



GLOBETRONICS TECHNOLOGY

(GTB MK EQUITY, GNIC.KL)

09 Oct 2020

New gen sensors to map growth path

Company report

HOLD

(Initiation)

AmInvestment Bank

www.amequities.com.my

03-2036 2333

Rationale for report: Initiation

Price **RM2.69**
 Fair Value **RM2.39**
 52-week High/Low **RM3.05/RM1.28**

Key Changes

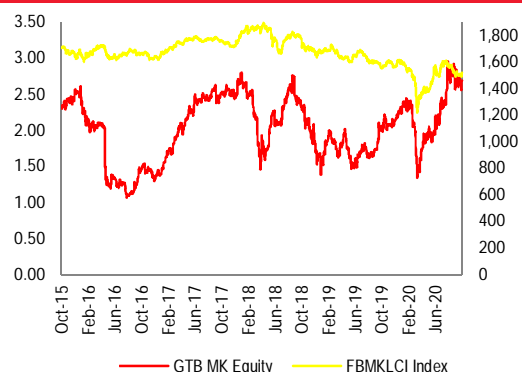
Fair value **Initiation**
 EPS **Initiation**

| YE to Dec | FY19 | FY20F | FY21F | FY22F |
|-------------------------------|--------|-------|-------|-------|
| Revenue (RM mil) | 216.3 | 276.5 | 316.3 | 343.8 |
| Core net profit (RM mil) | 44.7 | 49.7 | 66.7 | 72.3 |
| FD Core EPS (sen) | 6.7 | 7.4 | 10.0 | 10.8 |
| FD Core EPS growth (%) | (36.4) | 11.2 | 34.2 | 8.4 |
| Consensus Net Profit (RM mil) | - | 54.4 | 68.3 | 75.0 |
| DPS (sen) | 7.5 | 6.0 | 8.0 | 9.0 |
| PE (x) | 40.3 | 36.2 | 27.0 | 24.9 |
| EV/EBITDA (x) | 20.5 | 18.4 | 14.4 | 12.8 |
| Div yield (%) | 2.8 | 2.2 | 3.0 | 3.3 |
| ROE (%) | 14.9 | 15.5 | 17.6 | 16.1 |
| Net Gearing (%) | nm | nm | nm | nm |

Stock and Financial Data

| | |
|------------------------------|--|
| Shares Outstanding (million) | 669.2 |
| Market Cap (RM mil) | 1,800.3 |
| Book Value (RM/share) | 0.44 |
| P/BV (x) | 6.1 |
| ROE (%) | 14.9 |
| Net Gearing (%) | - |
| Major Shareholders | EPF (13.7%) CIMB Group Holdings (7.2%) General Produce Energy Sdn Bhd (7.1%) 7.1% |
| Free Float | 67.5 |
| Avg Daily Value (RM mil) | 8.1 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|------|------|-------|
| Absolute (%) | 13.5 | 54.4 | 31.7 |
| Relative (%) | 18.3 | 38.4 | 35.1 |



Investment Highlights

- We initiate coverage on Globetronics Technology (GTB) with a HOLD recommendation and fair value of RM2.39/share, pegged to an FY21F PE of 24x. Our target PE multiple is in line with market-cap weighted average of local peer OSAT (outsourced assembly and test) players' forward PE of 24x.
- We expect the group to register net profits of RM50mil, RM67mil and RM72mil respectively in FY20F–FY22F, representing earnings growth of 11%, 34% and 8% YoY respectively.
- GTB is principally involved in the production of smart sensors, quartz crystal timing devices (QCTD), assembly and wafer processing and die sorting of solid state lighting (SSL) / LED components, and production of integrated circuits (ICs) and small outline components.
- GTB's key investment merits are as follows:
 - i) New generation smart sensors i.e. light, gesture and motion sensors will continue to lead growth;
 - ii) Ramp-up in laser automotive headlamps (as part of the SSL/LED business) a key focus in FY21; and
 - iii) Customer diversification and revenue enhancement opportunities arising from the US-China trade war amid ongoing negotiations.
- GTB's recent 2QFY20 was impacted by the movement control order (MCO) limiting production capacity whilst also seeing lower volume loadings and supply chain adjustments from customers as the pandemic hit. However, 2HFY20 is expected to improve mainly based on better volume loadings anticipated for smart sensors, while other businesses continue to show normalization.
- We like GTB due to: (i) its strength in smart sensors with new generation sensors' demand expected to drive growth; (ii) ramp-up in laser automotive headlamps to boost LED/SSD segment; and (iii) potential opportunities to be secured from the US-China trade war amid discussions, leading to customer diversification and revenue enhancement potential.
- However, we are cautious on a key risk which is the decline in end demand for consumer electronics affecting the sensor division outlook due to the worsening Covid-19 impact.

COMPANY OVERVIEW

□ Company background

GTB was established in 1991 to provide integrated circuit (IC) assembly, packaging and testing services. Over the years, it has expanded its operations to also include: (i) assembly and manufacturing of light, gesture, proximity and wearable sensors, (ii) assembly and testing of quartz crystal timing devices, and (iii) wafer processing and die sorting of solid state lighting (SSL) / LED components.

The group has four factories in Bayan Lepas, Penang with approximately 240K sq ft of floorspace, and two factories in Sungai Way Free Industrial Zone in Selangor with 150K sq ft of floorspace.

□ Corporate structure

| | Holding | Company | Description |
|-----------------------------|---------|---|--|
| Globetronics Technology Bhd | 100% | Globetronics Sdn Bhd | Assembly and testing of ICs, optoelectronic products and technical plating services. |
| | 100% | ISO Technology Sdn Bhd | Manufacturing of small outline components, LED components and modules and technical plating services for the semiconductor industry. |
| | 100% | Globetronics (KL) Sdn Bhd | Assembly and testing of plastic moulded and ceramic chip carrier quartz crystal timing devices. |
| | 100% | Globetronics Manufacturing Sdn Bhd | Development and assembly of sensors and optical products for smart mobile and wearable application. |
| | 100% | Globetronics International Incorporated - 100% Globetronics HK Limited) | Investment holding. Trading of electronics/semiconductor components. |
| | 100% | Globetronics Medical Technology Sdn Bhd | Provision of computer hardware and software, system solutions and consultations. |
| | 100% | Globetronics Industries Sdn Bhd | Dormant. |
| | 100% | Trillion Suntech Sdn Bhd | Dormant. |
| | 49% | NGK Globetronics Technology Sdn Bhd | Advanced ceramic piece-parts manufacturing. |

□ Management profile

| Designation | Name | Background |
|--------------------------------|------------------------|---|
| Founder and executive chairman | Michael Ng Kweng Chong | <ul style="list-style-type: none"> Original founder of Globetronics Sdn Bhd in 1991. Graduated with an honours degree in Mechanical Engineering from the University of London in 1972. Worked for 18 years in Intel Technology Sdn Bhd from 1972 and held various senior management positions within Intel Penang, the Asia Pacific and the US. Held senior management positions: 1 year in Intel US, 2 years in Far East Automotives' Business Group, and 2 years in Asia Pacific Quality Support Group. Uncle to Ng Kok Khuan, a director of GTB. |
| CEO | Datuk Heng Huck Lee | <ul style="list-style-type: none"> Graduated with a Bachelor of Applied Science (Honours) majoring in Computer and Electronic Technology from Universiti Sains Malaysia in 1982. Obtained a Master in Business Administration from East Asia University in 1991. Working experience: (i) 10 years in operations/management position with Intel Technology Sdn Bhd; and (ii) more than 5 years working experience as a group general manager with Shinca Sdn Bhd (1991 to 1997). Other roles: (ip President of Frepenca (The Free Industrial Zone, Penang, Companies Association) from 2011 to 2015; (ii) committee member of the Malaysian Investment Development Authority's Electronics & Electrical Strategic Council, Frepenca, Penang Strategic Investment Advisory Council and Universiti Tunku Abdul Rahman industrial advisor, Faculty of Business and Finance. |

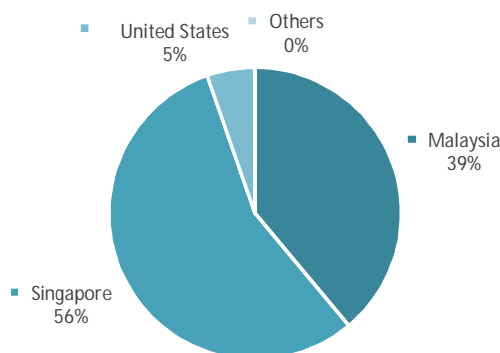
| Designation | Name | Background |
|----------------------|-----------------|---|
| CFO | Ng Kok Choon | <ul style="list-style-type: none"> Graduated with a Bachelor of Commerce (Accounting) from University of New South Wales, Australia. Joined KMPG Penang in 1989. Qualified as a certified practicing accountant (Australia) and chartered accountant with the MIA. Joined Globetronics Sdn Bhd in January 1996 as an accountant and worked his way up to be the CFO in July 2006. Nephew of Michael Ng and cousin of Ng Kok Chuan who are both directors of GTB. |
| Financial controller | Choong Lai Kwan | <ul style="list-style-type: none"> Graduated with a Bachelor of Accounting from Universiti Utara Malaysia and is a qualified chartered accountant with the MIA. Started career with Dynacraft Industries Sdn Bhd, and Coopers & Lybrand in 1994. Joined Globetronics Sdn Bhd in 1995 a financial officer and appointed as the financial controller of ISO Technology Sdn Bhd (a subsidiary of GTB) in July 2016. |

REVENUE BREAKDOWN

By geographical segment

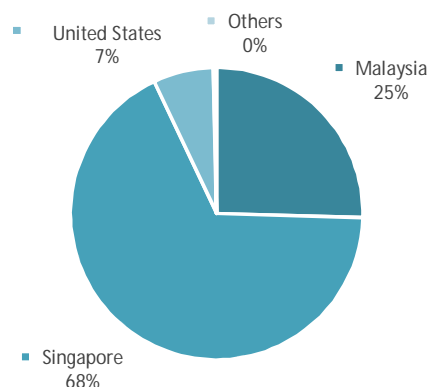
The group's manufacturing services are based in Malaysia while sales and distribution are mainly carried out in Malaysia, Singapore and the US. In FY19, two of GTB's major customers contributed approximately 77% of the group's total revenue.

EXHIBIT 1: SALES BY GEOGRAPHICAL SEGMENT (2018)



Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: SALES BY GEOGRAPHICAL SEGMENT (2019)




Source: Company, AmInvestment Bank Bhd

By product

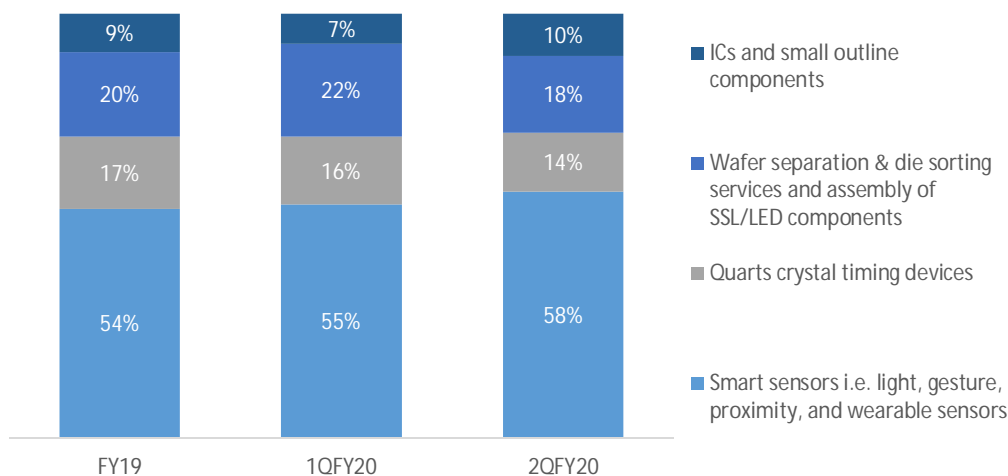
A breakdown of GTB's products are as follows:

| Product | Description | Application |
|---------------|--|--|
| Smart sensors | Light sensors convert light energy into electricity, commonly used for gauging and responding to differing light levels. | Used in smart devices such as PCs, mobile phones, tablets and wearables, e.g. using ambient light sensors for brightness control to improve viewing comfort and regulate the power used for the display. |
| | Gesture sensors perceive and interpret movements that correspond with a command, and will cause the device to respond with an appropriate output. | Used in Bluetooth wireless devices. For example, double tapping the device will play/pause music. |

| Product | Description | Application |
|--------------------------------------|--|---|
| Smart sensors | Motion sensors convert movements detected into electrical signals. | Used in wearables. For example, making specific wrist movements will lead the device to carry out commands or prompt users. |
| | Environmental and gas sensors detect toxic gases in its surroundings. | Used in commercial and industrial buildings to detect specific gas levels, such as carbon monoxide, formaldehyde, etc. |
| Quartz crystal timing devices (QCTD) |  <p>QCTDs generate consistent clock signals due to their good piezoelectric properties i.e. ability to create an electrical charge in response to applied mechanical stress.</p> | <ul style="list-style-type: none"> Telecommunications industry such as in PCs and mobile phones. Automotive industry in in-vehicle audio visual equipment, car navigation / GPS systems, driving control systems and safety control systems. Consumer industry such as in household appliances such as microwaves. |
| SSL/LED components | The business is split into: <ol style="list-style-type: none"> 1) Assembly, package and test of SSL/LED components 2) Wafer processing and die sorting services for SSL/LED components. | Used in the automotive industry with applications such as in brake lights or car dashboard lights, and for general lighting. |
| ICs and small outline components | - | Mainly used for military and industrial applications. |

GTB's revenue breakdown by product is as follows:

EXHIBIT 3: REVENUE BY PRODUCT (%)



Source: Company, AmInvestment Bank Bhd

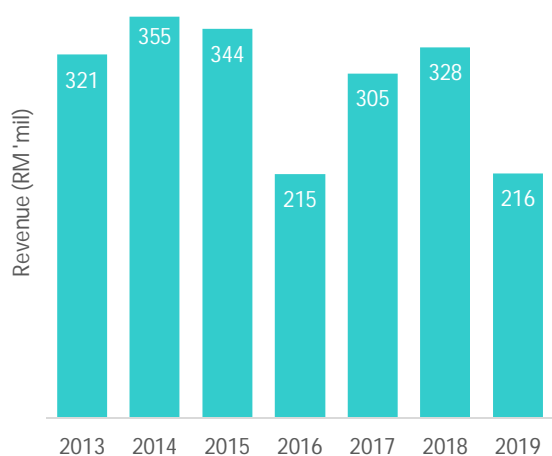
FINANCIAL REVIEW

In FY19, GTB's core profit plunged 37% YoY to RM44mil, in tandem with a 34% fall in revenue as certain QCTD products were being phased out and amid lower capacity utilization and volatile volume loadings of certain sensor products in the 1HFY19.

As for its recent 1HFY20 results, core profit was 49% higher YoY due to: (i) 9% higher revenue; (ii) lower effective tax due to certain tax incentives enjoyed by some of the group's subsidiaries; and (iii) higher volume loadings leading to better economies of scale following the group's volume linearization strategy with certain customers. Meanwhile, 1HFY20 was also a lower base as the group saw drastic declines in volume loadings.

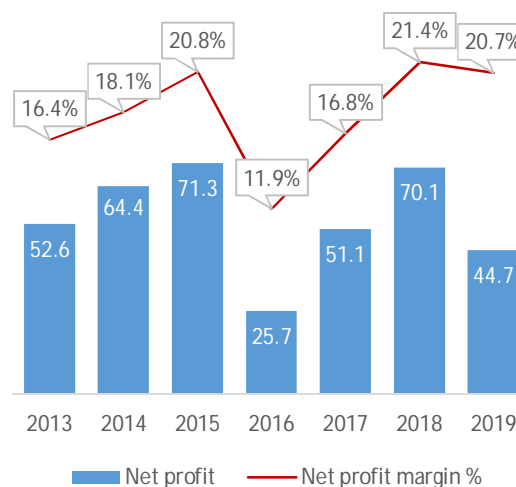
On a QoQ basis, 2QFY20 core profit dove 58% as revenue fell by 17% amid: (i) lower volume loadings and supply chain adjustments from customers; and (ii) the MCO's on factory operations due to a limited workforce, leading to lower economies of scale. However, the group is expected to show a better performance in 2H of the year due to expectations of stronger smart sensor volumes.

EXHIBIT 4: REVENUE GROWTH



Source: Company, AmInvestment Bank Bhd

EXHIBIT 5: NET PROFIT GROWTH & MARGIN



Source: Company, AmInvestment Bank Bhd

OUTLOOK

GTB's outlook for its upcoming 3QFY20 is showing recovery QoQ, as key sensors' volume loadings are expected to be strong and continue ramping up.

Smart sensors:

- **Light sensor:** Production volume to ramp up to near 30mil units monthly beginning July 2020 as the new generation sensor is in mass production.
- **Gesture sensor:** Production volume is expected to be around 35mil units monthly beginning July 2020. The next generation sensor is under development where mass production is slated by 4QFY20 or early FY21 as progress was delayed due to the movement control order (MCO).
- **Motion sensor:** Volume is increasing while new components have been qualified for mass production since May 2020.

Meanwhile, **QCTD** volumes are expected to improve and better volume loading in 3QFY20, with monthly volumes close to 40mil units monthly beginning July 2020 as supply of raw crystal from Japan has mostly normalised. GTB is focusing on other new businesses to offset the matured business of QCTD.

Laser light headlamps as part of the group's SSD/LED product segment was still struggling with normalising volume loading due to the impact of disruption in raw material supply from the US. Volume loadings as at July and August 2020 were still affected by inconsistent wafer supply delivery. However, qualifications for other automotive laser light devices are still ongoing with the business still expected to be a key focus for FY21.

Other businesses continue to show progress. The qualification of new product platform for GTB's bio-environment sensor is ongoing while mass production is targeted for FY21.

KEY INVESTMENT MERITS

□ *New generation smart sensors to continue to lead growth*

GTB's sensor division is the largest contributor to group revenue, representing 58% of 1HFY20 earnings. The group is working on producing three new generations of light, gesture and motion sensors lines which are staple components to their end customer's smart devices and accessories e.g. PCs, mobile phones, tablets, wireless Bluetooth ear buds, and smart watches. The demand of these sensors is anticipated to be robust based on end customer order forecasts. The group is also currently working on co-developing next generation sensors for its customer. This is further supported by the adoption of new technologies such as 5G, augmented reality, and virtual reality, although we are wary of uncertainties relating to geopolitical events and the Covid-19 pandemic that warrants caution.

□ *Ramp-up in laser automotive headlamps a key focus in FY21*

The laser light headlamp previously mentioned with applications in the automotive industry is still expected to be a key focus for GTB in FY21. After seeing disruption in raw material supply impacted by the Covid-19 pandemic, the group expects this to normalise by this month and expect strong ramp up in volume thereafter.

□ *Customer diversification and revenue enhancement opportunities arising from the US-China trade war*

GTB is seeing new opportunities from the US-China trade war diversion as companies seek to diversify production bases out of China. Negotiations are ongoing with aims to collaborate with some of these companies on new areas such as 5G components, power chips, and medical applications. The group is optimistic that this effort will help drive growth into new areas which are less labour intensive, offering higher margins with long and sustainable growth trajectories.

VALUATION

We initiate coverage on Globetronics with a HOLD recommendation and fair value of RM2.39/share, pegged to an FY21F PE of 24x. Our target PE multiple is in line with market-cap weighted average local peer OSATs' forward PE. We like Globetronics due to: (i) its strength in smart sensors with new generation sensors' demand expected to drive growth; (ii) ramp-up in laser automotive headlamps to boost LED/SSD segment; and (iii) potential opportunities to be secured from the US-China trade war amid discussions, leading to customer diversification and revenue enhancement potential.

EXHIBIT 6: PEER COMPARISON TABLE

| Company | Recomm | Price | FV (RM) | Upside (%) | Mkt Cap (RM mil) | P/E (x) | | EPS (sen) | | EPS Growth (%) | | P/B | | ROE (%) | | DY (%) | |
|----------------------------------|---------------|-------|------------|---------------|---------------------|-------------|-------------|-------------|-------------|----------------|-------------|------------|------------|---------|------|--------|------|
| | | | | | | CY20 | CY21 | CY20 | CY21 | CY20 | CY21 | CY20 | CY21 | CY20 | CY21 | CY20 | CY21 |
| Malaysian Pacific Industries Bhd | BUY | 19.60 | 19.53 | 0% | 3,822.8 | 22.5 | 21.1 | 87.0 | 93.0 | 15.1 | 6.9 | 2.6 | 2.4 | 11.8 | 11.8 | 1.4 | 1.4 |
| Unisem M Bhd | (not covered) | 3.65 | - | - | 2,675.7 | 29.2 | 22.7 | 12.6 | 16.2 | 1,069.2 | 28.6 | 1.9 | 1.8 | 7.1 | 8.4 | 1.9 | 2.1 |
| Globetronics Technology Bhd | HOLD | 2.59 | 2.39 | -8% | 1,707.1 | 34.9 | 26.0 | 7.4 | 10.0 | 19.4 | 28.8 | 5.0 | 4.2 | 15.5 | 17.6 | 2.3 | 3.1 |
| Inari Amertron Bhd | BUY | 2.28 | 2.45 | 7% | 7,524.0 | 39.2 | 26.8 | 5.8 | 8.5 | 1.8 | 46.1 | 6.1 | 6.1 | 16.3 | 23.0 | 2.9 | 4.1 |
| Simple average | | | | | | 31.4 | 24.1 | 28.2 | 31.9 | 276.4 | 27.6 | 3.9 | 3.6 | | | | |
| Market cap weighted avg | | | | | | 33.0 | 24.6 | 26.9 | 30.5 | 188.5 | 31.7 | 4.4 | 4.3 | | | | |
| Simple avg (excl. GTB) | | | | | | 30.3 | 23.5 | 35.1 | 39.2 | 362.0 | 27.2 | 3.6 | 3.4 | | | | |
| Mkt cap w.a. (excl. GTB) | | | | | | 32.7 | 24.5 | 29.2 | 33.0 | 209.1 | 32.1 | 4.4 | 4.3 | | | | |

Source: Bloomberg, AmlInvestment Bank Bhd. Prices as at 5 Oct 2020.

EXHIBIT 7: PB BAND CHART

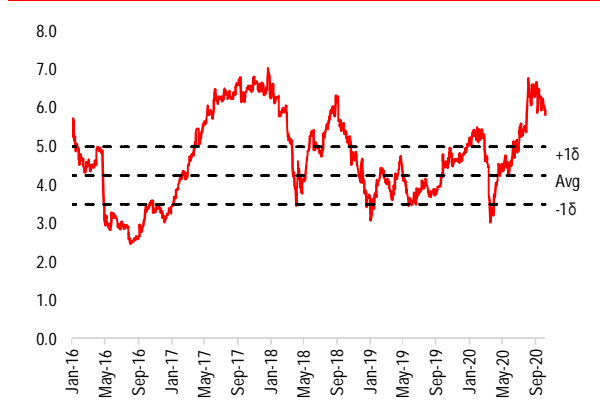


EXHIBIT 8: PE BAND CHART

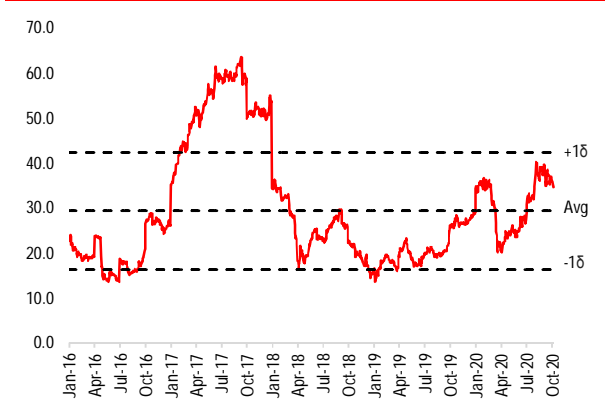


EXHIBIT 9: FINANCIAL DATA

| Income Statement (RMmil, YE 31 Dec) | FY18 | FY19 | FY20F | FY21F | FY22F |
|---|---------------|---------------|--------------|--------------|--------------|
| Revenue | 328.0 | 216.3 | 276.5 | 316.3 | 343.8 |
| EBITDA | 109.9 | 80.8 | 88.6 | 109.3 | 118.0 |
| Depreciation/Amortisation | (37.0) | (37.8) | (41.4) | (45.5) | (49.9) |
| Operating income (EBIT) | 72.9 | 42.9 | 47.2 | 63.8 | 68.0 |
| Other income & associates | - | - | - | - | - |
| Net interest | 1.9 | 3.1 | 4.0 | 4.9 | 6.4 |
| Exceptional items | (0.3) | (0.2) | - | - | - |
| Pretax profit | 74.5 | 45.9 | 51.2 | 68.7 | 74.5 |
| Taxation | (4.7) | (1.3) | (1.5) | (2.0) | (2.1) |
| Minorities/pref dividends | - | - | - | - | - |
| Net profit | 69.8 | 44.5 | 49.7 | 66.7 | 72.3 |
| Core net profit | 70.1 | 44.7 | 49.7 | 66.7 | 72.3 |
| Balance Sheet (RMmil, YE 31 Dec) | FY18 | FY19 | FY20F | FY21F | FY22F |
| Fixed assets | 145.4 | 118.5 | 118.6 | 120.6 | 122.2 |
| Intangible assets | - | - | - | - | - |
| Other long-term assets | 21.3 | 22.5 | 12.2 | 12.2 | 12.2 |
| Total non-current assets | 166.7 | 141.0 | 130.9 | 132.8 | 134.5 |
| Cash & equivalent | 121.0 | 146.2 | 176.7 | 232.2 | 296.3 |
| Stock | 12.6 | 8.3 | 11.1 | 12.2 | 13.2 |
| Trade debtors | 74.5 | 41.3 | 57.8 | 66.2 | 71.9 |
| Other current assets | 1.2 | 1.0 | 1.0 | 1.0 | 1.0 |
| Total current assets | 209.3 | 196.8 | 246.6 | 311.5 | 382.4 |
| Trade creditors | 4.0 | 2.1 | 2.1 | 2.1 | 2.1 |
| Short-term borrowings | 4.2 | - | - | - | - |
| Other current liabilities | - | - | - | - | - |
| Total current liabilities | 8.2 | 2.1 | 2.1 | 2.1 | 2.1 |
| Long-term borrowings | 20.8 | 4.1 | 4.1 | 4.1 | 4.1 |
| Other long-term liabilities | 45.9 | 34.8 | 43.9 | 48.3 | 52.4 |
| Total long-term liabilities | 66.7 | 38.9 | 48.0 | 52.4 | 56.5 |
| Shareholders' funds | 301.1 | 296.8 | 346.5 | 413.2 | 485.5 |
| Minority interests | - | - | - | - | - |
| BV/share (RM) | 0.45 | 0.44 | 0.52 | 0.62 | 0.73 |
| Cash Flow (RMmil, YE 31 Dec) | FY18 | FY19 | FY20F | FY21F | FY22F |
| Pretax profit | 74.5 | 45.9 | 51.2 | 68.7 | 74.5 |
| Depreciation/Amortisation | 37.0 | 37.8 | 41.4 | 45.5 | 49.9 |
| Net change in working capital | 9.2 | 31.1 | (19.3) | (9.4) | (6.8) |
| Others | (4.8) | (4.0) | (5.5) | (6.8) | (8.6) |
| Cash flow from operations | 115.9 | 110.9 | 67.8 | 98.0 | 109.0 |
| Capital expenditure | (35.9) | (16.9) | (41.5) | (47.5) | (51.6) |
| Net investments & sale of fixed assets | 3.9 | 4.7 | 4.2 | 5.0 | 6.6 |
| Others | (1.2) | (2.5) | - | - | - |
| Cash flow from investing | (33.1) | (14.7) | (37.3) | (42.4) | (44.9) |
| Debt raised/(repaid) | 18.7 | - | - | - | - |
| Equity raised/(repaid) | 5.9 | 0.6 | - | - | - |
| Dividends paid | (57.2) | (50.2) | - | - | - |
| Others | (45.8) | (21.2) | - | - | - |
| Cash flow from financing | (78.5) | (70.8) | - | - | - |
| Net cash flow | 4.3 | 25.3 | 30.4 | 55.5 | 64.1 |
| Net cash/(debt) b/f | 116.4 | 121.0 | 146.2 | 176.7 | 232.2 |
| Net cash/(debt) c/f | 121.0 | 146.2 | 176.7 | 232.2 | 296.3 |
| Key Ratios (YE 31 Dec) | FY18 | FY19 | FY20F | FY21F | FY22F |
| Revenue growth (%) | 7.7 | (34.0) | 27.8 | 14.4 | 8.7 |
| EBITDA growth (%) | 35.4 | (26.5) | 9.7 | 23.4 | 7.9 |
| Pretax margin (%) | 22.7 | 21.2 | 18.5 | 21.7 | 21.7 |
| Net profit margin (%) | 21.3 | 20.6 | 18.0 | 21.1 | 21.0 |
| Interest cover (x) | nm | nm | nm | nm | nm |
| Effective tax rate (%) | 6.3 | 2.9 | 2.9 | 2.9 | 2.9 |
| Dividend payout (%) | 86.1 | 112.7 | 80.8 | 80.3 | 83.3 |
| Debtors turnover (days) | 94 | 98 | 65 | 72 | 73 |
| Stock turnover (days) | 15 | 18 | 13 | 13 | 13 |
| Creditors turnover (days) | 6 | 5 | 3 | 2 | 2 |

Source: Company, AmInvestment Bank Bhd estimates

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