

# Sunningdale Tech (SUNN SP)

## Plastic Fantastic

# Not Rated

Share Price

SGD 1.91

### Industry leading capabilities with a global footprint

SUNN is one of the leading precision plastics engineering companies in Asia. It has an extensive manufacturing presence worldwide (currently in 19 sites across nine countries in Asia, Europe, N. America, S. America and a new plant in Malaysia in the pipeline) serving a long roster of clients, many of them prominent MNCs in their respective sectors. Management has a cautiously optimistic growth outlook despite the pricing and cost pressures faced by the industry.

### Strong core competencies; diversified exposure

SUNN's customer exposure is quite diversified as the top 30 customers account for 80% of revenue (and top 10 make up 50%). Management believes its key competitive advantages are: 1) it's one of the few firms with manufacturing presence outside Asia; 2) precision engineering capabilities built over three decades; 3) a very diversified product offering that mitigates demand volatility in a specific product; and 4) tooling expertise that is instrumental in driving levels of automation.

### FY17 growth driven by automotive

Amongst SUNN's four business segments, management expects automotive (39% of 1Q17 revenue) to be the key growth driver for FY17. New projects have lifted the consumer/IT segment (38% of revenue) from its 1Q16 bottom, and the segment is expected to deliver modest revenue gains for the rest of the year. Healthcare is currently small (8% of revenue) and SUNN aims to increase its customer base and product offerings in this segment. Mould fabrication (14% of revenue) has been performing poorly for the past few quarters due to structural trends and weakness from one customer. SUNN is undertaking various initiatives, like trimming excess capacity and increasing automation to boost gross margins (11.6% in FY13 to 13.8% in FY16; 1Q17 15%). Medium-term growth plans may include M&A with management comfortable with ticket sizes of cSGD200m.

### Valuation: trading at below its peers

Based on FY17 consensus EPS forecast of SGD0.183 (three estimates), SUNN is trading at 10.4x forward P/E, compared to its Singapore peer basket of 14.4x.

FYE Dec (SGD m)	FY12A	FY13A	FY14A	FY15A	FY16A
Revenue	451	476	476	674	684
EBITDA	44	46	38	65	69
Core net profit	10	12	22	24	32
Core EPS (cts)	6.3	7.8	11.6	12.6	16.9
Core EPS growth (%)	nm	24.4	47.8	9.0	33.4
Net DPS (cts)	3.0	3.5	4.0	5.0	6.0
Core P/E (x)	30.2	24.3	16.4	15.1	11.3
P/BV (x)	1.2	1.2	1.2	1.1	1.0
Net dividend yield (%)	1.6	1.8	2.1	2.6	3.1
ROAE (%)	4.1	5.6	9.9	13.2	11.5
ROAA (%)	2.4	2.9	4.2	3.9	5.0
EV/EBITDA (x)	2.3	1.9	5.0	2.7	2.8
Net gearing (%) (incl perps)	2.5	net cash	11.1	net cash	net cash

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### Company Description

*Sunningdale Tech is a tooling, plastics injection moulding and assembly company with a global presence across 9 countries*

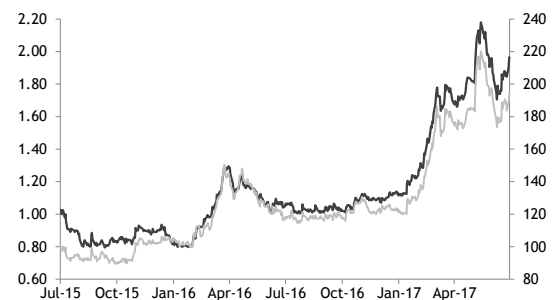
### Statistics

52w high/low (SGD)	2.18/1.01
3m avg turnover (USDm)	1.7
Free float (%)	60.1
Issued shares (m)	188
Market capitalisation	SGD358.2M USD262M

### Major shareholders:

KOH BOON HWEE	15.9%
GOI SENG HUI	8.1%
Kong Siang Group Holdings Pte Ltd.	8.1%

### Price Performance



— Sunningdale Tech - (LHS, SGD) — Sunningdale Tech / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	0	12	83
Relative to index (%)	(2)	7	62

Source: FactSet



# Company Profile

Fig 1: Sunningdale snapshot

## Business

- SUNN is a precision plastics company with 19 production sites span across nine countries, over Asia, Europe, as well as North and South America.
- Products classified into four main customer segments: automotive, consumer/IT, healthcare and mould fabrication. Examples of products in these segments:
  - Automotive: Mostly a tier-2 supplier for products such as console panels and keys etc. for customers such as Bosch, Continental and Valeo.
  - Consumer/IT: Products suite ranges from computer peripherals (e.g. printer cartridges for HP) to personal grooming devices as well as entertainment/home appliances devices for market leading brands.
  - Healthcare: Products include drug delivery systems, as well as DNA sequencing and intravenous accessories.
  - Mould fabrication for external customers, as well as own use.

## Company milestones

- Founded in 1984 as Sunningdale Precision Industries by Dr. Ng Boon Hoo.
- Merged with Tech Group in 2005 to become Sunningdale Tech. By this time, the group already has presence outside Asia (in Mexico).
- Expanded to Brazil and Indonesia (Batam) in 2013.
- Acquired First Engineering in 2014. Also expanded manufacturing presence to Thailand in the same year.
- Completed restructuring exercise in Zhongshan to streamline costs and boost utilisation in 2016.
- 50,000 sqm Chuzhou plant completed in 4Q16. Penang facility to be completed in 1Q18.

## Board and senior management

- SUNN's board comprises eight directors. Apart from the CEO Khoo Boo Hor, all the other directors are non-executive. Four of the members are independent directors. The audit & risk, as well as the remuneration committees are chaired by independent directors.
- Average overall board tenure is 13.6 years in Dec-16, while for the independent directors it is 14 years.

**Koh Boon Hwee (Non-Executive Chairman):** Corporate veteran and investor also currently serving as chairman of several other boards, including Agilent Technologies, Yeo Hiap Seng, Far East Orchard and AAC Technologies (2018 HK, BUY).

**Khoo Boo Hor (CEO):** Appointed CEO since 2009. Prior to this, he was group operations director, where he played a significant role in integrating the operations of Sunningdale Precision Industries and Tech Group Asia following their merger in 2005.

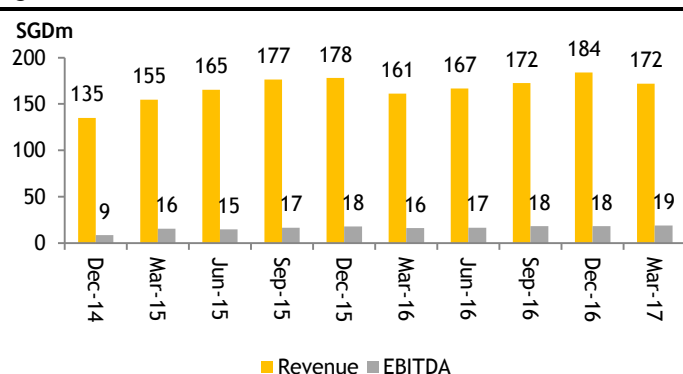
**Soh Hui Ling (CFO):** Appointed as CFO in 2008. Prior to this, she was group financial controller, a post she held even at the former Sunningdale Precision Industries.

**Chan Whye Mun (GM, South Asia):** Oversees moulding operations at the Singapore, Johor, Batam and Chennai plants. Prior to this, he was the COO of UMS Holdings.

**Chan Tung Seng (SVP, Business Development):** Appointed in 2011, and now primarily focuses on the automotive business. He previously served as the general manager for the Shanghai operations for six years.

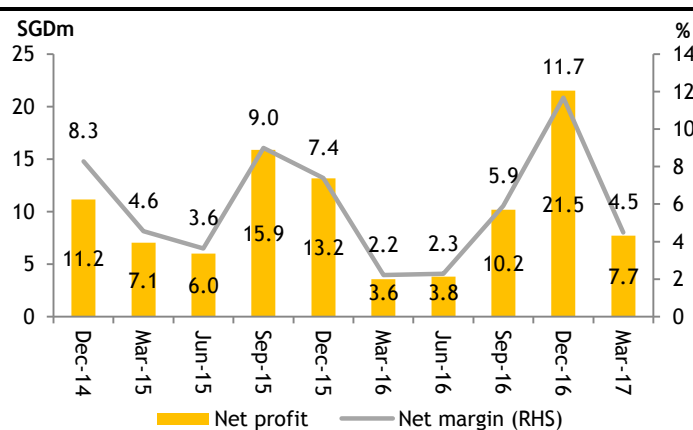
## Quarterly results summary

Fig 2: Revenue & EBITDA



Source: Factset

Fig 3: Net profit and net margin

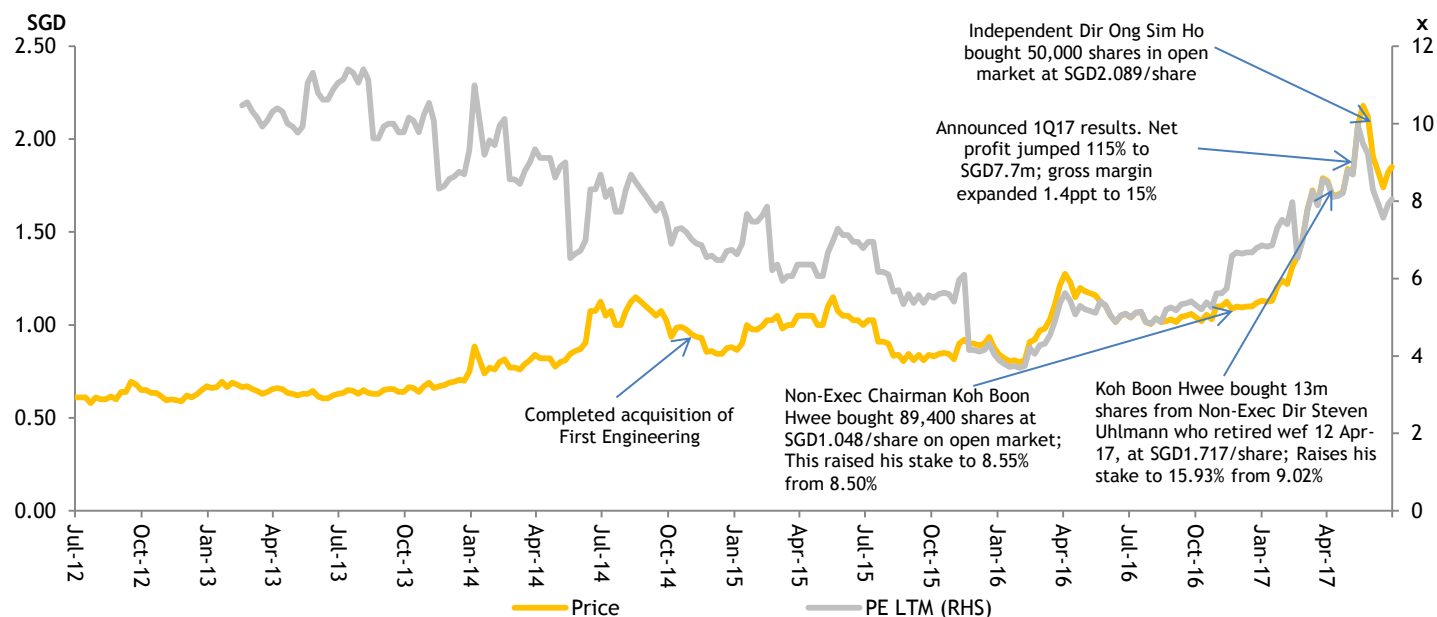


Source: Factset

Source: Company data, Maybank Kim Eng

## Share price history

Fig 4: Share price and key events



Source: Factset, Company

## Investment pros and cons

Fig 5: Growth, value and risks

### The growth proposition

- Growth in automotive segment is leveraged to: i) global outsourcing trends; ii) shift towards more in-car plastic components; and ii) new product projects.
- Growth in consumer/IT segment is a beneficiary of recovery in global consumption witnessed since mid-2016, as well as from new projects.
- However, mould fabrication business is in decline from structural trends - e.g. in-vehicle parts being standardised across models.

### The value proposition

- Competitive advantage from large and diversified presence, e.g. ability to scale and standardise a product for an MNC customer across regions.
- Trading at 10.4x FY17 consensus vs c14.4x for its Singapore listed peer basket (and 17.2x for the MSCI Singapore Small Caps Index).
- Has been steadily increasing DPS, doubling from 3 cts in FY12 to 6 cts in FY16.

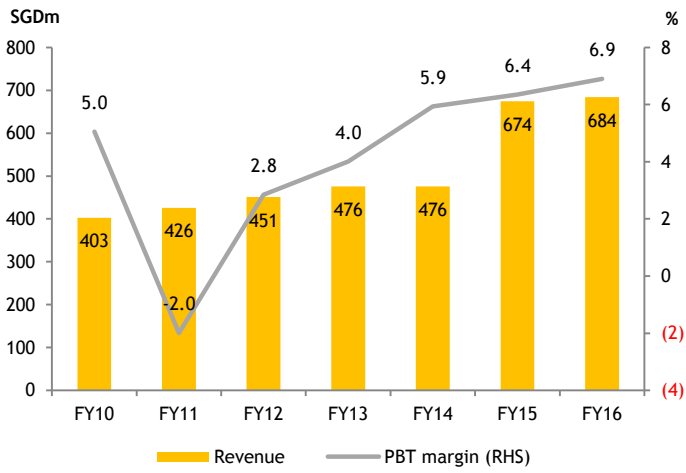
### Key risk factors

- The automotive segment may be vulnerable to increasing risks in the global car market, such as slowing sales growth, Brexit risks to UK-based auto manufacturing, and increasing localisation trends in western markets, etc.
- The consumer/IT segment is exposed to end-demand risk affected by economic cycles and levels of discretionary consumer spending.
- Investment/ expansion missteps: SUNN has in the past been prudent with its geographic expansion as investments at new sites are typically customer-led along with potential to win additional clients at the location. Overexpansion and/or political/policy risks of the market are inherent with new plants.
- Pricing pressure given industry overcapacity in markets like China.
- Cost pressures from input cost volatility. Resin is SUNN's largest input cost component. The company mitigates this risk with contracts that incorporate re-pricing flexibility should input commodities and foreign exchange fluctuate beyond bands specified in the contract.

Source: Maybank Kim Eng

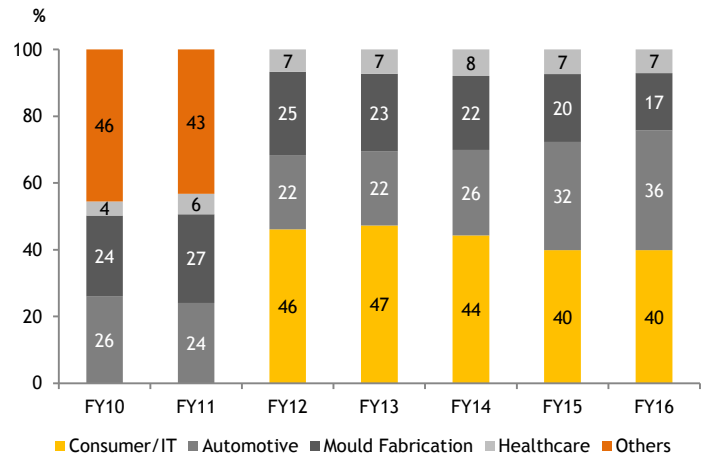
# Financial snapshot

**Fig 6: Revenue and PBT margin**



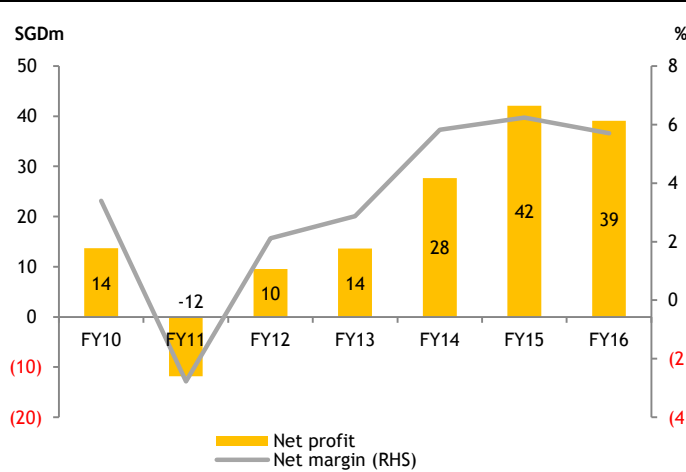
Source: Bloomberg

**Fig 7: Revenue by segment**



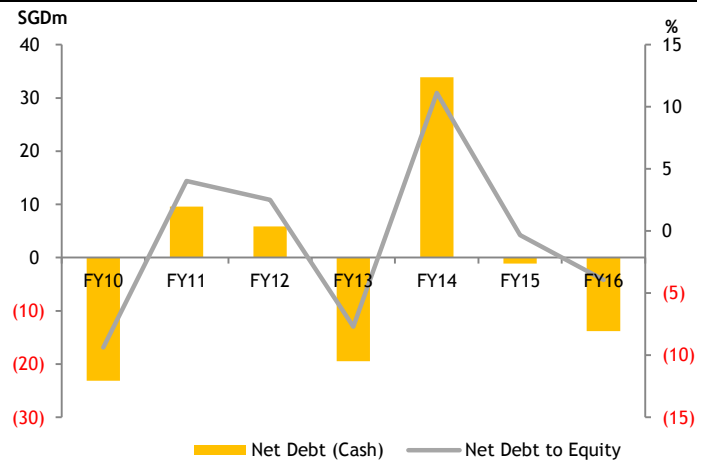
Source: Factset

**Fig 8: Net profit/loss and margin**



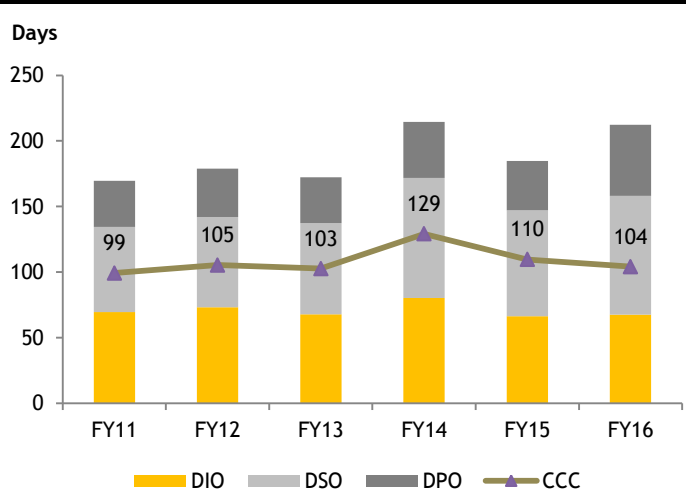
Source: Bloomberg

**Fig 9: Net debt (cash) and net gearing**



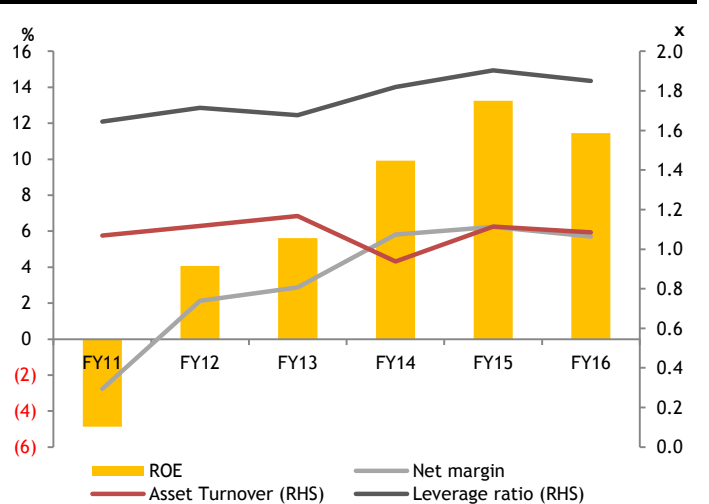
Source: Bloomberg

**Fig 10: Cash conversion cycle**



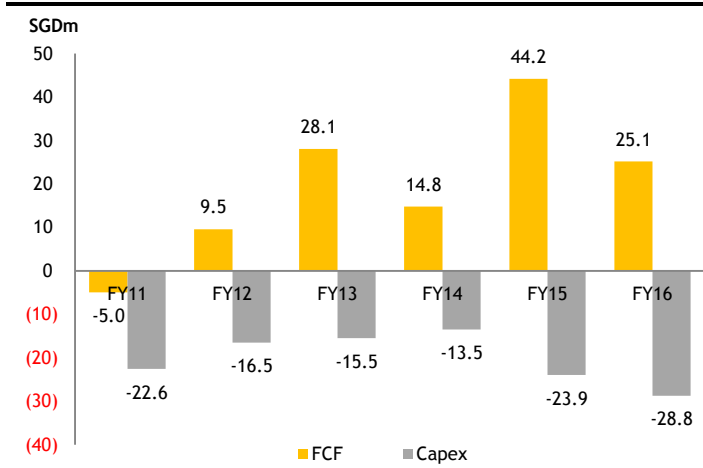
Source: Bloomberg

**Fig 11: Du Pont return on equity**



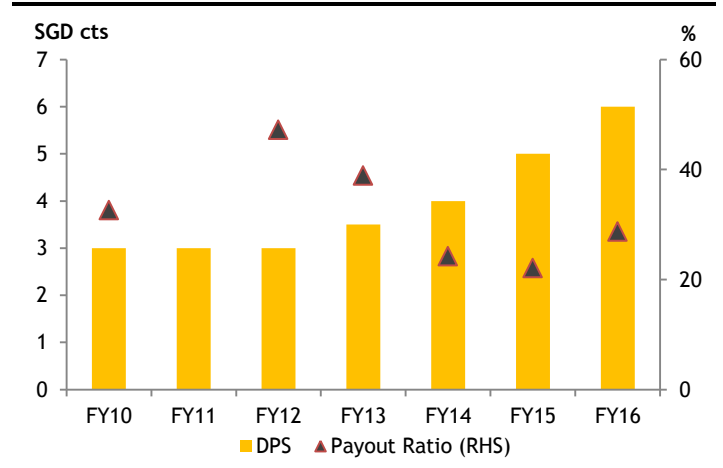
Source: Factset

Fig 12: Free cash flow and net capex



Source: Bloomberg

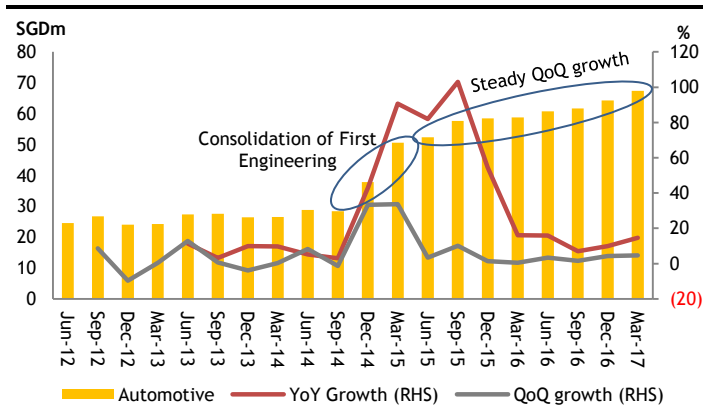
Fig 13: Increasing DPS since FY12



Source: Bloomberg

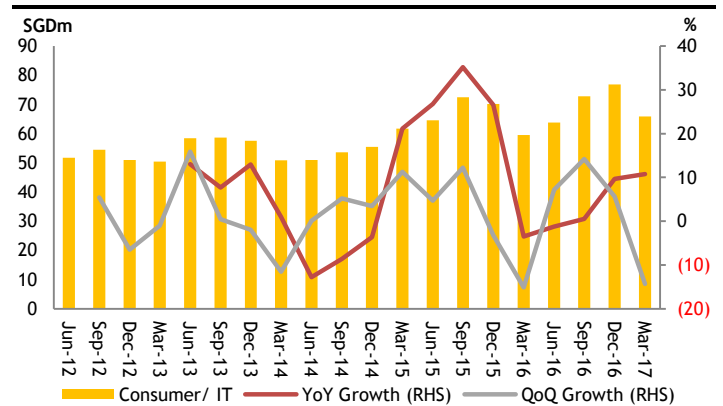
## Quarterly revenue trends by segment

Fig 14: Automotive- key growth driver



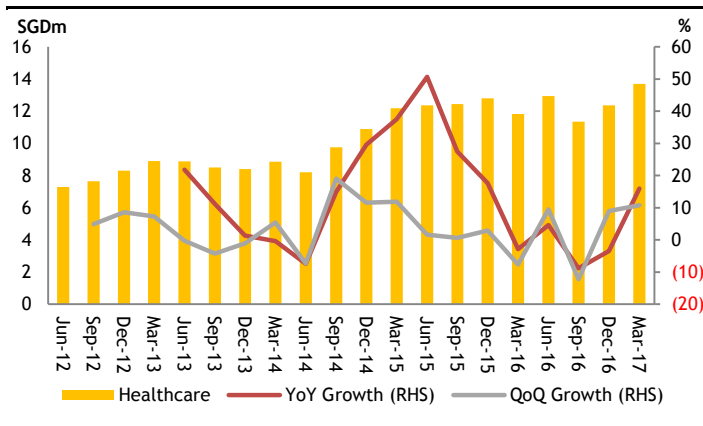
Source: Company

Fig 15: Consumer/IT- bottomed in 1Q16; +10% YoY in past 2Qs



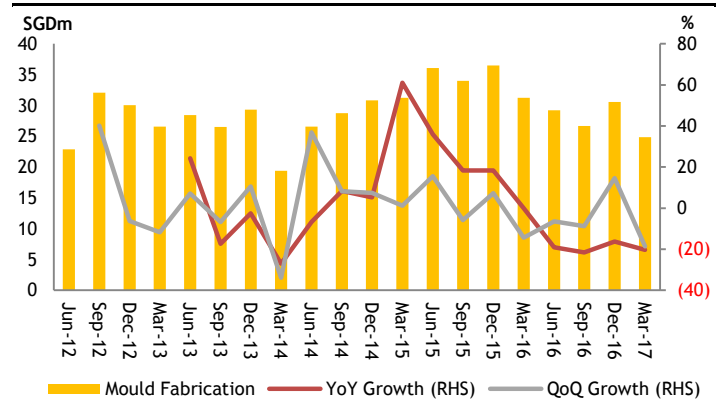
Source: Company

Fig 16: Healthcare- picking up since 3Q16



Source: Company

Fig 17: Mould fabrication - negative structural trends; customer weakness



Source: Company

## Peer valuation comparison

SUNN is trading at 10.4x consensus P/E. Based on three estimates, the street is forecasting c8% YoY growth in SUNN's core EPS to SGD0.183 in FY17.

The stock is trading at c28% discount to its Singapore peer basket of EMS and precision engineering companies, which trade at c14.4x on earnings growth expectations of c21%.

Fig 18: Peer comps

Company	BBG Code	MKE Rec	MKE TP (LC)	Price (LC)	FYE mm/d	Mcap USDm	P/E (x)				EV /EBITDA (x) Act	P/B (x) Act	ROE (%) Act
							Act	FY1	FY2	FY3			
Sunningdale Tech	SUNN SP	NR	-	1.91	12/31	262	11.3*	10.4	9.5	8.9	4.9	1.0	11.5%
<b>Singapore listed precision engineering peers</b>													
Venture Corporation	VMS SP	Buy	13.35	12.53	12/31	2,583	19.2	16.1	14.7	13.4	12.6	1.8	9.4%
Valuetronics Holdings	VALUE SP	NR	-	0.81	03/31	251	11.7	10.6	9.8	9.5	5.6	2.0	17.3%
Memtech International	MTEC SP	NR	-	0.97	12/31	102	15.8	11.2	9.9	7.4	4.9	0.9	5.4%
HI-P International	HIP SP	NR	-	1.01	12/31	654	15.1	12.1	11.3	-	4.5	1.4	9.6%
Fu Yu Corporation	FUYU SP	NR	-	0.21	12/31	113	12.1	20.5	10.3	-	3.1	0.9	6.0%
CEI	CEI SP	NR	-	1.07	12/31	68	10.5	9.7	8.9	8.2	7.1	2.3	22.0%
Fischer Tech	FISC SP	NR	-	2.68	03/31	109	11.4	-	-	-	5.3	1.4	12.4%
Miyoshi	MIYO SP	NR	-	0.07	08/31	25	28.0	-	-	-	11.6	0.6	2.1%
<b>Average</b>							<b>17.4</b>	<b>14.4</b>	<b>13.0</b>	<b>9.8</b>	<b>10.0</b>	<b>1.7</b>	<b>10.0%</b>
<b>Global plastics manufacturing/ precision engineering peers</b>													
Berry Global Group	BERY US	NR	-	57.76	10/01	7,480	22.8	20.0	17.5	15.9	11.1	10.7	-
Aptargroup	ATR US	NR	-	89.79	12/31	5,606	28.7	26.1	23.8	21.1	13.2	4.5	17.7%
Towa Corp	6315 JP	NR	-	1,781	03/31	395	11.5	12.0	10.7	11.4	8.0	1.8	16.7%
Silgan Holdings	SLGN US	NR	-	31.87	12/31	3,515	23.0	19.2	16.8	15.8	11.5	7.2	27.7%
SKP Resources	SKP MY	NR	-	1.31	03/31	382	15.7	12.3	10.3	9.0	9.5	3.5	26.3%
Adval Tech Holding	ADVN SW	NR	-	245.00	12/31	186	4.5	-	-	-	7.7	1.3	40.2%
Milacron Holdings	MCRN US	NR	-	18.76	12/31	1,296	12.4	11.7	10.8	10.0	10.0	3.0	7.0%
RPC Group	RPC LN	NR	-	8.27	03/31	4,482	13.4	12.0	11.1	10.6	9.2	1.9	9.7%
Sanmina-SCI	SANM US	NR	-	41.25	10/01	3,116	16.2	13.6	12.9	11.9	8.8	1.8	12.0%
V.S. Industry	VSI MK	Buy	2.80	2.01	07/31	564	19.0	16.0	12.1	11.0	13.0	2.3	14.2%
<b>Average</b>							<b>20.8</b>	<b>18.3</b>	<b>16.4</b>	<b>15.0</b>	<b>10.9</b>	<b>5.6</b>	<b>11.8%</b>

\*Based on core EPS

Source: Bloomberg, Factset

FYE 31 Dec	FY12A	FY13A	FY14A	FY15A	FY16A
<b>Key Metrics</b>					
P/E (reported) (x)	9.8	7.3	6.1	4.2	5.0
Core P/E (x)	30.2	24.3	16.4	15.1	11.3
P/BV (x)	1.2	1.2	1.2	1.1	1.0
P/NTA (x)	1.3	1.2	1.2	1.1	1.1
Net dividend yield (%)	1.6	1.8	2.1	2.6	3.1
FCF yield (%)	3.3	9.6	4.2	12.4	7.0
EV/EBITDA (x)	2.3	1.9	5.0	2.7	2.8
EV/EBIT (x)	6.2	4.1	14.1	5.1	4.3
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	451.3	476.0	475.6	674.5	684.5
Gross profit	51.6	55.4	59.9	90.8	94.3
EBITDA	43.9	45.9	38.0	65.1	69.2
Depreciation	(26.5)	(25.9)	(24.1)	(32.1)	(29.6)
Amortisation	(1.1)	(1.1)	(0.4)	(1.7)	(1.6)
EBIT	16.3	21.7	13.5	34.0	44.4
Net interest income / (exp)	(1.5)	(1.3)	(1.3)	(3.4)	(3.0)
Associates & JV	0.0	0.0	0.1	0.9	0.9
Exceptionals	(1.7)	0.3	1.4	12.8	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	12.9	19.1	28.2	42.8	47.2
Income tax	(3.3)	(5.5)	(0.6)	(0.7)	(8.2)
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	9.6	13.6	27.7	42.1	39.1
Core net profit	9.6	12.0	21.5	23.6	31.7
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	52.7	79.2	103.1	121.1	113.6
Accounts receivable	87.3	96.8	144.9	157.9	187.0
Inventory	82.2	76.6	109.2	106.2	114.9
Property, Plant & Equip (net)	147.6	136.3	193.6	186.9	191.6
Intangible assets	14.2	13.1	20.1	18.9	17.4
Investment in Associates & JVs	0.0	0.0	5.2	5.5	5.3
Other assets	15.0	14.7	22.0	16.4	18.7
<b>Total assets</b>	<b>398.9</b>	<b>416.7</b>	<b>598.1</b>	<b>612.9</b>	<b>648.5</b>
ST interest bearing debt	51.0	54.0	91.6	74.0	64.6
Accounts payable	40.5	40.8	57.9	64.1	113.0
LT interest bearing debt	7.6	5.8	45.4	46.0	35.2
Other liabilities	66.0	63.0	98.0	98.0	84.0
<b>Total Liabilities</b>	<b>165.4</b>	<b>164.0</b>	<b>292.8</b>	<b>282.3</b>	<b>297.2</b>
Shareholders Equity	233.5	252.7	305.3	330.6	351.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>233.5</b>	<b>252.7</b>	<b>305.3</b>	<b>330.6</b>	<b>351.3</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>398.9</b>	<b>416.7</b>	<b>598.1</b>	<b>612.9</b>	<b>648.5</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	12.9	19.1	28.2	42.8	47.2
Depreciation & amortisation	27.6	26.9	24.5	33.8	31.1
Adj net interest (income)/exp	(1.5)	(1.3)	(1.3)	(3.4)	(3.0)
Change in working capital	(6.4)	(3.4)	(68.1)	0.2	8.9
Cash taxes paid	(3.3)	(5.5)	(0.6)	(0.7)	(8.2)
Other operating cash flow	(4.0)	3.4	(14.7)	(5.4)	(4.6)
Cash flow from operations	26.1	43.6	28.3	68.2	53.9
Capex	(16.5)	(15.5)	(13.5)	(23.9)	(28.8)
Free cash flow	9.5	28.1	14.8	44.2	25.1
Dividends paid	(4.5)	(4.5)	(5.4)	(7.4)	(9.3)
Equity raised / (purchased)	0.0	0.0	24.9	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	2.6	0.9	37.9	(18.3)	(21.2)
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(2.1)	0.9	(52.5)	0.2	3.6
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>5.5</b>	<b>25.4</b>	<b>19.7</b>	<b>18.6</b>	<b>(1.8)</b>





FYE 31 Dec	FY12A	FY13A	FY14A	FY15A	FY16A
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	5.9	5.5	(0.1)	41.8	1.5
EBITDA growth	95.3	4.6	(17.2)	71.2	6.3
EBIT growth	nm	33.1	(37.8)	152.0	30.7
Pretax growth	nm	48.7	47.8	51.6	10.3
Reported net profit growth	nm	42.7	102.8	52.1	(7.2)
Core net profit growth	nm	25.5	79.2	9.8	34.3
<b>Profitability ratios (%)</b>					
EBITDA margin	9.7	9.6	8.0	9.7	10.1
EBIT margin	3.6	4.6	2.8	5.0	6.5
Pretax profit margin	2.8	4.0	5.9	6.4	6.9
Payout ratio	47.6	39.2	26.8	22.2	28.9
<b>DuPont analysis</b>					
Net profit margin (%)	2.1	2.9	5.8	6.2	5.7
Revenue/Assets (x)	1.1	1.1	0.8	1.1	1.1
Assets/Equity (x)	1.7	1.6	2.0	1.9	1.8
ROAE (%)	4.1	5.6	9.9	13.2	11.5
ROAA (%)	2.4	2.9	4.2	3.9	5.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	105.4	102.8	129.2	109.6	104.2
Days receivable outstanding	69.0	69.6	91.5	80.8	90.7
Days inventory outstanding	73.1	67.9	80.4	66.4	67.5
Days payables outstanding	36.7	34.8	42.7	37.6	54.0
Dividend cover (x)	2.1	2.5	3.7	4.5	3.5
Current ratio (x)	1.5	1.7	1.6	1.8	1.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.4	2.5	2.0	2.2	2.2
Net gearing (%) (incl perps)	2.5	net cash	11.1	net cash	net cash
Net gearing (%) (excl. perps)	2.5	net cash	11.1	net cash	net cash
Net interest cover (x)	10.6	16.7	10.4	10.1	14.7
Debt/EBITDA (x)	1.3	1.3	3.6	1.8	1.4
Capex/revenue (%)	3.7	3.3	2.8	3.6	4.2
Net debt/ (net cash)	5.9	(19.5)	33.9	(1.1)	(13.8)

Source: Company; Maybank

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