



Valuetronics Holdings Ltd

Buying the cash

SINGAPORE | TECHNOLOGY(MANUFACTURING)| 1H25 RESULTS

- 1H25 revenue was within our estimates at 49% of FY25e forecasts. PATMI was better than expected at 55% of our FY24e forecast due to higher gross margins and lower effective tax.
- Revenue declined 3% YoY to HK\$862mn. Legacy low-margin consumer lifestyle products caused an 18% drop in consumer electronics. Of the four new customers, networking products provided the strongest growth as the customer is replacing hardware from another major competitor. Valuetronics is investing HK\$222mn (S\$38mn) to purchase MetaX GPUs for their AI venture in Hong Kong.
- We raised our FY25e earnings by 3% to HK\$169mn from better margins and lower effective tax. Our target price is raised from S\$0.76 to S\$0.785, as we peg it to an industry valuation of 11x PE. Valuation remains attractive as earnings begin to recover and cash continues to pile up. Net cash is currently HK\$1.17bn (S\$202mn), or 78% of market cap. Stable cash from operations of HK\$201mn is more than sufficient to cover the current payout of HK\$82mn or (5.7% yield). However, share buybacks have been a disappointment. There were 3.7mn shares bought back, but 4.1mn share options were issued to employees at a lower price.

Results at a glance

HKD 000s	1H25	1H24	YoY	Comments
Revenue	862,125	891,349	-3.3%	
- CE	193,438	234,758	-17.6%	Legacy electric toothbrush and shavers.
- ICE	668,687	656,591	1.8%	Growth from network products.
Gross profit	144,818	138,893	4.3%	Depreciation fell HK\$3.8mn.
Operating exp.	(83,894)	(76,352)	9.9%	
Interest income	30,305	25,640	18.2%	Net cash HK\$1.17bn (1H23: HK\$1.14bn)
EBITDA	80,434	85,878	-6.3%	
PATMI	90,525	82,139	10.2%	
Gross Margins	16.8%	15.6%	1.2%	Higher margin from new products.
DPS - Final (cts)	4.0	4.0	0.0%	
-Special	4.0	4	0.0%	

Source: Company, PSR #CE – consumer electronics, ICE – industrial and commercial electronics

The Positives

+ Margin at 4-year highs. Gross margins expanded by 1% points YoY to 16.8%, the highest in four years. Supporting margins have been a weakness in China's renminbi, product, lower depreciation, and easier labour conditions.

+ Healthy cash flows except extra spending on AI. Operating cash flow remains healthy at HK\$103mn. It declined from HK\$193mn in 1H23 due to higher trade receivables. Free cash-flows dipped HK\$53mn (1H23: HK\$179mn), as the company spent HK\$51mn on capex, primarily for AI investments.

The Negatives

- Contraction in revenue. Despite securing multiple new customers, 2H24 revenue declined 19% YoY to HK\$778mn. The biggest drag to revenue was the 23% YoY fall in ICE. Two legacy products - household consumer and auto - are fading out due to the supply chain exiting from China to Indonesia and North America, respectively. Another weak category is printers due to excess inventory post-pandemic.

14 November 2024

BUY (Maintained)

CLOSING PRICE	SGD 0.635
FORECAST DIV	SGD 0.036
TARGET PRICE	SGD 0.785
TOTAL RETURN	29.3%

COMPANY DATA

Bloomberg CODE:	VALUE SP
O/S SHARES (MN) :	409.9
MARKET CAP (USD mn / SGD mn) :	193 / 260
52 - WK HI/LO (SGD) :	0.66 / 0.45
3M Average Daily T/O (mn) :	0.44

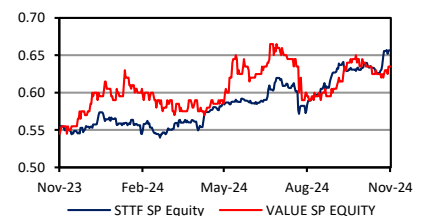
MAJOR SHAREHOLDERS

Tse Chong Hing	18.5%
Chow Kok Kit	7.8%

TOTAL PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.0	5.8	12.0
STTF RETURN	4.1	14.6	20.1

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar, HKD (mn)	FY23	FY24	FY25e	FY26e
Revenue	2,014	1,670	1,758	1,897
EBITDA	155.9	148.8	173.0	199.0
Net Profit	123.0	159.6	169.6	172.9
EPS (SGD cents)	5.2	6.7	7.1	7.3
P/E (X)	12.2	9.4	8.9	8.7
Dividend Yield	5.5%	6.8%	5.7%	5.2%
ROE	9.0%	11.6%	11.9%	11.5%
ROA	5.9%	7.7%	8.1%	7.9%

Source: Company, PSR

VALUATION METHOD

11x PE Multiple FY25e

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Outlook

Apart from the networking products, the volume ramp from the three new customers still hinges on improving macro conditions and capital expenditure decisions. Network access is expanding as the customer takes share from an Asian competitor. Electronic tags in retail stores are held back by hesitancy about large capital expenditures. The cooling solutions for gaming PCs are dependent on new product launches, but a larger opportunity is in data centre solutions. Electronic product collectibles for theme park sales are gradually improving but dependent on consumer demand.

On the 55:45 AI joint venture with Sinnet Cloud, Valuetronics will spend around HK\$222mn to purchase 1000 GPUs from Shanghai-based MetaX. These GPUs will be delivered by early 2025. Valuetronics will lease the GPUs to the joint venture. There will be two types of revenue sources from the joint venture - GPU processing and AI services. Revenue will begin to contribute in FY26. There were no financial estimates provided. If we use CoreWeave published rates on comparable TFLOPS GPU, Nvidia RTX6000, we get a price of US\$1.30 per hour. The potential revenue of GPU processing power as a service is US\$11mn per annum.

Maintain BUY with a higher TP of S\$0.785 (prev. S\$0.76)

Our target price is based on industry valuations of 11x PE 1-year forward earnings. Excluding cash, the company trades at 5x forward PE and 3x EV/EBITDA FY25e.

Financials

Income Statement

Y/E Mar, HKD mn	FY22	FY23	FY24	FY25e	FY26e
Revenue	2,027.4	2,013.7	1,669.9	1,757.5	1,896.8
Gross profit	274.8	261.7	265.2	290.0	322.5
EBITDA	173.3	155.9	148.8	173.0	199.0
Depreciation & amortisation	(58.0)	(53.4)	(43.8)	(51.9)	(53.2)
EBIT	111.6	100.9	103.9	119.6	144.3
Net Finance Inc/(Exp)	1.7	20.7	54.7	57.8	38.6
Profit before tax	125.7	132.4	167.9	180.5	185.9
Taxation	(12.2)	(9.4)	(8.3)	(10.8)	(13.0)
Minority interest	-	-	-	-	-
PATMI	113.5	123.0	159.6	169.6	172.9

Per share data (SGD Cents)

Y/E Mar	FY22	FY23	FY24	FY25e	FY26e
EPS, Reported	4.6	5.2	6.7	7.1	7.3
DPS	2.5	3.5	4.3	3.6	3.3
BVPS	55.1	57.7	59.0	61.0	65.0

Cash Flow

Y/E Mar, HKD mn	FY22	FY23	FY24	FY25e	FY26e
CFO					
Profit before tax	125.7	132.4	167.9	180.5	185.9
Adjustments	60.4	34.3	(9.4)	53.8	55.1
WC changes	(175.1)	36.3	85.3	(42.6)	(28.6)
Cash generated from ops	11.0	203.0	243.8	191.6	212.5
Tax paid	(22.0)	(4.8)	(10.1)	(10.4)	(12.6)
Cashflow from ops	(10.9)	198.2	233.7	181.2	199.9
CFI					
CAPEX, net	(92.3)	(34.6)	(21.1)	(250.0)	(20.0)
Others	7.0	23.8	56.8	-	-
Cashflow from investments	(85.2)	(10.8)	35.7	(250.0)	(20.0)
CFE					
Share issuance, net	(11.1)	(53.4)	(14.5)	-	-
Loans, net of repayments	-	-	-	-	-
Dividends	(87.1)	(59.4)	(99.2)	(118.9)	(77.9)
Others	-	-	-	-	-
Cashflow from financing	(98.2)	(112.8)	(113.7)	(118.9)	(77.9)
Net change in cash	(194.4)	74.5	155.8	(187.6)	102.0
CCE, end	183.0	1,009.9	1,164.5	976.0	1,077.2

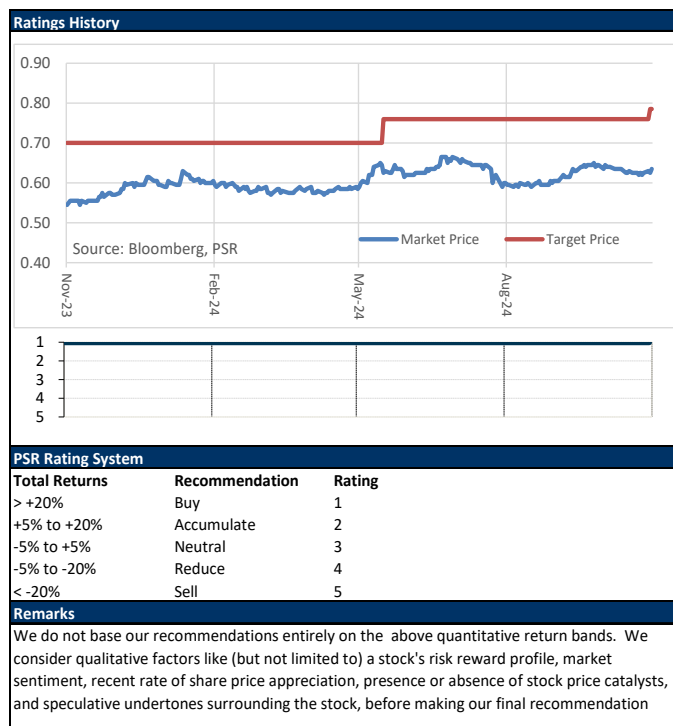
Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Mar, HKD mn	FY22	FY23	FY24	FY25e	FY26e
ASSETS					
Trade and other receivables	430.7	463.8	381.9	386.7	417.3
Cash	936.7	1,009.9	1,164.5	976.0	1,077.2
Inventories	273.5	203.6	173.1	193.3	208.6
Others	45.3	29.4	33.6	33.6	33.6
Total current assets	1,686.2	1,706.7	1,753.1	1,589.7	1,736.8
PPE	318.3	286.0	261.9	460.0	426.9
Others	91.2	83.1	73.9	72.4	70.9
Total non-current assets	409.5	369.2	335.8	532.4	497.7
Total Assets	2,095.7	2,075.9	2,088.9	2,122.1	2,234.5
LIABILITIES					
Accounts payable	262.7	233.6	237.3	219.7	237.1
Bank borrowings	-	-	-	-	-
Other payables	386.0	397.7	375.2	375.2	375.2
Others	75.4	82.2	72.7	72.7	72.7
Total current liabilities	724.1	713.4	685.1	667.5	684.9
Deferred tax liabilities	3.0	0.5	-	-	-
Long-term borrowings	-	-	-	-	-
Others	-	-	4.2	4.2	4.2
Total non-current liabilities	3.0	0.5	4.2	4.2	4.2
Total Liabilities	727.1	713.9	689.3	671.7	689.1
Equity					
Share capital	43.6	43.6	43.6	43.6	43.6
Shareholder Equity	1,368.6	1,362.0	1,399.6	1,450.4	1,545.4

Valuation Ratios

Y/E Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (X)	13.9	12.2	9.4	8.9	8.7
P/B (X)	1.2	1.1	1.1	1.0	1.0
EV/EBITDA (X)	3.7	3.1	2.3	3.1	2.2
Dividend Yield	3.9%	5.5%	6.8%	5.7%	5.2%
Growth & Margins					
Growth					
Revenue	-11.1%	-0.7%	-17.1%	5.2%	7.9%
EBITDA	-30.3%	-10.0%	-4.6%	16.3%	15.0%
EBIT	-41.6%	-9.6%	3.0%	15.1%	20.6%
Net profit, adj.	-39.3%	8.3%	29.8%	6.3%	1.9%
Margins					
Gross margin	13.6%	13.0%	15.9%	16.5%	17.0%
EBITDA margin	8.5%	7.7%	8.9%	9.8%	10.5%
EBIT margin	5.5%	5.0%	6.2%	6.8%	7.6%
Net profit margin	5.6%	6.1%	9.6%	9.7%	9.1%
Key Ratios					
ROE	8.4%	9.0%	11.6%	11.9%	11.5%
ROA	5.2%	5.9%	7.7%	8.1%	7.9%
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Net Debt/EBITDA (X)	n.a.	n.a.	n.a.	n.a.	n.a.



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