



Greatech Technology Berhad

“Forefront of EV revolution”

Bloomberg: GREATEC MK | Reuters: GREA.KL | Stock Code: 0208

Main Board

Technology

Buy

TP: RM4.73

Price: RM3.88

Valuation / Recommendation

Following a supply chain shortage of components and labor shortage in 1QFY22 that affected its earnings growth, Greatech is backed on track to resume its earnings growth from 2QFY22 onwards, giving an earnings growth rate of 28.2% and 10.1% in FY12/22E and FY12/23F respectively. With stock plummeting from the high of RM7.60, it would be an opportune time to initiate coverage of the stock at a target price of RM4.73 with FY12/23 PE of 32x supported by good earnings growth and a diversified targeted order book of RM500m in FY12/22. Investment Highlights

More contract wins are expected. The greatest strength of Greatech lies in its diversified order book in key growth industries namely solar, e-mobility, and life sciences. Greatech is targeting an RM500m order book in FY12/22 against RM586m achieved last year, around RM300m from EV, RM100m for solar, and RM100m for life science. Order book for solar will continue to slide from last year as only RM160m solar contract is left to be delivered. Greatech is gearing up efforts to win 4 new clients in EV battery production and an additional 3 in EV components production such as inverters and chargers. We believe Rivian is likely to be the next EV customer for Greatech. Prospects are bright as Amazon has contracted Rivian to produce 100k units of electric delivery vans by 2030 with the first 10k hitting the road in 2022. Meanwhile, Greatech is targeting another five other customers after signing a Master Service Agreement with a US-based life science company. All projects are expected to achieve a minimal gross profit margin of 30%.

Capacity expansion means further growth. Greatech is expected to complete its Batu Kawan III manufacturing plant by April 2022 and will commence its operation by May 2022. The combined floor space will surge from 391.4k sq ft to 950k sq ft. Greatech is also finalizing the plan to construct the 4th plant on 11.5 acres of leasehold land in Batu Kawan. Judging from the good demand, especially in the EV segment, Greatech should be able to top up its order book in the region of RM700m-RM800m in FY12/23.

Deserve a slight premium to Genetec. Since Greatech has an estimated order book of RM500 m compared to RM300m of Genetec, we assign Greatec a higher P/E of 32x against 30x for Genetec, giving a target price of RM4.73. Key risks to our earnings forecast include material supply chain disruption, slower-than-expected contract flows, and hiccups in the expansion plan.

INVESTMENT STATISTICS	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RM m)	261	402	550	750	820
EBITDA (RM m)	96	152	185	248	275
EBITDA Margin (%)	36.8	37.8	33.6	33.1	33.5
Pre-tax Profit (RM m)	90	145	172	230	264
PATMI	87	131	168	185	197
EPS (sen)	6.9	10.5	13.4	14.8	15.7
EPS Growth (%)	-	50.6	28.2	10.1	6.5
BV Per Share	0.46	0.34	0.48	0.63	0.78
PE (x)	55.8	37.1	28.9	26.3	24.7
Net Gearing (%)	-267	-304	-390	-510	-692
ROE (%)	36.1	36.5	32.6	26.8	22.3

Sources: Mercury Securities, Company

Business Overview

Greatech operates through sale of automated equipment together with provision of parts and services segment. It is involved in the design, development and production of systems, machinery and equipment for its customers' manufacturing processes.

Stock Return Information

KLCI (pts)	1,523.86
Expected Share Return (%)	21.9
Expected Dividend Yield (%)	-
Expected Total Return (%)	21.9

Share Information

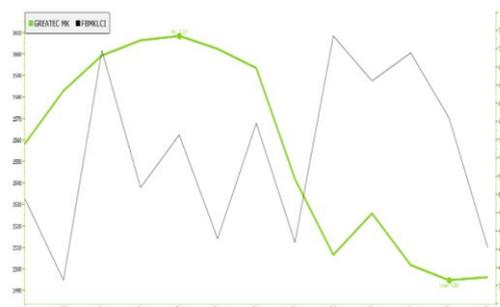
Market Cap (RM m)	4,857.8
Issued Shares (m)	1,252
52W High (RM)	7.60
52W Low (RM)	2.81
Estimated Free Float (%)	20.6
Beta vs FBM KLCI	0.75
3-month Average Vol. (m)	4.95

Top 3 Shareholders (%)

Gtech Holdings Sdn Bhd	65.4%
LLH Holdings Sdn Bhd	2.5%
Smartcap Venture	1.9%

Price Performance

	1M	3M	12M
Absolute (%)	4.6	33.8	-33.1
Relative to Index (%)	7.2	35.3	-29.1



Source: Bloomberg

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Latest Results

RESULTS (RM m) FY Dec	4Q21	1Q22	qoq %	1Q21	yoy %	Comments
Revenue	75.4	102.2	35.5%	95.1	7.5%	Improving due to huge order book
EBIT	30.4	30.2	-0.5%	47.1	-35.7%	Cost overruns on covid -19 outbreak in 1QFY22
Interest Expenses	-0.1	-0.1	0.0%	-0.2	-58.3%	Gearing remains healthy
Pre-tax Profit	30.3	30.1	-0.5%	46.8	-35.6%	-
Taxation	-2.5	-0.4	-85.6%	-0.36	0.0%	Due to tax incentives
Net Profit	27.8	29.8	7.1%	46.5	-35.9%	-
EI	0.3	3.0	900.0%	-4.5	-166.7%	-
Net Profit after EI	28.0	32.8	17.1%	42.0	-21.9%	-
EPS (sen)	2.2	2.6	17.1%	3.4	-21.9%	-

Sources: Mercury Securities, Company

Peer Comparison

Company	Bloomberg Ticker	Share Price (RM)	Market Cap (RM'm)	PE (x)		EPS (sen)		EPS Growth		P/BV (x)	
				FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Genetec	GENE MK	2.37	1,616.34	28.6	21.5	8.3	11.0	-	32.5%	16.9	11.1
Greatec	GREATEC MK	3.88	4,857.76	28.9	26.3	13.4	14.8	28.2%	10.1%	7.6	5.7
Average			6,474.10	28.8	24.9						

Sources: Mercury Securities, Bloomberg

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