

CHINA
DEVELOPMENT
FINANCIAL

Creative Technology

(CREAF SP/CREAF.SI)

Not Rated

Price as of 14 Feb 2018	1.220
12M target price (S\$)	NA
Previous target price (S\$)	NA
Upside, incl div (%)	NA

Trading data

Market Cap (S\$m)	91.8
Issued Shares (m)	75.2
Ave Daily Traded (3-Month) Vol / Val	0.0m / \$0.0m
52 week lo / hi	\$0.93 / \$1.44
Free Float	65.8%

Major Shareholders

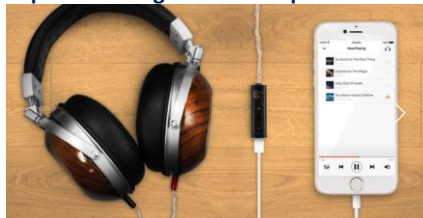
Sim Wong Hoo	30.9%
Ng Kai Wa	3.1%

Super X-Fi Chip



Source: KGI Research, Creative Technology

Super X-Fi Dongle with Headphones



Source: KGI Research, Creative Technology

Marc Tan
65 6202 1195
marc.tan@kgi.com

See the last page for important disclosures.

X-Fi technology could open new markets

Event

We recently visited Creative Technology's headquarters for a demo on their latest award-winning products, the X-Fi Sonic Carrier and Super X-Fi technology for headphones.

Impact

Input agnostic technology creating high-end audio experience. Both of Creative's new products are built around an ability to transform sounds from common sources of input into multi-dimensional audio. We think that such technology could have wide-ranging applications in fields such as consumer electronics and gaming.

Best-in-class high-end soundbar solution. Priced at US\$ 5,799 a unit, the X-Fi Sonic Carrier combines the latest Dolby Atmos technology with Creative's X-Fi technology to deliver a 15.2-channel system with 24-bit/192kHz resolution. This combination of high-end home theatre and high-end audio systems won the Best of CEDIA 2017 award by AVS Forum, the world's largest AV-enthusiast forum site and received more than 500 pre-orders after displaying a prototype at Las Vegas in January 2016. During the demo, we were impressed by the cinematic audio that flowed around and above us, as well as the elegant look of its one-piece wireless system. When it came to music, songs that were played with the X-Fi technology, sounded just like a real stereo system.

Super X-Fi could be a game changer. The Super X-Fi technology has been touted as the Holy Grail of audio due to its ability to make headphone audio sound as good as audio from a high-end multi-speaker system. During the demo session, we were asked to switch between Super X-Fi headphones and a multi-channel speaker system but we were barely able to differentiate the difference between the 2. In fact, when we tried the headphones for the first time, we thought the songs were played from the speakers rather than the headphones. According to Creative, Super X-Fi could come in various offerings, including a Super X-Fi Dongle (US\$150) that can be attached to headphones/earphones or premium headphones with built-in Super X-Fi.

In our view, we left the demo session feeling awed by the new products. We are excited about the potential of Super X-Fi and will be keeping a close watch on how this affects Creative's revenues going forward.

Valuation & Action

Creative posted a net loss of US\$4.2m for 2Q18, as compared to US\$6.5m a year ago. Revenue dropped 6% YoY to US\$ 20.9m while cash rose to US\$ 118.4m from US\$ 75.3m in the 1H of 2017, boosted by payments received from settlement of patent lawsuits and judgement sums. We note that Creative is a net cash company and its cash/market cap ratio currently stands at 1.7x. Such stability and liquidity gives us confidence that firm's stock price could greatly benefit from a game changer such as the Super X-Fi technology.

Risks

Key risks include lack of demand in the new products, manufacturing shortages and competitors replicating similar technology.

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2018. KGI Securities (Singapore) Pte. Ltd. All rights reserved.