

Outthink. Outperform.

Earnings remain weak

Globe's weak 2Q16 results were below expectations. Although we expect earnings to recover in 2H16 as production normalises and as a new sensor product is introduced, the delay in the commencement of the new sensor will likely reduce its earnings contribution in subsequent quarters. We cut our FY16-18E EPS by 5-26% and reduce our target price to RM3.58. Maintain HOLD.

1H16 adjusted core earnings down 54% yoy – below expectations

Globe's 1H16 core earnings shrank 71% yoy to RM15m on weaker revenue (-35% yoy) and softer margins (1H16 EBITDA margin of 22% vs 28.1% a year ago). Revenue and hence earnings were affected by softer loadings by a major customer as a result of an adjustment in inventory in the supply chain. The 1H16 core earnings after adjusting for forex losses were however slightly higher at RM15 (-54% yoy). This was nevertheless below expectations. Although we are expecting earnings to be stronger in 2H16 in anticipation of a rollout of a new sensor, the delayed commencement of this project will likely reduce its earnings contribution in subsequent quarters. We therefore trim our 2016E EPS by 26%. Our 2017-18E EPS are trimmed by 7.3% and 5.1%, respectively.

2Q16 core earnings down 29% qoq

Sequentially, 2Q16 core earnings fell by 29% to RM6m despite a 2% decline in revenue. We think this could possibly be due to an unfavourable shift in revenue mix, with a continued decline in revenue of higher-margin sensor products (proximity sensor volumes continued to shrink to 9-10m units from 13m units in 1Q16). The 2Q16 EBITDA margin therefore contracted to 20.7% vs 23.3% in 1Q16.

Maintain Hold

We keep our Hold rating intact pending the mass introduction and rollout of Globe's new sensor. There could be downside risk to earnings should this fail to materialise. Risks that Globe's proximity sensors reach their end-of-life in the production cycle or the company's immediate Swiss customer's products being eliminated from future products or Globe replaced as a contractor, are also possible. Upside risks include the introduction of several new sensors. We lower our 12-month target price to RM3.58 from RM 3.87, based on an unchanged 15x 2017E EPS.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	355.0	343.7	307.2	421.6	525.9
EBITDA (RMm)	105.4	86.8	59.8	98.4	125.4
Pretax profit (RMm)	76.2	81.6	39.4	77.4	106.7
Net profit (RMm)	64.4	71.3	33.9	67.3	92.8
EPS (sen)	22.9	25.3	12.0	23.9	32.9
PER (x)	14.3	12.9	27.2	13.7	9.9
Core net profit (RMm)	59.9	60.3	38.6	67.3	92.8
Core EPS (sen)	21.3	21.4	13.7	23.9	32.9
Core EPS growth (%)	21.2	0.5	(36.0)	74.5	37.9
Core PER (x)	15.4	15.3	23.9	13.7	9.9
Net DPS (sen)	22.0	23.0	12.3	21.5	29.6
Dividend Yield (%)	6.7	7.0	3.8	6.6	9.1
EV/EBITDA (x)	7.3	8.7	12.5	7.5	5.8
Chg in EPS (%)			-25.9	-7.3	-5.1
Affin/Consensus (x)			0.8	0.9	1.0

Source: Company, Affin Hwang estimates

Affin Hwang Investment Bank Bhd (14389-U)
(Formerly known as HwangDBS Investment Bank Bhd)

Results Note

Globetronics

GTB MK

Sector: Technology

RM3.27 @ 26 July 2016

HOLD (maintain)

Upside 9%

Price Target: RM3.58

Previous Target: RM3.87



Price Performance

	1M	3M	12M
Absolute	+3.2%	-15.2%	-44.3%
Rel to KLCI	+1.4%	-13.6%	-42.3%

Stock Data

Issued shares (m)	281.9
Mkt cap (RMm)/(US\$m)	921.8/226.6
Avg daily vol - 6mth (m)	1.85
52-wk range (RM)	3.01-6.76
Est free float	61.7%
BV per share (RM)	1.06
P/BV (x)	3.08
Net cash/ (debt) (RMm) (2Q16)	169.1
ROE (2016E)	11.3%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Ng Kweng Chong	23.2%
EPF	9.3%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q16	QoQ % chg	YoY % chg	1H16	YoY % chg	Comments
Revenue	57.4	(2.3)	(35.5)	116.2	(34.6)	Revenue decline due to end customer wearing down inventory. Volume production for proximity sensor in 2Q16 are nearly halved compared to a year ago.
Op costs	(45.5)	1.0	(31.0)	(90.6)	(29.1)	
EBITDA	11.9	(13.2)	(48.5)	25.5	(48.9)	
EBITDA margin (%)	20.7	-2.6ppt	-5.2ppt	22.0	-6.1ppt	Weaker margins hit by lower utilisation levels.
Depn and amort	(4.2)	23.4	(3.3)	(7.6)	(39.7)	Decline in depreciation charges as amortization for proximity sensors was completed (project began in 2012).
EBIT	7.6	(25.4)	(59.0)	17.9	(52.0)	
Int expense	(0.0)	(40.9)	(50.0)	(0.0)	(25.5)	
Int and other inc	0.6	9.0	18.3	1.1	24.5	
Associates	0.0	(158.8)	(4.8)	(0.0)	(119.4)	
EI	0.3	(106.8)	(79.0)	(4.7)	(258.1)	Largely forex losses in 1Q16.
Pretax profit	8.6	50.0	(58.7)	14.3	(65.2)	
Core pretax	8.2	(23.2)	(57.0)	19.0	(50.3)	
Tax	(2.1)	0.7	(27.6)	(4.1)	(32.3)	
Tax rate (%)	24.0	nm	nm	28.6	nm	
Net profit	6.5	77.3	(63.6)	10.2	(70.9)	
EPS (sen)	2.3	77.3	(63.6)	3.7	(70.9)	
Core net profit	6.2	(28.8)	(62.1)	14.9	(53.7)	Below expectations – accounts for 29% and 32% of 2016 estimates.

Source: Affin Hwang, Company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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