

# Micro-Mechanics (Holdings) Ltd

Tad below expectations



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## SINGAPORE | TECHNOLOGY | 3Q21 RESULTS

2 May 2021

- 3Q21 revenue and net profit were below, with 9MFY21 revenue/PATMI at 77%/64% of our FY21 forecasts.
- Revenue was slower than expected, we believe due to semiconductor supply disruptions in several geographies and sectors.
- MMH is more reliant on volume than semiconductor price appreciation. Huge industry expansion to ease supply shortages at the front end will have a lagged impact on MMH.
- We lower FY21e earnings by 10% and gross margins from 56.5% to 55% for higher operating expenses. This lowers our target price to S\$3.02 from S\$3.35, still at 21x FY21e P/E ex-cash, in line with peers. NEUTRAL rating unchanged.

### NEUTRAL (Maintained)

LAST TRADED PRICE	SGD 3.33
FORECAST DIV	SGD 0.14
TARGET PRICE	SGD 3.02
TOTAL RETURN	-5.1%

#### COMPANY DATA

BLOOMBERG	MMH SP
O/S UNITS (MN)	139
MARKET CAP (USD mn / SGD mn)	348 / 463
52 - WK HI/LO (SGD)	4.03 / 1.64
3M Average Daily T/O (mn)	0.10

#### MAJOR SHAREHOLDERS

SARCADIA LLC	27.2%
CHRIS BORCH	22.8%
LOW MING WAH	5.1%

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	4.4	(7.0)	25.4
STI RETURN	2.0	11.6	14.0

#### Results at a glance

S\$ mn	3Q21	3Q20	YoY	Comment
Revenue	17.7	16.2	9.1%	
- China	5.9	4.6	28.3%	
- U.S.	3.5	3.6	-2.8%	
- Singapore	1.6	1.2	33.3%	
Gross profit	9.6	8.4	14.3%	
Admin. Exp.	(2.6)	(2.3)	12.8%	Higher overtime and headcount.
PATMI	4.2	3.9	7.9%	Lower govt. grants of S\$300k.
Gross margins	53.9%	53.4%	0.5%	

Source: Company, PSR

#### The Positive

**+ Still a record March quarter.** Revenue in Singapore grew 33% YoY and in China, 28% YoY. In contrast, there was weakness in Taiwan and the U.S. A contributor was difference in sector mix. Countries with more automobile exposure suffered from disruption in chip supply.

#### The Negative

**- Gross margins lower than expected.** We had expected record revenue and increased product complexity to lift margins, mirroring its FY17-18 upcycle when margins were 57% and capacity utilisation, 60%. Current utilisation is only 56%. Capex ramp in the past few years has yet to be fully utilised.

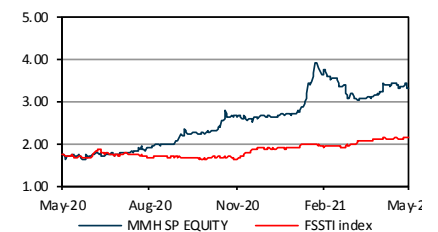
#### Outlook

Semiconductors' multi-year upcycle continues. A tailwind for MMH, together with penetration of front-end semiconductor equipment, is its U.S. operations. Increased complexity of semiconductors from collapsing geometries and more advanced materials to handling wafer dies will further consolidate the supply chain and reduce current competition. MMH is embarking on its second-largest capex spending this year for further improvements in productivity and automation.

#### Maintain NEUTRAL with lower TP of S\$3.02, from S\$3.35

MMH pays attractive dividend yields of 4%, backed by net cash. Its strengths include consumable semiconductor products, high gross margins of 55% and ROEs of 32%.

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS (MMH SP)

Y/E Jun SGDmn	FY19	FY20	FY21e	FY22e
Revenue	60.3	64.2	74.8	80.8
EBITDA	23.0	24.7	29.0	34.1
NPAT	13.0	14.7	18.8	22.6
EPS (SGD)	0.09	0.11	0.14	0.16
PER, (x)	35.8	31.6	24.6	20.4
P/BV, (x)	7.9	8.0	7.9	7.5
DPS (SGD)	0.10	0.12	0.14	0.15
DVD YIELD	3.0%	3.6%	4.2%	4.5%
ROE	21.8%	25.2%	32.2%	37.5%

Source: Bloomberg, PSR

#### VALUATION METHOD

21x PE FY21e (excluding net cash)

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## Financials

### Income Statement

Y/E Jun, SGD mn	FY18	FY19	FY20	FY21e	FY22e
<b>Revenue</b>	<b>65.1</b>	<b>60.3</b>	<b>64.2</b>	<b>74.8</b>	<b>80.8</b>
<b>EBITDA</b>	<b>27.1</b>	<b>23.0</b>	<b>24.7</b>	<b>29.0</b>	<b>34.1</b>
Depreciation & Amortisation	(4.8)	(5.5)	(5.7)	(5.9)	(5.9)
<b>EBIT</b>	<b>22.3</b>	<b>17.5</b>	<b>19.0</b>	<b>23.1</b>	<b>28.2</b>
Net Finance Inc/(Exp)	0.7	0.6	1.2	1.0	0.8
<b>Profit before tax</b>	<b>21.9</b>	<b>17.1</b>	<b>19.1</b>	<b>24.1</b>	<b>29.0</b>
Taxation	(4.7)	(4.1)	(4.4)	(5.3)	(6.4)
<b>Net profit before NCI</b>	<b>17.2</b>	<b>13.0</b>	<b>14.7</b>	<b>18.8</b>	<b>22.6</b>
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
<b>Net profit, reported</b>	<b>17.2</b>	<b>13.0</b>	<b>14.7</b>	<b>18.8</b>	<b>22.6</b>

### Per share data (SGD)

Y/E Jun	FY18	FY19	FY20	FY21e	FY22e
EPS, reported	0.124	0.093	0.105	0.135	0.163
DPS	0.10	0.10	0.12	0.14	0.15
BVPS	0.43	0.42	0.42	0.42	0.45

### Cash Flow

Y/E Jun, SGD mn	FY18	FY19	FY20	FY21e	FY22e
<b>CFO</b>					
<b>Profit before tax</b>	<b>21.9</b>	<b>17.1</b>	<b>19.1</b>	<b>24.1</b>	<b>29.0</b>
Depreciation & Amortisation	4.8	6.5	6.8	5.9	5.9
WC changes	(1.3)	0.3	(3.1)	4.3	(6.2)
Net finance inc/(exp)	(0.1)	(0.1)	(0.1)	0.0	0.0
Tax paid	(3.8)	(4.6)	(3.8)	(5.3)	(6.4)
Others	(0.3)	(0.1)	(0.1)	0.0	0.0
<b>Cashflow from ops</b>	<b>21.3</b>	<b>19.3</b>	<b>18.8</b>	<b>29.0</b>	<b>22.3</b>
<b>CFI</b>					
CAPEX, net	(12.1)	(3.4)	(3.7)	(7.0)	(5.0)
Others	0.7	0.2	0.3	0.0	0.0
<b>Cashflow from investments</b>	<b>(11.4)</b>	<b>(3.2)</b>	<b>(3.4)</b>	<b>(7.0)</b>	<b>(5.0)</b>
<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)	(18.1)	(19.5)
Others	(1.1)	(1.1)	(1.1)	0.0	0.0
<b>Cashflow from financing</b>	<b>(13.6)</b>	<b>(15.0)</b>	<b>(16.4)</b>	<b>(18.1)</b>	<b>(19.5)</b>
<b>Net change in cash</b>	<b>(3.7)</b>	<b>1.1</b>	<b>(1.0)</b>	<b>3.9</b>	<b>(2.1)</b>
<b>CCE, end</b>	<b>19.7</b>	<b>22.2</b>	<b>20.8</b>	<b>24.7</b>	<b>22.6</b>

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	30.2	29.3
Others	2.5	2.3	3.1	3.1	3.1
<b>Total non-current assets</b>	<b>35.7</b>	<b>33.1</b>	<b>32.2</b>	<b>33.3</b>	<b>32.5</b>
Accounts receivables	11.9	10.4	12.7	13.2	15.3
Cash	21.1	21.9	20.8	24.7	22.6
Inventories	4.6	4.5	5.4	4.7	6.2
Others	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>37.6</b>	<b>36.8</b>	<b>38.9</b>	<b>42.7</b>	<b>44.1</b>
<b>Total Assets</b>	<b>73.3</b>	<b>69.9</b>	<b>71.1</b>	<b>76.0</b>	<b>76.6</b>
<b>LIABILITIES</b>					
Accounts payables	7.1	6.4	7.1	11.3	8.7
Short term loans	0.0	0.0	0.0	0.0	0.0
Others	2.5	2.0	2.8	2.8	2.8
<b>Total current liabilities</b>	<b>9.6</b>	<b>8.5</b>	<b>10.0</b>	<b>14.1</b>	<b>11.5</b>
Long term loans	0.0	0.0	0.0	0.0	0.0
Others	3.4	3.0	3.2	3.2	3.2
<b>Total non-current liabilities</b>	<b>3.4</b>	<b>3.0</b>	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>
<b>Total Liabilities</b>	<b>13.0</b>	<b>11.5</b>	<b>13.2</b>	<b>17.3</b>	<b>14.7</b>
<b>EQUITY</b>					
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
<b>Shareholder Equity</b>	<b>60.3</b>	<b>58.4</b>	<b>58.0</b>	<b>58.7</b>	<b>61.9</b>

### Valuation Ratios

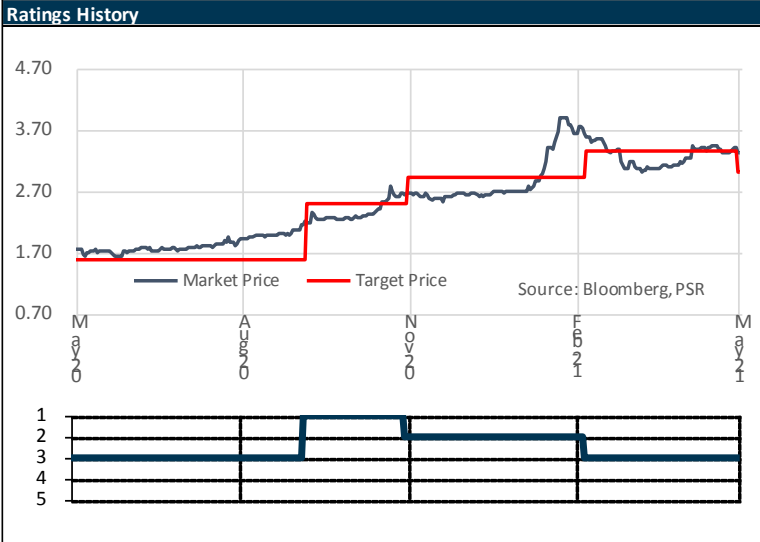
Y/E Jun	FY18	FY19	FY20	FY21e	FY22e
P/E (X)	26.9	35.8	31.6	24.6	20.4
P/B (X)	7.7	7.9	8.0	7.9	7.5
EV/EBITDA (X)	16.3	19.2	17.9	15.1	12.9
Dividend Yield	3.0%	3.0%	3.6%	4.2%	4.5%

### Growth & Margins

<b>Growth</b>					
Revenue	13.8%	-7.3%	6.4%	16.5%	8.0%
EBITDA	22.2%	-15.2%	7.4%	17.4%	17.7%
EBIT	24.7%	-21.3%	8.4%	21.8%	22.1%
Net profit	15.6%	-24.6%	13.1%	28.4%	20.4%
<b>Margins</b>					
EBITDA margin	41.6%	38.1%	38.4%	38.7%	42.2%
EBIT margin	34.2%	29.0%	29.6%	30.9%	34.9%
Net profit margin	26.4%	21.5%	22.8%	25.1%	28.0%

### Key Ratios

ROE	29.9%	21.8%	25.2%	32.2%	37.5%
ROA	24.8%	18.1%	20.8%	25.6%	29.7%
Net Debt / (Cash)	(21)	(22)	(21)	(25)	(23)
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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