

# Micro-Mechanics (Holdings) Ltd

Record revenue and profits



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## SINGAPORE | TECHNOLOGY | 1Q21 RESULTS

2 November 2020

- 1Q21 revenue and net profit exceeded our expectations by 10% due to better-than-expected sales.
- Revenue rose 18% YoY to S\$18.1mn. PATMI was up 42% YoY to S\$4.7mn. Both were record highs.
- We raise FY21e earnings by 9% and TP to S\$2.93 from S\$2.50. Our TP remains based on 18x FY21e PE (ex-cash). There are no direct comparables to MMH. We benchmarked our valuations to the average PE for global back-end semiconductor equipment companies. Growth to be underpinned by an upswing in the semiconductor cycle and new customers in the U.S. That said, downgrade to ACCUMULATE from BUY as we believe some of the positives have been priced in after its recent rally.

### Results at a glance

S\$ mn	1Q21	1Q20	YoY	Comment
Revenue	18.1	15.3	18.3%	Singapore +129% YoY, US +24% YoY
- China	5.4	4.7	17%	
- U.S.	3.7	3.0	24%	
- Singapore	1.9	0.8	129%	
Gross profit	9.9	8.2	21.3%	Highest margin in two years.
Admin. Exp.	(2.5)	(2.2)	9.2%	
PATMI	4.7	3.3	42.2%	
Gross margins	54.8%	53.4%	1.4%	

Source: Company, PSR

### The Positives

**+ Record quarterly revenue of S\$18.1mn.** Revenue rose 18% YoY. Countries responsible were Singapore (+129%) and the U.S. (+24%). New projects from the U.S. as well as a resumption of work in the U.S. and Malaysia following lockdowns in the June quarter likely played a part.

**+ Gross margins at a 2-year high.** Following its lumpy capacity expansion in FY18, economies of scale have kicked in and revenue has increased to cover its additional fixed costs. New products also typically command higher margins.

**+ Operating cash flow more than doubled.** 1Q21 operating cash flow of S\$7.1mn was more than double the S\$3.2mn achieved a year ago. Net cash was S\$25.5mn, up from S\$19mn a year ago.

### The Negative

**- Spurt in capex.** Capex spiked 4x YoY to S\$2mn. MMH continues to guide for S\$4-5mn for FY21. Capex front-loading might have been due to a surge in demand from customers.

### Outlook

The cycle recovery remains nascent and growth this year should be further supported by new projects from its front-end semiconductor customer in the U.S. We believe the contribution could be almost 10% of revenue in FY21e.

### Downgrade to ACCUMULATE, albeit with higher TP of S\$2.93 (from S\$2.50)

We are downgrading our recommendation from BUY to ACCUMULATE. Our FY21e earnings have been raised by 9% as we lift revenue by 5% to S\$75.1mn. MMH provides attractive financial metrics, namely ROE of 33%, a net-cash position and a dividend yield of 4.9% remains attractive.

### ACCUMULATE (Downgraded)

LAST TRADED PRICE	SGD 2.66
FORECAST DIV	SGD 0.13
TARGET PRICE	SGD 2.93
TOTAL RETURN	15.0%

### COMPANY DATA

BLOOMBERG	MMH SP
O/S UNITS (MN) :	139
MARKET CAP (USD mn / SGD mn) :	271 / 370
52 - WK HI/LO (SGD) :	2.8 / 1.32
3M Average Daily T/O (mn) :	0.07

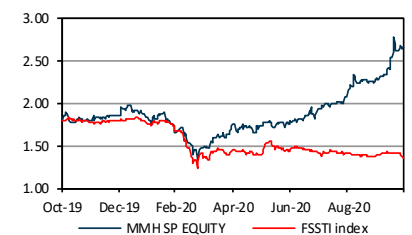
### MAJOR SHAREHOLDERS

SARCADIA LLC	27.1%
CHRIS BORCH	24.8%
LOW MING WAH	5.1%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	18.7	40.5	53.2
STI RETURN	(0.7)	(3.6)	(20.0)

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS (MMH SP)

Y/E Jun SGDmn	FY19	FY20	FY21e	FY22e
Revenue	60.3	64.2	75.1	81.1
EBITDA	23.0	24.7	31.4	33.8
NPAT	13.0	14.7	20.9	22.8
EPS (SGD)	0.09	0.11	0.15	0.16
PER, (x)	28.6	25.2	17.7	16.2
P/BV, (x)	6.3	6.4	5.9	5.5
DPS (SGD)	0.10	0.12	0.13	0.14
DVD YIELD	3.8%	4.5%	4.9%	5.3%
ROE	21.8%	25.2%	34.8%	35.3%

Source: Bloomberg, PSR

### VALUATION METHOD

18x PE FY21e (excluding net cash)

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## Financials

### Income Statement

Y/E Jun, SGD mn	FY18	FY19	FY20	FY21e	FY22e
Revenue	65.1	60.3	64.2	75.1	81.1
EBITDA	27.1	23.0	24.7	31.4	33.8
Depreciation & Amortisation	(4.8)	(5.5)	(5.7)	(5.6)	(5.4)
EBIT	22.3	17.5	19.0	25.8	28.4
Net Finance Inc/(Exp)	0.0	0.0	0.0	0.0	0.0
Profit before tax	21.9	17.1	19.1	26.8	29.2
Taxation	(4.7)	(4.1)	(4.4)	(5.9)	(6.4)
Net profit before NCI	17.2	13.0	14.7	20.9	22.8
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Net profit, reported	17.2	13.0	14.7	20.9	22.8

### Per share data (SGD)

Y/E Jun	FY18	FY19	FY20	FY21e	FY22e
EPS, reported	0.124	0.093	0.105	0.151	0.164
DPS	0.10	0.10	0.12	0.13	0.14
BVPS	0.43	0.42	0.42	0.45	0.48

### Cash Flow

Y/E Jun, SGD mn	FY18	FY19	FY20	FY21e	FY22e
<b>CFO</b>					
Profit before tax	21.9	17.1	19.1	26.8	29.2
Depreciation & Amortisation	4.8	6.5	6.8	5.6	5.4
WC changes	(1.3)	0.3	(3.1)	4.0	(5.7)
Net finance inc/(exp)	(0.1)	(0.1)	(0.1)	0.0	0.0
Tax paid	(3.8)	(4.6)	(3.8)	(5.9)	(6.4)
Others	(0.3)	(0.1)	(0.1)	0.0	0.0
Cashflow from ops	21.3	19.3	18.8	30.6	22.5
<b>CFI</b>					
CAPEX, net	(12.1)	(3.4)	(3.7)	(4.0)	(5.0)
Others	0.7	0.2	0.3	0.0	0.0
Cashflow from investments	(11.4)	(3.2)	(3.4)	(4.0)	(5.0)
<b>CFF</b>					
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	(12.5)	(13.9)	(15.3)	(16.7)	(18.1)
Others	(1.1)	(1.1)	(1.1)	0.0	0.0
Cashflow from financing	(13.6)	(15.0)	(16.4)	(16.7)	(18.1)
Net change in cash	(3.7)	1.1	(1.0)	9.9	(0.6)
CCE, end	19.7	22.2	20.8	30.7	30.2

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Jun, SGD mn	FY18	FY19	FY20	FY21e	FY22e
<b>ASSETS</b>					
PPE	33.2	30.8	29.1	27.5	27.1
Others	2.5	2.3	3.1	3.1	3.1
Total non-current assets	35.7	33.1	32.2	30.6	30.2
Accounts receivables	11.9	10.4	12.7	13.2	15.3
Cash	21.1	21.9	20.8	30.7	30.2
Inventories	4.6	4.5	5.4	4.5	6.6
Others	0.0	0.0	0.0	0.0	0.0
Total current assets	37.6	36.8	38.9	48.4	52.0
Total Assets	73.3	69.9	71.1	79.0	82.2
<b>LIABILITIES</b>					
Accounts payables	7.1	6.4	7.1	10.8	9.2
Short term loans	0.0	0.0	0.0	0.0	0.0
Others	2.5	2.0	2.8	2.8	2.8
Total current liabilities	9.6	8.5	10.0	13.6	12.1
Long term loans	0.0	0.0	0.0	0.0	0.0
Others	3.4	3.0	3.2	3.2	3.2
Total non-current liabilities	3.4	3.0	3.2	3.2	3.2
Total Liabilities	13.0	11.5	13.2	16.8	15.3
<b>EQUITY</b>					
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholder Equity	60.3	58.4	58.0	62.2	67.0

### Valuation Ratios

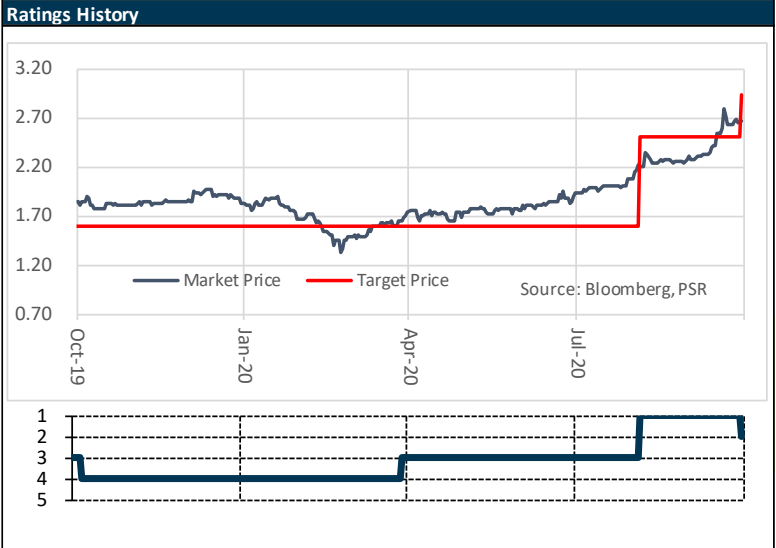
Y/E Jun	FY18	FY19	FY20	FY21e	FY22e
P/E (X)	21.5	28.6	25.2	17.7	16.2
P/B (X)	6.1	6.3	6.4	5.9	5.5
EV/EBITDA (X)	12.9	15.1	14.1	10.8	10.0
Dividend Yield	3.8%	3.8%	4.5%	4.9%	5.3%

### Growth & Margins

<b>Growth</b>					
Revenue	13.8%	-7.3%	6.4%	17.0%	8.0%
EBITDA	22.2%	-15.2%	7.4%	27.4%	7.6%
EBIT	24.7%	-21.3%	8.4%	36.2%	10.0%
Net profit	15.6%	-24.6%	13.1%	42.9%	8.9%
<b>Margins</b>					
EBITDA margin	41.6%	38.1%	38.4%	41.8%	41.7%
EBIT margin	34.2%	29.0%	29.6%	34.4%	35.0%
Net profit margin	26.4%	21.5%	22.8%	27.9%	28.1%

### Key Ratios

<b>Key Ratios</b>					
ROE	29.9%	21.8%	25.2%	34.8%	35.3%
ROA	24.8%	18.1%	20.8%	27.9%	28.3%
Net Debt / (Cash)	(21)	(22)	(21)	(31)	(30)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



**PSR Rating System**

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