

Micro-Mechanics (Holdings) Ltd

Consumables provide resiliency



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SINGAPORE | TECHNOLOGY | 4Q18 RESULTS

29 August 2018

- 4Q18 revenue and PATMI were 3% and 6% below our full-year expectations. We are trimming our FY19e earnings by 14%.
- Margins hurt by higher depreciation (as capex more than doubled in FY18) and weaker sales in Singapore and Malaysia.
- Despite lowering our earnings, we maintain our target price at S\$2.30. We believe Micro-Mechanics has the most resilient product line and a front-end business could surprise on the upside.

BUY (Maintained)

LAST TRADED PRICE	SGD 1.83
FORECAST DIV	SGD 0.08
TARGET PRICE	SGD 2.30
TOTAL RETURN	30.1%

COMPANY DATA

BLOOMBERG	MMH SP
O/S UNITS (MN) :	139
MARKET CAP (USD mn / SGD mn) :	187 / 254
52 - WK HI/LO (SGD) :	2.48 / 1.39
3M Average Daily T/O (mn) :	0.02

MAJOR SHAREHOLDERS

SARCADIA LLC	27.1%
CHRIS BORCH	24.9%
LOW MING WAH	5.1%

Results at a glance

S\$ mn	4Q18	4Q17	YoY (%)	3Q18	QoQ (%)	Comment
Revenue	15.7	15.5	1.3%	16.1	-2.3%	Revenue has been decelerating. Depreciation and right of use rose by S\$1.5mn in FY18e
Gross profit	8.6	9.2	-7.3%	9.0	-4.4%	
Admin. Exp.	(2.1)	(2.3)	-8.7%	(2.3)	-8.7%	
PATMI	4.0	4.6	-13.5%	4.1	-3.9%	Also hurt by higher effective tax in 4Q18e.
Gross margin	54.6%	59.6%	-8.4%	55.8%	-2.1%	
DPU (cents)	6.0	5.0	20.0%	0.0	n.m.	Final 5 cents plus 1 cent special.

Source: Company, PSR

The Positives

+ Dividend rose 25%. Final dividend rose 1 cent to 5 cents. MMH has doubled their dividends over the past 4 years. The payout is now 81%. This is sustainable, as capex in FY19e will revert to S\$5mn after the S\$12mn jump in FY18. Company is in net cash position of S\$21.1mn.

+ US could lead the next stage of growth. In FY18, U.S. revenue expanded by almost 30% and it turned profitable after 10 years of losses. We believe the company is making headway in front-end equipment parts.

The Negatives

- Margins weakest in more than 3-years. Gross margins in 4Q18 was 54.6%. This is the weakest in more than three years. Margins have been hurt by higher depreciation and slower sales in Singapore and Malaysia. Depreciation and right of use rose by S\$1.5mn in FY18.

- Revenue still softer than expected. Revenue growth for MMH has been decelerating the past 3-quarters.

Outlook

We are incorporating slower growth for FY19e. Global semiconductor sales is expected to slow from 12.4% in 2018 to 4.4% in 2019. We believe the bulk of semiconductor slowdown will come from equipment sales. MMH business is more dependent on the volume and complexity of semiconductors. And this is rising. For instance, wafer dies are becoming increasingly thinner and gate size narrower. Consumables that MMH produces need to be more particle-free and electrostatic discharge (ESD) resistant. This requires more precise and environmental controlled manufacturing, together with the need for proprietary materials.

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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	2.2	2.2	39.8
STI RETURN	(1.9)	(6.8)	2.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS (MMH SP)

SGD mn	FY17	FY18	FY19e	FY20e
Revenue	57.2	65.1	70.3	77.3
EBITDA	22.1	27.1	30.6	33.9
NPAT	14.8	17.2	18.7	21.6
EPS (SGD)	0.11	0.12	0.13	0.16
PER, x	17.2	14.8	13.6	11.8
P/BV, x	4.7	4.2	3.9	3.6
DPU (SGD)	0.08	0.10	0.11	0.12
DVD YIELD	4.4%	5.5%	6.0%	6.6%
ROE	28.2%	29.9%	29.8%	32.0%

Source: Bloomberg, PSR

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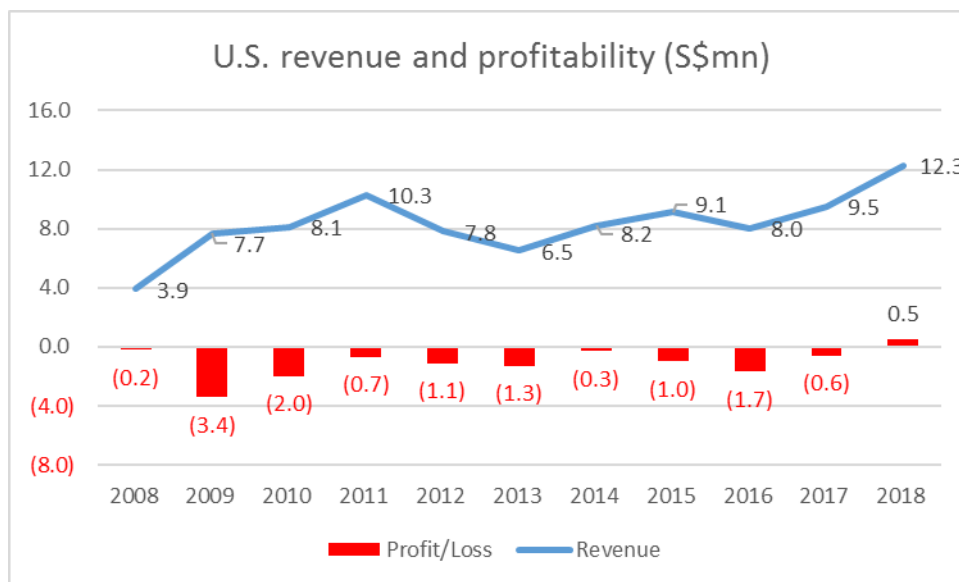
Maintain BUY with unchanged target px of S\$2.30

MMH is our stable proxy to the increasing pervasiveness and complexity of semiconductors. Demand for MMH products is recurrent because it needs to be replaced from several times a day (e.g. rubber tips) to several times a week (e.g. injection needles).

The need for customization, fast response time and difficulty to produce and develop these products have led to industry-leading margins. MMH enjoys a health net cash balance sheet and high returns on capital (ROE ~30%).

Our target price for MMH is 17x PE, in line with back-end semiconductor supply chain valuations (Figure 2).

Figure 1: The investment in U.S. finally paying off



Source: Company, PSR

Figure 2: Back-end semiconductor industry trading at around 17x PE, MMH has superior margins/ROE

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Share Px Local Crcy	Mkt. Cap. (US\$ m)	PE Yr 0	PE Yr + 1	PE Yr + 2	P/BV Yr 0	Dividend Yield	ROE Yr 0	EV/EBITDA	EBITDA Margin
OSAT													
ASE Technology	-0.9%	-5.5%	-3.1%	73.9	10,431	16.7	13.8	11.9	2.9	3.4%	17.5%	6.5	19.3%
Jiangsu Changjiang	-6.5%	-19.2%	-24.9%	16.0	3,198	63.4	33.6	20.8	2.4	0.2%	4.5%	8.0	17.0%
Amkor Tech.	-1.8%	-4.4%	-12.6%	8.8	2,103	8.1	15.6	10.5	1.2	0.0%	12.1%	3.6	23.5%
Inari Amertron	-3.3%	5.3%	4.6%	2.4	1,824	30.0	22.4	19.0	7.3	2.8%	27.8%	15.6	25.9%
Unisem	9.0%	26.1%	-20.5%	2.9	515	13.2	21.2	16.6	1.5	3.4%	7.6%	6.6	24.3%
MPI	8.8%	25.5%	-2.5%	12.3	597	17.2	16.5	14.3	2.1	2.4%	12.3%	5.1	23.4%
Globetronics	14.2%	23.4%	2.5%	2.9	473	37.9	24.5	19.3	6.6	2.8%	22.8%	14.8	27.5%
	-1.2%	-4.1%	-7.4%		19,142	17.7	16.7	13.4	3.1	2.4%	15.4%	7.5	20.4%
Equipment makers													
Teradyne	-5.8%	7.7%	-0.4%	41.7	7,774	30.2	19.4	16.0	4.5	0.8%	9.8%	11.8	29.9%
ASM Pacific	-9.0%	-18.3%	-21.6%	85.4	4,400	12.3	11.8	11.0	2.9	0.0%	24.4%	8.3	22.7%
BE Semiconductor	-3.6%	-36.0%	-45.6%	19.0	1,782	8.8	10.7	11.5	3.2	12.2%	44.4%	7.5	37.6%
Tokyo Seimitsu	-12.4%	-23.5%	-24.9%	3350	1,253	11.0	10.2	9.8	1.4	2.7%	13.3%	4.5	22.6%
Kulicke & Soffa	-2.0%	16.9%	8.3%	26.4	1,781	15.9	11.1	10.7	2.0	0.5%	7.2%	5.8	14.2%
Micro-Mechanics	1.7%	1.7%	-13.3%	1.83	187	14.8	13.6	11.8	4.5	5.5%	29.9%	8.6	41.6%
	-6.4%	-4.9%	-11.5%		17,177	16.2	13.9	12.7	3.5	1.9%	17.3%	9.3	26.8%

Source: Bloomberg, PSR

Financials

Income Statement

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	51.2	57.2	65.1	70.3	77.3
EBITDA	19.5	22.1	27.1	30.6	33.9
Depreciation & Amortisation	(4.4)	(4.3)	(5.9)	(7.1)	(6.7)
EBIT	15.1	17.8	21.2	23.5	27.2
Net Finance Inc/(Exp)	0.0	0.0	0.0	0.0	0.0
Profit before tax	15.7	18.5	21.9	24.0	27.7
Taxation	(3.8)	(3.7)	(4.7)	(5.3)	(6.1)
Net profit before NCI	11.9	14.8	17.2	18.7	21.6
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Net profit, reported	11.9	14.8	17.2	18.7	21.6

Per share data (SGD)

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	0.086	0.106	0.124	0.134	0.155
DPU	0.06	0.08	0.10	0.11	0.12
BVPS	0.36	0.39	0.43	0.47	0.50

Cash Flow

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	15.7	18.5	21.9	24.0	27.7
Depreciation & Amortisation	4.4	4.3	5.9	7.1	6.7
WC changes	(0.6)	(0.6)	(1.3)	1.2	(2.7)
Net finance inc/(exp)	(0.1)	(0.1)	(0.1)	0.0	0.0
Tax paid	(3.2)	(3.9)	(3.8)	(5.3)	(6.1)
Others	0.0	(0.2)	(0.3)	0.0	0.0
Cashflow from ops	16.3	18.1	22.4	27.1	25.6
CFI					
CAPEX, net	(4.1)	(5.1)	(12.1)	(5.0)	(5.0)
Others	0.4	0.2	0.7	0.0	0.0
Cashflow from investments	(3.7)	(4.9)	(11.4)	(5.0)	(5.0)
CFE					
Share issuance, net	0.0	0.0	0.0	0.0	0.0
Loans, net of repayments	0.0	0.0	0.0	0.0	0.0
Dividends	(6.9)	(9.7)	(12.5)	(13.9)	(16.7)
Others	0.0	0.0	(1.1)	0.0	0.0
Cashflow from financing	(6.9)	(9.7)	(13.6)	(13.9)	(16.7)
Net change in cash	5.7	3.5	(2.6)	8.2	3.9
CCE, end	20.8	23.5	20.8	29.3	33.2

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	25.5	26.1	33.2	31.1	29.3
Others	0.1	0.4	2.5	2.5	2.5
Total non-current assets	25.6	26.5	35.7	33.6	31.8
Accounts receivables	10.3	11.9	11.9	13.5	14.0
Cash	20.0	23.4	21.1	29.3	33.2
Inventories	3.2	3.6	4.6	4.7	5.4
Others	0.2	0.0	0.0	0.0	0.0
Total current assets	33.7	38.9	37.6	47.5	52.7
Total Assets	59.3	65.4	73.3	81.0	84.5

LIABILITIES

Accounts payables	5.9	7.8	7.0	10.0	8.5
Short term loans	0.0	0.0	0.0	0.0	0.0
Others	1.6	1.3	2.5	2.5	2.5
Total current liabilities	7.5	9.1	9.5	12.5	11.0
Long term loans	0.0	0.0	0.0	0.0	0.0
Others	1.5	1.7	3.4	3.4	3.4
Total non-current liabilities	1.5	1.7	3.4	3.4	3.4
Total Liabilities	9.0	10.8	12.9	15.9	14.4

EQUITY

Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholder Equity	50.2	54.7	60.3	65.1	70.0

Valuation Ratios

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
P/E (X)	21.4	17.2	14.8	13.6	11.8
P/B (X)	5.1	4.7	4.2	3.9	3.6
EV/EBITDA (X)	12.0	10.5	8.6	7.4	6.5
Dividend Yield	3.3%	4.4%	5.5%	6.0%	6.6%

Growth & Margins

Growth					
Revenue	-1.7%	11.8%	13.8%	8.0%	10.0%
EBITDA	5.4%	13.3%	22.5%	13.0%	10.8%
EBIT	8.6%	17.9%	19.0%	10.8%	15.9%
Net profit, adj.	-0.8%	24.4%	16.1%	8.8%	15.5%

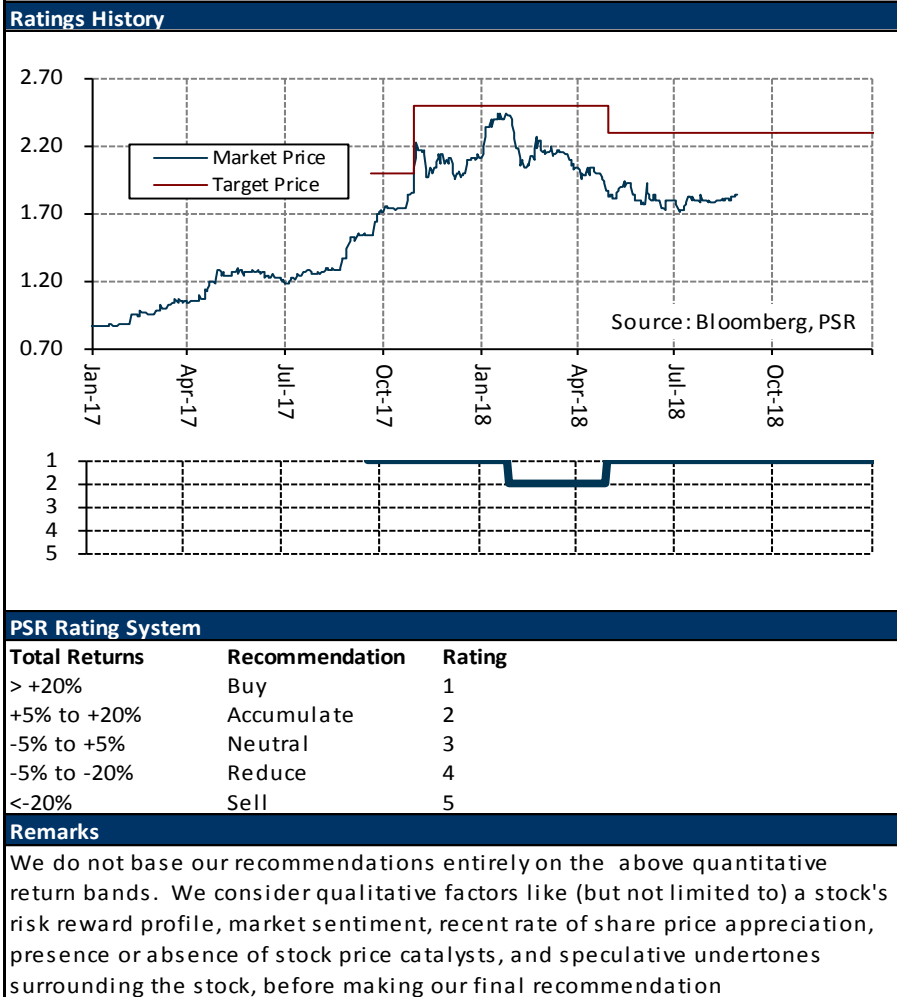
Margins

EBITDA margin	38.1%	38.6%	41.6%	43.5%	43.8%
EBIT margin	29.5%	31.1%	32.5%	33.4%	35.2%
Net profit margin	23.2%	25.9%	26.4%	26.6%	27.9%

Key Ratios

ROE	24.5%	28.2%	29.9%	29.8%	32.0%
ROA	20.7%	23.7%	24.8%	24.2%	26.1%

Net Debt / (Cash)	-20	-23	-21	-29	-33
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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