20 June 2014

Valuetronics Holding Ltd.

Still too much value. Easily worth 60 cents on earnings outperformance and excess cash.

SG | MANUFACTURING | ELECTRONICS | FY14 UPDATE

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Rating: Buy
(Upgraded from “Trading Buy”)

Target Price (SGD)	**0.605**
Forecast Dividend (SGD)	0.032
Last Traded Price (SGD)	0.405
Potential Upside	**57.3%**

- Adj. continuing full year FY2013/2014 revenue increased +10.1% y-y to HK$2,433.3M; gross profit increased +20.9% to HK$326.8M and net profit rose +24.9% y-y on the back of a robust Q4, exceeding net income expectations by 6%.
- Without adjustment, including discontinued operations, FY2014 was up 88%.
- Operating activities generated strong cash flow of HK$303M, with $478M net cash on hand.
- The higher gross profit and net margin is due to a favorable change in product sales mix and significant growth in the Industrial and Commercial segment, which has now steadily risen in revenue for 5 straights quarters.
- ICE segment reported record revenues with a widened customer base, as they continue to benefit from the outsourcing trend in manufacturing.
- CE segment reported credible single digit revenue growth as a result of new products from existing customers, greater operational efficiency and supply chain productivity.
- Valuetronics announced a dividend policy of at least a 30% to 50% of net profit in any financial year, and proposed a final dividend of 16HK cents per share and special dividend of 4 HK cents per share. At yesterday's closing price of S$0.405, that implies a dividend yield of roughly 8.0%.
- Upgrade to “Buy” rating with a revised TP of $0.605 *after* dividend payout.

Valuetronics reported their Q4/FY14 results on 28 May 2014.

How do we view this

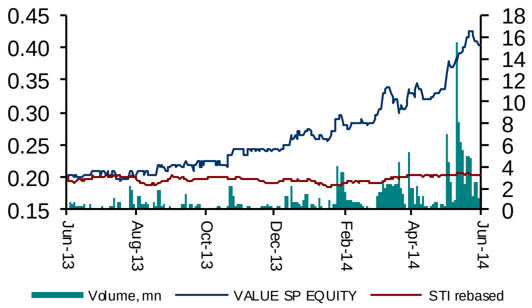
- **A gradually improving global economy**, an expanding product portfolio and on-going efficiency improvements is their foundation for continued growth - and so far they have been on the right track.
- **CE segment’s earnings base is supported, albeit with some cycle volatility,** by the 1) global recovery; as well as 2) the burgeoning LED lamps revolution product cycle itself. The LED lamp cycle continues to take up market share within the slowly growing lighting market with accelerated sales growth as they continue to render incandescent lamps. McKinsey (2012) estimated the global monetary value of the LED retrofit market to be EUR 190m in 2011 and would grow to EUR 905m by 2016 implying a double digit CAGR. Instead of double digit growth, we conservatively estimate down CE revenue growth rate to 3-5% to account for the likely gradual entrance of smaller competitors in the burgeoning LED space.
- **ICE segment’s earnings has increased for 5 quarters in a row,** validating Valuetronics is on the right track in their focus on incremental growth by seeking small-mid sized manufacturers to outsource production to Valuetronics. We estimate ICE sales growth to be a reasonable 3-5% which corresponds to a reasonable addition of 1 or 2 clients next year plus the likely production increase of existing clients now they can focus on other aspects of their business while being constrained by production limitations.
- **We think their formalization of a dividend policy is a good first sign** of unlocking their excess cash to investors.

Company Description

Valuetronics Holding Limited provides integrated electronics manufacturing services through its Consumer Electronics (CE), and Industrial & Commercial Electronics segments that include design, engineering, manufacturing, and supply chain support services for electronic and electro-mechanical products. The company serves multinational and mid-sized companies in the consumer industrial, telecommunications, and medical equipment industries in the US, Europe and Asia Pacific.

Company Data

Raw Beta (Past 2yrs weekly data)	0.47
Market Cap. (SSD mn / HKD mn)	122 / 755
Ent. Value (SGD mn / HKD mn)	56 / 353
3M Average Daily T/O (mn)	2.1
Closing Px in 52 week range	0.19 – 0.44



Major Shareholders	**(%)**
1. Chong Hing Tse	18.6
2. Kok Kit Chow	17.4
3. Pyn Rahastoyhtio	5.9

Valuation Method

PE

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MCI (P) 046/11/2013
Ref. No.: SG2014_0100

Investment Merits

- **Valuetronics is still trading at an attractive price** with net cash accounting for 52% of market cap, a conservatively estimated idle cash of ~30% of market cap, with PE of 6.2x and PE ex idle cash of 4.3x.
- **Forecasted FY15 net earnings growth rate of low-mid single digit is achievable,** especially given good earnings momentum from the strength of **4**Q14 earnings which is usually seasonally weaker.
- **A generous and likely sustainable dividend yield of 8% due to large cash reservoir and cheap valuations** provides compensation for stock price volatility.
- **Valuetronics is a compelling buy** due to the above investment merits, coupled with Valuetronics better than average performance vs peers.

Investment Action

Considering most of their peers also have forecasted growth of single digits, we believe Valuetronics cannot trade less than the peer average PE of 7.9x given that Valuetronics has 1) operated on better net margins of >5% vs the typical 3%, 2) have never turned in a loss making year even from before IPO, 3) has an ROE of 22% vs peer average of 10%, 4) and has done so without leverage (having a net cash ratio to market cap of ~50%) - making its ROE performance even more impressive.

An estimated FY15 net earnings of HK$150.2M implies an FY15 PE of 6.2x at last traded price of S$0.405. Valuating Valuetronics at an undemanding 8.0x (slightly higher than peer average) implies a value of **S$0.53** on earnings alone. Adding S$0.125 per share of idle cash gives us **S$0.655.** This is conservative considering we are only taking 60% of net cash into our value consideration, and the global GDP recovery, favorable LED lighting cycle and encouraging earnings momentum into FY15 (better seasonal Q4) should provide a tailwind buffer.

Adjusting for potential dilution, assuming that all in-the-money outstanding stock options are exercised, leads us to a conservative fair price of SG$0.637 (before dividend) which is **S$0.605 excluding the 3.2 SG cent dividend payout. This represents a total upside, including dividends, of 57% from the last traded price of S$0.405.**

Key Financial Summary (FY14)

FYE Mar	FY11	FY12	FY13	FY14	FY15E
Revenue (HKD '000)	1,970,421	2,378,625	2,242,888	2,433,272	2,522,804
NPAT, cont. (HKD '000)	141,100	160,281	118,435	147,905	150,199
EPS. (HK cents)	34.20	36.50	21.90	40.15	41.26
P/E (X),adj.	5.9	5.3	8.6	6.2	6.1
P/B (X)	1.30	0.98	0.76	1.27	1.15
DPS (HK cents)	14.0	17.0	8.0	20.0	20.4
Div. Yield (%)	8.0%	10.9%	6.4%	8.0%	8.1%

Source: Bloomberg, PSR est.

*Forward multiples and yields are based on current price; historical multiples and yields are based on historical prices

Results at a glance

(HK$'000)	4Q13	4Q14	y-y(%)	3Q14	q-q(%)	Comments
CE Revenue	$ 313,500	$ 382,945	22.2%	$ 385,700	-0.7%	
ICE Revenue	$ 165,600	$ 230,627	39.3%	$ 191,100	20.7%	Steady growth for 5 quarters
Total Sales	**$ 479,100**	**$ 613,572**	**28.1%**	**$ 576,800**	**6.4%**	
Gross Profit	$ 59,643	$ 85,533	43.4%	$ 78,378	9.1%	Outperformed expectations
PBT	$ 27,893	$ 40,931	46.7%	$ 40,125	2.0%	
Net Profit	**25,801**	**39,473**	**53.0%**	**35,531**	**-10.0%**	**Good earnings momentum into FY15**

MCI (P) 046/11/2013
Ref. No.: SG2014_0100

Business Overview

Established in 1992 and headquartered in Hong Kong, Valuetronics has grown through the years to become more than an integrated EMS provider with principal business segments ranging from Consumer Electronics Products ("CE") to Industrial and Commercial Electronics Products ("ICE"). Today, they pride themselves as a premier design, manufacturing partner for the world's leading brands in the consumer, industrial and commercial electronics sectors, which span across a wide geographical region that covers America, Europe and Asia Pacific.

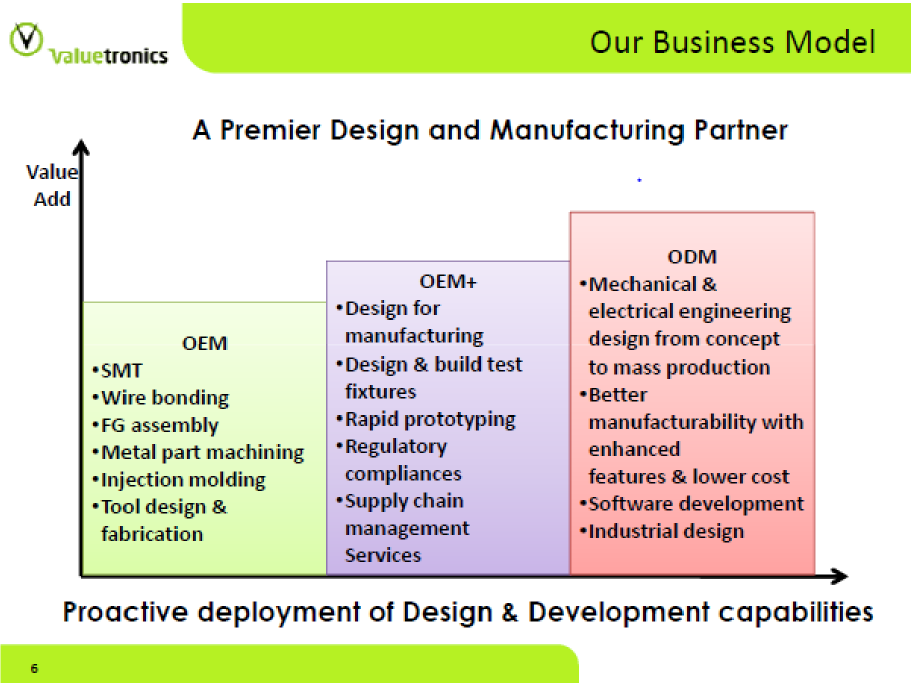
Key Milestones
Source: Company presentation

Their primary manufacturing plant in Daya Bay facility sports a total site area of more than 110,000 m^2 in which location B3 is still available for further expansion.

Bird's-eye View – Daya Bay Facility
Source: Company presentation

Business Model

Within their CE and ICE segments, Valuetronics utilizes a mixture of OEM (Original Equipment Manufacturing) to ODM (Original Design Manufacturing) to support their clients. Going forward, Valuetronics is concentrating their resources in more value added services, especially within the ICE, where segment margins can be almost double of CE. (2014: 10% (CE) vs: 19% (ICE))



Business Model
Source: Company presentation

Relevance and evolution of service over the years. Established in 1992, Valuetronics has kept themselves relevant by growing from an integrated EMS provider, towards a premier design and manufacturing partner for the world's leading brands in the consumer, industrial and commercial electronics sectors. This relevance manifests itself in27 % and 18% CAGR growth in both CE and ICE. Within this timeframe, they have grown their product offering from OEM (GSM Wireless Telephone, Cold Chain Temperature Monitor, Thermal Label Printer) and ODM (Baby Monitor, Alcohol Testor, Digitally Controlled Home Appliances) in 2007, to include LED energy saving luminaries and shavers (CE) in 2013.

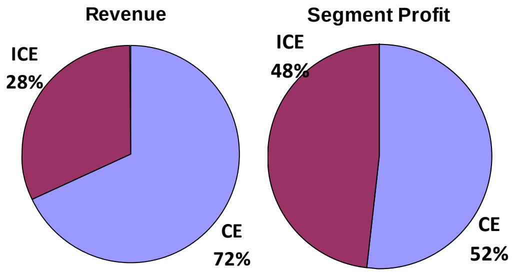
Design and Development / ODM

Valuetronics differentiates themselves from the competition through engineering design capabilities that cover the expertise required to develop or co-develop turnkey products whether they are simple consumer products or complex industrial or wireless products.

Sporting a team of engineers of various expertise, since 1998, Valuetronics has been involved in the developmental process of a wide variety of products across many segments such as: Residential Caller ID telephone products, Residential Cordless telephones, GSM Fixed Wireless phones, Wireless analog and digital audio baby monitors, Digitally controlled home appliance, thermostats systems, alcohol breath analyzer, thermal label printers, industrial grade air purifiers and gas level monitors.

Valuetronics design and developmental capabilities include:

- Mechanical Design
- Plastic Tool Design
- Electronics, RF and Software Designs
- Regulatory Compliance Engineering & Testing
- Product Test Development



Source: Company, PSR

Manufacturing

Valuetronics manufacturing capabilities enables ability to accommodate customers' requirements for volume, mix and complexity. They excel in a variety of volume requirements from low-volume complex custom products to high-volume standards products.

Manufacturing capabilities include:
Plastic Tool Fabrication and Injection Molding
Metal Stamping and Machining
Printed Circuit Board Assemblies, including complex multi layer boards
Sub-Assemblies and Full Product Assemblies (Box Build) across a wide variety of segments
Reliability Engineering and Testing
Quality Systems
Materials Procurement
On-site Program Management

Production of Thermal Label Printers
Source: Company

Reclassification of OEM, ODM and discontinuing of Licensing

Previously, the Group classified its business into three segments – Original Equipment Manufacturing (OEM), Original Design Manufacturing (ODM), and Licensing products (Licensing). Due to the high involvement in the designing and manufacturing engineering process of their OEM customers, the differentiation between their services provided to their OEM and ODM customers is blurring and may not reflect the actual performance of each business segment. With effect from 1 April 2012, their business segments have been reclassified according to the nature and characteristics of the market where the product is sold, namely CE and ICE.

The loss making licensing segment has been discontinued, and has been completely written off since 4Q13 or end Mar 2013. No doubt, the continued losses accounted for since Jun 2011 all the way to end Mar 2013 had put a negative sentiment on share price. There is no surprise that net profits had also recovered significantly following Mar 2013. Hence, all earnings are now solely on the continued earnings of CE and ICE.

Operating Segment: Consumer Electronics

Concentrated (40% sales) on LED lighting in portfolio

Today's present product mix includes energy saving LED lamps, shavers, baby monitors and bug zappers. Where the LED lamps and PCBAs (Printed Circuit Board Assembly for shavers, trimmers and electronic toothbrushes) make up majority of CE revenue and ~60% of all revenue (LED ~40%). At the moment, management is focusing efforts into growing the higher margin ICE segment; therefore, earnings for CE will be majorly dependant on LED general lighting sales.

Both LED lamps and PCBAs for shavers and electronic toothbrushes are manufactured for a top 5 MNC global consumer electronics manufacturer. **LED vendors right now are riding a sweet spot** as LED lights are increasing their market penetration in the lightings market and are considered the "next generation" of lighting. The LED general lighting market is estimated by McKinsey to be EUR 64B by 2020 (EUR 9B in 2011) – with ~ 45% sales CAGR but a -15% *price* CAGR to 2016 for LED retrofit lamps. The LED retrofit market value, which is a subset of general lighting and includes various LED replacement bulbs, is estimated to be EUR 690m in 2020 (EUR 190m in 2011) – with ~40% sales CAGR but -12% average unit price CAGR.

LED lamp profitability Is driven up:

1. Increasing size of the LED lighting market due to mid-cycle of adoption of technology to totally replace the incandescence lamps by 2020.
2. Cyclical nature of new lighting installation with the business cycle.

LED retrofit market forecast		2011	2012	2016	2020	2012-2016 CAGR
Number of light Sources	m pcs	29	73	290	254	41.2%
ASP per light source	EUR/unit	6.58	5.11	3.12	2.70	-11.6%
Monetary Value of market	m EUR	190.82	373.03	904.8	685.8	24.8%

LED retrofit market forecast
Source: McKinsey's 2012 Global Lighting Market Model, PSR

Electronic shavers lean more towards being a staple although you could make the argument the more expensive ones are discretionary in nature. Their profitability is likely correlated to consumer spending and GDP which is estimated to grow by an average of 3.4% CAGR till 2016 in real terms. Refer to the next section for LED industry outlook.

Valuetronics are focusing their efforts to develop the higher margin ICE segment; hence, until they develop newer products for CE, **CE's profitability will mainly be affected by the secular growth rates associated with its current position in the underlying product cycle for LED's invasion of the lighting industry; and, macro-economic conditions for LEDs and shavers.**

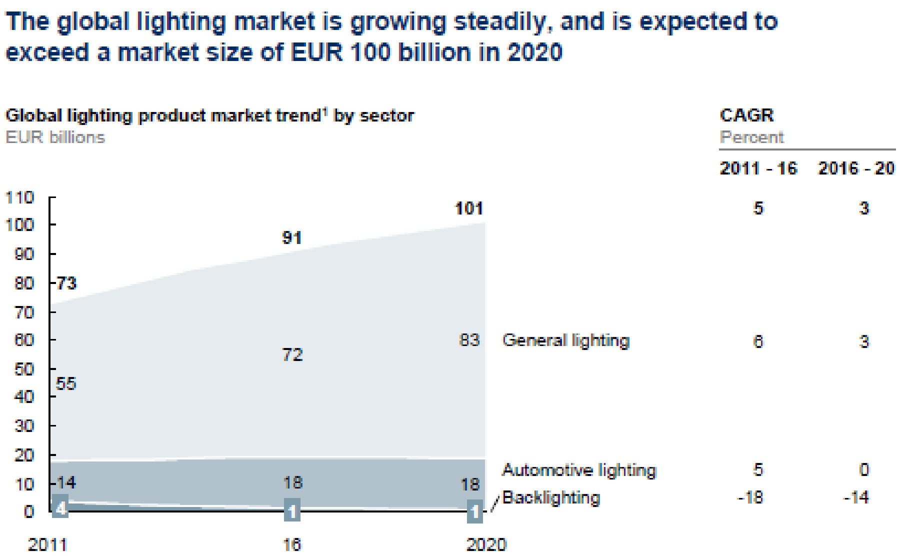
LED lighting market analysis

LED lighting for general lighting burgeoning at a value sweet spot – early stages of expansion phase into mainstream market.

Light emitting diodes (LEDs) will become the default option for most lighting applications. They are longer lasting, more efficient and more flexible than the traditional incandescent and fluorescent lights they are trying to replace. A typical LED lamp will use 90% less energy than an incandescent and 50% less than a fluorescent. The value of the market for high brightness LEDs used in general lighting will likely peak in 2017 before dropping away at the cost of technology falls sharply. IMS Research opines that the "best years" for LED vendors selling into the general lighting market would be 2013-2017.

According to a report by McKinsey (2012), LED general lighting is potentially a EUR 60B industry with an expected 45% sales CAGR to 2016 and a 15% CAGR to 2020. This will occur as the average price per LED lighting becomes cheaper due to supply and scale. ASP (average selling price) for LED per light source retrofit in general lighting was EUR 5.11 in 2012.

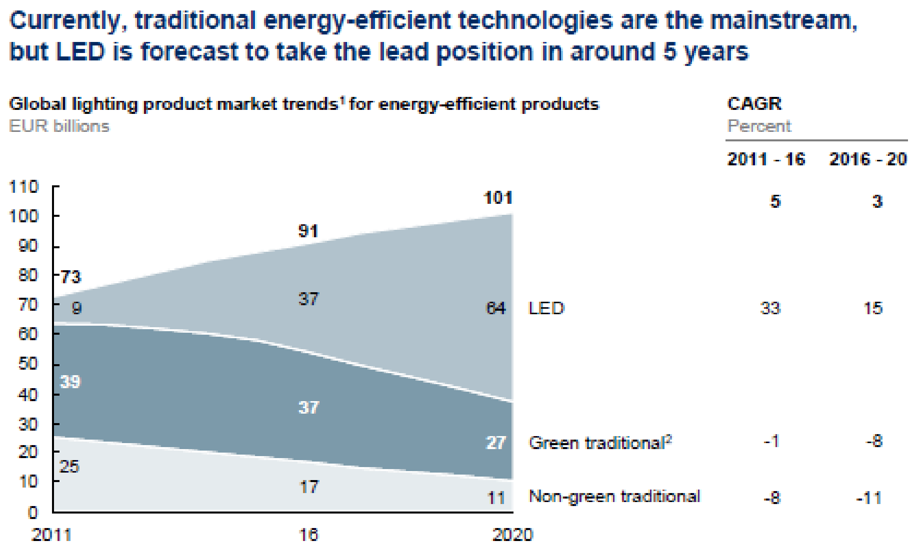
The global *general lighting market* (all types of lights) is going to increase at a 5% CAGR from 2011 (EUR 55B) till 2016, with a slower growth rate to 3% to 2020 to ~EUR 83B. We think this is reasonable considering our world GDP estimation of 3.4% annual real growth rate.



Global lighting product market trend by sector
Source: McKinsey's 2012 Global Lighting Market Model

[1] **Note:** Total general lighting market (new fixture installation market incl. full value chain, Incl. lighting system control components and light source replacement market,) automotive lighting (new fixture installations and light source replacement), and backlighting (light source only: CCFL and LED package)

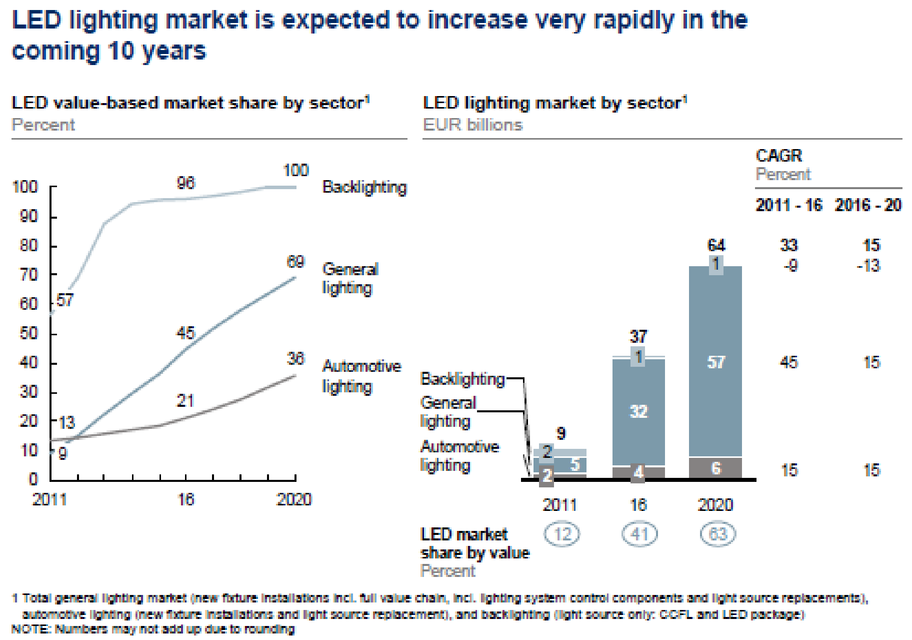
At the same time, *LED lights are increasing their market share within the expanding lighting market*. The compounded effect on market value of LED lighting based on growth within growth is estimated to be a revenue CAGR of 33% till 2016, followed by a slow down to 15% to 2020. The LED lighting market size overall is anticipated to be around EUR 37 billion in 2016 and EUR 64 billion in 2020. Or, almost 45% in 2016 and almost 70% in 2020.



Global lighting product market trends for energy-efficient products

Source: McKinsey's 2012 Global Lighting Market Model

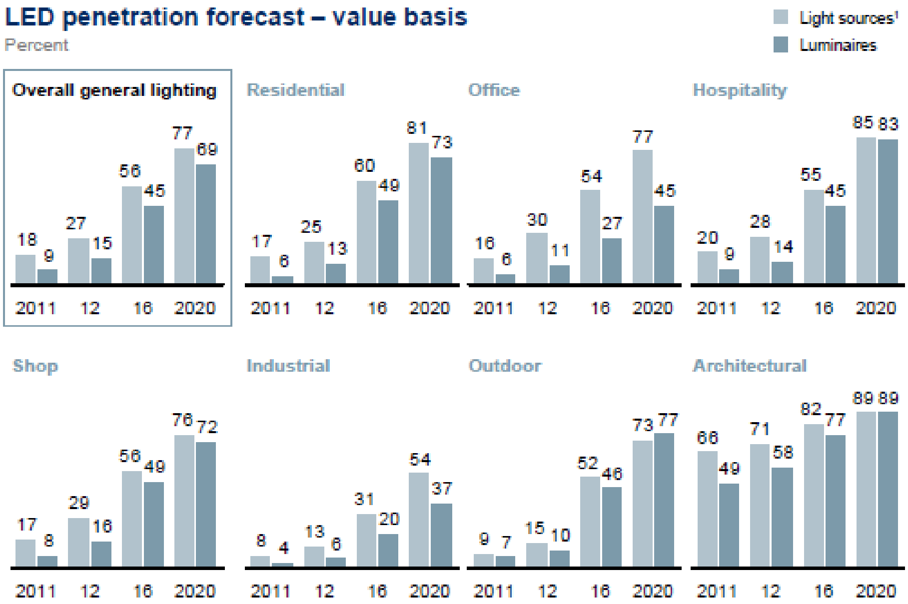
Within this expanding LED lighting segment, general lighting is also expanding the fastest. Valuetronic's LED lamps fall as a subsection of the general lighting segment.



LED lighting market

Source: McKinsey's 2012 Global Lighting Market Model

McKinsey's 2012 Global Lighting Market Model calculates the light sources share in general lighting at 56% in 2016 and almost 77% in 2020 as LED lighting penetrates the mainstream. General lighting will grow at 45% CAGR till 2016, and then hit an inflexion point (slower rates) to 15% till 2020. According to the US Department of Energy (April 2012), in some countries, the price of LED lamps is expected to become competitive with CFLs (compact fluorescent lamps) as soon as 2015, which will immediately speed up the transition from CFLs to LEDs. Moreover, accentuated regulation roadmaps to phase out inefficient light bulbs (particularly in China and Europe) increase this acceleration.



LED penetration forecast – value basis
Source: McKinsey's 2012 Global Lighting Market Model

Finally, within the LED general lighting segment, the estimation of the LED retrofit lamp market is below.

LED retrofit market forecast		2011	2012	2016	2020	2012-2016 CAGR
Number of light Sources	m pcs	29	73	290	254	41.2%
ASP per light source	EUR/unit	6.58	5.11	3.12	2.70	-11.6%
Monetary Value of market	m EUR	190.82	373.03	904.8	685.8	24.8%

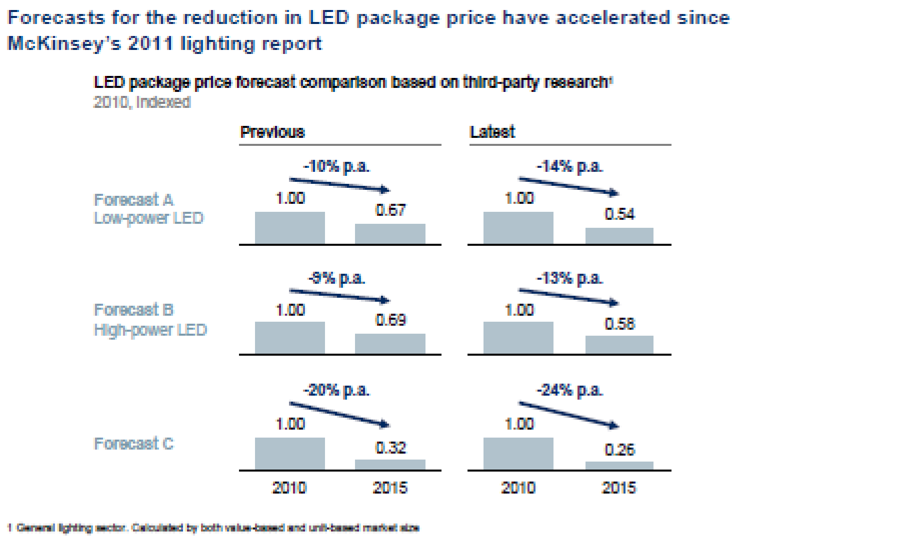
LED retrofit market forecast
Source: McKinsey's 2012 Global Lighting Market Model, PSR

Bottom line, these next few years (likely till 2016), barring unexpected turn in the business cycle or macro risks, is a sweet spot for the LED market in terms of monetary value.

Additional note: Falling Costs of LED packages (raw material) offsets margin compression

While LED retrofit lamp prices are dropping at an estimated double digit rate (~-12%), LED packages, one of the largest cost component of LED lamps and luminaires, are the building block of most LED products, is also falling concordantly by 13-14% a year. This helps to offset the margin compression based on the LED lamp product cycle.

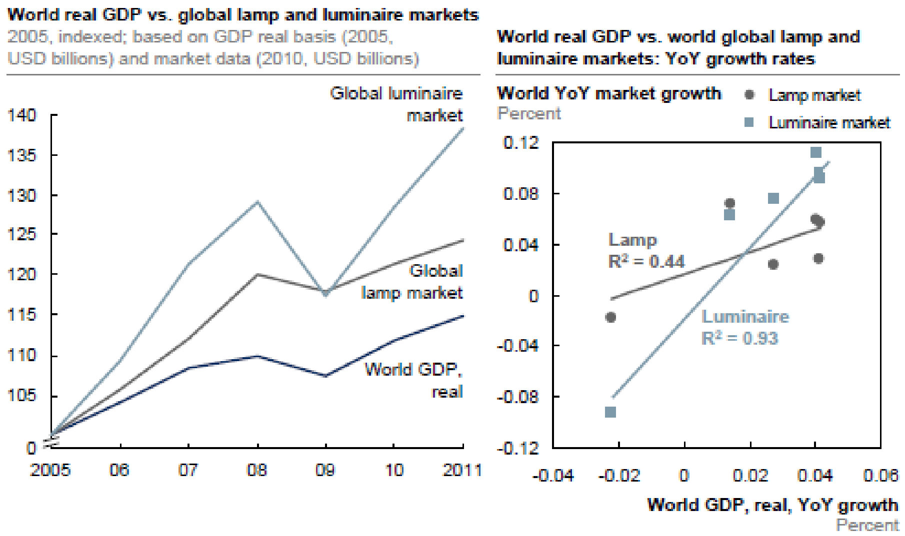
Example of an LED package
Source: Phillips Lumileds



LED package price forecast

Source: McKinsey analysis, Strategies Unlimited (Sept 2011), Strategies Unlimited (June 2010), IMS (April 2012), IMS (June 2011)

LED lighting sales are sensitive to macroeconomic conditions and business cycle. According to the McKinsey (2011) report, the market for luminaire and lighting systems is predominantly driven by new installations. New installations are linked to construction activity, and there is a clear correlation with GDP. Real GDP growth is estimated to be +3.4% annually from 2014-2016.



World GDP vs world global lamp and luminaire market

Source: McKinsey 2012

Replacement market eroded by the success of LED

The replacement market is a relatively small percentage of the total market – currently worth EUR 8B out of EUR 57B. This is estimated to fall to EUR 7B in 2020. This makes it important for Valuetronics to the ride this wave of LED market penetration while developing other product offerings to clients.

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Conclusions for CE

Valuetronics' CE products will have nice tailwinds due to LED's lighting's current position in its product life cycle, as well as mildly improving GDP and consumer spending in the broader world economy. However, this sweet spot for LED lightings will hit an inflexion point by 2016-2017. Valuetronics must be able to develop new products for the CE / ICE segment until then or suffer from decreasing profitability. At present, both world GDP and LED lighting product cycle are favourable for the CE segment. If both estimations go without a hitch, the industry can grow as much as 20%. **However, to take into account the gradual entrance of smaller competitors which is common in this phase of the product lifecycle, we revise our CE top line growth to 3-5%.**

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Operating Segment: Industrial and Commercial Electronics

Diversified portfolio

Today's present product mix includes:

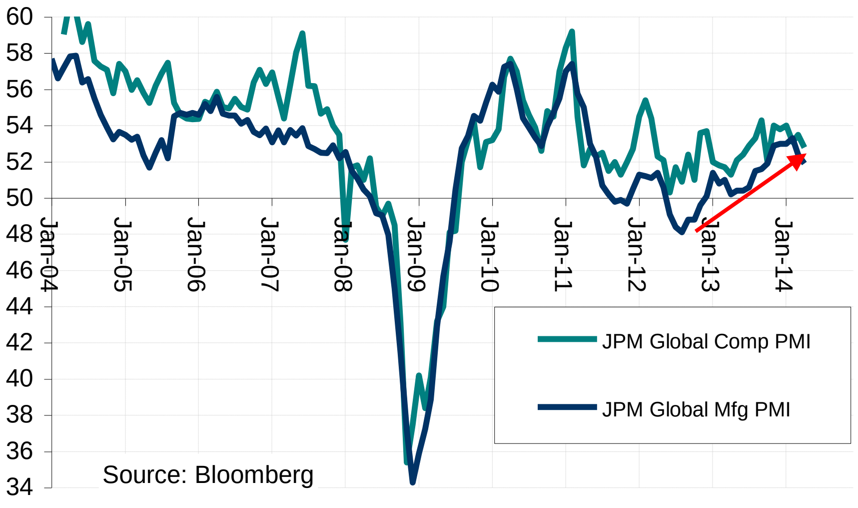
Slot, POS & Teller Station Machines
Thermal Label Printer for ICE use
Access Card Readers
In-vitro Diagnostic Medical Equipment for Testing Human Tissue Samples
High Precision GPS for Industrial use
Cold Chain Temperature Monitor for ICE use

Looking for growth in a higher margin segment

During the year, their well-balanced mix of ICE customers continued to flourish as revenues increased for 5 quarters in a row (~24% top-line 12-trailing month growth).

Valuetronic's modus operandi is to hunt for small-to-mid-sized companies with revenues typically under 500M USD who segment leaders with small design and development teams that are thinking about outsourcing solutions for manufacturing. Using their team of engineers, they provide not only OEM services to start with, but also offer other value-added services including design for manufacturability, design and building test fixtures, rapid prototyping, regulatory compliances and supply chain management (OEM+ services), and possibly ODM services later on. Evidence of this value-added service manifests itself in double the segment margins vs. CE. (19% vs. 10% CE segment margin), and its >5% net margins vs ~3% peers.

The potential to their competitive advantage is hinted In 2013 as 2 clients found it cost effective to outsource their entire production to Valuetronics. Their GPS precisions product ICE customer shut down its production facilities in North America and moved its production facilities to Valuetronics' facilities in China. Additionally, they managed to tap into a new customer involved in production of intelligent temperature control modules as they closed their own production facilities in PRC and also transferred the operations to Valuetronics.



Global PMIs

Source: Bloomberg, JP Morgan, PSR

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The recovery in global PMIs with the single digit growth in real GDP provides tailwinds for growth within existing ICE products.

The recent year had a commendable ~24% top-line growth. **We conservatively think they will be able to achieve 3-5% annual revenue growth with no significant change in segment margins.**

Plans going forward

- To enhance marketing efforts to broaden their customer base, especially in the ICE segment.
- They will concentrate of improving their fundamentals, including their design and development capabilities, production efficiencies and inventory management
- They will continue to pursue operating margin stabilization against rising cost pressure in China via improved product mix and process automation has started 18 month ago.

Short term risks

1. Sensitivity to the business cycle. Will impact both CE and ICE, particularly LED lighting sales because of positive correlation between lighting sales and GDP. We estimate that we are on mid-bull, late expansion phase of the cycle now. A quicker than expected contraction of the economy will have a direct impact on profitability, especially the CE segment.

2. Single client concentration risk. This may lead to pricing pressure and greater volatility on earnings for CE.

3. Small Cap risk. Tendency for earnings to be to be more volatile, and sensitive to macro or company specific shocks as compared to bigger companies**.**

Long term risks

Valuetronics long term survival and profitability proposition hinge on their ability to:

1. Continue to adapt to a changing marketplace. They have continually grown revenues by a CAGR of 25% and have net profit for continuing operations CAGR of 26%. They have done so by increasing their client base, shifting their manufacturing towards newer products, and value adding via their engineering team. They must continue to do so if they want to grow earnings and maintain better than average margins.

2. Gradually offset the eventual LED lighting sales and profitability decline with point 1. The LED retrofit market size is estimated to reach it's peak in 2016, before declining by ~30% through to 2020. An extension to point 1, Valuetronics must be able to grow other product offers before the eventual decline of LED retrofit market value.

3. Continue lean manufacturing and selective automation for greater efficiency to combat wage inflation or changes of labour regulations in China. Although they have had moderate success, through working on over 40-in-house process automation projects starting in 2012 to improve efficiency and reducing workforce requirements; continual efforts in the efficiency arena is necessary to maintain margins.

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Company Valuations

Model modifications from last report

- FY15 earnings increased to HK$150.2M due to FY14 earnings exceeding expectations.
- Peer Average PE increased from 7.8x to 7.9x.
- Idle cash increased to 60% from 50% on further understanding of company operations.
- HKD:SGD = 0.1612
- CE sales growth: 3-5%, CE segment margin decreased by factor of 1%.
- ICE sales growth: 3-5%, segment margin unchanged.
- Shares outstanding = 368,376,250.
- Share-based options outstanding = 14,112,500. Weighted average price = S$0.175

Peer comparisons

We compare Valuetronics to its comparable peers in Table 1 below. We separate out Venture Corp because of the major differences in the much larger size as well as longer history, giving Venture a significantly less demanding valuation. In comparing the more similar EMS or contract manufacturing firms listed in Singapore of comparable market cap, we see that Valuetronics has performed admirably. They 1) operated on better net margins of >5% vs the typical 3%, 2) have never turned in a loss making year even from before IPO, 3) has an ROE of 22% vs peer average of 10%, 4) and has done so without leverage (having a net cash ratio to market cap of ~50%) - making its ROE performance even more impressive.

	Px ($)	MrkCap (M)	ROE (%)	P/B (x)	PE (x)	3 yr average Gross Margins (%)	3 Yr average Net Margins (%)	Net Debt Ex Cash / Equity (%)
AMTEK ENGINEERING LTD	0.615	335 M	18.0%	1.60	10.03	16.3	5.3	24%
AZTECH GROUP LTD	0.133	068 M	0.3%	0.84	8.31	8.9	-2.6	5%
EXCELPOINT TECHNOLOGY LTD	0.091	047 M	11.3%	0.79	6.06	7.3	0.9	66%
KARIN TECHNOLOGY HOLDINGS	0.290	062 M	16.3%	0.80	9.41	7.6	1.9	7%
SERIAL SYSTEM LTD	0.137	123 M	9.5%	0.92	8.91	9.4	1.4	53%
SUNNINGDALE TECH LTD	0.174	133 M	5.1%	0.54	6.80	13.4	0.7	3%
VALUETRONICS HOLDINGS LTD	0.405	149 M	22.4%	1.27	6.18	13.2	5.1	-66%
SPINDEX INDUSTRIES LTD	0.510	059 M	9.5%	0.94	5.93	18.9	6.8	-34%
Average			**10.0%**	**0.92**	**7.92**	**11.7%**	**2.1%**	**17.8%**
VENTURE CORP LTD	7.590	2,085 M	7.2%	1.13	15.59	-	6.0	-13%
							Updated:	16-Jun-14

Table 1: Values obtained on May 14, 2014
Source: Bloomberg, PSR

As such, it is more than fair that Valuetronics should at trade easily at an undemanding PE of 8.0x vs peer average of 7.9x.

Assuming FY15 net earnings of $150.2M HKD, this implies a FY15PE of 6.2x at current price. Valuating Valuetronics at 8.0x implies a fair value of **S$0.53** based on earnings alone. On further observation, we conservatively estimate that 60% of the cash (S$0.125 per share) on the balance sheet is idle and not necessary for continuing operations. This likely still understates comparative value as Valuetronic's peers have a new debt position while subtracting 60% of cash still leaves a net cash position. If the company distributes the cash back to investors, or invests the money in an earnings accretive manner, this enhances the value to the investor. Added together, this gives us a total value of **S$0.655** per share.

Finally, we account for potential dilution by assuming that all outstanding options that are in the money are exercised. The diluted final fair value before dividend payout is SG$0.637. The fair value *after* the coming dividend payout of 20 HK cents or **3.2 SG cents**, is **S$0.605. The dividend payout together with the final fair price represents an upside of 57%.**

Responses to certain perceived risks

Q) Concentration Risk: What if that one big client pulls out?

- That client is a global top 5 manufacturer of lighting.
- Valuetronics was 1 of 8 global preferred manufacturer shortlisted.
- They have had a relationship since 2005.
- Valuetronics handles ~90% of those specific types of LED lamps.
- Realistically, even if that top 5 LED producer MNC wanted to pull out for whatever reason, it would likely be done incrementally, not immediately.
- That one client is responsible for 60% revenue in the lower margin CE segment, which corresponds to a lesser 30% of gross profit.

Q) Typical EMS are low margin, isn't that, combined with China's cost pressures, a bad combination?

- Valuetronics has admirably been operating above a 5% net margin for years.
- Average contract manufacturing net margins are closer to 3%.
- Additionally, even before IPO, they have not had a loss making year.
- They are proactive in stabilizing margins via LEAN manufacturing and other process improvements.
- This is why Valuetronics, in the near future, is focused on developing higher margin ventures like OEM+ services that utilize valued added services, particularly in the ICE segment.

Q) There is no orderbook.

- This is the case for most contract manufacturers. However, the following points help to mitigate this lack of clarity.
- Manufacturing LED and personal care products for a top global manufacturer allows revenue correlations to the global economy.
- The estimated 3.4% annual GDP growth provides tailwinds for both CE and ICE segments.
- The LED growth at this part of the technological adoption to the mass market provide also provides tailwinds for the CE segment.

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FYE Mar	FY12	FY13	FY14	FY15F
Income Statement (HKD '000) (Continuing operation)				
Revenue	**2,378,625**	**2,242,888**	**2,433,272**	**2,522,804**
EBITDA	**218,550**	**174,713**	**207,737**	**211,344**
Depreciation & Amortisation	41,265	43,768	39,674	36,839
EBIT	**177,285**	**130,945**	**168,063**	**174,504**
Net Finance (Expense)/Inc	(1,198)	(356)	1,144	2,148
Profit Before Tax	**178,483**	**131,301**	**166,919**	**172,357**
Taxation	(18,202)	(12,866)	(19,014)	(22,157)
Profit After Tax	**160,281**	**118,435**	**147,905**	**150,199**
Non-controlling Interest	-	-	-	-
Net Income, continuing	**160,281**	**118,435**	**147,905**	**150,199**
Net Income, with discontinuing	**130,326**	**78,683**	**147,905**	**150,199**

FYE Mar	FY12	FY13	FY14	FY15F
Per share data (HK cents) (Continuing operations)				
EPS, basic	36.5	21.9	40.6	41.3
EPS, adj.	36.1	21.8	40.4	41.0
DPS	17.0	8.0	20.0	20.4
BVPS	158.5	164.5	197.2	218.0

FYE Mar	FY12	FY13	FY14	FY15F
Balance Sheet (HKD '000)				
PPE	222,689	196,454	181,681	195,345
Intangibles	10	-	-	-
Investments	-	-	-	-
Others	21,509	22,740	32,986	32,483
Total non-current assets	**244,208**	**219,194**	**214,667**	**227,828**
Inventories	204,090	178,358	198,874	206,870
Accounts Receivables	508,120	481,509	517,213	536,244
Investments	-	2,476	-	-
Cash	263,730	221,579	477,934	535,982
Others	13,238	9,327	12,843	12,843
Total current assets	**989,178**	**893,249**	**1,206,864**	**1,291,938**
Total Assets	**1,233,386**	**1,112,443**	**1,421,531**	**1,519,766**
Short term loans	9,000	-	-	-
Accounts Payables	625,937	506,337	668,082	692,664
Others	15,130	10,491	24,255	21,384
Total current liabilities	**650,067**	**516,828**	**692,337**	**714,048**
Long term loans	11,000	-	-	-
Others (Defered tax)	3,944	3,388	2,627	2,627
Total non-current liabilities	**14,944**	**3,388**	**2,627**	**2,627**
Non-controlling interest	-	-	-	-
Shareholder Equity	**568,375**	**592,227**	**726,567**	**803,091**

FYE Mar	FY12	FY13	FY14	FY15F
Cashflow Statements (HKD '000) (Continuing Operations)				
CFO				
PBT	178,483	131,301	166,919	172,357
Adjustments	43,834	48,875	44,018	31,101
WC changes	42,108	(88,213)	100,827	(2,445)
Cash generated from ops	264,425	91,963	311,764	201,013
Others (Income tax, interest)	(18,004)	(19,095)	(8,807)	(22,157)
Cashflow from ops	**246,421**	**72,868**	**302,957**	**178,855**
CFI				
CAPEX, net	(44,218)	(17,926)	(20,438)	(50,000)
Others	406	(2,967)	(5,900)	2,868
Cashflow from investments	**(43,812)**	**(20,893)**	**(26,338)**	**(47,132)**
CFF				
Share issuance	2,505	268	7,314	-
Loans, net of repayments	(18,015)	(20,000)	-	-
Dividends	(49,998)	(61,022)	(29,215)	(73,675)
Others	-	-	-	-
Cashflow from financing	**(65,508)**	**(80,754)**	**(21,901)**	**(73,675)**
Net change in cash	**137,101**	**(28,779)**	**254,718**	**58,048**
Effects of exchange rates	1,294	548	1,637	-
CCE, end	**263,730**	**221,579**	**477,934**	**535,982**

FYE Mar	FY12	FY13	FY14	FY15E
Valuation Ratios				
P/E (X) (Total)	5.3	8.6	6.2	6.1
P/B (X)	0.98	0.76	1.27	1.15
EV/EBITDA (X)	1.5	1.4	2.1	1.9
Dividend Yield (%)	10.9%	6.4%	8.0%	8.1%
Growth & Margins (%)				
Growth				
Revenue	20.7%	-5.7%	8.5%	3.7%
EBITDA	15.7%	-20.1%	18.9%	1.7%
EBIT	13.9%	-26.1%	28.3%	3.8%
Net Income, adj.	7.5%	-39.6%	88.0%	1.6%
Margins				
EBITDA margin	9.2%	7.8%	8.5%	8.4%
EBIT margin	7.5%	5.8%	6.9%	6.9%
Net Profit Margin	6.7%	5.3%	6.1%	6.0%
Key Ratios				
ROE (%)	30.7%	20.4%	22.4%	19.6%
ROA (%)	14.2%	10.1%	11.7%	10.2%
Net Debt/(Cash)	(243,730)	(221,579)	(477,934)	(535,982)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash
Net Cash/Market Cap	43%	48%	54%	58%

Source: Company Data, PSR est

Note: Historical Multiples use Historical Price, Forward Multiple use Current Price

Fig 1: CE and ICE Revenue

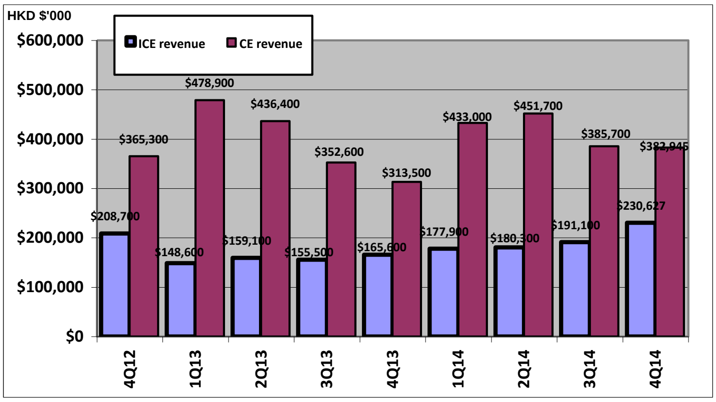


Fig 2: Net Profit and Net Profit Margins

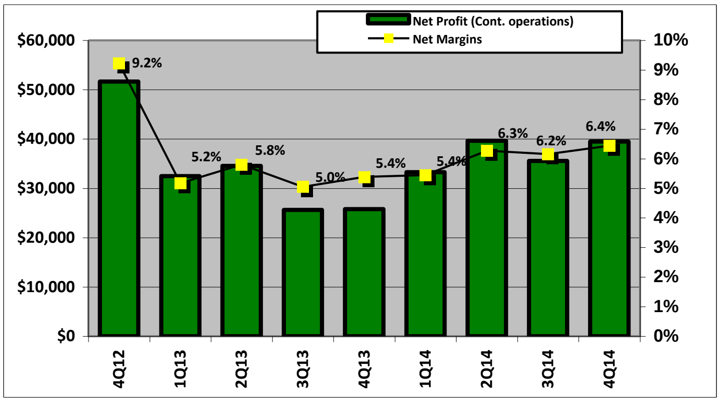


Fig 3: ICE and CE revenue

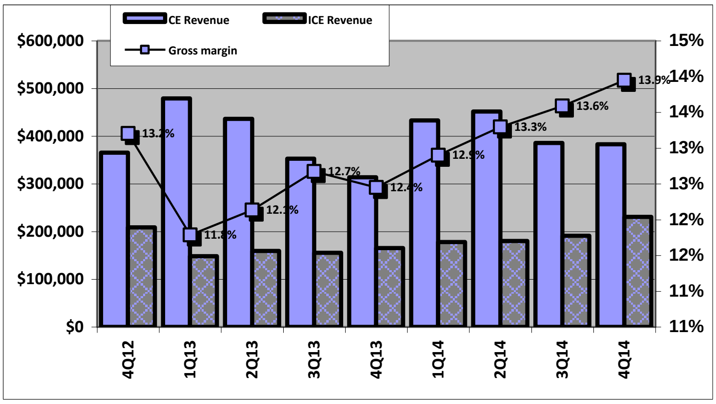


Fig 4: Annual Figures: CE & ICE Revenues

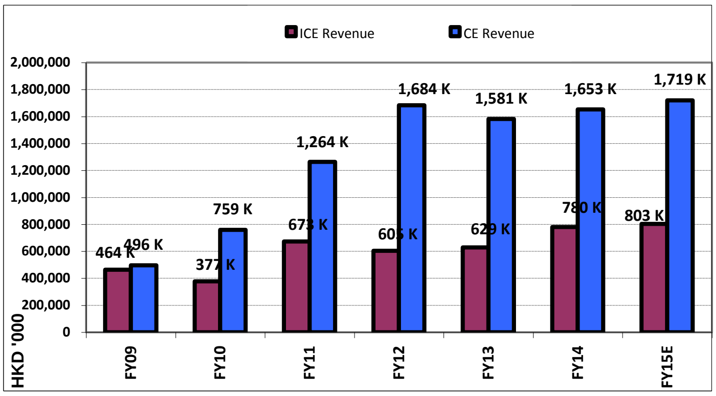


Fig 5: Annual Figures: Net Profit & Net Margins (Continuing Operations)

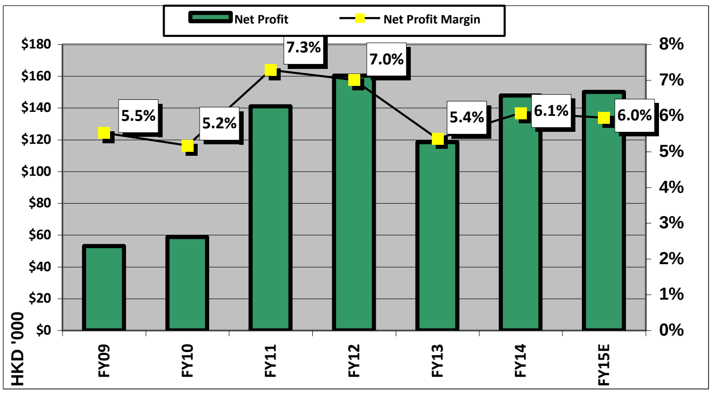


Fig 6: Annual Figures: CE & ICE Revenues and Segment Margins

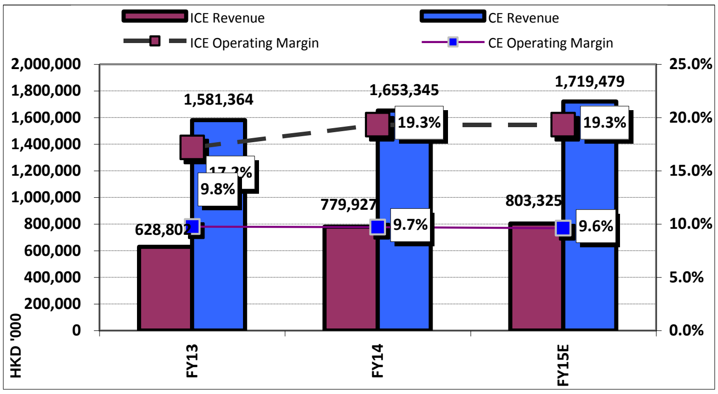
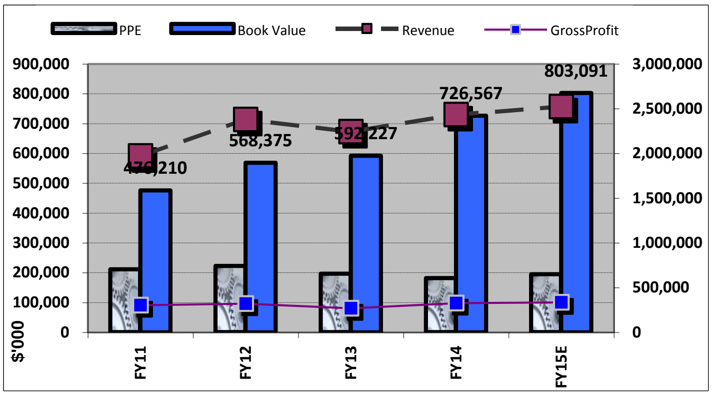


Fig 7: Historical Segment Revenues (5 years)



Source: Company, PSR

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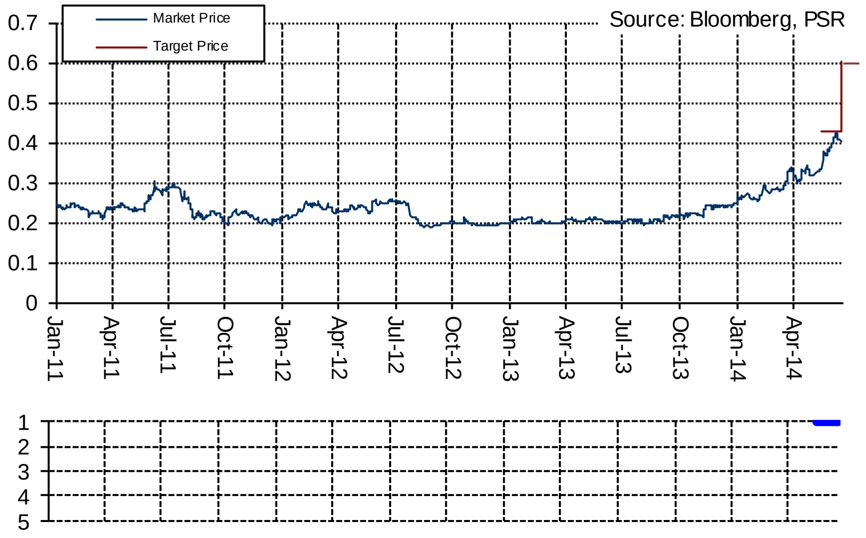
Ratings History



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Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

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