

# Singapore Company Focus

## Sunningdale Tech Ltd

Bloomberg: SUNN SP | Reuters: SUND.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 May 2017

### BUY

(Initiating Coverage)

Last Traded Price ( 24 May 2017): S\$1.95 (STI : 3,231.24)

Price Target 12-mth: S\$2.62 (34% upside)

Potential Catalyst: Earnings delivery, M&A

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#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2015A	2016A	2017F	2018F
Revenue	674	684	713	743
EBITDA	61.1	73.6	76.2	81.3
Pre-tax Profit	42.8	47.2	41.5	45.9
Net Profit	42.1	39.1	34.3	37.9
Net Pft (Pre Ex.)	23.6	31.7	34.3	37.9
EPS (S cts)	22.7	20.9	18.2	20.2
EPS Pre Ex. (S cts)	12.7	16.9	18.2	20.2
EPS Gth (%)	38	(8)	(13)	11
EPS Gth Pre Ex (%)	(11)	33	7	11
Diluted EPS (S cts)	22.2	20.5	18.0	19.9
Net DPS (S cts)	5.00	6.00	6.00	6.00
BV Per Share (S cts)	178	188	199	213
PE (X)	8.6	9.3	10.7	9.7
PE Pre Ex. (X)	15.3	11.5	10.7	9.7
P/Cash Flow (X)	5.4	6.9	5.8	5.6
EV/EBITDA (X)	5.9	4.7	4.4	3.8
Net Div Yield (%)	2.6	3.1	3.1	3.1
P/Book Value (X)	1.1	1.0	1.0	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	13.2	11.5	9.4	9.8

Consensus EPS (S cts):

Other Broker Recs: B: 1 S: 0 H: 1

ICB Industry : Industrials

ICB Sector: Industrial Engineering

Principal Business: Sunningdale is a SGX-listed precision plastics engineering company focused on injection moulding and components manufacturing for three key sectors – Automotives, Consumer/IT and Healthcare.

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

### Rising SUNN

- **Initiating coverage on Sunningdale with BUY and TP of S\$2.62, based on 13x FY18F (vs larger US peers' 20x)**
- **Leading global manufacturer of precision plastic components, with lower customer concentration risk vs local peers and offers higher growth vs the bigger boys**
- **Competitive edge in advanced manufacturing capabilities, global presence and diversification still underappreciated**
- **Robust growth outlook underpinned by positive underlying demand trends**

**Leading manufacturer of precision plastic components.** Ranked among the largest high-precision plastic solutions providers globally, Sunningdale's competitive advantages lie in its advanced manufacturing capabilities, global manufacturing footprint, and scale. The group also stands out for its diversified MNC customer base – majority of its customers contribute between 3-5% each to group sales, which greatly reduces customer concentration risk commonly seen among small-mid cap peers.

**Beneficiary of the broad-based substitution for functional plastics and positive underlying trends in Automotive, Consumer/IT and Healthcare sectors.** Owing to improved plastic material properties (i.e. strength and durability), and higher cost efficiency, precision plastic components are increasingly replacing their metallic counterparts in a wide range of industrial applications – particularly in the automotive, consumer goods and healthcare sectors. The underlying demand outlook across the group's three key end-sectors is also positive and forecast by industry experts to grow in the high single-digit to low-double digit levels p.a. into 2020.

A beneficiary of these trends, Sunningdale's core earnings are projected to grow steadily at 9% CAGR over FY16-18F. Plus, given its track record and strong business fundamentals, we believe that Sunningdale is well-poised to take on complex projects that may surface across the Automotive, Consumer/IT and Healthcare space to deliver further growth.

**Initiating coverage with BUY; TP of S\$2.62 based on 13x FY18F earnings.** Current trading at undemanding valuations of under 10x PE and 1x FY18F P/BV despite recent re-rating in the tech sector. Given world class engineering capabilities, global presence and diversification, we believe Sunningdale deserves to trade closer to larger US peers' 20x FY18F PE and at a premium over local precision plastic peers. We derive a TP of S\$2.62 for Sunningdale, based on 13x FY18F PE, which still represents a substantial 35% discount to US peers.

Decent 3.1% yield is also on offer but could surprise on the upside as dividends have been on a steady uptrend over FY14-FY16.

#### At A Glance

Issued Capital (m shrs)	188
Mkt. Cap (\$m/US\$m)	367 / 265
Major Shareholders (%)	
Boon Hwee Koh	15.9
Yarwood Engineering	8.1
Goi Seng Hui	8.1
Free Float (%)	64.3
3m Avg. Daily Val (US\$m)	2.1

## INVESTMENT THESIS

Profile	Rationale
<p><b>Sunningdale</b> (SUNN SP) provides one-stop turnkey plastic solutions, with capabilities ranging from product &amp; mould designs, mould fabrication, injection moulding, micro-precision engineering, complementary finishings, through to the precision assembly of complete products.</p> <p>The group is mainly focused on four business segments - Automotive, Consumer/IT, Healthcare, and Mould Fabrication.</p>	<p><b>Steady long-term manufacturing play, with lower risk-reward profile vs local peers and offers higher growth vs the bigger boys</b></p> <p>Ranked among the largest high-precision plastic solutions providers globally, Sunningdale's competitive advantages lie in its advanced manufacturing capabilities, global manufacturing footprint, and scale. The group also stands out for its diversified MNC customer base – majority of its customers contribute between 3-5% each to group sales, which greatly reduces customer concentration risk commonly seen among small-mid cap peers.</p> <p><b>Beneficiary of the (1) broad-based substitution for functional plastics, and</b></p> <p>Owing to improved plastic material properties (i.e. strength and durability), and higher cost effectiveness, precision plastic components are increasingly replacing their metallic counterparts in a wide range of industrial applications – particularly in automotive, consumer goods and healthcare sectors.</p> <p><b>(2) positive underlying Automotive, Consumer/IT and Healthcare trends.</b></p> <p>Underlying demand outlook across the group's three key end-sectors are also positive and have been forecast by industry experts to grow in the high single-digit to low-double digit levels p.a. into 2020.</p>
Valuation	Risks
<p>Sunningdale's world class engineering capabilities, global presence and diversification have been underappreciated, and we believe that the group deserves to trade closer to larger US peers' 20x FY18F PE and at a premium over local precision plastic peers.</p> <p>Following the recent re-rating in the tech sector, we derive a TP of S\$2.62 – based on 13x FY18F PE as fair, which still represents a substantial 35% discount to US peers.</p>	<p><b>Global economic slowdown.</b> With exposure across some of the world's main manufacturing regions, a global economic slowdown could pose significant challenges to Sunningdale as several of its industry segments such as Consumer/IT and Automotive are sensitive to fluctuations in the global economy. If so, this could have a significant impact on the group's sales and profitability.</p>

Source: DBS Bank

## SWOT Analysis

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### Strengths

- Strong suite of manufacturing capabilities and a global manufacturing footprint instils confidence when bidding for contracts
- Diversified MNC client base
- Steady long-term growth

### Weakness

- Largest client currently accounts for c.10% of sales

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### Opportunities

- Growing business reach into new regions
- Expanding customer base into new industries
- Margin expansion from greater economies of scale

### Threats

- Global economic uncertainty
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Source: DBS Bank

**Company Background**

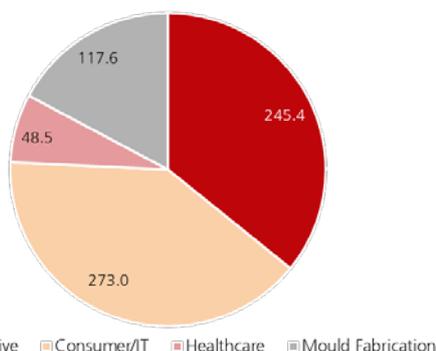
**One of the largest high-precision plastic solutions providers globally.** Established in 1984, Sunningdale provides one-stop turnkey plastic solutions, with capabilities ranging from product & mould designs, mould fabrication, injection moulding, micro-precision engineering, complementary finishings, through to the precision assembly of complete products.

The group is mainly focused on four business segments - Automotive, Consumer/IT, Healthcare, and Mould Fabrication, which contributed 36%, 40%, 7% and 17%, respectively, to FY16 sales.

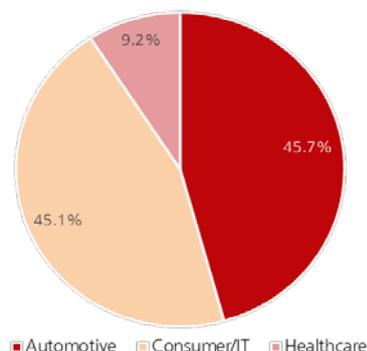
**Serves three diversified end-sectors – Automotive, Consumer/IT and Healthcare.** While mould fabrication is reported as a standalone business segment in Sunningdale’s sales breakdown, we note that mould fabrication services provided by the group essentially supports one of three end-sectors – Automotive, Consumer/IT and Healthcare.

Therefore, on an adjusted basis, including contributions from mould fabrication, we estimate that the Automotive sector is Sunningdale’s largest source of revenues (45.7% in FY16). The Consumer/IT sector follows closely, with an estimated 45.1% share of FY16 revenue. Meanwhile, contribution from the Healthcare sector remains small, and is estimated to have contributed less than 10% to FY16 sales.

**Breakdown of Revenue by Business Segments (FY16)**



**Est. Breakdown of Revenue by Sector Exposure (FY16)\***



*\*including contributions from mould fabrication, which is supplied to the Automotive, Consumer/IT and Healthcare sectors  
Source: Company, DBS Bank*

**Automotive sector to lead growth ahead.** Under this segment, Sunningdale mainly produces faceplates for automotive audio systems and climate controls, speedometers /clusters, steering switches and exterior antenna covers.

Tapping onto ongoing outsourcing trends from the US, Europe and Japan, steadily increasing demand for in-vehicle plastic components and fairly long product life cycles, the automotive industry continues to offer strong growth opportunities for the group.

As Sunningdale gradually ramps up on new projects secured over the last few years, we see revenue from the Automotive sector growing by 8-10% p.a. into FY18F.

**Stable outlook across remaining sectors.** While outlook in the broader Consumer/IT space remains subdued, we think that modest growth (of 2% p.a. into FY19F) in the near-term will likely be led by ongoing business development initiatives and healthy order backlogs from end-FY16.

After delays in 2H16, the recent commencement of a new healthcare project – which generally has longer product life cycle of 10-15 years - should provide some degree of earnings visibility.

**Longer Product Lifecycles Provide Improved Earnings Visibility**

Business Segment	Product Lifecycle
Automotive	5-7 years
Consumer/IT	2-3 years
Healthcare	10-15 years

*Source: Company, DBS Bank*

**Revenue from mould fabrication can be lumpy q-o-q.** The mould fabrication segment primarily involves the design and manufacture of moulds that are later used in the manufacture of plastic injection parts.

Often driven by business/project requirements, demand for mould fabrication can vary widely between periods. While some mould fabrication projects are one-off, others could ultimately lead to a recurring stream of component manufacturing revenues for the group.

**Global manufacturing footprint a plus.** Over the last three decades, Sunningdale has steadily expanded its geographical presence through a combination of organic growth and acquisitions – such as precision plastic manufacturer, First Engineering in FY14 and Europe-based SKAN-tooling in FY15, which provided the group with access to India and Europe. At present, Sunningdale has 19 in-production manufacturing locations in nine countries across Asia, Europe, North and South America.

As the only SGX-listed precision plastic engineering company with a manufacturing presence outside of Asia, we opine that Sunningdale is better able to provide local support to key clients compared to most peers, and could potentially leverage on its global manufacturing presence and existing relationship with MNC customers to capture opportunities in new markets.

**Manufacturing Footprint of Key Local Precision Plastic Peers**

Local Peers	Manufacturing Footprint
Fischer Tech	China, Malaysia, Singapore and Thailand
Fu Yu Corp	China, Malaysia, Singapore
Sunningdale	China, Europe, India, Indonesia, Malaysia, Mexico, Singapore, South America and Thailand

Source: Companies, DBS Bank

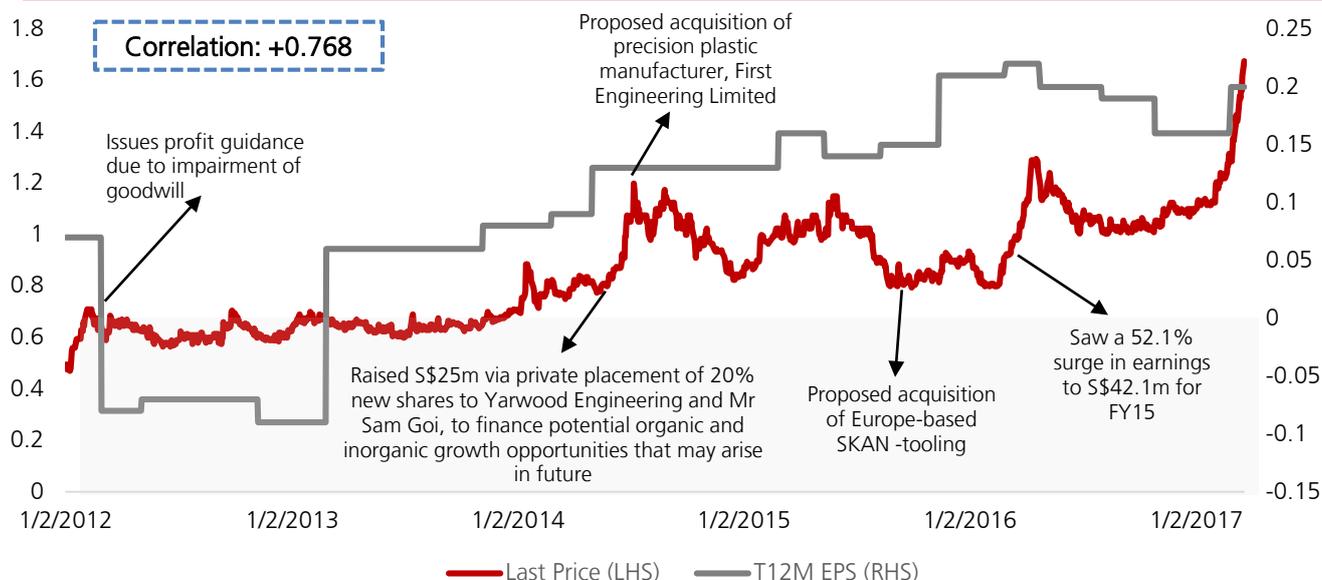
**19 Manufacturing Facilities Across 9 Countries**



Source: Company

**Earnings and M&A are Share Price Drivers**

**Historical Relationship Between Earnings Growth and Sunningdale's Share Price**



Source: DBS Bank, ThomsonReuters

**Historical correlation between share price and trailing 12-month earnings per share (T12M EPS) relatively strong.** Sunningdale's share price performance and T12M EPS from FY2012 displayed a positive correlation of 0.768, which suggests that the group's underlying share price was closely correlated to earnings growth.

**Corporate actions - including M&A - also a share price driver.** Various corporate actions pursued by Sunningdale over the last five years included new share issuances (such as the private placement of 20% new shares to Yarwood Engineering and Mr Sam Goi in Sep 2014) and M&As, which included the acquisition of precision plastic manufacturer, First Engineering Limited (FEL) and Europe-based SKAN-tooling.

Share price does not always react positively on M&A announcements - as in the case of the FEL acquisition, which implied that the market could have perceived the deal to be expensive based on the acquisition PE of 19x historical earnings against Sunningdale's 8.7x, despite its strategic value and earnings accretion.

While the correlation between M&A and share price tends to be less significant in the short-term, we found that as strategic value (such as growth opportunities and cost savings) from deals are gradually unlocked, earnings-accretive M&As generally have a positive impact on the acquiror's share price in the medium-to-long term.

## Management & Strategy

**Managed by non-founder management team.** Key members of the management team have been with the group for over a decade, and each carry over two decades of experience in their respective fields. Under their leadership, Sunningdale's net profits have nearly quadrupled from S\$10.1m in FY03 to S\$39.1m in FY16.

**Potential to leverage on Chairman Mr Koh's network.** As Sunningdale's largest shareholder and non-executive Chairman, Mr Koh Boon Hwee also has significant influence over the group's operations. He also serves as Chairman of private equity firm, Rippledot Capital Advisors – which presented Sunningdale with the First Engineering deal in 2014, and was also involved in several other M&As in the precision manufacturing space (such as Interplex Holdings).

**Increasing dividend payments.** While Sunningdale does not have a fixed dividend policy, we note that dividends paid have grown steadily alongside earnings growth, from 3 Scts in FY12 to 6 Scts in FY16.

### Increasing Dividend Payments (FY12-FY16)



Source: Companies, DBS Bank

### Key Management Team

Member	Designation	Profile
<b>Mr Khoo Boo Hor</b>	Group Chief Executive Officer (CEO)	Mr Khoo holds a Bachelor of Science and a Bachelor of Engineering (Honours) from Monash University, as well as a Master of Business Administration from the University of Louisville, Kentucky.  Prior to this appointment, he was the Group Operations Director and was responsible for the manufacturing operations. He also played an important role in integrating the operations of Sunningdale Precision Industries Ltd and Tech Group Asia Ltd following the merger of the two companies in July 2005.
<b>Ms Soh Hui Ling</b>	Chief Financial Officer (CFO)	Ms Soh completed the Association of Chartered Certified Accountant Course in 1991. She is also a Fellow member of the Association of Chartered Certified Accountants, UK, and Institute of Singapore Chartered Accountants.  She was appointed as Group Financial Controller prior to this post and held the same post in the former Sunningdale Precision Industries Ltd. As CFO, she is responsible for the Group's financial and management accounting, treasury and taxation.
<b>Mr Chan Tung Sing</b>	Business Development Vice President	Mr Chan holds a Bachelor degree of Electrical Engineering from National University of Singapore.  His primary focus is the Automotive segment since his appointment in November 2011. Previously, he was the General Manager for Shanghai operations and was responsible for the plant's performance.

Source: Company, DBS Bank

**(1) Leveraging on strong business fundamentals to deliver sustainable growth**

**Restructuring in Southern China complete.** To overcome the challenges of industrial production overcapacity in South China, Sunningdale made a strategic decision in early 2016 to restructure its facility in Zhongshan, China, aimed at streamlining costs and improving capacity utilisation. The exercise was completed in 2Q16.

**Investing for the future.** While most of the industry is focused on managing costs amid the challenging business climate, Sunningdale is one of few precision engineering companies that continue to actively invest in future growth.

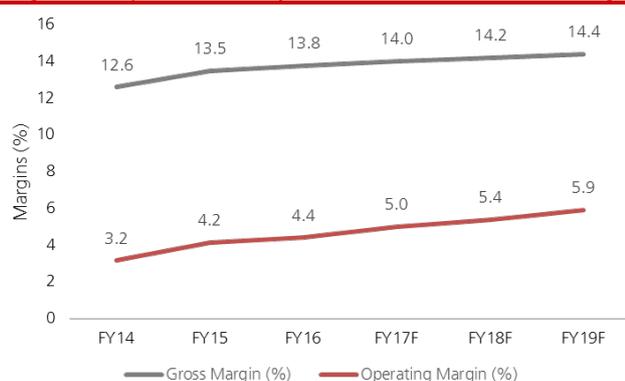
Recent investments include a 50,000 sqm manufacturing facility in Chuzhou, China aimed at mitigating rising labour costs in first-tier cities, and has acquired a manufacturing site in Penang (Malaysia) which is in close proximity to the operations of a number of Fortune 500 companies (including several of Sunningdale’s existing customers) and in anticipation of the group’s medium-to-longer term capacity requirements.

**Growing scale and improving sales mix to aid margin expansion ahead.** Sunningdale has delivered consistent margin improvements and growth over the last few years. With the restructuring exercise in Zhongshan and construction of the new Chuzhou plant completed in FY16, the group is now well positioned to leverage on the following initiatives to deliver sustainable growth:

- (i) Strengthen business development activities to further expand its higher-margin (particularly Automotive and Healthcare) product mix
- (ii) Development of new engineering capabilities
- (iii) Reap cost advantages through growing scale.

Notwithstanding one-offs (such as foreign exchange and disposal gains) which resulted in record FY16 earnings, we expect core earnings to remain on a positive growth trajectory ahead.

**Margins to Improve Modestly Post South China Restructuring**



Source: Company, DBS Bank

**(2) Lower risk profile vs local precision plastic peers**

**Reduced customer concentration risk.** The group stands out for its diversified MNC customer base. Apart from a key Consumer/IT client which contributes c.15% of group revenue, a majority of Sunningdale’s customers each contribute between 3-5% to group sales on average, which greatly reduces customer concentration risk commonly seen among small-mid cap manufacturing peers.

Approximately 50% and 80% of Sunningdale’s FY16 revenue was derived from its top 10 and top 30 blue chip customers, respectively.

**(3) Both acquiror and acquiree**

**Growing from acquisitions.** Sunningdale has made three acquisitions since 2010 – UFE in 2011, First Engineering in 2014 and SKAN-tooling in 2015. On each of these separate occasions, we note that acquisitions were only made after the group moved back into a net cash position. With a net cash position of S\$12.8m as at end-1Q17 and completion of its restructuring in South China, Sunningdale could be looking to acquire.

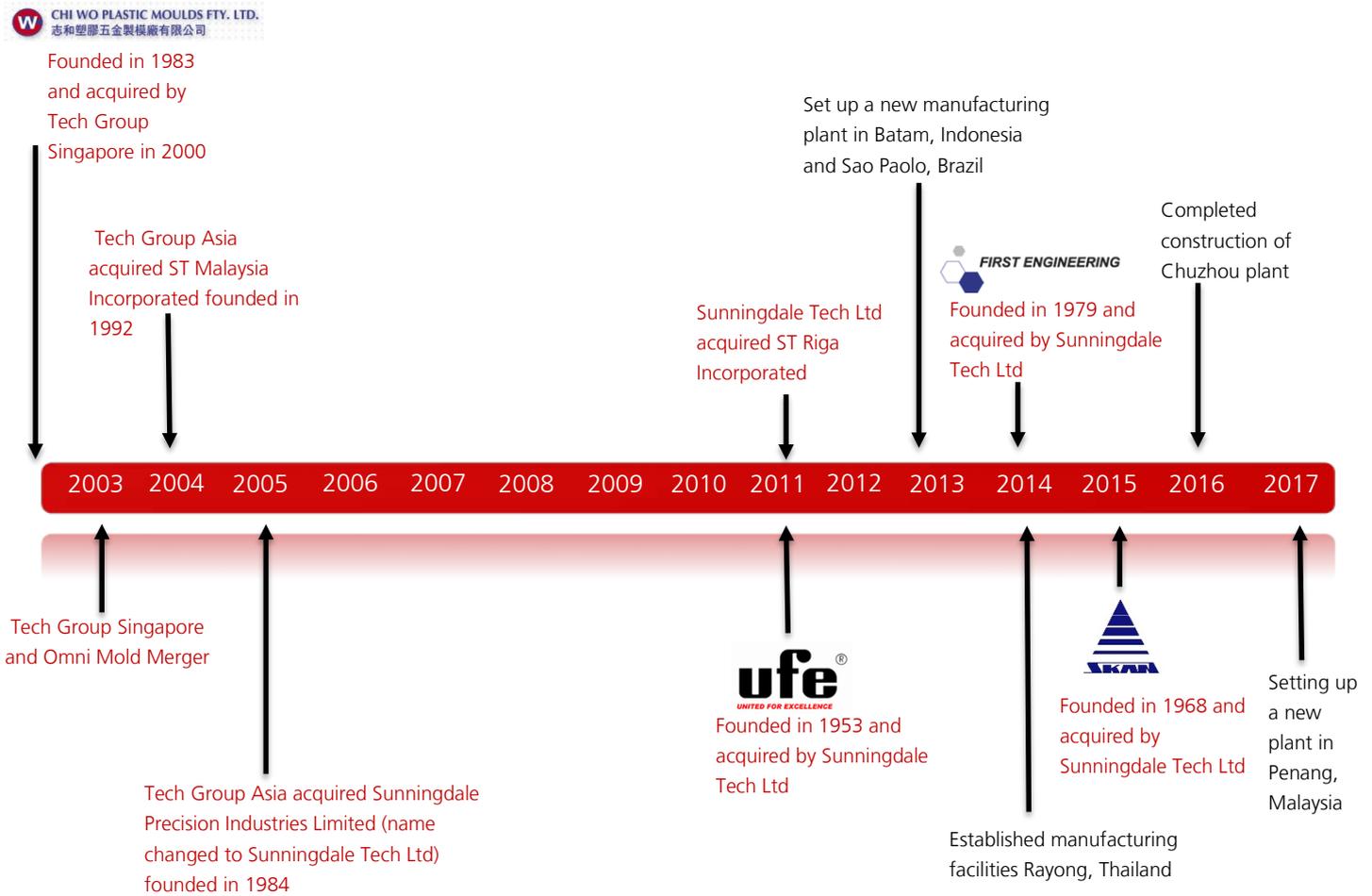
Judging from its earlier acquisitions, we believe that the group’s criteria for future M&As would likely include precision plastic peers which provide access to:

- New geographies
- Wider product offering within existing Automotive, Consumer/IT and Healthcare verticals
- New clientele

**Takeover potential in the longer term.** Sunningdale’s proven record of strong cash flow generation, healthy balance sheet with net cash of S\$12.8m currently, and inexpensive valuations – the stock currently trades at undemanding valuations of under 1x P/BV and 10x FY18F PE (vs local peer average of 1.3x and 11x, respectively) could lead to a potential takeover offer.

Given the group’s advanced manufacturing capabilities, global manufacturing footprint and diversified MNC customer base, we see Sunningdale as an attractive takeover target for private equity (PE) funds or larger top-tier players in the precision plastic field looking to (1) acquire advanced manufacturing capabilities, (2) have global manufacturing facilities or (3) gain immediate access to a diversified MNC customer base.

**Corporate History: Has Actively Pursued Both Organic and Inorganic Growth**



Source: Company

### Industry Prospects

**Global precision plastics market to expand by 4.9% CAGR on significant demand from key end-user industries.** Owing to improved plastic material properties (such as strength and durability), shorter production lead times, and higher cost effectiveness, precision plastic components are increasingly replacing their metallic counterparts for a wide range of industrial applications – particularly in the automotive, consumer goods and healthcare sectors.

As a beneficiary of these positive developments, Allied Market Research forecasts that the global injection moulded plastic market will register a CAGR of 4.9% from c. US\$122m in 2014 to US\$162 bn by 2020.

#### Factors Driving the Adoption of Plastic (vs Metal) Components

End-use Industries	Drivers
<b>Automotive</b>	- Government regulations to reduce the weight of vehicles to lower harmful emissions
<b>Consumer Goods</b>	- Popularity of consumer wearables with the emergence of cloud computing and Internet of Things (IoT) technologies, thus stimulating demand for plastics in electronic components  - Replacement of metal with cheaper plastic components to boost profit margins
<b>Healthcare</b>	-New technologies (i.e. antimicrobial plastic) are purportedly able to repel and even kill bacteria on surfaces  - Also a viable alternative to metallic components that can wear out prematurely  - Plastic devices are cheaper to use and easier to replace

Source: DBS Bank

**Strong plastic injection moulding machine sales a leading indicator.** Used in the design and production of plastic component parts, investments into new capacity – as evidenced by the strong plastic injection moulding machine sales over the last few years - is indicative of the industry’s strong growth outlook.

Leading vendors of injection moulding machines that have achieved record sales for a few years running, as highlighted by market research company Technavio, include ARBURG and Haitian International.

#### Global car sales growth to normalise after record 2016.

According to the International Organization of Motor Vehicle Manufacturers (OICA), global passenger car market registrations and sales rose 4.8% y-o-y to a record 69.5m in 2016 on purchase tax cuts for vehicles (1.6 litre and smaller) in China and demand recovery in Europe.

With uneven regional sales growth, profitability of the automotive industry would depend on broad global demand patterns – which we think should head closer to levels observed between 2014 and 2016 of about 3% p.a.

#### New Passenger Car Registrations or Sales in Key Markets

Market	2015 Sales	2016 Sales	3yr CAGR	Global Share*
<b>China</b>	21.2m	24.4m	10.8%	35.1%
<b>Europe</b>	16.4m	17.3m	0.1%	24.9%
<b>US</b>	7.5m	6.9m	1.3%	9.9%

\*as at end-2016

Source: OICA, DBS Bank

**Between 2014 and 2020, plastic content per vehicle may increase by 75%.** Mostly driven by the trend towards replacing metal (such as steel and iron) with plastic – which weighs 50% less, on average - the volume of plastics used per light vehicle has nearly doubled since 1990.

IHS forecasts that the average car will incorporate nearly 350 kg of plastics by 2020, up from an estimated 200 kg in 2014.

**Even if automotive demand wanes in the short-term, the automotive plastics market should still remain in positive growth trajectory.** The American Chemistry Council estimates that a 10% reduction in a vehicle’s weight can improve its fuel economy by 6-8%.

As regulators push for more fuel-efficient vehicles to lower greenhouse emissions, the role of plastics in automotives will only strengthen ahead. Research firm MarketsandMarkets predicts that between 2015 and 2020, the automotive plastics market will grow at 10.9% CAGR to reach US\$40.1 bn.

Given the multi-application potential of precision plastics in automotives, we expect the automotive plastics market to remain in a healthy, positive growth trajectory even in periods of temporary end-demand weakness.

**Meanwhile, the medical plastics segment is poised to grow at 7.1%.** Given underlying material strength, reliability, durability, affordability and the interchangeable nature of moulded plastic products, plastic components (especially the more advanced antimicrobial variety) have found extensive applications across the healthcare and medical device market, and have also played a central role in driving medical innovation.

The global healthcare industry set to grow, and as medical professionals continue to source for sustainable, low-cost and innovative solutions, we see plastics playing an increasingly important role. Riding on these positive trends, MarketsandMarkets projects the medical plastics market to grow by 7.1% CAGR into 2020.

**Players with wider geographical reach are better positioned to compete in a global setting.** To take advantage of low labour rates, many automotive and electronics companies have shifted their production overseas and are outsourcing more of their manufacturing operations to suppliers in these new markets.

With outsourcing trends still going strong, players with wider geographical reach and ability to provide local support can better compete in a global setting. Armed with a strong suite of manufacturing capabilities and a global manufacturing footprint, which instils confidence, we believe that Sunningdale is well-positioned to take on complex projects that may arise across the Automotive, Consumer/IT and Healthcare space.

## Key Risks

**Global economic slowdown.** With exposure across some of the globe's main manufacturing regions, a global economic slowdown could pose significant challenges to Sunningdale as several of its industry segments such as Consumer/IT and Automotive are sensitive to fluctuations in the global economy. If so, this could have a significant impact on the group's sales and profitability.

**Fluctuations in raw material costs.** Key raw materials for Sunningdale are resin and engineering plastics, which typically represent at least 50% of the group's cost of sales.

While prices for engineering plastics (mostly used in automotive and healthcare products) tend to be quite stable, resin (mostly used in consumer/IT products) prices tend to fluctuate with that of crude oil. Despite cost-plus arrangements, the frequency of pricing renegotiations is not

fixed, and could at times lead to a higher cost base in the short term, hence weighing on earnings.

**Managing currency exposures.** Due to its wide geographical presence and broad client base, Sunningdale transacts in various currencies such as USD, RMB, and MYR but reports in Singapore dollar. The largest currency exposure is to the USD, which we estimate represents approximately 40% of the group's revenue.

While the group engages in natural hedging (via raw material procurement etc) where possible, unfavourable fluctuations in these currencies could also weigh on earnings.

Financials – Segmental Forecasts and Income Statement

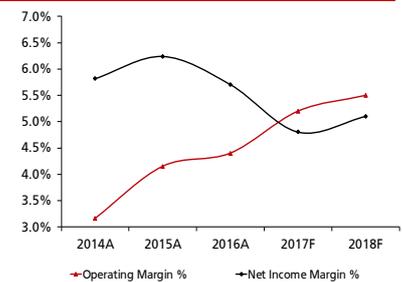
Segmental Breakdown

FY Dec	2013A	2014A	2015A	2016A	2017F	2018F
<b>Revenues (\$m)</b>						
Automotive	106	122	219	245	263	281
Consumer / IT	225	211	269	273	278	284
Healthcare	34.7	37.7	49.8	48.5	51.8	55.7
Mould Fabrication	111	105	137	118	120	122
<b>Total</b>	<b>476</b>	<b>476</b>	<b>674</b>	<b>684</b>	<b>713</b>	<b>743</b>

% Chg in Revenue YoY

Automotive	5%	15%	80%	12%	7%	7%
Consumer / IT	8%	-6%	27%	2%	2%	2%
Healthcare	15%	9%	32%	-3%	7%	8%
Mould Fabrication	-1%	-5%	30%	-14%	2%	2%
<b>Total Revenue Growth</b>	<b>5%</b>	<b>0%</b>	<b>42%</b>	<b>1%</b>	<b>4.1%</b>	<b>4.2%</b>

Margins Trend



Helped by First Engineering acquisition

Income Statement (\$m)

FY Dec	2013A	2014A	2015A	2016A	2017F	2018F
Revenue	476	476	674	684	713	743
Cost of Goods Sold	(421)	(416)	(584)	(590)	(612)	(637)
<b>Gross Profit</b>	<b>55.4</b>	<b>59.9</b>	<b>90.8</b>	<b>94.3</b>	<b>101</b>	<b>106</b>
Other Opng (Exp)/Inc	(39.6)	(44.9)	(62.8)	(64.2)	(64.2)	(65.4)
<b>Operating Profit</b>	<b>15.8</b>	<b>15.0</b>	<b>28.0</b>	<b>30.1</b>	<b>37.1</b>	<b>40.9</b>
Other Non Opng (Exp)/Inc	2.97	10.8	(1.2)	11.8	6.41	6.41
Associates & JV Inc	0.0	0.14	0.90	0.94	1.04	1.09
Net Interest (Exp)/Inc	(1.3)	(1.3)	(3.4)	(3.0)	(3.0)	(2.4)
Exceptional Gain/(Loss)	1.65	3.58	18.5	7.40	0.0	0.0
<b>Pre-tax Profit</b>	<b>19.1</b>	<b>28.2</b>	<b>42.8</b>	<b>47.2</b>	<b>41.5</b>	<b>45.9</b>
Tax	(5.5)	(0.6)	(0.7)	(8.2)	(7.2)	(8.0)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>13.7</b>	<b>27.7</b>	<b>42.1</b>	<b>39.1</b>	<b>34.3</b>	<b>37.9</b>
Net Profit before Except.	12.0	24.1	23.6	31.7	34.3	37.9
EBITDA	45.7	50.5	61.1	73.6	76.2	81.3

Notwithstanding one-offs (such as foreign exchange and disposal gains) which resulted in record earnings in FY16, we expect core earnings to remain on a positive growth trajectory ahead.

Growth

Revenue Gth (%)	5.5	(0.1)	41.8	1.5	4.1	4.2
EBITDA Gth (%)	9.0	10.4	21.1	20.4	3.4	6.8
Opg Profit Gth (%)	40.8	(5.0)	86.3	7.6	23.0	10.3
Net Profit Gth (%)	25.5	100.8	(2.1)	34.2	8.2	10.7

Margins & Ratio

Gross Margins (%)	11.6	12.6	13.5	13.8	14.2	14.3
Opg Profit Margin (%)	3.3	3.2	4.2	4.4	5.2	5.5
Net Profit Margin (%)	2.9	5.8	6.2	5.7	4.8	5.1
ROAE (%)	5.6	9.9	13.2	11.5	9.4	9.8
ROA (%)	3.3	5.5	7.0	6.2	5.2	5.6
ROCE (%)	3.5	5.9	4.4	6.2	6.6	7.1
Div Payout Ratio (%)	38.9	24.3	22.0	28.7	32.9	29.7
Net Interest Cover (x)	11.9	11.6	8.3	10.0	12.2	16.7

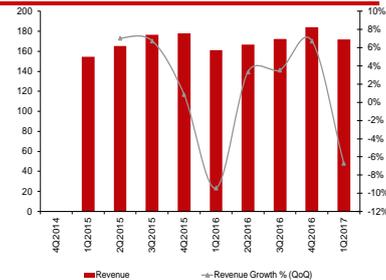
Greater economies of scale to aid margin expansion.

Source: Company, DBS Bank

**Quarterly / Interim Income Statement (\$m)**

FY Dec	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	178	161	167	172	184	172
Cost of Goods Sold	(154)	(139)	(144)	(148)	(159)	(146)
<b>Gross Profit</b>	<b>23.7</b>	<b>21.9</b>	<b>22.9</b>	<b>24.4</b>	<b>25.1</b>	<b>25.9</b>
Other Oper. (Exp)/Inc	(15.0)	(17.4)	(19.3)	(14.2)	(16.8)	(17.1)
<b>Operating Profit</b>	<b>8.68</b>	<b>4.51</b>	<b>3.60</b>	<b>10.3</b>	<b>8.29</b>	<b>8.71</b>
Other Non Opg (Exp)/Inc	1.33	1.09	2.55	3.16	15.8	1.60
Associates & JV Inc	0.34	0.13	0.35	0.24	0.22	0.18
Net Interest (Exp)/Inc	(0.8)	(0.8)	(0.9)	(0.8)	(0.6)	(0.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>9.55</b>	<b>4.92</b>	<b>5.62</b>	<b>12.9</b>	<b>23.8</b>	<b>9.83</b>
Tax	(3.6)	(1.4)	(1.8)	(2.8)	(2.3)	(2.1)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>5.94</b>	<b>3.58</b>	<b>3.81</b>	<b>10.2</b>	<b>21.5</b>	<b>7.70</b>
Net profit bef Except.	5.94	3.58	3.81	10.2	21.5	7.70
EBITDA	18.2	13.4	13.9	21.0	31.5	17.6
<b>Growth</b>						
Revenue Gth (%)	0.9	(9.4)	3.3	3.5	6.7	(6.7)
EBITDA Gth (%)	(32.5)	(26.2)	3.7	50.5	50.1	(44.0)
Opg Profit Gth (%)	23.1	(48.1)	(20.0)	185.1	(19.3)	5.1
Net Profit Gth (Pre-ex)	(62.6)	(39.8)	6.5	167.4	111.1	(64.2)
<b>Margins</b>						
Gross Margins (%)	13.3	13.6	13.8	14.2	13.6	15.0
Opg Profit Margins (%)	4.9	2.8	2.2	6.0	4.5	5.1
Net Profit Margins (%)	3.3	2.2	2.3	5.9	11.7	4.5

**Revenue Trend**



Earnings more than doubled y-o-y to S\$7.7m in 1Q17.

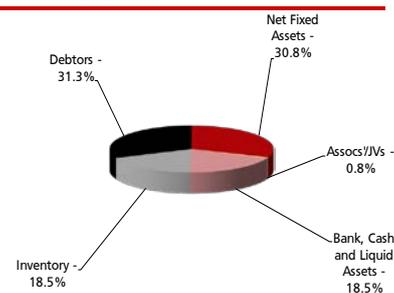
Record 4Q16 boosted by forex gains of S\$8.4m and disposal gains of S\$5.1m.

Source: Company, DBS Bank

### Balance Sheet (\$m)

FY Dec	2013A	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	136	194	187	192	196	199
Invt in Associates & JVs	0.0	5.19	5.54	5.27	5.01	4.79
Other LT Assets	17.5	23.5	20.8	19.4	18.4	17.4
Cash & ST Invt	79.2	103	121	115	134	154
Inventory	76.6	109	106	115	115	119
Debtors	104	158	168	194	189	197
Other Current Assets	2.81	5.02	4.36	7.68	7.68	7.68
<b>Total Assets</b>	<b>417</b>	<b>598</b>	<b>613</b>	<b>649</b>	<b>664</b>	<b>699</b>
ST Debt	54.0	91.6	74.0	67.6	67.6	67.6
Creditor	53.8	77.6	150	184	173	180
Other Current Liab	47.7	69.0	2.25	3.93	7.22	7.99
LT Debt	5.77	45.4	46.0	32.2	32.2	32.2
Other LT Liabilities	2.79	9.20	9.58	9.58	9.58	9.58
Shareholder's Equity	253	305	331	351	374	401
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Cap. &amp; Liab.</b>	<b>417</b>	<b>598</b>	<b>613</b>	<b>648</b>	<b>664</b>	<b>699</b>
Non-Cash Wkg. Capital	82.2	126	126	129	131	135
Net Cash/(Debt)	19.5	(33.9)	1.11	15.5	34.1	54.1
Debtors Turn (avg days)	77.8	100.8	88.3	96.6	98.1	94.7
Creditors Turn (avg days)	52.0	61.3	75.7	109.1	112.4	106.9
Inventory Turn (avg days)	73.6	86.7	71.5	72.2	72.2	70.7
Asset Turnover (x)	1.2	0.9	1.1	1.1	1.1	1.1
Current Ratio (x)	1.7	1.6	1.8	1.7	1.8	1.9
Quick Ratio (x)	1.2	1.1	1.3	1.2	1.3	1.4
Net Debt/Equity (X)	CASH	0.1	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	0.1	CASH	CASH	CASH	CASH
Capex to Debt (%)	25.9	3.3	20.0	28.8	35.1	35.1

### Asset Breakdown



Optimising operations and construction of a new plant in Penang will see net fixed assets growing at a modest 2% between FY16 and FY18F.

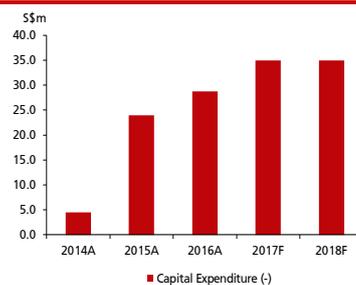
Sunningdale currently sits on a net cash position of S\$12.8m as at end-1Q17.

Source: Company, DBS Bank

## Cash Flow Statement (S\$m)

FY Dec	2013A	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	19.1	28.2	42.8	47.2	41.5	45.9
Dep. & Amort.	26.9	24.5	33.5	30.8	31.7	33.0
Tax Paid	(6.8)	(5.9)	(2.5)	(6.2)	(3.9)	(7.2)
Assoc. & JV Inc/(loss)	0.0	(0.1)	(0.9)	(0.9)	(1.0)	(1.1)
Chg in Wkg.Cap.	(0.5)	(9.6)	(3.1)	(10.8)	(4.6)	(5.6)
Other Operating CF	4.77	(8.9)	(2.3)	(7.3)	0.0	0.0
<b>Net Operating CF</b>	<b>43.6</b>	<b>28.3</b>	<b>67.4</b>	<b>52.8</b>	<b>63.6</b>	<b>65.0</b>
Capital Exp.(net)	(15.5)	(4.5)	(24.0)	(28.8)	(35.0)	(35.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	(63.7)	(1.2)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.76	1.08	1.30	1.30
Other Investing CF	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(15.5)</b>	<b>(68.2)</b>	<b>(24.4)</b>	<b>(27.7)</b>	<b>(33.7)</b>	<b>(33.7)</b>
Div Paid	(4.6)	(5.4)	(7.4)	(9.3)	(11.3)	(11.3)
Chg in Gross Debt	0.94	36.9	(18.3)	(21.2)	0.0	0.0
Capital Issues	0.0	24.9	0.0	0.0	0.0	0.0
Other Financing CF	2.05	7.37	0.71	(0.5)	0.0	0.0
<b>Net Financing CF</b>	<b>(1.6)</b>	<b>63.8</b>	<b>(25.0)</b>	<b>(31.0)</b>	<b>(11.3)</b>	<b>(11.3)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Cash	26.5	23.9	18.0	(5.9)	18.6	20.0
Opg CFPS (S cts)	29.0	22.5	38.0	34.1	36.2	37.5
Free CFPS (S cts)	18.5	14.2	23.4	12.9	15.2	15.9

## Capital Expenditure



Sunningdale projected to invest S\$35m in FY17F for the construction of a new plant in Penang, and further investment into its Chuzhou plant.

Source: Company, DBS Bank

## Valuation

**Trades at a steep 50% discount to US peers despite quality global exposure.** Sunningdale currently trades near +1SD of its 12-month forward PE range, but at a 19% and 53% discount to local and larger US peers' average FY18F PE of 11x and 20x, respectively.

Given its global manufacturing presence, world class capabilities and diversified blue chip customer base, comparing Sunningdale against local manufacturing peers' valuations alone would not be fair.

**Initiate with BUY; TP of S\$2.62 based on 13x FY18F PE (vs larger US peers' 20x).** We believe that Sunningdale's global presence and diversification warrants a premium over close (but smaller) local peers Memtech and Fu Yu.

Greater economies of scale on a steadily growing customer base and product portfolio should also aid margin expansion and help narrow the valuation gap between Sunningdale and the bigger boys in the US over time, especially given its already decent scale.

(Refer to table: North American plastic injection moulders)

Thus, following the recent re-rating in the tech sector, we see a valuation of 13x FY18F PE for Sunningdale as fair - which still represents a substantial discount of 35% and 13% to US and local peer valuations, respectively. Our TP works out to be S\$2.62, offering potential upside of 34% and decent 3.1% yield

### Sunningdale's historical 12-month forward PE ratio (x)



Source: ThomsonReuters, DBS Bank

### Largest North American plastic injection moulders

Rank	Company	Own. Structure	Est. FY16 Sales (US\$ m)
1	Grupo Antolin North America	Private	2,640
2	IAC	Private	1,947
3	Berry Plastics	Public	1,400
4	SRG Global	Private	1,080
5	Newell Brands	Public	950
6	AptarGroup	Public	730
7	Nypro	Private	690
8	U.S. Farathane	Private	610
9	Bway	Private	590
10	Lacks Enterprises	Private	550
11	Sterilite	Private	500
12	Illinois Tool Works	Public	485

Based on FY16 sales of S\$684.5m (c.US\$492m), Sunningdale could have been ranked #12.

Source: Plastics News, Company, DBS Bank

### Peer Comparison (Consensus Estimates)

Company	Last Px (Lcd)	Mkt Cap US\$m	PER		Price-to-Book		EPS CAGR	ROE Crnt	Crnt Yield
			Crnt	Forw	Hist	Crnt			
<b>US Peer Average</b>									
BERRY GLOBAL GROUP	USD 56.39	7,303	19.6	17.0	10.4	7.9	19%	45.7%	0.0%
APTARGROUP	USD 83.19	5,193	24.3	22.2	4.2	4.3	10%	17.8%	1.5%
ILLINOIS TOOL WORKS	USD 138.78	47,942	21.9	19.8	10.8	10.3	12%	47.3%	1.9%
<b>US Peer Average</b>			21.9	19.7	8.5	7.5	14%	37%	1.1%
<b>Local Peers</b>									
VENTURE	SGD 12.74	2,587	16.3	14.9	1.8	1.8	17%	10.8%	4.1%
VALUETRONICS	SGD 0.83	230	12.5	11.5	2.1	1.9	17%	15.3%	4.4%
MEMTECH INTL.	SGD 0.81	84	9.9	9.1	0.7	0.7	43%	7.2%	4.8%
FU YU	SGD 0.20	108	13.3	10.0	0.8	0.9	41%	6.5%	10.1%
<b>Local Peer Average</b>			13.0	11.4	1.4	1.3	30%	10%	5.8%
<b>Global Peer Average</b>			16.8	14.9	4.4	4.0	23%	22%	3.8%
SUNNINGDALE TECH	SGD 1.81	245	10.3	9.2	1.0	0.9	28%	8.9%	4.2%

Source: ThomsonReuters, DBS Bank

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

Completed Date: 25 May 2017 10:22:18 (SGT)

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