

Singapore

ADD (no change)

Consensus ratings*: Buy 2 Hold 1 Sell 0

Current price:	S\$0.75
Target price:	S\$1.10
Previous target:	S\$1.43
Up/downside:	48.3%
CGS-CIMB / Consensus:	-7.2%
Reuters:	MEMT.SI
Bloomberg:	MTEC SP
Market cap:	US\$76.21m
	S\$104.4m
Average daily turnover:	US\$0.14m
	S\$0.19m
Current shares o/s:	140.1m
Free float:	50.0%

*Source: Bloomberg

Key changes in this note

- FY18F EPS decreased by 17.6%.
- FY19F EPS decreased by 17.1%.
- FY20F EPS decreased by 16.6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-17.2	-40.4	-33.8
Relative (%)	-14.4	-33.4	-24.2

Major shareholders	% held
Keytech Investment Pte Ltd	43.7
Chuang Wen Fu	3.9
Gu Cheng Hua	1.0

Analyst(s)

NGOH Yi Sin

T (65) 6210 8604

E yisin.ngoh@cgs-cimb.com

Memtech International

3Q18: at customers' whims and fancies

- 3Q18 core net profit of US\$2.9m was a miss due to weaker margins.
- Barring any major delays, we project 10% topline growth and stronger margins to drive our 17-19% EPS growth p.a. over FY19-20F.
- Maintain Add with 6-8% dividend yield; we think the recent correction has priced in near-term weakness at 6.2x FY19F P/E and 0.6x FY18F P/BV.

3Q18 disappointed despite seasonality boost

MTEC's 3Q18 core net profit of US\$2.9m (+192.1% qoq, -28.6% yoy) was below our/consensus expectations. 9M18 core earnings only formed 47% of our/consensus full-year forecasts. Even though 3Q18 topline increased by 16.3% yoy, underpinned by stronger demand from automotive (+23.8% yoy) and industrial & medical (+76.1% yoy), this was offset by weaker gross margins (3Q18: 16.9%, 2Q18: 14.7%, 3Q17: 18.4%).

Margins below expectations due to delays in customers' projects

Margin weakness has been apparent for MTEC since 1Q18, which management attributed to i) rising labour costs in China, ii) higher raw material costs and iii) lower manufacturing yield. 3Q18 saw partial margin recovery due to a significant shift in peak volume of a major US customer to 1Q19. This affected utilisation levels of the Dongguan plant (c.40%), vs. the estimated 80% utilisation rate for both Nantong and Kunshan factories in 3Q. We expect similar margin trends in 4Q18F, before improving in 2019F.

Still a proxy for growing EV and acoustic popularity

Barring any major delays, we remain optimistic on MTEC's penetration into the acoustic and electric vehicle (EV) segments, with customers like Bose, Nio, Lynk & Co and BYD. Management expects one of its key customers (Beats) to refresh and transition to newer models in FY19F. Apart from possible new order wins, we also see potential growth from its existing auto customers as most of the products continue to be in the ramp-up phase of the lifecycle.

Near-term earnings weakness priced in; maintain Add

As we lower our sales growth and margin assumptions, our FY18-20F EPS falls by 16.6-17.6%. Our target price falls to S\$1.10 even as we roll over our valuation to end-FY19F, now based on a lower P/E multiple of 8x (prev. 10x), which is at a 15% discount to sector average. Maintain Add as we anticipate an earnings recovery in FY19F, and believe its near-term weakness is already priced in at 6.2x FY19F P/E and 0.6x FY18F P/BV, post the 60% share price correction since its peak.

Key catalysts and risks

MTEC remains in a net cash position of US\$0.18/shr (c.23% of its current market cap), and offers 6-8% FY18-20F dividend yield. Downside risks to our Add call are order delays/cancellation and escalating trade woes. New project wins and synergistic M&As are potential re-rating catalysts.

Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (US\$m)	159.0	170.0	196.6	216.5	238.1
Net Profit (US\$m)	6.27	14.13	10.36	12.29	14.33
Core EPS (US\$)	0.04	0.08	0.07	0.09	0.10
Core EPS Growth	(26%)	112%	(11%)	19%	17%
FD Core P/E (x)	13.94	6.58	7.38	6.20	5.32
Price To Sales (x)	0.48	0.45	0.39	0.35	0.32
DPS (US\$)	0.018	0.040	0.033	0.039	0.046
Dividend Yield	3.28%	7.43%	6.12%	7.26%	8.46%
EV/EBITDA (x)	3.68	1.80	2.33	1.83	1.37
P/FCFE (x)	13.28	9.80	NA	9.26	6.69
Net Gearing	(22.3%)	(24.9%)	(19.2%)	(20.2%)	(22.5%)
P/BV (x)	0.69	0.60	0.57	0.55	0.52
ROE	4.94%	9.81%	7.97%	9.03%	9.99%
% Change In Core EPS Estimates			(17.6%)	(17.1%)	(16.6%)
CIMB/consensus EPS (x)			0.87	0.84	0.89

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revision

Memtech International (FYE Dec)	FY18F			FY19F			FY20F		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue (US\$m)	196.6	196.6	0.0%	220.1	216.5	-1.7%	245.4	238.1	-3.0%
Gross Margin (%)	17.7	16.4	(1.3)	18.1	17.4	(0.70)	18.4	17.8	(0.6)
EBITDA (US\$m)	24.5	22.0	-10.0%	29.2	26.4	-9.5%	34.8	31.7	-8.9%
Core PATMI (US\$m)	12.6	10.4	-17.6%	14.8	12.3	-17.1%	17.2	14.3	-16.6%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Results comparison

FYE Dec (US\$m)	3QFY18	3QFY17	yoy % chg	qoq % chg	3QFY18 Cum	3QFY17 Cum	yoy % chg	Prev FY18F	Comments
Revenue	54	46	16.3	19.5	140	120	16.5	197	9M18 sales in line at 71% of our/consensus full-year numbers; 4Q18F is seasonally stronger.
Operating costs	(48)	(40)	21.1	16.5	(126)	(105)	20.0	(172)	
EBITDA	6	7	(12.3)	51.5	14	15	(7.7)	24	
EBITDA margin (%)	11	14	(24.6)	26.8	10	13	(20.8)	12	Below due to lower than expected gross margins
Depn & amort.	(2)	(2)	4.5	(4.3)	(7)	(6)	11.7	(10)	In line
EBIT	4	4	(20.6)	143.3	7	9	(21.4)	14	
Interest expense	(0)	(0)	4.3	(8.9)	(0)	(0)	(2.1)	(0)	
Interest & invt inc	0	0	488.9	na	0	0	559.4	0	
Associates' contrib	-	-	na	na	-	-	na	-	
Exceptionals	0	(0)	260.8	na	1	3	na	-	9M17: one-off gain of US\$3.2m from disposal of 2 land assets; 9M18: FX gain
Pretax profit	4	4	(11.0)	48.3	8	12	na	14	
Tax	(1)	(0)	96.1	35.1	(1)	(1)	24.0	(2)	
Tax rate (%)	16	7	na	na	16	9	na	12	Above
Minority interests	0	0	(40.0)	na	0	0	na	-	
Net profit	3.1	3.9	(19.2)	49.6	6.6	10.4	na	12	
Core net profit	2.9	4.1	(28.6)	192.1	5.7	7.6	na	12	Excluding disposal gain, 9M18 formed 47% of our/consensus full-year forecasts, missing ours/consensus expectations
EPS (cts)	2.2	2.8	(18.7)	50.3	4.7	7.4	na	8.5	
Core EPS (cts)	2.1	2.9	(28.2)	193.6	4.0	5.4	na	8.5	

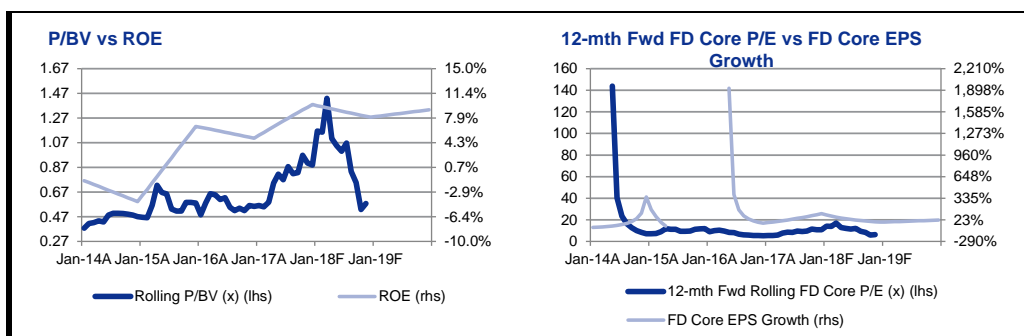
SOURCES: CIMB, COMPANY REPORTS

Figure 3: Peers Comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$m)	Core P/E (x) CY18F	Core P/E (x) CY19F	3-year EPS CAGR (%)	P/BV (x) CY18F	P/BV (x) CY19F	Recurring ROE (%) CY18F	Recurring ROE (%) CY19F	Dividend Yield (%) CY18F	Dividend Yield (%) CY19F
Memtech International	MTEC SP	Add	0.75	1.10	76	7.4	6.2	7.1%	0.57	0.55	8.0%	9.0%	6.1%	7.3%
Venture Corporation	VMS SP	Add	14.70	17.44	3,094	11.7	11.2	3.9%	1.80	1.65	16.3%	15.3%	4.1%	4.1%
UMS Holdings Ltd	UMSH SP	Add	0.73	1.21	284	8.0	8.0	-2.4%	1.68	1.57	22.1%	20.4%	8.3%	8.3%
Hi-P International Ltd	HIP SP	NR	0.85	NA	496	9.0	9.1	-21.8%	1.16	1.06	13.5%	12.4%	4.0%	2.8%
CEI Limited	CEI SP	Hold	0.90	1.00	57	10.4	9.3	13.0%	2.00	2.00	19.3%	21.4%	9.7%	10.7%
Sunningdale Tech Ltd	SUNN SP	Add	1.42	1.84	198	11.3	9.8	-0.1%	0.71	0.68	6.5%	7.1%	3.6%	4.1%
TK Group (Holdings) Limited	2283 HK	Add	4.71	6.00	501	10.6	8.6	22.9%	3.48	2.80	36.4%	35.9%	4.4%	5.4%
Average excl. Memtech						10.2	9.4	2.6%	1.81	1.63	19.0%	18.8%	5.7%	5.9%
Customers														
FIH Mobile Ltd	2038 HK	NR	0.74	NA	765	na	na	na	0.27	0.27	-4.3%	1.2%	0.0%	0.0%
NETGEAR Inc	NTGR US	NR	56.56	NA	1,787	25.0	25.1	71.0%	2.70	na	9.7%	na	na	na
Magna International Inc	MG CN	NR	64.88	NA	16,715	7.3	6.7	11.3%	1.42	1.28	20.8%	21.9%	2.6%	2.8%
Hella GmbH & Co KGaA	HLE GR	NR	40.86	NA	5,183	11.7	9.9	7.7%	1.64	1.45	16.8%	15.5%	3.0%	3.2%
Customers' average						14.7	13.9	30.0%	1.51	1.00	10.8%	12.9%	1.9%	2.0%
Average of all-co excl. Memtech						11.7	10.9	11.7%	1.69	1.42	15.7%	16.8%	4.4%	4.6%

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG (As of 8 Nov 2018)

BY THE NUMBERS



Profit & Loss

(US\$m)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	160.5	175.7	198.9	218.4	240.0
Gross Profit	26.9	36.7	34.5	39.6	44.3
Operating EBITDA	14.1	25.2	22.0	26.4	31.7
Depreciation And Amortisation	(7.9)	(8.5)	(10.0)	(12.1)	(14.6)
Operating EBIT	6.2	16.7	12.0	14.4	17.1
Financial Income/(Expense)	0.0	(0.2)	(0.2)	(0.2)	(0.2)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.8	(0.8)	0.0	0.0	0.0
Profit Before Tax (pre-EI)	7.0	15.7	11.8	14.2	16.9
Exceptional Items				0.0	0.0
Pre-tax Profit	7.0	15.7	11.8	14.2	16.9
Taxation	(0.6)	(1.5)	(1.4)	(1.8)	(2.5)
Exceptional Income - post-tax				0.0	0.0
Profit After Tax	6.4	14.2	10.4	12.3	14.4
Minority Interests	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6.3	14.1	10.4	12.3	14.3
Recurring Net Profit	5.5	11.7	10.4	12.3	14.3
Fully Diluted Recurring Net Profit	5.5	11.7	10.4	12.3	14.3

Cash Flow

(US\$m)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	14.15	25.18	22.00	26.43	31.72
Cash Flow from Invt. & Assoc.	0.00	0.00	0.00	0.00	0.00
Change In Working Capital	(1.02)	(7.05)	(9.86)	(6.16)	(7.60)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1.65	(3.49)	0.00	0.00	0.00
Net Interest (Paid)/Received	0.02	(0.19)	(0.19)	(0.19)	(0.19)
Tax Paid	(0.36)	(2.17)	(1.42)	(1.84)	(2.54)
Cashflow From Operations	14.44	12.29	10.53	18.23	21.39
Capex	(11.26)	(10.44)	(12.00)	(10.00)	(10.00)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	0.25	6.00	0.00	0.00	0.00
Cash Flow From Investing	(11.01)	(4.44)	(12.00)	(10.00)	(10.00)
Debt Raised/(repaid)	2.35	(0.02)	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(3.47)	(2.52)	(4.66)	(5.53)	(6.45)
Preferred Dividends					
Other Financing Cashflow	(0.05)	0.44	0.00	0.00	0.00
Cash Flow From Financing	(1.18)	(2.11)	(4.66)	(5.53)	(6.45)
Total Cash Generated	2.25	5.74	(6.13)	2.70	4.95
Free Cashflow To Equity	5.77	7.82	(1.47)	8.23	11.39
Free Cashflow To Firm	3.57	8.14	(1.17)	8.53	11.69

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(US\$m)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	29.3	36.5	30.4	33.1	38.0
Total Debtors	69.5	77.4	91.7	103.3	113.5
Inventories	19.5	24.6	26.2	30.0	33.3
Total Other Current Assets	6.9	4.6	4.6	4.6	4.6
Total Current Assets	125.1	143.1	152.9	171.0	189.5
Fixed Assets	39.8	43.8	45.8	43.8	39.1
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	0.5	0.6	0.6	0.6	0.6
Total Other Non-Current Assets	0.0	0.0	0.0	0.0	0.0
Total Non-current Assets	40.4	44.4	46.4	44.3	39.7
Short-term Debt	1.1	1.5	1.5	1.5	1.5
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0	0.0
Total Creditors	44.2	49.2	55.3	64.5	70.5
Other Current Liabilities	1.6	1.5	1.5	1.5	1.5
Total Current Liabilities	46.9	52.2	58.3	67.5	73.5
Total Long-term Debt	3.5	3.3	3.3	3.3	3.3
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4.4	4.6	4.6	4.6	4.6
Total Non-current Liabilities	7.8	7.9	7.9	7.9	7.9
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	54.7	60.1	66.2	75.5	81.4
Shareholders' Equity	110.6	127.0	132.7	139.5	147.4
Minority Interests	0.2	0.3	0.4	0.4	0.5
Total Equity	110.8	127.4	133.1	139.9	147.8

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	11.8%	6.9%	15.7%	10.1%	10.0%
Operating EBITDA Growth	(9.1%)	78.0%	(12.6%)	20.1%	20.0%
Operating EBITDA Margin	8.9%	14.8%	11.2%	12.2%	13.3%
Net Cash Per Share (US\$)	0.18	0.22	0.18	0.20	0.24
BVPS (US\$)	0.79	0.90	0.95	1.00	1.05
Gross Interest Cover	42.72	56.29	40.06	47.94	57.02
Effective Tax Rate	9.2%	9.3%	12.0%	13.0%	15.0%
Net Dividend Payout Ratio	40.1%	40.3%	45.0%	45.0%	45.0%
Accounts Receivables Days	130.5	142.8	140.6	146.2	149.5
Inventory Days	48.20	57.78	56.37	57.36	59.24
Accounts Payables Days	85.2	99.1	93.6	98.9	102.1
ROIC (%)	7.0%	18.4%	12.0%	12.8%	14.7%
ROCE (%)	5.6%	13.5%	9.0%	10.3%	11.6%
Return On Average Assets	4.01%	8.18%	5.48%	6.05%	6.55%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP Change (% , Main Product)	22.5%	14.2%	20.0%	11.0%	12.0%
Unit sales growth (% , main prod)	N/A	N/A	N/A	N/A	N/A
No. Of Lines (main Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, main prod)	N/A	N/A	N/A	N/A	N/A
ASP chg (% , 2ndary prod)	41.2%	5.9%	18.0%	13.5%	10.0%
Unit sales grth (% , 2ndary prod)	N/A	N/A	N/A	N/A	N/A
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, 2ndary prod)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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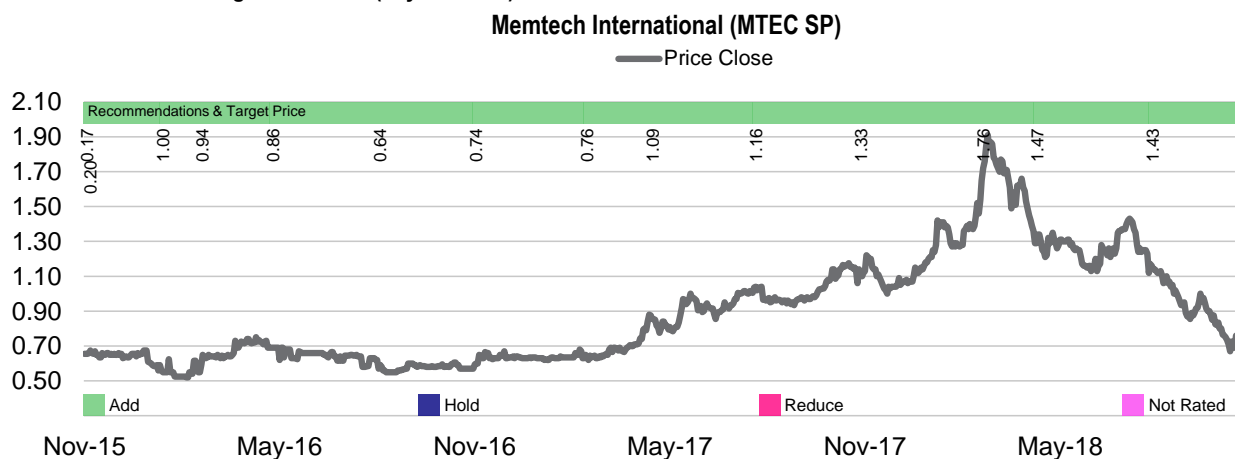
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759 companies under coverage for quarter ended on 30 September 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	60.5%	4.2%
Hold	25.8%	2.4%
Reduce	13.7%	0.4%

Spitzer Chart for stock being researched (2 year data)



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

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Definition:

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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