

28 November 2023

Sector: ICT

## Synnex (Thailand)

### Optimistic outlook for 2024E: Leveraging global economic recovery for growth

Bloomberg ticker	<b>SYNEX TB</b>
Recommendation	<b>BUY</b> (maintained)
Current price	Bt9.85
Target price	Bt12.00 (maintained)
Upside/Downside	+22%
Core EPS revision	No change

Bloomberg target price	Bt11.67
Bloomberg consensus	Buy 4 / Hold 2 / Sell 0

<b>Stock data</b>	
Stock price 1-year high/low	Bt18.30 / Bt8.90
Market cap. (Bt mn)	8,347
Shares outstanding (mn)	847
Avg. daily turnover (Bt mn)	9
Free float	20%
CG rating	Very good
ESG rating	Very good

<b>Financial &amp; valuation highlights</b>				
FY: Dec (Bt mn)	2021A	2022A	2023E	2024E
Revenue	37,085	39,061	36,717	39,288
EBITDA	986	1,019	691	847
Net profit	860	816	498	544
EPS (Bt)	1.02	0.96	0.59	0.64
Growth	34.0%	-5.1%	-38.9%	9.1%
Core EPS (Bt)	0.87	0.86	0.48	0.64
Growth	24.1%	-0.5%	-44.0%	32.7%
DPS (Bt)	0.70	0.70	0.43	0.47
Div. yield	7.1%	7.1%	4.3%	4.7%
PER (x)	9.7	10.2	16.8	15.4
Core PER (x)	11.3	11.4	20.4	15.4
EV/EBITDA (x)	11.2	13.4	18.4	15.6
PBV (x)	2.1	2.0	2.0	1.9

<b>Bloomberg consensus</b>				
Net profit	857	816	552	661
EPS (Bt)	1.02	0.96	0.60	0.73



Source: Aspen

<b>Price performance</b>				
	1M	3M	6M	12M
Absolute	6.5%	-25.4%	-24.2%	-42.7%
Relative to SET	6.1%	-14.7%	-15.3%	-28.7%

<b>Major shareholders</b>		<b>Holding</b>
1. T.K.S. Technologies PCL		38.51%
2. King's Eye Investments Ltd.		34.99%
3. BNP Paribas Hong Kong Branch		5.01%

Analyst: Jutamas Temwattanangkul (Reg. no. 099971)

We maintain our BUY rating for SYNEX, accompanied by a target price of Bt12.00. This target is based on a 2024E adjusted PER of 18x, positioned at 0.5 SD below the 5-yr average. Following the recent analyst meeting, our neutral stance aligns with the company's growth trajectory, reinforcing our confidence in its projections. Anticipating a promising 2024E, we forecast a surge in earnings driven by the company's ambitious targets of +10% YoY revenue growth and a gross profit margin of approx. 4%. This aggressive revenue projection surpasses our +7% estimate.

Our core profit forecasts for 2023E stand at Bt410mn, reflecting a marginal -44% decline, while 2024E is expected to rebound significantly to Bt544mn, representing a remarkable 33% increase. Sales are poised for a substantial uptick, fueled by the anticipated rise in global smartphone and PC shipments by +4%, coupled with increasing replacement demand within the 3-5-year technology cycle. Furthermore, a forecasted increase in average selling prices, supported by a forecasted 19% increase in AI-capable PCs in 2024E, contributes to the positive outlook. The government's scheduled budget disbursement is poised to further propel sales growth. While 4Q23E core profit may experience a YoY softening due to baht weakening, a potential QoQ increase is expected, supported by the seasonal launch of a new iPhone model.

Despite a recent six-month underperformance, SYNEX has outpaced the SET Index by 6% in the past month, indicating that the impact of increased financial costs has been priced in. Positioned attractively at 15x 2024E adjusted PER, -0.75 SD, and experiencing a 20% QTD retreat, SYNEX presents an opportune moment for increased investment. We are confident that sales have already bottomed in 2Q23, projecting a robust +30% growth in core EPS for 2024E.

#### Event: Analyst meeting

■ **Bright prospects in 2024E:** The company's analyst meeting yesterday has shaped a neutral stance, aligning with the company's growth trajectory. Key takeaways are as follows:

1. The company anticipates YoY stable 4Q23E revenue, coupled with the potential for QoQ growth. The company sets an ambitious 2024E revenue growth target of +10%, exceeding our projection of +7%. This optimistic outlook is underpinned by robust iPhone sales, surging +27% YoY in 9M23, driven by increased allotment from Apple and expanded market presence. Additionally, market segmentation expansion for Nintendo Switch and heightened government investment contribute to the positive revenue trajectory. A notable +20% QoQ increase in flash drive prices, fueled by growing demand, adds further vibrancy to the ambitious revenue growth projection.
2. Gross profit margin is expected to exceed 4% (3.9% in 9M23), aligning with our 4% estimate. This positive margin outlook is supported by the addition of high-profit-margin products and the licensing of products under the commercial segment.
3. The company remains committed to cost-saving measures, particularly in marketing expenses, as part of its ongoing efforts to mitigate increased financial costs.

#### Implication

■ **Dim 2023E earnings outlook ahead of improved sales and gross profit margin in 2024E:** The 2023E core profit forecast remains steady at Bt410mn, reflecting a marginal -44% decline. The revenue outlook signals a -6% reduction, influenced by several factors. Notably, a high base effect in the consumer segment, coupled with sluggish IT sales in 1H23 due to elevated inflation, has impacted the overall revenue projection. Additionally, the transition to self-handled imports for Nintendo Switch in 1H23, as opposed to the representative, JD, has led to struggled sales during this period. The delayed government budget disbursement further contributes to the downward revision in revenue. In light of these challenges, the gross profit margin is forecasted to narrow to 3.9%. This contraction is attributed to baht weakening and proactive marketing initiatives implemented during a sluggish spending period. Furthermore, interest expenses are anticipated

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to surge to Bt131mn, compared to Bt55.0mn in 2022, driven by expected interest rate hikes.

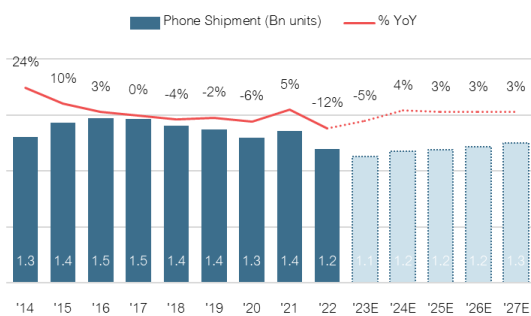
Looking into 2024E, core profit is expected to significantly rebound to Bt544mn, signifying a remarkable 33% increase. This optimistic projection is aligned with an anticipated substantial uptick of +7% in sales. The driving forces behind this growth include the expected rise in global smartphone and PC shipments, complemented by a cyclical demand for laptop replacements within the 3-5-year technology cycle. Adding to this positive outlook is the forecasted increase in AI-capable PCs, expected to reach 19% in 2024E and a remarkable 60% in 2027E, up from the current 10%. Furthermore, the government's scheduled budget disbursement is poised to play a role in propelling sales growth, injecting further optimism into SYNEX's prospects. The gross profit margin is anticipated to experience an increase, reaching 4.1%. This positive trajectory is attributed to the strategic inclusion of more high-profit-margin products in the company's portfolio.

In 4Q23E, core profit is anticipated to potentially experience a YoY softening. This expected decline is attributed to several factors, including baht weakening, robust sales of low-margin iPhones, and a surge in interest expenses. However, there is optimism for a potential QoQ increase in core profit. This positive shift is likely influenced by seasonal factors. It's noteworthy that iPhone sales have witnessed a surge, further bolstered by an increase in the average selling price for iPhone 15. This uptick is attributed to Apple's decision to augment its quota for the Thai market.

**Valuation, Catalysts, and Risks**

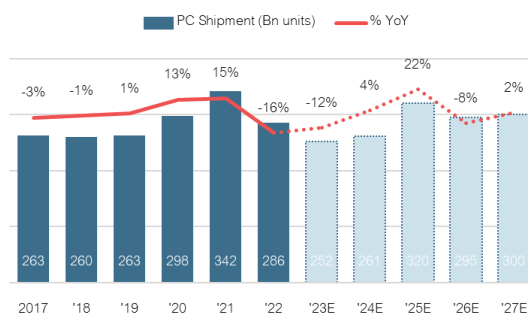
Our target price remains Bt12.00. This target is based on a 2024E adjusted PER of 18x, positioned at 0.5 SD below the 5-yr average. This discounting reflects the belief that SYNEX merits a trade value beneath its historical average, potentially aligning with the 18x adjusted PER observed in 2019. The cautious approach is justified by the expectation that the gross profit margin will persist at a comparable level. However, we raise a flag of concern regarding baht weakening, particularly significant as imported products constitute half of SYNEX's portfolio.

**Fig 1: Global Smartphone Shipment**



Source: Canalis, DAOL

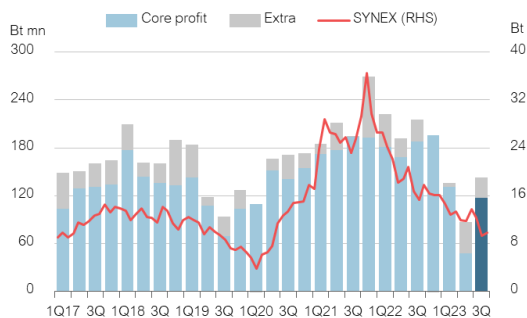
**Fig 2: Global PC Shipment**



Source: Canalis, IDC, DAOL

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**Fig 3: SYNEX share prices vs profits**



Source: SYNEX, Setsmart, DAOL

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## Quarterly income statement

(Bt mn)	3Q22	4Q22	1Q23	2Q23	3Q23
Sales	10,101	9,410	9,151	8,495	9,370
Cost of sales	(9,646)	(8,935)	(8,770)	(8,173)	(9,006)
Gross profit	455	475	381	321	365
SG&A	(223)	(259)	(267)	(230)	(193)
EBITDA	258	279	194	131	205
Finance costs	(14)	(23)	(27)	(36)	(41)
Core profit	188	195	131	48	118
Net profit	215	186	136	87	143
EPS	0.25	0.22	0.16	0.10	0.17
Gross margin	4.5%	5.0%	4.2%	3.8%	3.9%
EBITDA margin	2.6%	3.0%	2.1%	1.5%	2.2%
Net profit margin	2.1%	2.0%	1.5%	0.5%	1.5%

## Balance sheet

FY: Dec (Bt mn)	2020	2021	2022	2023E	2024E
Cash & deposits	164	234	304	304	304
Accounts receivable	4,917	5,490	5,918	5,548	5,936
Inventories	2,045	3,243	3,547	3,049	3,420
Other current assets	647	1,110	1,570	1,483	1,578
<b>Total cur. assets</b>	<b>7,773</b>	<b>10,076</b>	<b>11,340</b>	<b>10,385</b>	<b>11,240</b>
Investments	613	778	1,421	1,462	1,508
Fixed assets	368	349	401	370	352
Other assets	132	83	84	98	84
<b>Total assets</b>	<b>8,885</b>	<b>11,287</b>	<b>13,245</b>	<b>12,315</b>	<b>13,183</b>
Short-term loans	1,946	2,878	4,653	3,793	4,292
Accounts payable	2,677	3,337	2,515	2,381	2,542
Current maturities	9	6	225	789	777
Other current liabilities	693	1,036	960	902	965
<b>Total cur. liabilities</b>	<b>5,324</b>	<b>7,256</b>	<b>8,352</b>	<b>7,865</b>	<b>8,576</b>
Long-term debt	14	8	688	124	136
Other LT liabilities	76	82	101	95	101
<b>Total LT liabilities</b>	<b>90</b>	<b>90</b>	<b>788</b>	<b>218</b>	<b>237</b>
<b>Total liabilities</b>	<b>5,414</b>	<b>7,346</b>	<b>9,141</b>	<b>8,083</b>	<b>8,813</b>
Registered capital	880	880	855	855	855
Paid-up capital	847	847	847	847	847
Share premium	351	351	351	351	351
Retained earnings	2,186	2,558	2,781	2,917	3,066
Others	87	168	119	119	119
Non-controlling interests	0	16	6	-3	-13
<b>Shares' equity</b>	<b>3,471</b>	<b>3,941</b>	<b>4,105</b>	<b>4,232</b>	<b>4,370</b>

## Cash flow statement

FY: Dec (Bt mn)	2020	2021	2022	2023E	2024E
Net profit	642	860	816	498	544
Depreciation	51	49	46	52	40
Chg in working capital	2,513	(1,112)	(1,554)	734	(598)
Others	564	(120)	(537)	29	(32)
<b>CF from operations</b>	<b>3,771</b>	<b>(323)</b>	<b>(1,229)</b>	<b>1,313</b>	<b>(47)</b>
Capital expenditure	(107)	(195)	(741)	(62)	(67)
Others	15	55	19	(20)	20
<b>CF from investing</b>	<b>(92)</b>	<b>(141)</b>	<b>(722)</b>	<b>(82)</b>	<b>(47)</b>
<b>Free cash flow</b>	<b>3,664</b>	<b>(518)</b>	<b>(1,970)</b>	<b>1,251</b>	<b>(114)</b>
Net borrowings	(3,297)	923	2,674	(859)	499
Equity capital raised	0	0	0	0	0
Dividends paid	(458)	(593)	(593)	(362)	(395)
Others	74	203	(59)	(9)	(10)
<b>CF from financing</b>	<b>(3,681)</b>	<b>533</b>	<b>2,022</b>	<b>(1,231)</b>	<b>94</b>
<b>Net change in cash</b>	<b>(2)</b>	<b>70</b>	<b>71</b>	<b>0</b>	<b>0</b>

## Forward PER band



## Income statement

FY: Dec (Bt mn)	2020	2021	2022	2023E	2024E
Sales	32,149	37,085	39,061	36,717	39,288
Cost of sales	(30,741)	(35,302)	(37,265)	(35,274)	(37,660)
<b>Gross profit</b>	<b>1,408</b>	<b>1,784</b>	<b>1,796</b>	<b>1,444</b>	<b>1,627</b>
SG&A	(851)	(997)	(941)	(965)	(994)
<b>EBITDA</b>	<b>806</b>	<b>986</b>	<b>1,019</b>	<b>691</b>	<b>847</b>
Depre. & amortization	(51)	(49)	(46)	(52)	(40)
Equity income	102	77	38	69	75
Other income	96	75	81	92	98
<b>EBIT</b>	<b>755</b>	<b>938</b>	<b>973</b>	<b>639</b>	<b>807</b>
Finance costs	(34)	(14)	(51)	(139)	(140)
Income taxes	(128)	(191)	(201)	(100)	(133)
<b>Net profit before NCI</b>	<b>593</b>	<b>732</b>	<b>722</b>	<b>400</b>	<b>534</b>
Non-controlling interest	0	(4)	(10)	(9)	(10)
<b>Core profit</b>	<b>593</b>	<b>735</b>	<b>732</b>	<b>410</b>	<b>544</b>
Extraordinary items	49	125	84	89	0
<b>Net profit</b>	<b>642</b>	<b>860</b>	<b>816</b>	<b>498</b>	<b>544</b>

## Key ratios

FY: Dec (Bt mn)	2020	2021	2022	2023E	2024E
<b>Growth YoY</b>					
Revenue	-7.6%	15.4%	5.3%	-6.0%	7.0%
EBITDA	21.5%	22.4%	3.3%	-32.2%	22.5%
Net profit	22.5%	34.0%	-5.1%	-38.9%	9.1%
Core profit	40.2%	24.1%	-0.5%	-44.0%	32.7%
<b>Profitability ratio</b>					
Gross profit margin	4.4%	4.8%	4.6%	3.9%	4.1%
EBITDA margin	2.5%	2.7%	2.6%	1.9%	2.2%
Core profit margin	1.8%	2.0%	1.9%	1.1%	1.4%
Net profit margin	2.0%	2.3%	2.1%	1.4%	1.4%
ROA	6.3%	8.5%	6.7%	3.9%	4.3%
ROE	19.2%	23.3%	20.3%	12.0%	12.6%
<b>Stability</b>					
D/E (x)	1.6	1.9	2.2	1.9	2.0
Net D/E (x)	1.5	1.8	2.2	1.8	1.9
Interest coverage ratio	22.3	65.7	19.2	4.6	5.8
Current ratio (x)	1.5	1.4	1.4	1.3	1.3
Quick ratio (x)	1.1	0.9	0.9	0.9	0.9
<b>Per share (Bt)</b>					
Reported EPS	0.76	1.02	0.96	0.59	0.64
Core EPS	0.70	0.87	0.86	0.48	0.64
Book value	4.10	4.63	4.84	5.00	5.17
Dividend	0.54	0.70	0.70	0.43	0.47
<b>Valuation (x)</b>					
PER	13.0	9.7	10.2	16.8	15.4
Core PER	14.1	11.3	11.4	20.4	15.4
P/BV	2.4	2.1	2.0	2.0	1.9
EV/EBITDA	12.6	11.1	13.3	18.5	15.7
Dividend yield	5.5%	7.1%	7.1%	4.3%	4.7%

Source: SYNEX, DAOL

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## Corporate governance report of Thai listed companies 2022

### CG rating by the Thai Institute of Directors Association (Thai IOD)

Score	Symbol	Description	ความหมาย
90-100		Excellent	ดีเลิศ
80-89		Very Good	ดีมาก
70-79		Good	ดี
60-69		Satisfactory	ดีพอใช้
50-59		Pass	ผ่าน
< 50	No logo given	n.a.	n.a.

### IOD disclaimer

The Corporate Governance Report (CGR) of Thai listed Companies is based on a survey and assessment of information that companies listed on the Stock Exchange of Thailand and the Market for Alternative Investment (“listed companies”) disclose to the public. The CGR is a presentation of information from the perspective of outsiders on the standards of corporate governance of listed companies. It is not any assessment of the actual practices of the listed companies, and the CGR does not use any non-public information. The CGR is not therefore an endorsement of the practices of the listed companies. It is not a recommendation for investment in any securities of any listed companies or any recommendation whatsoever. Investors should exercise their own judgment to analyze and consider any information relating to the listed companies presented in this CGR report. No representation or warranty is made by the Institute of Directors or any of its personnel as to the completeness or accuracy of the CGR report or the information used.

### DAOL SEC's stock rating definition

- BUY** The stock's total return is expected to exceed 10% over the next 6-12 months. The stock has good fundamentals and attractive valuations.
- HOLD** The stock's total return is expected to be between 0% and 10% over the next 6-12 months. The stock has good fundamentals but may lack near-term catalysts or its valuations are not attractive.
- SELL** The stock's total return is expected to fall below 0% or more over the next 6-12 months. Stock should be sold as negative total return is anticipated due to deteriorating fundamentals compared with its valuations.

The stock's expected total return is the percentage difference between the target price and the current price, which excludes dividend yields.

### ESG rating (ESG: Environmental, Social, and Governance)

DAOL SEC believes environment, social and governance (ESG) practices will help determine the sustainability and future financial performance of companies. We thus incorporate ESG into our valuation model.

- Environment.** Environment factors relate to corporate responsibility for its actions and how it manages its impact on the environment. DAOL SEC analyzes revenue, which exposes to environment risks and opportunities.
- Social.** Social factors deal with company's relationship with its employees and vendors. That also includes company's initiatives related to employee health and well-being, as well as community involvement. DAOL SEC's evaluation on social practices is based on Bloomberg, which measure from company's social responsibility news.
- Governance.** Corporate government factors include company's transparency, decision-making structure, concrete risk assessment method, treatment of minority shareholders and anti-corruption practices. DAOL SEC conduct this analysis based on IOD's scores.

#### DAOL SEC's ESG ratings score from 1-5

1. Excellent scores at 5
2. Very Good scores at 4
3. Good scores at 3
4. Satisfactory scores at 2
5. Pass scores at 1

DAOL SEC provides “n.a.” in cases of insufficient data.

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