



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

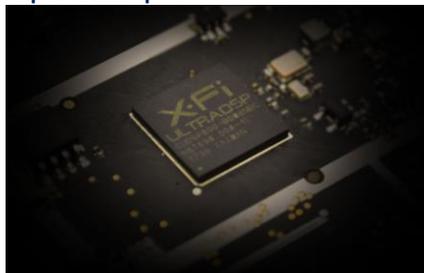
Trading data

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

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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

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