technology (Globetronics) reported a soft 3Q23 net profit of RM9.0m (+137% qoq, -21% yoy), bringing 9M23 core net profit to RM15.9m (-48%) which made up 50%/56% of our/consensus' full-year estimates respectively. The negative deviations came mainly from lower volume loadings across its sensor segments. Note that core net profit has been adjusted for unrealised forex gains and assets disposal gains.
- **9M23 sales decreased 27% yoy** on soft volume loadings across its sensor segment (-33%). Meanwhile, the quartz crystal and LED segments were down 64% and 21% respectively amid the slowdown of the semiconductor cycle. As a result of lower operational efficiency coupled with higher electricity tariff (+41%) and higher tax expense (on expired pioneer status), core net profit dropped by 48%.

KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	206	180	136	190	196
EBITDA	81	71	55	70	68
Operating profit	54	49	29	49	50
Net profit (rep./act.)	53	45	27	44	45
Net profit (adj.)	51	45	27	44	45
EPS (sen)	7.7	6.8	4.0	6.6	6.8
PE (x)	18.3	20.7	34.8	21.2	20.7
P/B (x)	3.1	3.1	3.1	3.1	3.1
EV/EBITDA (x)	9.2	10.5	13.6	10.6	10.9
Dividend yield (%)	5.4	5.0	2.7	4.5	4.6
Net margin (%)	25.7	25.3	19.9	23.2	23.1
Net debt/(cash) to equity (%)	(64.8)	(67.1)	(64.0)	(65.9)	(68.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	17.7	15.1	8.9	14.6	14.9
Consensus net profit	-	-	28	39	44
UOBKH/Consensus (x)	-	-	0.95	1.13	1.03

Source: Globetronics Technology, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM1.40
Target Price	RM1.52
Upside	+8.6%
(Previous TP)	RM1.63)

COMPANY DESCRIPTION

Globetronics is an OSAT vendor, well-known for its sensors for smartphone, and focuses on quartz crystal & timing devices and LED products.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	GTB MK
Shares issued (m):	671.5
Market cap (RMm):	940.1
Market cap (US\$m):	196.5
3-mth avg daily t'over (US\$m):	0.6

Price Performance (%)

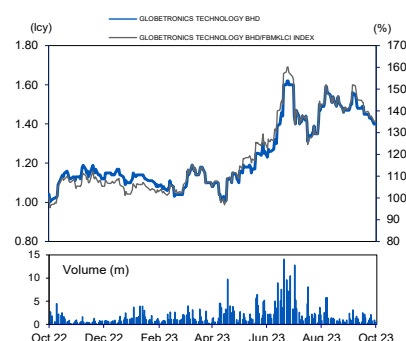
52-week high/low	RM1.62/RM1.00			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(4.8)	(12.5)	27.3	35.7	21.8

Major Shareholders

Employees Provident Fund Board	14.8
General Produce Agency Sdn Bhd	7.1
Ooi Keng Thy	5.8

FY23 NAV/Share (RM)	0.45
FY23 Net Cash/Share (RM)	0.29

PRICE CHART



Source: Bloomberg

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- Qoq, while revenue rebounded 10% sequentially on the seasonal ramp-up, particularly in the sensor segment (22%), core net profit soared by 137% on better product mix alongside better operational efficiency.

### STOCK IMPACT

- **Still expecting a soft 4Q23.** For 4Q23, while we expect the seasonal ramp-up to partially spillover into Oct 23, volume loadings for the light and motion sensors in Dec 23 could be lower than the run-rate of 24m-25m/month. Similarly for gesture sensors, we expect monthly volume loadings to be lower than 17m/month on seasonal weakness. For quartz crystal timing devices, volume loadings are expected to drop further.
- **Earmarked RM35m capex in 2023 for new growth engines.** The group has freed up capacity from low-margin quartz crystal timing devices (volume loadings are expected to drop further from 8m/month in 4Q21) alongside an upcoming build-up of 30,000sf floor space to take on new business from MNC customers. We believe the new business development could be accelerated in 1H24 upon the cyclical recovery. The group is currently creating a business portfolio that integrates its new generation sensors with LED, laser and optical devices, which will be done via collaboration with several partners in 2024. Meanwhile, it has also invested RM10m in a clean room facility at its Bayan Lepas plant, which has commenced mass production since 2H22, with meaningful earnings to come in 1H24. Note that we have yet to account for any earnings from such ventures, as we are waiting further details from management.
- **Starting on a clean slate.** Aside from the linearisation of the low-margin quartz crystal business, the group remains relevant as it is a proxy to 5G/IoT/VCSEL deployment with its Outsourced Semiconductor Assembly and Test (OSAT) capabilities. Further impetus could also come from the introduction of new sensors, which the group is working on with the same major customer with commercialisation to take place meaningfully in 2024. We have yet to account for this in our earnings estimates. Meanwhile, the group is in talks with new customers for new programme qualifications while having active engagement with potential China and Taiwan customers which could be the game changer. Qualification programmes for other automobile laser light devices are ongoing with this segment still being one of the key focuses going forward. Meanwhile, the expansion of factory space (30,000sf) has been completed.

### EARNINGS REVISION/RISK

- After the model updates, we lower our 2023 and 2024 earnings by 18% and 8% respectively to account for lower loadings across all segments.

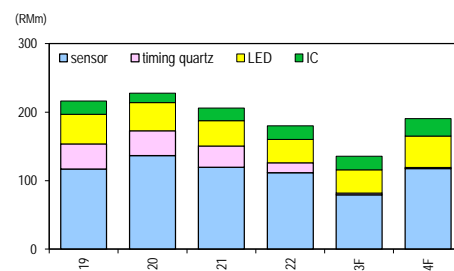
### VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower target price of RM1.52**, still based on 23.0x 2024F PE, which is at its -0.5SD below its five-year mean PE.
- Outlook-wise, mass production of new-generation light and gesture sensors with enhanced functionality, alongside new sensors for various applications, could drive sales volumes. Globetronics benefits from 5G/IoT/VCSEL deployment with its growing relevance in high-end smartphones. In the long term, we remain hopeful of the group's ability to improve its relevance in high-tech sensor products for various applications, which would continue to spearhead earnings growth. Meanwhile, the game changers could come from any form of new business collaboration or advanced packaging manufacturing solution.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> <li>• <b>Environmental</b></li> <li>- Globetronics has taken various initiatives that have resulted in an energy reduction of about 10% below the theoretical usage in 2020.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Social</b></li> <li>- Aligned to the Responsible Business Alliance Code of Conduct and will use the principles to ensure a safe and conducive working environment for all employees.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Governance</b></li> <li>- Implemented anti-corruption and bribery prevention programme in view of the Corporate Liability Provision Section 17(A) of MACC 2009 (Amendment 2018) to further enhance transparency.</li> </ul>

### REVENUE BREAKDOWN



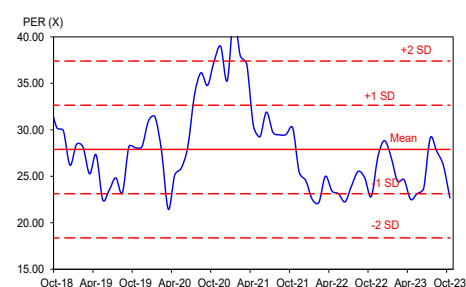
Source: Globetronics, UOB Kay Hian

### TIMELINE: NEW PRODUCT COMMERCIALISATION

Type	Timeline
Bio & environmental sensor	Commenced in 2022
New generation light sensor	Commenced in 2023
New generation of gesture sensor	Commenced in 2023
Co-development of next gen sensors	2024
New sensors (unknown)	2024

Source: UOB Kay Hian

### FIVE-YEAR FORWARD PE CHART



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	180	136	190	196
EBITDA	71	55	70	68
Deprec. & amort.	22	26	21	18
EBIT	49	29	49	50
Associate contributions	0	0	0	0
Net interest income/(expense)	2	1	1	1
Pre-tax profit	51	30	50	51
Tax	(6)	(3)	(6)	(6)
Minorities	0	0	0	0
Net profit	45	27	44	45
Net profit (adj.)	45	27	44	45

### CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	58	52	59	63
Pre-tax profit	51	30	50	51
Tax	(5)	(3)	(6)	(6)
Deprec. & amort.	22	26	21	18
Working capital changes	(8)	0	(6)	(1)
Other operating cashflows	(1)	0	0	0
Investing	(6)	(35)	(10)	(10)
Capex (growth)	(11)	(35)	(10)	(10)
Investments	(1)	0	0	0
Proceeds from sale of assets	3	0	0	0
Others	2	0	0	0
Financing	(47)	(26)	(42)	(43)
Dividend payments	(47)	(26)	(42)	(43)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	6	(8)	7	10
Beginning cash & cash equivalent	195	201	193	200
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	201	193	200	210

### BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	58	67	56	48
Other LT assets	26	26	26	26
Cash/ST investment	201	193	200	210
Other current assets	41	38	52	54
Total assets	327	325	335	338
ST debt	0	0	0	0
Other current liabilities	26	23	31	32
LT debt	0	0	0	0
Other LT liabilities	0	0	0	0
Shareholders' equity	300	302	304	306
Minority interest	0	0	0	0
Total liabilities & equity	327	325	335	338

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	39.5	40.5	36.8	34.8
Pre-tax margin	28.5	22.4	26.2	26.0
Net margin	25.3	19.9	23.2	23.1
ROA	13.7	8.3	13.4	13.5
ROE	15.1	8.9	14.6	14.9
<b>Growth</b>				
Turnover	(12.6)	(24.6)	40.4	3.1
EBITDA	(12.6)	(22.8)	27.7	(2.7)
Pre-tax profit	(7.6)	(40.7)	64.2	2.5
Net profit	(14.1)	(40.7)	64.2	2.5
Net profit (adj.)	(11.7)	(40.5)	64.2	2.5
EPS	(11.7)	(40.5)	64.2	2.5
<b>Leverage</b>				
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	(67.1)	(64.0)	(65.9)	(68.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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