

COMPANY RESULTS

Valuetronics (VALUE SP)

1HFY23: In Line With Expectations, Challenging Market Conditions Persist

VALUE's 1HFY23 net profit of HK\$58m (+2% yoy and qoq) was in line with our expectation, making up 50% of our FY23 estimate. 1HFY23 revenue went up 4% yoy due to increased customer demand. However, margins have fallen due to higher component prices and supply chain disruptions. A cautious outlook is maintained amid market uncertainties, including COVID-19 lockdowns in China, the Russia-Ukraine conflict and US Fed rate hikes. Maintain HOLD and target price of S\$0.52.

1HFY23 RESULTS

Year to 31 Mar (HK\$m)	1HFY23	1HFY22	yoy % chg	2HFY22	hoh % chg
Revenue	1,051.5	1,014.5	3.6	1,012.9	3.8
Gross Profit	131.2	143.6	(8.6)	132.2	(0.8)
Gross Margin (%)	12.5	14.2	(1.7ppt)	13.1	1.1ppt
Net profit	57.9	56.6	2.2	56.9	1.8
Net margin (%)	5.5	5.6	(0.1ppt)	5.6	(0.04ppt)

Source: VALUE, UOB Kay Hian

RESULTS

- Results in line with expectations.** Valuetronics' (VALUE) 1HFY23 net profit of HK\$58m (+2.3% yoy, +1.8% qoq) was in line our expectation, making up 50% of our FY23 estimate. Revenue increased 3.6% yoy due to greater demand in the US, Hong Kong, Indonesia and Canada segments. However, we note that gross and net margins fell by 1.7ppt and 0.1ppt respectively, due to: a) higher component prices caused by tight supply, and b) China's zero-COVID policy, which has impacted the group's supply chain and productivity.
- The ICE segment's revenue rose due increased customer demand.** VALUE's industrial and commercial electronics (ICE) segment's revenue increased by 15.9% yoy to HK\$805.5m, due to a significant rise in demand from customers. However, revenue declined for the consumer electronic (CE) segment, by 23% yoy to HK\$246m. This is mainly due to poorer demand in end-markets.
- Conservative outlook due to challenging macroeconomic environment.** VALUE expects lower consumer demand as consumer purchasing power and business confidence weakens from: a) the Russia-Ukraine conflict, b) rising geopolitical tensions, and c) US Fed rate hikes.
- Proposes interim dividend of 4 HK cents/share.** VALUE has recommended an interim dividend of 4 HK cents/share for 1HFY23 (4 HK cents/share in 1HFY22). This represents a payout ratio of 30%.

KEY FINANCIALS

Year to 31 Mar (HK\$m)	2021	2022	2023F	2024F	2025F
Net turnover	2,282	2,027	2,163	2,308	2,463
EBITDA	267	188	202	205	208
Operating profit	209	126	132	140	147
Net profit (rep./act.)	187	114	116	123	129
Net profit (adj.)	187	114	116	123	129
EPS (HK\$ cent)	43.0	26.0	26.7	28.2	29.7
PE (x)	6.9	11.4	11.1	10.5	10.0
P/B (x)	1.0	0.9	0.9	0.9	0.8
EV/EBITDA (x)	1.2	1.6	1.5	1.5	1.5
Dividend yield (%)	7.1	4.7	3.7	3.9	4.1
Net margin (%)	8.2	5.6	5.4	5.3	5.3
Net debt/(cash) to equity (%)	(83.8)	(68.4)	(71.0)	(73.6)	(75.6)
Interest cover (x)	385.9	322.5	163.7	155.9	147.9
ROE (%)	14.5	8.4	8.3	8.3	8.3
Consensus net profit	-	-	116	128	129
UOBKH/Consensus (x)	-	-	1.00	0.97	1.00

Source: VALUE, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.52
Target Price	S\$0.52
Upside	+0.0%

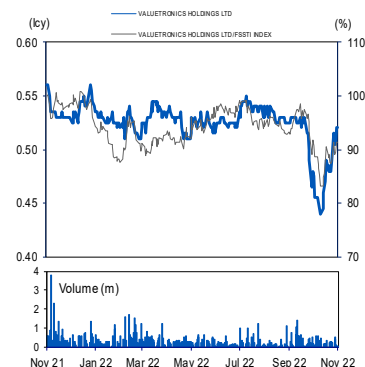
COMPANY DESCRIPTION

Valuetronics Holdings offers original equipment manufacturing and original design manufacturing services. The company serves customers in the telecommunications, industrial, commercial electronic products and consumer electronic products industries.

STOCK DATA

GICS sector	Information Technology			
Bloomberg ticker:	VALUE SP			
Shares issued (m):	419.5			
Market cap (S\$m):	218.1			
Market cap (US\$m):	159.0			
3-mth avg daily t'over (US\$m):	0.1			
Price Performance (%)				
52-week high/low	S\$0.560/S\$0.440			
1mth	3mth	6mth	1yr	YTD
11.8	(1.9)	2.0	(7.1)	(4.6)
Major Shareholders				
Tse Chong Hing	18.0			
Chow Kok Kit	7.5			
-	-			
FY23 NAV/Share (HK\$)	3.30			
FY23 Net Cash/Share (HK\$)	2.35			

PRICE CHART



Source: Bloomberg

ANALYST(S)

John Cheong
+65 6590 6623
johncheong@uobkayhian.com

STOCK IMPACT

- Future prospects for the Vietnam segment.** Upon VALUE's newly-constructed Vietnam campus commencing operations, the group has consolidated its facilities into one campus site since Jun 22. This has allowed optimisation of operations and costs for the group. Additionally, with the easing of COVID-19 restrictions and reopening of the economy, the group has been in talks with potential customers on its electronics manufacturing service capabilities. Although Vietnam has yet to contribute to 1HFY23 revenue, we maintain a positive outlook on the segment going forward.
- Investment in corporate sustainability.** VALUE maintains a keen focus on sustainability, having invested HK\$12m on a solar power system in China. This renewable energy source has supplied 20% of the electricity used in the region since Jul 22, serving as an alternative source should there be any power shortages in China. Against the COVID-19 lockdowns of major cities in China, VALUE's proactive strategy to invest in this contingency plan assures us of strong involved management.

EARNINGS REVISION/RISK

- None.

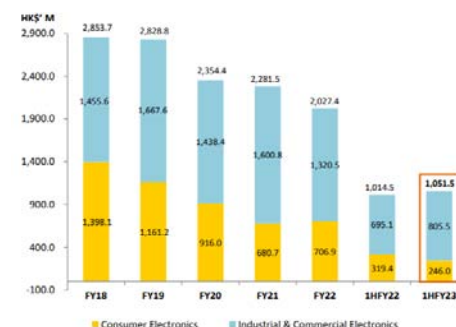
VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of S\$0.52**, pegged to an unchanged long-term mean PE of 11x FY23 EPS.

SHARE PRICE CATALYST

- Positive outlook on Vietnam market.
- Proactive management amid market challenges.

REVENUE BY SEGMENT



Source: VALUE, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (HK\$m)	2022	2023F	2024F	2025F
Net turnover	2,027.4	2,163.2	2,308.3	2,463.3
EBITDA	188.0	202.0	205.3	207.9
Deprec. & amort.	61.7	70.0	65.6	61.1
EBIT	126.3	132.0	139.7	146.8
Net interest income/(expense)	(0.6)	(1.2)	(1.3)	(1.4)
Pre-tax profit	125.7	130.8	138.4	145.4
Tax	(12.2)	(14.4)	(15.2)	(16.0)
Net profit	113.5	116.4	123.2	129.4
Net profit (adj.)	113.5	116.4	123.2	129.4

BALANCE SHEET

Year to 31 Mar (HK\$m)	2022	2023F	2024F	2025F
Fixed assets	318.3	298.3	277.7	261.6
Other LT assets	91.2	91.2	91.2	91.2
Cash/ST investment	936.7	1,021.8	1,112.6	1,202.4
Other current assets	749.5	796.7	847.1	900.9
Total assets	2,095.7	2,207.9	2,328.5	2,456.0
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	724.1	766.5	813.2	863.0
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	3.0	3.0	3.0	3.0
Shareholders' equity	1,368.6	1,438.4	1,512.3	1,590.0
Total liabilities & equity	2,095.7	2,207.9	2,328.5	2,456.0

CASH FLOW

Year to 31 Mar (HK\$m)	2022	2023F	2024F	2025F
Operating	(10.9)	181.7	185.0	186.5
Pre-tax profit	125.7	130.8	138.4	145.4
Tax	(22.0)	(14.4)	(15.2)	(16.0)
Deprec. & amort.	61.7	70.0	65.6	61.1
Working capital changes	(175.1)	(4.7)	(3.7)	(4.0)
Non-cash items	(1.1)	0.0	0.0	0.0
Other operating cashflows	(0.2)	0.0	0.0	0.0
Investing	(85.2)	(50.0)	(45.0)	(45.0)
Capex (growth)	(92.3)	(50.0)	(45.0)	(45.0)
Investments	2.7	0.0	0.0	0.0
Proceeds from sale of assets	3.1	0.0	0.0	0.0
Others	1.3	0.0	0.0	0.0
Financing	(98.2)	(46.5)	(49.3)	(51.8)
Dividend payments	(87.1)	(46.5)	(49.3)	(51.8)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(11.1)	0.0	0.0	0.0
Net cash inflow (outflow)	(194.4)	85.2	90.8	89.8
Beginning cash & cash equivalent	1,129.4	936.7	1,021.8	1,112.6
Changes due to forex impact	1.6	0.0	0.0	0.0
Ending cash & cash equivalent	936.7	1,021.8	1,112.6	1,202.4

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	9.3	9.3	8.9	8.4
Pre-tax margin	6.2	6.0	6.0	5.9
Net margin	5.6	5.4	5.3	5.3
ROA	5.2	5.4	5.4	5.4
ROE	8.4	8.3	8.3	8.3
Growth				
Turnover	(11.1)	6.7	6.7	6.7
EBITDA	(29.6)	7.5	1.6	1.3
Pre-tax profit	(39.7)	4.0	5.8	5.1
Net profit	(39.3)	2.5	5.8	5.1
Net profit (adj.)	(39.3)	2.5	5.8	5.1
EPS	(39.4)	2.5	5.8	5.1
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	(68.4)	(71.0)	(73.6)	(75.6)
Interest cover (x)	322.5	163.7	155.9	147.9

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