

Singapore Technology

NEUTRAL [Unchanged]

Bracing for a storm

Bracing shutdowns, demand and supply shock

Except AEM, we slash earnings of the Singapore Tech universe to factor in factory shutdowns in Malaysia, supply chain disruptions, and demand risks. We downgrade VMS to HOLD, as we expect corporate capex appetite to plunge, while we upgrade Hi-P to HOLD as risks appear priced in. AEM, UMS and VALUE remain BUYs. Key risks to our view are if we have underestimated demand softness and/or overestimated dividends despite corporates' healthy balance sheets and cash flow.

Analyst

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Operational updates

VMS' and UMS' facilities in Malaysia are closed from 18-Mar to 14-Apr due to a nationwide movement control order (MCO). While VALUE's (90% of production in China) workers have mostly returned, some of its suppliers and customers' factories are shut as their countries are locked-down. Some of VMS, VALUE, and HIP's customers are turning cautious. For UMS, we believe softness in consumer electronics end-markets may be cushioned by strength from data centre end-markets from the work from home economy. AEM has maintained FY20 sales guidance of SGD360-380m, and hence has the strongest earnings visibility, in our view. Inside the report, we provide ROEs and estimated earnings CAGRs at various share prices to gauge what the market is currently pricing in.

Healthy balance sheets to tide through the storm

All companies are in net cash positions, with VALUE and AEM strongest (-80% net cash to equity) and UMS weakest (9%). This, coupled with broadly strong FCF generation should underpin our dividend estimates, in our view. Overall, customers' liquidity, gearing and coverage ratios are healthy, and most customers have been good paymasters even throughout the GFC.

Where do we see valuation support?

While we continue to expect share price volatility, AEM, UMS and VALUE's valuations appear attractive. VALUE is trading at 1.1x FY20E ex-cash P/E, near crisis lows. Despite being in an earnings up-cycle, UMS' 1.3x FY20E P/B is reminiscent of 2016 and 2019 cyclical downturns. AEM (3.9x FY20E EV/EBITDA), which we see as a potential M&A candidate appears attractive compared to the 7-8x Cohu acquired Xcerra for. VMS and Hi-P are trading at 1.6x/ 1.1x FY20E P/B, while GFC troughs were 0.5-0.6x.

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							20E	21E	20E	21E	20E	21E
Venture	VMS SP	2,826	Hold	13.96	13.90	5	13.6	11.7	1.6	1.5	5.0	5.0
Hi-P Int'l	HIP SP	515	Hold	0.83	0.78	(3)	12.2	9.9	1.1	1.0	3.0	3.6
AEM Holdings	AEM SP	313	Buy	1.64	2.82	74	7.5	7.0	2.5	2.0	3.3	3.6
UMS Holdings	UMSH SP	238	Buy	0.64	0.96	58	8.8	6.8	1.3	1.2	7.1	7.9
Valuetronics	VALUE SP	153	Buy	0.51	0.82	71	7.8	7.8	1.0	0.9	8.4	8.0

Fig 1: Theses overview

Stock	Description of business	Thesis	What to watch out for
Venture (VMS SP, HOLD, TP SGD13.90)	EMS++; high mix, high complexity, low-to-mid volume. Customers largely industrial	As corporate capex appetite shrinks, we no longer expect VMS to stage a YoY earnings recovery in 2H20E. However, we favour its long-term prospects due to strong balance sheet, solid executional track record, and exposure to attractive structural trends (e.g. genomics, wellness, 5G).	<ul style="list-style-type: none"> • 2020: Customers increasingly reducing or withdrawing guidance. Customers may also defer new products initially slated for 2H20 launch. We believe new products are a key driver of earnings growth in any given year. • 2021 and beyond: VMS affirms share gains from customers' relocation to its facilities in ASEAN; VMS successfully launching key products for customers both current and new.
AEM (AEM SP, BUY, TP SGD2.82)	Semiconductor back-end equipment manufacturer. IP owner to its product suite	AEM is a beneficiary of Intel's capacity expansion in 2020 and structurally increasing its focus on various packaging and testing technologies. Growth initiatives with new customers are also beginning to pay off, e.g. with Huawei and new memory customer.	<ul style="list-style-type: none"> • 2020: AEM affirming guidance; demand supply dynamics of Intel's products remain favourable; Intel's and AEM's operations not materially hindered by Covid-19 related supply disruptions. • 2020 and beyond: Continued evidence that AEM's solutions are gaining traction, e.g. new customers and new products sold to Intel
UMS (UMSH SP, BUY, TP SGD0.96)	Precision engineering and assembly for front-end semiconductor equipment manufacturer	Beneficiary of global semiconductor capex spending recovery through key customer Applied Materials. However, with supply chain disruptions and uncertain demand outlook for consumer electronics, we now expect the pace of recovery to be shallower.	<ul style="list-style-type: none"> • 2020: AMAT's customers affirming capex guidance; favourable memory price and inventory dynamics. We note that AMAT has recently pulled 2QFY20 guidance, although no comments have been made regarding full year. • 2021: Continuation of recovery in 2020, recovery in memory investments approaching full swing
Valuetronics (VALUE SP, BUY, TP SGD0.82)	Fully integrated EMS; customers range from consumer electronics to industrial and commercial electronics. >90% capacity in China.	Diversification efforts in Vietnam is expected to provide a long-term source of growth. VALUE has delivered double-digit ROEs since listing in 2007, indicating track record of solid execution. We believe earnings risks have adequately been priced in as VALUE approaches forward ex-cash P/E levels reminiscent of crisis times.	<ul style="list-style-type: none"> • FYMar21 and beyond: Vietnam expansion plans are on track (i.e. moving to new plant in 1QCY20, new facility by 2021); allocations from customers are intact.
Hi-P (HIP SP, HOLD, TP SGD0.78)	EMS - key capabilities in plastics, metals machining and assembly. Highly consumer electronics focused. Apple makes up 40-50% of revenue	Amid margin pressure due to i) increasingly competitive pricing environment, and ii) negative operating leverage, Hi-P is guiding for FY20E earnings to be lower YoY. As demand for consumer electronics wane, implying weaker volumes, we see earnings risks from negative operating leverage.	<ul style="list-style-type: none"> • 2020: Update in management's guidance on revenue and earnings direction YoY; demand dynamics of its customers' (e.g. Apple) products

Source: Companies, Maybank Kim Eng

Fig 2: Summary of Covid-19 direct and indirect impacts/ other risks

Stock	Current direct impact of Covid-19	Indirect risks of Covid-19/ other risks
Venture	<ul style="list-style-type: none"> Facing backlog in 1Q20 due to shortage of components and buffer orders by customers. Malaysia factories (~65% of capacity) are partially shut from 18-Mar to 14-Apr. 	<ul style="list-style-type: none"> End markets turning cautious which results in delays of new product introductions, and/ or negatively affect volumes. Some customers are already turning cautious. Major M&As by key customers that may disrupt short term volumes
AEM	<ul style="list-style-type: none"> Remains confident of achieving full year revenue guidance of SGD360-380m, and is cautiously confident of achieving all time high 1H20, although it expects the timing of some deliveries will be shifted. 	<ul style="list-style-type: none"> For 2020, we believe the key vulnerability is if AEM faces a shortage of components amid Covid-19. For 2021E, we believe the key earnings risk is if high base effects of HDMT/ STHI equipment shipments in 2020 may result in tough YoY comparisons.
UMS	<ul style="list-style-type: none"> Penang facility (volume manufacturing) closed from 18-Mar to 14-Apr. Customer Applied Materials has withdrawn 2QFY20 guidance amid supply chain and manufacturing operations disruptions. 	<ul style="list-style-type: none"> We are concerned that a global economic shock due to Covid-19 may delay the recovery of memory investments, and/or investment appetite in logic/ foundry may reduce.
Valuetronics	<ul style="list-style-type: none"> >90% production in China. China operations resumed in late Feb, with 80% of workers back at work. Some suppliers and customers are temporarily shutting down factories to halt the spread of Covid-19 	<ul style="list-style-type: none"> Automotive products account for around 15% of revenue. Automotive customer has withdrawn guidance amid heightened uncertainties Softer than expected volumes from other products, both in consumer electronics (PCBAs, smart-lighting) and commercial (transaction printers, industrial GPS)
Hi-P	<ul style="list-style-type: none"> We estimate 8-9 out of its 12 sites are in China. China operations resumed in late Feb. However, we see dismal 1H20 performance as certain customers based in China have long supply chains prone to disruptions. 	<ul style="list-style-type: none"> Softer than expected volumes in 2H20E being unable to offset dismal 1H20E performance due to weakening consumer confidence.

Source: Companies, Maybank Kim Eng

Fig 3: Where have valuations troughed?

Company	Valuation commentary
Venture	Trading on 1.6x FY20E P/B; GFC trough: 0.6x
AEM	Trading on 2.4x FY20E P/B; During period of 2017-now, 1.8x (-1SD below mean) has been a good support. GFC valuations not meaningful as products, management and prospects are not comparable.
UMS	Trading on 1.3x FY20E P/B, comparable to 2016 and 2019 downcycles. UMS troughed at 0.2x forward P/B during GFC. However UMS was loss making then, which we do not anticipate now.
Valuetronics	Trading on 1x FY3/20E P/B, with GFC trough at 0.4x. However FY20E ex-cash P/E of 1.1x is near crisis valuations of -0.4x during GFC and -0.2x during 2013 earnings turnaround.
Hi-P	Trading at 1.1x FY20E P/B. Troughed at 0.5x during GFC and when it was exiting its Yota-induced earnings downturn in 2016.

Source: FactSet, Companies, Maybank Kim Eng

Venture (VMS SP)

Recovery delayed; D/G to HOLD

Risk-reward balanced; await better valuations

We cut FY20-21E EPS by 13-20% to factor in i) VMS' partially shut factories in Malaysia and ii) increasingly cautious customer and supply chain outlook. We expect consensus to cut earnings expectations as VMS' has historically underperformed expectations during times of weakening economic fundamentals. Our ROE-g/COE-g TP falls to SGD13.90, based on 1.5x FY20E P/B (prev: 2x) as we raise COE assumption to 9% (prev: 8%) to account for the stock's increased volatility. D/g to HOLD from BUY.

Demand and supply shocks will delay recovery

VMS' facilities in Malaysia are near totally shut from 18-Mar to 14-Apr due to a government-directed movement control order (MCO) to curb the spread of Covid-19. Production of medical goods likely would have continued, as these are exempted from the MCO. Malaysia accounts for at least 65% of VMS' production capacity. A few customers that were previously upbeat, such as Honeywell, Thermo Fisher and Broadcom have turned cautious. We fear that an increasingly uncertain environment increases the risk that customers may defer new product introductions (NPIs) till economic conditions improve.

Healthy balance sheet, cash flow and customers

We still like VMS for its i) net cash to equity position of 29%, ii) free cash flow that fully funds FY20E DPS of SGD0.70, and iii) diversified customer base (top 20 customers account for 70-80% of revenue). Specifically, a snapshot of 16 well known customers suggest most are decent paymasters, and have healthy liquidity, leverage and interest coverage ratios.

Wait for better margin of safety

We expect volatility to persist, and do not rule out that investors may be able to pick up the stock at better valuations. VMS is currently trading at a FY20E yield of 5% and P/B of 1.6x which are around long-term mean. For comparison, forward yield peaked at 12.4% while forward P/B troughed at 0.6x during GFC. Key risk to our view is if we have under or overestimated forecasts amid a highly dynamic environment with many moving parts.

FYE Dec (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	3,485	3,633	3,306	3,637	4,001
EBITDA	456	448	372	433	493
Core net profit	369	362	297	344	394
Core FDEPS (cts)	127.4	124.9	102.0	118.3	135.3
Core FDEPS growth(%)	1.4	(2.0)	(18.4)	16.0	14.4
Net DPS (cts)	70.0	70.0	70.0	70.0	70.0
Core FD P/E (x)	10.9	13.0	13.7	11.8	10.3
P/BV (x)	1.7	1.9	1.6	1.5	1.4
Net dividend yield (%)	5.0	4.3	5.0	5.0	5.0
ROAE (%)	16.3	14.9	11.7	12.9	13.9
ROAA (%)	11.6	11.2	9.1	10.1	10.9
EV/EBITDA (x)	7.2	8.8	8.7	7.3	6.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	381	395	na
MKE vs. Consensus (%)	-	-	(22.2)	(12.9)	na

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HOLD

[Prior:BUY]

Share Price	SGD 13.96
12m Price Target	SGD 13.90 (+5%)
Previous Price Target	SGD 18.23

Company Description

Venture is an EMS and ODM provider with manufacturing facilities in Singapore, Malaysia, and China.

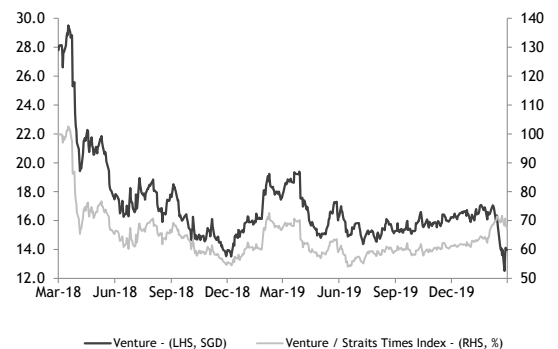
Statistics

52w high/low (SGD)	19.39/12.52
3m avg turnover (USDm)	18.1
Free float (%)	91.0
Issued shares (m)	290
Market capitalisation	SGD4.0B USD2.8B

Major shareholders:

WONG NGIT LIONG	7.0%
Schroder Investment Management (Singapore)	4.9%
The Vanguard Group, Inc.	2.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(15)	(14)	(21)
Relative to index (%)	4	10	0

Source: FactSet

Supply disruptions and demand shock could negate strong 2H20 product pipeline

We slash VMS' FY20-21E EPS by 13-20% to account for i) near total shutdown of VMS' factories in Malaysia (where around 65% of production capacity is located), due to a four-week movement control order); ii) global supply chain disruptions; and iii) weakening capex appetite amid increased economic uncertainties.

VMS' earnings tend to underperform consensus during times of challenging economic conditions, and we believe this time is no different. We see risks that new products slated for 2H20 may be pushed out as customers await more conducive economic conditions. Anecdotally, some customers that were previously upbeat about prospects have now turned cautious, such as Honeywell, Thermo Fisher and Broadcom, and anticipate more will do the same.

As the manufacturing of medical devices are deemed an "essential" and are exempted from the MCO, we believe some of these lines remain open to produce such goods.

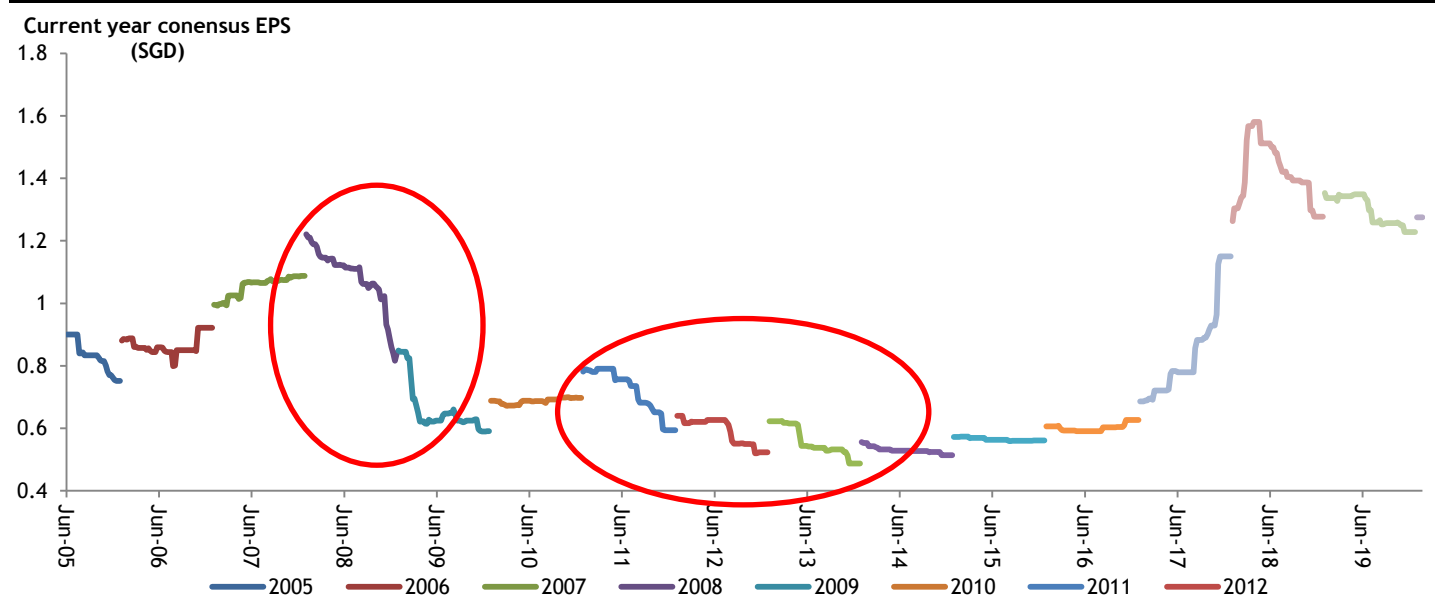
We continue to favour VMS in the long-term given its solid execution track record with customers, as well as robust product pipeline. We do not rule out pent-up demand from 2021-onwards following two years of weak capex appetite (2019-20). A key risk to this view is a protracted economic downturn that lasts beyond 2020.

Fig 4: Forecast changes

	FY20E			FY21E			FY22E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	3,306.4	3,767.9	-12.2	3,637.1	3,993.9	-8.9	4,000.8	4,113.8	-2.7
Gross profit (SGDm)	810.1	934.4	-13.3	902.0	998.5	-9.7	1,000.2	1,020.2	-2.0
EBIT (SGDm)	336.2	427.7	-21.4	396.1	456.2	-13.2	454.5	441.7	2.9
EBITDA (SGDm)	371.9	463.3	-19.7	433.1	492.8	-12.1	492.8	479.3	2.8
Core net profit (SGDm)	296.6	371.0	-20.0	344.2	395.2	-12.9	393.8	382.5	3.0
EPS (SGD)	1.02	1.28	-20.0	1.18	1.36	-12.9	1.37	1.33	3.0
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross material margin	24.5%	24.8%	-0.3	24.8%	25.0%	-0.2	25.0%	24.8%	0.2
SGA as % of sales	9.4%	9.0%	0.4	9.2%	9.2%	0.0	9.2%	9.3%	-0.1

Source: Maybank Kim Eng

Fig 5: During times of challenging business outlook, e.g. 2008-09, and 2011-14, consensus typically has to revise EPS lower.



Source: Bloomberg, Maybank Kim Eng

Fig 6: Sensitivity analysis of implied earnings expectation at various share prices

Share price (SGD)	FY20-22E average ROE	Implied	
		FY19-22E earnings CAGR	(linear basis)
20.00	16.9%	15.5%	
19.00	16.2%	12.6%	
18.00	15.5%	9.6%	
17.00	14.8%	6.6%	
16.00	14.1%	3.6%	
15.00	13.4%	0.5%	
14.00	12.7%	-2.8%	
13.00	12.0%	-6.1%	
12.00	11.2%	-9.6%	
11.00	10.5%	-13.1%	
10.00	9.8%	-16.9%	

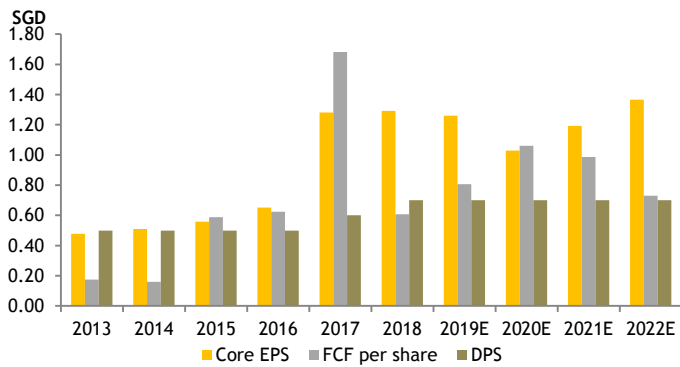
COE/LTG assumptions for this sensitivity analysis are at 9%/2% respectively.

Source: Maybank Kim Eng

Strong balance sheet and cash flow dynamics

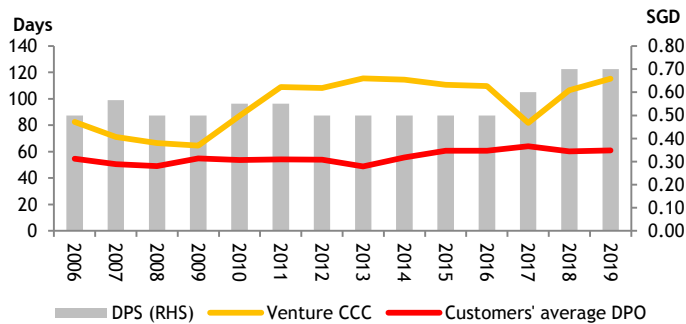
We believe that VMS' strong FCF generation can still help it maintain its SGD0.70 DPS. Furthermore, VMS boasts a respectable balance sheet with net cash to equity of 29%. Based on 16 well-known customers, we note overall healthy liquidity, net gearing and interest coverage ratios, suggesting that customers are well positioned to tide short-term economic difficulties. VMS is well diversified, with top 20 customers accounting for 70-80% of revenue in any given year.

Fig 7: DPS is comfortably funded by FCF per share



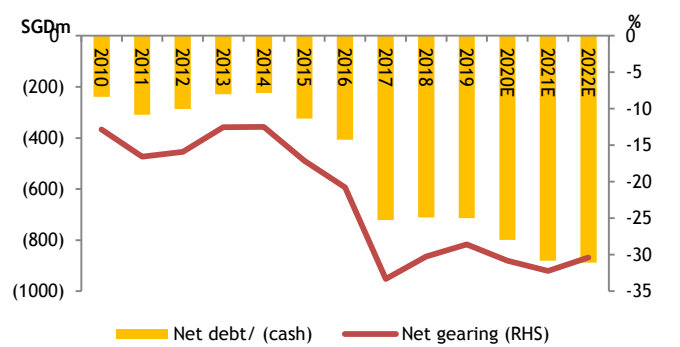
Source: Company, Maybank Kim Eng

Fig 9: Although cash conversion cycle has increased through the years, it has not impeded its ability to pay dividends. Customers' average days of payables outstanding has been stable, even throughout the GFC



Source: FactSet, Company, Maybank Kim Eng

Fig 8: Balance sheet is strong



Source: FactSet, Company, Maybank Kim Eng

Fig 10: Customers' liquidity, leverage and coverage snapshot

Customer	Quick ratio (x)	Net debt/equity	Interest coverage (x)
Average	1.83	-16%	10.29
Agilent	1.21	29%	12.8
ABB	1.10	44%	27.3
Broadcom	1.44	160%	3.0
Honeywell	1.10	34%	17.2
HP Inc	0.53	-94%	15.7
PerkinElmer	1.33	73%	6.4
Keysight	2.64	8%	8.9
NCR	0.93	236%	3.3
Illumina	6.15	-33%	19.1
Lumentum	5.60	-8%	1.1
Marvell	1.71	13%	-2.1
Thermo Fisher	1.38	54%	6.3
Waters	1.68	-665%	14.9
Fortive	0.88	72%	7.1
Philips	0.96	32%	13.1
Philip Morris	0.60	-215%	10.7

Source: FactSet,

Valuation

Our TP of SGD13.90 is based on 1.5x FY20E P/B (prev: 2x), in turn based on FY20-22E average ROE of 12.8%, and a higher COE of 9% (prev: 8%). COE is raised as we increase our beta assumption of 1x from 0.85x to factor higher volatility of the stock since we initiated coverage in Jan-18.

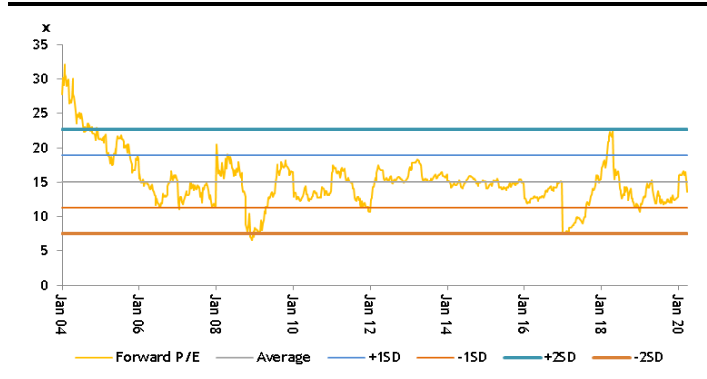
On FY20E basis, VMS is trading on 5% yield and 1.6x P/B, which are near long-term mean. During the GFC, VMS troughed at 0.6x forward P/B and 12.4% yield.

Fig 11: Peer comparisons

Company	BBG Code	MKE Rec	MKE TP (LC)	Price (LC)	FYE mm	Mcap USDm	P/E (x)				EV /EBI TDA (x) FY1	PBR (x) FY1	Div yield (%) FY1
							Act	FY1	FY2	FY3			
Venture Corp	VMS SP	Buy	13.90	13.96	12	2,829	11.1	13.7	11.8	10.3	8.1	1.6	5.0
Singapore listed EMS and precision engineering peers													
Valuetronics	VALUE SP	Buy	0.82	0.51	03	154	5.9	7.4	7.8	6.4	0.8	1.0	8.4
Sunningdale Tech	SUNN SP	NR	-	0.85	12	113	13.6	10.2	9.2	8.8	-	0.4	-
HI-P Int'l	HIP SP	Hold	0.78	0.83	12	515	8.3	12.3	9.9	8.3	3.5	1.1	3.0
Average							10.6	13.1	11.3	9.8	6.9	1.4	4.7
High mix low volume EMS peers													
Benchmark Elec	BHE US	NR	-	18.23	12	670	13.8	16.9	11.0	-	-	-	-
Plexus	PLXS US	NR	-	51.14	09	1,501	14.9	15.2	11.4	9.1	7.6	1.6	-
Average							14.6	15.8	11.3	9.1	7.6	1.6	-
Global EMS peers													
Hon Hai	2317 TT	NR	-	70.10	12	32,155	8.8	8.5	8.6	7.6	4.6	0.8	5.6
Flex	FLEX US	NR	-	8.05	03	4,057	7.1	6.6	6.2	5.1	3.1	1.4	0.0
Jabil	JBL US	NR	-	23.85	08	3,627	8.0	8.2	6.4	6.0	3.2	1.9	1.4
Pegatron	2938 TT	NR	-	60.10	12	5,192	8.1	10.6	9.8	11.0	3.5	1.0	6.8
SKP Resources	SKP MK	NR	-	0.77	03	221	9.8	9.5	7.0	6.1	6.3	1.5	5.5
V.S. Industry	VSI MK	Hold	0.75	0.75	07	323	8.3	11.5	9.4	8.3	4.9	0.9	4.8
Sanmina	SANM	NR	-	25.32	09	1,789	7.4	9.0	8.0	9.6	-	-	0.0
FIH Mobile	2038 HK	NR	-	0.88	12	931	-	5.7	5.7	-	-	-	0.0
Celestica	CLS CN	NR	-	4.65	12	365	6.5	5.1	3.8	-	1.6	-	0.0
Fabrinet	FN US	NR	-	48.34	06	1,791	12.7	12.7	11.2	10.1	7.1	1.8	-
Average							8.6	8.6	8.4	7.8	4.3	1.0	5.4

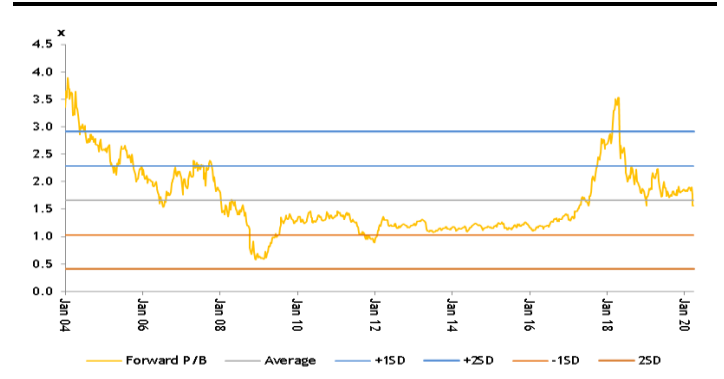
Source: FactSet, Bloomberg, Maybank Kim Eng

Fig 12: Forward P/E band



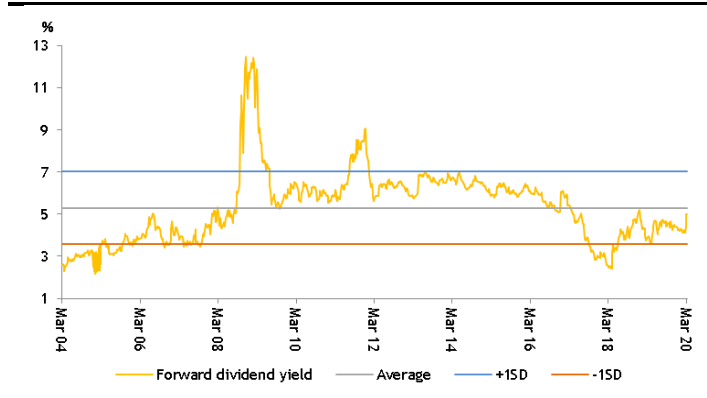
Source: Company, Maybank Kim Eng

Fig 13: Forward P/B band



Source: FactSet, Company, Maybank Kim Eng

Fig 14: Forward dividend yield band

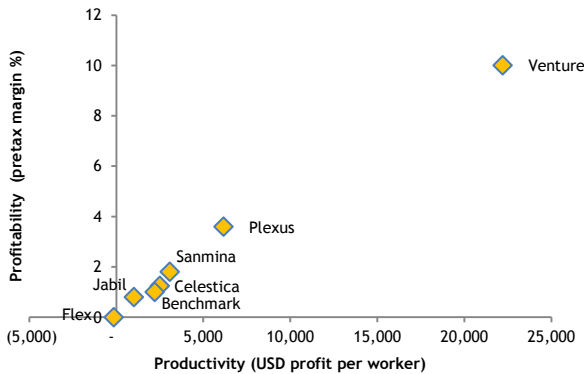


Source: Company, Maybank Kim Eng

Value Proposition

- VMS is an EMS company that has been consistently creating value for its customers. Able to design complex industrial products and reduce time-to-market.
- Facing pricing pressure and increased competition. However, margins are still industry leading.
- Good diversification with >100 active customers, many of them blue chips.
- Good exposure to test & measurement, and life-science customers, still largely underpenetrated due to regulatory requirements and high specs.

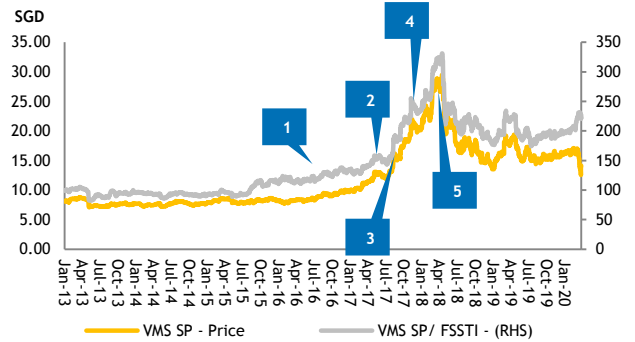
Industry-leading profitability and productivity



Source: Bloomberg, Companies

Price Drivers

Historical share price trend



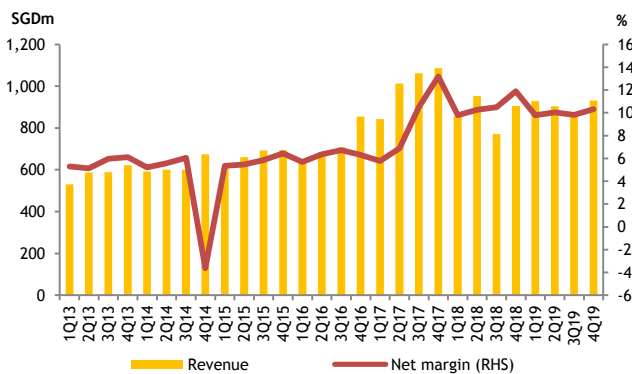
Source: Company, FactSet, Maybank Kim Eng

1. Street raised TPs for the first time in two years following strong 3Q/4Q16 earnings.
2. Strong 2Q17. Increasing market familiarity with the potential of VMS emanating from Illumina and cloud / 5G network spending.
3. CEO Wong Ngit Liong bought 400,000 shares at SGD15.26.
4. Strong 3Q17; management raised net-margin guidance.
5. Short-seller report alleging weaker-than-expected Philip Morris IQOS device growth would have knock-on effects on VMS.

Financial Metrics

- We are expecting earnings to decline 18% in FY20E due to supply and demand shocks as a result of Covid-19.
- Operating margins should be steady from more products with higher R&D content & cost control.
- Net cash since 2008. Healthy FCF levels in FY19-21E could provide upside for dividends.

New level of profitability



Source: Company

Swing Factors

Upside

- Better-than-expected reception for high-growth products.
- Stronger US / global economy.
- Moderate USD strength as the revenue of VMS is entirely in USD.

Downside

- M&A among customers, and acquisitions of customers by competitors could disrupt orders.
- Excessive USD strength may erode customers' competitiveness. Excessive USD weakness may weaken its SGD earnings.
- Holding more inventories at its major hubs due to higher customer demand. This would tie up working capital.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	15.5	12.8	13.6	11.7	10.2
Core P/E (x)	10.8	12.9	13.6	11.7	10.2
Core FD P/E (x)	10.9	13.0	13.7	11.8	10.3
P/BV (x)	1.7	1.9	1.6	1.5	1.4
P/NTA (x)	1.7	1.9	1.6	1.5	1.4
Net dividend yield (%)	5.0	4.3	5.0	5.0	5.0
FCF yield (%)	4.3	5.0	7.6	7.1	5.2
EV/EBITDA (x)	7.2	8.8	8.7	7.3	6.4
EV/EBIT (x)	7.8	9.7	9.6	7.9	6.9

INCOME STATEMENT (SGD m)

Revenue	3,484.6	3,633.4	3,306.4	3,637.1	4,000.8
Gross profit	953.8	906.8	810.1	902.0	1,000.2
EBITDA	455.5	448.2	371.9	433.1	492.8
Depreciation	(30.7)	(38.7)	(34.7)	(35.9)	(37.3)
Amortisation	(1.1)	(1.0)	(1.0)	(1.0)	(1.0)
EBIT	423.7	408.5	336.2	396.1	454.5
Net interest income / (exp)	8.2	10.5	9.0	9.0	9.0
Associates & JV	(0.1)	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	431.9	419.0	345.2	405.1	463.5
Income tax	(62.9)	(56.6)	(48.3)	(60.8)	(69.5)
Minorities	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	368.8	362.1	296.6	344.2	393.8
Core net profit	368.8	362.1	296.6	344.2	393.8

BALANCE SHEET (SGD m)

Cash & Short Term Investments	712.8	714.5	800.0	881.7	889.3
Accounts receivable	735.9	898.9	767.9	886.2	977.1
Inventory	808.2	706.2	730.1	843.5	882.9
Property, Plant & Equip (net)	230.7	231.7	228.9	228.3	230.3
Intangible assets	639.9	667.5	667.5	667.5	667.5
Investment in Associates & JVs	0.7	0.8	0.8	0.8	0.8
Other assets	76.4	54.7	46.2	46.2	46.2
Total assets	3,204.6	3,274.2	3,241.4	3,554.2	3,694.1
ST interest bearing debt	1.8	1.1	1.1	1.1	1.1
Accounts payable	529.0	490.3	439.8	609.3	558.1
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	322.0	284.0	207.0	208.0	207.0
Total Liabilities	852.5	775.7	647.8	818.3	766.1
Shareholders Equity	2,349.9	2,496.2	2,590.9	2,733.2	2,925.0
Minority Interest	2.2	2.4	2.6	2.8	3.0
Total shareholder equity	2,352.1	2,498.6	2,593.5	2,735.9	2,928.0
Total liabilities and equity	3,204.6	3,274.2	3,241.4	3,554.2	3,694.1

CASH FLOW (SGD m)

Pretax profit	431.9	419.0	345.2	405.1	463.5
Depreciation & amortisation	31.8	39.7	35.7	36.9	38.3
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(170.9)	(125.8)	5.1	(61.3)	(182.4)
Cash taxes paid	(56.3)	(61.7)	(48.3)	(60.8)	(69.5)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	236.6	271.1	337.6	320.0	249.8
Capex	(63.6)	(39.7)	(31.9)	(35.4)	(39.3)
Free cash flow	173.0	231.4	305.7	284.6	210.6
Dividends paid	(230.0)	(201.9)	(201.9)	(201.9)	(201.9)
Equity raised / (purchased)	41.5	7.9	0.0	0.0	0.0
Change in Debt	(29.0)	(0.7)	0.0	0.0	0.0
Other invest/financing cash flow	3.8	(35.9)	(18.3)	(1.0)	(1.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(40.7)	0.6	85.5	81.7	7.6

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	(13.0)	4.3	(9.0)	10.0	10.0
EBITDA growth	(0.8)	(1.6)	(17.0)	16.4	13.8
EBIT growth	(0.7)	(3.6)	(17.7)	17.8	14.7
Pretax growth	(2.4)	(3.0)	(17.6)	17.4	14.4
Reported net profit growth	(0.8)	(1.8)	(18.1)	16.0	14.4
Core net profit growth	2.3	(1.8)	(18.1)	16.0	14.4
Profitability ratios (%)					
EBITDA margin	13.1	12.3	11.2	11.9	12.3
EBIT margin	12.2	11.2	10.2	10.9	11.4
Pretax profit margin	12.4	11.5	10.4	11.1	11.6
Payout ratio	54.4	55.7	68.1	58.7	51.3
DuPont analysis					
Net profit margin (%)	10.6	10.0	9.0	9.5	9.8
Revenue/Assets (x)	1.1	1.1	1.0	1.0	1.1
Assets/Equity (x)	1.4	1.3	1.3	1.3	1.3
ROAE (%)	16.3	14.9	11.7	12.9	13.9
ROAA (%)	11.6	11.2	9.1	10.1	10.9
Liquidity & Efficiency					
Cash conversion cycle	105.1	113.7	127.2	116.4	117.4
Days receivable outstanding	77.6	81.0	90.7	81.9	83.8
Days inventory outstanding	107.2	100.0	103.6	103.6	103.6
Days payables outstanding	79.7	67.3	67.1	69.0	70.0
Dividend cover (x)	1.8	1.8	1.5	1.7	2.0
Current ratio (x)	2.7	3.1	3.6	3.2	3.6
Leverage & Expense Analysis					
Asset/Liability (x)	3.8	4.2	5.0	4.3	4.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	1.8	1.1	1.0	1.0	1.0
Net debt/ (net cash)	(711.0)	(713.4)	(798.9)	(880.6)	(888.2)

Source: Company; Maybank

Hi-P International (HIP SP)

Risk-reward balanced

U/G to HOLD as risks appear priced-in

We further slash FY20-22E earnings for Hi-P by 15-26% to factor in prospects of lower volumes and increased margin pressure, amid incremental supply chain disruptions in 1H20 and potential demand weakness in 2H20. Consequently, we cut our ROE-g/COE-g TP to SGD0.78, now on 1x FY20E P/B (prev: 1.2x). Fundamentally, we now see risk-reward about balanced and upgrade the stock to HOLD. Key risk to our view is if we have under estimated margin pressures.

P&L structure unfavourable amid challenging times

While the current revision appears aggressive following a round of cuts in Feb-20, we believe it is realistic. Because Hi-P is seasonally heavy in 2H due to its consumer electronics exposure and has high fixed costs through the year, we believe incremental supply chain disruptions may result in further negative operating leverage. We do not rule out that Hi-P may barely break even in 1H20. Amid weakening economic fundamentals, demand for Hi-P's products in 2H20 may be soft too, which would make it more difficult to offset the expected protracted weakness in 1H20.

Strong balance sheet; FY20 DPS may have risks

Due to a strong balance (net cash to equity of 35%, strongest since 2010), we have kept our DPS assumptions intact. However, we see risks to FY20E DPS as i) FCF does not cover dividend, and ii) Hi-P has historically exhibited tendencies to conserve cash during challenging times.

Valuation

We upgrade to HOLD because the share price appears to have largely priced in our aggressive earnings cuts. Hi-P is currently trading at 1.1x FY20E P/B, around 0.5SD below its long term mean of 1.6x. Historically, 0.5x forward P/B, or 1SD below mean has been a good support (e.g. GFC and exiting Yota-induced downturn in late 2016). Hi-P is trading at 12.3x forward P/E, near the 4-year mean. During the GFC, Hi-P's forward P/E troughed at 3x, coinciding with 2SD below mean. For reference, Chairman Mr. Yao bought a 22% stake in Hi-P from Molex in 2017 at SGD0.98/share.

FYE Dec (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	1,402	1,368	1,380	1,488	1,584
EBITDA	194	178	148	169	190
Core net profit	95	80	55	67	80
Core FDEPS (cts)	11.7	9.9	6.8	8.3	10.0
Core FDEPS growth(%)	(21.5)	(15.3)	(31.9)	23.3	19.3
Net DPS (cts)	5.0	2.8	2.5	3.0	3.0
Core FD P/E (x)	7.5	15.4	12.3	9.9	8.3
P/BV (x)	1.3	2.1	1.1	1.0	0.9
Net dividend yield (%)	5.6	1.8	3.0	3.6	3.6
ROAE (%)	18.5	13.9	8.9	10.4	11.5
ROAA (%)	7.6	6.4	4.2	5.0	5.7
EV/EBITDA (x)	3.1	5.7	3.5	3.1	2.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	90	99	na
MKE vs. Consensus (%)	-	-	(39.3)	(31.7)	na

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HOLD

[Prior:SELL]

Share Price SGD 0.83
 12m Price Target SGD 0.78 (-3%)
 Previous Price Target SGD 1.00

Company Description

Hi-P is an EMS provider with 13 manufacturing sites across 4 countries

Statistics

52w high/low (SGD)	1.72/0.72
3m avg turnover (USDm)	3.0
Free float (%)	13.4
Issued shares (m)	887
Market capitalisation	SGD736.4M
	USD515M

Major shareholders:

Yao Hsiao Tung	84.7%
FMR LLC	1.9%
Dimensional Fund Advisors LLP	0.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(27)	(44)	(48)
Relative to index (%)	(10)	(28)	(34)

Source: FactSet

Forecast changes and sensitivity analysis

We slash FY20-22E earnings for Hi-P by 15-26% to factor in lower volumes and increased margin pressure. While our cuts appear aggressive, we believe it is realistic as incremental supply chain disruptions in 1H20 and anticipated demand weakness in 2H20 could accelerate earnings downwards.

To illustrate, Hi-P typically earns ~40% of full year revenue but only ~20-30% of net profit in 1H, in a normal year. This is due to the seasonal lull in consumer electronics and its high fixed cost base. As customers such as Apple (~40-50% of revenue) have long supply chains, we expect the escalating Covid-19 situation to incrementally disrupt 1H20 volumes. Our base case is that Hi-P may barely break even in 1H20. Amid weakening economic fundamentals, we expect demand softness for Hi-P's products in 2H20, given the discretionary nature of these products (e.g. Apple products, smart speakers, coffee machines). If our 1H20 earnings expectations plays out, the implied 2H20E earnings is a ~10% YoY decline.

Fig 15: Forecast changes

	FY20E			FY21E			FY22E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	1,380.3	1,488.3	-7.3	1,488.4	1,601.7	-7.1	1,583.6	1,729.3	-8.4
Gross profit (SGDm)	152.5	182.8	-16.6	173.2	201.1	-13.8	195.4	221.9	-12.0
EBIT (SGDm)	66.1	89.1	-25.9	81.5	101.7	-19.9	97.3	114.0	-14.7
EBITDA (SGDm)	148.2	171.2	-13.5	168.7	189.0	-10.7	190.1	206.9	-8.1
Core net profit (SGDm)	54.7	73.7	-25.8	67.5	84.2	-19.8	80.5	94.3	-14.7
Core EPS (cts)	6.8	9.1	-25.8	8.3	10.4	-19.8	10.0	11.7	-14.7
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross margin	11.1%	12.3%	-1.2	11.6%	12.6%	-0.9	12.3%	12.8%	-0.5
SGA as % of sales	6.7%	6.7%	0.0	6.7%	6.7%	0.0	6.7%	6.7%	0.0

Source: Maybank Kim Eng

Fig 16: Sensitivity analysis of implied earnings expectations at various share prices

Share price (SGD)	Implied	
	FY20-22E ROE	FY19-22E earnings CAGR (linear basis)
1.30	15.0%	15.0%
1.20	14.1%	11.0%
1.10	13.2%	6.5%
1.00	12.0%	2.0%
0.90	11.2%	-3.0%
0.80	10.3%	-8.0%
0.70	9.3%	-13.5%
0.60	8.3%	-19.0%

COE and LTG assumptions for this sensitivity analysis are unchanged at 10.3%/ 2% respectively.

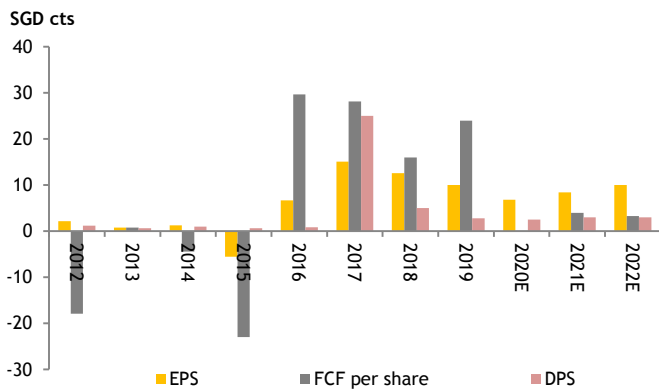
Source: Maybank Kim Eng

Balance sheet and cash flow

Amid heightened uncertainty, we acknowledge downside risks to our FY20E DPS estimate. This is because i) FCF estimate does not cover dividends, ii) Hi-P has historically prioritised reinvesting in the business rather than distributing profits, particularly during challenging times, and iii) Hi-P does not have a formal dividend policy. A mitigating factor is Hi-P's balance sheet is still strong (with net cash to equity of 35%, the best it has been since 2010).

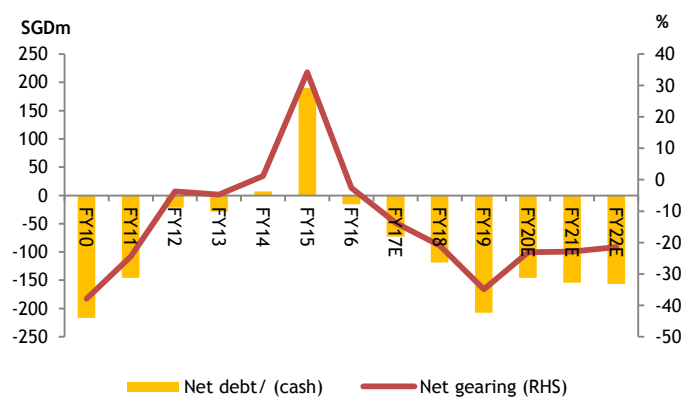
Hi-P has generally maintained a respectable cash conversion cycle track record, although we note that customers are on average taking longer to pay their creditors. This is in part because Hi-P has been broadly able to match receivables turnover with its payables turnover. Based on a snapshot of customers, we note potential liquidity vulnerabilities for Keurig, P&G and Colgate. We estimate these customers collectively contribute around 20% of FY20E revenue.

Fig 17: EPS, DPS and FCF per share



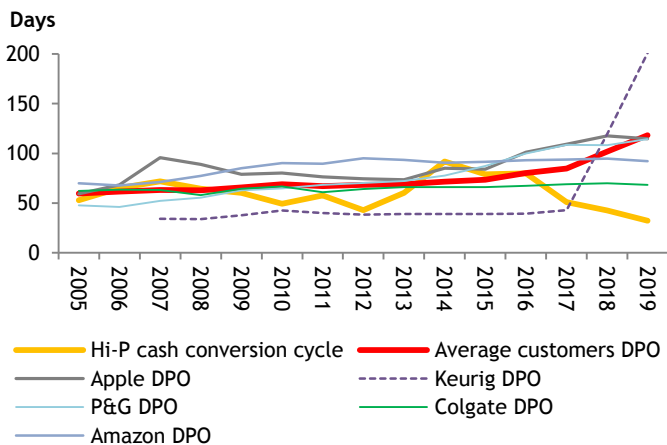
Source: Company, Maybank Kim Eng

Fig 18: Balance sheet is strongest since 2010



Source: Company, Maybank Kim Eng

Fig 19: Cash conversion cycle has been improving although customers' are generally taking longer to pay
Hi-P's cash conversion cycle was stable during GFC



Source: Company, FactSet, Maybank Kim Eng

Fig 20: Customers' liquidity, leverage and coverage snapshot

Customer	Quick ratio (x)	Net debt/ equity (%)	Interest coverage (x)
Apple	1.56	11%	32.2
Keurig	0.24	66%	4.0
P&G	0.44	50%	23.7
Colgate	0.69	6476%	19.5
Amazon	0.86	36%	9.2

Source: FactSet

Valuation

Our TP is now based on 1x FY20E P/B (prev: 1.2x), in turn based on average FY20-22E ROE of 10.3% and LTG of 2%.

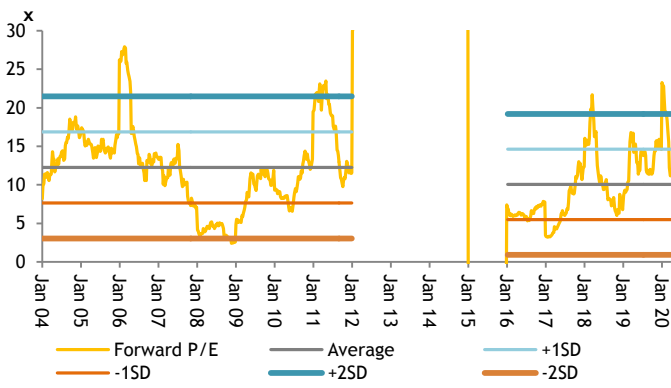
Hi-P is currently trading at 1.1x FY20E P/B, around 0.5SD below its long term mean of 1.6x. Historically, 0.5x P/B, or 1SD below mean has been a good support (e.g. GFC and exiting Yota-induced downturn in late 2016). Hi-P is trading at 12.3x FY20E P/E, near its 4-year mean. During the GFC, Hi-P's forward P/E troughed at 3x, coinciding with 2SD below mean. For reference, Chairman and CEO Mr. Yao bought a 22% stake in Hi-P from Molex in 2017 at SGD0.98/share.

Fig 21: Peer comparisons

Company	BBG Code	MKE Rec	MKE TP (LC)	Price (LC)	FYE mm	Mcap USDm	P/E (x)			EV /EBITDA (x) FY1	PBR (x) FY1	
							Act	FY1	FY2			FY3
HI-P Int'l	HIP SP	Hold	0.78	0.83	12	515	8.3	12.3	10.0	8.3	3.5	1.1
Singapore listed EMS and precision engineering peers												
Valuetronics	VALUE SP	Buy	0.82	0.51	03	154	5.6	7.4	7.8	6.4	0.9	1.0
Sunningdale Tech	SUNN SP	NR	-	0.85	12	113	13.6	10.2	9.2	8.8	-	0.4
Venture Corp	VMS SP	Hold	13.90	13.96	12	2,829	11.3	13.9	11.9	10.4	7.8	1.6
Average							10.7	13.2	11.4	9.9	6.9	1.4
High mix low volume EMS peers												
Benchmark Elec	BHE US	NR	-	18.23	12	670	13.8	16.9	11.0	-	-	-
Plexus	PLXS US	NR	-	51.14	09	1,501	14.9	15.2	11.4	9.1	7.6	1.6
Average							14.6	15.8	11.3	9.1	7.6	1.6
Global EMS peers												
Hon Hai	2317 TT	NR	-	70.10	12	32,155	8.8	8.5	8.6	7.6	4.6	0.8
Flex	FLEX US	NR	-	8.05	03	4,057	7.1	6.6	6.2	5.1	3.1	1.4
Jabil	JBL US	NR	-	23.85	08	3,627	8.0	8.2	6.4	6.0	3.2	1.9
Pegatron	2938 TT	NR	-	60.10	12	5,192	8.1	10.6	9.8	11.0	3.5	1.0
V.S. Industry	VSI MK	Hold	0.75	0.75	07	323	8.3	11.5	9.4	8.3	4.9	0.9
Sanmina	SANM	NR	-	25.32	09	1,789	7.4	9.0	8.0	9.6	-	-
Celestica	CLS CN	NR	-	4.65	12	365	6.5	5.1	3.8	-	1.6	-
Fabrinet	FN US	NR	-	48.34	06	1,791	12.7	12.7	11.2	10.1	7.1	1.8
Average							8.6	8.7	8.5	7.8	4.3	1.0

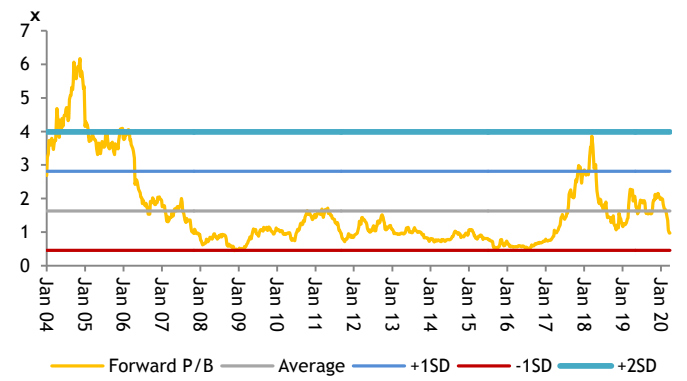
Source: FactSet, Bloomberg, Maybank Kim Eng

Fig 22: Forward P/E band



Source: Company, Maybank Kim Eng

Fig 23: Forward P/B band

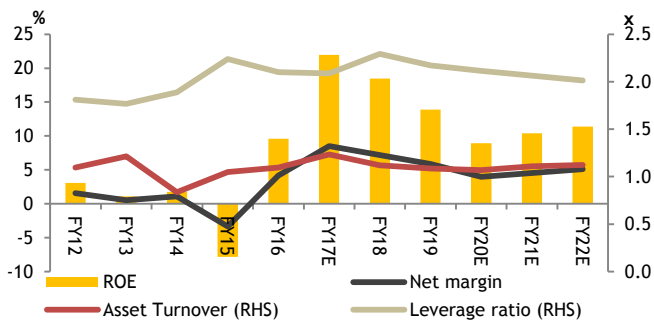


Source: Company, Maybank Kim Eng

Value Proposition

- Operates in a highly competitive industry. In weak volume environments, HIP is exposed to pricing pressure.
- Strong execution with key customers, such as Apple has helped Hi-P win increased allocation in recent years.
- ODM capabilities created some form of customer stickiness in the consumer electronics segment.
- Demonstrated ability to move away from assembly projects that have razor-thin margins to prioritise better profitability ones.

DuPont ROE

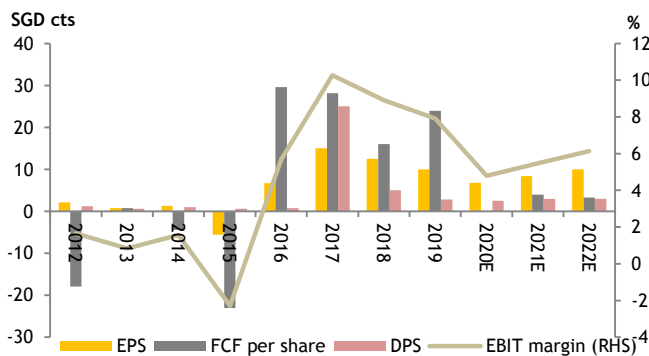


Source: Company, Maybank Kim Eng

Financial Metrics

- Earnings delivery has largest effect on Hi-P's share price.
- We expect FY20E earnings to plunge by 31% due to supply chain disruptions, soft demand, and steep margin pressure amid the ongoing Covid-19 outbreak.
- Clean balance sheet, decent cash flow, and treasury shares provide ammunition for M&A growth.

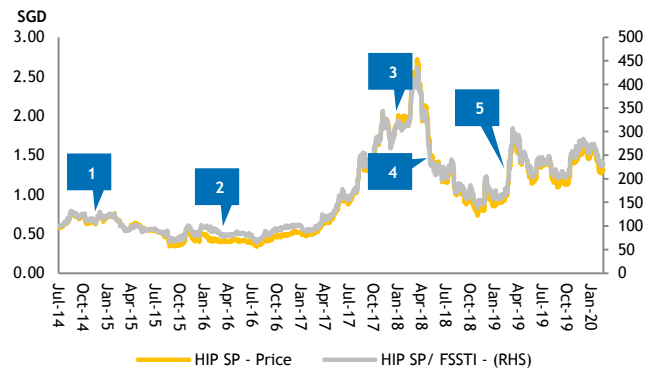
EPS, FCF per share, DPS and EBIT margin



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



Source: Company, FactSet, Maybank Kim Eng

- YotaPhone 2 official launch. Russia was expected to be a key market. However, Russian economic crisis and sanctions destroyed local and European demand.
- Hi-P commenced arbitration proceedings against Yota, claiming USD126m.
- Raised 3Q17 earnings guidance. Subsequently, Hi-P announced record quarterly profit of SGD34m, with sanguine 4Q17 outlook.
- Lowered FY18 revenue and net profit guidance.
- Delivered stronger-than-expected 4Q18 earnings.

Swing Factors

Upside

- Better-than-expected orders and execution from existing projects.
- New customer wins and new projects.
- Improved communication regarding strategy, as well as cost-control efforts.

Downside

- Micro- and macro-driven risks that negatively affect end-demand of products Hi-P participates in.
- Market share losses and/or payment defaults from customers.
- Sudden and steep declines in the USD (revenue exposure) against the CNY (operating exposure) and SGD (reported currency).

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	11.5	13.2	12.2	9.9	8.3
Core P/E (x)	7.5	15.3	12.2	9.9	8.3
Core FD P/E (x)	7.5	15.4	12.3	9.9	8.3
P/BV (x)	1.3	2.1	1.1	1.0	0.9
P/NTA (x)	1.3	2.1	1.1	1.0	0.9
Net dividend yield (%)	5.6	1.8	3.0	3.6	3.6
FCF yield (%)	18.1	15.7	0.1	4.7	4.0
EV/EBITDA (x)	3.1	5.7	3.5	3.1	2.7
EV/EBIT (x)	4.8	9.5	7.9	6.3	5.3

INCOME STATEMENT (SGD m)

Revenue	1,402.1	1,367.7	1,380.3	1,488.4	1,583.6
Gross profit	204.2	187.9	152.5	173.2	195.4
EBITDA	194.2	178.0	148.2	168.7	190.1
Depreciation	(69.3)	(69.8)	(82.1)	(87.3)	(92.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	124.9	108.2	66.1	81.5	97.3
Net interest income / (exp)	(0.7)	(2.8)	0.2	0.2	0.2
Associates & JV	0.3	(1.3)	0.3	0.3	0.3
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	124.5	104.1	66.6	82.0	97.8
Income tax	(23.6)	(23.8)	(11.6)	(14.4)	(17.1)
Minorities	0.0	0.0	(0.2)	(0.2)	(0.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	100.9	80.3	54.7	67.5	80.5
Core net profit	94.8	80.3	54.7	67.5	80.5

BALANCE SHEET (SGD m)

Cash & Short Term Investments	286.7	329.6	267.6	276.2	278.4
Accounts receivable	396.0	362.0	379.2	420.1	499.7
Inventory	176.9	157.7	158.5	216.3	179.3
Property, Plant & Equip (net)	293.6	296.9	314.8	307.6	294.7
Intangible assets	10.8	72.6	93.6	93.6	93.6
Investment in Associates & JVs	21.6	23.6	23.9	24.2	24.5
Other assets	39.2	49.1	55.3	55.3	55.3
Total assets	1,224.7	1,291.6	1,293.0	1,393.3	1,425.6
ST interest bearing debt	168.3	122.1	122.1	122.1	122.1
Accounts payable	380.0	400.1	393.7	449.5	425.3
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	112.0	175.0	148.0	149.0	149.0
Total Liabilities	660.7	697.2	663.8	720.6	696.4
Shareholders Equity	564.0	594.4	629.0	672.3	728.6
Minority Interest	0.0	0.0	0.2	0.4	0.6
Total shareholder equity	564.0	594.4	629.2	672.7	729.2
Total liabilities and equity	1,224.7	1,291.6	1,293.0	1,393.3	1,425.6

CASH FLOW (SGD m)

Pretax profit	124.5	104.1	66.6	82.0	97.8
Depreciation & amortisation	69.3	69.8	82.1	87.3	92.9
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	3.7	108.5	(36.4)	(42.9)	(66.8)
Cash taxes paid	(20.6)	(17.7)	(11.6)	(14.4)	(17.1)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	176.6	266.0	100.4	111.7	106.4
Capex	(47.8)	(73.1)	(100.0)	(80.0)	(80.0)
Free cash flow	128.8	192.8	0.4	31.7	26.4
Dividends paid	(40.3)	(38.5)	(20.1)	(24.2)	(24.2)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(37.0)	(46.1)	0.0	0.0	0.0
Other invest/financing cash flow	(29.0)	(56.5)	(42.2)	1.0	0.0
Effect of exch rate changes	(13.8)	(8.7)	0.0	0.0	0.0
Net cash flow	8.7	42.9	(62.0)	8.5	2.3

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	(1.7)	(2.5)	0.9	7.8	6.4
EBITDA growth	(11.6)	(8.4)	(16.7)	13.9	12.7
EBIT growth	(14.7)	(13.4)	(38.9)	23.4	19.3
Pretax growth	(14.9)	(16.4)	(36.0)	23.2	19.2
Reported net profit growth	(16.9)	(20.4)	(31.9)	23.3	19.3
Core net profit growth	(21.9)	(15.3)	(31.9)	23.3	19.3
Profitability ratios (%)					
EBITDA margin	13.9	13.0	10.7	11.3	12.0
EBIT margin	8.9	7.9	4.8	5.5	6.1
Pretax profit margin	8.9	7.6	4.8	5.5	6.2
Payout ratio	39.9	28.0	36.8	35.8	30.0
DuPont analysis					
Net profit margin (%)	7.2	5.9	4.0	4.5	5.1
Revenue/Assets (x)	1.1	1.1	1.1	1.1	1.1
Assets/Equity (x)	2.2	2.2	2.1	2.1	2.0
ROAE (%)	18.5	13.9	8.9	10.4	11.5
ROAA (%)	7.6	6.4	4.2	5.0	5.7
Liquidity & Efficiency					
Cash conversion cycle	42.0	31.8	26.6	32.5	42.4
Days receivable outstanding	109.0	99.8	96.7	96.7	104.5
Days inventory outstanding	53.4	51.1	46.4	51.3	51.3
Days payables outstanding	120.4	119.0	116.4	115.4	113.4
Dividend cover (x)	2.5	3.6	2.7	2.8	3.3
Current ratio (x)	1.3	1.3	1.3	1.3	1.4
Leverage & Expense Analysis					
Asset/Liability (x)	1.9	1.9	1.9	1.9	2.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	39.0	na	na	na
Debt/EBITDA (x)	0.9	0.7	0.8	0.7	0.6
Capex/revenue (%)	3.4	5.3	7.2	5.4	5.1
Net debt/ (net cash)	(118.4)	(207.5)	(145.5)	(154.1)	(156.3)

Source: Company; Maybank

Valuetronics (VALUE SP)

Approaching crisis valuations

Most risks appear priced in; BUY

We cut FY20-22E earnings by 2-23% as we factor in additional supply chain issues in FY20E, and demand uncertainty in FY21E. While we see risks to our forecasts amid poor visibility, we believe most risks are priced in as VALUE is trading at only 1.2x FY20E ex-cash P/E (near 1SD below long-term mean), not far from crisis valuations during the GFC and 2013 of -0.4x and -0.2x respectively. Our ROE-g/COE-g TP falls to SGD0.82 as we roll forward to 1.5x FY21E P/B from 1.9x FY20E. BUY.

Visibility is increasingly murky

VALUE updated that as at 23-Mar, 80% of its employees in China has resumed work. However, VALUE expects business sentiment to be uncertain in major markets such as US, Europe and China. VALUE noted that since last week, some suppliers and end-customers in various countries have temporarily shut down to halt the spread of Covid-19. We note that customers are beginning to turn cautious. For instance, VALUE's automotive customer has withdrawn its guidance amid increasing supply-chain and end-demand uncertainties on 20-Mar.

But strong balance sheet helps fund 8% yield...

While VALUE has the balance sheet means to maintain HKD0.25 DPS in FY20-21, we factored a lower HKD0.22-0.23, pegged to 63% pay-out ratio, which is the FY16 high. VALUE expects its Vietnam expansion plans to be fully funded via cash. Customers' liquidity, leverage and coverage ratios also appear healthy. On 20-Mar, its automotive customer withdrew the remaining USD1.4b of its revolving credit facility to boost liquidity levels amid current uncertainties.

While ex-cash P/E is near crisis valuations

VALUE is currently trading on 8% FY20E dividend yield, around its long-term mean. For comparison, yield peaked at around 17% during the GFC. VALUE is currently trading at 1.1x FY20E ex-cash P/E, near 1SD below its long-term mean. Through its listing history, forward ex-cash P/E has only been negative twice, during GFC (trough: -0.4x) and in 2013 when VALUE was turning around from a difficult year which was further weighed by non-recurring costs of terminating a licensing business (-0.2x).

FYE Mar (HKD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	2,854	2,829	2,406	2,320	2,696
EBITDA	268	284	227	225	268
Core net profit	205	213	160	153	184
Core FDEPS (HKD)	0.48	0.49	0.37	0.35	0.42
Core FDEPS growth(%)	30.5	3.1	(24.9)	(4.7)	20.8
Net DPS (HKD)	0.27	0.25	0.23	0.22	0.25
Core FD P/E (x)	13.6	8.0	7.4	7.8	6.4
P/BV (x)	2.6	1.5	1.0	0.9	0.9
Net dividend yield (%)	4.2	6.3	8.4	8.0	9.1
ROAE (%)	20.5	18.0	13.5	12.2	14.0
ROAA (%)	10.8	10.7	8.1	7.5	8.6
EV/EBITDA (x)	7.7	2.7	0.8	1.0	0.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	173	182	193
MKE vs. Consensus (%)	-	-	(7.6)	(16.3)	(4.5)

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BUY

Share Price	SGD 0.51
12m Price Target	SGD 0.82 (+71%)
Previous Price Target	SGD 0.94

Company Description

Valuetronics is a HK based electronics manufacturing services provider with two facilities in China.

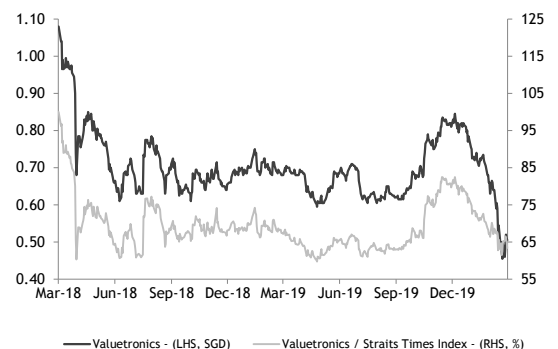
Statistics

52w high/low (SGD)	0.85/0.46
3m avg turnover (USDm)	1.2
Free float (%)	70.7
Issued shares (m)	434
Market capitalisation	SGD219.2M USD153M

Major shareholders:

TSE CHONG HING	17.5%
CHOW KOK KIT	7.4%
HSBC Global Asset Management (Hong Kong)	5.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(23)	(38)	(26)
Relative to index (%)	(6)	(20)	(6)

Source: FactSet

Forecast changes and sensitivity analysis

Despite a round of cuts in Feb-20, we are reducing FY20-22E earnings by another 2-23% as the Covid-19 situation escalates globally. Reduction to our FY20E earnings primarily reflects VALUE's latest update that suppliers and end-customers are facing temporary shutdowns to curb the spread of Covid-19. Meanwhile cuts to FY21-22E earnings reflect our assumption that the presently uncertain outlook will impact end-demand for VALUE's products in the smart-lighting, consumer electronics, automotive, and various industrial value chains. Customers are beginning to turn cautious. On Mar-20, VALUE's automotive customer withdrew its guidance amid increasing uncertainties.

Fig 24: Forecast revisions

	FY20E			FY21E			FY22E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (HKDm)	2,405.7	2,455.3	-2.0	2,320.0	2,859.1	-18.9	2,695.9	3,122.7	-13.7
Gross profit (HKDm)	350.9	364.0	-3.6	334.8	427.6	-21.7	392.4	457.8	-14.3
EBIT (HKDm)	180.6	184.8	-2.2	172.2	224.6	-23.4	207.8	237.4	-12.5
EBITDA (HKDm)	226.7	230.8	-1.8	224.8	277.3	-18.9	268.3	297.9	-9.9
Core net profit (HKDm)	160.1	163.7	-2.2	152.5	199.2	-23.4	184.2	210.5	-12.5
Core EPS (HKD)	0.37	0.38	-2.2	0.35	0.46	-23.4	0.43	0.49	-12.5
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross margin	14.6%	14.8%	-0.2	14.4%	15.0%	-0.5	14.6%	14.7%	-0.1
SGA as % of sales	8.2%	8.4%	-0.2	8.0%	7.8%	0.2	7.7%	7.7%	0.0

Source: Maybank Kim Eng

Fig 25: Sensitivity analysis of implied earnings expectation at various share prices.

Share price (SGD)	Implied	
	FY21-23E average ROE	FY20-23E earnings CAGR (linear basis)
1.00	19.3%	22.0%
0.90	17.7%	16.0%
0.80	16.2%	10.0%
0.70	14.6%	3.5%
0.60	13.1%	-3.0%
0.50	11.5%	-11.0%
0.40	10.0%	-19.0%
0.30	8.4%	-28.0%

COE/LTG assumptions for this sensitivity analysis are unchanged at 10.7%/2% respectively

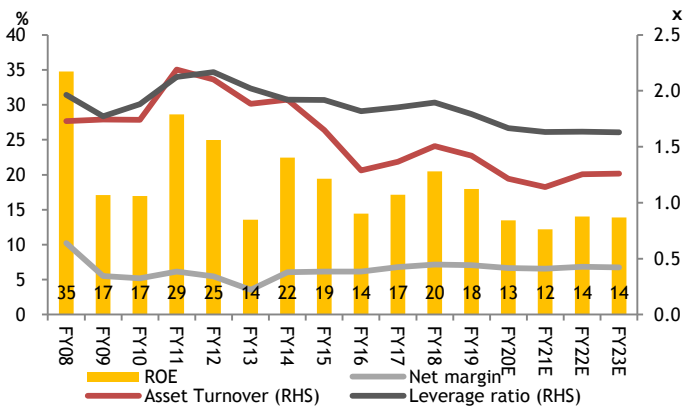
Source: Maybank Kim Eng

Balance sheet and cash flow

VALUE has a strong track record of generating respectable cash flows on the back of consistent profitability and solid working capital management. Further, it boasts a robust balance sheet with cash of HKD1b with no debt (cash accounting for ~90% of market cap). While theoretically, we do not see issues for VALUE to maintain HKD0.25 DPS in both FY20-21E, we have reduced our DPS assumptions to match its FY16 payout ratio of 63% (the most recent high).

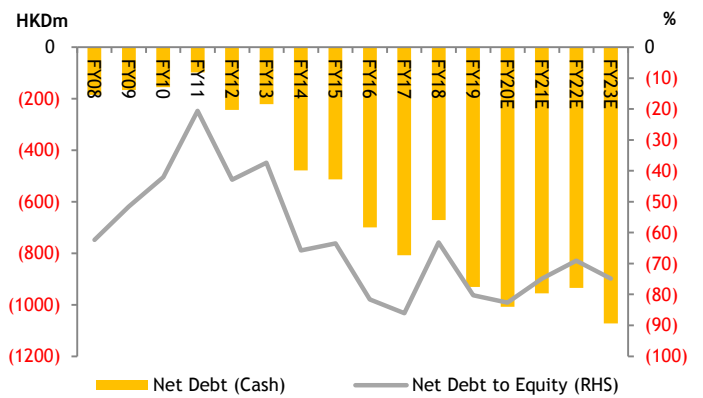
Management expects Vietnam expansion to be fully funded by internal resources.

Fig 26: Consistent double-digit ROEs since listing...



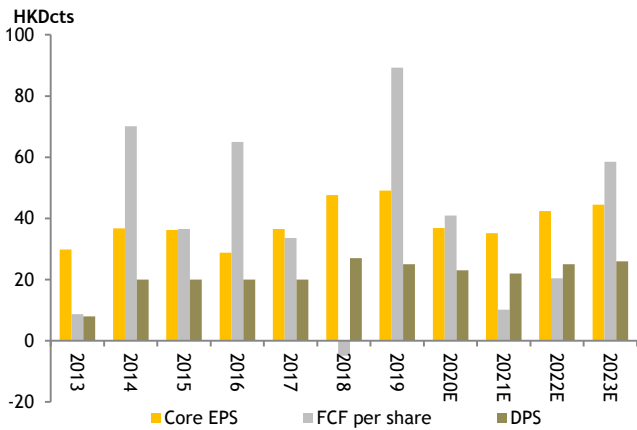
Source: Company, Maybank Kim Eng

Fig 27: ... which have contributed to a robust balance sheet



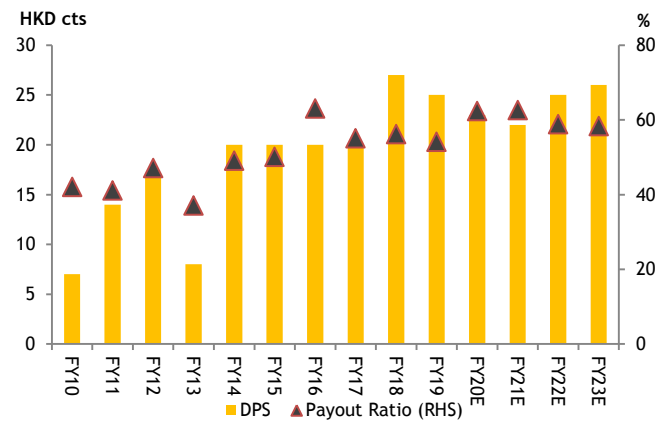
Source: Company, Maybank Kim Eng

Fig 28: FCF is expected to be lower than DPS in FY21-22 due to Vietnam expansion.



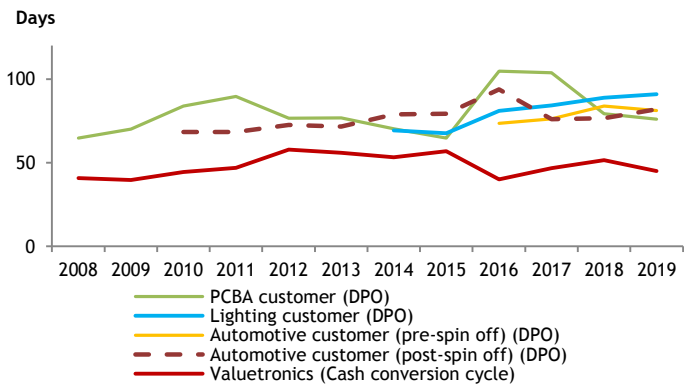
Source: Company, Maybank Kim Eng

Fig 29: VALUE has been paying above its 30-50% dividend payout ratio policy since 2016.



Source: Company, Maybank Kim Eng

Fig 30: VALUE's cash conversion cycle has been relatively stable through the years



Source: FactSet, Company, Maybank Kim Eng

Fig 31: Liquidity and balance sheet snapshot of customers

Customer	Quick ratio (x)	Net debt/equity (%)	Interest coverage (x)
Consumer electronics	0.96	32%	13.1
Lighting	1.07	28%	9.8
Automotive	0.99	113%	8.6

Source: FactSet

Valuation

We roll forward ROE-g/COE-g TP to now be based on 1.5x FY21E P/B from 1.9x FY20E. This is in turn based on average adjusted FY21-23 ROE of 15% and LTG of 2%.

We used average adjusted ROE of 15% in favour of average FY21-23 ROE of 13.4% as we believe that VALUE's ROEs are "under-reflected" due to its massive cash hoard, which accounts for around 80% of its market cap. Our FY21-23E average ROE assumes HKD400m is invested in FY20E, earning 5% ROEs p.a. (reduced from 10% to factor in increased uncertainties). In our view, HKD400m is a reasonable quantum for strategic investments as it would leave ample room for working capital. Similarly, we believe 5% ROE expectations is conservative and should factor in timing and return uncertainties of new investments.

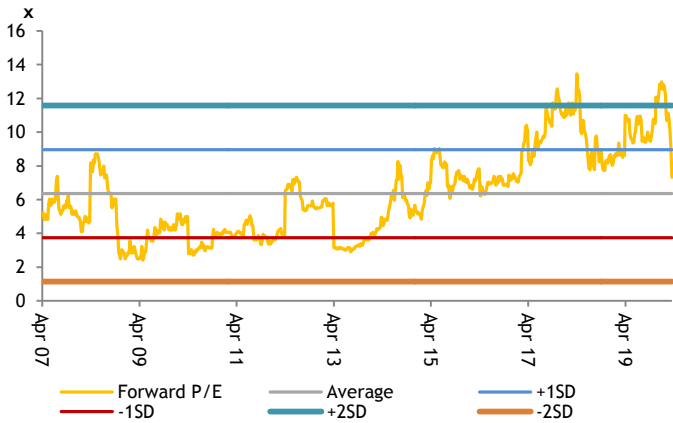
VALUE is currently trading on 8% FY20E dividend yield, around its long-term mean. For comparison, yield peaked at around 17% during the GFC. VALUE is currently trading at 1.1x FY20E ex-cash P/E, near 1SD below its long-term mean, During the GFC, forward ex-cash P/E troughed at -0.4x.

Fig 32: Peer comparisons

Company	BBG Code	MKE Rec	MKE TP (LC)	Price (LC)	FYE mm	Mcap USDm	P/E (x)				EV /EBI TDA (x)	PBR (x)	Div yield (%)
							Act	FY1	FY2	FY3			
Valuetronics	VALUE SP	BUY	0.82	0.51	03	154	5.6	7.4	7.8	6.4	0.9	1.0	8.4
Singapore listed EMS and precision engineering peers													
Venture Corp	VMS SP	Hold	13.90	13.96	12	2,829	11.3	13.9	11.9	10.4	7.8	1.6	5.0
Sunningdale Tech	SUNN SP	NR	-	0.85	12	113	13.6	18.8	9.8	8.9	-	0.4	9.5
HI-P Int'l	HIP SP	Hold	0.78	0.83	12	515	8.4	12.3	10.0	8.4	3.7	1.0	3.0
Average							10.7	13.5	11.4	9.9	6.9	1.5	5.0
High mix low volume EMS peers													
Benchmark Elec	BHE US	NR	-	18.23	12	670	13.8	12.7	10.9	8.6	-	-	-
Plexus	PLXS US	NR	-	51.14	09	1,501	14.9	12.5	11.0	9.2	6.9	1.6	-
Average							14.6	12.6	11.0	9.0	6.9	1.1	0.0
Global EMS peers													
Hon Hai	2317 TT	NR	-	70.10	12	32,155	8.8	8.4	7.7	7.2	4.7	0.7	5.7
Flex	FLEX US	NR	-	8.05	03	4,057	7.1	6.6	5.7	5.0	3.3	1.4	1.1
Jabil	JBL US	NR	-	23.85	08	3,627	8.0	6.9	6.0	5.5	3.0	1.8	1.4
Pegatron	2938 TT	NR	-	60.10	12	5,192	8.1	10.0	10.1	10.0	3.7	1.0	6.5
SKP Resources	SKP MK	NR	-	0.77	03	221	9.8	9.0	7.1	6.0	5.7	1.5	5.7
V.S. Industry	VSI MK	Hold	0.75	0.75	07	323	8.3	11.5	9.4	8.3	4.9	-	4.8
Sanmina	SANM	NR	-	25.32	09	1,789	7.4	8.4	7.5	7.4	-	-	0.0
FIH Mobile	2038 HK	NR	-	0.88	12	931	-	-	-	-	nm	-	0.0
Celestica	CLS CN	NR	-	4.65	12	365	6.5	7.0	4.6	3.5	1.5	0.3	0.0
UMC Electronics	6615 JP	NR	-	223	03	40	4.8	5.2	-	-	-	-	13.5
Fabrinet	FN US	NR	-	48.34	06	1,791	12.7	12.9	11.4	10.3	7.2	1.8	nm
Average							8.6	8.5	7.8	7.3	4.4	1.0	5.0

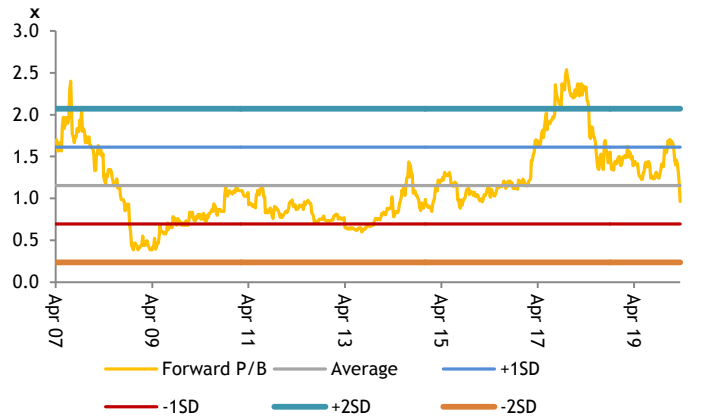
Source: Maybank Kim Eng

Fig 33: Forward P/E band



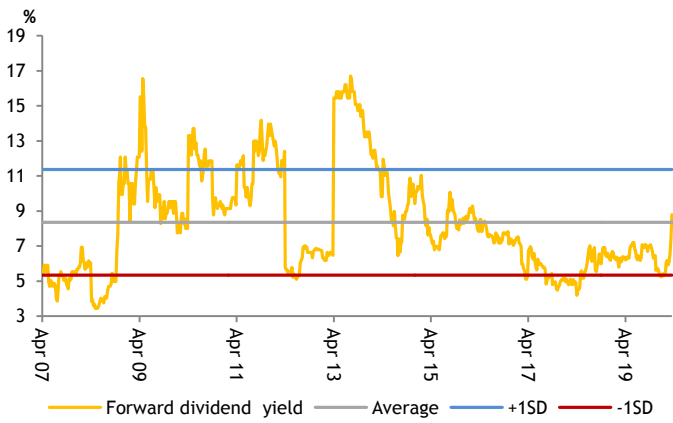
Source: Company, Maybank Kim Eng

Fig 34: Forward P/B band



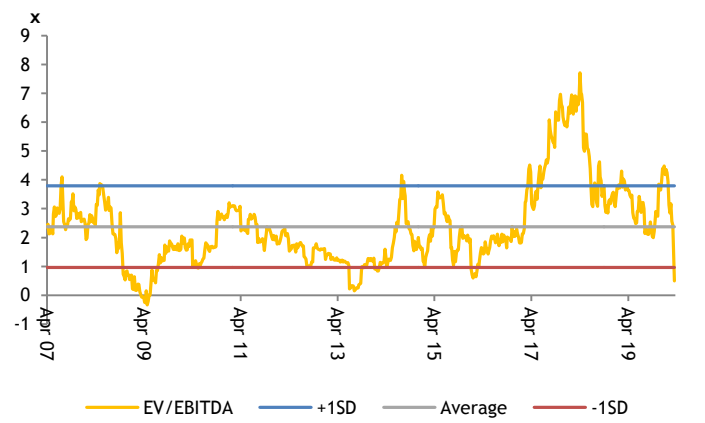
Source: Company, Maybank Kim Eng

Fig 35: Forward dividend yield



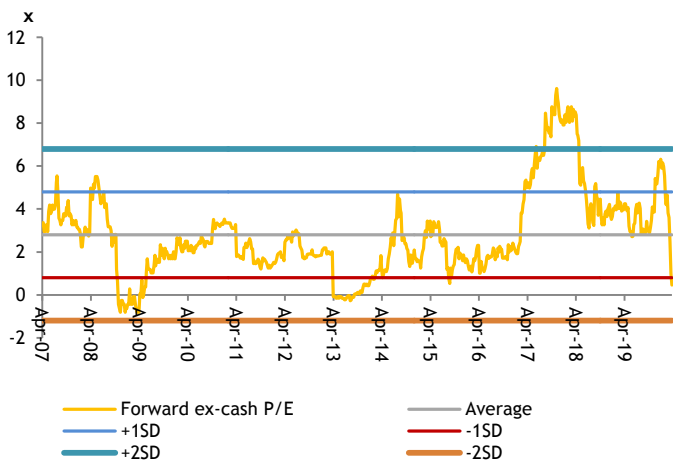
Source: Company, Maybank Kim Eng

Fig 36: EV to forward EBITDA



Source: Company, Maybank Kim Eng

Fig 37: Forward ex-cash P/E

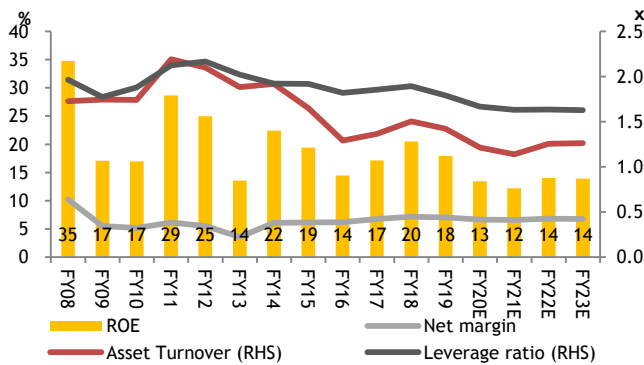


Source: Company, Maybank Kim Eng

Value Proposition

- EMS company that manufactures products, such as IOT bulbs and in-car connectivity modules, which are in the early part of their product life cycles.
- For certain high mix, low-volume projects, VALUE receives lump-sum pricing, which tend to have better margins. High-mix products make up half of revenues.
- Strengths are design-for-manufacturing and flexibility in adapting to timing & production needs of customers.
- Consistently delivered double-digit ROEs.

Decade-long double-digit ROEs

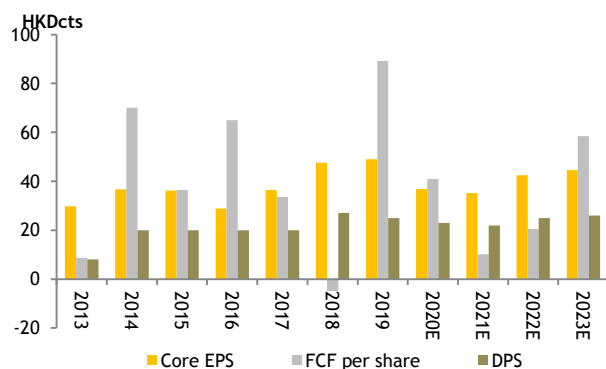


Source: Company, Maybank Kim Eng

Financial Metrics

- We expect Covid-19 driven uncertainties to result in end-market softness in FY21E, resulting in earnings decline.
- Acquired SMT machines in 1HFY18 to cater to new and existing customers.
- Cash of HKD1b as of 2QFY20 with no debt.
- Strong FCF and balance sheet to support dividends, Vietnam expansion and M&A.
- Dividend yields of 8-9% forecast during FY20-22E.

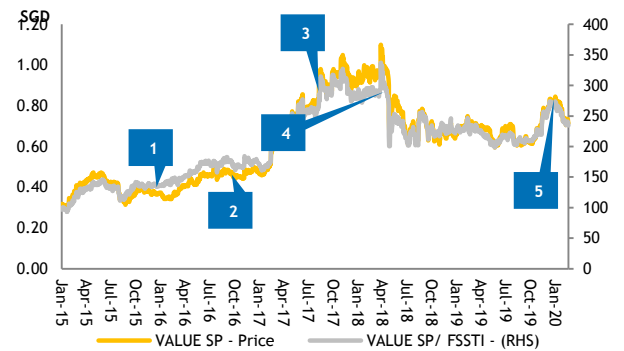
EPS, FCF per share, DPS



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng, FactSet

1. IOT lighting began contributing to revenue.
2. Net profit increased 70% in 3QFY17 due to IOT lighting demand and operating leverage.
3. Automotive contracts powered fourth consecutive quarter of growth in ICE.
4. Surprise quarterly earnings miss by key lighting customer.
5. Sell-off due to Covid-19 outbreak in China.

Swing Factors

Upside

- Better-than-expected growth of IOT bulbs and in-car connectivity modules.
- New customer acquisitions in ICE.
- Operating leverage from increased production.

Downside

- Weaker-than-expected end-demand for products that are customer or industry specific, as well as driven by adverse economic factors.
- Cost increases for labour and materials.
- Unforeseen pricing erosion for key products.

FYE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	10.6	9.0	7.4	7.8	6.4
Core P/E (x)	13.4	8.0	7.4	7.8	6.4
Core FD P/E (x)	13.6	8.0	7.4	7.8	6.4
P/BV (x)	2.6	1.5	1.0	0.9	0.9
P/NTA (x)	2.6	1.5	1.0	0.9	0.9
Net dividend yield (%)	4.2	6.3	8.4	8.0	9.1
FCF yield (%)	nm	22.6	15.0	3.7	7.4
EV/EBITDA (x)	7.7	2.7	0.8	1.0	0.9
EV/EBIT (x)	9.0	3.2	1.0	1.3	1.2

INCOME STATEMENT (HKD m)

Revenue	2,853.7	2,828.8	2,405.7	2,320.0	2,695.9
Gross profit	414.6	430.3	350.9	334.8	392.4
EBITDA	268.4	283.6	226.7	224.8	268.3
Depreciation	(37.5)	(44.9)	(45.5)	(52.2)	(60.1)
Amortisation	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
EBIT	230.4	238.3	180.6	172.2	207.8
Net interest income / (exp)	(0.7)	(0.6)	(0.8)	(0.8)	(0.8)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	(13.6)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	229.7	224.1	179.8	171.4	207.0
Income tax	(25.0)	(24.6)	(19.8)	(18.8)	(22.8)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	204.7	199.5	160.1	152.5	184.2
Core net profit	204.7	213.1	160.1	152.5	184.2

BALANCE SHEET (HKD m)

Cash & Short Term Investments	671.1	930.4	1,007.7	955.7	934.5
Accounts receivable	582.8	436.8	340.9	421.8	449.7
Inventory	385.6	302.0	238.4	305.5	325.6
Property, Plant & Equip (net)	209.6	209.8	214.3	302.1	327.0
Intangible assets	18.7	17.2	17.2	17.2	17.2
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	100.9	117.1	130.7	120.7	121.7
Total assets	1,968.8	2,013.4	1,949.1	2,123.0	2,175.8
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	482.9	391.5	306.6	422.2	398.2
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	424.0	463.0	423.0	424.0	425.0
Total Liabilities	906.8	854.1	729.5	846.1	823.1
Shareholders Equity	1,062.0	1,159.3	1,219.7	1,276.8	1,352.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,062.0	1,159.3	1,219.7	1,276.8	1,352.7
Total liabilities and equity	1,968.8	2,013.4	1,949.1	2,123.0	2,175.8

CASH FLOW (HKD m)

Pretax profit	229.7	224.1	179.8	171.4	207.0
Depreciation & amortisation	38.0	45.4	46.0	52.7	60.6
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(180.9)	173.7	21.3	(21.3)	(72.1)
Cash taxes paid	(17.5)	(13.0)	(19.8)	(18.8)	(22.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	69.3	430.1	227.4	183.9	172.7
Capex	(90.0)	(45.1)	(50.0)	(140.0)	(85.0)
Free cash flow	(20.8)	385.0	177.4	43.9	87.7
Dividends paid	(116.1)	(108.3)	(99.7)	(95.3)	(108.3)
Equity raised / (purchased)	4.8	0.2	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	50.2	(17.5)	(0.5)	(0.5)	(1.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(81.9)	259.4	77.2	(52.0)	(22.2)

FYE 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	25.4	(0.9)	(15.0)	(3.6)	16.2
EBITDA growth	31.4	5.7	(20.1)	(0.8)	19.3
EBIT growth	32.7	3.4	(24.2)	(4.7)	20.7
Pretax growth	32.8	(2.5)	(19.7)	(4.7)	20.8
Reported net profit growth	32.9	(2.6)	(19.8)	(4.7)	20.8
Core net profit growth	32.9	4.1	(24.9)	(4.7)	20.8
Profitability ratios (%)					
EBITDA margin	9.4	10.0	9.4	9.7	10.0
EBIT margin	8.1	8.4	7.5	7.4	7.7
Pretax profit margin	8.1	7.9	7.5	7.4	7.7
Payout ratio	56.1	54.1	62.3	62.5	58.8
DuPont analysis					
Net profit margin (%)	7.2	7.1	6.7	6.6	6.8
Revenue/Assets (x)	1.4	1.4	1.2	1.1	1.2
Assets/Equity (x)	1.9	1.7	1.6	1.7	1.6
ROAE (%)	20.5	18.0	13.5	12.2	14.0
ROAA (%)	10.8	10.7	8.1	7.5	8.6
Liquidity & Efficiency					
Cash conversion cycle	46.0	50.9	44.4	42.4	43.4
Days receivable outstanding	67.4	64.9	58.2	59.2	58.2
Days inventory outstanding	50.0	51.6	47.3	49.3	49.3
Days payables outstanding	71.4	65.6	61.2	66.1	64.1
Dividend cover (x)	1.8	1.8	1.6	1.6	1.7
Current ratio (x)	1.9	2.0	2.3	2.0	2.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.4	2.7	2.5	2.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	nm	nm	nm	nm
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	3.2	1.6	2.1	6.0	3.2
Net debt/ (net cash)	(671.1)	(930.4)	(1,007.7)	(955.7)	(934.5)

Source: Company; Maybank

AEM Holdings (AEM SP)

Guidance maintained

Strong earnings visibility; Maintain BUY

AEM has the strongest FY20E earnings visibility within our Singapore tech coverage, as it has maintained full year sales guidance of SGD360-380m. As demand drivers appear intact, we believe a key earnings risk is if global supply chain disruptions result in any unforeseen components shortages. Maintain BUY and ROE-g/COE-g TP of SGD2.82 (3x blended FY20-21E P/B).

Guidance kept; Intel deliveries >90% on time

On 19-Mar, AEM announced that its sales guidance of SGD360-380m for FY20 is unchanged. Further, AEM introduced 1Q20 sales guidance of a record SGD135-145m, and is cautiously confident that 1H20 will be an all-time high despite some shifts in the delivery of its sales orders due to the Covid-19 situation. On 20-Mar, key customer Intel highlighted that it is delivering more than 90% of its chips on time. This is consistent with Intel's early March message that operations are "relatively normal". Our channel checks suggest that its Penang plant has received approval to operate at half strength during the movement control order.

Robust balance sheet and solid cash generation

AEM's balance sheet is robust with net cash to equity of 80%. Strong cash generation is driven by high profitability and working capital efficiency. Since 2017 (ramp-up of HDMT test handlers), cash conversion cycle has been around 15 days or less. Intel has also kept a tight range for its days of payables outstanding (~40-50 days), even throughout the GFC, suggesting it is a good paymaster.

Accumulate on dips

While we caution further volatility in the share price, we believe this may present buying opportunities. AEM is currently trading at 2.5x FY20E P/B, around 0.5 SD below its 3-year mean of 3x. We continue to see AEM as a potential M&A play given its first-mover advantage in system level test. In that regard, we find it is 4x FY20E EV/EBITDA valuation highly attractive. For comparison, Cohu acquired Xcerra for 7-8x forward EV/EBITDA.

FYE Dec (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	262	323	369	384	400
EBITDA	42	70	78	82	88
Core net profit	33	53	59	63	67
Core FDEPS (cts)	12.3	19.4	21.9	23.3	24.7
Core FDEPS growth(%)	3.4	58.3	12.9	6.2	6.2
Net DPS (cts)	3.4	5.1	5.5	5.8	6.2
Core FD P/E (x)	6.7	10.4	7.5	7.0	6.6
P/BV (x)	2.5	4.1	2.5	2.0	1.6
Net dividend yield (%)	4.1	2.5	3.3	3.6	3.8
ROAE (%)	45.5	47.3	37.8	31.1	26.6
ROAA (%)	26.6	29.1	25.2	22.9	20.6
EV/EBITDA (x)	4.0	6.3	3.9	3.2	2.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	31	31	na
MKE vs. Consensus (%)	-	-	93.1	104.7	na

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BUY

Share Price	SGD 1.64
12m Price Target	SGD 2.82 (+74%)
Previous Price Target	SGD 2.82

Company Description

AEM manufactures equipment used in the semiconductor back-end process

Statistics

52w high/low (SGD)	2.27/0.85
3m avg turnover (USDm)	13.1
Free float (%)	76.9
Issued shares (m)	273
Market capitalisation	SGD448.2M USD313M

Major shareholders:

Toh Ban Leng James	7.8%
Aberdeen Standard Investments (Asia) Ltd	6.9%
Morgan Stanley	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(27)	(13)	37
Relative to index (%)	(10)	11	73

Source: FactSet

Sensitivity analysis

Fig 38: Sensitivity analysis of implied earnings expectation at various share prices.

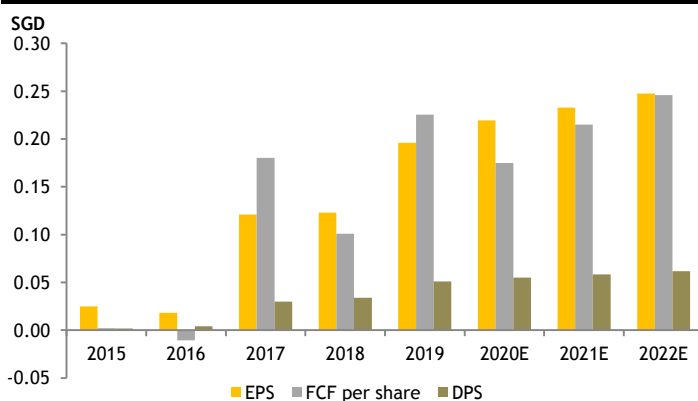
Share price (SGD)	Implied	
	FY20-21E average ROE	FY19-21E earnings CAGR (linear basis)
2.80	34.3%	9.5%
2.60	32.5%	4.7%
2.40	30.8%	0.0%
2.20	29.0%	-5.0%
2.00	27.1%	-10.3%
1.80	25.0%	-16.0%
1.60	22.9%	-21.8%
1.40	20.7%	-28.0%
1.20	18.5%	-34.5%
1.00	16.2%	-41.3%

Source: Maybank Kim Eng

Balance sheet and cash flow

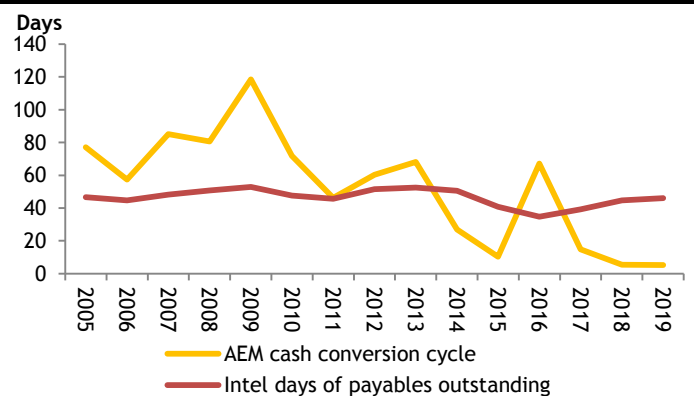
AEM has a 25% dividend pay-out ratio policy, which is comfortably funded by free cash flow. Balance sheet is robust, with net cash to equity of 80%. Since ramping up HDMT test-handlers in 2017, AEM's cash conversion cycle has improved considerably to 15 days or below. Furthermore, Intel has a track record of being a good paymaster, with days of payables outstanding ranging 40-50 days, even throughout the GFC.

Fig 39: Dividends comfortably funded by free cash flow



Source: Company, Maybank Kim Eng

Fig 40: Since ramping up HDMT TH in 2017, AEM's cash conversion cycle is 15 or less; Intel is a good paymaster



Source: FactSet, Company, Maybank Kim Eng

Valuation

AEM is currently trading on 2.5x FY20E P/B, around 0.5 SD below its 3-year mean. We have chosen a time period of 2017-present as we believe this time period is most relevant to AEM's prospects, as prior periods were marked by corporate restructuring under current management (2011-2016), and different business dynamics under previous management with a different product portfolio (prior to 2011).

During this period, forward P/B troughed in early 2017 during the investor discovery period for the stock. In recent sell-offs (Jan-19, May-19), AEM tended to have found support near 1.75x, or 1SD below mean.

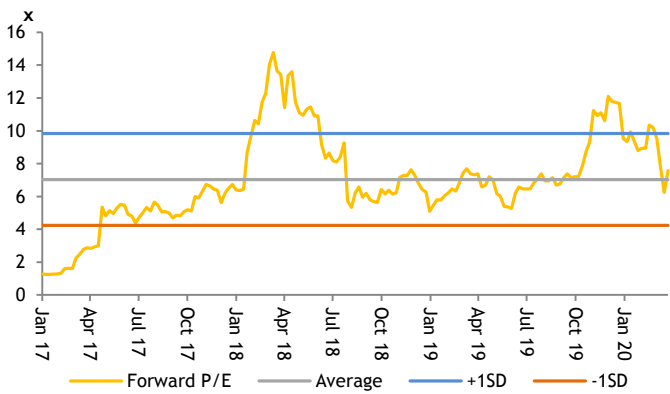
We continue to see AEM as a potential M&A play given its first-mover advantage in system level test. In that regard, we find is 4x FY20E EV/EBITDA valuation highly attractive. For comparison, Cohu acquired Xcerra for 7-8x forward EV/EBITDA.

Fig 41: Peer comparisons

Company	BBG Code	MKE Rec	MKE TP (LC)	Price (LC)	FYE mm	Mcap USDm	P/E (x)				EV /EBI TDA (x) FY1	Div yield (%) FY1	ROE (%) FY1
							Act	FY1	FY2	FY3			
AEM	AEM SP	Buy	2.82	1.67	12	311	8.5	7.6	7.2	6.8	4.1	3.3	37.8
Global back-end test handler peers													
Cohu	COHU US	NR	-	13.09	12	543	145.4	15.6	7.8	6.9	8.4	1.8	7.3
Tesec	6337 JP	NR	-	808	03	42	4.4	-	-	-	-	-	-
Chroma ATE	2360 TT	NR	-	111.50	12	1,544	25.2	16.3	13.4	11.5	13.6	3.9	16.8
Pentamaster Corp	PENT MK	NR	-	3.18	12	344	26.4	17.7	15.4	13.1	8.4	0.4	19.6
Average							46.6	15.4	11.8	10.3	10.8	3.0	17.6
Global back-end equipment peers													
Koh Young Technology	098460 KS	NR	-	89,700	12	1,001	35.1	27.7	21.8	18.9	16.8	1.0	15.9
Advantest	6857 JP	NR	-	4,570	03	8,184	15.1	18.6	16.5	14.2	11.0	1.6	21.5
Vitrox	VITRO MK	Sell	6.50	7.06	12	758	31.5	41.0	27.3	22.5	33.9	0.6	-
Hirata	6258 JP	NR	-	4,665	03	450	10.6	32.3	11.3	8.7	-	0.9	3.1
ASM Pacific	522 HK	NR	-	74.00	12	3,903	48.7	19.6	13.2	12.2	10.7	-	12.3
BE Semiconductor	BESI NA	NR	-	25.93	12	2,249	24.5	20.7	14.8	12.2	14.4	4.6	29.4
KLA-Tencor	KLAC US	NR	-	137.47	06	21,551	16.2	13.9	13.3	12.1	11.1	2.4	54.8
Teradyne	TER US	NR	-	54.24	12	9,046	19.0	16.8	14.9	13.4	11.7	0.5	35.2
Average							20.2	16.9	14.6	13.0	11.8	1.9	39.0

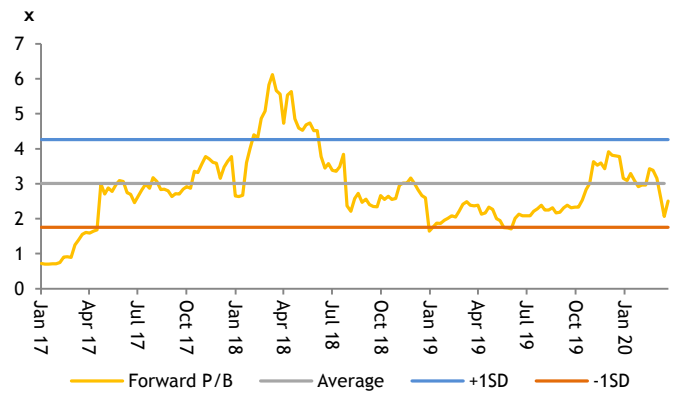
Source: Maybank Kim Eng

Fig 42: Forward P/E band



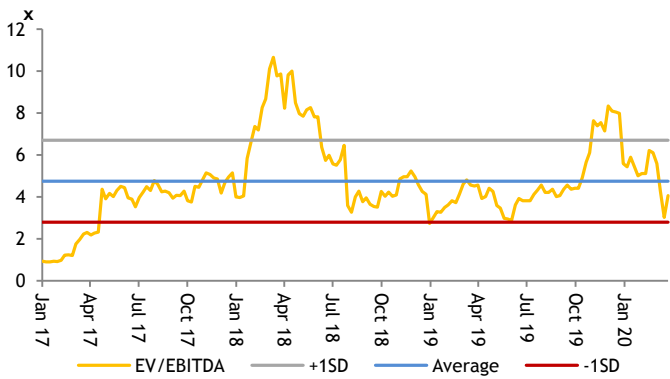
Source: FactSet, Maybank Kim Eng

Fig 43: Forward P/B band



Source: FactSet, Company, Maybank Kim Eng

Fig 44: EV/ forward EBITDA band

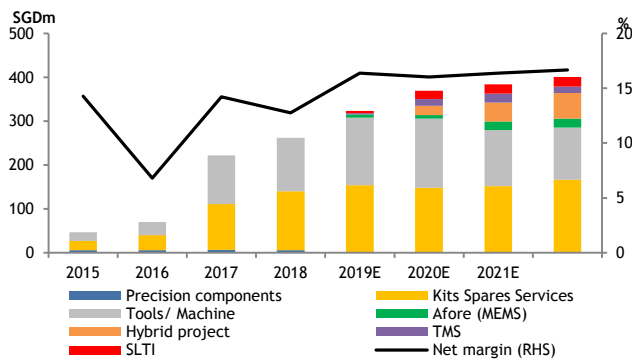


Source: FactSet, Maybank Kim Eng

Value Proposition

- Back-end test-equipment manufacturer that has co-developed the HDMT handler for a market-leading chipmaker with a market cap of USD250b.
- Leading-edge HDMT technology has helped its core customer achieve 2x savings in chip-testing costs.
- AEM provides strong synergies like field-service capabilities and manufacturing scale for the high-tech companies that it acquires.
- High single-customer and product risks.

Share of new revenue sources progressively growing

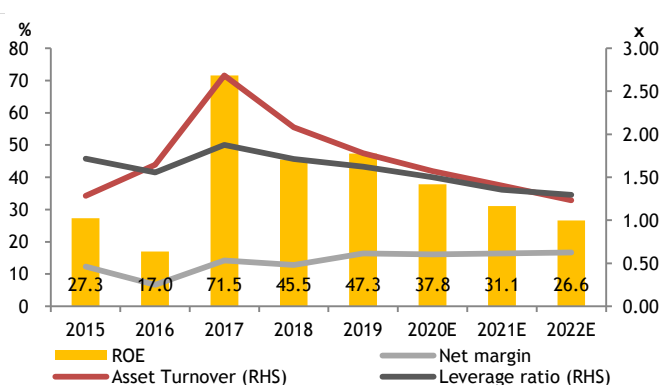


Source: Company, Maybank Kim Eng

Financial Metrics

- We expect 12% earnings growth in 2020E, driven by sustained sales to Intel and contributions from new initiatives and customers.
- AEM is not a capex-intensive company. Improved cash-flow from 2016 levels has allowed AEM to pursue highly synergistic acquisitions.
- Training a batch of engineers during pre-production ramp up could take 5-6 months. During such time, staff costs could be elevated and profitability could temporarily decline.
- Adopted 25% dividend payout ratio policy in 2017.

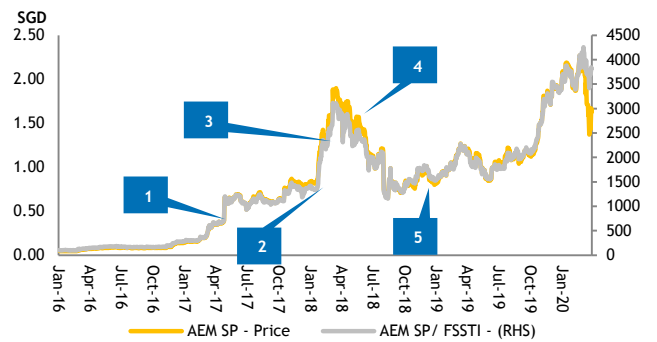
DuPont ROE



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



Source: Company, FactSet, Maybank Kim Eng

1. Announced favourable 1Q17 net profit as HDMT handlers delivery pick up momentum. There were also insider purchases.
2. Announced 2018 guidance for SGD255m in revenue and SGD42m PBT.
3. Announced accretive acquisition of Afore, Finnish-based MEMS test-solutions provider.
4. Novo Tellus distributes AEM shares in-specie to investors; Core customer announces 10nm delay.
5. AEM's core customer denies rumours from tech-blog SemiAccurate that its 10nm process was cancelled.

Swing Factors

Upside

- Revenue expansion from securing new customers or wallet expansion/increased orders from existing customers.
- Synergistic and accretive acquisitions.
- Positive customer-related news flow that could catalyse improved orders for AEM, such as capacity expansion or launch of new chips.

Downside

- Order cancellation, delays and earnings misses.
- Emerging technology from rivals that could erode AEM's competitive position with customer(s).
- Erosion in the competitive advantages of the core customer as a result of company specific or industry related developments.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	9.2	6.2	7.5	7.0	6.6
Core P/E (x)	6.7	10.3	7.5	7.0	6.6
Core FD P/E (x)	6.7	10.4	7.5	7.0	6.6
P/BV (x)	2.5	4.1	2.5	2.0	1.6
P/NTA (x)	2.5	4.1	2.5	2.0	1.6
Net dividend yield (%)	4.1	2.5	3.3	3.6	3.8
FCF yield (%)	12.2	11.2	10.7	13.1	15.0
EV/EBITDA (x)	4.0	6.3	3.9	3.2	2.5
EV/EBIT (x)	4.1	6.9	4.2	3.5	2.7
INCOME STATEMENT (SGD m)					
Revenue	262.3	323.1	369.1	384.0	400.5
Gross profit	89.1	130.8	146.2	150.2	157.6
EBITDA	41.9	69.5	77.6	82.4	87.5
Depreciation	(1.9)	(4.4)	(4.6)	(5.1)	(5.4)
Amortisation	0.0	(1.5)	(1.5)	(1.5)	(1.5)
EBIT	40.0	63.6	71.5	75.9	80.6
Net interest income / (exp)	(0.0)	(0.2)	(0.2)	(0.2)	(0.2)
Associates & JV	(0.0)	0.5	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	40.0	63.9	71.3	75.7	80.4
Income tax	(6.5)	(11.0)	(12.1)	(12.9)	(13.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	33.5	52.9	59.2	62.8	66.7
Core net profit	33.5	52.9	59.2	62.8	66.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	58.8	107.7	138.6	179.4	227.6
Accounts receivable	21.7	28.0	28.6	30.3	31.2
Inventory	28.2	57.5	40.2	62.3	50.9
Property, Plant & Equip (net)	5.7	6.3	5.7	5.6	5.2
Intangible assets	16.8	16.9	16.9	16.9	16.9
Investment in Associates & JVs	4.2	4.6	4.6	4.6	4.6
Other assets	0.2	7.1	7.1	7.1	7.1
Total assets	135.5	228.0	241.6	306.1	343.3
ST interest bearing debt	0.2	0.0	0.0	0.0	0.0
Accounts payable	36.6	73.1	49.0	66.3	53.5
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	9.0	20.0	14.0	14.0	14.0
Total Liabilities	46.0	93.6	62.9	80.3	67.4
Shareholders Equity	89.5	134.3	178.7	225.9	275.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	89.5	134.3	178.7	225.9	275.9
Total liabilities and equity	135.5	228.0	241.6	306.1	343.3
CASH FLOW (SGD m)					
Pretax profit	40.0	63.9	71.3	75.7	80.4
Depreciation & amortisation	1.9	5.9	6.1	6.5	6.9
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(6.2)	2.3	(14.1)	(6.3)	(2.3)
Cash taxes paid	(4.2)	(5.8)	(12.1)	(12.9)	(13.7)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	31.5	65.8	51.2	63.0	71.3
Capex	(4.0)	(5.0)	(4.0)	(5.0)	(5.0)
Free cash flow	27.5	60.9	47.2	58.0	66.3
Dividends paid	(8.4)	(10.5)	(14.8)	(15.7)	(16.7)
Equity raised / (purchased)	6.0	0.0	0.0	0.0	0.0
Change in Debt	0.3	(0.3)	0.0	0.0	0.0
Other invest/financing cash flow	(1.7)	(1.4)	(1.5)	(1.5)	(1.5)
Effect of exch rate changes	(11.0)	0.2	0.0	0.0	0.0
Net cash flow	12.7	48.9	30.9	40.9	48.1

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	18.4	23.2	14.2	4.0	4.3
EBITDA growth	11.3	65.8	11.6	6.3	6.1
EBIT growth	8.3	58.8	12.4	6.2	6.2
Pretax growth	8.5	59.9	11.6	6.2	6.2
Reported net profit growth	6.4	58.1	11.8	6.2	6.2
Core net profit growth	6.4	58.1	11.8	6.2	6.2
Profitability ratios (%)					
EBITDA margin	16.0	21.5	21.0	21.5	21.8
EBIT margin	15.3	19.7	19.4	19.8	20.1
Pretax profit margin	15.2	19.8	19.3	19.7	20.1
Payout ratio	27.6	26.0	25.0	25.0	25.0
DuPont analysis					
Net profit margin (%)	12.8	16.4	16.0	16.4	16.7
Revenue/Assets (x)	1.9	1.4	1.5	1.3	1.2
Assets/Equity (x)	1.5	1.7	1.4	1.4	1.2
ROAE (%)	45.5	47.3	37.8	31.1	26.6
ROAA (%)	26.6	29.1	25.2	22.9	20.6
Liquidity & Efficiency					
Cash conversion cycle	5.2	5.2	7.9	17.8	22.7
Days receivable outstanding	31.0	27.7	27.6	27.6	27.6
Days inventory outstanding	66.5	80.2	78.9	78.9	83.8
Days payables outstanding	92.3	102.7	98.6	88.8	88.8
Dividend cover (x)	3.6	3.8	4.0	4.0	4.0
Current ratio (x)	2.4	2.2	3.5	3.6	4.8
Leverage & Expense Analysis					
Asset/Liability (x)	2.9	2.4	3.8	3.8	5.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	nm	nm	nm	nm
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	1.5	1.5	1.1	1.3	1.2
Net debt/ (net cash)	(58.5)	(107.7)	(138.6)	(179.4)	(227.6)

Source: Company; Maybank

UMS Holdings (UMSH SP)

Tempering our expectations

BUY

Share Price SGD 0.64
 12m Price Target SGD 0.96 (+58%)
 Previous Price Target SGD 1.13

Risks priced in; maintain BUY

We trim FY20-22E EPS by 6-15% to factor in i) closure of UMS' Penang facility amid a movement restriction order in Malaysia; ii) AMAT's withdrawal of 2QFY20 guidance due to supply chain and operational disruptions; and iii) a shallower pace of semiconductor capex recovery amid increased uncertainties. Our ROE-g/COE-g TP falls to SGD0.96, now on 2x FY20E P/B (prev: 2.3x). Key risk is a prolonged economic downturn that weakens the drivers of the current capex recovery cycle. Maintain BUY.

Operational updates

UMS' Penang facility is closed from 18-Mar to 14-Apr due to a country-wide movement control order. Notably, in an operational update on 25-Mar, UMS omitted the statement that it does not expect the temporary closure to result in "significant material financial impact" found in the 23-Mar update. While Micron's (Applied Materials' customer) unchanged FY20 capex guidance is a relief, it is adopting a flexible approach to capex vis-à-vis fluid demand dynamics. This may imply downside risks to rate of memory investment recovery, a driver of our thesis.

Clean balance sheet; 7% yield supported by FCF

UMS has a clean balance sheet with net cash to equity of 9%. FY20E yield of 7% is also fully funded by FCF. A key risk to dividends is a more severe than expected economic downturn, as semiconductor equipment companies are highly cyclical. A mitigating factor is that recent cycles, and future ones are expected to be less pronounced amid more structural growth drivers such as increasing chip complexity and scaling challenges.

Forward P/B comparable to recent downturns

We believe the semiconductor equipment up-cycle is still intact. UMS is currently trading at 1.3x FY20E P/B, which is comparable to recent down-cycles, i.e. 2016 and mid-2019. UMS troughed at 0.2x forward P/B during the GFC. However, UMS was lossmaking then, while currently we still expect profitability to be intact. Forward yield is now around the long-term mean, with 1SD above mean at 13%.

FYE Dec (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22A
Revenue	128	132	139	159	174
EBITDA	51	40	47	60	63
Core net profit	43	34	39	50	53
Core EPS (cts)	8.0	6.3	7.3	9.3	9.8
Core EPS growth (%)	(16.2)	(22.1)	16.0	28.0	5.6
Net DPS (cts)	4.5	4.0	4.5	5.0	4.5
Core P/E (x)	7.1	16.5	8.8	6.8	6.5
P/BV (x)	1.3	2.3	1.3	1.2	1.1
Net dividend yield (%)	7.9	3.9	7.1	7.9	7.1
ROAE (%)	19.4	13.8	15.5	18.5	17.8
ROAA (%)	16.1	11.9	13.2	15.9	15.4
EV/EBITDA (x)	6.1	13.2	6.8	5.0	4.7
Net gearing (%) (incl perps)	2.7	net cash	net cash	net cash	net cash
Consensus net profit	-	-	na	na	-
MKE vs. Consensus (%)	-	-	na	na	-

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Company Description

UMS manufactures high precision components and modules found in front-end semiconductor equipment

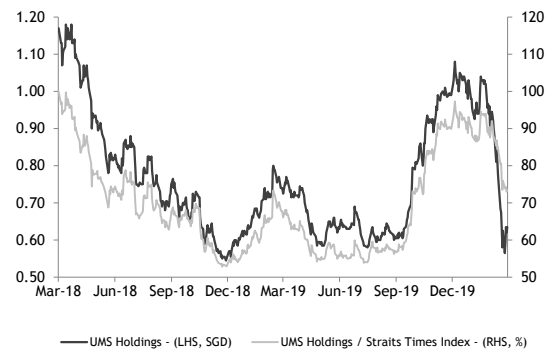
Statistics

52w high/low (SGD)	1.08/0.57
3m avg turnover (USDm)	3.9
Free float (%)	69.2
Issued shares (m)	536
Market capitalisation	SGD340.6M USD238M

Major shareholders:

LUONG ANDY	20.7%
UMS Holdings Bhd.	6.8%
Dimensional Fund Advisors LP	0.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(34)	(36)	(14)
Relative to index (%)	(19)	(18)	9

Source: FactSet

Forecast changes and sensitivity analysis

We cut UMS' FY20-22E earnings by 6-15%, to factor in i) impact of movement restrictions in Malaysia, resulting in UMS' Penang plant being shut from 18-Mar to 14-Apr, ii) AMAT's withdrawal of 2QFY20 guidance due to supply chain and manufacturing operation disruptions, and iii) a shallower pace in the semiconductor capex recovery that may arise from reduced investment appetite in general. In recent years, UMS has transferred volume manufacturing to its Malaysia facility (500,000 sf) from Singapore (140,000 sf).

Read across from Micron's 2QFY20 earnings (25-Mar-2020)

Micron has kept FY20E capex guidance between USD7-8b, which is a relief for us. Micron is one of AMAT's customers, and this update is the latest and most relevant reference point given the highly dynamic environment currently. Corroborating recent observations, Micron highlighted that there is stronger demand from data centre and notebooks to support the work from home trend. However, smartphone, consumer electronics and automotive demand is now below Micron's prior expectations for 2HFY20. As such, Micron is shifting supply for both DRAM and NAND from smartphone to data centre markets.

We acknowledge risks to semiconductor capex appetite. While Micron remains positive towards long-term prospects, it is adopting a flexible attitude towards FY20 capex plans depending on demand requirements.

Fig 45: Forecast changes for UMS

	FY20E			FY21E			FY22E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	139.5	151.6	-8.0	159.3	178.7	-10.9	174.2	182.3	-4.4
Gross profit (SGDm)	73.9	82.0	-9.8	89.2	100.1	-10.9	94.1	98.4	-4.4
EBIT (SGDm)	40.0	47.4	-15.7	53.8	62.4	-13.7	56.7	60.1	-5.7
EBITDA (SGDm)	46.8	53.4	-12.3	60.1	68.6	-12.5	63.2	66.6	-5.1
Core net profit (SGDm)	38.9	45.8	-15.1	49.8	57.5	-13.4	52.6	55.7	-5.5
EPS (SGD)	0.07	0.09	-15.1	0.09	0.11	-13.4	0.10	0.10	-5.5
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross margin	53.0%	54.1%	-1.1	56.0%	56.0%	0.0	54.0%	54.0%	0.0
Staff cost as % of sales	12.3%	12.3%	0.0	12.0%	12.0%	0.0	12.0%	12.0%	0.0

Source: Maybank Kim Eng

Fig 46: Sensitivity analysis of implied earnings expectation at various share prices

Share price (SGD)	Implied	
	Average FY20-21E ROE	FY19-21E earnings CAGR (linear basis)
1.20	20.3%	37.8%
1.10	18.8%	30.0%
1.00	17.5%	23.0%
0.90	16.0%	15.0%
0.80	14.7%	7.5%
0.70	13.2%	-0.5%
0.60	11.7%	-9.0%
0.50	10.2%	-18.0%
0.40	8.6%	-28.0%

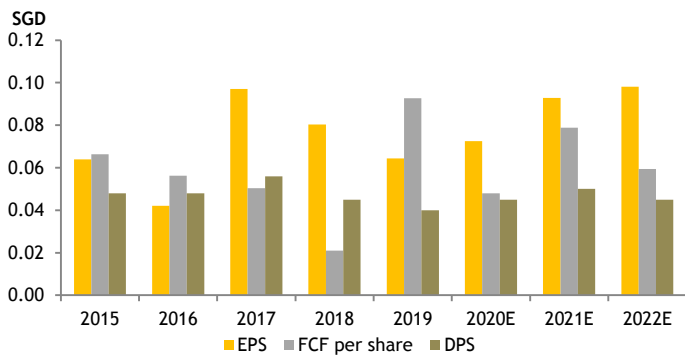
COE/LTG assumptions for this sensitivity analysis are unchanged at 9.5%/2% respectively

Source: Maybank Kim Eng

Balance sheet and cash flow

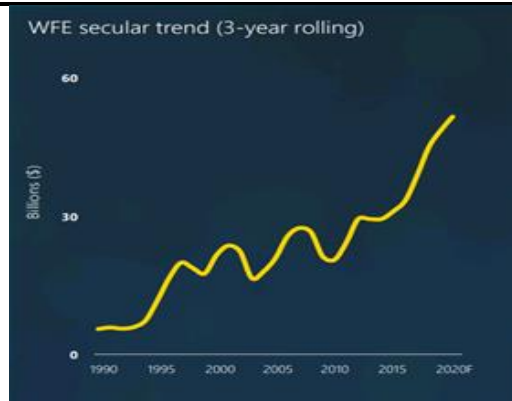
Currently, we make no changes to DPS assumptions as it is comfortably funded by FCF. UMS' balance sheet is clean, with net cash to equity of around 9%. We do not rule out that a sharper/ longer than expected economic downturn may affect UMS' ability to meet our dividend forecasts, as the semiconductor industry is highly cyclical. That said, equipment-makers generally expect current and future cycles to be smoother than those a decade ago due to i) structural growth of semiconductor chips and ii) rising capital intensity amid increasing semiconductor manufacturing complexity and device scaling challenges.

Fig 47: DPS is comfortably funded by FCF per share



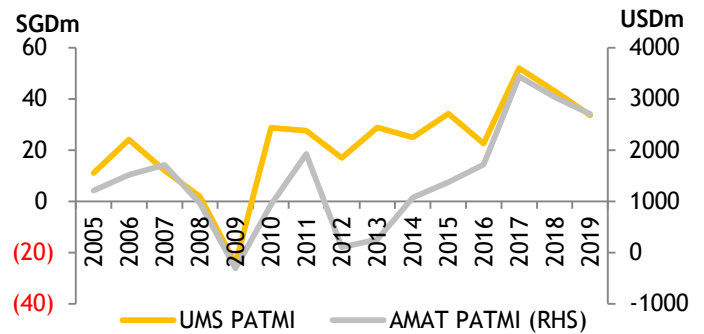
Source: Company, Maybank Kim Eng

Fig 49: Recent cyclicity has been less pronounced, due to increasingly structural growth drivers



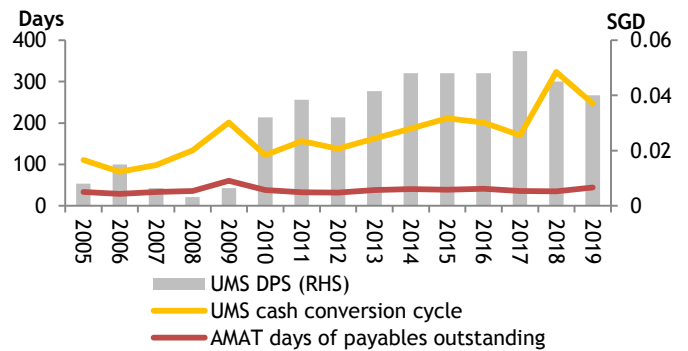
Source: Lam Research

Fig 48: A protracted downturn is a key risk to dividends (such as during GFC), as AMAT/ UMS are highly cyclical



Source: FactSet, Company, Maybank Kim Eng

Fig 50: AMAT is generally a good paymaster. While UMS' cash conversion cycle has increased, it has not impeded its ability to pay dividends.



Source: FactSet, Company, Maybank Kim Eng

Valuation

Our new TP is based on 2x FY20E P/B (prev: 2.3x), in turn based on FY20-21E average ROE of 17% and LTG of 2%.

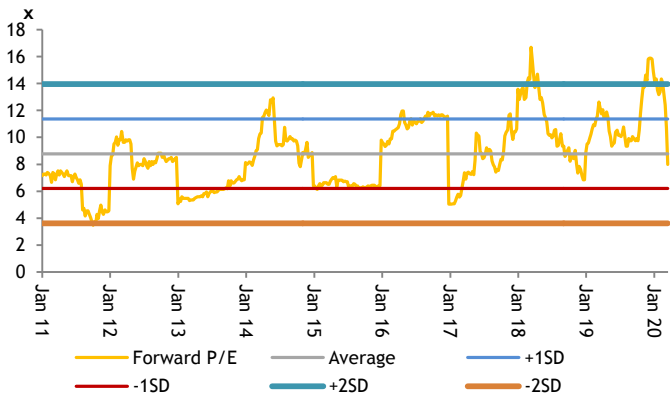
Although the semiconductor equipment up-cycle appears intact, UMS is currently trading at 1.3x FY20E P/B, which is comparable to recent down-cycles, i.e. 2016 and mid-2019. UMS troughed at 0.2x forward P/B during the GFC. However, UMS was lossmaking then, while currently we still expect profitability to be intact. Forward dividend yield is now around long-term mean, with 1SD above mean at 13%.

Fig 51: Peer and supply chain comparables

Company	BBG Code	MKE Rec	MKE TP (LC)	Price (LC)	FYE mm	Mcap USDm	P/E (x)				EV /EBI TDA (x) FY1	PBR (x) FY1	Div yield (%) FY1
							Act	FY1	FY2	FY3			
UMS	UMSH SP	Buy	0.96	0.63	12	315	10.1	8.7	6.8	6.4	8.8	1.3	7.1
Singapore-listed semiconductor equipment makers/ suppliers													
AEM	AEM SP	Buy	2.82	1.64	12	363	8.4	7.5	7.0	6.6	3.6	-	3.4
Micro-Mechanics	MMH SP	NR	-	1.48	06	144	15.9	14.2	12.9	-	-	3.5	7.4
Average							10.3	9.1	8.0	6.5	6.0	2.0	5.5
Globally listed AMAT suppliers													
Ultra Clean Holdings	UCTT US	NR	-	15.25	12	608	16.8	8.8	7.8	11.3	-	1.2	-
MKS Instruments	MKSI US	NR	-	79.97	12	4,388	17.7	13.9	10.3	8.2	5.9	2.0	1.0
Advanced Energy Industries	AEIS US	NR	-	50.18	12	1,927	20.6	15.7	11.4	10.0	-	2.5	0.0
Brooks Automation	BRKS US	NR	-	29.51	09	2,173	38.3	24.6	18.1	14.3	-	1.6	1.4
Ichor Holdings	ICHR US	NR	-	20.57	12	469	16.5	7.7	6.4	6.7	4.9	1.9	0.0
Flex	FLEX US	NR	-	8.05	03	4,057	7.1	6.6	6.2	5.1	3.0	1.4	0.0
Celestica	CLS US	NR	-	3.33	12	365	6.2	5.0	3.8	4.1	-	-	0.0
Average							17.8	13.0	10.1	8.5	4.5	1.8	1.1
Globally listed front-end semicon equipment makers													
Applied Materials	AMAT US	NR	-	45.05	10	41,370	14.8	11.5	10.2	9.4	8.4	4.2	1.9
Lam Research	LRCX US	NR	-	241.22	06	35,109	16.6	15.5	12.6	11.5	9.8	8.1	2.0
ASML	ASML NA	NR	-	229.50	12	108,024	37.3	29.5	22.0	19.0	15.7	7.1	1.1
KLA Corp	KLAC US	NR	-	142.24	06	22,299	16.8	14.5	14.0	12.6	10.2	7.9	2.3
Tokyo Electron	8035 JP	NR	-	21,350	03	31,024	14.1	19.3	15.8	13.3	8.2	4.1	2.6
							25.4	21.6	17.0	14.9	12.1	6.4	1.7

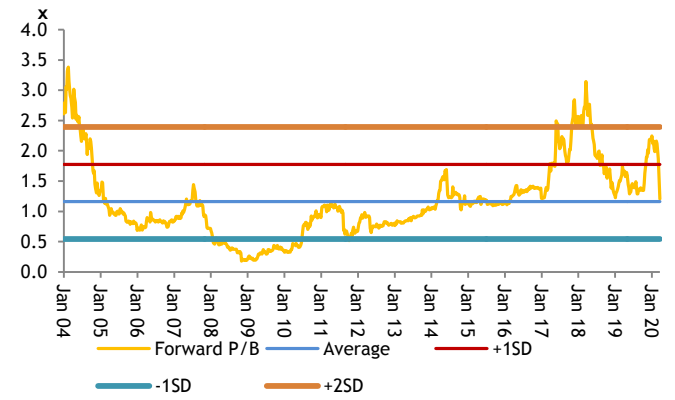
Source: FactSet, Bloomberg, Maybank Kim Eng

Fig 52: Forward P/E band



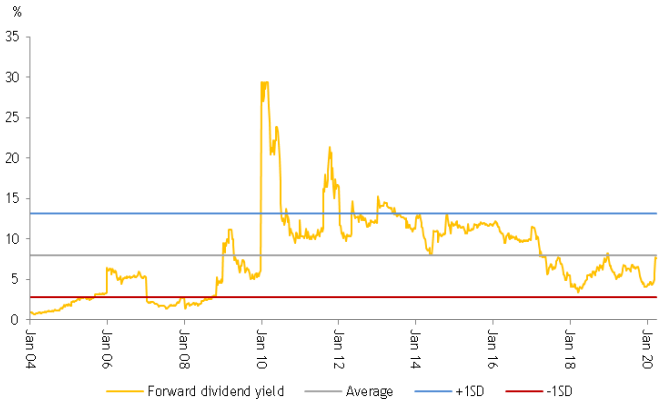
Source: Company, FactSet, Maybank Kim Eng

Fig 53: Forward P/B band



Source: Company, FactSet, Maybank Kim Eng

Fig 54: Forward dividend yield band

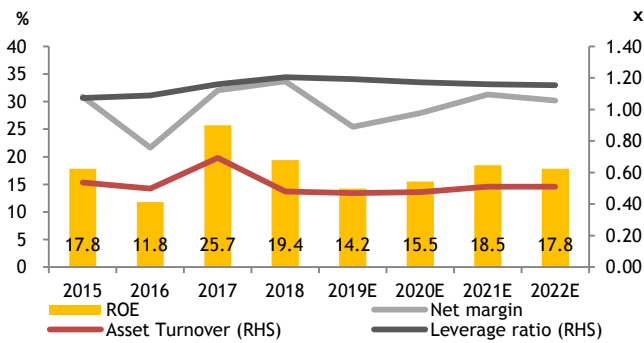


Source: Company, FactSet, Maybank Kim Eng

Value Proposition

- Precision metals engineering firm - specialises in assembling modules and precision engineering for components for front-end semiconductor equipment.
- Has entrenched relationship with key customer Applied Materials - which in turn has estimated 19% of WFE market share in 2018.
- Through associate JEP, UMS is expanding precision metals engineering to non-semiconductor sectors such as aerospace, which sees tailwinds from outsourcing trends.

UMS Du Pont ROE

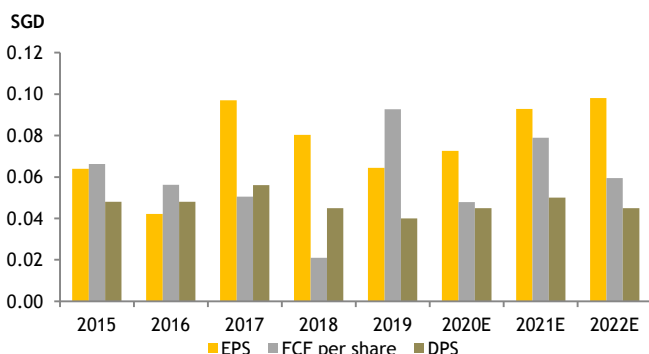


Source: Company, Maybank Kim Eng

Financial Metrics

- PATMI growth of 16% in FY20E, driven by sustained investments from logic and foundry end-customers, and recovery from memory end-customers.
- UMS has a strong track record of maintaining a net cash balance sheet to tide through cycles.
- We forecast capex to be near depreciation levels. FCF expected to cover dividends over forecast period.

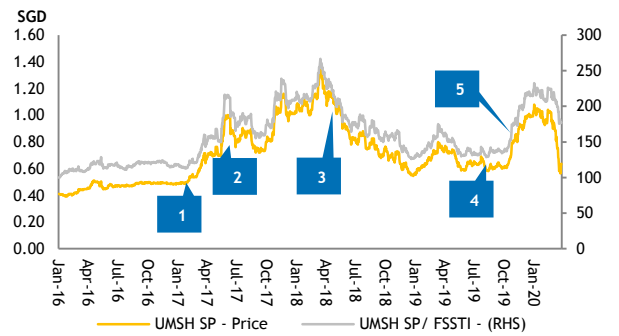
EPS, FCF per share and DPS



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. Endura contract renewed for three years (2020 expiry)
2. Insider purchases from CEO Andy Luong and financial controller Stanley Loh.
3. 1Q18 revenue fell 11% YoY following six consecutive quarters of YoY increases.
4. AMAT spots optimistic tone for FY20 while UMS affirms it is seeing stable order volumes from AMAT.
5. AMAT, alongside peers, reaffirm positive FY20 expectations; UMS highlights semiconductor market has bottomed.

Swing Factors

Upside

- Earlier-than-expected recovery in investments from memory semiconductor players.
- Better-than-expected contributions from Kalf Engineering, Starke and JEP.
- Better-than-expected cost control, which in turn supports margins.

Downside

- Further deterioration in US-China trade relations resulting in delayed semiconductor equipment spending.
- Weaker-than-expected margins due to negative operating leverage if volume falls.
- Lower-than-expected dividends may spook yield investors. UMS has a quarterly dividend policy and a track record of strong cash flow generation.

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22A
Key Metrics					
P/E (reported) (x)	11.0	11.6	8.8	6.8	6.5
Core P/E (x)	7.1	16.5	8.8	6.8	6.5
P/BV (x)	1.3	2.3	1.3	1.2	1.1
P/NTA (x)	1.3	2.3	1.3	1.2	1.1
Net dividend yield (%)	7.9	3.9	7.1	7.9	7.1
FCF yield (%)	3.7	8.8	7.5	12.4	9.4
EV/EBITDA (x)	6.1	13.2	6.8	5.0	4.7
EV/EBIT (x)	6.9	15.9	8.0	5.6	5.2
INCOME STATEMENT (SGD m)					
Revenue	127.9	131.9	139.5	159.3	174.2
Gross profit	77.0	69.8	73.9	89.2	94.1
EBITDA	51.1	40.4	46.8	60.1	63.2
Depreciation	(5.7)	(6.9)	(6.8)	(6.3)	(6.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	45.4	33.5	40.0	53.8	56.7
Net interest income / (exp)	(0.4)	(0.6)	(1.1)	(1.4)	(1.2)
Associates & JV	0.5	2.6	2.6	2.6	2.6
Exceptionals	0.0	(1.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	45.5	34.5	41.5	55.0	58.1
Income tax	(2.9)	(2.2)	(2.9)	(5.5)	(5.8)
Minorities	0.4	0.3	0.3	0.3	0.3
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	43.1	32.6	38.9	49.8	52.6
Core net profit	43.1	33.6	38.9	49.8	52.6
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	18.9	34.4	35.9	51.2	58.9
Accounts receivable	15.1	22.1	23.8	28.6	38.3
Inventory	70.4	51.7	56.0	59.2	72.6
Property, Plant & Equip (net)	53.4	52.3	55.5	54.2	52.7
Intangible assets	82.2	81.2	81.2	81.2	81.2
Investment in Associates & JVs	29.5	39.4	42.0	44.5	47.1
Other assets	5.4	6.1	6.1	6.1	6.1
Total assets	275.0	287.2	300.5	325.0	356.9
ST interest bearing debt	21.7	9.3	9.3	9.3	9.3
Accounts payable	14.1	18.8	19.3	21.4	25.2
LT interest bearing debt	3.4	3.6	3.6	3.4	3.4
Other liabilities	5.0	11.0	9.0	9.0	9.0
Total Liabilities	44.6	42.3	41.2	43.1	46.8
Shareholders Equity	228.6	243.3	258.0	281.0	309.5
Minority Interest	1.9	1.6	1.3	0.9	0.6
Total shareholder equity	230.5	244.9	259.3	282.0	310.1
Total liabilities and equity	275.0	287.2	300.5	325.0	356.9
CASH FLOW (SGD m)					
Pretax profit	45.5	34.5	41.5	55.0	58.1
Depreciation & amortisation	5.7	6.9	6.8	6.3	6.5
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(16.5)	18.1	(7.1)	(5.9)	(19.3)
Cash taxes paid	(2.6)	(2.3)	(2.9)	(5.5)	(5.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	31.5	54.5	35.7	47.3	36.9
Capex	(20.3)	(5.8)	(10.0)	(5.0)	(5.0)
Free cash flow	11.3	48.7	25.7	42.3	31.9
Dividends paid	(29.5)	(18.8)	(24.1)	(26.8)	(24.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	3.0	(12.2)	0.0	(0.2)	0.0
Other invest/financing cash flow	(26.1)	(3.3)	0.0	0.0	0.0
Effect of exch rate changes	0.7	(0.0)	0.0	0.0	0.0
Net cash flow	(40.6)	14.4	1.6	15.3	7.7

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22A
Key Ratios					
Growth ratios (%)					
Revenue growth	(21.3)	3.1	5.7	14.2	9.4
EBITDA growth	(14.3)	(20.9)	15.8	28.4	5.2
EBIT growth	(17.9)	(26.2)	19.3	34.5	5.4
Pretax growth	(17.6)	(24.3)	20.3	32.5	5.7
Reported net profit growth	(16.2)	(24.4)	19.5	28.0	5.6
Core net profit growth	(16.2)	(22.1)	16.0	28.0	5.6
Profitability ratios (%)					
EBITDA margin	39.9	30.6	33.5	37.7	36.3
EBIT margin	35.5	25.4	28.7	33.8	32.5
Pretax profit margin	35.6	26.1	29.7	34.5	33.3
Payout ratio	56.0	65.9	62.0	53.9	45.9
DuPont analysis					
Net profit margin (%)	33.7	24.7	27.9	31.3	30.2
Revenue/Assets (x)	0.5	0.5	0.5	0.5	0.5
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.2
ROAE (%)	19.4	13.8	15.5	18.5	17.8
ROAA (%)	16.1	11.9	13.2	15.9	15.4
Liquidity & Efficiency					
Cash conversion cycle	364.9	309.7	250.5	250.5	260.4
Days receivable outstanding	54.3	50.8	59.2	59.2	69.0
Days inventory outstanding	424.4	354.3	295.9	295.9	295.9
Days payables outstanding	113.8	95.3	104.5	104.5	104.5
Dividend cover (x)	1.8	1.5	1.6	1.9	2.2
Current ratio (x)	2.7	3.3	3.7	4.2	4.6
Leverage & Expense Analysis					
Asset/Liability (x)	6.2	6.8	7.3	7.5	7.6
Net gearing (%) (incl perps)	2.7	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	2.7	net cash	net cash	net cash	net cash
Net interest cover (x)	113.2	52.9	37.0	38.4	47.3
Debt/EBITDA (x)	0.5	0.3	0.3	0.2	0.2
Capex/revenue (%)	15.8	4.4	7.2	3.1	2.9
Net debt/ (net cash)	6.2	(21.4)	(23.0)	(38.5)	(46.2)

Source: Company; Maybank

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