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30 October 2016

Undervalued SAFE

NATIONAL UNIVERSITY OF SINGAPORE
Largest Safe Manufacturer in Asia

Dutech is the largest safe manufacturer (ATM safes and commercial safes) in Asia, also designs and manufactures vending machines, provide business solutions.

High security (safes) segment and business solution segment respectively took up 68.8%/31.2% of revenue in 2015.

Total revenue recorded a CAGR of 20.7% since listing in year 2007.

A global presence: 67% of revenue came from Europe and North America while 23% from China in 2015.
To benefit from growing ATM market and downstream merger

Low ATM penetration rate in EMEs to drive global demand (ATMs per 100 000 adults global mapping)

7.6% CAGR expected for global ATM market from 2016-2020, led by 10.6% CAGR for Asia Pacific

The post-merger giant of Diebold Nixdorf will focus more on software and technology, which means more outsourcing needs. Given strong partnerships with them, Dutech is likely to benefit.
More high value-adding business with solid M&A

Dutech embarked on 3 acquisitions since year 2011

Dutech acquired 100% of Format, a high security manufacturer in German, in 2011 and leveraged on advanced technology to move up technology chain. Successfully turned Format to profit in 2014 (v.s. RMB17.2mn loss in 2012)

Acquired 90% of DTMT and 100% of Krauth, both German solution products providers, to expand into high value-adding business

Further acquisitions in the pipeline given strong cash position and company strategy

<table>
<thead>
<tr>
<th>Date</th>
<th>Target acquired</th>
<th>Interest acquired</th>
<th>Business</th>
<th>Consideration</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct-11</td>
<td>Format</td>
<td>100%</td>
<td>Safe manufacturer</td>
<td>Euro 28.54mn</td>
<td></td>
</tr>
<tr>
<td>Oct-14</td>
<td>DTMT</td>
<td>90%</td>
<td>Integrated solution of mechanical, electrical, electronics and process engineering</td>
<td>Rmb 7.7mn</td>
<td>Promise to acquire remaining 10% stake with fixed consideration of Rmb3.9mn in 2019</td>
</tr>
<tr>
<td>Jan-16</td>
<td>Krauth</td>
<td>100%</td>
<td>Developer and producer of auto-ticketing machines and money chargers</td>
<td>Euro 470k</td>
<td>Provide Euro 2.02mn loan</td>
</tr>
</tbody>
</table>
RMB depreciation to improve margins

RMB has depreciated 6.8% against USD YTD and has depreciated 12.0% since Sep 2014, further weakening RMB is expected by the market.

Dutech is a beneficiary of weak RMB because

1) Most of the company’s revenue is denoted in USD
2) Weak RMB boost Dutech’s exporting business

Dutech’s gross profit margin improved from 21.8% in 2012 to 28.6% in 2015. We expect 29.5% for full year 2016 as it hit 29.9% in 1H16.
Dutech with better financials but lower valuations to peers

Gunnebo, listed in Stockholm Stock Exchange, is the closest competitor.

Dutech EBITDA margin for past 5 years is 14.8% on average, while Gunnebo has only 6.80%.

In terms of ROE, Dutech to Gunnebo is 15.8% to 8.7% for past 5 years.

Even with brilliant financial ratios, Dutech is trading at 6.0x 2017e P/E and 0.91x 2017e P/B while Gunnebo is trading at 2017e 11.9x P/E and 1.74x P/B.

Dutech is trading at 50% valuations discount to its peer.
Trading at discount to downstream players

Downstream players are trading at average 16.8x 2017e P/E, and 3.3x P/B

Apparently Dutech is also trading at a huge discount compared with downstream peers

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>DUTECH HOLDINGS LTD</td>
<td>DTECH</td>
<td>0.475</td>
<td>123</td>
<td>6.23</td>
<td>6.03</td>
<td>0.91</td>
<td>16.3</td>
<td>3.6</td>
<td>3.2</td>
<td>2.10%</td>
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<tr>
<td>GUNNEBO AB</td>
<td>GUNN</td>
<td>4.44</td>
<td>339</td>
<td>10.2</td>
<td>11.9</td>
<td>1.7</td>
<td>11.0</td>
<td>8.0</td>
<td>7.5</td>
<td>2.70%</td>
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<tr>
<td>DIEBOLD INC</td>
<td>DBD</td>
<td>22.25</td>
<td>1,672</td>
<td>11.8</td>
<td>16.4</td>
<td>2.51</td>
<td>39.2</td>
<td>11.4</td>
<td>7.8</td>
<td>4.40%</td>
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<tr>
<td>WINCOR NIXDORF AG</td>
<td>WIN</td>
<td>72.72</td>
<td>2,406</td>
<td>16.2</td>
<td>18.8</td>
<td>4.09</td>
<td>16.7</td>
<td>11.2</td>
<td>9.3</td>
<td>3.10%</td>
</tr>
<tr>
<td>NCR CORPORATION</td>
<td>NCR</td>
<td>30.41</td>
<td>3,765</td>
<td>9.4</td>
<td>10.3</td>
<td>7.09</td>
<td>19.4</td>
<td>7.4</td>
<td>7.2</td>
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<tr>
<td>GLORY LTD</td>
<td>6457</td>
<td>32.98</td>
<td>2,284</td>
<td>16.3</td>
<td>21.1</td>
<td>1.77</td>
<td>7.6</td>
<td>6.6</td>
<td>6.2</td>
<td>2.00%</td>
</tr>
<tr>
<td>AMADA HOLDINGS CO LTD</td>
<td>6113</td>
<td>11</td>
<td>4,158</td>
<td>17.2</td>
<td>17.7</td>
<td>1.29</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>7.8</td>
</tr>
<tr>
<td>SCIENTIFIC GAMES CORP-A</td>
<td>SGMS</td>
<td>13.05</td>
<td>1,142</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>8.3</td>
<td>7.9</td>
<td>n/a</td>
</tr>
<tr>
<td>Downstream players' average</td>
<td></td>
<td>14.2</td>
<td>16.8</td>
<td>3.3</td>
<td>20.7</td>
<td>8.8</td>
<td>7.7</td>
<td>3.20%</td>
<td></td>
<td></td>
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<tr>
<td>Simple average (excl. Dutech)</td>
<td></td>
<td>13.5</td>
<td>16</td>
<td>3.1</td>
<td>16.8</td>
<td>8.7</td>
<td>7.6</td>
<td>3.10%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Earnings forecast and DCF

Overall assumption:

1) no M&A
2) high security segment to grow 5.5% p.a.
3) business solution organic growth is 10% p.a.

Top-line record 8.3% CAGR from 2016-2019

Gross profit margin to be 29.5% in 2016 and 29.2% on wards

Net profit to hit a CAGR of 7.1% during 2016/19

WACC of 11.6%

With 25% liquidity discount

We derive DCF result to be SGD0.72/sh, 51% upside
Risks

• Not Immune to Rising Steel Prices
A sharp rise in steel prices will negatively affect its operating profits.

• Customer Concentration Risk
Diebold, Wincor Nixdorf and Liberty account for almost 35% of Dutech’s revenue. If any sales are lost to another supplier, Dutech’s earnings will be greatly impaired.

• Rise of Digital Payments
With the convenience of paying with your mobile phone, the needs of paying by cash is decreasing which may reduce the demand of cash handling machines.

• Currency risk
There are uncertainties on RMB and USD
BUY with TP of SGD0.72/sh, 51% upside

Undervalued SAFE

Target price is derived by DCF

We believe the company’s fundamentals are sound as

1) stable growth from safe manufacturing business
2) high value-adding business to rejuvenate business model
3) potential acquisition underway

We believe the company is apparently undervalued based on

1) Trading at 50% valuation discount to peers though with better financial ratios
2) Trading at huge discount to downstream players
3) Worst scenario with WACC of 13.4%, terminal growth of -3% and liquidity discount of 25%, the result still represent 12% upside

BUY DTECH SP
Current Price: SGD $0.48
Price Target: SGD $0.72
Price Target Potential: 51%
Price Target Period: 1 Year