

ASM Pacific: Order backlog surprise on the upside

Recommendation: HOLD (upgrade from SELL)

Hong Kong Semiconductors

Price	HK\$53.80	Year to Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gear.	
Target price	HK\$54.10 (+0.5%)	Dec	HK\$m	HK\$	Δ %	x	x	x	%	%	%	
12 mth range	HK\$34.30-55.85	05A	850.5	2.207	(15.4)	24.4	8.8	19.2	3.7	37.2	39.6	Cash
Market cap.	US\$2,704.4m	06A	1,149.5	2.969	34.5	18.1	8.4	13.9	5.1	46.4	48.8	Cash
Daily t/o, 3 mth	US\$3.2m	07F	1,074.0	2.774	(6.6)	19.4	7.5	15.0	4.1	39.8	42.2	Cash
Free float %	34.3%	08F	1,318.2	3.405	22.7	15.8	6.8	12.4	5.2	44.3	46.7	Cash
Ticker	0522.HK/522 HK	09F	1,362.4	3.519	3.4	15.3	6.2	12.0	5.4	41.7	44.1	Cash

Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): +6.0%, +8.7%, +11.2%

Actual price changes (1 mth, 3 mth, 12 mth): +12.1%, +12.1%, +20.6%

Consensus EPS (07F-09F): HK\$2.980, HK\$3.510, HK\$3.740

Previous forecasts (07F-09F): HK\$2.943m, HK\$3.546m, HK\$3.675m

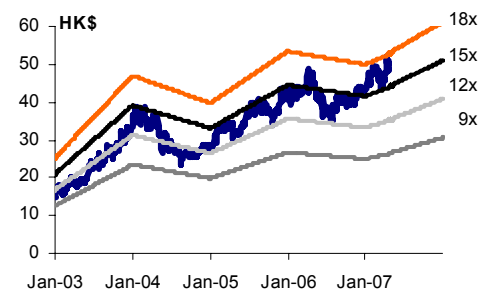
Key points:

- ASMPPT announced quarterly results for the first time. 1Q FY12/07A net profit of HK\$191.8m was below our expectations despite already factoring in weak results.
- Order backlog of US\$130m (HK\$1,014.0m) surprised on the upside (4Q FY12/06A: US\$103m), suggesting a strong recovery from 2Q FY12/07.
- Leading IDMs and contract chip manufacturers such as Intel, Texas Instruments and TSMC have provided an upbeat guidance into 2H 2007.
- Upgrade to HOLD, with a new target price of HK\$54.10 representing 19.5x FY12/07F P/E and 16.0x FY12/08F P/E, on the industry's improving outlook and the company's strong order book backlog.

1Q below our expectations. ASMPPT recorded quarterly results for the first time. Turnover fell 7.8% YoY to HK\$961.6m in 1Q FY12/07 as net profit dropped 32.0% YoY to HK\$191.8m. Gross margin narrowed 5.0pccp YoY to 40.7%. Though we were expecting weak results due to the softness in the semiconductor industry cycle (after a rapid build out of testing and assembly equipment in 1H FY12/06) the bottom line was still below our expectations.

Weaker top line crimps earnings. The lower backlog in 4Q FY12/06A was reflected in this quarter, with equipment sales down 6.1% YoY at HK\$767.2m as assemblers and packagers held back on investment. Meanwhile, the build up of semiconductor inventories across the industry in 2H FY12/06A had a more significant impact on leadframe sales, with turnover in the segment down 24.2% YoY at HK\$194.4m.

Chart 1: P/E bands



Source: SBI E2-Capital

Table 1: Interim results

3 months to Mar	Turnover (HK\$m)	Gross profit (HK\$m)	Gross margin (%)	Pre-tax profit (HK\$m)	Tax rate (%)	Net profit (HK\$m)	EPS (HK\$)	DPS (HK\$)
1Q FY07	961.6	391.9	40.8	216.2	11.3	191.8	0.49	-
1Q FY06	1,043.4	477.8	45.8	299.8	5.9	282.1	0.73	-
YoY (%)	(7.8)	(18.0)	(5.0)	(27.9)	5.4	(32.0)	(32.9)	n/a

Source: Company data

1Q order bookings surprise on the upside, signal turnaround. New order bookings reached about HK\$1,160m in 1Q FY12/07F, up 24.6% QoQ, and compared well on a YoY basis (down 8.8%) given that the industry was well in a build-out phase at the time. We believe that the promising order inflow during 1Q

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signals a turnaround in the back-end equipment industry in 2Q FY12/07. The book-to-bill ratio surged to a healthy 1.21 at the end of the period, up 0.37 points QoQ, the highest level since 1Q FY12/07.

Strong cash position. ASMPT's strong cash generating abilities continue to underline its high operating efficiency amid the volatile semiconductor industry. Cash-in-hand reached HK\$987.5m at the end of 1Q, up 7.9% from end-FY12/06, the highest amount ever recorded by the company. In light of the strong cashflow, management indicated that the FY12/07 capex budget may be increased from the planned HK\$30.0m.

Positive outlook for foundries and IDMs. Though SIA reported sluggish semiconductor industry growth of 3.2% YoY in 1Q, Intel, Texas Instruments (TI) and TSMC have recently given a bullish outlook into 2H 2007, as semiconductor inventory backlog is digested. More importantly, Intel and TI have announced plans to set up plants in China and Philippines, respectively. ASMPT will be a key beneficiary of this investment, in our view.

Upgrade to HOLD, new target price at HK\$54.10. We have revised down our FY12/07F and FY12/08F net profit estimates to HK\$1,074.0m and HK\$1,318.2m after taking into consideration the company's 1Q results. However, we have upgraded our call on the counter to HOLD (from SELL) to reflect the industry's improving conditions and the company's strong equipment order backlog. Our new target price of HK\$54.10 represents 19.5x FY12/07F and 16.0x FY12/08F earnings.

Table 1: P&L

Year to Dec (HK\$m)	2005A	2006A	2007F	2008F	2009F
Turnover					
Equipment sales	2,864.4	3,581.9	3,511.7	3,946.4	4,142.7
Leadframes	672.5	974.0	977.8	1,277.9	1,431.2
Turnover	3,536.9	4,556.0	4,489.5	5,224.3	5,573.9
% chg	(7.6)	28.8	(1.5)	16.4	6.7
Cost of sales	(1,926.1)	(2,476.6)	(2,515.9)	(2,880.6)	(3,129.2)
Gross profit	1,610.8	2,079.4	2,079.7	2,343.7	2,444.7
Other revenues and gains	21.3	34.3	36.0	40.5	42.5
Selling and distribution costs	(317.0)	(375.8)	(366.1)	(412.5)	(440.7)
Administrative expenses	(143.5)	(172.0)	(170.6)	(190.8)	(200.3)
R&D expenses	(267.6)	(286.9)	(278.3)	(316.0)	(331.5)
Operating profit	903.9	1,279.0	1,194.6	1,464.9	1,514.8
Finance costs	(0.0)	(0.2)	(0.2)	(0.2)	(0.2)
Share of profits and losses of jointly controlled entities	-	-	-	-	-
Share of profits of an associated	-	-	-	-	-
Profit before taxation	903.9	1,278.8	1,194.4	1,464.7	1,514.6
Taxation	(53.4)	(129.3)	(120.4)	(146.5)	(152.1)
Minority interests	-	-	-	-	-
Profit attributable to shareholders	850.5	1,149.5	1,074.0	1,318.2	1,362.4
% chg	(15.2)	35.2	(6.6)	22.7	3.46
Dividends	(772.9)	(1,064.4)	(851.7)	(1,084.0)	(1,122.7)

Source: SBI E2-Capital

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