



InnoTek Limited

(INNOT SP/INTK.SI)

Caught the EV bug

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- **Auto is the way.** FY20 results was another show of resilience and InnoTek performed largely above our expectations. Through the annual report and annual general meeting, management has communicated strong expectations for the automotive division, led by a strong push for electric vehicles in China.
- **1Q21 unaudited results are promising.** InnoTek provided 1QFY21 results during its Annual General Meeting, where sales of S\$42.3mn are up 25% YoY with a net profit of S\$2.47mn. We think these figures are within range of our improved FY21 estimates.
- **Maintain OUTPERFORM with higher TP of S\$1.12.** We expect InnoTek's strategy to drive a recovery in both the top and bottom line. Our 5.5x EV/EBITDA peg translates to around 14.3x FY22F P/E.

FY20 sales mix for InnoTek shifted substantially in favour of automotive and television products, where both divisions saw strong demand in 2H20. FY20 gross margins reached 24.6%, a new high, behind ~S\$2mn of government subsidy support and increased in-house production. Admin expenses also came in ~S\$2mn below our estimates, leading to PATMI that came in 36% above our estimate.

InnoTek's management has highlighted their focus on the automotive business, behind a returning momentum of China auto sales. Currently, 4M21 auto sales in China are +52% of 4M20 and +4% of 4M19 despite chip shortages (Fig. 2). IHS Markit expects light vehicle sales to grow at 6% CAGR from 2020 to 2023, with electric vehicles (EV) to lead growth at over 30% CAGR in the next 5 years. In response, InnoTek has managed to secure customers in the EV space, and can reasonably expect the automotive division to become their largest division in subsequent years.

The TV/Display division posted ~29% sales growth in 2020 as home entertainment took priority in COVID-19. In 1Q21, TV panels, a complementary product to InnoTek's TV bezels and back panels, continue to be shipped at a steady volume (Fig. 3), indicating steady demand in 2021. Meanwhile, while Office Automation did poorly in 2020, InnoTek has managed to expand into assembly jobs for its customers, with expectations of a rebound in 2021 behind a recovering global economy.

InnoTek has released 1Q21 sales and profit figures, which account for around 22% of our new FY21F estimate. We note that 1Q sales typically account for 22-24% of FY results (Fig. 4), given seasonality effects. We expect 2H21 to produce the bulk of results as raw material prices come under better control and the semiconductor shortage clears.

Outperform (Maintain)

Price as of 20 May 21 (SGD)	0.91	Performance (Absolute)	
12M TP (\$)	1.12	1 Month (%)	-2.7
Previous TP (\$)	0.73	3 Month (%)	27.0
Upside (%)	23.9	12 Month (%)	167.2
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	207		
Issued Shares (mn)	229		
Vol - 3M Daily avg (mn)	1.2		
Val - 3M Daily avg (\$mn)	1.1		
Free Float (%)	51.1%		
Major Shareholders		Previous Recommendations	
Chandaria Trust 1	36.6%	12-Jan-21	OP S\$0.73
Lou Yiliang	12.2%		

Financials & Key Operating Statistics

YE Dec (\$m)	2019A	2020A	2021F	2022F	2023F
Revenue	186.7	183.2	195.5	203.9	211.2
Gross Profit	40.8	45.0	45.0	46.9	48.6
PATMI	16.7	13.9	16.8	17.7	18.6
Core EPS	0.07	0.06	0.07	0.08	0.08
Core EPS grth (%)	-18.1	-16.7	20.1	5.4	5.0
Core P/E (x)	12.3	14.8	12.3	11.7	11.1
DPS (SGCents)	1.5	2.0	2.0	2.0	2.0
Div Yield (%)	1.7	2.2	2.2	2.2	2.2
Gross Margin (%)	21.8	24.6	23.0	23.0	23.0
Net Margin (%)	8.9	7.6	8.6	8.7	8.8
Gearing (%)	net cash	net cash	net cash	net cash	net cash
Price / Book (x)	1.3	1.2	1.1	1.0	1.0
ROE (%)	10.7	8.2	9.1	9.0	8.8

Source: Company Data, KGI Research

Forecasts: We raise sale forecasts across the 3 divisions. Our overall FY21/22/23 sales growth forecast is now 6.7/4.3/3.6%. We raise gross margin forecasts and trim admin expenses. We kept income tax estimate at 16% given the renewal of the tax concession for Magix Dongguan.

Valuation & Action: Maintain OUTPERFORM, with increased Target Price to S\$1.12. We raise our EV/EBITDA peg to 5.5x bringing it more in line with SGX-listed peers and roll forward estimates to be based on FY22F figures. Our EV/EBITDA peg implies a P/E of 14.4x for FY22.

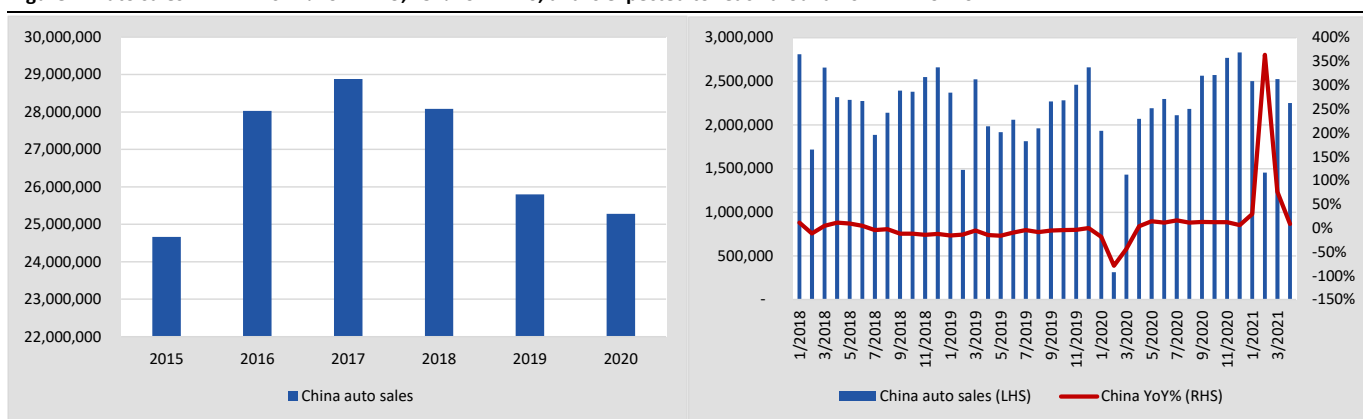
Risks: Worsening of COVID-19, which can potentially disrupt working conditions within the industry. Semiconductor shortage can possibly lead to some order pushbacks across InnoTek's 3 divisions, dampening 1H21 results. Rising raw material costs could also pressure gross margins, Forex risk, product obsolescence.

Figure 1: FY20 estimate vs actual results

Values in SGD '000	FY20F	FY20A	% of estimate	Variance
Revenue	179,743	183,192	101.9%	
TV & Display	54,691	69,613	127.3%	
Automotive	58,173	62,285	107.1%	
Office Automation	61,487	45,798	74.5%	
Cost of sales	-141,098	-138,186	97.9%	
Gross Profit	38,645	45,006	116.5%	
Operating expenses	-28,040	-26,391	94.1%	
Profit from Operations	10,605	18,615	175.5%	
Other income/(expenses)	2,335	1,762	75.5%	
Finance income/(expenses)	-738	-1,169	158.4%	
Profit before Tax	12,202	19,224	157.6%	
PATMI	10,225	13,868	135.6%	
Gross Margin	21.5%	24.6%		3.1%
EBIT Margin	5.9%	10.2%		4.3%
PATMI Margin	5.7%	7.6%		1.9%
EPS (in SGD cents)	4.33	6.13	141.6%	

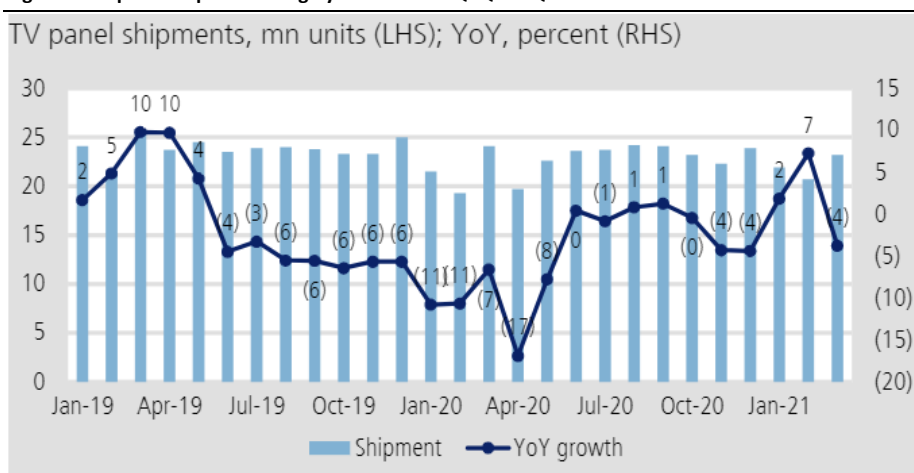
Source: Company, KGI Research

Figure 2: Auto sales in 4M21 is +4% of 4M19, +52% of 4M20, and is expected to reach around 26-27mn for 2021



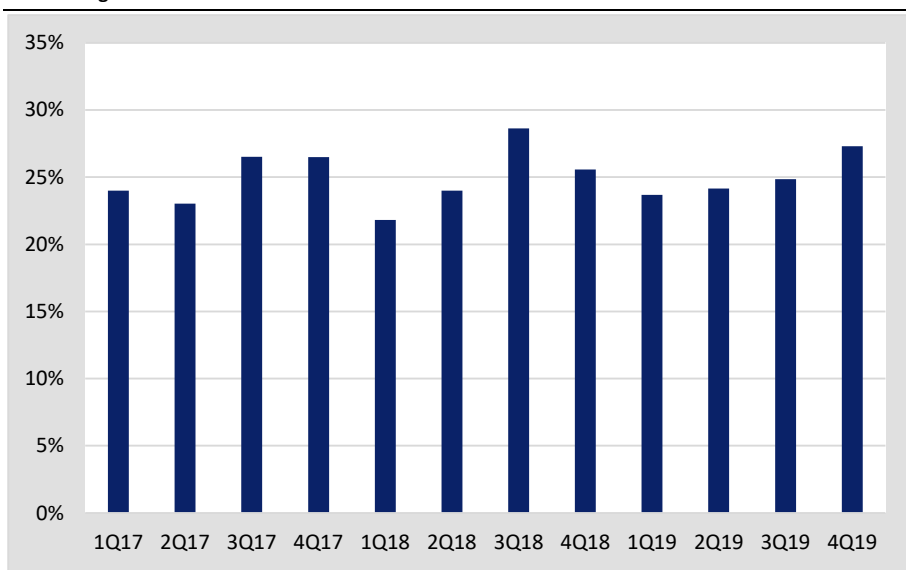
Source: CAAM, KGI Research

Figure 3: TV panel shipments roughly flat YoY and QoQ in 1Q21



Source: Omdia, KGI Research

Figure 4: InnoTek's revenue is weighted towards the latter quarters, thus we find 1Q21 results to be within range



Source: Company, KGI Research

Figure 5: Peer comparison table

Company Name	BBG Ticker	Price (local curr.)	Market Cap (\$Mn)	P/E (x)			P/B (x)		3y EPS CAGR (%)	EV/EBITDA (x)		Div Yield (%)	YTD Price Performance (%)	1y Price Performance (%)
				Current	FY21F	FY22F	Current			TTM	FY22F			
INNOTEK LTD	INNOT SP	SGD 0.91	207	14.8	10.6	9.1	1.2		32%	4.1	5.8	2.21	61.7	151.4
SGX-listed Diversified Manufacturers (Average)				15.0	12.4	12.3	1.6			8.7	5.6	1.8	19.2	58.2
VENTURE CORP LTD	VMS SP	SGD 18.39	5340	17.9	15.5	14.4	2.1	41%	12.0	9.5	1.36	-5.3	16.3	
GP INDUSTRIES LTD	GPI SP	SGD 0.61	295	-	-	-	0.8	1%	13.1	-	0.00	17.3	11.9	
FRENCKEN GROUP LTD	FRKN SP	SGD 1.63	696	16.3	13.4	12.3	2.1	35%	7.2	6.4	1.84	23.5	98.8	
VALUETRONICS HOLDINGS LTD	VALUE SP	SGD 0.61	264	-	9.4	11.9	1.2	29%	-	2.0	-	2.5	-9.7	
FU YU CORP LTD	FUYU SP	SGD 0.31	230	13.6	11.3	10.5	1.3	6%	4.2	4.0	4.43	15.1	38.6	
SPINDEX INDUSTRIES LTD	SPE SP	SGD 1.20	138	8.9	-	-	1.0	18%	3.9	-	-	26.3	62.2	
ISDN HOLDINGS LTD	ISDN SP	SGD 0.62	268	17.5	-	-	#N/A	38%	9.5	5.9	-	56.8	213.8	
CEI LTD	CEI SP	SGD 1.15	100	15.5	-	-	2.6	-8%	10.8	-	1.25	17.3	33.7	
SGX-listed Diversified Manufacturers under 250 mn Market Cap (Average)				18.4	19.2	14.2	1.4			6.9	7.0	12.14	29.0	67.1
FU YU CORP LTD	FUYU SP	SGD 0.31	230	13.6	11.3	10.5	1.3	6%	4.2	4.0	4.43	15.1	38.6	
SPINDEX INDUSTRIES LTD	SPE SP	SGD 1.20	138	8.9	-	-	1.0	18%	3.9	-	-	26.3	62.2	
ISDN HOLDINGS LTD	ISDN SP	SGD 0.62	268	17.5	-	-	#N/A	38%	9.5	5.9	-	56.8	213.8	
CEI LTD	CEI SP	SGD 1.15	100	15.5	-	-	2.6	-8%	10.8	-	1.25	17.3	33.7	
GRAND VENTURE TECHNOLOGY LTD	GVTL SP	SGD 0.73	223	32.8	27.0	17.8	4.6	518%	17.9	11.1	-	121.2	231.8	
SUNRIGHT LTD	SUNR SP	SGD 0.43	53	19.2	-	-	0.6	124%	1.0	-	-	4.9	26.5	
MANUFACTURING INTEGRATION TE	MIT SP	SGD 0.06	14	-	-	-	0.6	4%	-	-	55.00	-24.1	-31.8	
ASTI HOLDINGS LTD	ASTI SP	SGD 0.03	21	9.8	-	-	0.3	382%	-	-	0.00	10.7	-6.1	
GLOBAL TESTING CORP LTD	GTC SP	SGD 0.41	14	30.1	-	-	0.4	-	0.8	-	0.00	32.8	35.0	
Closest Peers (Average)				15.9	15.8	-	1.3			6.5	-	0.7	15.9	52.2
H-ONE CO LTD	5989 JP	JPY 765.00	266	7.6	-	-	0.3	62%	3.8	-	-	-7.7	45.7	
LEMTECH HOLDINGS CO LTD	4912 TT	TWD 168.50	436	14.4	-	-	3.3	138%	9.5	-	-	53.9	108.0	
EVA PRECISION INDUSTRIAL HLD	838 HK	HKD 0.77	227	-	-	-	0.5	29%	7.2	-	0.00	22.2	69.2	
CHINA FINEBLANKING TECHNOLOG	1586 TT	TWD 43.10	173	22.0	15.8	-	2.3	-	12.3	-	-	0.9	18.7	
SANKO GOSEI LTD	7888 JP	JPY 423.00	159	31.6	-	-	0.7	25%	4.3	-	-	17.5	30.2	
YUSEI HOLDINGS LTD	96 HK	HKD 1.08	118	10.9	-	-	0.8	18%	4.8	-	1.45	-1.8	31.7	
SPINDEX INDUSTRIES LTD	SPE SP	SGD 1.20	138	8.9	-	-	1.0	18%	3.9	-	-	26.3	62.2	

Updated on 20 May 2021

Source: Bloomberg, KGI Research

Financial Forecasts

YE 31 Dec

INCOME STATEMENT (\$\$ '000)	2019A	2020A	2021F	2022F	2023F
Revenue	186,721	183,192	195,468	203,903	211,236
Cost of sales	(145,956)	(138,186)	(150,510)	(157,005)	(162,651)
Gross Profit	40,765	45,006	44,958	46,898	48,584
Selling, general, admin expenses	(27,457)	(26,391)	(27,592)	(28,783)	(29,818)
Profit from Operations	13,308	18,615	17,366	18,115	18,767
Other operating income/(expenses)	5,034	1,762	3,091	3,091	3,091
Finance income/(expenses)	1,010	(1,169)	(451)	(127)	270
Share of JV results	3	16	0	0	0
Profit before Tax	19,355	19,224	20,006	21,079	22,128
Income tax	(2,697)	(5,356)	(3,201)	(3,373)	(3,540)
Non-controlling interests	0	0	0	0	0
PATMI	16,658	13,868	16,805	17,706	18,587
BALANCE SHEET (\$\$ '000)	2019A	2020A	2021F	2022F	2023F
Cash and cash equivalents	43,999	73,274	85,255	99,976	114,843
Trade and other receivables	60,123	63,427	68,720	71,685	74,263
Inventory	25,220	22,766	24,796	25,866	26,797
Other current assets	29,014	21,089	21,089	21,089	21,089
Current Assets	158,356	180,556	199,860	218,617	236,992
Property, plant and equipment	29,589	31,413	28,806	26,991	26,100
Investment properties	27,391	27,064	27,064	27,064	27,064
Other non-current assets	28,486	25,795	22,764	18,042	13,318
Non-current Assets	85,466	84,272	78,633	72,097	66,482
Total assets	243,822	264,828	278,493	290,714	303,474
Trade and other payables	53,941	55,140	60,058	62,649	64,902
Borrowings (current)	0	441	441	441	441
Other current liabilities	6,909	9,993	9,986	9,986	9,986
Current Liabilities	60,850	65,574	70,485	73,076	75,329
Borrowings (non-current)	224	1,213	1,213	1,213	1,213
Other non-current liabilities	21,836	20,096	16,612	13,100	9,586
Non-current liabilities	22,060	21,309	17,825	14,313	10,799
Shareholders equity	160,912	177,945	190,184	203,324	217,346
Non-controlling interests	0	0	0	0	0
Total Equity	160,912	177,945	190,184	203,324	217,346
Total Liabilities and Equity	243,822	264,828	278,493	290,714	303,474
CASH FLOW STATEMENT (\$\$ '000)	2019A	2020A	2021F	2022F	2023F
Net income before tax	19,355	19,224	20,006	21,079	22,128
Depreciation & Amortisation	5,872	10,447	10,706	10,228	9,896
Change in Working Capital	50	(185)	(2,412)	(1,444)	(1,255)
Income Tax Paid	(4,706)	(2,451)	(3,201)	(3,373)	(3,540)
Other non-cash adjustments	(2,676)	3,466	(114)	(114)	(114)
CF from operating activities	17,895	30,501	24,984	26,377	27,115
Purchase/Disposal of PPE	(2,002)	(5,572)	(3,141)	(3,457)	(4,049)
Other CFI	(2,879)	8,621	(99)	(99)	(99)
CF from investing activities	(4,881)	3,049	(3,240)	(3,556)	(4,148)
Dividends Paid	(3,395)	(3,395)	(4,566)	(4,566)	(4,566)
Debt Raised / (Repaid)	222	1,430	0	0	0
Equity Raised / (Bought Back)	0	0	0	0	0
Other Cash from Financing	(616)	(3,534)	(3,534)	(3,534)	(3,534)
CF from financing activities	(3,789)	(5,499)	(8,100)	(8,100)	(8,100)
Net increase in cash & cash equiv.	9,225	28,051	13,644	14,721	14,867
FX effects	(279)	634	0	0	0
Beginning Cash	33,980	42,926	71,611	85,255	99,976
Ending Cash	42,926	71,611	85,255	99,976	114,843
KEY RATIOS	2019A	2020A	2021F	2022F	2023F
Profitability					
EPS	0.07	0.06	0.07	0.08	0.08
EPS Growth (%)	(18.1)	(16.7)	20.1	5.4	5.0
DPS (SGD Cents)	1.5	2.0	2.0	2.0	2.0
Dividend Yield (%)	1.7	2.2	2.2	2.2	2.2
Profitability					
Gross margin	21.8%	24.6%	23.0%	23.0%	23.0%
EBITDA margin	11.9%	17.2%	15.9%	15.4%	15.0%
Net margin	8.9%	7.6%	8.6%	8.7%	8.8%
ROE	10.7%	8.2%	9.1%	9.0%	8.8%
ROA	7.1%	5.5%	6.2%	6.2%	6.3%
Financial Structure (x)					
Interest coverage	135.2	13.0	12.8	12.9	13.0
Total Debt/Equity	0.1	0.1	0.1	0.1	0.1
Net Gearing	-0.1	-0.3	-0.3	-0.4	-0.5
Market Valuation (x)					
Price / Earnings	12.3	14.8	12.3	11.7	11.1
Price / Book	1.3	1.2	1.1	1.0	1.0
Price / Sales	1.1	1.1	1.1	1.0	1.0
EV / EBITDA	8.3	4.9	4.5	3.9	3.3

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