

Report type: Company Update

Company Overview

HANA is engaged in the manufacture and distribution of electronic components and micro electrical machine system (MEMS)-based devices for exports.

- Deteriorating global economy is likely to put pressure on HANA's sales which is expected to grow at slower pace in 2HCY12.
- HANA's increasing production capacity in China and Lamphun, Thailand is on track and the company continues to search for new production base due to higher wage cost in China and Thailand. Cambodia is likely to be a new hot spot.
- We raise CY12 earnings forecast despite potentially negative impact from dismal economy.
- We recommend an 'ACCUMULATE' rating on HANA shares with a revised target price of Bt21.40/share.

What is the news?

Even though deteriorating global economy is likely to pressure HANA's sales in the second half of the year, higher production capacity in Ayutthaya plant and flood-claimed insurance would help support 2HCY12 earnings growth.

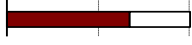
How do we view this?

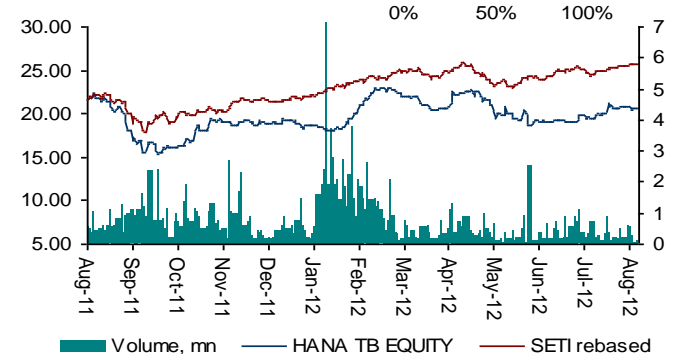
Sluggish global economic growth has raised the market's concern about earnings performance in the electronic component sector. Growing sales in new gadgets—smartphone and tablet—are likely to be a catalyst to earnings growth for the sector.

Investment Actions?

We recommend an 'ACCUMULATE' rating on HANA shares with a target price of Bt21.40/share.

Hana Microelectronics

Rating	2.00	Accumulate
- Previous Rating	2.00	Trading Buy
Target Price (Bt)	21.4	
- Previous Target Price (Bt)	19.4	
Closing Price (Bt)	20.60	
Expected Capital Gains (%)	3.88	
Expected Dividend Yield (%)	5.10	
Expected Total Return (%)	8.98	
Raw Beta (Past 2yrs w weekly data)	0.43	
Market Cap. (USD mn)	530	
Enterprise Value (USD mn)	355	
Market Cap. (Bt mn)	16,581	
Enterprise Value (Bt mn)	11,045	
3M Average Daily T/O (mn)	0.4	
52 week range	15.2 - 23.2	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. OMAC (HK) Limited	21.4
2. BNP Paribas Securities Services Luxembourg	11.4
3. HSBC (Private) Bank (Suisse) SA	10.3

Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (Btmn)	16,958	16,315	18,184	19,093
Net Profit, adj. (Btmn)	2,557	1,597	1,290	1,370
EPS, adj. (Bt)	3.18	1.98	1.60	1.70
P/E (X), adj.	6.5	10.4	12.9	12.1
BVPS (Bt)	16.95	17.54	19.24	19.93
P/B (X)	1.2	1.2	1.1	1.0
DPS (Bt)	1.55	1.00	1.05	0.85
Div. Yield (%)	7.5	4.9	5.1	4.1

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/E12 (10x)

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2HCY12 earnings likely see bleak performance

HANA's management guided purchasing orders from the US and Europe have been falling in 2HCY12, blaming on deteriorating global economy, though inventories appeared to be at low level. As a result, sales are expected to grow at slower pace from 3QCY12 onwards. According to management guidelines, dismal sales outlook would continue until early 2013 as there appears an absence of key economic growth driver.

Increasing production capacity in China and Lamphun track; utilization on the rise at Ayutthaya plant but unlikely to reach break-even after minimum wage hikes

Ayutthaya plant had increased its utilization capacity to 60% from 35% since 1QCY12, but such rising capacity has yet to cover higher cost from minimum wage hike. Meanwhile, an increasing production capacity in China is on track, which will likely increase capacity by 15% from the current level. A construction of a new plant in Lamphun province is running a tad behind schedule which is expected to complete in 1QCY14. On top of significant increases of wage cost in China and Thailand, HANA is seeking new production base to reduce its production exposure from flood that severely hit Thailand in late 2011. The company plans to set its footprint in Cambodia as wage cost is lower and investment benefits are attractive where concrete development is expected to unveil later in the year.

CY12 earnings forecast adjusted up

Even though we expect 2HCY12 sales to grow at slower pace than the previous level, upbeat performance in 1HCY12 convinces us to raise CY12 earnings forecast. We expect CY12 sales to grow 8% y-y to US\$577mn; PCBA is expect to see strong growth, tracking buoyant momentum in the country's auto industry and blooming demand for touch pad, including a recovery in IC segment. Moreover, an estimated Bt151mn flood-claimed insurance which is expected to be booked in 3QCY12 would push net profit higher by 7% y-y to Bt1,725mn. Our CY12 net profit forecast has factored in potentially narrower gross margin, dragged by high cost of raw materials, increased wages and production struggling at Ayutthaya plant—not yet to reach its full capacity.

'ACCUMULATE' recommendation with target price of Bt21.40

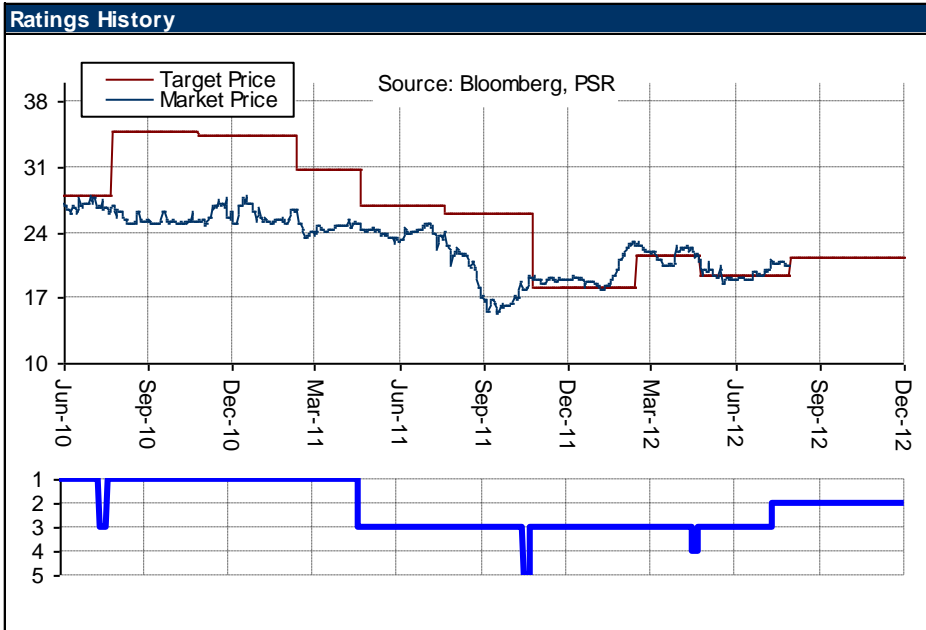
Despite lower overseas purchasing powers due to dismal economic growth, 2HCY12 earnings are projected to surpass that in 1HCY12 as HANA will book Bt151mn flood-claimed insurance in 3QCY12. At the current share price, we recommend an 'ACCUMULATE' rating on the stock with a target price of Bt21.40/share.

FYE Dec	CY09	CY10	CY11	CY12F	CY13F
Valuation Ratios					
P/E (X), adj.	8.9	6.5	10.4	12.9	12.1
P/B (X)	1.3	1.2	1.2	1.1	1.0
EV/EBITDA (X), adj.	3.9	3.2	4.8	5.6	5.2
Dividend Yield (%)	6.8	7.5	4.9	5.1	4.1
Per share data (Bt)					
EPS, reported	2.53	3.42	2.01	2.14	1.75
EPS, adj.	2.32	3.18	1.98	1.60	1.70
DPS	1.40	1.55	1.00	1.05	0.85
BVPS	15.66	16.95	17.54	19.24	19.93
Growth & Margins (%)					
Growth					
Revenue	-10.9	26.0	-3.8	11.5	5.0
EBITDA	4.4	20.4	-32.5	-14.2	7.9
EBIT	5.1	30.0	-37.8	-19.1	6.1
Net Income, adj.	3.5	36.4	-37.5	-19.2	6.2
Margins					
EBITDA margin	21.0	20.1	14.1	10.9	11.2
EBIT margin	15.2	15.6	10.1	7.3	7.4
Net Profit Margin	13.9	15.1	9.8	7.1	7.2
Key Ratios					
ROE (%)	15.1	19.2	10.5	10.3	8.3
ROA (%)	12.5	15.8	8.6	8.5	6.8
Net Debt-Cash	(3,895)	(2,641)	(3,417)	(3,485)	(3,628)
Net Gearing(X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Income Statement (Bt m n)					
Revenue	13,458	16,958	16,315	18,184	19,093
EBITDA	2,830	3,407	2,299	1,974	2,130
Depreciation & Amortisation	1,008	1,139	1,187	1,246	1,289
EBIT	2,040	2,652	1,649	1,335	1,416
Net Finance (Expense)/Income	(7)	(8)	(9)	(5)	(4)
Other items	339	495	563	657	614
Associates & JVs					
Profit Before Tax	2,033	2,644	1,640	1,330	1,413
Taxation	158	87	43	40	42
Profit After Tax	1,875	2,557	1,597	1,290	1,370
Non-controlling Interest					
Net Income, reported	2,043	2,749	1,618	1,725	1,407
Net Income, adj.	1,875	2,557	1,597	1,290	1,370

Source: PSR est.

FYE Dec	CY09	CY10	CY11	CY12F	CY13F
Balance Sheet (Bt mn)					
Cash	4,272	2,975	3,824	3,908	4,016
ST Investments	1,729	2,035	2,014	2,239	2,216
Accounts Receivables	2,293	2,480	2,569	3,487	3,766
Inventories	1,757	2,555	2,647	3,333	3,724
Others	106	195	154	200	200
Total current assets	10,157	10,239	11,508	13,167	13,923
PPE	5,605	6,526	6,373	6,732	6,649
Intangibles	16	18	15	11	8
Others	32	21	17	20	24
Total non-current assets	5,654	6,565	6,404	6,764	6,681
Total Assets	15,811	16,804	17,912	19,931	20,604
Short term loans	377	333	407	423	388
Accounts Payables	1,506	2,349	2,506	2,666	2,793
Others	921	43	81	64	52
Total current liabilities	2,805	2,725	2,994	3,154	3,233
Others			353	388	423
Total liabilities	2,805	2,725	3,347	3,542	3,657
Shareholder Equity	13,006	14,079	14,565	16,389	16,947
Cashflow Statements (Bt mn)					
CFO					
PBT	2,201	2,836	1,661	1,765	1,449
Adjustments	1,003	1,139	1,187	1,246	1,289
Cash from ops before WC changes	3,058	3,747	3,176	3,070	2,855
WC changes	(20)	(767)	(261)	(987)	(1,049)
Cash generated from ops	3,039	2,979	2,915	2,083	1,806
Taxes paid, net	(106)	(170)	(53)	(43)	(45)
Interest paid	0	(0)	0	(1)	(0)
Cashflow from ops	2,932	2,809	2,862	2,039	1,760
CFI					
CAPEX, net	(403)	(2,293)	(1,399)	(1,244)	(1,286)
Investments in subs & associates	(1,210)	(221)	37	(224)	23
Cashflow from investments	(1,448)	(2,350)	(1,243)	(1,323)	(1,113)
CFF					
Share issuance	0	0	0	0	0
Purchase of treasury shares	(222)	0	0	0	0
Loans, net of repayments	44	(44)	39	(2)	2
Dividends to shareholders & capital reduction	(981)	(1,127)	(1,248)	(805)	(849)
Others					
Cashflow from financing	(1,160)	(1,172)	(1,209)	(807)	(847)
Net change in cash	(44)	(1,298)	850	84	108
Effects of exchange rates	(369)	(585)	439	176	308
CCE, end	4,272	2,975	3,824	3,908	4,016

Source: PSR est.



Phillip Group Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
>-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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