MEDIUM : FOCUS MALAYSIA
DATE : May, 09 2015
PAGE : 26 – MAINSTREAM

Globetronics set for another bumper dividend year

Shareholders expected to reap rewards of strong global demand for sensors

by Ng Wai Mun

GLOBETRONICS Technology Bhd is expected to report another good set of financial results for this year and the next. This is on the back of stronger growth projections for the semiconductor sector.

The sensor segment, being one of Globetronics' primary revenue contributors, will go well with the findings of the Global Semiconductor Industry Survey by accounting firm KPMG. The survey reported that within the industry, the sensor sub-sector is poised to provide the strongest growth opportunity this year.

Research houses are bullish about the sensor sector and its positive impact on the Globetronics performance. The sensor business is expected to account for 38-40% of Globetronics' revenue for this year and for as much as 56% for FY16.

Towards the end of last year, KPMG surveyed over 150 semiconductor industry business leaders in companies worldwide to create this year's KPMG Semiconductor Industry Confidence Index.

The index has edged up to 59, compared with 57 a year ago. A value of above 50 is considered an optimistic outlook on the business environment over the next 12 months – good news for Globetronics.

Some 61% of survey respondents expected the sensor division to provide the strongest sector growth opportunity for the industry this year, as sensors are key to automotive technology applications and touchscreens.

JONATHAN LOI/FocusM

Sensors are key to automotive technology applications and touchscreens

demand will respond with similarly high growth rates."

Even then, research houses were abuzz about the semiconductor's prospects. Affin Research then said: "Globetronics' potential M&A targets could be related to electronic medical manufacturing companies."

Alliance Research, however, has also highlighted the dangers of an over-reliance on a single customer. Globetronics' only current customer for its sensor division is a Swiss firm.

Despite the glowing outlook, some analysts are not too comfortable with the fact the industry is one of low-margin products, which some consider a weak-

12 months – good news for Globetronics.

Some 61% of survey respondents expected the sensor division to provide the strongest sector growth opportunity for the industry this year, as sensors are key to automotive technology applications and touchscreens.

In March this year, the World Semiconductor Trade Statistics (WSTS) report disclosed the value of the worldwide semiconductor industry grew by almost 10% to US$336 bil (RM1.21 tril) last year. By geographic division, all regions recorded a positive growth compared with 2013 levels. For this year and the next, WSTS projected the world semiconductor market would grow by 4.9% and 3.1% respectively.

Fastest-growing market

In terms of end markets, WSTS expects the automotive and communications segments to grow more strongly than the overall market; while the consumer and computer segments are expected to remain flat. Regionally, WSTS said the Asia-Pacific will continue to be the fastest-growing; its market share is already almost 60% of the total semiconductor market.

Despite the positive outlook, the sector could encounter consumer spending and economic slowdown. An analyst tells ***FocusM*** even if there is a general economic slowdown, he expects growth rates in the semiconductor sector to be revised down "by only a notch or two". Ultimately, the semiconductor sector – globally and locally – is poised to record positive growth.

Based on Alliance Research's projections, the sensor segment is expected to account for 38% of Globetronics' revenue this year, before rising to 53% next year. The spike in Alliance's revenue projection will come from the depth-sensor sub-segment.

Alliance Research says Globetronics will spend some RM30 mil in capex this year to install capacity for its new depth-sensor module. Once installation has been completed, Globetronics' manufacturing lines will be capable of producing an additional 20 million units per month, almost double Globetronics'

dividend year

Shareholders expected to reap rewards of strong global demand for sensors

current capacity of 28 million units per month.

One analyst is confident the semi-conductor/sensor sector will absorb this increase in sensor supply from Globetronics' lines.

Notwithstanding a higher capacity to meet increasing demand, Globetronics has disclosed the greater production capacity will enable the company to establish an improved operating cost-effectiveness.

Globetronics' management has said its sensor business will be its earnings growth driver. Its prospects are underpinned by healthy volume loading from its sensor business and its crystal quartz timing-devices segment.

RHB Research Institute Sdn Bhd is equally bullish about the sensor sector. It expects Globetronics' sensor segment to contribute over 40% of its FY2015 revenue. The research house also cites a strong balance sheet as Globetronics' strength. Globetronics has net cash of RM141 mil as of Q1 this year.

"The current weaker ringgit against the greenback also bodes well for the semiconductor industry and Globetronics," the research house says

One analyst estimates 50-60% of Globetronics' revenue is denominated in the US dollar and the rest in ringgit. He says the weaker ringgit will boost demand for semiconductor products. From an operating perspective, he says this will make local producers cost-effective.

A weaker ringgit will make local semiconductor players comparable with China's semiconductor manufacturers. However, he warns the impact of a weaker foreign exchange is temporary, as the exchange is very volatile.

The research manager cautions of the possibility of oversupply in the global semiconductor market as a result of the vastly growing production rate in China.

GLOBETRONICS TECHNOLOGY BHD

Key board members and management
Michael Ng Kweng Chong *(executive chairman)*, Heng Huck Lee *(CEO)*

Major shareholders

Wiserite Sdn Bhd	**17%**
General Produce Agency Sdn Bhd	**5%**

Market cap *(May 6)*	**RM1.63b**
Share price *(May 6)*	**RM5.80**
52-week high *(April 24)*	**RM6.10**
52-week low *(May 7, 2014)*	**RM3.48**

Financial results
(Q1 ended March 31, 2015)

Revenue	**RM88.7m**
Net profit	**RM17.15m**

This could dampen semiconductor prices.

He says with an estimated operating cash flow of about RM100 mil per year, Globetronics' ability to finance future capex should not be an issue.

Macquarie Equities Research reports that on average, Globetronics' capex is RM40 mil a year. This year will be no different. The company's cash also accounts for almost 50% of its total assets.

Another market observer tells ***FocusM*** Globetronics' management is "very focused". Twelve months ago, Globetronics had already said it was on the lookout for potential merger and acquisition opportunities to enhance sales.

He says the transition by handphone users to 3G and 4G will ensure a sustainable demand for smartphones, which will contribute to the semiconductor industry. "As smartphones get cheaper,

ance on a single customer. Globetronics only current customer for its sensor division is a Swiss firm.

Despite the glowing outlook, some analysts are not too comfortable with the fact the industry is one of low-margin products, which some consider a weakness for semiconductor companies.

A market observer says this is based on individual expectations. With operating profit margins at about 30%, he says, whether this can be considered low-margin is entirely subjective.

"Pretax profit margins are about 20%," he adds. Despite the concerns, what he likes about this semiconductor/sensor sector is the natural barrier to entry, given high start-up costs for companies wishing to venture into the sector.

Target price raised

In its April report on Globetronics, Alliance Research raises its target price to RM7.50. "Globetronics will continue to trade at a premium valuation, given its excellent execution track record and strong growth visibility."

Alliance Research also says there is an upside to earnings projections, given its conservative assumptions, especially for the new product.

On April 28, Globetronics announced its Q1 2015 financial results. The company is going strong, recording a 21.6% rise in net profit to RM17.15 mil on the back of a 6% revenue increase to RM88.7 mil.

The company has declared a dividend of eight sen per share, meeting about 30% of consensus' FY15 dividend estimate of 26 sen.

Macquarie Equities Research highlights that Globetronics has been paying out more than 90% of its profit as dividend. A market observer says: "The current [dividend] yield is pretty good."

At the current price, the yield is almost 4% if the company maintains its payout ratio. If that policy is maintained, shareholders are bound for a bumper dividend this year. Based on consensus' average FY15 net profit of RM82 mil, the dividend works out to 26 sen, or a yield of over 4%. Based on the Q1 payout, the company is on course to give out a good dividend this year. FocusM