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SALUTICA BERHAD

FY19 slip into red, expect better quarters ahead

Strictly for internal circulation and not for publication

Electronics Manufacturing Service

HOLD

Price: RM 0.60

Target Price: RM 0.55

FY19 slip into red as revenue halved, drag by R&D cost

Salutica FY19 slip into red as revenue almost halved (yoy:-46.6%). Revenue dives due to delay in product launching and weak consumer market sentiment. The delay in product launching was due to longer than expected development cycle. After 9 months delay, the group has just launch its latest generation cordless Bluetooth headset which was co-developed with European design partner in the market in Aug'19 thus we expect revenue to pick up while development cost to moderate in coming quarters.

New businesses - sleep science, smart homes and next generation headsets

The Group embark into new business such as sleep science (sensors for mattress), smart homes (sensors for controllers/switches) and next generation headsets. Currently, the group is at prototyping stage for sensors used in smart homes and quotation stage for sensors used in mattresses. We are positive with diversification as 95% revenue of the group is from Bluetooth headsets however do not expect significant contribution from new businesses in coming quarters.

Maintain dividend despite being in red

The group is maintaining its 1st interim dividend at 0.6 sen per share for FY20, to be paid on 30 Sept 2019.

Maintain Hold recommendation with higher TP of RM0.55

We maintain our FY20F forecast as it has already price in the successful launch of long-awaited cordless Bluetooth headset. We maintained our hold recommendation with higher target price of RM0.55 based on lower peers average P/E of 10.0x on our estimated EPS for FY20F.

EARNINGS SUMMARY

FY 30 Jun (RM m)	2017A	2018A	2019A	2020F	2021F
Revenue	247.1	261.5	139.0	238.7	286.6
EBITDA	29.8	21.5	5.1	33.4	40.1
Core Net Profit/(loss)	19.4	11.4	(0.6)	21.2	25.5
Core EPS (Sen)	5.0	2.9	(0.2)	5.5	6.6
Core EPS Growth (%)	(20.4)	(41.4)	-	-	20.3
Net DPS (Sen)	2.4	2.4	2.4	2.4	2.4
Core PE	31.1	19.8	-	10.2	8.5
Dividend Yield (%)	1.5	4.1	4.0	4.0	4.0
Debt/Equity (%)	2.0	0.5	0.2	0.4	0.4
ROA (%)	9.5	5.7	-	11.5	12.7
ROE (%)	12.1	6.8	-	12.6	13.8
NTA per share (sen)	41.9	42.8	40.3	43.4	47.7
Price to NTA (x)	3.7	1.3	1.5	1.1	1.0

Company Description

Salutica manufactures electronic products, specializes in consumer and business electronic product development such as Bluetooth stereo headsets, smart watches and precision light guides for optical touch screen systems.

Stock Return Information

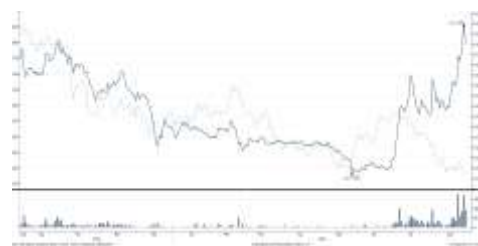
KLCI	1,587.3
Expected Share Return (%)	-8.3
Expected Dividend Yield (%)	4.0
Expected Total Return (%)	-4.3

Share Information

Bloomberg Code	SALUT MK
Stock Code	0183
Listing	MAIN
Issued Shares (m)	385.0
Market Cap (RM m)	231.0
52W High	0.66
52W Low	0.29
Estimated Free Float (%)	33.8
Beta (X)	0.9
3-month Average Vol.	2,596,448

Top 3 Shareholders (%)

James Lim	55.7
Genius Thinkers S/B	4.1
Chan Shook Ling	1.6



Price Performance

	1M	3M	12M
Absolute (%)	36.4	110.9	1.7
Relative to Index (%)	39.8	112.0	11.8

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Fig 1: Quarterly results comparison

FYE 30 Jun (RM m)	Individual Quarters						Cumulative Quarter		
	YoY			QoQ			YoY		
	4Q19	4Q18	yoy %	4Q19	3Q19	qoq%	4Q19	4Q18	yoy %
Revenue	16.0	42.1	(62.0)	16.0	19.4	(17.4)	139.0	261.5	(46.9)
Profit/(Loss) from operations	(1.1)	(1.3)	-	(1.1)	(4.1)	-	(0.9)	15.2	(106.2)
Finance cost	(0.0)	(0.0)	-	(0.0)	(0.0)	-	(0.0)	(0.1)	-
PBT	(1.1)	(1.3)	(18.8)	(1.1)	(4.1)	-	(0.9)	15.1	(106.2)
Taxation	0.3	0.3	(21.7)	0.3	1.1	(75.1)	0.4	(3.7)	(110.3)
PAT /(LAT)	(0.8)	(1.0)	(17.8)	(0.8)	(3.1)	(73.5)	(0.6)	11.4	(104.8)
MI	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
PATMI	(0.8)	(1.0)	(17.8)	(0.8)	(3.1)	(73.5)	(0.6)	11.4	(104.8)
Core net profit	(0.8)	(1.0)	(17.8)	(0.8)	(3.1)	(73.5)	(0.6)	11.4	(104.8)
Basic EPS (sen)	(0.2)	(0.3)	(17.8)	(0.2)	(0.8)	(73.5)	(0.1)	3.0	(104.8)
Diluted EPS (sen)	(0.2)	1.6	(113.6)	(0.2)	0.6	(135.2)	(0.1)	3.0	(73.2)
Core EPS (sen)	(0.2)	1.6	(113.6)	(0.2)	0.6	(135.2)	(0.1)	3.0	(73.2)

Source: company and Mercury Securities

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