

COMPANY RESULTS

Globetronics Technology (GTB MK)

9M22: Marginally Below Expectations; New Pipelines To Anchor Growth In 2023

We expect a flat 4Q22 performance amid the ongoing inventory adjustment in its sensor segment. Cut earnings by 5-10% to account for softer sales and a higher tax rate assumption. The company is rationalising its lower-margin business and pursuing new programmes with its existing and new customers. Further growth could come from new sensor development with MNC customers. Risk-reward is appealing after a sharp sell-down. Maintain BUY. Target price lowered to RM1.50.

9M22 RESULTS

Year to 31 Dec (RMm)	3Q22	qoq% chg	yoy % chg	9M22	yoy % chg
Revenue	46.0	(3.4)	(17.3)	136.3	(13.4)
Gross profit	16.9	(14.2)	(27.7)	53.8	(8.4)
EBITDA	19.5	14.0	(12.4)	52.3	(10.3)
Operating profit	14.7	27.6	(11.7)	36.2	(0.3)
Finance cost	0.0	nm	nm	0.0	#DIV/0!
Pre-tax profit	15.1	27.5	(12.1)	37.0	(1.4)
Tax	(2.3)	260.8	160.5	(3.6)	45.1
Net Profit	12.8	14.2	(21.4)	33.4	(4.7)
Core Net Profit	11.4	8.3	(31.9)	31.7	(6.9)
Margins (%)	qoq ppt chg	yoy ppt chg	yoy ppt chg	yoy ppt chg	yoy ppt chg
Gross	36.6	-4.6	-5.3	39.4	2.2
EBITDA	42.5	6.5	2.4	38.3	1.3
PBT	32.8	7.9	1.9	27.1	3.3
Core net profit	24.7	2.7	-5.3	23.3	1.6

Source: Globetronics, UOB Kay Hian

RESULTS

- **Marginally below expectations.** Globetronics Technology (Globetronics) reported 3Q22 core net profit of RM11.4m (+8% qoq, -32% yoy), bringing 9M22 core net profit to RM31.7m (-7% yoy) which accounted for 61%/65% of our and consensus' full-year estimates. Note that 9M typically made up 66% of full-year earnings for the past three years. The slight deviation was due to the expiration of pioneer status on its sensor business alongside softness in its gesture sensor business.
- **9M22 revenue dropped 13% yoy**, due to the linearisation of the low-margin quartz crystal business alongside lower production of sensors. While PBT dropped marginally by 1% thanks to a better gross profit margin of 39.4% (+2.2ppt yoy), core net profit dropped 7% due to the expiration of pioneer status related to its sensor business.
- **Qoq, revenue dropped 3%**, mainly dragged by its gesture sensor business which we believe was due to inventory adjustment from its customer end. That said, core net profit improved by 8% thanks to higher forex gains (realised) of RM2.5m vs RM1.2m last quarter.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	228	206	196	212	229
EBITDA	91	81	78	85	89
Operating profit	50	54	53	58	62
Net profit (rep./act.)	51	53	47	52	55
Net profit (adj.)	50	51	47	52	55
EPS (sen)	7.5	7.7	7.1	7.7	8.3
PE (x)	14.1	13.8	15.0	13.7	12.8
P/B (x)	2.4	2.4	2.3	2.2	2.1
EV/EBITDA (x)	5.7	6.3	6.6	6.1	5.8
Dividend yield (%)	7.1	7.1	5.4	5.9	6.3
Net margin (%)	22.3	25.7	24.1	24.4	24.2
Net debt/(cash) to equity (%)	(55.1)	(64.8)	(62.3)	(61.9)	(61.9)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	17.1	17.7	15.5	16.5	17.0
Consensus net profit	-	-	48	53	57
UOBKH/Consensus (x)	-	-	0.99	0.98	0.96

Source: Globetronics Technology, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.06
Target Price	RM1.50
Upside	+41.5%
(Previous TP)	RM1.70)

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):	669.4
Market cap (RMm):	709.6
Market cap (US\$m):	149.8
3-mth avg daily t'over (US\$m):	0.2

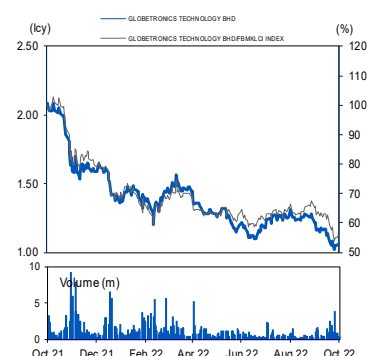
Price Performance (%)

52-week high/low			RM2.09/RM1.02	
1mth	3mth	6mth	1yr	YTD
(15.2)	(10.2)	(25.8)	(48.9)	(34.6)

Major Shareholders

	%
Employees Provident Fund Board	18.9
General Produce Agency Sdn Bhd	7.1
Ng Kweng Chong	5.5
FY22 NAV/Share (RM)	0.46
FY22 Net Cash/Share (RM)	0.29

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Expecting a flat 4Q22.** For 4Q22, we gather that the production of light sensors could be maintained at 25-26m/month on average based on current visibility. For gesture sensors, we expect monthly volume loadings to normalise further to 17m/month (-20%) on inventory adjustment as it was overbuilt in 2Q22. Meanwhile, motion sensor volumes are expected to stabilise at 5.5m/month. As for quartz crystal timing devices, volume loadings are expected to drop further with a gradual improvement expected from its LED and laser light businesses.
- **Earmarked RM50m capex in 2022 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 with the easing of travel restrictions in Malaysia. The group is 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 2022. Meanwhile, it has also invested RM10m in a clean room facility at its Bayan Lepas plant to facilitate mass production starting 2H22, with meaningful earnings to come in 2023. Note that we have yet to account for any earnings from such ventures, pending further details from management.
- **Starting on a clean slate in 2022; expansion plan completed.** Aside from the linearisation of the low-margin quartz crystal business, the group remains relevant as it is a proxy to 5G/IoT/VCSEL (Vertical-Cavity Surface-Emitting Laser) deployment with its Outsourced Semiconductor Assembly and Test 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 by 2H22. We have yet to account for this in our earnings estimates. Meanwhile, the group is in talks with new customers for new programme qualifications, which could see fruition as soon as 4Q22. Its laser lighting business has gradually improved (raw material wafer supply from the US). Qualification programmes for other automobile laser light devices are ongoing with this segment still being the key focus for 2022. Meanwhile, the expansion of factory space (30,000sf) has been completed.

EARNINGS REVISION/RISK

- We cut our earnings by 5-10% to account for softer sensor sales and higher tax rate assumption.

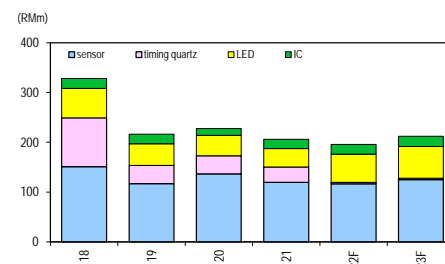
VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of RM1.50**, still based on 20.0x 2023F PE, which is at its -1SD below its five-year mean PE. Value has emerged with the stock trading close to -2SD below its five-year mean PE at 13.7x 2023F 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.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Globetronics has taken various initiatives that have resulted in an energy reduction of about 10% below the theoretical usage in 2020. • Social <ul style="list-style-type: none"> - 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. • Governance <ul style="list-style-type: none"> - 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.
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REVENUE BREAKDOWN



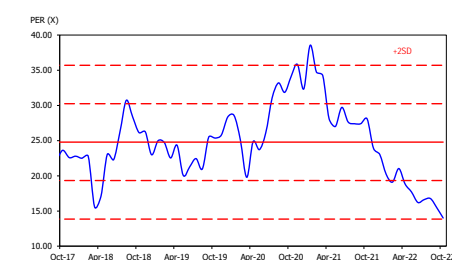
Source: Globetronics, UOB Kay Hian

TIMELINE: NEW PRODUCT COMMERCIALISATION

Type	Timeline
Bio & environmental sensor	Started in 2021
New generation light sensor	Started in 2022
New generation of gesture sensor	Started in 2022
Co-development of next gen sensors	2H22
New sensors (unknown)	2H22

Source: UOB Kay Hian

FIVE-YEAR FORWARD PE CHART



Source: Bloomberg, UOB Kay Hian

TARGET PRICE SENSITIVITY

Valuation (5-yr fwd PE)	FY23 PER (x)	Potential TP
+1SD	30.2	RM2.34
Average	24.8	RM1.92
-1SD	19.3	RM1.50

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	206	196	212	229
EBITDA	81	78	85	89
Deprec. & amort.	28	25	27	27
EBIT	54	53	58	62
Associate contributions	0	0	0	0
Net interest income/(expense)	2	1	1	1
Pre-tax profit	55	54	59	63
Tax	(3)	(6)	(7)	(8)
Minorities	0	0	0	0
Net profit	53	47	52	55
Net profit (adj.)	51	47	52	55

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	69	73	76	79
Other LT assets	30	30	30	30
Cash/ST investment	195	193	198	204
Other current assets	42	48	52	56
Total assets	335	344	356	369
ST debt	0	0	0	0
Other current liabilities	34	34	36	39
LT debt	0	0	0	0
Other LT liabilities	0	0	0	0
Shareholders' equity	301	310	320	330
Minority interest	0	0	0	0
Total liabilities & equity	335	344	356	369

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	86	66	77	81
Pre-tax profit	55	54	59	63
Tax	(2)	(6)	(7)	(8)
Deprec. & amort.	28	25	27	27
Working capital changes	5	(6)	(2)	(2)
Other operating cashflows	(1)	0	0	0
Investing	(5)	(30)	(30)	(30)
Capex (growth)	(10)	(30)	(30)	(30)
Investments	(1)	0	0	0
Proceeds from sale of assets	5	0	0	0
Others	2	0	0	0
Financing	(50)	(38)	(42)	(45)
Dividend payments	(50)	(38)	(42)	(45)
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)	31	(2)	5	6
Beginning cash & cash equivalent	164	195	193	198
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	195	193	198	204

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	39.5	39.9	39.8	39.1
Pre-tax margin	26.9	27.4	27.8	27.5
Net margin	25.7	24.1	24.4	24.2
ROA	15.8	13.9	14.8	15.3
ROE	17.7	15.5	16.5	17.0
Growth				
Turnover	(9.4)	(5.0)	8.4	7.9
EBITDA	(10.5)	(4.0)	8.3	5.8
Pre-tax profit	6.7	(3.3)	9.8	6.8
Net profit	4.2	(10.8)	9.8	6.8
Net profit (adj.)	1.8	(7.9)	9.8	6.8
EPS	1.8	(7.9)	9.8	6.8
Leverage				
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	(64.8)	(62.3)	(61.9)	(61.9)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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