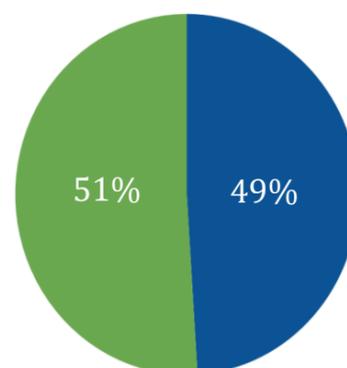


Company Overview

Valuetronics Holdings Ltd provides Electronics Manufacturing Services (EMS) to Consumer Electronics and Industrial/Commercial Electronics manufacturers, covering a wide product range including smart lighting products, printers, temperature sensing devices, communication products, automotive in-car connectivity modules, and medical equipment. Key services include Printed-Circuit Board Assembly (PCBA), box-build assembly, metal stamping/machining, and plastic tool fabrication/molding. Valuetronics also provides Original Design Manufacturing (ODM) services, working closely with clients to develop/co-develop turnkey products. Valuetronics is the 44th largest EMS provider in the world, with geographic coverage across the United States, China, Canada and other international markets.

(HK\$'million)	FY17A	FY18A	FY19E	FY20E
Revenue	2,274.9	2,853.7	3,072.0	3,393.0
Gr Rate (%)	16.5%	25.4%	7.7%	10.4%
EBITDA	190.6	252.7	262.9	284.6
Net Income	154.0	204.7	204.5	228.8
ROA	8.5%	10.4%	9.6%	9.7%
ROE	16.4%	19.3%	17.6%	17.9%
Gross Profit Margin	15.0%	14.5%	15.1%	15.3%
P/E Ratio	9.2x	12.0x	8.1x	7.2x

FY2018 Revenue by Market



● Consumer Electronics ● Industrial & Commercial Electronics
Source: Company reports

Investment Thesis

- IOT penetration to provide impetus for top-line growth:** With Valuetronics' being an established EMS provider specializing in IOT products, the anticipated increase in adoption rates for smart lighting and connected cars are likely to boost revenue growth. Management has already expressed strong confidence that sales of smart lighting products will pick up from 2H18 onwards, while the number of global connected cars are expected to more than double by 2022.
- Robust demand from key customers:** Having secured large order books from reputable tier-1 key clients such as Philips and Aptiv, Valuetronics stands to benefit from further customer acquisitions via referrals within the industry. Valuetronics' high-quality product offerings allow it to be positioned as a reliable supplier of both consumer and industrial electronics products, which will appeal to customers while allowing Valuetronics to maintain its margins against the backdrop of potential price competition initiated by smaller (but lower quality) players.
- Attractive relative valuations:** Valuetronics' current share price translates to a significantly lower P/E (8.0x) and cash-adjusted P/E (4.4x) compared to its peer comps (c.13.0x) and historical figures (c.9.6x), trading at c.1.5x/0.7x SD below 1Y/3Y mean historical P/E. This is attributable to its recent price pullback due to weakness in Philips' smart lighting sales, which we believe is overblown - it is likely a temporary blip in an industry that is expected to more than double in size by 2021.

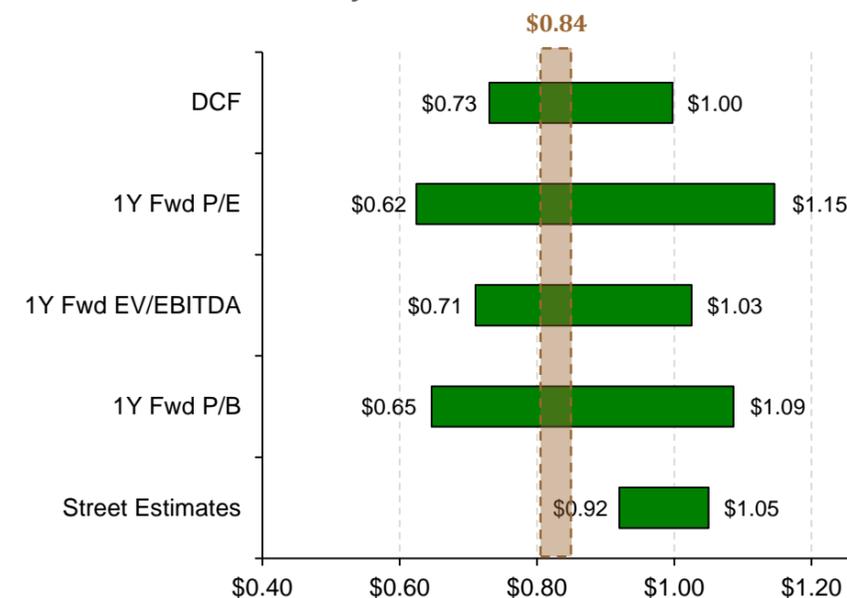
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12M Industry Outlook

- IoT outlook remains strong,** with a growing trend of consumer electronics enhanced as smart products with inter-connectivity. IoT has potential use cases in a diverse range of industries such as Energy and Utilities, Agriculture, Healthcare and more. Furthermore, 5G may be available as early as 2019 due to heightened R&D by various countries, seen as the main driver for greater inter-connectivity between smart devices. In particular, residential smart lighting, which Valuetronics is exposed to via their key consumer client, Philips, is expected to flourish as demand and consumer penetration increases. Philips posted 2Q18 comparable sales growth of -5.9% YoY for their Home lighting segment due to continued clearance of heightened US retail inventory - as a key supplier, Valuetronics' Consumer sales were affected, slowing by 15.6% in 1Q19. Philips disclosed that inventory levels have since normalized, and that sales growth should return from 2H18 onwards.
- Automotive growth will continue** to be the main driver for Industrial and Commercial Electronics, with global demand growth for in-car connectivity expected to rise at a CAGR of c.22% from 2018 to 2022. Valuetronics is highly exposed to this sector via several key automotive customers, for which Valuetronics manufactures products such as in-car connectivity modules.
- Global Macro Forces:** the US-China trade war has seen a 10 - 25% tariff imposed on certain Chinese Tech goods. While we have limited color on the exact extent of Valuetronics' affected products due to their wide manufacturing range, Valuetronics has fostered long-term cornerstone client relationships, which we expect will weather these short-term tariff headwinds fairly well.

Valuations

Valuation Summary



Our 5Y DCF-based 12-month price target from date of coverage is **S\$0.84**, assuming a terminal growth rate of 2% from 2023E, and a country-weighted WACC of 9.91%; our range of base case TPs across valuation methods is \$0.81 - \$0.84. Our base case revenue growth estimates for 2019/20/21E are fairly conservative at 7.7/10.4/8.9% respectively, based on separate growth forecasts for each of Valuetronics' 2 operating segments, Consumer and Industrial & Commercial. Given Valuetronics' strong EMS capabilities, market-leading tier-1 customers, and unique focus on IoT components, we expect robust volume growth going forward as smart product penetration increases.

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