

ASM Pacific: Bucking industry trend

Recommendation: BUY (unchanged)

Hong Kong Semiconductors

Price	HK\$39.05	Year to Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gear.	
Target price	HK\$47.80 (+22%)	Dec	HK\$m	HK\$	Δ %	x	x	x	%	%	%	%
12 mth range	HK\$33.50-50.00	04A	1,002.6	2,609	86.6	15.0	6.9	11.4	5.2	46.0	48.8	Cash
Market cap.	US\$1,937.8m	05A	850.5	2,207	(15.4)	17.7	6.3	13.5	5.1	35.5	46.0	Cash
Daily t/o, 3 mth	US\$1.9m	06F	1,177.5	3,042	37.8	12.8	6.1	10.5	7.3	47.5	50.1	Cash
Free float %	34.3%	07F	1,233.5	3,187	4.8	12.3	5.3	9.5	6.4	44.9	47.5	Cash
Ticker	0522.HK/ 522 HK	08F	1,423.9	3,679	15.4	10.6	4.7	8.3	7.4	45.6	48.2	Cash

Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): -1.1%, -15.1%, -5.9%

Actual price changes (1 mth, 3 mth, 12 mth): +3.2%, -13.5%, -7.3%

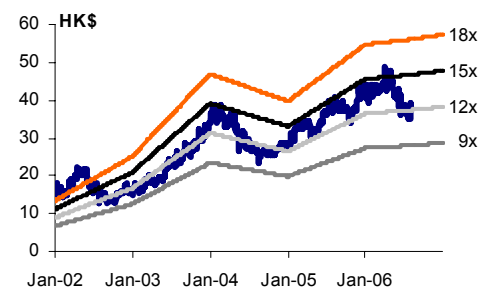
Consensus EPS (06F-07F): HK\$2.69, HK\$2.87

Key points:

- 1H FY12/05 net profit of HK\$625.0m beat our forecast. On the back of strong orders and operating leverage, ASM Pacific turned in a record turnover and operating profit in 2Q FY12/06.
- However, equipment sales appear to have peaked in the current cycle, with inventory build up along the value chain and moderating capex by most assemblers and testers.
- CEO and Co-Founder, Patrick Lam announced his retirement. WK Lee, Managing Director of Southern Region, has been named as the new CEO.
- ASM Pacific is still our choice amongst semiconductor plays. New target price of HK\$47.80 (from HK\$48.10) represents 13.0x FY12/07F P/E.

Strong 1H FY12/06 results. Turnover of HK\$2,273.1m was up 56.0% YoY while net profit surged 93.2% YoY to HK\$625.0m. The large jump was partly due to the poor industry environment in 1H FY12/05 and its strong operating leverage. While the top line was only slightly ahead of our forecast, the bottom line significantly beat our expectations. The main difference to our turnover estimate was from a strong performance in its leadframe business, which grew 65.2% YoY to HK\$468.3m. Equipment sales rose 53.8% YoY to HK\$1,804.8m, and accounted for 79.4% of revenues. Gross margin was up 2.0 pcp to 46.9% as operating profit jumped 6.0 pcp to 29.7%. The impressive results were driven by record turnover and operating profit in 2Q FY12/06. The company's book-to-bill ratio during 1H FY12/06 was 1.17.

Chart 1: P/E bands



Source: SBI E2-Capital

Special dividend of HK\$0.75. The company also announced a special dividend of HK\$0.75. Including interim dividend of HK\$0.70, the total payout for the first six months was a hefty HK\$1.45, 90% of the 1H EPS.

Equipment sales may have peaked. We believe that ASMPT's equipment sales may have peaked in the current cycle of the semiconductor industry. Since the end of June, there have been widespread reports of inventory build up along the value chain. The slowdown was confirmed recently with most assemblers and testers guiding for a sluggish 3Q 2006 and moderated capex. UTAC is the only assembler/tester with plans to significantly ramp up capex though most of it is earmarked for a newly acquired subsidiary in Thailand. ASMPT's management has also acknowledged that orders have tailed off in recent weeks.

Strong order backlog and product diversity will help weather the storm. Despite the bearish outlook on the industry, ASMPT is still in a good position to deliver solid year-end results. The company's order backlog at the end of 30 June 2006 was in excess of HK\$1,190m, similar to that recorded during the industry peak in 2000. In addition, ASMPT's comprehensive product portfolio and low customer concentration allow the company to buffer cyclical downturns in the past. ASMPT is the only manufacturer who supplies equipment for the entire

back-end process, covering die bonding, wire bonding, moulding, and post-encapsulation operations. The company's top five customers accounted for only 23.8% of total sales, with no single customer exceeding 10%. Moreover, China (75.2%) and Malaysia (102.5%) delivered strong YoY growth, and continuing robust demand from these geographical segments should ensure a soft landing for the company.

CEO/Co-Founder resigns. Along with the results release, CEO and Co-Founder Patrick Lam also announced his retirement, effective from 31 Dec 2006. The news somewhat caught us off guard. However, we believe ASMPT's long-term future is secure given its strong management and corporate culture. WK Lee, current Managing Director of Southern Region, has been named as the new CEO. To smoothen the transition, Mr. Lam will stay on as Honorary Chairman and Advisor until 30 June 2007.

Forecast revisions. We have revised up our FY12/06F profit forecast by 5.8% to HK\$1,177.5m (EPS: HK\$3.042). The moderate adjustment incorporates an expected decline in equipment sales and a slight margin contraction in 2H FY12/06F. With assemblers and testers showing more capex discipline and pragmatism in adding capacity, we see less volatility in ASMPT's results going forward. We project FY12/07F profit to rise 4.8% YoY to HK\$1,233.5m (EPS: HK\$3.187).

Still our pick in the sector. Underlined by robust cash flow and excellent dividend payout (HK\$2.85 for FY12/06F and an average of 85% payout ratio between FY12/03 to FY12/05), ASMPT is still our pick in the semiconductor sector. Our new target price of HK\$47.80 (from HK\$48.10) represents 13.0x FY12/07F P/E, benchmarked against a peaking industry cycle.

Table 1: P&L

Year to Dec (HK\$m)	2004A	2005A	2006F	2007F	2008F
Turnover	3,828.9	3,536.9	4,545.2	4,885.6	5,407.9
Equipment sales	3,252.0	2,864.4	3,551.8	3,713.5	4,095.2
Leadframes	567.9	672.5	993.3	1,172.1	1,312.8
Cost of sales	(2,097.6)	(1,926.1)	(2,449.0)	(2,685.2)	(2,944.6)
Gross profit	1,731.3	1,610.8	2,096.2	2,200.4	2,463.3
Other revenues and gains	9.3	21.3	30.3	27.0	32.0
Selling and distribution costs	(291.7)	(317.0)	(375.1)	(392.6)	(405.5)
Administrative expenses	(123.9)	(143.5)	(184.5)	(202.3)	(219.0)
R&D expenses	(262.6)	(267.6)	(297.1)	(302.9)	(327.2)
Operating profit	1,062.4	903.9	1,269.7	1,329.6	1,543.6
Finance costs	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Share of profits and losses of jointly controlled entities	-	-	-	-	-
Share of profits of an associated	-	-	-	-	-
Profit before taxation	1,062.4	903.9	1,269.7	1,329.6	1,543.5
Taxation	(59.8)	(53.4)	(92.2)	(96.1)	(119.6)
Minority interests	-	-	-	-	-
Profit attributable to shareholders	1,002.6	850.5	1,177.5	1,233.5	1,423.9
Dividends	(788.0)	(772.9)	(1,103.4)	(971.3)	(1,130.7)

Source: SBI E2-Capital

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