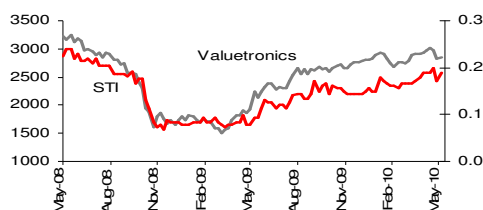


20 May 2010

Maintain

BUY

Previous Rating: BUY

Current Price: S\$0.17
Fair Value: S\$0.32


Valuetronics Hldgs Ltd

Sales order gaining traction

Above expectations. Valuetronics Holdings (VHL) reported its 4QFY10 results last Tuesday. Both revenue and net profit were stronger than expected at HK\$307.0m (+92.7% YoY, +5.3% QoQ) and HK\$22.0m (reversing HK\$2.7m loss in 4QFY09, +63.0% QoQ) respectively, as the group benefited from increased OEM sales and additional sales from new ODM projects for a Fortune 500 MNC customer. As such, FY10 revenue of HK\$1,136.1m (+18.3%) was 3.5% ahead of our full-year sales forecast, while net profit of HK\$58.8m (+10.8%) was 23.6% higher than our earnings projection. Due possibly to the good results and better outlook, management proposed a final cash dividend of 7 HK cents/share (7.2% yield), versus its FY09 dividend of 4.5 HK cents. This translates to an earnings payout ratio of 42.3%, exceeding our dividend assumptions and its three-year historical payout of ~30%.

Firm signs of improvement. The encouraging set of results, we note, came after several quarters of depressed margins from an unfavourable product mix, enlarged operating costs (increased marketing and air freight costs) and impairments/provisions. However, 4Q showed firm signs of improvements, both in terms of demand and margins. And with the positive trend likely to persist, we see potential for the group to accelerate its profitability going forward. In fact, we note that some of its business initiatives over the past year, such as its IVD (In Vitro Diagnostic) medical equipment and portable air purifiers using renowned brands, have already started to contribute to its topline. As such, this should provide some support to the sales momentum for VHL.

Resuming expansion plans. In view of customers' improving sentiments and encouraging change in ordering trends (including placing orders over extended periods), VHL also updated that it will be resuming its plans for construction of a new warehouse and investment in production equipment at its Daya Bay factory that were earlier halted due to uncertain market conditions. A HK\$40m capex is budgeted for this purpose, and the new facilities would accommodate new projects from existing and new customers.

Maintain BUY. We are raising our FY11 forecasts by 5.2-11.5% in view of the stronger-than-expected recovery. Our fair value is also lifted to S\$0.32 from S\$0.29 previously due to the earnings upgrade. We believe VHL is well-positioned to leverage the global economy recovery, considering its still healthy financial position. With upside potential of 88.2%, we maintain **BUY** on VHL.

Reuters Code	VLUE.SI
ISIN Code	BN2
Bloomberg Code	VALUE SP
Issued Capital (m)	355
Mkt Cap (S\$/US\$m)	60 / 43
Major Shareholders	
Chong Hing Tse	22.01%,
Kok Kit Chow	20.58%,
Kai Wing Hung	10.22%,
Hing Kwai Wong	10.15%
Free Float (%)	35.1%
Daily Vol 3-mth ('000)	875
52 Wk Range	0.095 - 0.195

(HK\$ m)	FY09	FY10	FY11F	FY12F
Revenue	960.1	1136.1	1335.9	1413.4
EBIT	60.0	66.7	91.5	108.1
P/NTA (x)	1.2	1.0	0.9	0.7
EPS (cts)	14.9	16.6	22.5	26.7
PER (x)	6.5	5.9	4.3	3.6

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Valuetronics' Key Financial Data

Valuetronics Results Year Ended 31 Mar (HK\$ m)	4Q09 (S\$m)	4Q10 (S\$m)	% Chg (YoY)	3Q10 (S\$m)	% Chg (QoQ)
Revenue	159.3	307.0	92.7%	291.6	5.3%
Gross profit	25.1	50.2	100.4%	44.1	13.7%
Gross margin	15.7%	16.4%		15.1%	
EBITDA	2.3	31.0	1238.9%	21.6	43.5%
Depreciation & amortisation	-6.0	-6.6	8.5%	-6.1	7.3%
Operating profit	-3.7	24.4	nm	15.5	57.7%
Finance costs	-0.1	-0.1	-10.6%	-0.2	-37.2%
Associates	0.0	0.0	nm	0.0	nm
Pre-tax profit	-3.9	24.3	nm	15.3	58.9%
Tax	1.2	-2.3	nm	-1.8	27.9%
Minority interests	0.0	0.0	nm	0.0	nm
Net profit	-2.7	22.0	nm	13.5	63.0%
Net Margin	-1.7%	7.2%		4.6%	

Valuetronics' Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 31 Mar (HK\$m)	FY09	FY10	FY11F	FY12F	As at 31 Mar (HK\$m)	FY09	FY10	FY11F	FY12F
Revenue	960.1	1,136.1	1,335.9	1,413.4	Bank and cash balances	153.5	139.9	153.4	202.8
Gross profit	167.5	177.3	214.7	237.5	Other current assets	198.1	437.6	481.5	493.4
Other income	4.0	5.6	5.3	5.7	Property, plant, and equipment	160.1	164.6	180.2	194.6
Selling and distribution costs	-22.1	-42.4	-51.1	-53.0	Total assets	538.1	767.3	839.9	915.1
Administrative expenses	-66.7	-63.9	-76.1	-79.2	Debt	0.0	0.0	0.0	0.0
Net other operating gain	-22.7	-10.0	-1.3	-2.8	Current liabilities excluding debt	211.4	394.0	411.4	418.7
Profit from operations	60.0	66.7	91.5	108.1	Total liabilities	214.6	397.0	414.4	421.6
Profit before tax	59.6	66.1	91.0	107.5	Shareholders equity	323.5	370.3	425.5	493.4
Income tax expense	-6.5	-7.3	-10.9	-12.9	Total equity	323.5	370.3	425.5	493.4
Profit attributable to shareholders	53.1	58.8	80.1	94.6	Total equity and liabilities	538.1	767.3	839.9	915.1

CASH FLOW					KEY RATES & RATIOS				
Year Ended 31 Mar (HK\$m)	FY09	FY10	FY11F	FY12F	FY09	FY10	FY11F	FY12F	
Op profit before working cap. chg.	82.3	101.3	112.6	130.2	EPS (HK cents)	14.9	16.6	22.5	26.7
Working cap, taxes and int	12.5	-72.1	-37.5	-17.5	NTA per share (HK cents)	84.0	97.3	113.0	132.3
Net cash from operations	94.8	29.1	75.1	112.8	EBIT margin (%)	6.3%	5.9%	6.8%	7.7%
Purchase of PP&E	-80.0	-28.0	-40.0	-40.0	Net profit margin (%)	5.5%	5.2%	6.0%	6.7%
Other investing flows	-13.1	1.1	3.2	3.4	PER (x)	6.5	5.9	4.3	3.6
Investing cash flow	-93.1	-26.9	-36.8	-36.6	Price/NTA (x)	1.2	1.0	0.9	0.7
Financing cash flow	-29.9	-15.8	-24.9	-26.7	EV/EBITDA (x)	2.4	2.3	1.6	1.1
Net cash flow	-28.2	-13.6	13.4	49.5	Dividend yield (%)	4.6%	7.2%	7.7%	8.2%
Cash at beginning of year	181.7	153.5	139.9	153.4	ROE (%)	17.1%	16.9%	20.1%	20.6%
Cash at end of year	153.5	139.9	153.4	202.8	Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

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- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/- 10% from the current price; Sell = More than 10% downside from the current price.

- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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For OCBC Investment Research Pte Ltd



Carmen Lee
Head of Research

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