

Singapore Company Guide

Sunningdale Tech Ltd

Version 2 | Bloomberg: SUNN SP | Reuters: SUND.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Nov 2017

BUY

Last Traded Price (8 Nov 2017): S\$2.25 (STI : 3,421.25)

Price Target 12-mth: S\$2.70 (20% upside)

Analyst

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What's New

- Record sales of S\$188.1m but earnings disappoint
- Forex volatility was the main drag on earnings, which fell 6% q-o-q to S\$7.7m
- We estimate core earnings was closer to S\$10.8m, flat q-o-q
- Maintain BUY with TP of S\$2.70; FY17F earnings lowered to S\$32.8m after imputing forex losses

Price Relative



Forecasts and Valuation

FY Dec (\$\$ m)	2015A	2016A	2017F	2018F
Revenue	674	684	716	746
EBITDA	61.1	73.6	74.6	82.9
Pre-tax Profit	42.8	47.2	39.7	47.3
Net Profit	42.1	39.1	32.8	39.1
Net Pft (Pre Ex.)	23.6	31.7	32.8	39.1
Net Pft Gth (Pre-ex) (%)	(2.1)	34.2	3.7	19.1
EPS (S cts)	22.7	20.9	17.5	20.8
EPS Pre Ex. (S cts)	12.7	16.9	17.5	20.8
EPS Gth Pre Ex (%)	(11)	33	3	19
Diluted EPS (S cts)	22.2	20.5	17.2	20.5
Net DPS (S cts)	5.00	6.00	6.00	6.00
BV Per Share (S cts)	178	188	198	213
PE (X)	9.9	10.8	12.9	10.8
PE Pre Ex. (X)	17.7	13.3	12.9	10.8
P/Cash Flow (X)	6.2	8.0	6.9	6.3
EV/EBITDA (X)	6.8	5.5	5.3	4.5
Net Div Yield (%)	2.2	2.7	2.7	2.7
P/Book Value (X)	1.3	1.2	1.1	1.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	13.2	11.5	9.1	10.1
Earnings Rev (%)			(9)	0
Consensus EPS (S cts):			20.3	21.7
Other Broker Recs:		B: 3	S: 0	H: 0

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

Look beyond forex loss

Slightly disappointing headline numbers, but core growth momentum remains firm. While headline profit of S\$7.7m for 3Q17 came in below expectations (mainly on foreign exchange losses), sales momentum remained on strong upward trajectory, +6% q-o-q to a record S\$188.1m. Mould Fabrication posted the strongest growth, and this may have positive implications for the group as historical trends suggest that some of these could potentially be converted into commercial contracts for the group later on.

Overall, we still like Sunningdale for its advanced manufacturing capabilities, global manufacturing footprint, and scale. While we have lowered FY17F earnings by c.9% after imputing forex losses, we remain cautiously optimistic of the group's FY18F outlook given positive underlying trends and recent contract wins.

Where we differ: We believe that Sunningdale's world-class engineering capabilities, global presence and diversification are underappreciated, and the stock deserves to at least trade at the global average valuation 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 improvements 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 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, our TP at S\$2.70, based on global average of 13x FY18F PE, is fair. Dividend yield of 2.7% could surprise on the upside as dividends have been on a steady uptrend in FY14-FY16.

Key Risks to Our View:

Global economic slowdown could pose significant challenges to Sunningdale, especially in Consumer/IT and Automotive.

At A Glance

Issued Capital (m shrs)	188
Mkt. Cap (S\$m/US\$m)	423 / 311
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)	1.2

WHAT'S NEW

Sunningdale achieves record quarterly sales of S\$188.1m but disappoints slightly on the earnings front

Record quarterly sales of S\$188.1m. Sales momentum strengthened in 3Q17, gaining c.6% q-o-q to a record S\$188.1m. Bulk of sales growth was mainly from higher contributions from Mould Fabrication at c.S\$36m (+25.6% q-o-q) vs S\$28.6m in 2Q. Historical trends suggest that some of these could potentially be converted into new Consumer/IT, Automotive and/or Healthcare contracts for the group later on.

Of the core segments, Consumer/IT was the best-performing, growing 8.3% q-o-q to S\$76.9m and offsetting modest declines in the Automotive and Healthcare segments of c.3.5% and 3% q-o-q to S\$63.2m and S\$12.1m, respectively.

Forex volatility was the main drag on earnings. Earnings declined by c.6% q-o-q to S\$7.7m (from S\$8.2m in 2Q), mainly as volatile foreign exchange environments for the USD/MYR and USD/CNY resulted in foreign exchange losses of c.S\$3.1m. The USD/MYR and USD/CNY closed 1.7% and 1.9% lower at the end of 3Q, and fell by up to 2.5% and 4.3% during the quarter.

Excluding the forex impact, we estimate that core earnings would have been closer to S\$10.8m vs headline number of S\$7.7m and essentially flat q-o-q but +36.8% y-o-y.

	2Q17	3Q16	3Q17	% Chg (QoQ)	% Chg (YoY)
Sales	177.6	172.5	188.1	6.0%	9.1%
Net Profit	8.2	10.2	7.7	-6%	-2.4%
% Net Margin	4.6%	5.9%	4.1%		
Forex Loss (Gain)	2.6	(2.3)	3.1	18.6%	
Adj. Net Profit	10.8	7.9	10.8	0.0%	36.8%
% Net Margin	6.1%	4.6%	5.7%		

Source: Company, DBS Bank

Margins fell lower q-o-q on a less favourable product mix.

Gross margins also came off from 15.6% in 2Q17 to 14.3% in 3Q17 as the group saw higher contributions from its lower-margin Consumer/IT segment and skewed by strong Mould Fabrication sales - for which margins can vary widely on a q-o-q basis depending on the stage of completion of underlying tooling projects. On a 9M basis, gross margins remained healthy at c.15%, in line with our assumption for FY17F.

Maintain BUY, TP of S\$2.70. While 3Q17 headline numbers were slightly disappointing, we are comforted by Sunningdale's strong sales momentum and positive business developments

We have lowered our earnings forecast for FY17F by c.9% to S\$32.8m (vs S\$36.2m) after imputing foreign exchange losses, but have maintained our projections for FY18F as we remain cautiously optimistic of Sunningdale's ability to delivery steady growth given positive underlying demand trends, growing capacity and ramp-up on new project wins from both new and existing customers.

Quarterly / Interim Income Statement (S\$m)

FY Dec	3Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	172	178	188	9.1	6.0
Cost of Goods Sold	(148)	(150)	(161)	8.9	7.5
Gross Profit	24.4	27.7	27.0	10.3	(2.7)
Other Oper. (Exp)/Inc	(14.2)	(17.3)	(17.4)	22.8	0.7
Operating Profit	10.3	10.4	9.55	(7.0)	(8.3)
Other Non Opg (Exp)/Inc	3.16	0.86	1.03	(67.5)	19.9
Associates & JV Inc	0.24	0.21	0.31	25.0	46.6
Net Interest (Exp)/Inc	(0.8)	(0.7)	(0.8)	(8.7)	(11.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	12.9	10.8	10.1	(22.1)	(6.3)
Tax	(2.8)	(2.6)	(2.4)	(14.1)	(7.8)
Minority Interest	0.0	0.0	0.0	-	-
Net Profit	10.2	8.20	7.72	(24.2)	(5.9)
Net profit bef Except.	10.2	8.20	7.72	(24.2)	(5.9)
EBITDA	21.0	18.5	17.9	(14.7)	(3.2)
Margins (%)					
Gross Margins	14.2	15.6	14.3		
Opg Profit Margins	6.0	5.9	5.1		
Net Profit Margins	5.9	4.6	4.1		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

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 (which are cheaper) components 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 industry experts have forecast these 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.

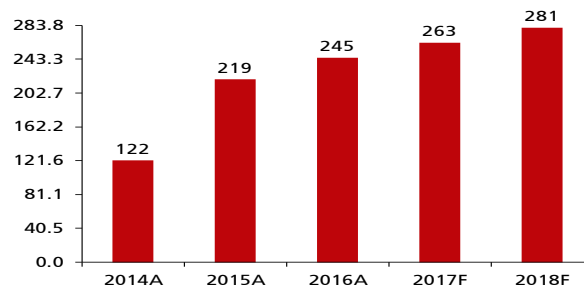
In anticipation of the group’s medium- to longer-term capacity requirements, Sunningdale is constructing a new facility in Penang (Malaysia), which is near the operations of a number of Fortune 500 companies and on track for completion by end-1Q18.

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.

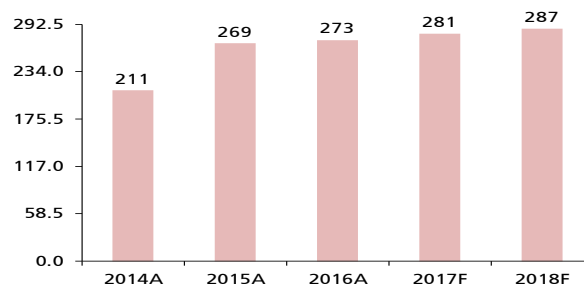
Steady margin expansion to drive sustainable growth. Apart from its global presence and manufacturing strengths, we also like Sunningdale for its proven ability to consistently deliver and its steadily improving margins. Strategies the group can employ to deliver sustainable growth include:

- (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

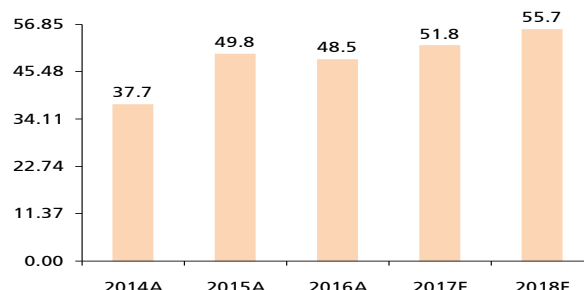
Automotive Sales



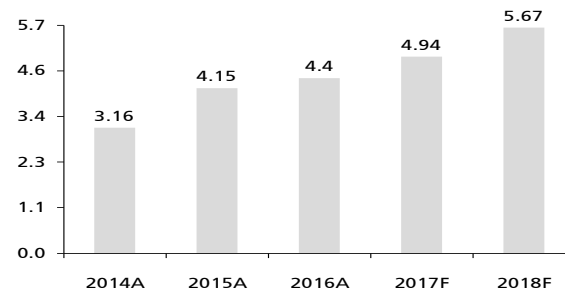
Consumer/IT Sales



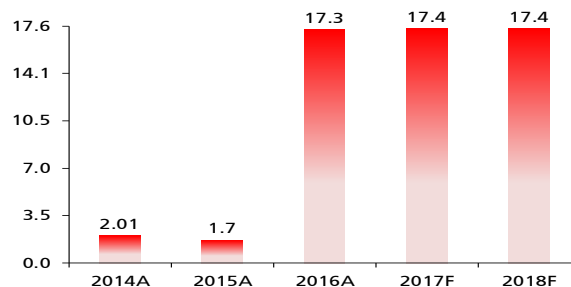
Healthcare Sales



Operating Margins (%)



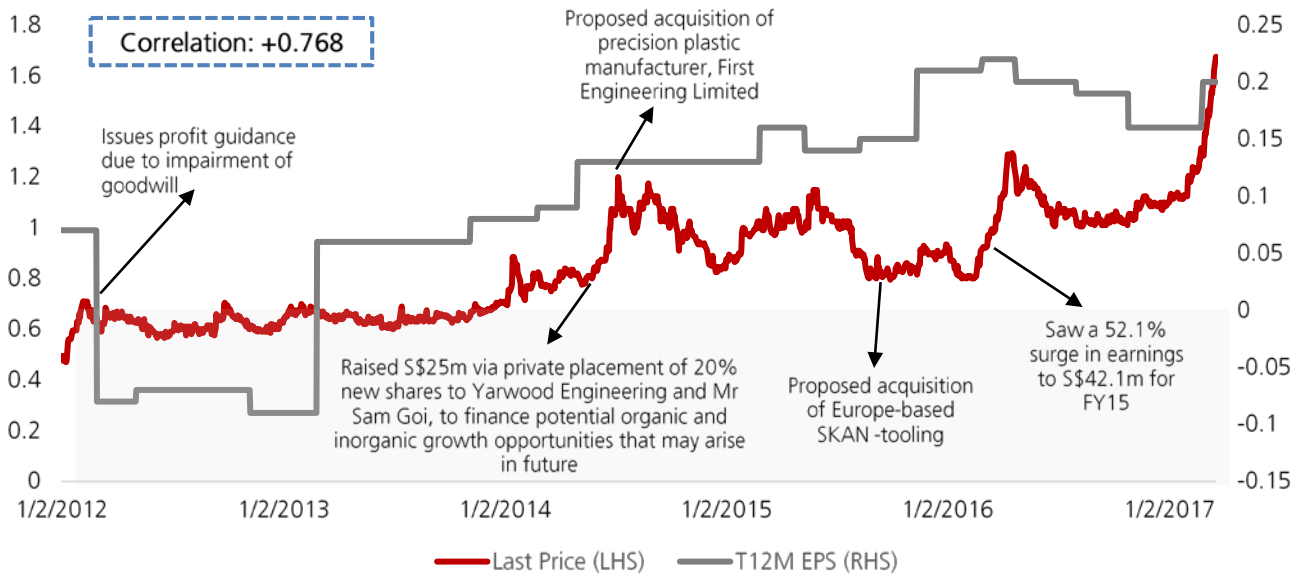
Effective Tax Rate (%)



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

Sunningdale Tech Ltd

Balance Sheet:

Net cash of S\$7.8m. Still on growth mode, Sunningdale’s net cash position of S\$7.8m (c.2% of current market cap) as at end-3Q17 is much lower than local peers’ average of c.30%. With cash generation still strong, we believe that the group will be able to finance upcoming capex commitments using its existing pool and gradually pay down its S\$103.6m 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\$111m as at end-3Q17 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 players 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\$7.8m, 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:

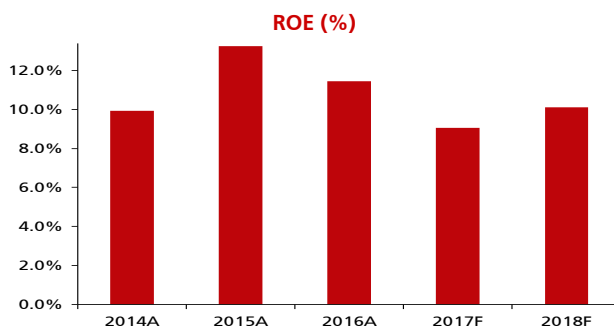
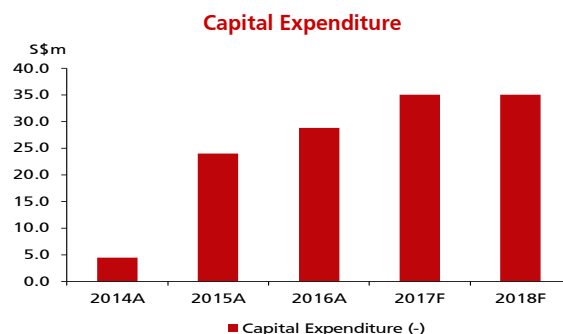
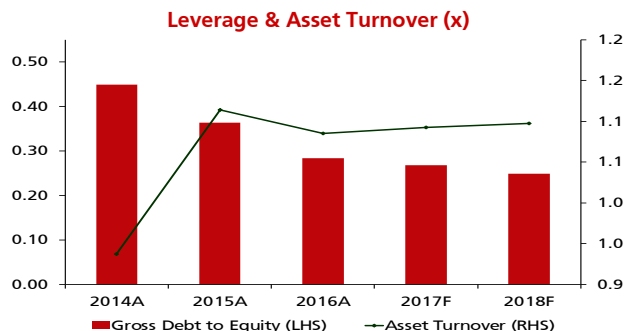
Global economic slowdown. With exposure across some of the world’s main manufacturing regions, a global economic slowdown could pose significant challenges to Sunningdale as several of its industry segments such as Consumer/IT and Automotive are sensitive to fluctuations in the global economy.

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	4.94	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)
Gross Profit	59.9	90.8	94.3	107	113
Other Opng (Exp)/Inc	(44.9)	(62.8)	(64.2)	(72.0)	(70.3)
Operating Profit	15.0	28.0	30.1	35.3	42.3
Other Non Opg (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
Pre-tax Profit	28.2	42.8	47.2	39.7	47.3
Tax	(0.6)	(0.7)	(8.2)	(6.9)	(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
Net Profit	27.7	42.1	39.1	32.8	39.1
Net Profit before Except.	24.1	23.6	31.7	32.8	39.1
EBITDA	50.5	61.1	73.6	74.6	82.9
Growth					
Revenue Gth (%)	(0.1)	41.8	1.5	4.5	4.2
EBITDA Gth (%)	10.4	21.1	20.4	1.2	11.1
Opg Profit Gth (%)	(5.0)	86.3	7.6	17.3	19.7
Net Profit Gth (Pre-ex) (%)	100.8	(2.1)	34.2	3.7	19.1
Margins & Ratio					
Gross Margins (%)	12.6	13.5	13.8	15.0	15.1
Opg Profit Margin (%)	3.2	4.2	4.4	4.9	5.7
Net Profit Margin (%)	5.8	6.2	5.7	4.6	5.2
ROAE (%)	9.9	13.2	11.5	9.1	10.1
ROA (%)	5.5	7.0	6.2	5.0	5.8
ROCE (%)	5.9	4.4	6.2	6.3	7.4
Div Payout Ratio (%)	24.3	22.0	28.7	34.4	28.9
Net Interest Cover (x)	11.6	8.3	10.0	11.6	17.3

We lower FY17F earnings after imputing foreign exchange losses.

Source: Company, DBS Bank

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

FY Dec	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	172	184	172	178	188
Cost of Goods Sold	(148)	(159)	(146)	(150)	(161)
Gross Profit	24.4	25.1	25.9	27.7	27.0
Other Oper. (Exp)/Inc	(14.2)	(16.8)	(17.1)	(17.3)	(17.4)
Operating Profit	10.3	8.29	8.71	10.4	9.55
Other Non Opg (Exp)/Inc	3.16	15.8	1.60	0.86	1.03
Associates & JV Inc	0.24	0.22	0.18	0.21	0.31
Net Interest (Exp)/Inc	(0.8)	(0.6)	(0.7)	(0.7)	(0.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	12.9	23.8	9.83	10.8	10.1
Tax	(2.8)	(2.3)	(2.1)	(2.6)	(2.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	10.2	21.5	7.70	8.20	7.72
Net profit bef Except.	10.2	21.5	7.70	8.20	7.72
EBITDA	21.0	31.5	17.6	18.5	17.9

Growth

Revenue Gth (%)	3.5	6.7	(6.7)	3.4	6.0
EBITDA Gth (%)	50.5	50.1	(44.1)	5.0	(3.2)
Opg Profit Gth (%)	185.1	(19.3)	5.1	19.6	(8.3)
Net Profit Gth (Pre-ex) (%)	167.4	111.1	(64.2)	6.5	(5.9)

Margins

Gross Margins (%)	14.2	13.6	15.0	15.6	14.3
Opg Profit Margins (%)	6.0	4.5	5.1	5.9	5.1
Net Profit Margins (%)	5.9	11.7	4.5	4.6	4.1

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	131	153
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
Total Assets	598	613	649	661	698
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	6.92	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	373	401
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	598	613	648	661	698
Non-Cash Wkg. Capital	126	126	129	132	136
Net Cash/(Debt)	(33.9)	1.11	15.5	31.4	53.2
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 (S\$m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	28.2	42.8	47.2	39.7	47.3
Dep. & Amort.	24.5	33.5	30.8	31.8	33.1
Tax Paid	(5.9)	(2.5)	(6.2)	(3.9)	(6.9)
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
Net Operating CF	28.3	67.4	52.8	60.9	66.8
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
Net Investing CF	(68.2)	(24.4)	(27.7)	(33.7)	(33.7)
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
Net Financing CF	63.8	(25.0)	(31.0)	(11.3)	(11.3)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	23.9	18.0	(5.9)	15.9	21.8
Opg CFPS (S cts)	22.5	38.0	34.1	35.4	38.5
Free CFPS (S cts)	14.2	23.4	12.9	13.8	16.9

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	UNDER REVIEW
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
5:	04 Aug 17	2.12	2.70	BUY

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

Source: DBS Bank

Analyst: Carmen TAY

Lee Keng LING

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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: 9 Nov 2017 10:20:37 (SGT)

Dissemination Date: 9 Nov 2017 15:36:34 (SGT)

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