

Micro-Mechanics (Holdings) Ltd

Record quarter but a deceleration in momentum



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SINGAPORE | TECHNOLOGY | 2Q18 RESULTS

30 January 2018

- 2Q18 revenue and PATMI were below expectation. We are reducing our earnings forecast by 7% for FY18e.
- The weak USD partly hurt top-line momentum in the 2Q18.
- As our target price is unchanged at S\$2.50 and the share price is up 18% since our last report, we are downgrading our recommendation to ACCUMULATE.

ACCUMULATE (Downgraded)

LAST TRADED PRICE	SGD 2.39
FORECAST DIV	SGD 0.08
TARGET PRICE	SGD 2.50
TOTAL RETURN	7.9%

Results at a glance

S\$ mn	2Q18	2Q17	YoY (%)	1H18	1H17	YoY (%)
Revenue	15.6	14.2	10.3%	33.3	27.5	21.1%
Gross profit	8.8	7.9	11.8%	19.6	15.5	26.0%
Admin. Exp.	(2.3)	(2.3)	0.0%	(4.9)	(4.2)	14.7%
PATMI	3.9	3.4	16.1%	9.1	6.7	34.6%
Gross margin	56.1%	55.4%	1.4%	58.7%	56.2%	4.5%
DPU (cents)	4.0	3.0	33.3%	4.0	3.0	33.3%

Source: Company, PSR

The Positives

+ **Making headway in the front-end.** Revenue in the US continues to shine. In 2Q18, US revenues were up 34% YoY and now represent the 3rd largest market by geography and the fastest growing. The expansion into US market is critical for us. It represents Micro-Mechanics' penetration into a new revenue stream and much larger market, the front-end semiconductor supply chain.

+ **33% jump in interim dividend.** The interim dividend was raised from 3 cents to 4 cents.

The Negatives

- **Revenue in 2Q18 disappointed.** The deceleration in topline growth was faster than we expected. Even if we account for the 5% YoY weakness in USD, topline still disappointed. Nevertheless, it is worth noting that S\$15.6mn revenue is still a record 2Q for the company.

Outlook

With the strong October and November semiconductor sales (up a combined 21% YoY), we were expecting stronger revenue and earnings growth. Whilst part of weaker topline was due to currency movement and perhaps some trade loading (inventory was up 36% YoY), 2Q18 did miss our forecast. We are reducing our FY18e revenue and earnings by 6% and 7% respectively. As mentioned before, visibility is never perfect for the semiconductor cycle. As the current semiconductor industry sales double-digit surge began only in December 2016, we are concerned the comps could get harder as we approach calendar 2018. As a result, we have to taper down our expectations. In the last two semiconductor cycles, the positive YoY growth ran for 20 and 26 months. The current up cycle is 16 months.

Downgrade to ACCUMULATE rating with target price unchanged at S\$2.50

The attractive investment merits of Micro-Mechanics have not changed: ROE of >30%, ~60% GP margins, net cash \$22mn balance sheet and 3% dividend yield. The run-up in share price (+55% since our initiation in Sep17) and lack of a catalyst to raise our target price, limits the upside. As a result, we downgrade our recommendation to ACCUMULATE.

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COMPANY DATA

BLOOMBERG	MMH SP
O/S UNITS (MN) :	139
MARKET CAP (USD mn / SGD mn) :	249 / 327
52 - WK HI/LO (SGD) :	2.48 / 0.86
3M Average Daily T/O (mn) :	0.09

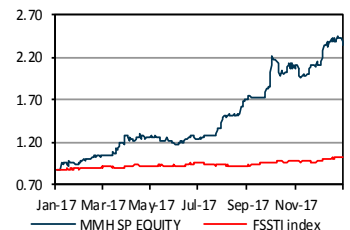
MAJOR SHAREHOLDERS

SARCADIA LLC	27.1%
CHRIS BORCH	25.4%
LOW MING WAH	5.1%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	13.3	31.8	186.7
STI RETURN	5.1	6.0	20.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS (MMH SP)

SGD mn	FY16	FY17	FY18e	FY19e
Revenue	51.3	57.2	68.6	76.9
EBITDA	20.1	22.5	30.8	36.0
NPAT	11.9	14.8	20.3	24.1
EPS (SGD)	0.09	0.11	0.15	0.17
PER, x	28.0	22.5	16.4	10.9
P/BV, x	6.6	6.1	5.3	4.5
DPU (SGD)	0.06	0.08	0.08	0.08
DVD YIELD (%)	2.5	3.3	3.3	3.3
ROE (%)	24.5	28.2	34.6	35.3

Source: Bloomberg, PSR

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Financials

Income Statement

Y/E Jun, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	52.1	51.2	57.2	68.6	76.9
EBITDA	18.5	19.5	22.1	30.8	36.0
Depreciation & Amortisation	(4.6)	(4.4)	(4.3)	(5.3)	(5.7)
EBIT	13.9	15.1	17.8	25.5	30.4
Net Finance Inc/(Exp)	0.0	0.0	0.0	0.0	0.0
Profit before tax	15.3	15.7	18.5	26.0	30.9
Taxation	(3.3)	(3.8)	(3.7)	(5.7)	(6.8)
Net profit before NCI	12.0	11.9	14.8	20.3	24.1
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Net profit, reported	12.0	11.9	14.8	20.3	24.1

Per share data (SGD)

Y/E Jun	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	0.086	0.086	0.106	0.146	0.173
DPU	0.05	0.06	0.08	0.08	0.08
BVPS	0.34	0.36	0.39	0.45	0.53

Cash Flow

Y/E Jun, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFQ					
Profit before tax	15.3	15.7	18.5	26.0	30.9
Depreciation & Amortisation	4.6	4.4	4.3	5.3	5.7
WC changes	(3.0)	(0.6)	(0.6)	(2.2)	0.7
Net finance inc/(exp)	(0.1)	(0.1)	(0.1)	0.0	0.0
Tax paid	(2.3)	(3.2)	(3.9)	(5.7)	(6.8)
Others	(0.5)	0.0	(0.2)	0.0	0.0
Cashflow from ops	14.1	16.3	18.1	23.4	30.4
CFI					
CAPEX, net	(4.9)	(4.1)	(5.1)	(10.0)	(5.0)
Others	0.6	1.2	0.4	0.2	0.0
Cashflow from investments	(4.3)	(2.9)	(4.7)	(9.8)	(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	(5.5)	(6.9)	(9.7)	(12.5)	(12.5)
Others	0.0	0.0	0.0	0.0	0.0
Cashflow from financing	(5.5)	(6.9)	(9.7)	(12.5)	(12.5)
Net change in cash	4.9	5.7	3.5	0.9	12.9
CCE, end	15.9	20.8	23.5	24.3	37.2

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Jun, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	26.6	25.5	26.1	30.8	30.1
Others	0.3	0.1	0.4	0.4	0.4
Total non-current assets	26.9	25.6	26.5	31.2	30.5
Accounts receivables	10.1	10.3	11.9	12.4	14.5
Cash	15.1	20.0	23.4	24.3	37.2
Inventories	3.5	3.2	3.6	4.6	4.9
Others	0.1	0.2	0.0	0.0	0.0
Total current assets	28.8	33.7	38.9	41.2	56.6
Total Assets	55.7	59.3	65.4	72.4	87.2

LIABILITIES

Accounts payables	6.0	5.9	7.8	7.1	10.2
Short term loans	0.0	0.0	0.0	0.0	0.0
Others	1.5	1.6	1.3	1.3	1.3
Total current liabilities	7.5	7.5	9.1	8.4	11.5
Long term loans	0.0	0.0	0.0	0.0	0.0
Others	1.3	1.5	1.7	1.7	1.7
Total non-current liabilities	1.3	1.5	1.7	1.7	1.7
Total Liabilities	8.8	9.0	10.8	10.1	13.2

EQUITY

Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Shareholder Equity	46.8	50.2	54.7	62.5	74.0

Valuation Ratios

Y/E Jun	FY15	FY16	FY17	FY18e	FY19e
P/E (X)	27.7	27.9	22.5	16.4	13.8
P/B (X)	7.1	6.6	6.1	5.3	4.5
EV/EBITDA (X)	184.8	175.1	154.3	110.7	94.3
Dividend Yield	2.1%	2.5%	3.3%	3.3%	3.3%

Growth & Margins

Growth					
Revenue	18.9%	-1.7%	11.7%	20.0%	12.0%
EBITDA	42.3%	5.4%	13.3%	39.4%	16.9%
EBIT	59.8%	8.6%	17.9%	43.4%	18.9%
Net profit, adj.	55.8%	-0.8%	24.4%	37.2%	18.6%

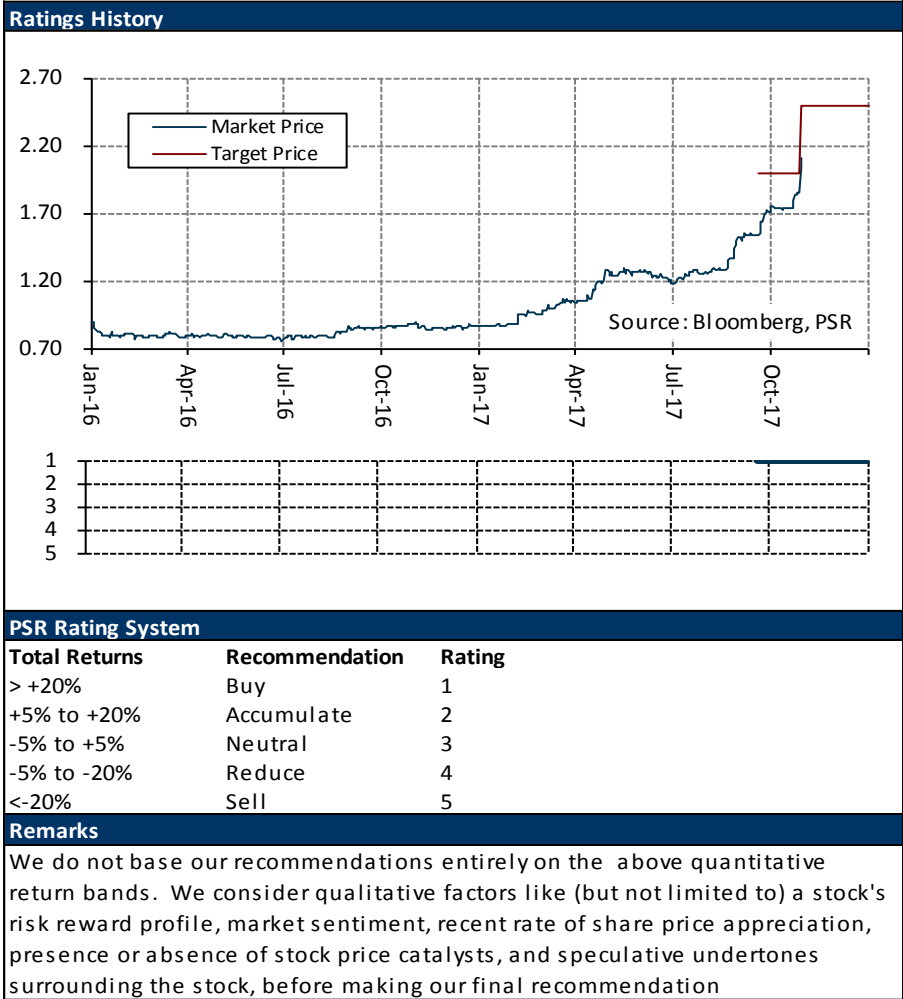
Margins

EBITDA margin	35.5%	38.1%	38.6%	44.9%	46.9%
EBIT margin	26.7%	29.5%	31.1%	37.2%	39.5%
Net profit margin	23.0%	23.2%	25.9%	29.6%	31.3%

Key Ratios

ROE (%)	1.8%	24.5%	28.2%	34.6%	35.3%
ROA (%)	0.9%	20.7%	23.7%	29.5%	30.2%

Net Debt / (Cash)	-15	-20	-23	-24	-37
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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