

# Singapore Company Guide

## Sunningdale Tech Ltd

Version 1 | Bloomberg: SUNN SP | Reuters: SUND.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Aug 2017

### BUY

Last Traded Price ( 3 Aug 2017): S\$2.15 (STI : 3,342.92)

Price Target 12-mth: S\$2.70 (26% upside) (Prev S\$2.62)

#### Analyst

Carmen TAY +65 6682 3719 carmentay@dbs.com

Lee Keng LING +65 6682 3703 leekeng@dbs.com

#### What's New

- Order growth and margin expansion are key earnings drivers
- M&A could drive re-rating of share price
- Inaugural interim dividend of 2.5 Scts sends positive signal, reaffirming our view on the company
- Reiterate BUY with higher TP of S\$2.70 after raising margin assumptions slightly

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$\$ m)	2015A	2016A	2017F	2018F
Revenue	674	684	716	746
EBITDA	61.1	73.6	78.7	82.9
Pre-tax Profit	42.8	47.2	43.8	47.3
Net Profit	42.1	39.1	36.2	39.1
Net Pft (Pre Ex.)	23.6	31.7	36.2	39.1
Net Pft Gth (Pre-ex) (%)	(2.1)	34.2	14.3	8.0
EPS (S cts)	22.7	20.9	19.3	20.8
EPS Pre Ex. (S cts)	12.7	16.9	19.3	20.8
EPS Gth Pre Ex (%)	(11)	33	14	8
Diluted EPS (S cts)	22.2	20.5	19.0	20.5
Net DPS (S cts)	5.00	6.00	6.00	6.00
BV Per Share (S cts)	178	188	200	215
PE (X)	9.5	10.3	11.2	10.3
PE Pre Ex. (X)	16.9	12.7	11.2	10.3
P/Cash Flow (X)	5.9	7.6	6.2	6.1
EV/EBITDA (X)	6.5	5.2	4.7	4.2
Net Div Yield (%)	2.3	2.8	2.8	2.8
P/Book Value (X)	1.2	1.1	1.1	1.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	13.2	11.5	10.0	10.0
Earnings Rev (%):			6	3
Consensus EPS (S cts):			18.3	20.0
Other Broker Recs:		B: 2	S: 0	H: 1

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

### Steady long-term play

**Leading manufacturer of precision plastic components.** Ranked among the largest high-precision plastic solution 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 product and MNC customer base – majority of its customers each contribute 3-5% to group sales, which greatly reduces concentration risk commonly seen among small-mid cap peers.

**Where we differ:** We believe that Sunningdale's world-class engineering capabilities, global presence and diversification are underappreciated, and deserves to at least trade at global average of 13x FY18F PE vs consensus' average of 11x.

**Potential catalysts:** Sunningdale's share price should re-rate as it delivers steady earnings growth or value-accretive acquisitions.

**Positive underlying trends and strong fundamentals underpin steady growth outlook.** Sunningdale has delivered consistent margin improvement and growth over the last few years. Ahead, several underlying trends such as (1) the broad-based substitution from metallic to plastic components in a wide range of industrial applications – particularly in the automotive, consumer goods and healthcare sectors, and (2) favourable demand outlook across the group's three key end-sectors, indicate longer-term potential.

As the group grows capacity, ramps up production and strengthens business development efforts to ride these positive trends and unlock greater economies of scale, we project core earnings to grow at an 11% CAGR over FY16-18F.

#### Valuation:

**Reiterate BUY with a higher TP of S\$2.70, based on 13x FY18F PE.** Offering a lower risk-reward profile vs local peers and higher growth vs the bigger boys in the US, we see our TP of S\$2.70, based on global average of 13x FY18F PE, as fair. Dividend yield of 2.9% could surprise on the upside as dividends have been on a steady uptrend over FY14-FY16.

#### Key Risks to Our View:

**Global economic slowdown** could pose significant challenges to Sunningdale, especially for its Consumer/IT and Automotive segments.

#### At A Glance

Issued Capital (m shrs)	188
Mkt. Cap (S\$m/US\$m)	404 / 298
Major Shareholders (%)	
Boon Hwee Koh	15.9
Yarwood Engineering And Trading	8.1
Goi Seng Hui	8.1
Free Float (%)	64.3
3m Avg. Daily Val (US\$m)	2.0
ICB Industry : Industrials / Electronic & Electrical Equipment	

**Critical Factors**

**Beneficiary of the broad-based substitution for functional plastics in the 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 metal counterparts in a wide range of industrial applications – particularly in the automotive, consumer goods and healthcare sectors.

**Factors Driving Adoption of Plastic (vs Metal) Components**

End-use Industries	Drivers
Automotive	Government regulations to reduce the weight of vehicles to lower harmful emissions
Consumer Goods	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 plastic components (which are cheaper) to boost profit margins
Healthcare	New technologies (i.e. antimicrobial plastic) are purportedly able to repel bacteria on surfaces  Plastic devices are cheaper to use and easier to replace

Additionally, the underlying demand outlook across the above end-sectors is also positive and forecast by industry experts to grow at high single-digit to low double-digit levels p.a. into 2020. Riding on these trends, we project Sunningdale’s top line to grow at a steady 4.4% CAGR over FY16-FY18F.

**Raising capacity.** While most of the industry players are focused on managing costs amid the challenging business climate, Sunningdale is one of few precision engineering companies that continues to actively invest in future growth.

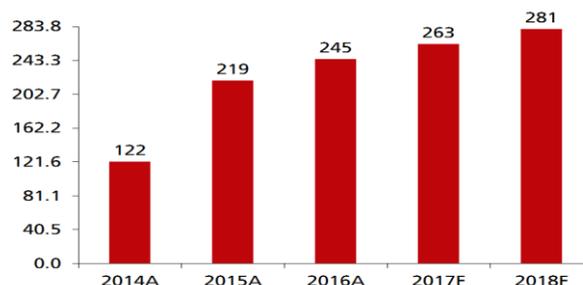
In anticipation of the group’s medium- to longer-term capacity requirements, Sunningdale is constructing a new facility in Penang (Malaysia), which is near the operations of a number of Fortune 500 companies and on track for completion by end-1Q18.

As plant utilisation at newer facilities (i.e. Chuzhou and Thailand) remains low, there is room for Sunningdale to add capacity at these sites progressively alongside order growth.

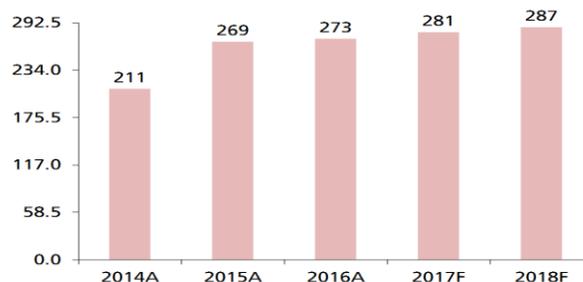
**Steady margin expansion to drive sustainable growth.** Apart from its global presence and manufacturing strengths, we also like Sunningdale for its proven ability to consistently deliver and its steadily improving margins. Strategies the group can employ to deliver sustainable growth include:

- (i) Development or acquisition of new engineering capabilities
- (ii) Higher-margin sales mix
- (iii) Productivity improvements and cost advantages on growing scale, through resource optimisation and automation

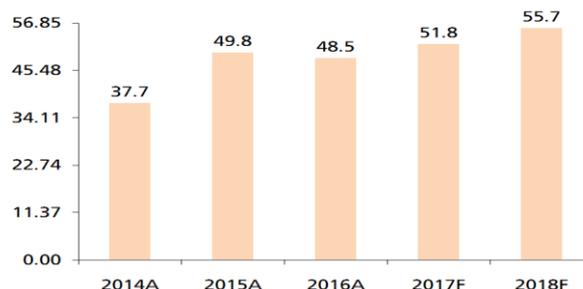
**Automotive Sales**



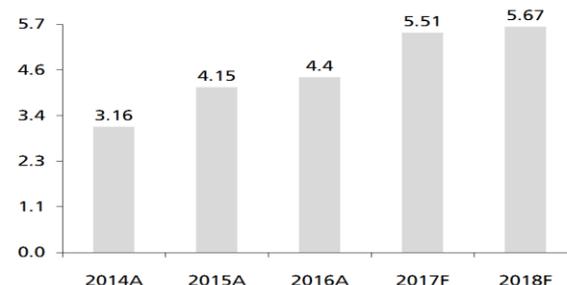
**Consumer/IT Sales**



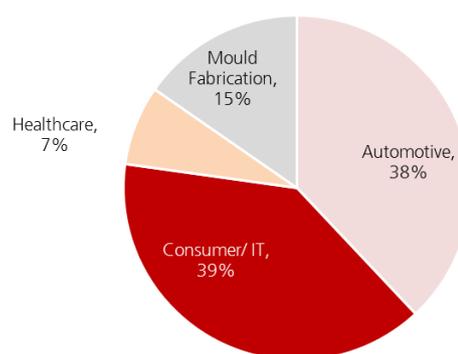
**Healthcare Sales**



**Operating Margins (%)**



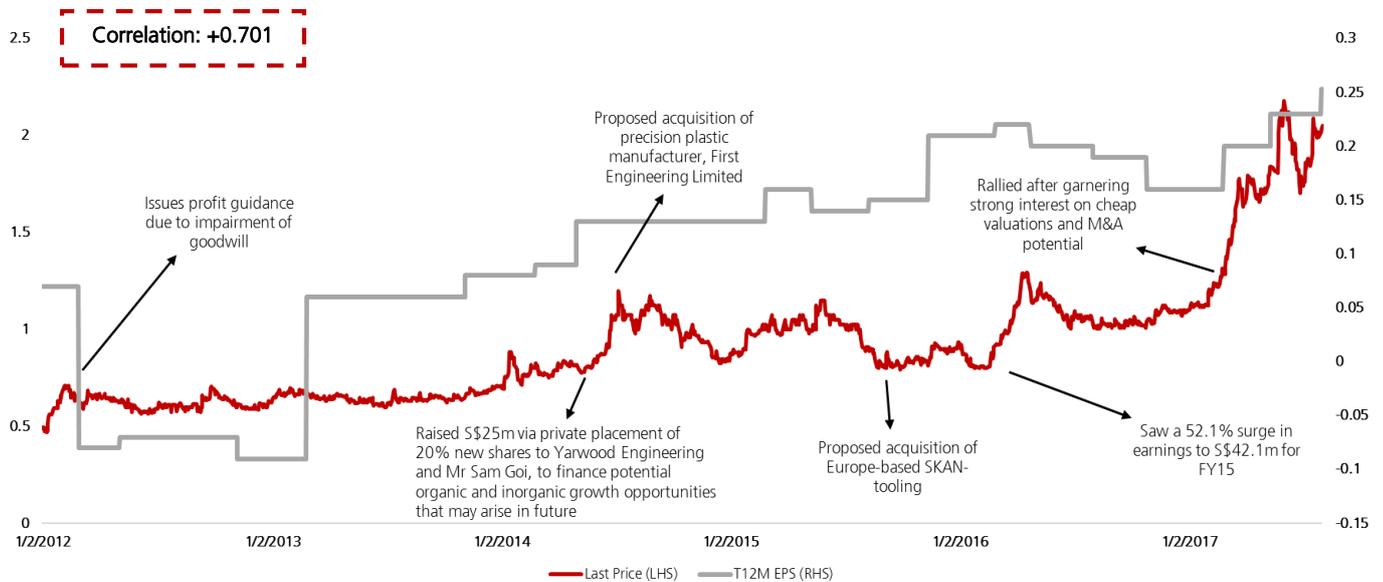
**Sales Breakdown (1H17)**



Source: Company, DBS Bank

**Appendix 1: A look at Company's listed history – what drives its share price?**

**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 >0.7, which suggests that the group's underlying share price is closely correlated to earnings growth.

**Corporate actions - including M&A, also a driver of share price.**

Various corporate actions pursued by the firm over the last five years include new share issuances (such as the private placement of 20% new shares to Yarwood Engineering and Mr Sam Goi in September 2014) and M&A, which include the acquisitions of precision plastic manufacturer, First Engineering Limited (FEL) and Europe-based SKAN-tooling.

Sunningdale's share price does not always react positively to M&A announcements - as in the case of the FEL acquisition, which implies that the market could have perceived the deal to be expensive given acquisition PE of 19x historical earnings against Sunningdale's 8.7x (then), 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 (i.e. growth opportunities and cost savings) from deals are gradually unlocked, earnings-accretive M&As generally have a positive impact on the acquirer's share price in the medium-to-long term.

**Sunningdale Tech Ltd**

**Balance Sheet:**

**Net cash of S\$5.5m.** Still on growth mode, Sunningdale’s net cash position of S\$5.5m (<2% of current market cap) as at end-2Q17 is much lower than local peers’ average of c.30%. With cash generation still strong, we believe that the company will be able to finance upcoming capex commitments using its existing pool and gradually pay down its S\$107.7m debt.

**Share Price Drivers:**

**Growing on acquisitions.** Sunningdale has made three acquisitions since 2010 – UFE in 2011, First Engineering in 2014 and SKAN-tooling in 2015. With cash of S\$113.2m as at end-2Q17 and restructuring of its South China plant now complete, 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 (1) new geographies, (2) wider product offerings or capabilities within existing Automotive, Consumer/IT and Healthcare verticals, and (3) new clientele.

**Takeover potential in the longer term.** Sunningdale’s proven record of strong cash flow generation, healthy balance sheet with slight net cash of S\$5.5m, and inexpensive valuations – the stock currently trades at undemanding valuations of c. 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.

**Key Risks:**

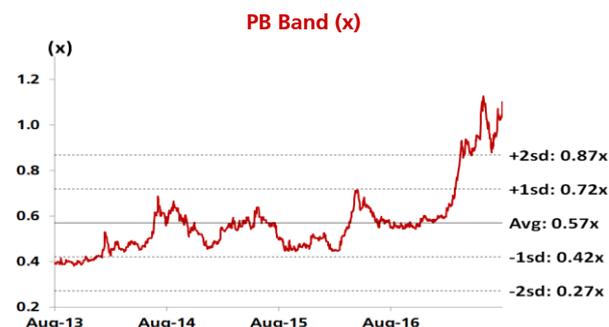
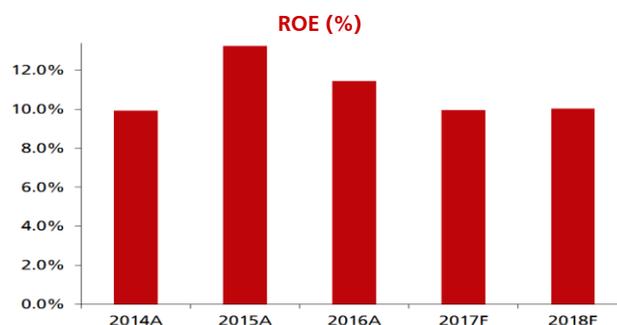
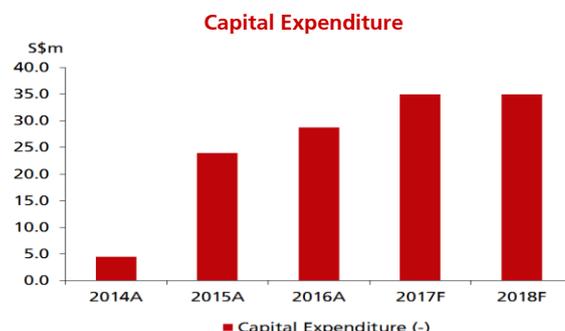
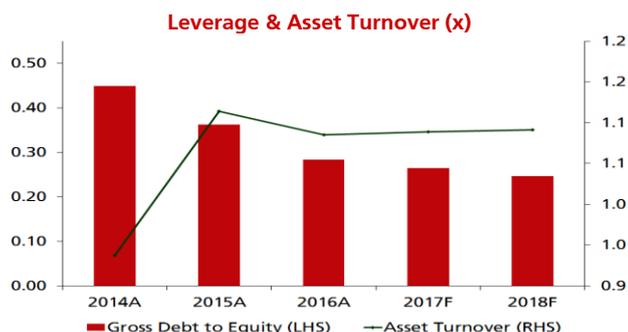
**Global economic slowdown.** With exposure across some of the world’s main manufacturing regions, a global economic slowdown could pose significant challenges to Sunningdale as several of its industry segments such as Consumer/IT and Automotive are sensitive to fluctuations in the global economy.

**Fluctuations in raw material costs.** Key raw materials for Sunningdale are resin and engineering plastics, which typically represent c. 50% of COGS. Despite cost-plus arrangements, volatility in raw material prices can still weigh 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 SGD. The largest currency exposure is to the USD, which we estimate represents approximately 40% of the group’s revenue.

**Company Background**

Sunningdale (SUNN SP) provides one-stop turnkey plastic solutions, with capabilities ranging from product & mould designs, fabrication, injection moulding, micro-precision engineering, finishings, through to the precision assembly of complete products. The group is mainly focused on three sectors - Automotive, Consumer/IT and Healthcare.



Source: Company, DBS Bank

**Key Assumptions**

FY Dec	2014A	2015A	2016A	2017F	2018F
Automotive Sales	122	219	245	263	281
Consumer/IT Sales	211	269	273	281	287
Healthcare Sales	37.7	49.8	48.5	51.8	55.7
Operating Margins (%)	3.16	4.15	4.40	5.51	5.67
Effective Tax Rate (%)	2.01	1.70	17.3	17.4	17.4

**Income Statement (\$m)**

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	476	674	684	716	746
Cost of Goods Sold	(416)	(584)	(590)	(608)	(633)
<b>Gross Profit</b>	<b>59.9</b>	<b>90.8</b>	<b>94.3</b>	<b>107</b>	<b>113</b>
Other Opng (Exp)/Inc	(44.9)	(62.8)	(64.2)	(67.9)	(70.3)
<b>Operating Profit</b>	<b>15.0</b>	<b>28.0</b>	<b>30.1</b>	<b>39.4</b>	<b>42.3</b>
Other Non Opng (Exp)/Inc	10.8	(1.2)	11.8	6.41	6.41
Associates & JV Inc	0.14	0.90	0.94	1.04	1.09
Net Interest (Exp)/Inc	(1.3)	(3.4)	(3.0)	(3.0)	(2.4)
Exceptional Gain/(Loss)	3.58	18.5	7.40	0.0	0.0
<b>Pre-tax Profit</b>	<b>28.2</b>	<b>42.8</b>	<b>47.2</b>	<b>43.8</b>	<b>47.3</b>
Tax	(0.6)	(0.7)	(8.2)	(7.6)	(8.2)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>27.7</b>	<b>42.1</b>	<b>39.1</b>	<b>36.2</b>	<b>39.1</b>
Net Profit before Except.	24.1	23.6	31.7	36.2	39.1
EBITDA	50.5	61.1	73.6	78.7	82.9
<b>Growth</b>					
Revenue Gth (%)	(0.1)	41.8	1.5	4.5	4.2
EBITDA Gth (%)	10.4	21.1	20.4	6.8	5.3
Opg Profit Gth (%)	(5.0)	86.3	7.6	30.9	7.2
Net Profit Gth (Pre-ex) (%)	100.8	(2.1)	34.2	14.3	8.0
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	12.6	13.5	13.8	15.0	15.1
Opg Profit Margin (%)	3.2	4.2	4.4	5.5	5.7
Net Profit Margin (%)	5.8	6.2	5.7	5.1	5.2
ROAE (%)	9.9	13.2	11.5	10.0	10.0
ROA (%)	5.5	7.0	6.2	5.5	5.7
ROCE (%)	5.9	4.4	6.2	7.0	7.3
Div Payout Ratio (%)	24.3	22.0	28.7	31.2	28.9
Net Interest Cover (x)	11.6	8.3	10.0	13.0	17.3

With good progress on the productivity front, we raise margin assumptions slightly for FY17F/18F.

Source: Company, DBS Bank

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

FY Dec	2Q2016	3Q2016	4Q2016	1Q2017	2Q2017
Revenue	167	172	184	172	178
Cost of Goods Sold	(144)	(148)	(159)	(146)	(150)
<b>Gross Profit</b>	<b>22.9</b>	<b>24.4</b>	<b>25.1</b>	<b>25.9</b>	<b>27.7</b>
Other Oper. (Exp)/Inc	(19.3)	(14.2)	(16.8)	(17.1)	(17.3)
<b>Operating Profit</b>	<b>3.60</b>	<b>10.3</b>	<b>8.29</b>	<b>8.71</b>	<b>10.4</b>
Other Non Opg (Exp)/Inc	2.55	3.16	15.8	1.60	0.86
Associates & JV Inc	0.35	0.24	0.22	0.18	0.21
Net Interest (Exp)/Inc	(0.9)	(0.8)	(0.6)	(0.7)	(0.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>5.62</b>	<b>12.9</b>	<b>23.8</b>	<b>9.83</b>	<b>10.8</b>
Tax	(1.8)	(2.8)	(2.3)	(2.1)	(2.6)
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>3.81</b>	<b>10.2</b>	<b>21.5</b>	<b>7.70</b>	<b>8.20</b>
Net profit bef Except.	3.81	10.2	21.5	7.70	8.20
EBITDA	13.9	21.0	31.5	17.6	18.5

## Growth

Revenue Gth (%)	3.3	3.5	6.7	(6.7)	3.4
EBITDA Gth (%)	3.7	50.5	50.1	(44.1)	5.0
Opg Profit Gth (%)	(20.0)	185.1	(19.3)	5.1	19.6
Net Profit Gth (Pre-ex) (%)	6.5	167.4	111.1	(64.2)	6.5

## Margins

Gross Margins (%)	13.8	14.2	13.6	15.0	15.6
Opg Profit Margins (%)	2.2	6.0	4.5	5.1	5.9
Net Profit Margins (%)	2.3	5.9	11.7	4.5	4.6

## Balance Sheet (\$m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	194	187	192	196	199
Invts in Associates & JVs	5.19	5.54	5.27	5.01	4.79
Other LT Assets	23.5	20.8	19.4	18.4	17.4
Cash & ST Invts	103	121	115	135	156
Inventory	109	106	115	114	119
Debtors	158	168	194	189	197
Other Current Assets	5.02	4.36	7.68	7.68	7.68
<b>Total Assets</b>	<b>598</b>	<b>613</b>	<b>649</b>	<b>666</b>	<b>701</b>
ST Debt	91.6	74.0	67.6	67.6	67.6
Creditor	77.6	150	184	172	179
Other Current Liab	69.0	2.25	3.93	7.63	8.24
LT Debt	45.4	46.0	32.2	32.2	32.2
Other LT Liabilities	9.20	9.58	9.58	9.58	9.58
Shareholder's Equity	305	331	351	376	404
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Cap. &amp; Liab.</b>	<b>598</b>	<b>613</b>	<b>648</b>	<b>666</b>	<b>701</b>
Non-Cash Wkg. Capital	126	126	129	131	136
Net Cash/(Debt)	(33.9)	1.11	15.5	35.5	56.6
Debtors Turn (avg days)	100.8	88.3	96.6	97.9	94.7
Creditors Turn (avg days)	61.3	75.7	109.1	112.8	106.9
Inventory Turn (avg days)	86.7	71.5	72.2	72.5	70.7
Asset Turnover (x)	0.9	1.1	1.1	1.1	1.1
Current Ratio (x)	1.6	1.8	1.7	1.8	1.9
Quick Ratio (x)	1.1	1.3	1.2	1.3	1.4
Net Debt/Equity (X)	0.1	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	0.1	CASH	CASH	CASH	CASH
Capex to Debt (%)	3.3	20.0	28.8	35.1	35.1
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS Bank

**Cash Flow Statement (\$m)**

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	28.2	42.8	47.2	43.8	47.3
Dep. & Amort.	24.5	33.5	30.8	31.8	33.1
Tax Paid	(5.9)	(2.5)	(6.2)	(3.9)	(7.6)
Assoc. & JV Inc/(loss)	(0.1)	(0.9)	(0.9)	(1.0)	(1.1)
Chg in Wkg.Cap.	(9.6)	(3.1)	(10.8)	(5.7)	(5.6)
Other Operating CF	(8.9)	(2.3)	(7.3)	0.0	0.0
<b>Net Operating CF</b>	<b>28.3</b>	<b>67.4</b>	<b>52.8</b>	<b>65.0</b>	<b>66.1</b>
Capital Exp.(net)	(4.5)	(24.0)	(28.8)	(35.0)	(35.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(63.7)	(1.2)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.76	1.08	1.30	1.30
Other Investing CF	0.0	0.0	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(68.2)</b>	<b>(24.4)</b>	<b>(27.7)</b>	<b>(33.7)</b>	<b>(33.7)</b>
Div Paid	(5.4)	(7.4)	(9.3)	(11.3)	(11.3)
Chg in Gross Debt	36.9	(18.3)	(21.2)	0.0	0.0
Capital Issues	24.9	0.0	0.0	0.0	0.0
Other Financing CF	7.37	0.71	(0.5)	0.0	0.0
<b>Net Financing CF</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
Chg in Cash	23.9	18.0	(5.9)	20.0	21.1
Opg CFPS (S cts)	22.5	38.0	34.1	37.6	38.1
Free CFPS (S cts)	14.2	23.4	12.9	15.9	16.5

Source: Company, DBS Bank

**Target Price & Ratings History**



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	08 Mar 17	1.45	1.64	NOT RATED
2:	17 Mar 17	1.62	1.64	NOT RATED
3:	25 May 17	2.02	2.62	BUY
4:	03 Aug 17	2.15	2.62	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Carmen TAY

Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**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: 4 Aug 2017 08:10:00 (SGT)

Dissemination Date: 4 Aug 2017 08:24:08 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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**DBS Bank Ltd**  
12 Marina Boulevard, Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel. 65-6878 8888  
e-mail: [equityresearch@dbs.com](mailto:equityresearch@dbs.com)  
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