

Singapore

Overweight (no change)

Highlighted companies

AEM Holdings Ltd
ADD, TP S\$1.78, S\$1.49 close

AEM aims to be among the world's leading companies providing solutions in equipment systems, precision components and related manufacturing services across various industries.

Sunningdale Tech Ltd
ADD, TP S\$2.50, S\$1.27 close

Sunningdale is a manufacturer of precision plastic components. The group provides one-stop, turnkey plastic solutions, with capabilities ranging from product & mould designs, mould fabrication and injection moulding.

Venture Corporation
ADD, TP S\$25.64, S\$21.04 close

Venture is a global provider of technology solutions, products and services with capabilities spanning marketing research, design and development, product and process engineering for complex products.

Summary valuation metrics

P/E (x)	Dec-18F	Dec-19F	Dec-20F
AEM Holdings Ltd	10.73	8.39	6.99
Sunningdale Tech Ltd	8.00	6.00	5.28
Venture Corporation	14.32	12.64	11.29

P/BV (x)	Dec-18F	Dec-19F	Dec-20F
AEM Holdings Ltd	4.68	3.30	2.44
Sunningdale Tech Ltd	0.63	0.59	0.55
Venture Corporation	2.50	2.22	1.96

Dividend Yield	Dec-18F	Dec-19F	Dec-20F
AEM Holdings Ltd	2.33%	2.98%	3.57%
Sunningdale Tech Ltd	5.36%	6.81%	7.57%
Venture Corporation	2.85%	2.85%	2.85%

Analyst(s)



William TNG, CFA
T (65) 6210 8676
E william.tng@cgs-cimb.com

NGOH Yi Sin
T (65) 6210 8604
E yisin.ngoh@cgs-cimb.com

Tech Manufacturing Services

Clouded by trade tensions

- If a trade war breaks out, tech manufacturing services companies' FY18 earnings could be negatively affected. There are signs of a slowdown in the semicon industry.
- Our sector Overweight is based on bottom-up amalgamation of Add calls, led by the largest market cap tech company under our coverage, Venture Corporation.
- Despite the negative industry sentiment, Venture Corporation should be on track to deliver yoy growth. The question is, how much?
- Investors are less inclined to pay premium valuations and chase share prices for tech stocks at this juncture but aim for range-bound (+/-10%) trading opportunities.
- Sunningdale is our top pick as it is a value stock once more after poor 1Q18 results.

IMF's concerns

According to the International Monetary Fund (IMF) World Economic Outlook report in Apr 2018, it expects global economic growth of 3.9% in 2018 and 2019. Its concerns include the erosion of support for global economic integration that may spur an inward-looking shift in policies. IMF said the resulting negative impact on growth may be severe.

Tech sector in the crosshairs of a trade war...

A Reuters article on 27 Apr 2018 highlighted that the US government may start scrutinising informal partnerships between American and Chinese companies in the field of artificial intelligence. The article also highlighted that other areas of interest for this new oversight could include semiconductors and autonomous vehicles.

... but mostly priced in

The long-term outlook for the semiconductor industry remains positive, driven by new applications, such as automotive, Internet of things and 5G. However, the semicon industry is facing a slowdown after the strong showing in 2017. We note that Micro-Mechanics Holdings (MMH SP, unrated) commented that the group was watching carefully for further signs of tapering demand when it announced 3Q18 results. Our channel checks with other industry participants suggest that they are similarly cautious.

AEM Holdings

AEM Holdings's 1Q18 core net profit at 18% of our full-year forecast was below expectations but in line with the company's own guidance. The impact of a trade war on AEM is hard to quantify. If we apply a 25% and 50% haircut to our earnings forecast for FY19 and maintain our target P/E of 10x, the revised down target prices will be S\$0.905 and S\$1.36, respectively. Our current scenario is a target price of S\$1.78, based on 10x (17% discount to sector average) FY19 earnings.

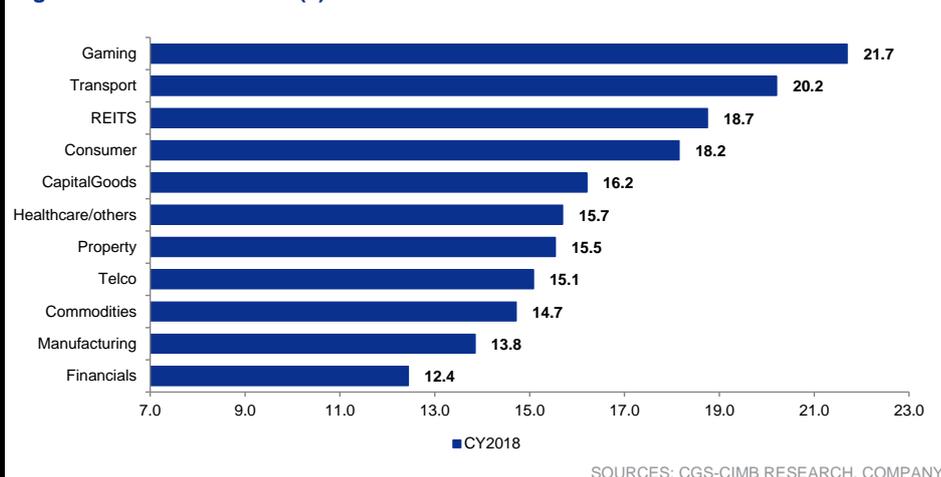
Sunningdale Tech

Sunningdale's 1Q18 core net profit was below expectations due to the decline in the consumer/IT segment. A de-rating back to the 10-year historical average P/BV will result in a TP of S\$1.12 or 11.8% downside from the current price. Our base-case valuation for Sunningdale is S\$2.50, based on a target FY18F P/BV of 1.23x.

Venture Corp

Venture's share price suffered a massive de-rating due to concerns over the weak 1.5% yoy revenue growth and customer concentration risk. We value Venture at 15.4x (11-year average) FY19 earnings as concerns over a trade war caused a multiple de-rating. During the GFC, Venture traded at a historical average forward P/E of 14.7x.

Figure 1: CY18 Sector P/E (x)



Clouded by trade tensions

Held hostage to politics

Macro outlook – trade war is a risk ▶

According to the International Monetary Fund (IMF) World Economic Outlook report published in April 2018, global economic growth is expected to be 3.9% in both 2018 and 2019. As for risks, concerns raised by the IMF include the erosion of support for global economic integration that could spur an inward-looking shift in policies, geopolitical strains, political discord and climate shocks. IMF believes that the risks are interlinked: if one materialises, it could trigger the others. For example, a shift toward inward-looking policy approaches to cross-border flows of goods, capital, and labour can add to geopolitical tensions and global risk aversion and non-economic shocks can weigh on short-term economic activity and on confidence in the longer-term outlook, limiting appetite for investment. The resulting negative impact on growth could be severe, considering that there will be less room to cut interest rates or increase public spending to combat downturns than in the past.

Tech sector at risk ▶

A Reuters article on 27 Apr 2018 highlighted that the US government may start scrutinising informal partnerships between American and Chinese companies in the field of artificial intelligence. This possible new expansion of the mandate, which will serve as a stop-gap measure until Congress imposes tighter restrictions on Chinese investments, is being pushed by members of Congress and those in US President Donald Trump's administration who worry about theft of intellectual property and technology transfer to China, according to the Reuters article. The article also highlighted that other areas of interest for this new oversight could include semiconductors and autonomous vehicles. These considerations are in early stages, so it remains unclear if they will move forward and which informal corporate relationships this new initiative will scrutinise. The Reuters article highlighted that if the US invokes its International Emergency Economic Powers Act, US authorities could use it to "to catch anything they want" that currently fall outside the scope of the regulatory regime.

Single-digit revenue CAGR expected for EMS industry ▶

According to the Worldwide Electronics Manufacturing Service Market report published by New Venture Research in July 2017, industry revenue will grow from US\$425bn in 2016 to US\$551bn in 2021, a CAGR of approximately 5.3%.

Semicon industry could have hit a short-term peak ▶

According to statistics compiled by the Semiconductor Industry Association, worldwide chip sales during 2017 increased about 21.6% to a record US\$412.2bn from US\$334.7bn in 2016. Although the chip industry's strong growth has continued into 2018, with worldwide sales up 21.8% during the first two months of this year, the World Semiconductor Trade Statistics expects the industry's growth to moderate to about 9.5% for 2018.

We note that in its recently-announced 3QFY3/18 results, Micro-Mechanics (Holdings) Ltd (MMH SP, Unrated) commented that the group witnessed a moderation in manufacturing activity in Asia during 3Q18, which resulted in slower group sales growth of 12.9%. Moving into 4Q18, MMH is watching carefully for further signs of tapering demand.

Global light vehicle sales to slow in 2018 ➤

According to a Jan 2018 news release by IHS Markit, total 2017 global light vehicle sales are expected to come in at around 94.5m units, a new record, up 2.4% yoy. After the strong performance of 2017, IHS Markit expects 2018 global light vehicle sales growth to slow to 95.9m units, up 1.5% yoy. For the United States, IHS Markit notes that the strong fourth quarter 2017 results could impact early-2018 industry sales but full-year sales volume in 2018 is expected to achieve 16.9m units, down 1.7% yoy. For Western Europe, IHS Markit forecasts 16.3m units of light vehicle sales for 2018, up about 0.7% yoy. The China market is expected to record 28.1m units of light vehicle sales, up 0.2% yoy. According to Statista, global light vehicle units sales are expected to deliver a CAGR of 2.9% over 2017-2024.

Stock implications

The trade/tech war between the US and China is causing a lot of uncertainty on the ground. As an example, Hi-P International Limited (HIP SP, unrated) revised its previous bullish guidance for FY18 when the company released its 2Q18 results on 2 May 2018. On 13 Feb 2018, when the company announced 4Q17 results, the guidance for FY18 was higher profitability versus FY17. However, the guidance has now been changed to lower profitability expected for FY18 versus FY17.

A key factor behind this change in guidance is the change in customers' stance to one of cautiousness. Customers are now backing off from their previous demand requirements while suppliers are cutting prices to ensure that they get a larger share of the reduced demand.

On the positive side, despite all the rhetoric, China and the US have committed to averting a trade war and to focus on negotiations instead.

AEM Holdings ➤

AEM Holdings's 1Q18 core net profit at 18% of our full-year forecast was below expectations. The results came in lower than our expectations due mainly to the higher operating expenses arising from its three recent acquisitions. Assuming a 17% corporate tax rate, 1Q18 core net profit formed 24% of AEM's FY18 guidance (pre-tax profit of at least S\$42m).

Given that AEM is still the sole supplier to its major customer, the key risks going into the rest of FY18 are order delays or reduced orders from its major customer. AEM has commented that based on its own observations, its major customer is likely to have satisfied its requirements for new machines and, going forward, less predictable replacement demand (for customer's legacy machines) will kick in.

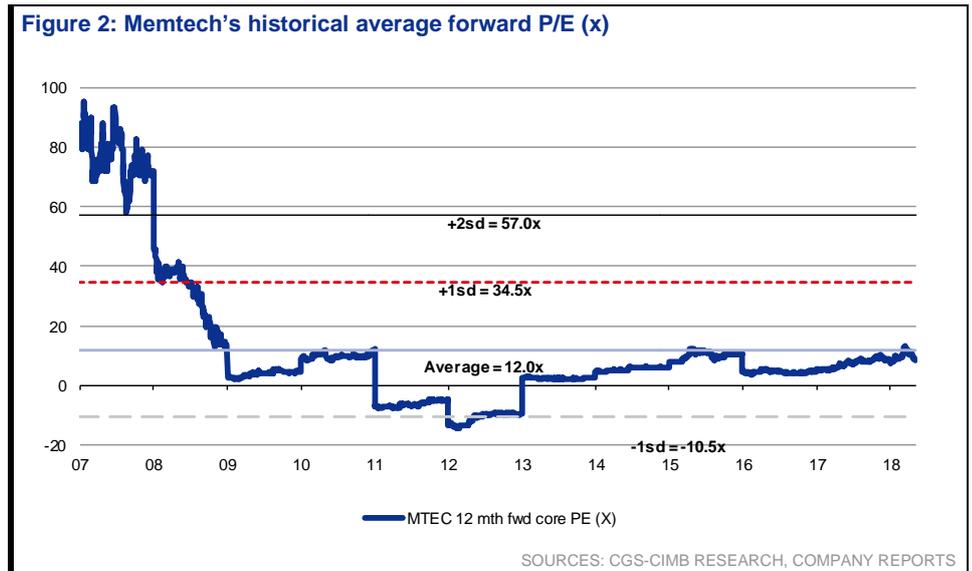
On a positive note, there remains room for AEM to raise its FY18 pre-tax profit guidance of at least S\$42m as the visibility for the fourth quarter is limited. We believe AEM will have better visibility on the outlook for 4Q18 when it announces second-quarter results sometime in Aug 2018. AEM will also launch its own Test Handler product and hopes to announce customer wins in the 2H18/FY19 time frame.

The impact of a trade war on AEM is hard to quantify. If we apply a 25% and 50% haircut to our earnings forecast for FY19 and maintain our target P/E of 10x, the revised down target prices will be S\$0.905 and S\$1.36, respectively. Our current scenario is a TP of S\$1.78 based on 10x (17% discount to sector average) FY19 earnings.

Memtech ➤

Memtech's 1Q18 core net profit of US\$1.8m was within our/consensus expectations as it was a seasonally weaker quarter, coupled with resource allocation for mass production in 2H18. Apart from growing automotive sales from both new and existing customers, we expect consumer electronics sales to ramp up in 2H, resulting in FY18F EPS growth of 14%. Maintain Add on the stock with S\$1.47 TP, based on 10x FY19F P/E and supported by 4% dividend yield. It currently trades at 8.4x FY19F P/E, which is below its 10-year historical average of 12x and the industry mean of 10x.

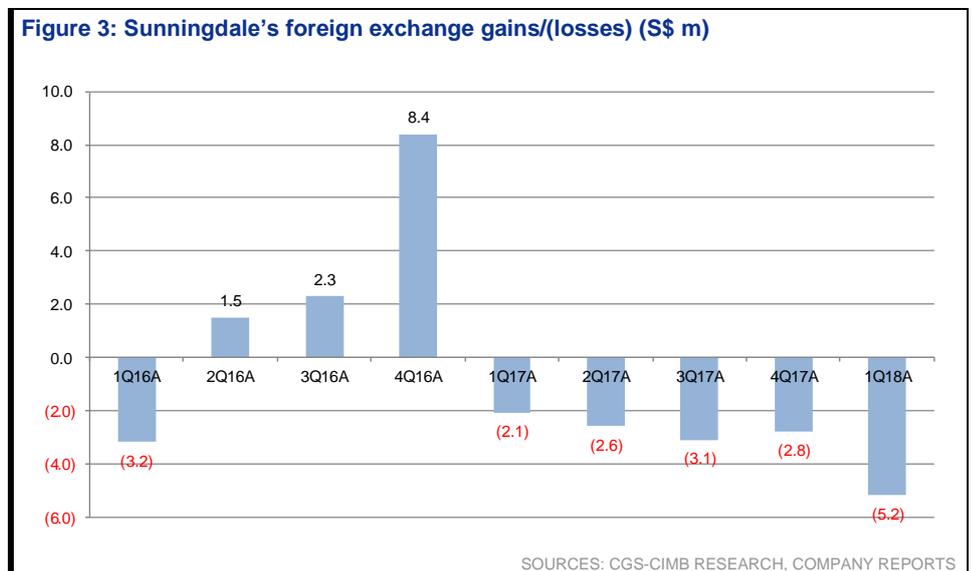
Figure 2: Memtech's historical average forward P/E (x)



Sunningdale Tech ➤

Sunningdale's 1Q18 core net profit was below expectations due to the 12.2% yoy decline in the consumer/IT business segment. As utilisation rates fell, 1Q18 gross profit margin also fell to 12.7%. In addition, it reported an exchange loss of S\$5.2m. These three factors led to a 25.4% share price collapse two days after the results were announced. We opine that Sunningdale needs to better manage its foreign exchange risk, which tends to be quite substantial.

Figure 3: Sunningdale's foreign exchange gains/(losses) (S\$ m)



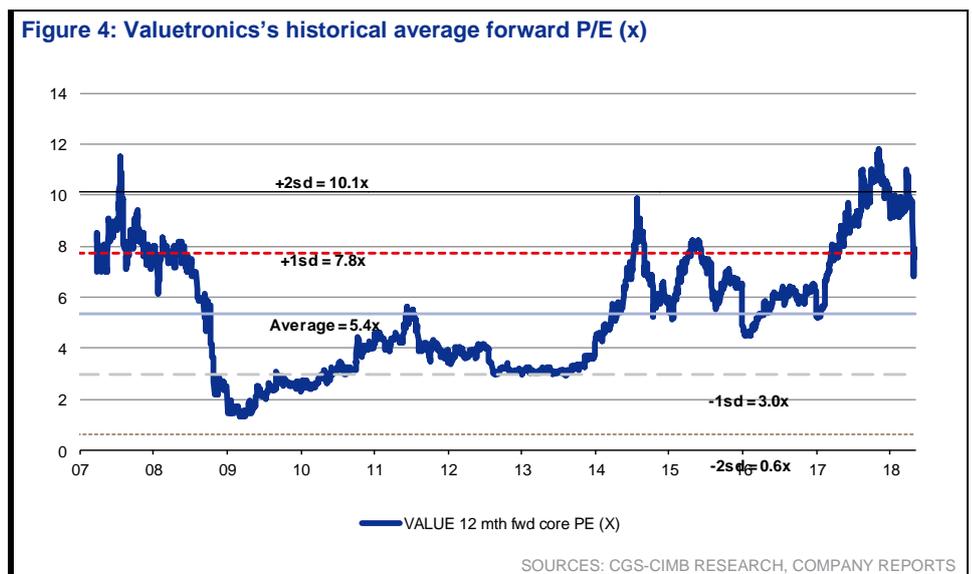
In terms of outlook, management expects quarter-on-quarter growth to resume and the consumer/IT segment is expected to see growth again as the production of new products for customers ramps up.

Sunningdale's 10-year historical average forward P/BV is 0.55x (the average historical P/BV during the GFC was 0.51x). Based on our FY18 BVPS of S\$2.03, a de-rating back to the 10-year historical average P/BV will result in a TP of S\$1.12 or 13.8% downside from the current price. Our base-case valuation for Sunningdale is S\$2.50 based on a target FY18F P/BV multiple of 1.23x. We expect Sunningdale to remain profitable in FY18.

Valuetronics ➤

We expect Valuetronics to report 4QFY18F core net profit of HK\$45m-50m, implying 10-22% yoy growth, as we think a stronger ICE performance could mitigate any sales slowdown from its major CE customer. At its current valuation of 8.7x FY3/19F P/E (5.4x ex-cash), we see limited downside as compared to the peers' average of 10x and its historical average P/E of 5.4x (+1 s.d. at 7.8x). The stock offers close to 5% dividend yield, with potential catalysts from new customer wins and a higher-than-expected dividend payout. Downside risks are unexpected order delays or cancellation.

Figure 4: Valuetronics's historical average forward P/E (x)



Venture Corp ➤

Although Venture's 1Q18 core net profit at 19.1% of our full-year forecast was in line with the 5-year historical average of 19.3%, the share price suffered a massive de-rating due to concerns over the weak 1.5% yoy revenue growth reported for 1Q18 as well as customer concentration risk.

We believe Venture is still on track for yoy net profit growth, barring a full-blown trade war between the USA and China. Venture has plans to engage more US customers with the recent purchase of an 182,405 square feet industrial building in the US. The company remains in a net cash position.

Our current base-case scenario values Venture at 15.4x (11-year average) FY19 earnings as concerns over the trade war lead to a multiple de-rating. We note that during the GFC, Venture's traded at a historical average forward P/E of 14.7x. Venture has started its share buy-back, purchasing 109,000 shares at an average cost of S\$20.72 on 7 May 2018. It continues to buy back shares.

Figure 5: Tech sector valuation

Company	Bloomberg		Price	Target Price	Market Cap	Core P/E (x)		P/BV (x)	Recurring ROE (%)	Dividend Yield (%)
	Ticker	Recom.	(lcl curr)	(lcl curr)	(US\$ m)	CY18F	CY19F	CY18F	CY18F	CY18F
AEM Holdings Ltd	AEM SP	Add	1.49	1.78	299.0	10.7	8.4	4.68	52.5%	2.3%
CEI Limited	CEI SP	Hold	0.91	1.00	58.6	10.5	9.5	2.04	19.3%	9.5%
Jadason Enterprises Limited	JAD SP	Add	0.05	0.08	26.4	19.5	17.6	0.64	3.4%	0.0%
Memtech International	MTEC SP	Add	1.30	1.47	136.1	10.2	8.9	1.01	10.2%	4.4%
Sunningdale Tech Ltd	SUNN SP	Add	1.27	2.50	178.5	8.0	6.0	0.63	8.0%	5.4%
UMS Holdings Ltd	UMSH SP	Add	0.94	1.21	374.6	10.3	10.3	2.18	21.8%	6.4%
Valuetronics Holdings Ltd	VALUE SP	Add	0.80	1.10	255.0	8.8	7.9	1.72	20.6%	4.7%
Venture Corporation	VMS SP	Add	21.04	25.64	4,492.7	14.3	12.6	2.50	18.4%	2.9%
Simple average						11.6	10.2	1.92	19.3%	4.4%

SOURCE: CGS-CIMB RESEARCH, COMPANY

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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1275 companies under coverage for quarter ended on 31 March 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.1%	5.5%
Hold	29.7%	2.0%
Reduce	8.9%	0.4%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

Recommendation Framework

Stock Ratings

Definition:

- Add The stock's total return is expected to exceed 10% over the next 12 months.
- Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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