Synnex (Thailand) PCL

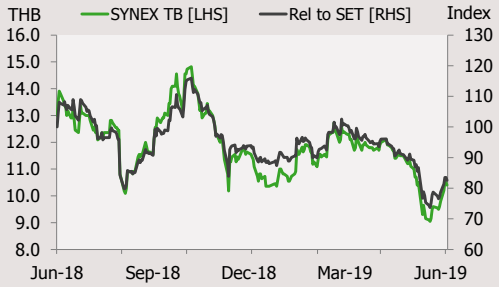
News Flag

SYNEX TB		Outperform
Target Price	**Bt**	12.00
Close Price (13/06/2019)	**Bt**	**10.40**
Upside	**%**	**15.38**
Valuation		**PER**
Sector		**ICT**
Market Cap	**Btm**	**8,813**
30-day avg turnover	**Btm**	**10.05**
No. of shares on issue	**m**	**847**
CG Scoring		**Very Good**
Anti-Corruption Indicator		**Declared**

Investment fundamentals

Year end Dec 31	2018	2019E	2020E	2021E
Company Financials				
Revenue (Btmn)	38,196	39,927	41,717	44,652
Core profit (Btmn)	590	666	719	781
Net profit (Btmn)	721	766	819	881
Net EPS (Bt)	0.94	0.90	0.97	1.04
DPS (Bt)	0.55	0.59	0.51	0.55
BVPS (Bt)	4.00	4.05	4.50	4.99
Net EPS growth (%)	15.65	-3.46	6.88	7.59
ROA (%)	6.97	6.45	6.63	6.75
ROE (%)	24.63	23.53	22.62	21.91
Net D/E (x)	1.43	1.27	1.11	0.97
Valuation				
P/E (x)	14.63	11.50	10.76	10.00
P/BV (x)	3.42	2.57	2.31	2.08
EV/EBITDA (x)	17.65	14.04	13.06	11.98
Dividend yield (%)	4.01	5.67	4.93	5.29

SYNEX TB rel SET performance



Source: Bloomberg

(all figures in THB unless noted)

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Kasikorn Securities Public Company Limited

Good crisis management

What's going on?

At SYNEX's analyst meeting yesterday (June 13), we learned that consumer concerns about Huawei smartphones are likely to have a short-term impact on sales before improving in 2H19 as concerns should ease, new products and brands are launched, and close support from Huawei helps SYNEX communicate with customers/dealers, which should help boost sales of Huawei phones. Key takeaways from the meeting are below.

- **Huawei phone sales to be hit by consumer concerns in the short term.** At the meeting, management said that sales of Huawei dropped by roughly 30% since mid-May on news that Google will cease providing Huawei support for Android and Google services due to the US-China trade war. As Huawei represents 20-25% of SYNEX's total revenue, this would result in a short-term overhang for SYNEX and could pressure sales growth in the short term.
- **Good marketing plan to regain confidence in Huawei.** SYNEX will collaborate with Huawei Thailand to launch various marketing and communication campaigns from June onward to ramp up sales of Huawei phones. Huawei outlined five steps to cope with the issue, which are to 1) communicate with all stakeholders that Huawei devices will continue to work as normal, including new models to be launched in the coming months; 2) provide support for SYNEX, such as inventory management; 3) launch sales campaigns to improve consumer confidence in Huawei's products, such as a two-year guarantee from SYNEX that all Huawei smartphones will be able to use the Android OS as usual; 4) launch new products, such as the Huawei MediaPad M5 Lite 8 in late May; and 5) launch marketing campaigns to improve Huawei's brand image next month.
- **Maintain revenue growth target of 10-15%.** Despite recent weak sales of Huawei, management maintained its 2019 revenue growth target of 10-15% on the belief that the impact on Huawei sales will be only short term, and as sales of other products remain in good shape. The company also expects to obtain some new brands to distribute in 2H19, including various types of IT products, such as gaming gear and IoT products.

Impact

- **Expect weak earnings in the short term.** As a result of weak sales of Huawei since mid-May, we expect 2Q19 earnings to grow only in low single digits YoY and decline QoQ. Sales and earnings are likely to recover in 2H19 as consumer concerns over Huawei products should ease, a number of new smartphones will be launched, and additional revenue is obtained from new brands.
- **Current situation already factored into our forecast.** We already factored the impact of weak sales of Huawei products due to the trade war into our model in our report "Not that bad" on June 6. Management's guidance from the meeting was also in line with our expectation. We therefore maintain our 2019-21E earnings forecasts of Bt766mn/Bt819mn/Bt881mn, or growth of 6%/7%/8%.

Recommendation

- We maintain our Outperform rating on SYNEX with a target price of Bt12. Although the share price may be pressured in the short term from a weak earnings outlook in 2Q19, we believe the overall outlook still looks positive.

Fig 1 Huawei guarantee campaign by SYNEX

Source: SYNEX

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