

Singapore

ADD

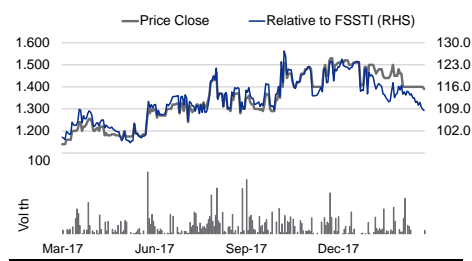
Consensus ratings*: Buy 0 Hold 0 Sell 0

| | |
|-------------------------|------------|
| Current price: | S\$1.39 |
| Target price: | S\$2.58 |
| Previous target: | na |
| Up/downside: | 85.9% |
| CIMB / Consensus: | na |
| Reuters: | PMDS.SI |
| Bloomberg: | PDS.SP |
| Market cap: | US\$36.73m |
| | S\$48.51m |
| Average daily turnover: | US\$0.01m |
| | S\$0.01m |
| Current shares o/s: | 34.90m |
| Free float: | 35.9% |

*Source: Bloomberg

Key changes in this note

➤ N/A



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|-------|------|
| Absolute (%) | -7.3 | -9.2 | 26.4 |
| Relative (%) | -4.8 | -10.4 | 14.5 |

Major shareholders

| | % held |
|-------------|--------|
| Chen Mun | 55.7 |
| Ang Bee Yan | 8.2 |

Analyst(s)



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Powermatic Data Systems Limited

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- Powermatic's core business is manufacturing a wide range of wireless connectivity hardware such as wireless modules, embedded boards and antenna.
- As the company is able to offer hardware and software design capabilities, it also enjoys higher gross margins than its peers without design capabilities.
- At the current share price, we believe that investors are getting Powermatic's growing wireless connectivity business for free.
- We initiate with an Add call as we expect the company to continue benefiting from the growing connectivity of devices and the advent of 5G telecommunications network.

Plugged into growth

We believe Powermatic, whose core business is wireless connectivity, is plugged into the growth potential of 5G telecommunication networks and the rising Internet of Things (IoT) trend. In FY17, Powermatic successfully released more than 10 cutting-edge products. The high value-add and intellectual property content of its business led to a 45.1% gross margin in FY3/17 for its wireless connectivity segment.

Backed by hard assets

Powermatic has a rock-solid balance sheet. The company was in a net cash position as at end-Sep 2017 with zero debt. Its investment property is also unencumbered. At current share price, we think investors are getting Powermatic's growing wireless connectivity business for free. Based on Powermatic's balance sheet at end-Sep 2017 (Figure 34), if the company was to be liquidated, we estimate the per-share value of its assets (cash, financial assets and investment property alone) less total liabilities would be S\$1.41.

Established dividend track record

Although Powermatic does not have a formal dividend policy, the group has paid a final DPS of S\$0.05 in the past five years. In FY17, Powermatic rewarded shareholders with an additional special DPS of S\$0.02 as the company's net profit hit a record S\$4.2m, the highest level since the Global Financial Crisis.

Possible corporate actions

Powermatic suffers from poor trading liquidity. We opine that the Board should deliberate the possible liquidity benefits of a share split or bonus issue. Founder and CEO, Dr Chen, is approaching 70 years of age with no family-in-waiting to take over the business. Dr Chen and Executive Director, Ms Ang, together own 63.9% of Powermatic as of 1 Mar 2018 (source: Bloomberg). In our view, the Board should also evaluate succession planning and ways in which company could attain faster growth.

Initiate with an Add call

We initiate coverage with Add and a target price of S\$2.58 based on sum-of-parts valuation. Nearly 63% of our target price is derived from non-operating assets and the balance 37% is derived from its wireless connectivity earnings that we value at 10x CY19F P/E multiple (at an 11.5% discount to its historical 10-year average forward P/E of 11.3x given its poor liquidity). Potential re-rating catalysts are higher customer orders and margin expansion. Key risks are component shortages and customers delaying orders.

Financial Summary

| | Mar-16A | Mar-17A | Mar-18F | Mar-19F | Mar-20F |
|--------------------------------|---------|---------|---------|---------|---------|
| Revenue (S\$m) | 15.50 | 15.43 | 16.20 | 17.00 | 17.84 |
| Net Profit (S\$m) | 2.83 | 4.19 | 3.91 | 4.13 | 4.36 |
| Core EPS (S\$) | 0.08 | 0.12 | 0.11 | 0.12 | 0.13 |
| Core EPS Growth | | 47.9% | (6.8%) | 5.5% | 5.6% |
| FD Core P/E (x) | | 11.54 | 12.38 | 11.74 | 11.12 |
| Price To Sales (x) | 3.12 | 3.13 | 2.99 | 2.85 | 2.72 |
| DPS (S\$) | 0.050 | 0.070 | 0.070 | 0.070 | 0.070 |
| Dividend Yield | 3.60% | 5.04% | 5.04% | 5.04% | 5.04% |
| EV/EBITDA (x) | 12.35 | 6.08 | 5.10 | 4.28 | 3.46 |
| P/FCFE (x) | | NA | 12.89 | 11.45 | 10.58 |
| Net Gearing | (45.4%) | (50.4%) | (51.4%) | (53.1%) | (55.0%) |
| P/BV (x) | 1.03 | 0.92 | 0.90 | 0.87 | 0.84 |
| ROE | | 8.40% | 7.34% | 7.53% | 7.70% |
| % Change In Core EPS Estimates | | | | | |
| CIMB/consensus EPS (x) | | | | | |

SOURCE: COMPANY DATA, CGS-CIMB RESEARCH FORECASTS

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Investment thesis

Plugged into growth ➤

We believe Powermatic, whose core business is wireless connectivity, is plugged into the growth potential of 5G telecommunication networks and the rising Internet of Things (IoT) trend. In FY17, Powermatic successfully released more than 10 cutting-edge products. The high value-add and intellectual property content of its business has led to a 45.1% gross margin in FY17 for its wireless connectivity segment.

In safe hands – rock-solid balance sheet ➤

Powermatic has a rock-solid balance sheet. The company was in a net cash position as at end-Sep 2017 with zero debt. Its investment property is also unencumbered. As at end-Sep 2017, cash and financial assets formed nearly 90% of its current assets and similarly, investment property and financial assets formed nearly 90% of its non-current assets. The company has no long-term liabilities.

Dividend-paying history ➤

Although Powermatic does not have a formal dividend policy, the group has paid DPS of S\$0.05 in the past five years. In FY17, Powermatic rewarded shareholders with an additional special DPS of S\$0.02 as the company's net profit hit a record S\$4.2m, the highest level since the Global Financial Crisis.

Short-term: Powermatic should look to improve liquidity ➤

Powermatic suffers from the poor trading liquidity typically encountered by SGX-listed small caps. A 5-into-1 share consolidation in 2015 reduced Powermatic's share base to just 34.9m shares. We opine that Powermatic's Board of Directors should deliberate the potential liquidity benefits of a share split or bonus issue.

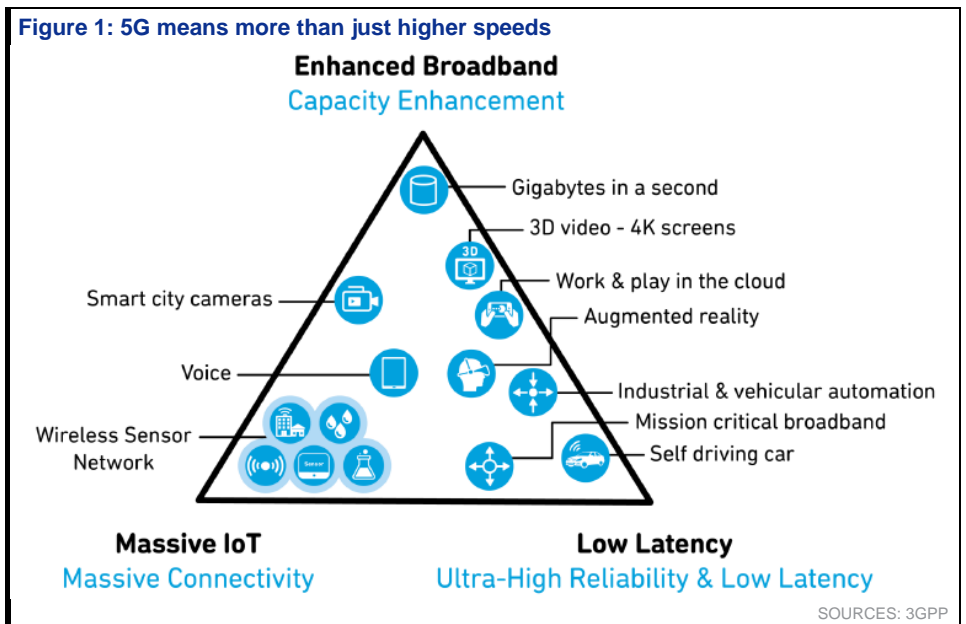
Long-term: End game? ➤

Founder and CEO, Dr Chen is approaching 70 years of age with no family-in-waiting to take over the business. Dr Chen and another key Executive Director, Ms Ang, together own roughly 63.9% of Powermatic as of 1 Mar 2018. We believe there are two viable succession-planning options for Powermatic: 1) Dr Chen could eventually retire but remain as an adviser to the group, which would then be managed by a team of professionals, or 2) he could sell the company to potential buyers that could help Powermatic grow bigger.

Outlook

Company outlook ➤

Powermatic is bullish on the introduction of the 5G telecommunication network globally, as it would stimulate the growth of the markets for smartphone and other mobile devices. A new generation of applications will be introduced to take advantage of the greatly-increased bandwidth and network speed requirements of 5G, creating greater demand for network access. The new generation of wireless access points will not only have to handle greatly-increased throughput, but also manifold increases in the number of client devices, as well as greater user expectations for quality of connection and coverage. 5G will mean more than just higher speeds; it would also allow connections between many devices and new applications.



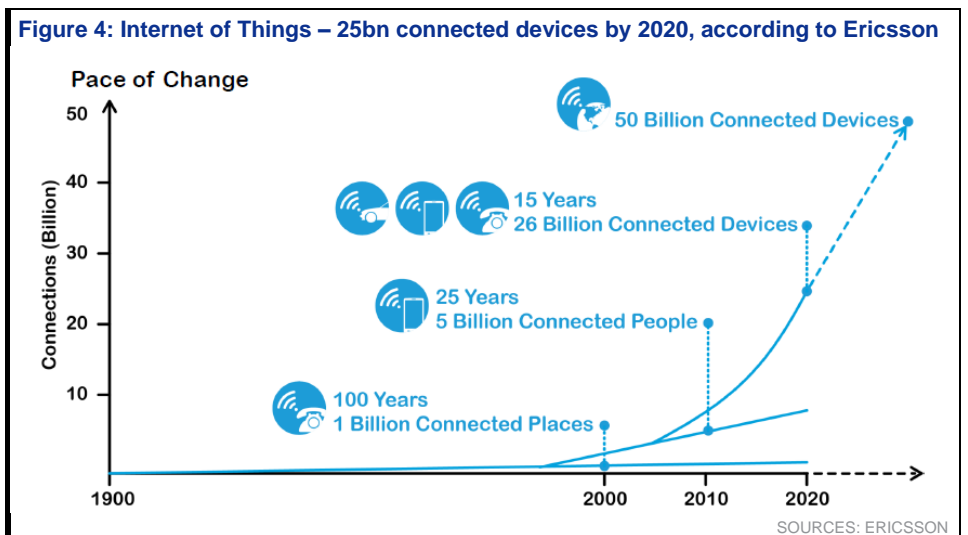
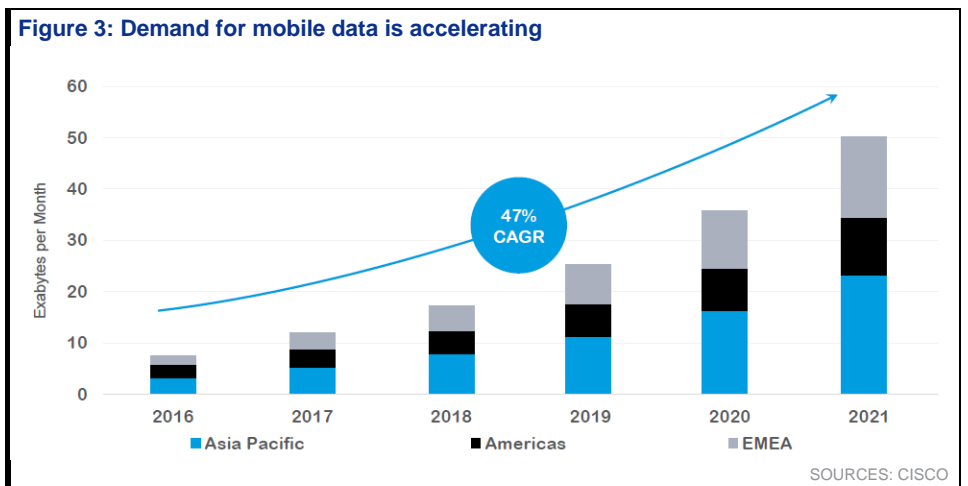
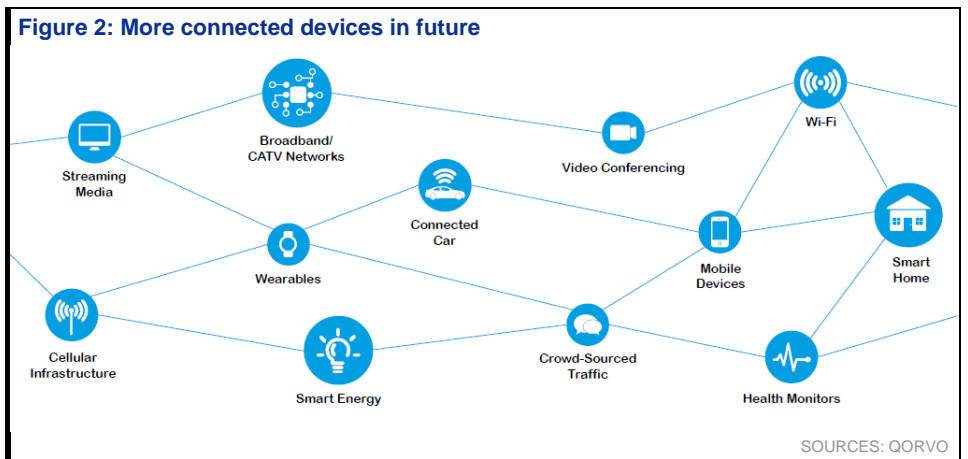
Powermatic's research and development team is constantly developing new proprietary products with distinct and creative features to meet the needs of a fast-growing market that places stringent demands on product quality and performance.

In terms of near-term growth opportunities, Powermatic highlighted that:

- its outdoor wireless access points have been deployed to provide internet access in rural areas of Thailand, India and Scandinavia;
- customers have integrated its wireless radio modules into drones for monitoring and surveillance applications;
- customers have deployed its outdoor access points together with CCTV systems to monitor street and traffic conditions; and
- its wireless radio modules have been integrated into healthcare monitoring devices deployed in hospitals.

Industry outlook ➤

Based on a Jul 2017 report by Research and Markets (a market research company), the global wireless connectivity market was valued at US\$15.0bn in 2017 and is projected to expand at a CAGR of 8.06% over 2017-22 to reach US\$22.2bn by 2022. Figure 2 [source: Qorvo Inc (QRVO US, Not Rated), Powermatic’s partner] illustrates how connected the future will be. Qorvo predicts that the demand for mobile data will expand 7x over 2017-21. Based on data from Ericsson, there will be more than 25bn connected devices via some form of wireless means by 2020.



Based on various industry reports and management estimates, Qorvo projects that:

- a) Smart home Internet of Things (IoT) – The number of connected devices could rise by a CAGR of 47% over 2017-21;
- b) Automotive – There could be 69m connected cars by 2020, which translates into a CAGR of 29% over 2017-21; and
- c) Distributed WiFi nodes – The number of nodes could expand by a 10% CAGR over 2017-21.

Risks

A key risk faced by Powermatic is deterioration in the general global economic outlook, which could negatively affect corporate and consumer spending. At the same time, the industry is price competitive and cost-down requests of up to 5% per annum from customers are common according to our channel checks. Given that its factory is located in China, Powermatic also faces the risks of rising wages and worker shortages.

Furthermore, Powermatic's wireless connectivity products faces competition from system-on-chip solutions that incorporate Wi-Fi capability (among other features) into a single chip.

In terms of currency exposure, roughly 80% of Powermatic's FY17 revenue was denominated in US\$ and the balance 20% in Rmb. Raw material costs are denominated in US\$ (about 40%) and Rmb (60%). Powermatic does not hedge its foreign exchange exposure.

A short-term risk for Powermatic is the negative impact from component shortages on its business. Powermatic is facing longer capacitor lead times of 24-36 weeks currently due to the ongoing capacitor shortage in the electronics components industry. However, management stated that Powermatic is able to maintain its product prices for the moment.

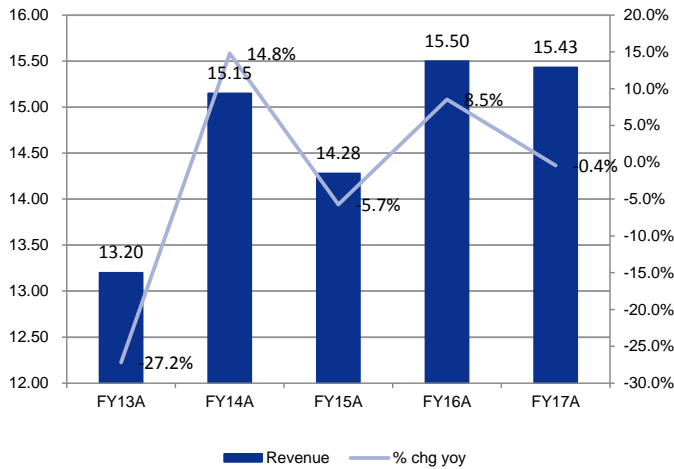
Financials

Income statement trends ➤

Powermatic's revenue has not grown much over the past five years. Revenue rose 27.2% yoy to S\$15.2m in FY14 but fell 5.7% yoy to S\$14.3m in FY15. Revenue recovered by 8.5% yoy to S\$15.5m in FY16 but fell by 0.4% yoy to S\$15.4m in FY17. This uneven revenue trend was due to the scaling down of its distribution business, which generated poorer margins compared to its wireless connectivity business.

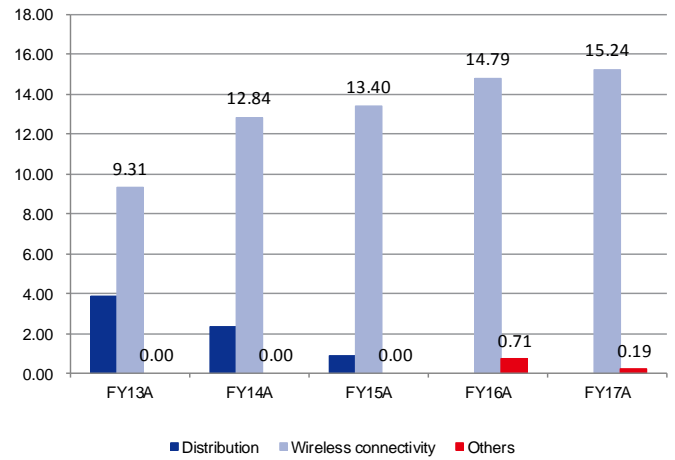
For the wireless connectivity business, there were two noticeable years of revenue growth, FY14 (+37.8% yoy) and FY16 (+10.4% yoy). Wireless connectivity revenue growth in FY14 was due to success of the R&D efforts in earlier years to produce better products and manufacturing efficiencies. As for FY16, wireless revenue benefited from Powermatic's wholly-owned subsidiary Compex establishing itself as a reputable manufacturer of wireless components and products. Since it was appointed as an Authorized Design Center by Qualcomm Atheros, a subsidiary of Qualcomm Inc (QCOM US, Not Rated), Compex has expanded its engineering service business that offers its core expertise of wireless hardware and software design, as well as competitive small batch manufacturing to enable customers to develop their ideas into real products.

Figure 5: Revenue and yoy % chg – Limited revenue growth over the past 5 years



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

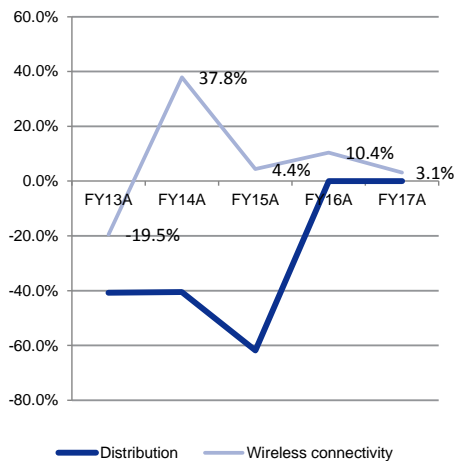
Figure 6: : Revenue by segment – Powermatic reduced emphasis on its distribution business over past 5 years



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

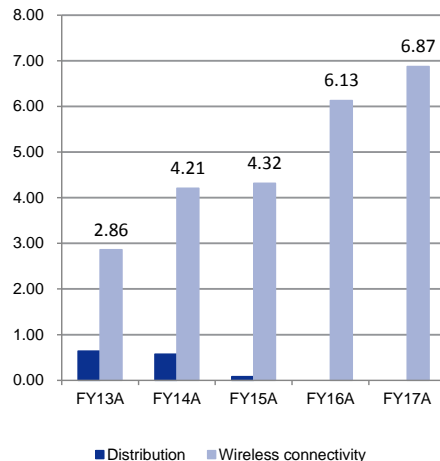
Gross margins for the wireless connectivity business expanded over FY15-17 (Figure 9) as Compex developed its wireless hardware and software design capabilities and improved its manufacturing capabilities for competitive small batch manufacturing. Compex's strong adherence to intellectual property protection principles and worldwide regulatory standards have given its customers confidence in working with them, both in joint product development and in incorporating Compex's products into their own. This success continued into FY17, when Compex successfully released more than 10 cutting-edge products, including the world's first standard mini PCIe form factor 4x4 WAVE 2 radio.

Figure 7: Wireless connectivity revenue growth ...



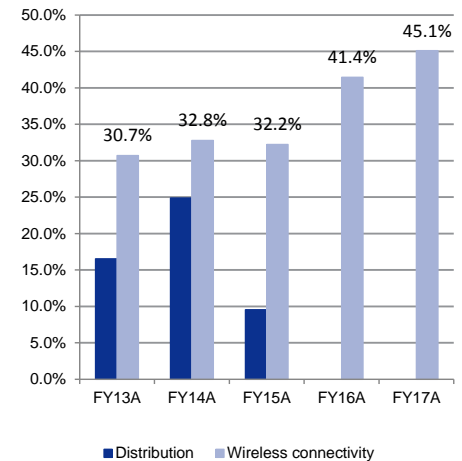
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 8: ... translated into higher wireless connectivity gross profit



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 9: ... as wireless connectivity gross margin expanded

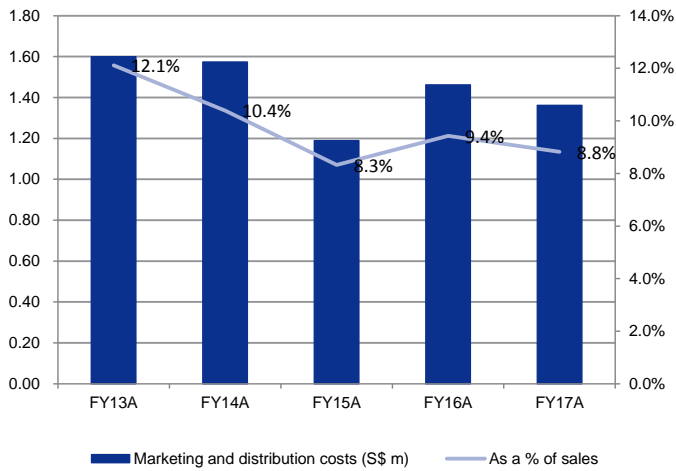


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Powermatic's cost of sales is roughly 40% denominated in US\$ and 60% in Rmb. Raw materials (chips, capacitors, etc.) accounted for 85% of FY17 cost of sales, labour costs accounted for 9%, depreciation accounted for 3%, while other costs such as utilities accounted for the remaining 3%.

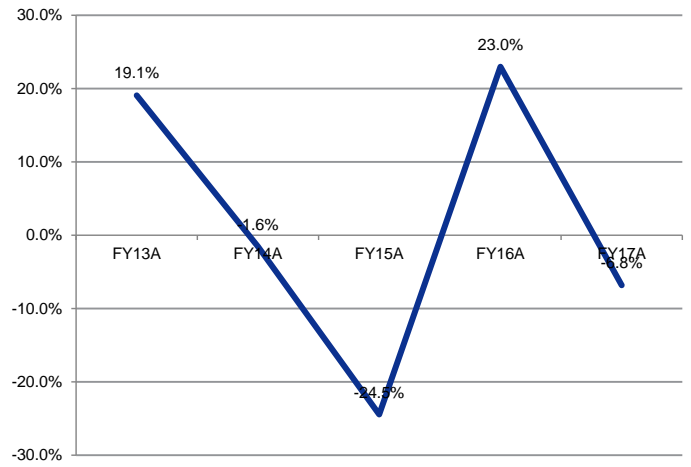
Powermatic has been very diligent in managing its costs. Over the past three years, it has kept marketing and distribution costs below 10% of revenue.

Figure 10: Marketing & distribution costs kept below 10% of sales



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

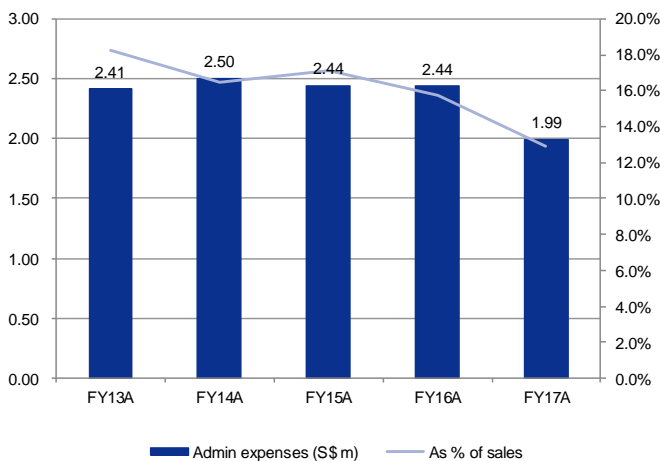
Figure 11: Marketing and distribution costs (yoy % chg)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

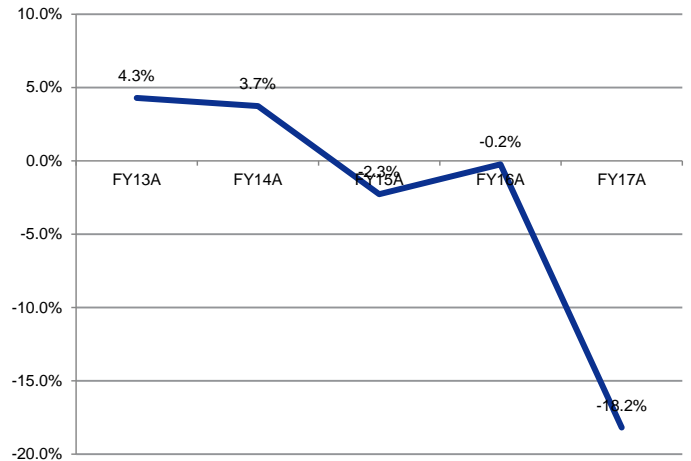
Powermatic’s administrative expenses averaged S\$2.45m over FY13-16 but registered an 18.2% yoy decline in FY17. This was partly due to the savings in office rental expenses as Powermatic terminated its office lease with a third-party lessor in early-2016 and has since housed its operations at its own freehold investment property (9 Harrison Road). Its staff headcount has decreased from 90 in FY13 to 74 in FY17.

Figure 12: FY17 admin expenses were the lowest in 5 years



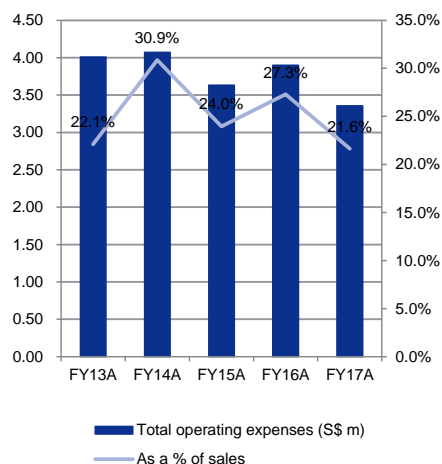
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 13: Steep decline in admin expenses in FY17



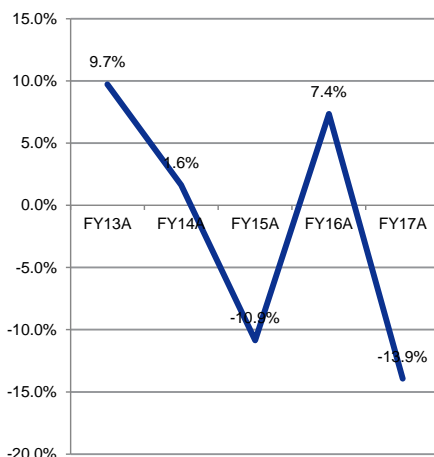
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 14: Total operating expenses as a % of sales has declined



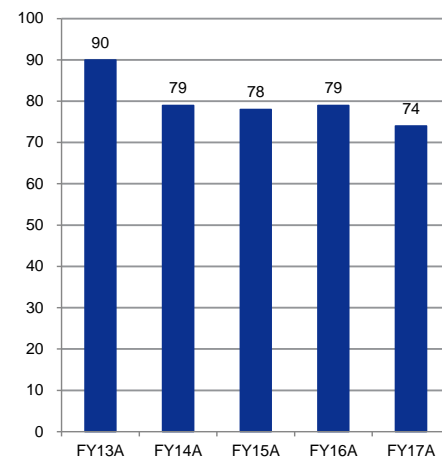
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 15: Total operating expenses fell by 13.9% yoy in FY17



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

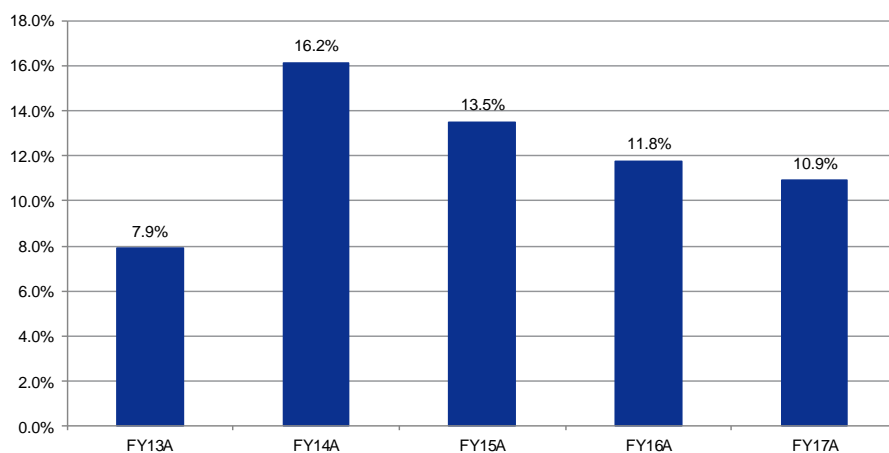
Figure 16: Staff headcount has decreased over the past 5 years



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

The group's average effective tax rate over FY15-17 was 12.1%, lower than the Singapore corporate tax rate of 17% due to the effects of deferred tax asset recognition. Its effective tax rate of 16.2% in FY14 was closer to the Singapore corporate tax rate of 17% as there was no deferred tax asset recognition that year.

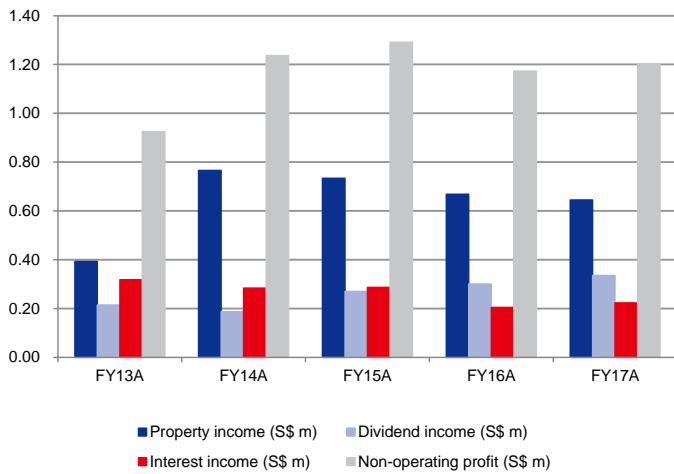
Figure 17: Effective tax rate below Singapore's headline corporate tax rate of 17% in recent years



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

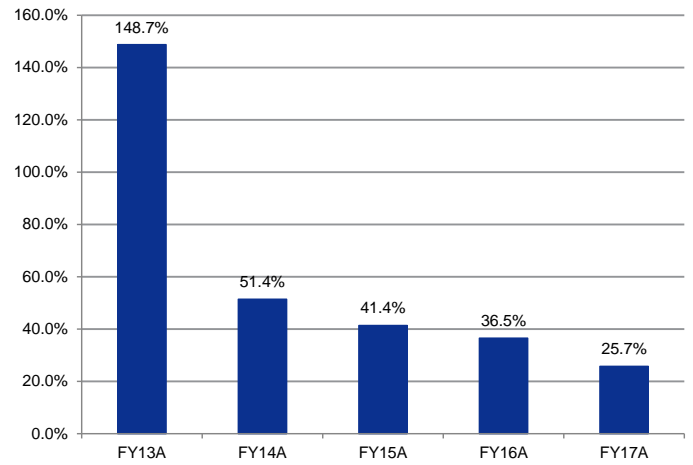
Non-operating income for Powermatic consists of: a) property income (rental from its investment property), b) dividend income (from quoted and unquoted investments), and c) interest income from its large cash balance. Over the past four years, its average non-operating income was S\$1.22m. Non-operating income as a percentage of pretax profit has declined from 149% in FY13 to 26% in FY17 as the pretax contribution from the group's core wireless connectivity business has grown.

Figure 18: Non-operating income fairly stable over the past four years



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 19: Non-operating income as a % of pretax profit has declined



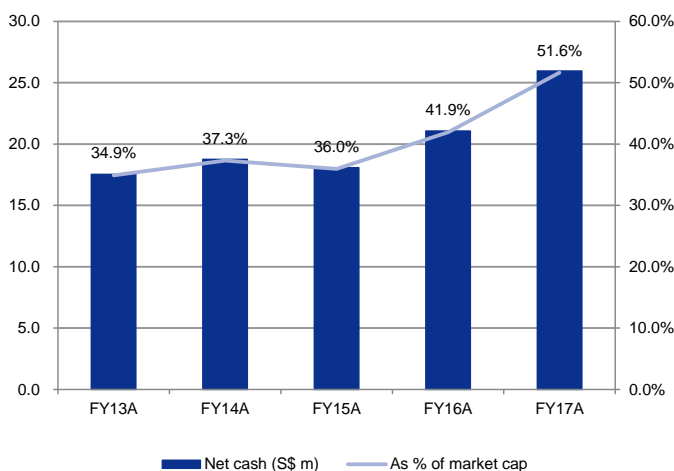
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Strong balance sheet ➤

Powermatic sports a very strong balance sheet. The company has been in a net cash position with zero debt over the past five years. At end-FY17, net cash formed 51.6% of its market cap. The company has also been generous with dividends. Over FY13-17, Powermatic has paid base dividends comprising a first and final DPS of S\$0.05 (declared with the announcement of its full-year results). In FY17, Powermatic declared a special DPS of S\$0.02 with its final results release, bringing total DPS to S\$0.07.

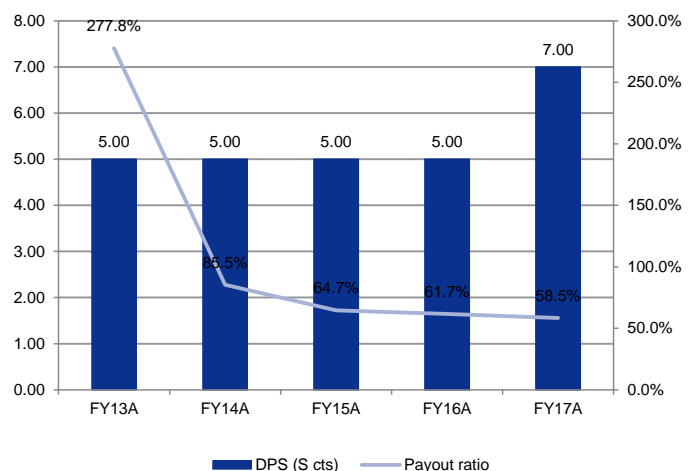
The special DPS of S\$0.02 in FY17 was distributed due to Powermatic's limited capex needs, to celebrate its 25th anniversary of listing on the SGX and its desire to adhere to the historical dividend payout ratio range of 61.7% (FY16) to 64.7% (FY15). The S\$0.07 DPS translates into FY17 dividend payout ratio of 58.5% and the average 3-year dividend payout ratio was 61.6% (FY15-17). Without the special DPS of S\$0.02, the dividend payout ratio in FY17 would have dropped to 41.8%.

Figure 20: Net cash – 51.6% of market cap backed by net cash at end-FY17



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

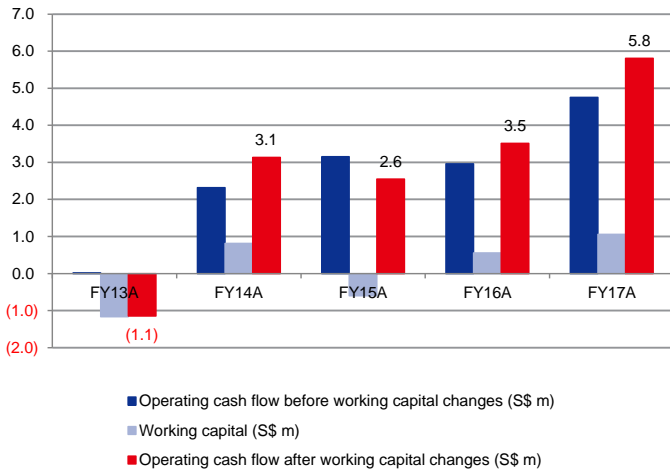
Figure 21: DPS and dividend payout ratio – Special DPS declared in FY17



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

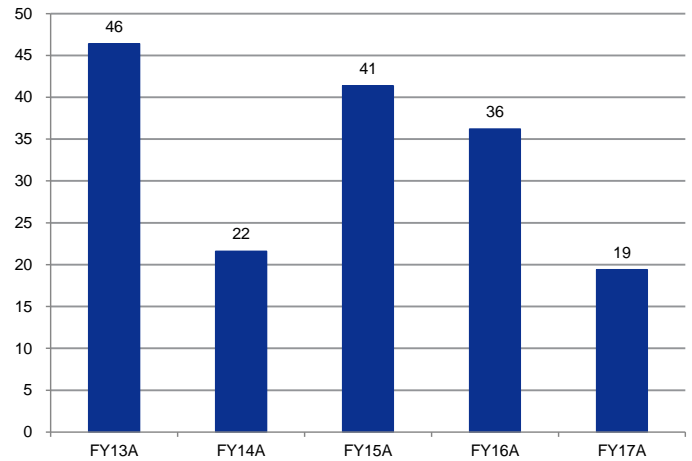
Operating cash flow after working capital changes registered strong growth in FY16-17 driven by higher profitability and better working capital management. Powermatic also has limited capex needs as its competitive strength lies in hardware and software design of radio frequency-related products. Over FY13-17, production-related capex ranged between S\$0.2m to S\$0.4m. Average capex over this period was S\$0.3m. Furthermore, its capex is modest because Powermatic only deals with low-volume production runs.

Figure 22: Operating cash flow – Strong improvement in FY16 and FY17



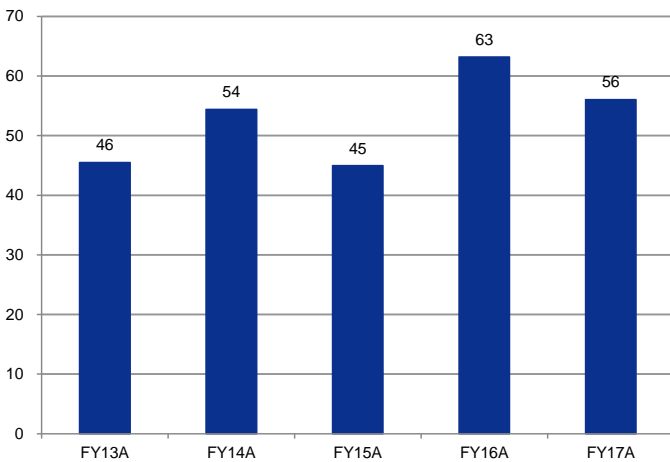
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 23: Trade receivables days – Declined in FY15-17



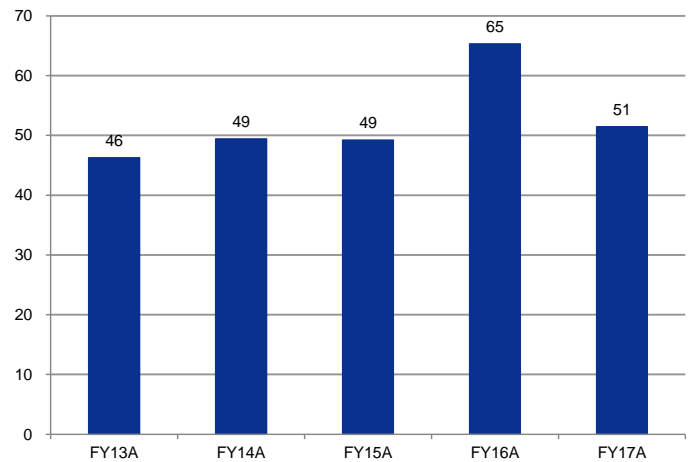
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 24: Inventory days – Lower in FY17



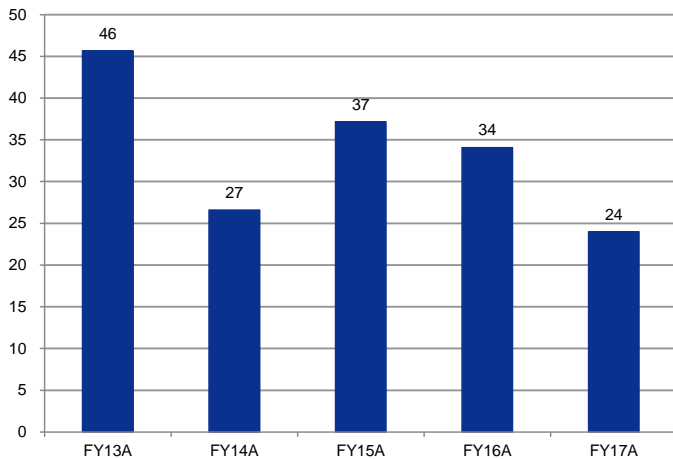
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 25: Trade payable days – Improved in FY17



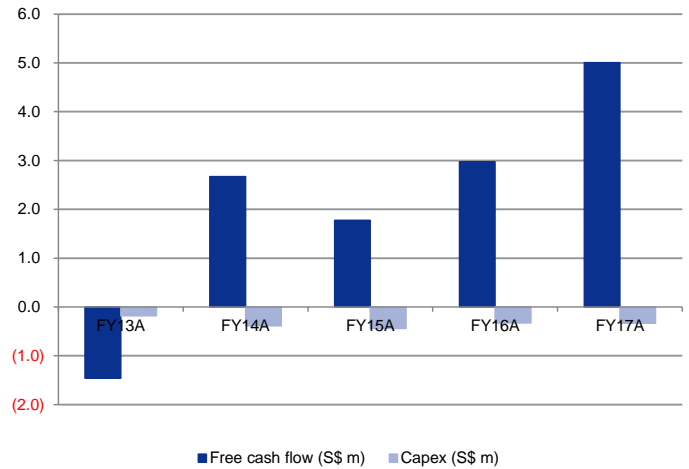
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 26: Cash cycle – Fell from 37 days in FY15 to 24 in FY17



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 27: Capex and free cash flow – Limited capex needs



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Forecast assumptions

Our key forecast assumptions for FY18-20F are as follows:

- Wireless connectivity revenue growth of 5% per annum, lower than the 8.1% revenue CAGR expected for the wireless connectivity market in 2017-22F by Research and Markets. We believe our assumption is conservative given that an above-industry average revenue growth rate for Powermatic is a possibility, in our view, in light of its small revenue base. In addition, its technological partner, Qorvo, projects that the number of distributed Wi-Fi nodes could see a 10% unit CAGR over 2017-21F.
- FY17 gross margin of 44.63% to be maintained in FY18F. We have not raised our gross margin assumptions as there could be some negative impact on gross margin from the ongoing component shortage situation. As at end-1HFY18, Powermatic achieved a gross margin of 51.4%. If we exclude the S\$0.23m inventory writeback, 1HFY18 gross margin would have been 48.3%. Over FY19-20F, we assume that Powermatic's gross margins will edge up gradually to 44.70-44.75%.
- Powermatic keeps a tight lid on operating costs but we have assumed some inflationary impact and factor in a 3% yoy rise in FY19-20F operating expenses.
- Non-operating income of S\$1.2m per annum in FY18-20F. Non-operating income (S\$1.2m in FY17) was derived from interest income on its cash balance, dividends from listed equity investments and rental income from its investment property on Harrison Road. Over FY18-20F, we assume that non-operating income will be unchanged at S\$1.2m per annum, leaving its wireless connectivity business to drive net profit growth.
- Tax rate of 18.0% for our forecast period of FY18-20F. Over FY15-17, the average effective tax rate was 12.1%. However, there are minimal deferred tax assets left and in 1HFY18, Powermatic's effective tax rate was 18.0%.
- Capex of S\$0.5m per annum based on management guidance.
- DPS of S\$0.07 in FY18-20F, as we believe Powermatic will generate enough free cash flow to support this. We forecast free cash flow per share of S\$0.108, S\$0.132 and S\$0.154 in FY18F, FY19F and FY20F, respectively. The S\$0.07 DPS is sustainable over FY18-20F in our view. At the very least, we believe Powermatic would maintain its track record of a S\$0.05 DPS.

Valuation & recommendation

We initiate coverage on Powermatic with an Add call and a target price of S\$2.58 based on sum-of-parts valuation. Nearly 63% of our target price is derived from non-operating assets (cash, financial assets and investment property) and the balance 37% is derived from its wireless connectivity earnings valued at 10x CY19F P/E multiple (at an 11.5% discount to its historical 10-year average forward P/E of 11.3x, given its poor liquidity). Our ascribed 10x CY19F P/E multiple target represents a 23.7% discount to its peer average CY19F P/E of 13.1x.

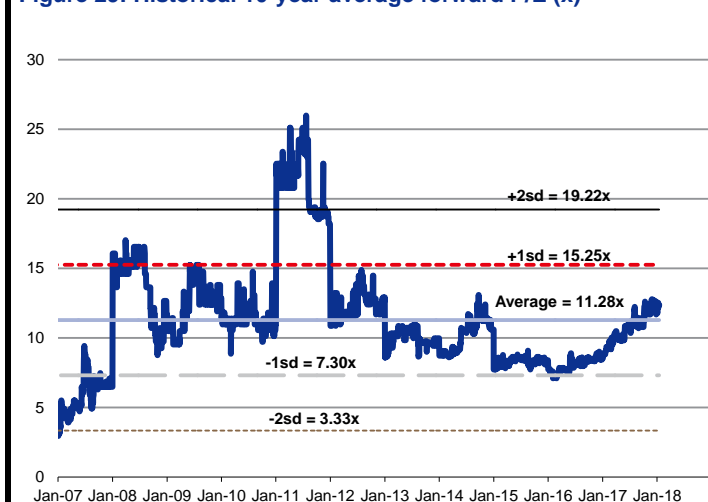
The sensitivity of our sum-of-parts target price to changes in ascribed P/E multiple is illustrated in Figure 32. Figure 33 shows that a 10% increase in our CY19F net profit forecast would raise our target price by 3.9% to S\$2.68.

Figure 28: Sum-of-parts valuation (CY19F)

| | <u>% contribution to valuation</u> | <u>CY19F</u> | <u>Comments</u> |
|--------------------------------------|------------------------------------|--------------|--|
| Net cash | 34.0% | 30.66 | 1 Cash forecast. Company has no debt. |
| Financial assets | 9.8% | 8.80 | 2 Financial assets maintained at historical FY17 levels. |
| Investment property | 19.4% | 17.48 | 3 Investment property maintained at historical FY17 level. |
| Value of non-operating assets | 63.2% | 56.94 | |
| Operating net profit | | 3.32 | |
| Target CY19F P/E (x) | | 10.00 | 11.5% discount to its 10-year historical average forward P/E of 11.3x. |
| Value of operating profit | 36.8% | 33.2 | 4 Wireless connectivity profit forecast |
| Sum-of-the-parts value | 100.0% | 90.2 | 5 Note : 5 = 1 + 2 +3 +4 |
| Issued capital (m) | | 34.9 | |
| Value per share (S\$) | | 2.58 | |

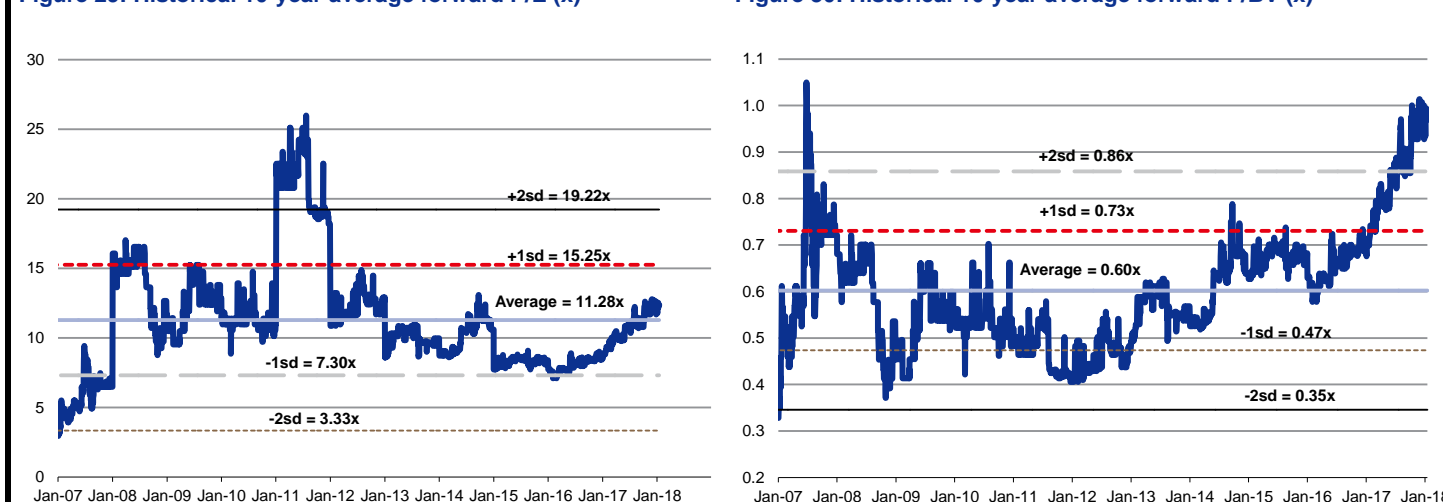
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 29: Historical 10-year average forward P/E (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 30: Historical 10-year average forward P/BV (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 31: Peer comparison

| Company | Bloomberg Ticker | Recom. | Price (1cl curr) | Target Price (1cl curr) | Market Cap (US\$ m) | P/E (x) CY18F | P/E (x) CY19F | 3-year EPS CAGR (%) | P/BV (x) CY18F | Recurring ROE (%) CY18F | Dividend Yield (%) CY18F |
|--|------------------|-----------|------------------|-------------------------|---------------------|---------------|---------------|---------------------|----------------|-------------------------|--------------------------|
| Powermatic Data Systems Ltd | PDS SP | ADD | 1.39 | 2.58 | 37 | 11.9 | 11.3 | 5.6% | 0.88 | 7.4% | 5.0% |
| Murata Manufacturing Co Ltd | 6981 JT | Not rated | 14,650 | na | 31,258 | 18.6 | 15.8 | -29.9% | 2.03 | 11.2% | 1.8% |
| Broadcom Ltd | AVGO US | Not rated | 250.9 | na | 102,979 | 12.7 | 11.8 | 38.9% | 4.70 | 32.7% | 2.9% |
| Skyworks Solutions Inc | SWKS US | Not rated | 109.1 | na | 19,916 | 14.6 | 13.0 | 4.5% | 4.52 | 29.5% | 1.2% |
| Qorvo Inc | QRVO US | Not rated | 81.13 | na | 10,262 | 14.0 | 11.9 | -23.0% | 2.13 | 16.1% | 0.0% |
| Simple average (excluding PDS SP) | | | | | | 15.0 | 13.1 | -2.4% | 3.35 | 22.4% | 1.5% |

NOTE: AS OF 5 MAR 2018
SOURCES: BLOOMBERG, CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 32: Target price sensitivity to CY19F P/E multiple

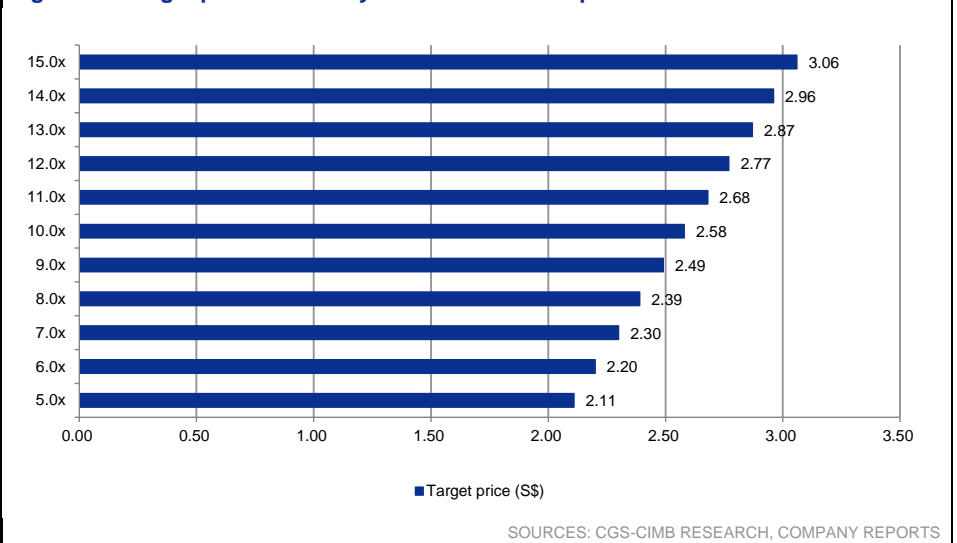
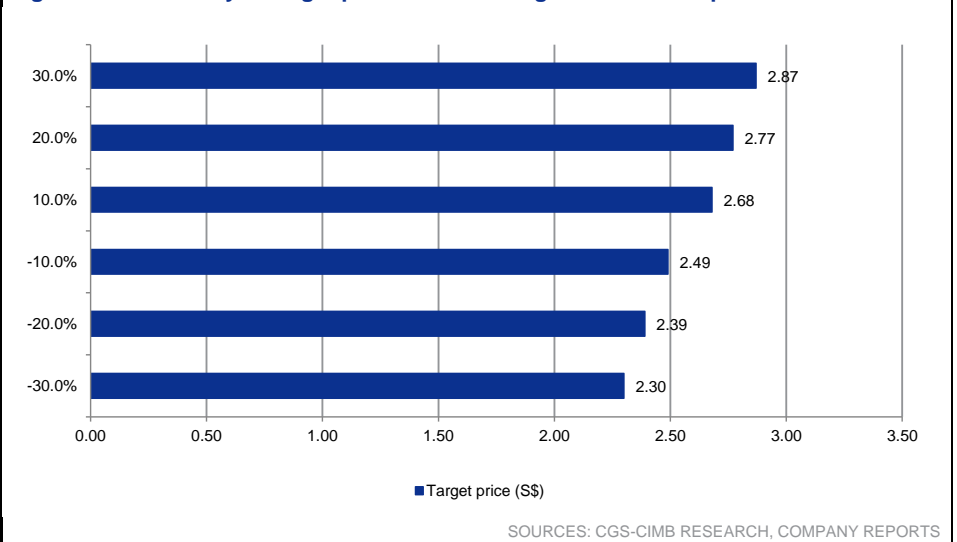


Figure 33: Sensitivity of target price to 10% change in CY19F net profit forecast



We highlight that at the current share price, investors appear to be getting Powermatic's growing wireless connectivity business for free. In Figure 34, we present a simplified balance sheet for Powermatic as at end-Sep 2017 (end-1HFY18). The key points to note are:

1. Cash and financial assets form nearly 90% of its current assets;

2. Similarly, investment property and financial assets form nearly 90% of its non-current assets;
3. The company has no long-term liabilities and no debt, and its investment property is unencumbered;
4. Based on its end-1HFY18 balance sheet, if the company was to be liquidated, we estimate the per-share value of its assets (cash, financial assets and investment property alone) less total liabilities would be S\$1.41. In this scenario, we have ignored transaction costs. Possible haircut in asset values in this liquidation scenario would be offset by marking the rest of Powermatic's assets to zero value.
5. If we add in Powermatic's property, plant and equipment to the per-share value calculation in point 4 above, its liquidation value would be higher at S\$1.50;
6. Powermatic depreciates its investment property. Therefore, any sale of its investment property would likely be above the recorded historical value. As a reference, in its FY17 annual report, Powermatic recorded its investment property value as S\$19.4m on 31 Mar 2017. The company also revealed that a desktop valuation exercise performed by Knight Frank Pte Ltd, an independent professional valuer, suggested a fair market value of S\$30.2m (excluding Powermatic's self-occupied office unit) for the Harrison Road property based on recent transaction prices for similar properties.

Figure 34: Simplified balance sheet (at end-Sep 2017) – Free WiFi at current share price

Simplified balance sheet as at 1H18 (end Sep-17) in S\$ m

| | |
|--|--------------|
| Property, plant and equipment | 3.0 |
| Investment property | 17.4 |
| Financial assets | 10.2 |
| Other assets | 0.2 |
| Non-current assets | 30.8 |
| Inventories | 1.5 |
| Trade receivables | 1.5 |
| Financial assets | 0.3 |
| Other assets | 0.1 |
| Cash | 26.3 |
| Current assets | 29.6 |
| Total assets | 60.4 |
| Current liabilities | 4.8 |
| Non-current liabilities | 0.0 |
| Total liabilities | 4.8 |
| Comments | |
| Cash and financial assets as a percentage of current assets | 89.6% |
| Investment property and financial assets as a percentage of non-current assets | 89.6% |
| Cash | 26.3 |
| Financial assets | 10.5 |
| Investment property | 17.4 |
| Total non-operating assets | 54.1 |
| Total liabilities | 4.8 |
| Liquidation value based on non-operating assets | 49.36 |
| Issued capital (m) | 34.90 |
| Liquidation value per share based on non-operating assets (S\$) | 1.41 |
| Property, plant and equipment (PPE) | 3.0 |
| Liquidation value if we factor in PPE | 52.385 |
| Issued capital (m) | 34.90 |
| Liquidation value per share if we factor in PPE (S\$) | 1.50 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Company profile

From low-margin distribution business... ➤

Powermatic Data Systems Ltd (Powermatic) was founded in 1985 as an information technology (IT) product distribution company. In 1986, Powermatic incorporated Compex Systems Pte Ltd (Compex) to develop and market networking products and in 1991, Powermatic Distribution was incorporated to distribute mass market computer peripherals. Powermatic was listed on the Mainboard of the SGX in 1992.

Headquartered in Singapore, Powermatic Distribution carries a range of IT brands such as Adaptec, AOpen, eDevices, ECS, EIZO, Emulex, Panasonic, Prestigio, Prezmate and Samsung in the past.

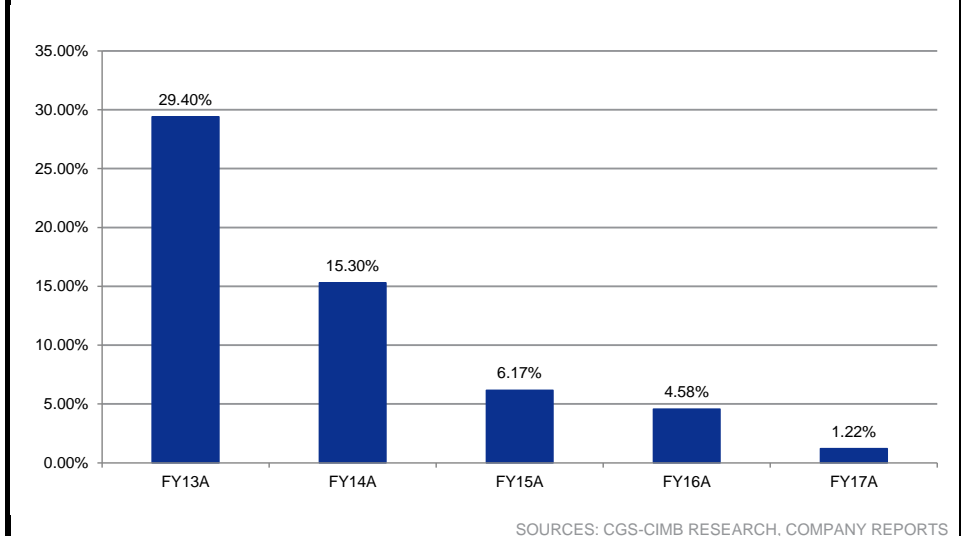
Figure 35: IT products still distributed by Powermatic in 2016



... to high-margin design business ➤

According to its FY14 Annual Report, in 2HFY14, Powermatic lost the distributorship for an IT product which it had held for many years. At the same time, the company identified the huge growth potential for wireless solutions as mobile devices and network communications were becoming an integral part of life for many. Given its confidence in its wireless connectivity products, the company decided to start scaling down its distribution business. In FY14, the distribution business accounted for 15.3% of group revenue (FY13: 29.4%). In FY17, the distribution business contributed only 1.22% of group revenue.

Figure 36: Distribution sales as a % of group revenue



In the wireless connectivity business segment, Powermatic offers (via Compex) high-quality wireless solutions to customers with added customisation and software capabilities. Compex achieved a key milestone in FY14, when it was appointed as an Authorized Design Center (ADC) by Qualcomm Atheros (a leading provider of semiconductors to the mobile and network communication markets). Compex is currently the only ADC in Southeast Asia.

Compex specialises in product design and manufacturing, and is able to offer original equipment manufacturing (OEM), original design manufacturing (ODM) and joint design manufacturing (JDM) services. Compex focuses on innovative design for radio frequency (RF) wireless modules, host boards and antennas, as well as provides software design, product testing and certification.

Its manufacturing facility is located at No.12, ChuangTou Industrial Square, LouFeng North, Suzhou Industrial Park, Suzhou, China. The average utilisation rate for this plant in 1HFY18 was in the 70-80% range. Powermatic does not foresee any large capex requirements in the near future as there is space for additional machinery at its manufacturing facility.

Figure 37: Manufacturing capabilities



INDUSTRY LEADING CALIBRATION AND TESTING

Our manufacturing facilities is located in Suzhou China are designed to increase efficiency and improve quality assurance of the entire manufacturing process. Our manufacturing facilities are ISO9001:2008 certified.



AUTOMATED SHOP FLOOR MANAGEMENT SYSTEM

Automated shop floor equipment control and data collection enable us to improve manufacturing time and at the same time, ensure that manufacturing capacity is at maximum efficiency



ADVANCED MANUFACTURING EQUIPMENT

Our SMT line using Nitrogen for reflow process that provides a consistently high quality solder while the Automated Optical Inspection system inspects for completion of component solder and joint defects



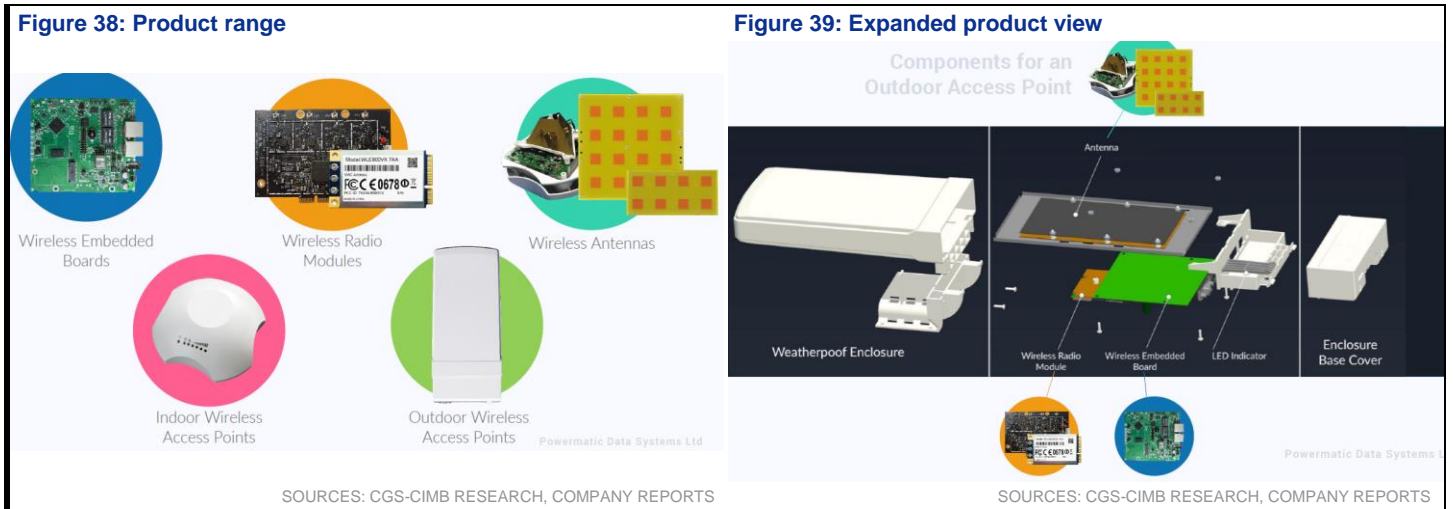
THOROUGH QUALITY ASSURANCES TESTING

For every wireless embedded component produced, they are individually tested by IQxel and IQview to ensure their wireless calibrations are up to our strict standards.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Under Compex's OEM services, it provides wireless components and total solutions to customers looking for quicker-to-market wireless solutions based upon Qualcomm Atheros (QCA) Reference Designs, as well as customisation of these components and total solutions that help customers ensure they meet specific requirements and applications. Compex has a software team with the expertise to develop propriety hardware drivers, user interfaces and features that add value and differentiation to a customer's operating system.

For JDM, Compex's engineering and development teams work together with its customers' teams to ensure product development integrity, seamless manufacturing and rapid time-to-market. In the ODM segment, Compex provides a wide range of wireless networking products that the company customises to its customers' specific needs.




Compex's wireless connectivity products have been used by its customers in the healthcare, industrial computer, factory automation and security industries.



Figure 42: Product application – security usage

Security

- Our Outdoor Access Points have been deployed by our customers to provide live feed transmission across long distances for remote surveillance purposes.



*Images are for reference only

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS


Figure 43: Product applications – lifestyle and home automation

Lifestyle

- Our customers deploy our Indoor Access Points in hotel premises to provide Internet connectivity to both guests and staff.

Home Automation

- Customers integrate our Wireless Radio Modules into their smart home thermostat to control the heating/cooling appliances.



*Images are for reference only

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 44: Product application – heavy industry

Heavy Industry

- Our Industrial Grade Wireless Radio Modules are designed to work in extreme temperatures and conditions.
- The Wireless Radio Modules have been integrated in smart monitoring systems in various Energy and Mining industries.



*Images are for reference only

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 45: Product installation by end-customers



In terms of customer exposure, the top three customers are: 1) a US multinational conglomerate; 2) a company dealing with outdoor broadband access and 3) a company that integrates Powermatic's products into its own offering. None of these companies accounted for more than 10% of FY17 revenue.

Non-core assets ➤

Powermatic has two non-core assets (at end-Sep 2017):

- Freehold investment property – Powermatic owns two adjoining 6-storey semi-detached industrial buildings located at 7 & 9 Harrison Road, Singapore. This property is leased out under operating leases except for one unit that is classified as property, plant and equipment for Powermatic's own use. Powermatic depreciates this freehold property (excluding the land it resides on) on a straight-line basis over 38 years. Management has estimated that the current occupancy rate for this investment property is around 92%. Rental agreements are generally on a 2-year basis.

Figure 46: Harrison Industrial Building



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

- Financial assets – Powermatic owns a basket of quoted equities (Thailand-listed technology stocks, Singapore-listed property and logistics stocks), unquoted equities in an undisclosed US technology company and investments in a fixed-income fund in China.

Management profile ➤

Powermatic is a very lean company. Its key members of management are Dr Chen Mun, who is the founder, Chairman and CEO of the group. Ms Katherine Ang is the Executive Director responsible for managing both the Singapore and China operations. The group does not have a CFO. The financials are handled by its Group Finance Manager. On the technical side, Mr Yaw Thiam Seng (specialising in software driver and kernel development) has 25 years of R&D experience in the radio frequency field.

In terms of staff headcount, Powermatic had 90 employees in FY13 but this has fallen to 74 in FY17. Despite the lower staff headcount, both revenue per employee and pretax profit per employee has risen over FY13-17.

Figure 47: Profile of directors

CHEN MUN

Chairman/ CEO

Dr Chen Mun is the Chairman and Chief Executive Officer of the Group. He is also the founder of Powermatic Data Systems Limited and is responsible for spearheading the Company's Research and Development programs as well as growth strategies of the Group.

Prior to the founding of Powermatic, Dr Chen was a senior lecturer in the then University of Singapore. Dr Chen holds a bachelor's degree in engineering from the University of Singapore and received a Ph.D. in engineering from the Imperial College, University of London.

KATHERINE ANG BEE YAN

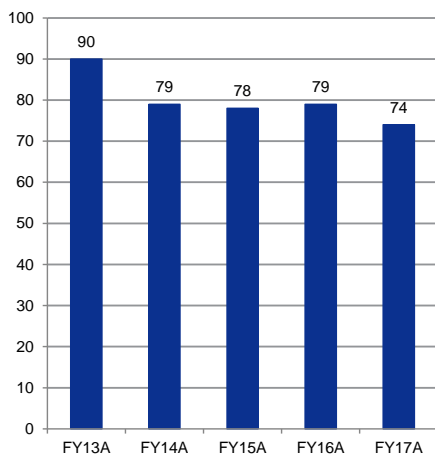
Executive Director

Ms Katherine Ang Bee Yan joined Complex Systems Pte Ltd, a wholly-owned subsidiary of Powermatic Data Systems Limited in 2003 as Director of Sales & Marketing and Operations. She is currently the General Manager of Complex Systems Pte Ltd. She manages both the operations in Singapore and China.

On 1 July 2011, Ms Katherine Ang is appointed as an Executive Director of Powermatic Data Systems Limited. Ms Ang has over 20 years of experience in the Sales & Marketing, Operations and Business Development. She plays an instrumental role in overseeing the Group's local and overseas projects and is responsible for the overall business development.

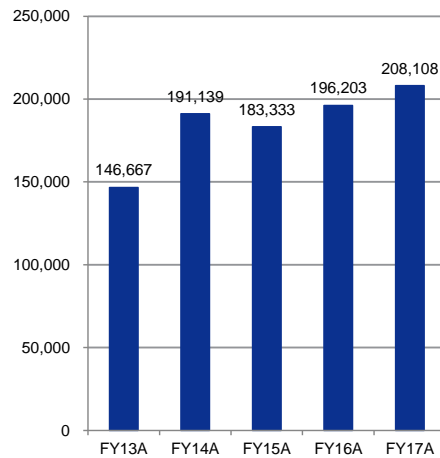
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 48: Staff headcount



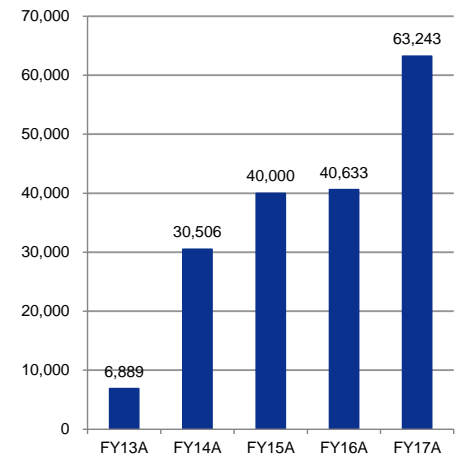
SOURCES: CGS-CIMB, COMPANY REPORTS

Figure 49: Revenue per employee (S\$)



SOURCES: CGS-CIMB, COMPANY REPORTS

Figure 50: Pretax profit per employee (S\$)



SOURCES: CGS-CIMB, COMPANY REPORTS

Major shareholders ➤

Based on Bloomberg data on 24 Jan 2018, the major shareholders of Powermatic are Dr Chen Mun with a 55.7% stake, and Ms Katherine Ang with an 8.2% stake. Dr Chen and Ms Ang are not related. Powermatic's free float based on Bloomberg data is 35.9%. Its Group Finance Manager, Ms Molly Chua Geok Cheek, has a 0.26% stake in Powermatic.

SWOT analysis ➤

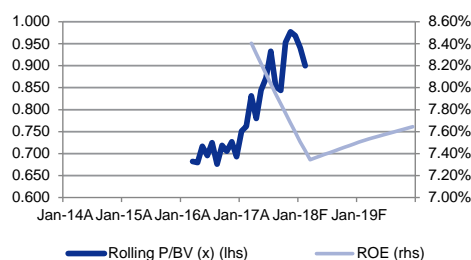
Figure 51: SWOT analysis

| Strengths | Opportunities |
|--|---|
| Developed wireless connectivity design solution expertise. Strong radio frequency related capabilities. | New order wins by customers . Introduction of 5G telecommunication networks over the next 2-3 years. |
| Weaknesses | Threats |
| Exposed to global macroeconomic conditions. | M&A activities affecting its key supplier |

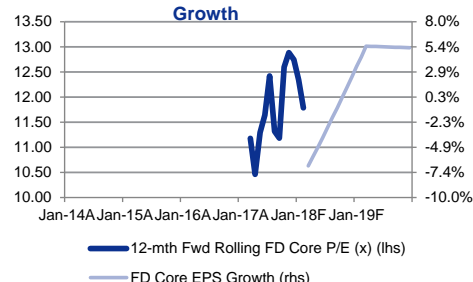
SOURCES: CGS-CIMB, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Driven by wireless connectivity revenue growth of 10% in FY18-19F

Profit & Loss

| (\$m) | Mar-16A | Mar-17A | Mar-18F | Mar-19F | Mar-20F |
|---|--------------|--------------|--------------|--------------|--------------|
| Total Net Revenues | 15.50 | 15.43 | 16.20 | 17.00 | 17.84 |
| Gross Profit | 6.53 | 7.32 | 7.71 | 8.18 | 8.71 |
| Operating EBITDA | 2.18 | 3.60 | 4.05 | 4.42 | 4.85 |
| Depreciation And Amortisation | (0.35) | (0.43) | (0.48) | (0.58) | (0.73) |
| Operating EBIT | 1.83 | 3.17 | 3.57 | 3.84 | 4.12 |
| Financial Income/(Expense) | 0.21 | 0.22 | 0.22 | 0.22 | 0.22 |
| Pretax Income/(Loss) from Assoc. | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Non-Operating Income/(Expense) | 1.17 | 1.31 | 0.98 | 0.98 | 0.98 |
| Profit Before Tax (pre-EI) | 3.21 | 4.70 | 4.77 | 5.04 | 5.32 |
| Exceptional Items | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Pre-tax Profit | 3.21 | 4.70 | 4.77 | 5.04 | 5.32 |
| Taxation | (0.38) | (0.51) | (0.86) | (0.91) | (0.96) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 2.83 | 4.19 | 3.91 | 4.13 | 4.36 |
| Minority Interests | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Preferred Dividends | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| FX Gain/(Loss) - post tax | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Adjustments - post-tax | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Profit | 2.83 | 4.19 | 3.91 | 4.13 | 4.36 |
| Recurring Net Profit | 2.83 | 4.19 | 3.91 | 4.13 | 4.36 |
| Fully Diluted Recurring Net Profit | 2.83 | 4.19 | 3.91 | 4.13 | 4.36 |

Limited capex requirements in FY18-19F.

Cash Flow

| (\$m) | Mar-16A | Mar-17A | Mar-18F | Mar-19F | Mar-20F |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| EBITDA | 2.18 | 3.60 | 4.05 | 4.42 | 4.85 |
| Cash Flow from Inv. & Assoc. | (0.30) | (0.34) | (0.34) | (0.34) | (0.34) |
| Change In Working Capital | 0.56 | 1.04 | (0.18) | (0.01) | (0.01) |
| (Incr)/Decr in Total Provisions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Non-Cash (Income)/Expense | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Operating Cashflow | 0.87 | 1.26 | 0.81 | 0.79 | 0.76 |
| Net Interest (Paid)/Received | 0.21 | 0.22 | 0.22 | 0.22 | 0.22 |
| Tax Paid | (0.21) | (0.46) | (0.86) | (0.91) | (0.96) |
| Cashflow From Operations | 3.30 | 5.32 | 3.70 | 4.18 | 4.53 |
| Capex | (0.33) | (0.33) | (0.50) | (0.50) | (0.50) |
| Disposals Of FAs/subsidiaries | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Acq. Of Subsidiaries/investments | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Investing Cashflow | 2.28 | (6.67) | 0.56 | 0.56 | 0.56 |
| Cash Flow From Investing | 1.95 | (7.00) | 0.06 | 0.06 | 0.06 |
| Debt Raised/(repaid) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Proceeds From Issue Of Shares | 0.40 | 0.08 | 0.00 | 0.00 | 0.00 |
| Shares Repurchased | (0.58) | (0.07) | 0.00 | 0.00 | 0.00 |
| Dividends Paid | (1.77) | (1.74) | (2.44) | (2.44) | (2.44) |
| Preferred Dividends | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Financing Cashflow | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cash Flow From Financing | (1.95) | (1.73) | (2.44) | (2.44) | (2.44) |
| Total Cash Generated | 3.29 | (3.41) | 1.31 | 1.79 | 2.14 |
| Free Cashflow To Equity | 5.25 | (1.68) | 3.76 | 4.24 | 4.59 |
| Free Cashflow To Firm | 5.25 | (1.68) | 3.76 | 4.24 | 4.59 |

SOURCE: CGS-CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd
Balance Sheet

| (\$m) | Mar-16A | Mar-17A | Mar-18F | Mar-19F | Mar-20F |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Total Cash And Equivalents | 21.41 | 26.48 | 27.79 | 29.58 | 31.73 |
| Total Debtors | 1.54 | 0.82 | 0.89 | 0.93 | 0.98 |
| Inventories | 1.61 | 1.31 | 1.47 | 1.54 | 1.62 |
| Total Other Current Assets | 0.25 | 0.11 | 0.11 | 0.11 | 0.11 |
| Total Current Assets | 24.81 | 28.72 | 30.27 | 32.17 | 34.44 |
| Fixed Assets | 3.04 | 2.94 | 2.96 | 2.88 | 2.65 |
| Total Investments | 17.70 | 17.48 | 17.48 | 17.48 | 17.48 |
| Intangible Assets | 0.07 | 0.07 | 0.03 | 0.00 | 0.00 |
| Total Other Non-Current Assets | 6.33 | 8.39 | 8.39 | 8.39 | 8.39 |
| Total Non-current Assets | 27.13 | 28.87 | 28.86 | 28.75 | 28.52 |
| Short-term Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Current Portion of Long-Term Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Creditors | 4.19 | 4.30 | 4.35 | 4.46 | 4.57 |
| Other Current Liabilities | 0.60 | 0.75 | 0.75 | 0.75 | 0.75 |
| Total Current Liabilities | 4.78 | 5.04 | 5.10 | 5.21 | 5.32 |
| Total Long-term Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Hybrid Debt - Debt Component | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Other Non-Current Liabilities | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Non-current Liabilities | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Provisions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Liabilities | 4.78 | 5.04 | 5.10 | 5.21 | 5.32 |
| Shareholders' Equity | 47.16 | 52.56 | 54.03 | 55.72 | 57.64 |
| Minority Interests | | | | | |
| Total Equity | 47.16 | 52.56 | 54.03 | 55.72 | 57.64 |

Growing cash balance due to limited capex needs.

Key Ratios

| | Mar-16A | Mar-17A | Mar-18F | Mar-19F | Mar-20F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | N/A | (0.43%) | 4.95% | 4.94% | 4.94% |
| Operating EBITDA Growth | N/A | 65.1% | 12.5% | 9.1% | 9.7% |
| Operating EBITDA Margin | 14.1% | 23.3% | 25.0% | 26.0% | 27.2% |
| Net Cash Per Share (S\$) | 0.62 | 0.70 | 0.80 | 0.85 | 0.91 |
| BVPS (S\$) | 1.36 | 1.51 | 1.55 | 1.60 | 1.65 |
| Gross Interest Cover | N/A | N/A | N/A | N/A | N/A |
| Effective Tax Rate | 11.8% | 10.9% | 18.0% | 18.0% | 18.0% |
| Net Dividend Payout Ratio | 62.4% | 58.2% | 62.4% | 59.1% | 56.0% |
| Accounts Receivables Days | N/A | 27.85 | 19.22 | 19.53 | 19.58 |
| Inventory Days | N/A | 65.78 | 59.90 | 62.47 | 63.47 |
| Accounts Payables Days | N/A | 111.2 | 94.4 | 94.1 | 95.7 |
| ROIC (%) | N/A | 35.1% | 34.1% | 36.0% | 39.1% |
| ROCE (%) | N/A | 7.48% | 7.76% | 8.02% | 8.26% |
| Return On Average Assets | N/A | 7.29% | 6.40% | 6.59% | 6.75% |

No borrowings at end-FY17.

Key Drivers

| | Mar-16A | Mar-17A | Mar-18F | Mar-19F | Mar-20F |
|-----------------------------------|---------|---------|---------|---------|---------|
| ASP Change (% , Main Product) | 0.0% | 3.1% | 5.0% | 5.0% | 5.0% |
| Unit sales growth (% , main prod) | N/A | N/A | N/A | N/A | N/A |
| No. Of Lines (main Product) | N/A | N/A | N/A | N/A | N/A |
| Rev per line (US\$, main prod) | N/A | N/A | N/A | N/A | N/A |
| ASP chg (% , 2ndary prod) | 0.0% | -73.4% | 0.5% | 0.0% | 0.0% |
| Unit sales grth (% , 2ndary prod) | N/A | N/A | N/A | N/A | N/A |
| No. Of Lines (secondary Product) | N/A | N/A | N/A | N/A | N/A |
| Rev per line (US\$, 2ndary prod) | N/A | N/A | N/A | N/A | N/A |

We project wireless connectivity revenue to grow by 10% per annum in FY18-20F; driven largely by unit growth.

SOURCE: CGS-CIMB RESEARCH, COMPANY DATA

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|--|-------------------------|--------------------------------|
| 1235 companies under coverage for quarter ended on 31 December 2017 | | |
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 58.5% | 6.4% |
| Hold | 31.7% | 2.6% |
| Reduce | 9.0% | 0.7% |

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— Price Close



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

CIMB Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.