Singapore Market Focus

Small Mid Cap Strategy

Issue No. 14

Refer to important disclosures at the end of this report

DBS Group Research. Equity

23 May 2017

Ride on the Tech bull

- Information Technology shines on global macro tailwinds, but there are still gems to be mined
- For tech, prefer companies with strong earnings momentum/turnaround, potential M&A targets, strong cash positions – Hi-P, UMS, AEM, Valuetronics
- SMC picks – CDL Hospitality Trust, mm2 Asia, Singapore O&G, Hi-P, UMS

Information Technology sector shines but there's still more room to grow. Technology was the best performing sector both on a 3-month and 1-year basis. Ahead, a positive sector outlook on the back of thriving semiconductor, smartphone and Internet of Things (IoT) end-markets could help re-rate selected stocks.

We prefer tech companies with (1) strong earnings momentum, (2) turnaround plays with lower execution risk or (3) potential M&A targets.

Given the Technology sector's recent stellar price performance, we would prefer to be selective on Technology names, favouring those with strong fundamentals and a strong pipeline to support earnings growth and further re-rating, potential M&A plays, turnaround companies with lower downside risk or more legs to grow. Strong net cash positions, if any, adds to their attractiveness.

Hi-P and **UMS** stand out based on these criteria – with earnings momentum set to strengthen, current net cash positions and as possible M&A targets.

Meanwhile, **AEM** appears interesting as it enters into a new growth phase and **Riverstone,** an indirect beneficiary of the current semiconductor upcycle. Backed by a strong track record, we see **Valuetronics** as a steady long-term play as the company should continue to benefit from current outsourcing trends. Further, **Addvalue** may have a potential game changer, which could be a big boost to its earnings when commercialisation for its new business commences.

Top picks – CDL Hospitality Trust, mm2 Asia, Singapore O&G. Outside the Technology space, we like **CDL Hospitality Trust,** the cheapest REIT providing exposure to the upturn in the Singapore hospitality market. **mm2 Asia** is on a growth trajectory, underpinned by higher production, expansion into the China market, and contribution from UnUsUal. We also retain **Singapore O&G** as one of our picks for its positive organic and inorganic growth prospects.

FSST Small Cap:	404.24
FSST - Mid Cap :	726.51
STI :	3,216.92

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Key Indices

	Current	% Chng
STI Index	3,216.92	-0.1%
FS Small Cap Index	404.24	0.5%
USD/SGD Curncy	1.39	1.7%
Daily Volume (m)	2,035	
Daily Turnover (S$m)	1,105	
Daily Turnover (US$m)	784	

Source: Bloomberg Finance L.P.

SMC Top Picks

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 1 mth	12 mth	Rating
Current						
CDL Hospitality Trust	1.610	1,159	1.75	9.5	18.4	BUY
Hi-P International	0.820	475	1.07	20.7	98.8	BUY
mm2 Asia	0.605	449	0.63	26.0	118.0	BUY
Singapore O&G	0.665	114	0.80	(4.3)	75.0	BUY
UMS Holdings	1.055	327	1.07	19.2	88.4	BUY
Previous						
Cityneon Holdings	0.935	165	1.26	14.0	61.2	BUY
Ezion	0.295	441	0.62	(9.2)	(35.4)	BUY
Japfa	0.530	674	0.84	(21.5)	(24.8)	BUY
Midas	0.225	308	0.36	0.0	(13.5)	BUY
Singapore O&G	0.665	114	0.80	(4.3)	75.0	BUY

Prices as at 19 May 2017
Source: DBS Bank, Bloomberg Finance L.P.

Technology sector – more room to grow; go for companies with strong earnings momentum, potential M&A targets, net cash or turnaround plays with lower execution risk

Information Technology sector shines but there's more room to grow

The Information Technology has been the best performing sector, both on a 3-month and 1-year basis, after trading at depressed valuations over the last one to two years. On a 1-month basis, it was second only to Financials, which includes the Banks. The drivers to Technology's stellar outperformance include a more favourable global macro outlook, improved market sentiment fueled by positive manufacturing data and also the hunt for more takeover/privatisation candidates that has re-rated the sector.

With the sector outlook still positive and key sub-segments such as semiconductor, smartphone and Internet of Things (IoT) expected to thrive, we still see room for further share price appreciation for selected stocks.

Sector performance

Sector	1 Week	1 Month	3 Months	1 Year
Consumer Discretionary	-0.8	-0.15	+7.0	+21.4
Consumer Staples	+0.5	+1.4	-3.4	+16.5
Energy	-2.3	-5.1	-5.2	+21.1
Financials	-0.4	+8.3	+9.5	+23.0
Health Care	-2.4	-0.06	-1.2	+0.2
Industrials	-1.8	-1.2	+2.6	+21.6
Information Technology	-1.0	+6.0	+19.8	+57.8
Materials	-1.8	+1.8	+16.6	+33.6
Real Estate	-1.5	-0.7	+6.2	+25.4
REITS & Business Trust	-0.02	+0.8	+3.8	+6.2
Telecommunication Services	+0.17	-0.7	-6.1	-5.6
Utilities	+1.0	+1.8	+2.4	+2.7

Source: SGX

Note:

Sectors are classified based on the MSCI Global Industry Classification Standard (GICS).

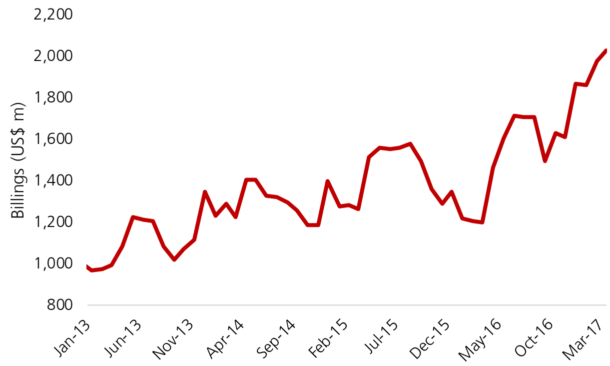
Sector performances are market capitalization weighted.

Further upside for semiconductor, smartphone, Internet of Things (IoT)

Among the sub-segments, the **semiconductor** segment is expected to do well. SEMI (the global industry association serving the manufacturing supply chain for the micro- and nano-electronics industries) predicts that fab equipment spending will reach unprecedented levels in the coming years, reaching a record high of over US$46bn in 2017, before nearing the US$50bn mark in 2018.

Several closely-watched indicators are also positive – recent global book-to-bill numbers remained above 1, while worldwide billings of North-American based equipment manufacturers continue to climb. Similarly, the World Semiconductor Trade Statistics (WSTS) also revised its 2017 sales growth forecast in February to 6.5%, from 3% previously. WSTS expects the largest growth to come from sensors, analog, and memory products.

Global billings of North American equipment manufacturers



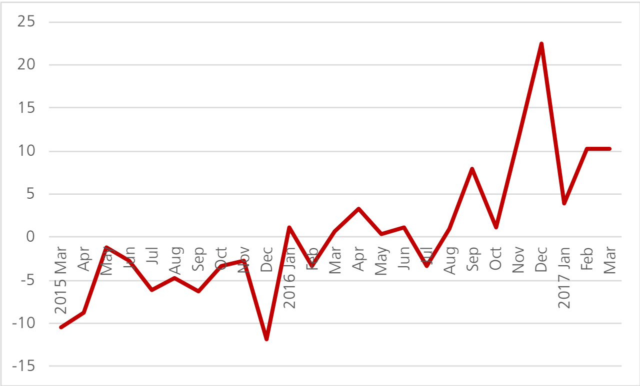
Source: SEMI

The worldwide **smartphone** market, according to the independent research firm International Data Corporation (IDC), will see a total of 1.53 billion units shipped in 2017, up 4.2% from the 1.47 billion units shipped in 2016. Thereafter, shipments will reach 1.77 billion units in 2021, which translates to a compound annual growth rate (CAGR) of 3.7%. The report also highlights that shipments will increase in 2017 and 2018 due to the plethora of new phone releases from major brands during this period.

For the **Internet of Things (IoT)** segment, according to IDC, global IoT spending will experience 15.6% CAGR over the 2015-2020 forecast period, reaching US$1.29 trillion in 2020.

Back home, **Singapore industrial production** data has been rising steadily since August last year. Industrial output for March expanded by 10.2% y-o-y, another strong showing following a revised 10.2% gain in the previous month. Electronics continued to be the key driver. Production output was up by 37.7% y-o-y as indicators on global electronics cycle are reflecting an upswing in electronics demand.

Industrial production (y-o-y growth %)



Source: The Economic Development Board

Technology companies with good report cards

A handful of Technology stocks turned in a strong set of results in the results reporting season just ended. The improvement in results was mainly attributable to strong demand and better margins due to better product mix and / or operational efficiency. Please see the table on the next page - *Technology companies with market capitalisation of >S$100m that recently released results* .

Inexpensive sector valuations but be selective; Companies with strong earnings momentum, turnaround plays with lower execution risk or potential M&A targets preferred (net cash a bonus).

Given the sector's recent stellar price performance, we would prefer to be selective on Technology names, particularly focusing on those with strong fundamentals and earnings pipeline to support further re-rating. A strong balance sheet with healthy cash position would be an added advantage to support capacity expansion plans to fulfill strong demand, and also to develop or source for new products and services. Turnaround companies with lower downside risk / further legs to grow, or new business / key products could also be interesting.

As Technology sector valuations remain inexpensive, stronger interest could also be revived if takeover/privatisation activity picks up.

With earnings momentum set to further strengthen, coupled with net cash positions and M&A potential, Hi-P and UMS check the most boxes.

Hi-P and UMS – strong earnings momentum, potential M&A targets, net cash; AEM – strong earnings, net cash

Current semiconductor equipping trends augur well for semiconductor equipment manufacturers **AEM** (Non-Rated, Fair Value S$3.35) and **UMS** (BUY, TP S$1.33), which are poised to deliver above-industry growth as they leverage on their entrenched relationships with their respective key clients and capacity expansions to fulfill strong demand. Current valuations are also inexpensive, especially on an ex-cash basis. Additionally, the fragmented shareholding structure for UMS - with only one large shareholder with a 20% stake, makes it an attractive takeover target.

Aided by a combination of new product ramps, capacity expansion and cost optimisation strategies, contract manufacturer **Hi-P** (BUY, TP: S$1.07) is set to register strong, sustainable earnings growth ahead. We expect utilisation rate to reach 60-70% in the next 1-2 years, from below the current 40%. To date, there is still no concrete succession plan announced by Executive Chairman & Chief Executive Officer, Mr Yao Hsiao Tung.

Riverstone – indirect beneficiary of current semiconductor upcycle

While headwinds in the healthcare glove industry remain, **Riverstone's** (BUY, TP S$1.07) niche cleanroom glove business sets it apart from the bigger boys and see the company as an indirect beneficiary of the current semiconductor upcycle as demand for its higher-margin cleanroom gloves (+20% y-o-y in 1Q17) continue to gain traction among leading semiconductor and electronics manufacturers.

Valuetronics – strong cash position with zero debt; decent yield

Supported by proven track record and robust financials, **Valuetronics** (Non-Rated, Fair Value S$0.95) should benefit as outsourcing for electronic manufacturing services continue to gain favour. While valuation of 11x CY18F PE seems fair, a substantial 35% of Valuetronics' current market cap is backed by net cash. Trading at just 7.3x ex-cash PE, Valuetronics appears attractive vs peers' average of 9.2x. A dividend yield of about 4.3% is also on offer.

Sunningdale, Fu Yu – potential M&A plays

We also like **Sunningdale** (Non-Rated) for its strong business fundamentals and commitment to growing its portfolio of value-added products. Apart from its advanced manufacturing capabilities, global manufacturing footprint and scale, the group also stands out for its diversified MNC customer base. A majority of its customers each contribute 3-5% to group sales, which greatly reduces customer concentration risk commonly seen among small-mid cap peers. Historically, Sunningdale has undergone several rounds of M&As to grow.

While near-term outlook for close peer, **Fu Yu** (Non-Rated) remains under pressure, the counter could be interesting as a dividend play, offering potential yield of 7.5%, and is also an M&A target.

Addvalue - game changing product on the way; potential M&A target

Provider of one-stop mobile satellite broadband communication terminals and solutions, **Addvalue**, is expected to turnaround from losses recorded in the last few years, with the launch of new products targeting a niche market. The addition of a new business, the world's first Inter-Satellite Data Relay System (IDRS), would be a game changer and big boost to Addvalue when commercialisation starts, likely in the next two to three years.

Near term, securing contracts from government agencies or industrial players would be a catalyst for the stock. Addvalue could also be a potential takeover target, especially with the near commercialisation of the IDRS terminal. It has already been approached by a few parties.

Company	Recommendation	Mkt Cap (S$m)	Price (S$) 19 May	Potential Target Price (S$)	Upside (%)	PE FY17F (x)	PE FY18F (x)	Div Yld (%)	P/BV (x)
Hi-P	Buy	723.1	0.82	1.07	31%	9.7	9.1	1.3%	1.1
UMS	Buy	452.8	1.06	1.33	26%	9.9	8.7	6.2%	2.2
AEM	Non-Rated	118.9	2.60	3.35	29%	10.2	7.8	2.5%	4.0
Riverstone	Buy	768.4	1.04	1.07	3%	17.6	15.6	2.2%	3.7
Valuetronics	Non-Rated	319.8	0.83	0.95	15%	12.7	11.7	4.3%	1.8
Sunningdale*	Non-Rated	341.3	1.82	n.a.	n.a.	10.3	9.2	4.1%	0.9
Fu Yu*	Non-Rated	150.6	0.20	n.a.	n.a.	13.3	10.0	7.5%	0.9

*based on consensus estimates

Technology companies with market capitalisation of >S$100m that recently released results

Company	Mkt cap (S$m)	Reporting period	Revenue (S$m)	Revenue (y-o-y gth) (%)	Net profit (S$m)	Net profit (y-o-y gth) (%)	Comment
Venture	3,537.9	1Q17	843.1	+33.7	48.6	+35.5	Diversified customer base and new products/programmes
Hi-P	652.9	1Q17	244.2	-11.4	8.4	turnaround fr. loss in 1Q16	Better product mix; improved operational efficiency and cost management
UMS	420.6	1Q17	41.8	+105	11.2	+230	Strong demand from higher global fab equipment spending, following successful renewal of Endura contract by 3+3 years in Jan 2017
Sunningdale Tech	343.5	1Q17	171.8	+6.5	7.7	+115.2	Strong demand, better margins
Elec & Eltek	269.2	1Q17	n.a.	n.a.	n.a.	n.a.	Guided for >170% y-o-y increase in net profit mainly due to increase sales, better product mix, higher margins
Micro Mechanics	175.9	3Q17	14.2	+13.7	3.5	+26.6	Strong demand, better margins
AEM	161.2	1Q17	42.1	+246	4.1	+>10 fold	Earnings surged as contributions from commercial ramp-up of new high-end test handlers kick in. FY17F order book nearly quadrupled over the last few months to S$152m as at 15 Apr 2017
Serial system	157.7	1Q17	332.9	-	3.0	turnaround fr. loss in 1Q16	Higher margins, lower forex loss
DMX Tech	126.8	1Q17	16.1	-19.2	-0.5	+82.3	Slow start up in Indonesia; restructuring in Korea
Memtech	112	1Q17	36.4	+9.8	1.6	+170.3	Strong demand, better margins
PCI	110.5	3Q17	45.1	+15.8	2.5	+229.5	Strong demand, better margins

Source: ThomsonReuters, DBS Bank

Small-mid cap picks

Mixed performance for picks in March (-33% to +19%).
Overall, our picks in March underperformed the market, -5.8% vs average of +1.5% for the market over the same period, dragged down by Japfa and Ezion. Cityneon did well.

We have removed four out of our five picks in March - Cityneon, Ezion, Japfa and Midas. We continue to like **Cityneon** on fundamentals, and expect explosive earnings growth ahead but near term, share price is likely to be capped by the potential mandatory general offer at S$0.90 per share. Operational weakness on the back of weak oil prices capped **Ezion's** share price performance. **Midas** was relatively flat, despite depressed valuations and positive newsflow on contract wins.
For **Japfa**, near term, Animal Protein outside Indonesia could continue to be weak, due to the oversupply of swine in Vietnam. We retain our pick for **Singapore O&G**.

Desc.	Price Performance*
March Conviction Picks	-3.4%
Cityneon	+18.5%
Ezion	-15.7%
Japfa	-33.1%
Midas	-4.3%
Singapore O&G	+5.6%
Indices (STI, FSTS and FSTM)	+1.5%
FTSE STI	+2.4%
FSTS Index	+1.9%
FSTM Index	+0.2%

*Refers to change in last price between 13th Mar and 18th May

Source: DBS Bank, Bloomberg Finance L.P

Ex-technology picks – CDL Hospitality Trust, mm2 Asia, Singapore O&G, Sheng Siong.
For Technology stocks, our picks are **Hi-P** and **UMS**. Other picks are CDL Hospitality Trust, mm2 Asia and Singapore O&G. **CDL Hospitality Trusts** (CDREIT) is the cheapest REIT providing exposure to the upturn in the Singapore hospitality market which we project will occur in 2018 as supply pressure eases. CDREIT offers compelling long-term value given its Singapore portfolio trades at a heavily discounted implied price per key of S$500,000 which is below its replacement cost of c.S$700,000, recent market transactions of above S$650,000, and that of other listed Singapore hospitality REITs of between S$650,000 and S$1m. In addition, CDREIT offers an attractive 6.4% yield.

mm2 Asia is on a growth trajectory. We project mm2 to grow at an EPS CAGR of 52% from FY16-FY19, underpinned by growth in productions, expansion into the China market, and contribution from UnUsUal.

We also like **Singapore O&G** (SOG) for both its positive organic and inorganic growth prospects. Core earnings growth will likely be supported by growth in its key cancer and dermatology divisions, expansion into new specialisations (such as paediatrics), and margin improvements, while plans to acquire small complementary practices could further accelerate growth.

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Our picks

No.	Stock	Sector	Rating	Last Price (19-May)	12-mth Target Price	Upside/ (Downside)	Catalyst
1	CDL Hospitality Trust	REITS	BUY	1.610	1.75	9%	Imminent recovery in hospitality market in 2018
2	Hi-P	Industrials	BUY	0.815	1.07	31%	Strong ramp-up in production; operational efficiency
3	mm2 Asia	Consumer Services	BUY	0.605	0.70	16%	Higher number of productions; earnings accretive acquisition
4	Singapore O&G	Health Care	BUY	0.665	0.80	20%	Successful recruitment of medical practitioners and expansion into new complementary medical services
5	UMS Holdings	Industrials	BUY	1.055	1.31	24%	Higher fab equipment spending

Source: DBS Bank, Bloomberg Finance L.P

Appendices

APPENDIX (1)

Review of March 2017 Picks

No.	Stock	Sector	Rating (13-Mar)	Beg. Price (17-Feb)	Last Price (18-May)	% Price Change (2M*)	Absolute Return (%)
1	Cityneon	Consumer Services	BUY	0.785	0.935	+ 18.5%	+ 18.5%
2	Ezion	Oil & Gas	BUY	0.35	0.295	- 15.7%	- 15.7%
3	Japfa	Consumer Goods	BUY	0.815	0.55	- 33.1%	- 33.1%
4	Midas Holdings	Industrial	BUY	0.235	0.2275	- 4.3%	- 4.3%
5	Singapore O&G	Consumer Services	BUY	0.62	0.7157	+5.6%	+ 5.6%

*Refers to change in last price between 13th March and 18th May

Source: DBS Bank, Bloomberg Finance L.P

Indices gained 1.5% on average since last issue (13 Mar – 18 May):

FTSE STI: 3147.15 to 3221.66 // + 2.4%
FSTS Index: 394.63 to 402.27 // + 1.9%
FSTM Index: 722.58 to 724.26 // + 0.2%

Our picks had a broad range of performances

Overall, our picks in March underperformed the market, -5.8% vs average of +1.5% for the market over the same period, dragged down by Japfa and Ezion. Cityneon did well.

Potential entry of strategic investors and the exploration of a third Intellectual Property right drove **Cityneon's** share price higher. News on the formation of **Singapore O&G's** Paediatrics division and the recent stock split are positive for the stock.

Japfa was partly affected by concerns on oversupply of swine in Vietnam. Operational weakness on the back of the weak oil prices has capped **Ezion's** share price performance. Share price of **Midas** was relatively flat, despite depressed valuations and positive newsflow on contract wins.

APPENDIX (2)

Company Profiles for May 2017 Picks

No.	Stock	Sector	Rating	Last Price (19-May)	Target Price	Upside/ (Downside)	Catalyst
1	CDL Hospitality Trust	REITS	BUY	1.610	1.75	9%	Imminent recovery in hospitality market in 2018
2	Hi-P	Industrials	BUY	0.815	1.07	31%	Strong ramp-up in production; operational efficiency
3	mm2 Asia	Consumer Services	BUY	0.605	0.70	16%	Higher number of productions; earnings accretive acquisition
4	Singapore O&G	Health Care	BUY	0.665	0.80	20%	Successful recruitment of medical practitioners and expansion into new complementary medical services
5	UMS Holdings	Industrials	BUY	1.055	1.33	26%	Higher fab equipment spending

Source: DBS Bank, Bloomberg Finance L.P

1) CDL Hospitality Trust [CDREIT SP, TP S$1.75]

Although we expect the Singapore hospitality market to only recover in 2018, we believe the current low share price has largely priced in the current downturn and CDREIT offers compelling long-term value given that its Singapore portfolio trades on a heavily discounted implied price per key. In addition, CDREIT offers patient investors an attractive 6.4% yield (based on 90% payout ratio) ahead of the eventual upturn. CDREIT is the cheapest REIT on a price per key basis, providing exposure to the upturn in the Singapore hospitality market which we project will occur in 2018 as supply pressure eases.

We recently raised our DCF-based TP to S$1.75 from S$1.70. We believe with CDREIT tempering downside risk to earnings this year with the acquisition of The Lowry Hotel, at current levels, CDREIT offers an attractive entry point to an expected recovery in the Singapore hospitality market next year.

2) Hi-P (HIP SP, TP S$1.07)

Hi-P is riding on the growth trajectory for Smartphone and IoT market. The group is expanding production, in particular at its Suzhou plant, in preparation for orders from new customers, and also new products from existing customers. Overall utilisation rate for 1Q 2017 was below 40%. With the expected ramp-up in production, we expect utilisation rate to reach 60-70% in the next 1-2 years.

Hi-P reversed from a steep loss in 1H2016, mainly driven by improved manufacturing efficiency. We expect earnings momentum to continue, on the back of operational efficiency, new customers and new product launches. Our TP of S$1.07 is based on 12x FY18F earnings.

3) mm2 Asia [mm2 SP, TP S$0.70]

mm2 Asia is on a growth trajectory. We project mm2 to grow at an EPS CAGR of 52% from FY16-FY19, underpinned by growth in productions, expansion into the China market, and contribution from UnUsUal. The cinema arm, on the other hand, helps to build a recurring income base. Upon completion of the latest acquisition of 13 cinemas in Malaysia, mm2 Asia will be a top four player in Malaysia.

Our target price of S$0.70 is based on sum-of-parts (SOTP) valuation; we recently switched the valuation methodology for mm2 to SOTP valuation from the PE method, as contribution from the different business units will be more meaningful going forward.

4) Singapore O&G [SOG SP, TP S$0.80]

Singapore O&G (SOG) is a chain of medical practices, specialising in women's health mainly in obstetrics and gynaecology (O&G), women's cancer-related and dermatology and aesthetics.

Apart from plans to grow its market share in the O&G segment via the recruitment of new doctors, SOG has also been diversifying into higher-margin complementary services, such as its cancer-related and newly acquired dermatology and aesthetics business, and it should continue to leverage on referrals from its existing bread-and-butter O&G business to deliver growth. Expansion into new specialisations such as paediatrics augurs well for the group. In line with its goal to be an integrated women's health medical practice, we believe other complementary services to explore include IVF, child-care services and imaging.

Our target price of S$1.60 (S$0.80 post share split) is based on the average valuation using 30x PE and DCF valuation. Our estimates have incorporated marginal contributions from paediatrics division.

5) UMS Holdings [UMSH SP, TP S$1.33]

Industry expert SEMI predicts that global fab equipment spending could reach an industry all-time high of over US$46bn in 2017, before climbing closer to US$50bn in 2018.

Through its entrenched relationship with Applied Materials – a leading producer of semiconductor equipment, UMS should naturally benefit from the former's efforts in expanding its addressable market and market share gains. Plans to grow production capacity by approximately 30% by end-2018 should also allow UMS to better capitalise on this strong end-demand.

To capture growth potential in the strong semiconductor uptrend, we impute a higher valuation multiple from 9x to 11x FY18F PE (or 9x ex-cash) – which still represents a discount to larger peers' 14x, and arrive at a higher TP of S$1.33.

Additionally, as a dividend play (with prospective yield of 6.2%), the stock's attractiveness is further enhanced by the prospect of higher dividends.

APPENDIX (3)

DBS SMC Screener: Ranked by Investment Metrics* (as at 18 May 2017)

Top 10 Prospective Dividend Yield (FY17 DBS Estimates)	
Company Name	(%)
IREIT Global	8.2
Cache Logistics Trust	8.2
Soilbuild Business Space REIT	8.0
Croesus Retail Trust	7.7
Frasers Hospitality Trust	7.3
Manulife US REIT	7.3
Frasers Commercial Trust	7.3
Frasers Logistics & Industrial Trust	7.1
Ascendas Hospitality Trust	7.0
Cambridge Industrials	7.0
Average	7.5

Top 10 Potential Upside (DBS Estimates of 12-month TP)	
Company Name	(%)
Ezra Holdings	445%
Nam Cheong	122%
Ezion Holdings	110%
Katrina Group	108%
Midas Holdings	60%
Japfa Ltd	54%
Yoma Strategic Holdings	42%
Noble Group	38%
Cityneon Holdings	35%
PACC Offshore Services Holdings	32%
Average	105%

Lowest P/B (FY17 DBS Estimates)	
Company Name	(x)
Ezra Holdings	0.04
Nam Cheong	0.09
Noble Group	0.18
Pacific Radiance Ltd	0.25
Ezion Holdings	0.37
Midas Holdings	0.51
Mermaid Maritime	0.51
Indofood Agri	0.51
Perennial Real Estate Holdings	0.53
PACC Offshore Services Holdings	0.62
Average	0.36

Lowest P/E (FY17 DBS Estimates)	
Company Name	(x)
Japfa Ltd	7.1
Indofood Agri	7.5
Courts Asia	8.3
Katrina Group	8.6
Del Monte Pacific	8.9
UMS Holdings	9.4
Procurri Corporation Limited	10.4
Bumitama Agri	10.5
CSE Global	11.6
China Aviation Oil	11.9
Average	9.4

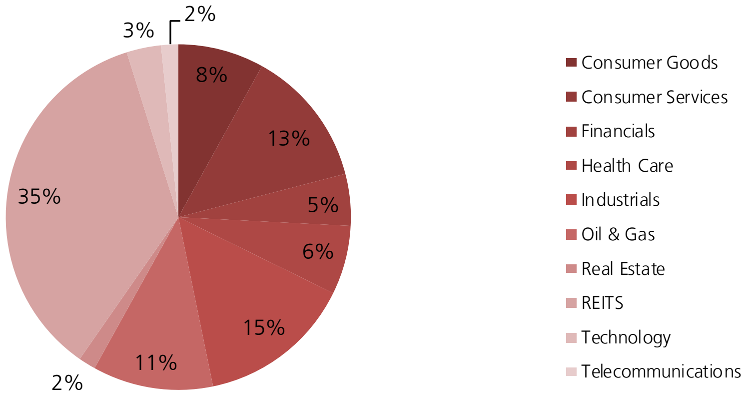
Top 10 Net Cash to Share Price (FY17 DBS Estimates of Net Cash to Last Price)	
Company Name	(%)
China Aviation Oil	29%
Katrina Group	26%
CSE Global	18%
Jumbo Group	16%
Singapore O & G	14%
UMS Holdings	12%
Best World International	11%
iFAST Corporation	11%
Hong Leong Finance	7%
Riverstone Holdings	5%
Average	15%

Top 10 2-yr EPS CAGR (FY16-18 DBS Estimates)	
Company Name	(%)
Frasers Logistics & Industrial Trust	129.3
Cityneon Holdings	54.6
Ezion Holdings	41.9
Breadtalk Group	39.0
Yoma Strategic Holdings	38.5
UMS Holdings	32.0
Procurri Corporation Limited	22.6
Indofood Agri	22.6
MM2 Asia	19.6
Midas Holdings	19.5
Average	42.0%

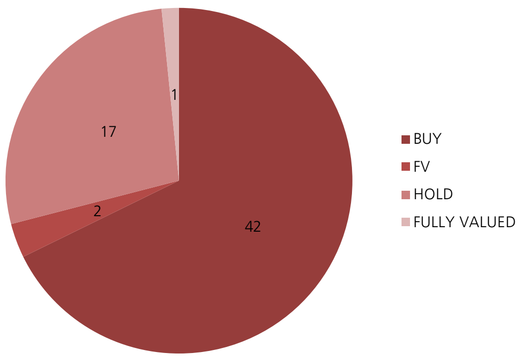
Source: DBS Bank

APPENDIX (4) DBS SMC Universe (as at 18 May 2017)

Breakdown by Sector



Breakdown by Rating



Source: DBS Bank

SMC Universe (US$50m to US$2bn Market Cap)

S/n	Security Description	Rating	Market Cap (S$ m)	Last Price (18 May-17)	Target Price (12 month)	Upside / Downside	P/E FY17	P/E FY18	P/B FY17	EPS Growth (%, FY17)
1	SPH REIT	BUY	2529.7	0.99	1.04	5%	19.9	18.3	1.1	-0.8
2	Raffles Medical	HOLD	2435.4	1.39	1.40	1%	32.8	31.1	3.4	5.5
3	Ascott Residence	BUY	2391.5	1.12	1.16	4%	21.7	19.0	0.9	-11.5
4	M1	BUY	2092.7	2.25	2.54	13%	14.5	16.1	4.9	-3.2
5	Keppel Infrastructure Trust	BUY	2083.0	0.54	0.56	4%	53.4	54.8	1.8	-5.2
6	Frasers Centrepoint Trust	BUY	1871.2	2.03	2.20	8%	19.3	17.5	1.1	1.9
7	Starhilll Global REIT	BUY	1646.8	0.76	0.83	11%	14.3	13.7	0.8	34.5
8	CDL Hospitality Trust	BUY	1596.4	1.60	1.75	9%	16.7	15.6	1.0	34.0
9	Parkway Reit	BUY	1567.0	2.59	2.82	9%	20.6	20.3	1.5	3.2
10	Sheng Siong Group	BUY	1465.9	0.98	1.14	17%	21.4	20.3	5.7	9.4
11	China Aviation Oil	BUY	1461.6	1.69	1.85	9%	11.9	11.1	1.5	-2.5
12	Perennial Real Estate	BUY	1448.5	0.88	1.05	20%	38.1	138.4	0.5	9.1
13	Frasers Logistics & Industrial	BUY	1422.2	1.00	1.10	11%	16.1	15.6	1.1	1070.3
14	CapitaLand Retail China Trust	BUY	1417.5	1.60	1.68	5%	15.9	16.7	1.0	31.4
15	Keppel DC Reit	BUY	1397.6	1.24	1.30	5%	17.4	17.2	1.3	-5.2
16	Bumitama Agri	BUY	1348.4	0.77	0.99	28%	10.5	10.5	1.6	22.5
17	Delfi Ltd	HOLD	1326.2	2.17	2.26	4%	27.4	23.5	4.3	22.8
18	Frasers Hospitality Trust	BUY	1291.9	0.70	0.85	21%	16.4	16.3	0.9	0.9
19	OUE Hospitality Trust	BUY	1270.4	0.71	0.76	8%	17.7	17.9	0.9	-12.8
20	Hong Leong Finance	BUY	1157.4	2.60	3.20	23%	15.1	14.5	0.7	44.4
21	OUE Commercial REIT	HOLD	1090.5	0.71	0.67	-6%	20.7	19.9	0.8	5.0
22	Far East Hospitality Trust	BUY	1087.9	0.60	0.66	10%	17.5	16.8	0.7	3.9
23	Frasers Commercial Trust	BUY	1082.6	1.35	1.52	13%	15.5	14.8	0.9	1.8
24	Ascendas India Trust	BUY	1033.7	1.11	1.20	8%	17.9	17.0	1.4	12.8
25	Yoma Strategic Holdings	BUY	981.8	0.57	0.80	42%	36.3	38.4	1.4	181.0
26	Japfa Ltd	BUY	960.7	0.55	0.84	54%	7.1	4.2	0.8	-29.4
27	Noble Group	HOLD	892.7	0.68	0.94	38%	nm	nm	0.2	nm
28	Ascendas Hospitality	BUY	865.9	0.77	0.84	9%	26.2	24.0	0.9	-3.9
29	Cache Logistics Trust	HOLD	807.2	0.90	0.77	-15%	14.2	14.0	1.2	0.2
30	Croesus Retail Trust	BUY	793.3	1.03	1.15	12%	17.2	17.4	1.2	-2.2

SMC Universe (US$50m to US$2bn Market Cap)

S/n	Security Description	Rating	Market Cap (S$ m)	Last Price (18 May-17)	Target Price (12 month)	Upside / Downside	P/E FY17	P/E FY18	P/B FY17	EPS Growth (%, FY17)
31	Best World International	BUY	779.6	1.41	1.65	17%	18.4	15.4	6.7	21.7
32	Manulife US REIT	BUY	771.0	0.88	1.01	14%	15.8	15.6	1.0	-32.7
33	Religare Health Trust	HOLD	741.8	0.92	0.85	-8%	22.0	21.1	1.0	-73.8
34	Riverstone Holdings	BUY	741.1	1.00	1.07	7%	17.0	15.1	3.6	12.4
35	Soilbuild Business Space	BUY	707.3	0.68	0.73	8%	13.8	13.5	0.9	1.5
36	Indofood Agri	HOLD	670.0	0.48	0.56	17%	7.5	7.0	0.5	72.5
37	Del Monte Pacific	HOLD	621.8	0.32	0.37	16%	8.9	8.3	1.2	33.3
38	Cosco Shipping Int'l (Spore)	HOLD	615.8	0.28	0.27	-3%	nm	nm	2.3	nm
39	Ezion Holdings	BUY	611.8	0.30	0.62	110%	33.4	10.8	0.4	-7.8
40	MM2 Asia	BUY	586.4	0.57	0.70	23%	25.9	20.9	6.3	37.8
41	PACC Offshore Services	BUY	562.3	0.31	0.41	32%	nm	nm	0.6	nm
42	IREIT Global	HOLD	473.2	0.76	0.75	-1%	13.8	13.1	1.2	-4.9
43	Breadtalk Group	BUY	436.0	1.55	1.69	9%	25.4	18.8	3.0	98.9
44	UMS Holdings	BUY	431.3	1.01	1.33	32%	9.4	8.3	2.1	103.1
45	Midas Holdings	BUY	427.4	0.23	0.36	60%	12.3	10.7	0.5	49.0
46	Jumbo Group	HOLD	397.7	0.62	0.72	16%	21.9	18.2	5.5	1.1
47	Pan-United Corp	HOLD	386.8	0.69	0.63	-9%	17.4	16.5	1.4	-11.4
48	Vard Holdings	HOLD	289.1	0.25	0.25	2%	nm	nm	0.8	nm
49	Tat Hong Holdings	HOLD	278.7	0.37	0.56	51%	nm	nm	0.4	nm
50	CSE Global	HOLD	252.9	0.49	0.46	-6%	11.6	10.8	1.0	2.9
51	Mermaid Maritime	HOLD	244.5	0.17	0.20	15%	20.5	20.1	0.5	-49.8
52	Cityneon Holdings	BUY	227.5	0.93	1.26	35%	12.8	9.3	2.6	168.9
53	Courts Asia	BUY	220.9	0.43	0.51	18%	8.3	8.1	0.7	4.2
54	iFAST Corporation	BUY	203.6	0.78	0.94	21%	31.8	27.7	2.5	19.8
55	Singapore O & G	FV	156.2	0.66	0.80	22%	29.9	24.2	7.9	-40.7
56	Pacific Radiance Ltd	FV	82.1	0.12	0.10	-13%	nm	nm	0.2	nm
57	Procurri Corporation Limited	HOLD	77.0	0.28	0.32	15%	10.4	6.7	1.1	18.6

Source: DBS Bank, Bloomberg Finance L.P.

COMPANY PROFILE

Hi-P International

BUY

(Initiating Coverage)

Last Traded Price (19 May 2017): S$0.82 (**STI :** 3,216.92)

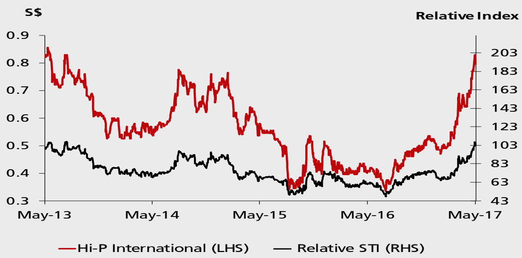
Price Target 12-mth: S$1.07 (31% upside)

Potential Catalyst: Strong production ramp-up; operational efficiency

Analyst

Lee Keng LING +65 6682 3703 leekeng@dbs.com

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2015A	2016A	2017F	2018F
Revenue	1,363	1,305	1,375	1,497
EBITDA	70.8	158	183	196
Pre-tax Profit	(32.8)	71.2	91.4	97.4
Net Profit	(46.4)	52.5	70.0	74.6
Net Pft (Pre Ex.)	(46.4)	52.5	70.0	74.6
EPS (S cts)	(5.6)	6.28	8.38	8.92
EPS Pre Ex. (S cts)	(5.6)	6.28	8.38	8.92
EPS Gth (%)	nm	nm	33	7
EPS Gth Pre Ex (%)	(543)	(213)	33	7
Diluted EPS (S cts)	(5.2)	5.88	7.85	8.36
Net DPS (S cts)	0.60	0.80	1.03	1.09
BV Per Share (S cts)	66.6	69.2	76.5	84.3
PE (X)	nm	13.0	9.7	9.1
PE Pre Ex. (X)	nm	13.0	9.7	9.1
P/Cash Flow (X)	nm	2.5	3.1	3.3
EV/EBITDA (X)	12.3	4.2	2.9	2.1
Net Div Yield (%)	0.7	1.0	1.3	1.3
P/Book Value (X)	1.2	1.2	1.1	1.0
Net Debt/Equity (X)	0.3	CASH	CASH	CASH
ROAE (%)	(8.0)	9.3	11.5	11.1

ICB Industry : Industrials
ICB Sector: Industrial Engineering
Principal Business: HI-P is an integrated contract manufacturing services provider specialising in precision plastic injection molding, mold design and fabrication, assembly and surface finishing and precision metal stamping .

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Powering ahead

- **Riding on the strong growth trajectory for smartphones and IoT**
- **New customers and new product launches coupled with big rise in capacity utilization to drive growth.**
- **Potential takeover target for global players looking to build a base in Asia**
- **Initiating coverage on Hi-P with BUY rating and target price of S$1.07 based on 12x FY18F earnings**

One-stop contract manufacturer. Hi-P provides one-stop solutions - from product development, component manufacturing to complete product assembly - to customers in various industries. Broadly, Hi-P's products can be classified into three broad categories: Wireless (smartphones), computer peripherals (Internet of Things [IoT]) and consumer electronics.

Riding on the growth trajectory for smartphones and IoT. The Smartphone and IoT segments are expected to continue to do well in the next one to two years. Hi-P is capitalising on this trend, with the ramp-up in production. Hi-P is expected to expand production, in particular at its Suzhou plant, in preparation for orders from its new customers, and also new products from existing customers. Overall utilisation rate for 1Q 2017 was below 40%. With the expected ramp-up in production, we expect utilisation rate to reach 60-70% in the next 1-2 years.

Potential takeover target. Hi-P could be an attractive target for global companies looking to build a base in Asia. To date, there is still no concrete succession plan announced by its Executive Chairman & Chief Executive Officer, Mr Yao Hsiao Tung, who has a 61% stake in the company.

Initiate with BUY; target price of S$1.07 based on 12x FY18F earnings. Hi-P is currently trading at 9.7x FY17F PE and 9.1x FY18F PE. We believe a valuation of 12x FY18F PE is fair, pegged to a 10% discount to the peer average, given its smaller scale. We derive a TP of S$1.07, which translates to an upside of 30% from the current price.

Issued Capital (m shrs)	807
Mkt. Cap (Sm/USm)	658 / 512
Major Shareholders (%)	
Hsiao Tung Yao	61.1
Molex International	22.1
Free Float (%)	16.7
3m Avg. Daily Val (US$m)	0.47

INVESTMENT THESIS

Profile	Rationale
Hi-P provides one-stop solutions - from product development, component manufacturing to complete product assembly - to customers in various industries. Broadly, Hi-P's products can be classified into three broad categories:- Wireless (smartphones), computer peripherals (Internet of Things [IoT]) and consumer electronics.	Riding on the growth trajectory in the smartphone and IoT markets The smartphone and IoT segments are expected to continue to do well in the next one to two years. Hi-P is capitalising on this trend, with the ramp-up in production at its various manufacturing plants. Recovery in earnings since 2H2016 sustainable Hi-P reversed from a steep loss in 1H2016 to S$8.4m profit in 1Q17, mainly driven by improved manufacturing efficiency. We expect the earnings momentum to continue, on the back of operational efficiency, new customers and new product launches. Optimising capacity utilisation With the expected ramp-up in production, we expect utilisation rate to reach 60-70% in the next 1-2 years, from <40% in 1Q17.
Valuation	**Risks**
Hi-P is currently trading at 9.7x FY17F PE and 9.1x FY18F PE. We believe 12x FY18F PE valuation is fair, pegged to a 10% discount to peer average, given its smaller scale. Target price works out to S$1.07 per share, which translates to an upside of 30% from the current price.	Macroeconomic uncertainty Prolonged macroeconomic uncertainty would postpone consumer consumption, which in turn would drive down revenue. Volatile industry with shorter product life cycle Wireless (smartphones) segment is getting more competitive with shorter product life cycles, and presents risks on margins and inventories.

Source: DBS Bank

SWOT Analysis

Strengths	Weakness
• One-stop largest and fastest growing contract manufacturer • Helmed by industry veteran • Diversified customer base and sharpened competitive edge • Strong earnings momentum from 2H 2016 to continue • Strengthening cashflows and balance sheet	• Major customer risk • Volatile industry with shorter product life cycles
Opportunities	**Threats**
• Riding on the growth trajectory for smartphones and IoT • Optimising capacity utilisation; ramping up production for new customers and new products. • Expand customer base to other industries • Improving operational efficiency and better cost controls • M&A activities – both as predator and prey.	• Macroeconomic uncertainty

Source: DBS Bank

Company Background

One-stop contract manufacturer. Hi-P started out in 1980 as a tooling specialist in Singapore and has since grown to become one of the region's largest and fastest growing integrated contract manufacturers today. The group provides one-stop dedicated solutions to fulfill its customers' needs – from product development, component manufacturing to complete product assembly.

Hi-P's customers include many of the world's biggest names in mobile phones, tablets, household & personal care appliances, computing & peripherals, lifestyle and industrial devices.

Products classified into three broad categories
Broadly, Hi-P's products can be classified into three broad categories - Wireless (smartphones), computer peripherals (Internet of Things (IoT)) and consumer electronics.

Volatile wireless and IoT products offset by more stable consumer electronics.
Compared to consumer electronics products, wireless and computer peripherals products tend to have a shorter shelf life, and thus, there is a need to constantly test and launch new products, which could increase revenue and earnings volatility as as initial contributions tend to be small. Consumer electronics, which include coffee machines, mixers, shavers and electric tooth brushes, tend to have longer shelf lives and thus, provide more stability to revenue and earnings.

Fourteen manufacturing facilities. The group has 14 manufacturing plants globally located across six locations in the People's Republic of China (Shanghai, Chengdu, Tianjin, Xiamen, Suzhou and Nantong), Poland, Singapore and Thailand. Hi-P has marketing and engineering support centres in China, Singapore, Taiwan and the US.

Manufacturing facilities / subsidiaries

Location	Number of subsidiaries
Singapore	4
North China	
Tianjin	3
Qingdao	1
South China	
Xiamen	1
Shanghai	9
Suzhou	3
Nantong	1
Chengdu	2
North America	1
Taiwan	1
Poland	1
Thailand	1

Source: Company; DBS Bank

Manufacturing plants organised based on products and services
For management and reporting purposes, Hi-P is organised into manufacturing plants based on their products and services, and has three operating segments as follows:

1) Precision plastic injection molding (PPIM)
2) Mold design and fabrication (MDF)
3) Provision of sub-product assembly and full-product assembly services (Assembly)

Hi-P monitors the operating results of its manufacturing plants separately for the purpose of making decisions about resource allocation and performance assessment.

Segmental breakdown

Revenue (S$m)	FY14	FY15	FY16
Precision plastic injection moulding	645.6	934.0	842.0
Mold design and fabrication	76.2	123.9	159.5
Assembly	331.6	445.3	426.8
Elimination *	(102.0)	(140.5)	(123.2)
TOTAL	**951.4**	**1,362.6**	**1,305.1**

Operating profit (S$m)	FY14	FY15	FY16
Precision plastic injection moulding	(0.6)	22.8	72.1
Mold design and fabrication	(0.6)	0.3	4.1
Assembly	(0.4)	(48.8)	(10.3)
TOTAL	**(1.6)**	**(25.7)**	**65.8**

Operating profit margin	FY14	FY15	FY16
Precision plastic injection moulding	-0.1%	2.4%	8.6%
Mold design and fabrication	-0.7%	0.3%	2.5%
Assembly	-0.1%	-11.0%	-2.4%
TOTAL	**-0.2%**	**-1.9%**	**5.0%**

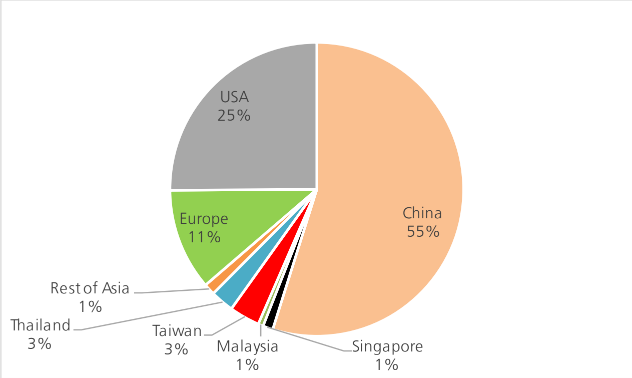
*Note: * Inter-segment revenues are eliminated on consolidation*
Source: Company, DBS Bank

Materials and labour are main cost components. Materials form the bulk of total costs, at 40-50% of total costs. Labour is the next key item, making up about 30%.

Forex exposure. About 90% of total revenue is in USD. Materials, which account for the bulk of total costs, are also in USD but overheads are mainly in RMB and the reporting currency is in SGD. In 1Q 2017, Hi-P reported net foreign exchange loss of S$5.2m, mainly due to the weakening of USD vs SGD.

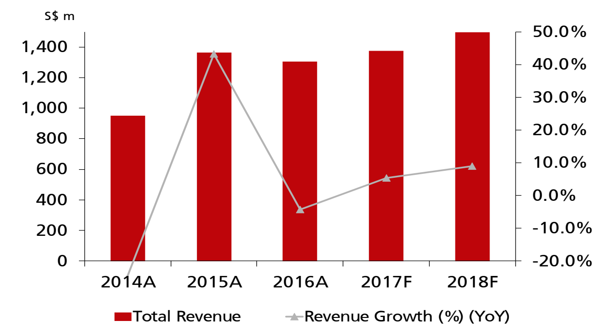
China accounted for more >50% of FY16 revenue
In terms of geographical breakdown, Asia accounted for 64% of FY16 revenue; China made up 55% of total revenue.

Geographical breakdown – FY2016 revenue

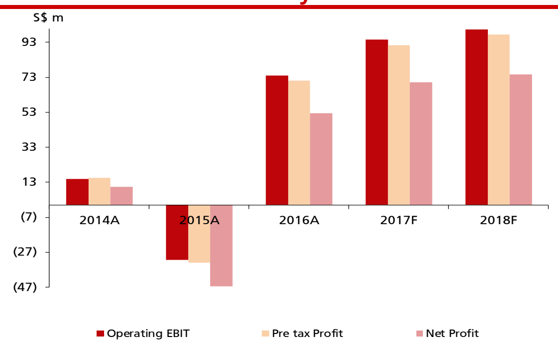


Source: Company, DBS Bank

Sales Trend



Profitability Trend



Source: Company, DBS Bank

Management

Helmed by industry veteran. Helmed by Mr Yao who has more than 40 years of experience in the precision tooling and plastic injection moulding industry, and supported by Madam Wong and the management team, Hi-P was able to ride through the volatile industry.

Key Management Team

Management team	Responsibility
Mr Yao Hsiao Tung *Executive Chairman & Chief Executive Officer*	Mr Yao was appointed to the Board in May 1983. Mr Yao is responsible for formulating the strategic directions of the group as well as the overall management of the group's operations. Mr Yao has more than 40 years of experience in the precision tooling and plastic injection moulding industry. He was a technical service manager with Du Pont Singapore Electronics Pte. Ltd. before joining the group
Madam Wong Huey Fang *Executive Director and Chief Administrative Officer*	Madam Wong was appointed to the Board in January 1988. Her key responsibilities include managing the group's administrative and public relations functions. Prior to joining the group in 1985, Madam Wong was a purchaser with Taiwan-based Aven Electronics Co., Ltd.
Yeo Tiong Eng *Executive Director*	Mr Yeo was appointed to the Board in April 1987 and re-designated to Executive Director with effect from 14 November 2016. Mr Yeo was formerly Vice-President Finance of Molex Far East South Management Pte Ltd overseeing Molex Global Commercial Products Division and is a member of the Institute of Singapore Chartered Accountants.
Mr Samuel Yuen Chung Sang *Chief Financial Officer*	Mr Yuen is responsible for the group's overall financial operations and management. Prior to joining the group on 26 June 2006, Mr Yuen was the Executive Director and Chief Financial Officer of SGX-listed Fu Yu Corporation, a precision plastic injection moulding and mould-making company. Prior to that, he had worked extensively in China and Hong Kong. His previous experience included finance and general management experience in various industries such as freight forwarding, hotel and property investment and trading.

Source: Company, DBS Bank

Directors / Officers Remuneration

Name	Salary (%)	Bonus (%)	Dir.fee (%)	Others (%)	Total (S$'000)
Directors					
Mr. Yao Hsiao Tung	85	7	6	2	1,198
Mr. Yao Hsiao Tung	79	7	12	2	320
Mr. Yeo Tiong Eng	37	3	57	3	97
Mr. Chester Lin Chien	-	-	100	-	58
Madam Leong Lai Peng	-	-	100	-	68
Mr. Gerald Lim Thien Su	-	-	100	-	66
Officers					
Mr. Tay Ewee Liang	89	-	-	11	363
Mr. Gary Ho Hock Yong	28	-	-	72	416
Mr. Samuel Yuen Chung Sang	82	14	-	4	507

Source: Company, DBS Bank

Growth Strategies

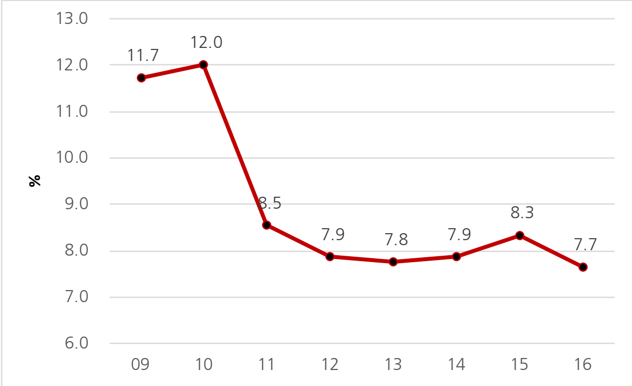
Strive for sustainable growth with a diversified customer base, and sharpened competitive edge.
Over the years, Hi-P has built a base for its business and established strong relationships with its customers, especially the key ones. In light of the ever changing industry, Hi-P is constantly investing in sharpening its competitive edge to ensure that it provides its customers with best in class capabilities across the value chain. For example, in its metal Computer Numeric Control (CNC) processes segment, it continues to garner momentum as it has refined its capabilities and boosted productivity levels. Despite its early struggles in ramping up this segment, Hi-P is now well-positioned to capture business opportunities with existing and new customers.

Hi-P has also made a conscious effort to diversify its customer base. It has learnt from its past experience not to depend heavily on one single key customer. Its strategy in this area has borne fruit. Hi-P now has a relatively balanced contribution in terms of revenue and earnings from all its key business segments.

With a much stronger foundation, Hi-P now has the bargaining power to seek businesses to enhance its long term outlook, and also to negotiate for better terms, even with its key customers.

Improving operational efficiency and tightening cost controls. To mitigate the impact of the uncertain business landscape, Hi-P strives to drive operational efficiency and strengthen its business model. One of its goal is to adopt a leaner business model. In this line of approach, Hi-P has channelled its efforts into tightening cost controls across all facets of its operations. Despite the challenging environment, especially rising labour costs in the region in the past few years, total operating expenses as a percentage of sales has been trending down.

Total operating expense as a percentage of revenue



Source: Company, DBS Bank

Optimising capacity utilisation; ramping up production for new customers and new products. Hi-P is expected to expand production, in particular at its Suzhou plant, in preparation for orders from its new customers, and also new products from existing customers. Overall utilisation rate for 1Q 2017 was below 40%. With the expected ramp-up in production, we expect utilisation rate to reach 60-70% in the next 1-2 years, as the group optimises capacity utilisation across all its manufacturing locations.

Expand customer base to other industries. Hi-P's existing customers are mainly from the wireless (smartphones), consumer electronics and computer peripherals (IoT) segments. We would not rule out the possibility of the group expanding to other industries like automotive and medical devices, in order to diversify and reduce customer concentration risk, and to smooth out the seasonality effect, especially for smartphones.

Riding on the growth trajectory for Smartphone and IoT markets. According to the independent research firm International Data Corporation (IDC), the worldwide smartphone market will see a total of 1.53bn units shipped in 2017, up 4.2% from 1.47bn units shipped in 2016. Thereafter, shipments will reach 1.77bn units in 2021, translating to a compound annual growth rate (CAGR) of 3.7%. The report also highlights that shipments will increase in 2017 and 2018 due to the plethora of new phone releases from major brands during this period.

In another study by the IDC, after a slowdown in 2016, the overall wearables market is expected to return to a strong growth path. New vendors and an expanded number of retail outlets will drive worldwide wearable device shipments from 102.4 million in 2016 to 237.5 million in 2021, a five-year CAGR of 18.3%.

For the IoT segment, according to IDC, global IoT spending will experience a CAGR of 15.6% over the 2015-2020 forecast period, reaching $1.29tr in 2020.

Overall, the positive outlook for the various segments bodes well for Hi-P as a handful of its key customers are in these segments. Hi-P is capitalising on this trend, with the ramp-up in production at its various manufacturing plants.

M&A activities – both as predator and prey. With a strong cash position, we would not rule out the possibility of the group expanding to other industries like automotive and medical devices via acquisitions, in order to diversify and reduce customer concentration risk, and to smooth out the seasonality effect, especially for smartphones.

Hi-P could also be a takeover target as to date, there is still no concrete succession plan announced by Executive Chairman & Chief Executive Officer, Mr Yao Hsiao Tung, who has a 61% stake in the company.

Furthermore, with its entrenched relationship with key customers, which include some of the world's biggest names in mobile phones, tablets, household & personal care appliances, Hi-P could be an attractive target for global companies looking to build a base in Asia.

Key Risks

Macroeconomic uncertainty
Prolonged macroeconomic uncertainty would postpone consumer consumption, which in turn would drive down revenue further.

Volatile industry with shorter product life cycle
About two-thirds of revenue is derived from the Wireless (smartphones) and computer peripherals (IoT) segments, which tend to be very volatile, as product life cycles are shorter compared to consumer electronics products. In light of the ever changing industry, Hi-P needs to invest to develop new products in order to fulfill customer demand.

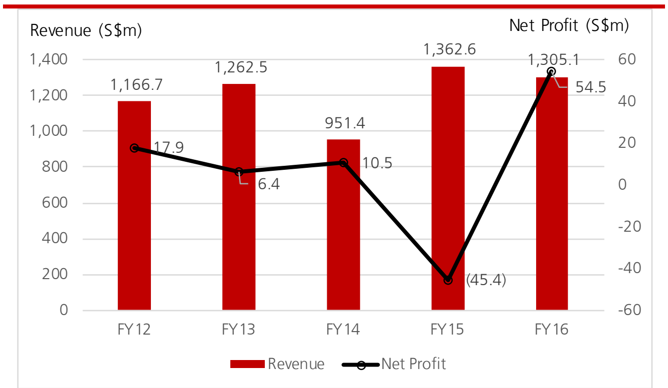
No pre-commitment for orders
Customers generally do not give committed orders in advance. In certain cases, for top global companies especially, Hi-P would need to invest in manufacturing facilities even before the orders come in. There is also no certainty that Hi-P would get the orders even after investing in such manufacturing facilities.

Major customers risk
In FY2016, Hi-P had four major end customers, same as the previous year, for the PPIM segment; these four customers accounted for 72% of PPIM revenue and 47% of total revenue (2015: 74% of PPIM and 50% of total). There were five major end customers for Assembly segment, no change from 2015, with revenue accounting for 66% of Assembly revenue (2015: 62%), and 21% of total revenue (2015: 20%).

Financials

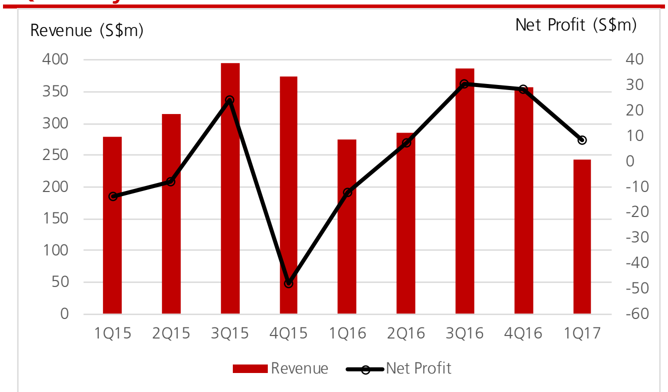
Earnings momentum from 2H 2016 to sustain.
We expect the recovery in earnings since 2H 2016 to continue, on the back of operational efficiency, new customers and new product launches. Hi-P reported a very strong 2H2016, reversing from a steep loss in 1H2016, mainly driven by improved manufacturing efficiency. In 1Q 2017, Hi-P registered revenue of S$244.2m (-11.4% y-o-y), mainly due to less high component content assembly products in 1Q 2016. Gross profit margin increased to 13.7% in 1Q2017 from 6.1% in 1Q2016. The improvement was mainly attributed to (i) better product mix with lower sales of high component content assembly products, (ii) improved operational efficiency and cost management, and (iii) lower inventory provision and scrap expenses. Overall, Hi-P recorded net profit of S$8.4m in 1Q 2017, vs net loss of S$12.4m for 1Q 2016.

Annual Revenue and Net Profit Trend



Source: Company, DBS Bank

Quarterly Revenue and Net Profit Trend



Source: Company, DBS Bank

Expect strong cashflow and strong balance sheet. With the expected ramp up in production for new customers and new products, we expect the group to record strong cashflow.

Hi-P has reverted to net cash position after dipping into net debt in FY14 and FY15. Backed by robust core business operations which generated S$267.8m in positive operating cash flow, Hi-P swung from a net debt position of S$190.1m as at 31 December 2015 to a net cash position of S$25.1m as at 31 December 2016. Balance sheet as at end-1Q17 is in strong net cash position of S$112m.

Management guiding for higher earnings in FY2017
The management has guided for lower revenue for 2Q2017 as compared to 2Q2016 but profit to be comparable. Revenue and profit for 2H2017 are also expected to be higher compared to 1H2017. For FY2017, Hi-P expects similar revenue but higher profit as compared to FY2016.

Valuations

Re-rate after a weak FY2015. In FY2015, Hi-P earnings took a hit from its Russian client, Yota Devices, which failed to take delivery of the dual screen smartphone that Hi-P produced. H-P has already concluded the arbitration proceedings with Yota Devices Limited. The stock has since re-rated from 2H2016, on manufacturing efficiency, new customers and new product launches.

Initiate with BUY rating; TP: S$1.07
Hi-P is currently trading at 9.7x FY17F and 9.1x FY18F PE. We believe a valuation of 12x FY18F PE is fair, pegged to a 10% discount to peer average, given its smaller scale. Target price works out to S$1.07 per share, which translates to an upside of 30% from the current price.
Initiate coverage with a BUY rating on Hi-P.

Peer comparison

Name	Price ($) local curr.	Mkt Cap (US$m)	Hist PE (x)	Curr Yr PE (x)	Next Yr PE (x)	P/BV (x)	P/Sales (x)	P/Cashflow (x)
Hi-P	**0.83**	**396.6**	**8.0**	**7.9**	**7.5**	**0.7**	**0.5**	**3.1**
HON HAI	104.00	59,838.1	12.1	11.8	10.7	1.7	0.4	10.1
LARGAN PRECISION	4,900.00	21,823.9	27.4	21.0	16.2	8.2	12.9	24.4
AAC TECH	91.20	14,458.8	22.2	18.7	15.8	n.a.	5.8	n.a.
JABIL	28.95	5,277.3	23.8	13.9	11.8	2.2	0.3	4.6
INNOLUX	13.00	4,295.7	5.8	4.3	10.1	0.5	0.4	2.0
FOXCONN	90.00	4,226.9	13.8	11.7	11.6	1.2	1.6	8.2
BYD ELECTRONIC	13.54	503.0	21.8	15.3	12.8	2.3	0.7	10.4
COMPAL ELECT	20.50	99.9	11.7	9.8	8.7	0.8	0.1	68.9
ARIMA COMM.	4.67	2.1	n.a.	29.7	21.7	0.8	0.1	(2.6)
Average (ex Hi-P)			**17.3**	**15.1**	**13.3**	**2.2**	**2.5**	**15.8**

Source: Bloomberg Finance L.P.; DBS Bank

Key Assumptions

FY Dec	2013A	2014A	2015A	2016A	2017F	2018F
Gross margin	7.73	7.36	5.20	11.9	12.3	12.7
SGA as % of sales	7.77	7.86	8.34	7.65	7.81	7.96

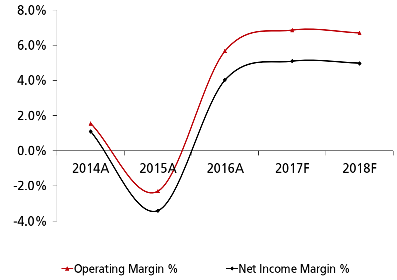
Expect gross margins to stabilise

Income Statement (S$m)

FY Dec	2013A	2014A	2015A	2016A	2017F	2018F
Revenue	1,262	951	1,363	1,305	1,375	1,497
Cost of Goods Sold	(1,165)	(881)	(1,292)	(1,149)	(1,183)	(1,288)
Gross Profit	**97.6**	**70.0**	**70.9**	**156**	**192**	**210**
Other Opng (Exp)/Inc	(86.9)	(55.1)	(102)	(81.7)	(97.3)	(109)
Operating Profit	**10.6**	**14.9**	**(31.2)**	**74.1**	**94.4**	**100**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.16	0.55	0.29	0.0	0.0
Net Interest (Exp)/Inc	0.61	0.69	(2.1)	(3.2)	(3.0)	(3.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**11.2**	**15.7**	**(32.8)**	**71.2**	**91.4**	**97.4**
Tax	(4.8)	(5.2)	(12.6)	(16.7)	(21.4)	(22.8)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	(1.0)	(2.0)	0.0	0.0
Net Profit	**6.41**	**10.5**	**(46.4)**	**52.5**	**70.0**	**74.6**
Net Profit before Except.	6.41	10.5	(46.4)	52.5	70.0	74.6
EBITDA	98.1	94.2	70.8	158	183	196
Growth						
Revenue Gth (%)	8.2	(24.6)	43.2	(4.2)	5.4	8.9
EBITDA Gth (%)	22.3	(3.9)	(24.8)	123.2	15.5	7.6
Opg Profit Gth (%)	(45.3)	40.2	(309.9)	(337.6)	27.4	6.3
Net Profit Gth (Pre-ex) (%)	(64.3)	63.5	nm	nm	33.4	6.5
Margins & Ratio						
Gross Margins (%)	7.7	7.4	5.2	11.9	13.9	14.0
Opg Profit Margin (%)	0.8	1.6	(2.3)	5.7	6.9	6.7
Net Profit Margin (%)	0.5	1.1	(3.4)	4.0	5.1	5.0
ROAE (%)	1.1	1.7	(8.0)	9.3	11.5	11.1
ROA (%)	0.6	0.9	(3.6)	4.4	6.4	6.6
ROCE (%)	0.8	1.3	(3.7)	7.3	10.1	9.9
Div Payout Ratio (%)	78.3	79.8	N/A	12.7	12.3	12.3
Net Interest Cover (x)	NM	NM	(14.7)	22.9	31.5	33.5

Source: Company, DBS Bank

Margins Trend

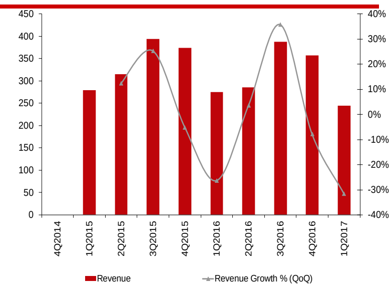


Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	374	276	285	387	357	244
Cost of Goods Sold	(374)	(259)	(265)	(333)	(293)	(211)
Gross Profit	**(0.1)**	**16.7**	**20.7**	**54.6**	**63.8**	**33.4**
Other Oper. (Exp)/Inc	(39.0)	(26.0)	(8.0)	(19.2)	(28.5)	(21.5)
Operating Profit	**(39.1)**	**(9.3)**	**10.8**	**35.5**	**35.8**	**11.9**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.14	0.09	0.07	0.07	0.06	0.08
Net Interest (Exp)/Inc	(1.4)	(1.1)	1.10	(0.9)	(1.0)	(0.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**(40.3)**	**(10.3)**	**12.0**	**34.7**	**34.8**	**11.9**
Tax	(7.7)	(2.0)	(4.3)	(4.0)	(6.3)	(3.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	**(48.0)**	**(12.4)**	**7.64**	**30.7**	**28.5**	**8.40**
Net profit bef Except.	(48.0)	(12.4)	7.64	30.7	28.5	8.40
EBITDA	(39.0)	(9.2)	10.9	35.6	35.8	12.0
Growth						
Revenue Gth (%)	(5.1)	(26.3)	3.6	35.7	(7.9)	(31.6)
EBITDA Gth (%)	nm	76.4	nm	227.1	0.6	(66.5)
Opg Profit Gth (%)	(236.7)	(76.2)	(216.3)	228.6	0.7	(66.6)
Net Profit Gth (Pre-ex) (%)	(297.3)	(74.2)	(161.8)	301.8	(7.1)	(70.6)
Margins						
Gross Margins (%)	0.0	6.1	7.3	14.1	17.9	13.7
Opg Profit Margins (%)	(10.5)	(3.4)	3.8	9.2	10.0	4.9
Net Profit Margins (%)	(12.8)	(4.5)	2.7	7.9	8.0	3.4

Strong recovery from 3Q2016, mainly due to manufacturing efficiency, new customers and new product launches

Revenue Trend



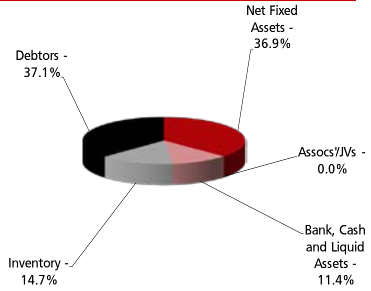
Source: Company, DBS Bank

Balance Sheet (S$m)

FY Dec	2013A	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	346	384	451	360	341	326
Invts in Associates & JVs	1.93	0.0	0.0	0.0	0.0	0.0
Other LT Assets	39.9	45.8	44.9	36.4	36.4	36.4
Cash & ST Invts	132	208	126	111	248	363
Inventory	163	223	243	143	157	123
Debtors	323	373	480	362	355	243
Other Current Assets	20.7	14.4	9.63	18.3	18.3	18.3
Total Assets	1,026	1,248	1,354	1,030	1,157	1,110
ST Debt	102	212	315	95.5	95.5	95.5
Creditor	248	339	377	245	301	187
Other Current Liab	75.0	84.1	96.2	101	111	112
LT Debt	1.60	2.79	0.91	0.08	0.08	0.08
Other LT Liabilities	1.60	3.09	6.75	9.46	9.46	9.46
Shareholder's Equity	598	606	557	578	640	705
Minority Interests	0.98	1.01	1.04	0.99	0.99	0.99
Total Cap. & Liab.	1,026	1,248	1,354	1,030	1,157	1,110
Non-Cash Wkg. Capital	184	187	259	177	120	86.0
Net Cash/(Debt)	28.4	(7.1)	(190)	15.3	152	268
Debtors Turn (avg days)	94.1	133.4	114.3	117.7	95.2	72.9
Creditors Turn (avg days)	89.0	133.4	109.8	106.6	90.9	74.6
Inventory Turn (avg days)	52.3	87.9	71.4	66.1	50.0	43.0
Asset Turnover (x)	1.2	0.8	1.0	1.1	1.3	1.3
Current Ratio (x)	1.5	1.3	1.1	1.4	1.5	1.9
Quick Ratio (x)	1.1	0.9	0.8	1.1	1.2	1.5
Net Debt/Equity (X)	CASH	0.0	0.3	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	0.0	0.3	CASH	CASH	CASH
Capex to Debt (%)	68.3	49.9	45.4	52.9	73.2	83.7

Source: Company, DBS Bank

Asset Breakdown

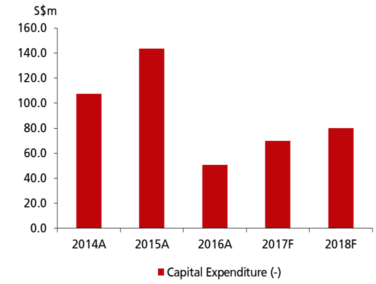


Cash Flow Statement (S$m)

FY Dec	2013A	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	11.2	15.7	(32.8)	71.2	91.4	97.4
Dep. & Amort.	87.5	79.2	101	83.6	89.1	97.9
Tax Paid	(7.6)	(11.8)	(12.4)	(12.9)	(11.9)	(21.4)
Assoc. & JV Inc/(loss)	0.03	(0.2)	(0.6)	(0.3)	0.0	0.0
Chg in Wkg.Cap.	(39.2)	(8.0)	(179)	93.0	47.8	32.5
Other Operating CF	30.1	4.19	101	33.2	0.0	0.0
Net Operating CF	**82.0**	**79.2**	**(21.7)**	**268**	**217**	**206**
Capital Exp.(net)	(70.5)	(107)	(143)	(50.6)	(70.0)	(80.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.15	0.0	0.0	0.15	0.0	0.0
Other Investing CF	2.53	1.94	5.97	14.6	0.0	0.0
Net Investing CF	**(67.8)**	**(105)**	**(137)**	**(35.8)**	**(70.0)**	**(80.0)**
Div Paid	(9.9)	(4.9)	(10.6)	(5.7)	(8.6)	(9.2)
Chg in Gross Debt	(44.5)	107	83.6	(220)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(7.6)	(0.4)	(0.2)	(18.2)	(1.1)	(2.0)
Net Financing CF	**(62.0)**	**102**	**72.8**	**(243)**	**(9.6)**	**(11.2)**
Currency Adjustments	2.01	0.60	4.42	(3.8)	0.0	0.0
Chg in Cash	(45.9)	76.5	(82.0)	(15.2)	137	115
Opg CFPS (S cts)	14.5	10.4	18.8	20.9	20.2	20.8
Free CFPS (S cts)	1.37	(3.4)	(19.8)	26.0	17.5	15.1

Source: Company, DBS Bank

Capital Expenditure



Singapore Equity Explorer

AEM Holdings Ltd

Bloomberg: AEM SP | Reuters: AEM.SI

Refer to important disclosures at the end of this report

DBS Group Research. Equity

22 May 2017

NOT RATED S$2.60 STI : 3,216.92

Closing price as of 19 May 2017

Return *: 1

Risk: Moderate to high

Potential Target 12-mth* : 12-Month S$ 3.35 (29% upside)

Analyst

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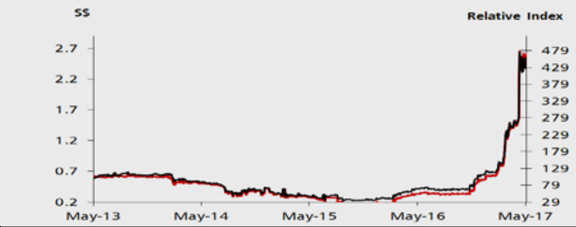
Price Relative



Forecasts and Valuation

FY Dec (S$m)	2016A	2017F	2018F	2019F
Revenue	70.1	171	209	239
EBITDA	6.97	22.0	28.6	33.1
Pre-tax Profit	5.98	21.3	27.9	32.4
Net Profit	4.66	16.6	21.8	25.2
Net Pft (Pre Ex.)	4.77	16.6	21.8	25.2
EPS (S cts)	7.16	25.5	33.5	38.8
EPS Pre Ex. (S cts)	7.33	25.5	33.5	38.8
EPS Gth (%)	(19)	256	31	16
EPS Gth Pre Ex (%)	(29)	248	31	16
Diluted EPS (S cts)	7.16	25.5	33.5	38.8
Net DPS (S cts)	1.18	6.38	8.36	9.70
BV Per Share (S cts)	46.1	65.2	90.3	119
PE (X)	36.3	10.2	7.8	6.7
PE Pre Ex. (X)	35.5	10.2	7.8	6.7
P/Cash Flow (X)	nm	21.8	9.9	7.9
EV/EBITDA (X)	23.4	7.3	5.3	4.2
Net Div Yield (%)	0.5	2.5	3.2	3.7
P/Book Value (X)	5.6	4.0	2.9	2.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	17.1	45.9	43.0	37.0

ICB Industry : Technology

ICB Sector: Technology Hardware & Equipmen

Principal Business: AEM provides solutions in equipment systems, precision components, plating and related manufacturing services across various industries.

Entering a new growth phase

- Successful development of next-gen equipment sets AEM on a new growth path
- Firm equipment order pipeline and recurring sale of high-margin consumables from key client's migration exercise lends visibility beyond next three years
- Project earnings growth at 75.6% CAGR over FY16-FY19F
- Fair value of S$3.35, based on 10x FY18F PE

The Business

Leading global provider of high-end test handlers. Years of engineering investments for AEM Holdings – a customised automation solutions provider for highly complex industrial applications - are starting to bear fruit. The commercial ramp-up of AEM's newly developed, next-gen high density modular test platform for a key client, alone, represents a multi-year opportunity for the group.

Earnings projected to grow at 75.6% CAGR from FY16-FY19F but earnings visibility extends well beyond the next three years. Benefitting from the start of a key client's multi-year migration programme to its next-gen test handler platform, AEM's FY17F order book surged to S$152m (as at 15 April 2017), and is set to remain firm in the coming years. Beyond one-off equipment sales, known upgrade opportunities and recurring sale of higher-margin consumables over the life of these equipment are also indicative of future earnings potential.

Apart from replacement demand, order wins in new sectors (i.e. from the chip-intensive 5G space) could provide further upside.

The Stock

Fair value of S$3.35 based on 10x FY18F PE. With reference to close peers Cohu and UMS Holdings, which are also engaged in semiconductor equipment manufacturing, we opine that AEM should at least trade at -1SD of their average 3-year forward PE given its smaller scale and key client risk. We thus value the company at S$3.35 based on 10x FY18F PE (vs peers' 13x).

Key client risk. AEM's key client is projected to contribute 80-90% of the group's earnings. Delays to their migration plans could significantly weigh on AEM's future performance.

At A Glance

Issued Capital (m shrs)	44
Mkt. Cap (Sm/USm)	115 / 83.3
Major Shareholders (%)	
Orion Phoenix	28.2
Free Float (%)	71.8
3m Avg. Daily Val (US$m)	0.76

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

DBS VICKERS SECURITIES

ed: TH / sa: YM, PY

REVENUE DRIVERS

Customised automation solutions provider. Established in 2000, AEM Holdings ("AEM") is a customised automation solutions provider for highly complex industrial applications, such as the semiconductor, solar and smart card sectors. Having developed a deep knowledge base for integrating complex solutions, the group is able to support its customers throughout the lifecycle of a programme – from design and tool development to mass volume production and field service engineering support.

Following the disposal of its plating operations in FY16, AEM will mainly derive sales from two existing business verticals:

(1) Equipment Systems Solutions (ESS): Sale of customised tools/machinery, consumables (kits and spares for customised equipment) and provision of engineering services

(2) Precision Component Solutions (PCS): Development and manufacturing of precision engineering products for the semiconductor, solar, life sciences and aerospace industries

In FY16, the ESS and PCS segments contributed 91.9% and 8.1% of sales from continuing operations respectively.

Order book of S$152m to be delivered in FY17F. Demand for customised equipment and consumables – which grew sales by nearly 50% y-o-y to S$70.1m in FY16, remains strong. Outstanding sales orders have nearly quadrupled over the last few months to S$152m as at 15 April 2017 (from S$38.3m in October 2016) and is expected to be delivered in FY17F. The company expects to fulfil at least S$142m of its current order book and deliver operating profit of S$17.5m in 9M17.

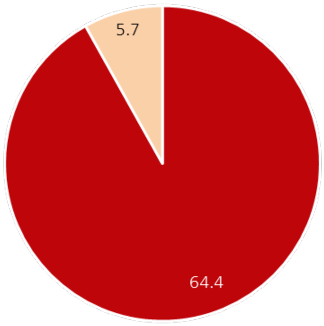
COST STRUCTURE

Better matching of costs from 2H17. AEM's costs are largely variable in nature, with raw materials and other consumables generally representing the bulk of its operating expenses. From 2H17, to reduce its currency exposures, the group endeavours to further source supplies in USD, which should provide better matching of costs against sales (mainly denominated in USD).

KEY OPERATING ASSETS

Global engineering services network. Through its extensive engineering service support network comprising three manufacturing plants located in Singapore, Malaysia and China, coupled with various sales offices, associates and distributors situated across Asia, Europe and United States, AEM is well able to provide direct engineering support to customers on a global scale.

FY16 revenue breakdown* (S$ m)



*from continuing operations

Order book more than tripled over six months (S$ m)

AEM's development and manufacturing sites

Serangoon, Singapore

Penang, Malaysia

Suzhou, China

Source: Company, DBS Bank

GROWTH PROSPECTS

Core test handler platform business to benefit from key client's migration programme. AEM's investments into R&D and engineering programmes bore fruit as the group secured firm orders for its high density modular test handlers from its key client (one of the largest semiconductor companies).

Capable of being deployed across multiple platforms, AEM's all-in-one test handlers are time- and cost-efficient alternatives to existing single-purpose equipment, and offer better yields. We believe that AEM's key client owns c.1,400 such tools, which will be gradually replaced over the next 8-10 years as it migrates to AEM's next-gen platform.

Strong relationship and early customer engagement provide high barrier to entry. AEM has over 15-year partnership, which spans four generations of test handler platforms, with its key client. Coupled with early customer engagement at R&D level, this provides a high barrier to entry. AEM is likely to remain the sole supplier in this migration exercise. After accounting for efficiency gains, our back-of-envelope estimate for replacement demand alone would be closer to 175 machines. Order wins in new sectors, particularly from the chip-intensive 5G space, could provide further upside.

Effective capacity to double by end-FY17F. The group is currently in the midst of expanding its capacity. Through the expansion of floor space and reduction in cycle time, we believe that AEM's annual effective capacity should almost double to at least 30 machines p.a. by end-FY17F.

Recurring sale of higher-margin consumables. Over the life of these customised equipment – which is estimated to be c.15 years, AEM should continue to generate a substantial proportion of revenue from the recurring sale of consumables (such as pans, kits and spares), upgrades and services, which carry higher margins.

MANAGEMENT & STRATEGY

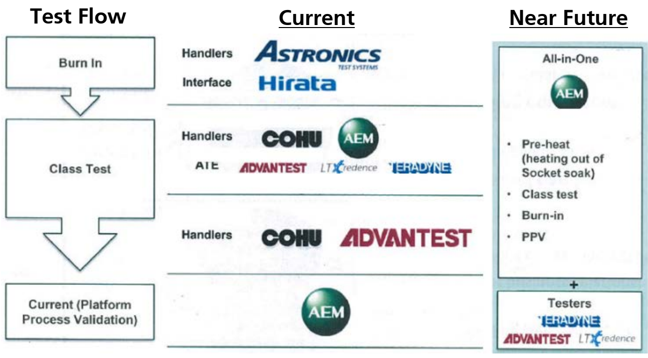
Restructured for growth. AEM entered into a series of initiatives from 2012 which were aimed at the transformation of its loss-making semiconductor substrates subsidiary and invested in the development of next generation equipment for its key customer.

Led by industry veteran, Mr Charles Cher and Chairman, Mr Loke, AEM completed its restructuring in FY14 and began to see the first fruits of its engineering investments in FY15.

Adopts formal dividend policy. The company resumed paying dividends in FY15, after moving back into the black and instituted a formal dividend policy in FY16, committing to a minimum payout (barring non-recurring, one-off or exceptional items) of 25%. At current prices, AEM offers a prospective 2.5% yield.

AEM's next-gen High Density Modular Test Handler

Potential for consolidation of single-purpose test platforms



Key management team

Mr Charles Cher Lew Siang Chief Executive Officer	Joined AEM in April 2014 and formerly the Group Chief Executive Officer of ASTI Holdings Ltd and Advanced Systems Automation Ltd, Mr. Cher carries more than 25 years of experience in the global semiconductor space. Noteworthy achievements include spearheading the development of ASTI's chip-taping operations, which led to the design and manufacture of ASTI's own chip-taping equipment.
Mr Soh Wai Kong Director – Finance & HR	Mr Soh joined the group in June 2009, where he is primarily responsible for the group's financial reporting, costing, treasury, tax, IT, secretarial and human resources matters. He has over 20 years of related experience in listed and multinational companies, mainly in the manufacturing environment.
Mr Loke Wai San Non-Executive Chairman	Mr Loke, the founder of private equity fund adviser Novo Tellus Capital Partners, also played an instrumental role in the restructuring of AEM. His expertise mainly involves private equity investments in the semiconductor, IT enterprise software and manufacturing industries.

Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F	2019F
Revenues (S$m)						
Equipment Systems (ESS)	22.5	41.0	64.4	161	197	226
Precision Components	7.56	5.77	5.69	10.2	12.3	13.3
Plating & Other Services	0.75	0.0	0.0	0.0	0.0	0.0
Total	30.9	46.8	70.1	171	209	239

Disposal of plating business was substantially completed on 31 December 2016.

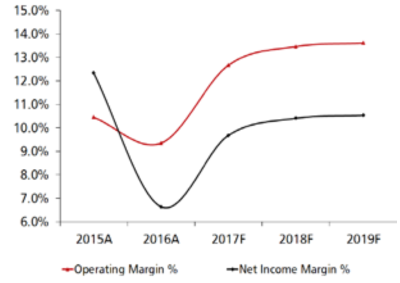
Income Statement (S$m)

FY Dec	2014A	2015A	2016A	2017F	2018F	2019F
Revenue	30.9	46.8	70.1	171	209	239
Cost of Goods Sold	(23.1)	(26.7)	(43.9)	(117)	(143)	(163)
Gross Profit	7.76	20.1	26.2	54.0	66.2	75.9
Other Opng (Exp)/Inc	(37.2)	(15.2)	(19.7)	(32.3)	(38.1)	(43.2)
Operating Profit	(29.4)	4.90	6.56	21.7	28.1	32.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	(0.5)	(0.4)	(0.2)	(0.2)
Net Interest (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional Gain/(Loss)	(12.6)	(0.9)	(0.1)	0.0	0.0	0.0
Pre-tax Profit	(42.1)	3.97	5.98	21.3	27.9	32.4
Tax	2.13	1.81	(1.3)	(4.7)	(6.2)	(7.2)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	(39.9)	5.78	4.66	16.6	21.8	25.2
Net Profit before Except.	(27.3)	6.68	4.77	16.6	21.8	25.2
EBITDA	(27.5)	6.16	6.97	22.0	28.6	33.1
Growth						
Revenue Gth (%)	(32.4)	51.6	49.8	144.3	21.9	14.6
EBITDA Gth (%)	nm	nm	13.2	216.1	29.9	15.5
Opg Profit Gth (%)	(1,857.1)	(116.6)	34.0	231.1	29.6	15.9
Net Profit Gth (Pre-ex) (%)	nm	nm	(28.6)	248.3	31.0	16.0
Margins & Ratio						
Gross Margins (%)	25.1	43.0	37.4	31.5	31.7	31.7
Opg Profit Margin (%)	(95.4)	10.5	9.4	12.7	13.5	13.6
Net Profit Margin (%)	(129.4)	12.4	6.6	9.7	10.4	10.5
ROAE (%)	(116.2)	27.3	17.1	45.9	43.0	37.0
ROA (%)	(63.8)	15.9	11.0	24.9	22.2	20.3
ROCE (%)	(63.6)	30.8	17.2	45.4	42.7	36.8
Div Payout Ratio (%)	N/A	7.7	16.5	25.0	25.0	25.0
Net Interest Cover (x)	-	181.3	312.4	NM	NM	NM

Source: Company, DBS Bank

Earnings poised to grow at 74.3% CAGR over FY16-19F.

Margins Trend



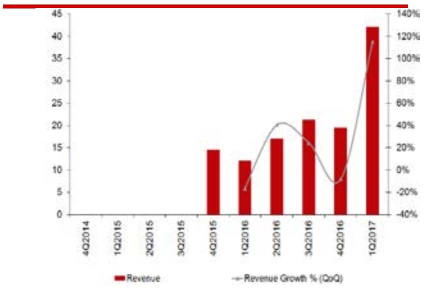
25% dividend payout ratio, as guided by the group.

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	14.5	12.2	17.1	21.3	19.6	42.1
Cost of Goods Sold	(10.2)	(7.2)	(10.6)	(13.7)	(12.5)	(30.3)
Gross Profit	**4.33**	**4.97**	**6.54**	**7.62**	**7.09**	**11.9**
Other Oper. (Exp)/Inc	(1.6)	(4.5)	(4.9)	(4.7)	(5.6)	(6.9)
Operating Profit	**2.76**	**0.47**	**1.69**	**2.92**	**1.49**	**4.97**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	(0.2)	(0.2)	(0.1)
Net Interest (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	(0.1)	0.0	0.0	0.0	0.0
Pre-tax Profit	**2.75**	**0.35**	**1.68**	**2.68**	**1.27**	**4.90**
Tax	1.81	(0.1)	(0.3)	(0.4)	(0.4)	(0.8)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	**4.56**	**0.24**	**1.34**	**2.24**	**0.84**	**4.14**
Net profit bef Except.	4.56	0.35	1.34	2.24	0.84	4.14
EBITDA	3.09	0.70	1.89	2.89	1.46	5.08
Growth						
Revenue Gth (%)	nm	(16.3)	40.6	24.5	(8.2)	115.4
EBITDA Gth (%)	nm	(77.4)	169.9	52.7	(49.5)	248.5
Opg Profit Gth (%)	nm	(83.1)	261.2	73.0	(48.9)	233.5
Net Profit Gth (%)	nm	(94.7)	455.2	67.6	(62.7)	394.9
Margins						
Gross Margins (%)	29.8	40.9	38.3	35.8	36.3	28.2
Opg Profit Margins (%)	19.0	3.8	9.9	13.7	7.6	11.8
Net Profit Margins (%)	31.4	2.0	7.8	10.5	4.3	9.8

Source: Company, DBS Bank

Revenue Trend

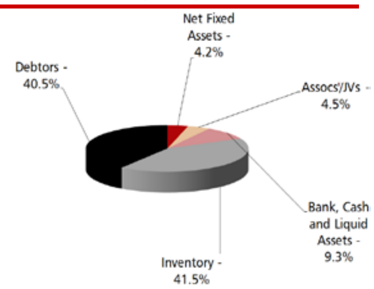


Balance Sheet (S$m)

FY Dec	2014A	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	6.16	3.24	2.23	3.55	4.90	6.27
Invts in Associates & JVs	0.0	0.0	4.22	3.82	3.62	3.42
Other LT Assets	2.18	1.33	0.14	0.12	0.10	0.08
Cash & ST Invts	11.2	10.4	6.31	7.90	17.5	30.5
Inventory	9.06	8.90	17.4	35.2	42.8	49.0
Debtors	7.48	10.4	17.8	34.4	41.9	48.0
Other Current Assets	0.0	2.55	0.0	0.0	0.0	0.0
Total Assets	**36.0**	**36.8**	**48.1**	**85.0**	**111**	**137**
ST Debt	0.20	0.08	0.08	0.08	0.08	0.08
Creditor	15.5	11.1	16.7	37.2	45.3	51.9
Other Current Liab	2.36	0.66	1.05	4.97	6.43	7.42
LT Debt	0.0	0.09	0.01	0.01	0.01	0.01
Other LT Liabilities	0.05	0.30	0.31	0.31	0.31	0.31
Shareholder's Equity	17.9	24.5	30.0	42.4	58.7	77.6
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	**36.0**	**36.8**	**48.1**	**85.0**	**111**	**137**
Non-Cash Wkg. Capital	(1.3)	10.0	17.4	27.4	33.0	37.8
Net Cash/(Debt)	11.0	10.2	6.23	7.81	17.4	30.4
Debtors Turn (avg days)	107.7	69.6	73.3	55.6	66.7	68.6
Creditors Turn (avg days)	298.8	191.2	118.1	84.4	106.1	108.9
Inventory Turn (avg days)	210.9	129.0	111.7	82.4	100.3	103.0
Asset Turnover (x)	0.5	1.3	1.7	2.6	2.1	1.9
Current Ratio (x)	1.5	2.7	2.3	1.8	2.0	2.1
Quick Ratio (x)	1.0	1.7	1.3	1.0	1.1	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	3,737.6	373.5	687.1	2,352.9	2,352.9	2,352.9

Source: Company, DBS Bank

Asset Breakdown (2017)

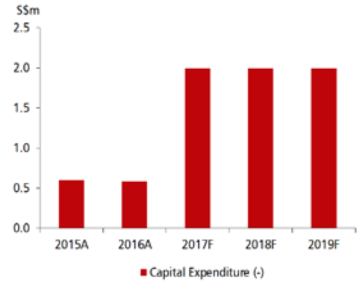


Cash Flow Statement (S$m)

FY Dec	2014A	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	(42.1)	3.97	5.98	21.3	27.9	32.4
Dep. & Amort.	1.89	1.26	0.86	0.70	0.67	0.65
Tax Paid	0.06	1.81	(1.3)	(0.8)	(4.7)	(6.2)
Assoc. & JV Inc/(loss)	0.0	0.0	0.45	0.40	0.20	0.20
Chg in Wkg.Cap.	2.60	(6.8)	(9.1)	(13.9)	(7.1)	(5.8)
Other Operating CF	29.3	(1.8)	1.44	0.0	0.0	0.0
Net Operating CF	(8.2)	(1.5)	(1.7)	7.74	17.0	21.3
Capital Exp.(net)	(7.6)	(0.6)	(0.6)	(2.0)	(2.0)	(2.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	3.01	0.0	(1.9)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.05	1.48	1.37	0.0	0.0	0.0
Net Investing CF	(4.5)	0.87	(1.1)	(2.0)	(2.0)	(2.0)
Div Paid	0.0	0.0	(0.7)	(4.2)	(5.4)	(6.3)
Chg in Gross Debt	(1.0)	(0.3)	(0.1)	0.0	0.0	0.0
Capital Issues	2.61	(0.1)	(0.8)	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0	0.0
Net Financing CF	1.60	(0.4)	(1.5)	(4.2)	(5.4)	(6.3)
Currency Adjustments	(0.1)	0.28	0.27	0.0	0.0	0.0
Chg in Cash	(11.2)	(0.8)	(4.1)	1.59	9.56	13.0
Opg CFPS (S cts)	(16.6)	8.08	11.4	33.2	37.1	41.6
Free CFPS (S cts)	(24.2)	(3.3)	(3.4)	8.83	23.1	29.7

Source: Company, DBS Bank

Capital Expenditure



VALUATIONS

We see fair value at S$3.35, based on 10x FY18F PE; currently trading at >40% discount to peers' 13x FY18F PE. Based on our estimates, the stock currently trades at just 7x FY18F PE, representing a 40% discount to peers' 13x.

With reference to close peers Cohu and UMS Holdings, which are primarily engaged in the manufacture of semiconductor equipment, we opine that AEM should at least trade at -1SD of their average 3-year forward PE given its smaller scale and key client risk. We thus value the company at S$3.35, based on 10x FY18F PE.

Further re-rating depends on earnings execution. As AEM continues to grow and deliver on its strong order book, its discount to larger peers should gradually narrow – leading to further upside potential.

RISKS

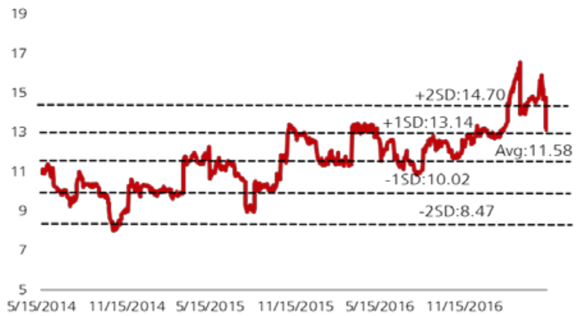
Key client risk. AEM's key client is projected to contribute 80-90% of group earnings. Delays to their migration plans could significantly weigh on AEM's future performance.

Risk Assessment: Moderate to high

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	2	40%	0.8
Financials	1	20%	0.2
Shareholdings	2	40%	0.8
Overall			1.8

Source: DBS Bank

Close peers' historical 12-month forward PE ratio (x)*



**based on average of Cohu and UMS Holdings*
Source: ThomsonReuters, DBS Bank

Peer comparison (based on consensus estimates)

Company		Last Px (19 May)	Mkt Cap US$m	PER Crnt	PER Forw	Price-to-Book Hist	Price-to-Book Crnt	ROE Crnt	Crnt Yield
COHU	USD	18.05	493.32	12.4	10.7	n.a.	n.a.	n.a.	n.a.
XCERRA	USD	9.69	524.86	27.1	16.5	1.9	1.8	6.5%	n.a.
UMS HOLDINGS	SGD	1.055	326.76	10.6	12.4	2.3	2.2	20.6%	5.7%
Average				16.7	13.2	2.1	2.0	13.6%	5.7%
AEM HOLDINGS	SGD	2.600	85.770	9.0	7.6	n.a.	3.9	43.3%	1.8%

Source: ThomsonReuters, DBS Bank

Singapore Equity Explorer
Valuetronics

Bloomberg: VALUE SP | Reuters: VLUE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 May 2017

NOT RATED S$0.83 STI : 3,216.92

Closing price as of 19 May 2017
Return *: 2
Risk: Moderate
Potential Target 12-mth* : 12-Month S$ 0.95 (14% upside)

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Price Relative

Forecasts and Valuation

FY Mar (HK$m)	2016A	2017F	2018F	2019F
Revenue	1,953	2,187	2,391	2,562
EBITDA	166	196	211	227
Pre-tax Profit	136	159	172	187
Net Profit	120	140	153	165
Net Pft (Pre Ex.)	120	140	153	165
EPS (S cts)	5.61	6.54	7.11	7.70
EPS Pre Ex. (S cts)	5.61	6.54	7.11	7.70
EPS Gth (%)	(19)	16	9	8
EPS Gth Pre Ex (%)	(19)	16	9	8
Diluted EPS (S cts)	5.61	6.54	7.11	7.70
Net DPS (S cts)	3.53	3.56	3.56	3.86
BV Per Share (S cts)	39.9	42.9	46.5	50.3
PE (X)	14.8	12.7	11.7	10.8
PE Pre Ex. (X)	14.8	12.7	11.7	10.8
P/Cash Flow (X)	6.2	11.3	10.7	9.7
EV/EBITDA (X)	6.5	5.2	4.5	3.8
Net Div Yield (%)	4.3	4.3	4.3	4.7
P/Book Value (X)	2.1	1.9	1.8	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	14.5	15.8	15.9	15.9
Consensus EPS (S cts):		6.6	7.2	7.7
Other Broker Recs:		B: 4	S: 0	H: 0

ICB Industry : Industrials
ICB Sector: Electronic & Electrical Equipment
Principal Business: Valuetronics Holdings is an electronics manufacturing services (EMS) provider. The company operates in two segments: Consumer Electronics (CE) and Industrial and Commercial Electronics (ICE).

source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

In for the long haul

- Valuetronics will benefit as outsourcing for electronic manufacturing services continues to gain favour, supported by its proven track record and robust financials
- Earnings projected to grow at 11.1% CAGR over FY16-19F led by new products
- Evolving needs and complexities surrounding IoT trends offer strong opportunities in the long-term
- With c.35% of market cap backed by net cash, we peg our fair value at S$0.95, based on 8x CY17F ex-cash PE

The Business

In the business of creating value. Valuetronics is an integrated electronics manufacturing services (EMS) provider, whose extensive manufacturing capabilities span the entire EMS value chain - from procurement to engineering design and development, assembly and even supply chain support services, thus offering more value-add than traditional EMS players.

Attractive opportunities under Internet of Things (IoT). The push towards greater connectivity and smarter capabilities is set to drive the development and adoption of connectivity tools and applications, which has – and should continue – to open doors for integrated EMS players with a proven record such as Valuetronics.

Apart from new IoT-related product ramps, which are poised to drive earnings growth by 11.1% CAGR from HK$120m in FY16 to HK$165m in FY19F, business development efforts across the group's sub-segments are currently underway. If successful, these could significantly enhance its long-term outlook.

The Stock

Fair value of S$0.95, based on 8x CY17F ex-cash PE. Given its record of strong cashflows and firm earnings outlook, we believe that Valuetronics deserves to at least trade at 8x CY17F ex-cash PE (discount to peers' 9x). Hence, we value the stock at S$0.95. A stable 20 HK cts dividend (4.3% yield) is also on offer.

Key risks include (1) sustained weakness in the global economy and (2) small customer base in Consumer Electronics (CE) segment, which could result in significant fluctuations in business performance.

At A Glance

Issued Capital (m shrs)	382
Mkt. Cap (Sm/USm)	317 / 229
Major Shareholders (%)	
Chong Hing Tse	18.1
HSBC	9.0
Kok Kit Chow	7.6
Free Float (%)	65.3
3m Avg. Daily Val (US$m)	0.62

*This Equity Explorer report represents a preliminary assessment of the subject company, and does not represent initiation into DBSV's coverage universe. As such DBSV does not commit to regular updates on an ongoing basis. The rating system is distinct from stocks in our regular coverage universe and is explained further on the back page of this report.

DBS VICKERS SECURITIES

ed: JS / sa: YM, PY

REVENUE DRIVERS

Strength lies in its integrated model. Incorporated in 1992, Valuetronics is an integrated electronics manufacturing services (EMS) provider, whose extensive manufacturing capabilities span the entire EMS value chain - from procurement to engineering design and development, assembly and even supply chain support services (such as inventory and shipment), thus offering more value-add than traditional EMS players.

Valuetronics' proven engineering expertise and experiences have enabled the group to deliver a wide range of solutions, cutting across diverse sectors through the years. The group broadly classifies contributions from these sectors into: (i) Consumer Electronics (CE), which contributed 42.5% of 9M17 revenue, and (ii) Industrial & Commercial Electronics (ICE), which made up 57.5% of 9M17 sales.

Moving towards higher-tech CE products. Post Valuetronics' complete exit from the mass market LED lighting segment in 3Q16, the group's CE operations were predominantly focused on the production of consumer lifestyle products – including shavers, electric toothbrushes and bug zappers, for a leading Dutch MNC.

Leveraging on the group's expertise in LED products, we believe that the recent introduction of Valuetronics' new smart lighting sub-segment (essentially wireless lighting products with smart control features), and commercial roll-out of "smarter" sanitary systems should help sustain growth for the CE segment in the mid-to-high single digits.

ICE segment poised to deliver double-digit growth over next few years. The ICE segment generally commands higher margins and encompasses a host of complex and sophisticated products such as printers, temperature sensing products, communication products, electronic products for the automotive industry and medical equipment.

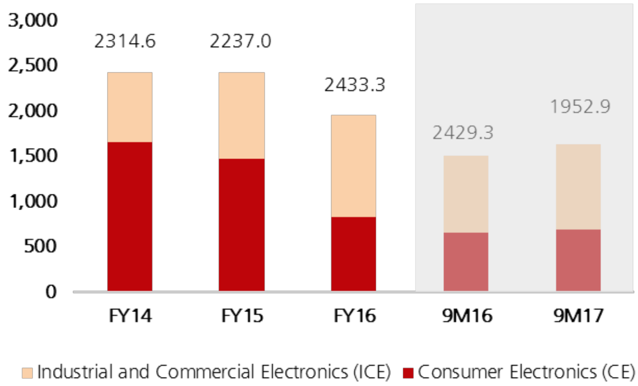
While the performance and outlook for individual products are expected to be fairly mixed, we believe Valuetronics' venture into the automotive segment (for the production of in-car connectivity modules) and growing printer portfolio should help drive ICE sales growth around the low teens region over the next few years.

KEY OPERATING ASSETS

Sitting on 110,000m² of manufacturing space. Headquartered in Hong Kong, the group is well supported by a design centre and manufacturing facilities, which are strategically located near Hong Kong and Shenzhen – in Daya Bay and Danshui Town (Guangdong Province, People's Republic of China).

Manufacturing capabilities spanning entire EMS value chain

Revenue trends (FYE Mar14 – FYE Mar16, HK$ m)



Design and manufacturing facilities

Source: Company, DBS Bank

GROWTH PROSPECTS

Group-wide opportunities under IoT trends. The continued push for greater connectivity and smart capabilities between users, devices and cities is set to drive the development and adoption of connectivity tools and applications, which could open doors for integrated EMS providers with proven track record such as Valuetronics.

Riding on these prospective opportunities under the Internet of Things (IoT) trend, we believe that near-term growth for Valuetronics will likely stem from the following product segments – whose lifecycle and current contributions to group profit are still in their infancy:

a. Data and media connectivity module produced for a Tier 1 automotive system manufacturer, and

b. Wireless lighting with smart control features for a Dutch MNC

Proactive engagement with customers. Valuetronics takes effort to initiate new product refinements and market opportunities through early engagement with clients right from the design and development stage. Management believes this approach has been the cornerstone of the group's success in recent years. Business development efforts across the various sub-segments are currently underway and if successful, could significantly enhance its long-term outlook.

Open to inorganic growth. Sitting on substantial net cash of HK$670.2m (c.31.8 Scts per share currently, or 28.9 Scts per share post bonus issue) as at end-3Q17, Valuetronics is well-equipped to finance attractive inorganic growth opportunities internally as they arise. Opportunities that may be of interest include vertical integration or expansion of customer base through acquisitions.

MANAGEMENT & STRATEGY

Experienced management team plays pivotal role. Managing Director, Mr Tse Chong Hing, and founder, Mr Chow Kok Kit, each carry over twenty-five years of experience in the electronics manufacturing industry, and have been instrumental in navigating the company through cycles. Following management's strategic decision to phase out the mass market LED light bulbs business – which suffered from years of aggressive price competition and margin erosion to focus on higher-margin value-added segments, we see earnings growing at 11.1% CAGR from HK$120.4m in FY16 to HK$165.3m in FY19F.

Management's interest aligned with shareholders. While Valuetronics has remained committed to a formal dividend policy of a 30-50% payout ratio since its listing in 2007, we note that it has paid a consistently paid a 20 HKcts dividend over FY14-16 – even as FY16 earnings dipped c.20% y-o-y, resulting in a higher 63% dividend payout in FY16.

Collectively holding a 25.68% stake in the company, the pick-up in earnings and fairly low capex needs should further incentivise management to at least maintain a 20 HKcts dividend ahead, representing prospective yield of 4.3%.

Potential Ramp-up of New IOT-related Products

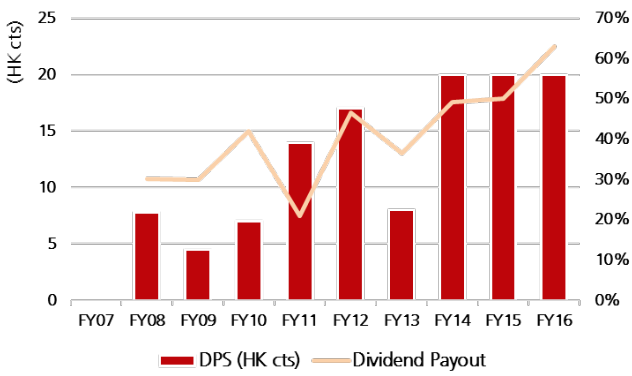
Smart Lighting

In-car Connectivity Module

Key management team

Tse Chong Hing Chairman/ Managing Director	Mr. Tse joined the Company is 1996 as the Assistant to the Managing Director. He has over 25 years of experience in finance and operation management in the electronics manufacturing industry and is primarily responsible for the strategic planning and general management of the Groupgroup.
Chow Kok Kit Executive Director/Founder	One of the founders of the froup, Mr Chow is currently responsible for the design and development (D&D), as well as purchasing functions of the group. He has over 25 years of experience in the electronics manufacturing industry and specialises in the D&D of telecommunication and computer products.
Joseph Lui Group Financial Controller	Mr Lui joined in 2012, and was promoted to Group Financial Controller - overseeing the group's finance and accounting functions (including treasury, tax planning, investor relations and reporting matters) in Nov 2013. Prior to joining the group, he was a Senior Audit Manager with PricewaterhouseCoopers from 2003 to 2012, where he was involved in a number of successful initial public offerings and M&A projects.

Dividends since listing (FY08-FY16)



Source: Company, DBS Bank

Key Assumptions

FY Mar	2014A	2015A	2016A	2017F	2018F	2019F
CE Sales Growth (%)	2.81	(10.9)	(44.0)	12.0	7.00	6.00
ICE Sales Growth (%)	24.0	22.6	18.0	12.0	11.0	8.00
CE Gross Margins (%)	9.71	9.80	11.3	13.0	13.2	13.2
ICE Gross Margins (%)	19.3	18.8	17.1	17.4	17.0	16.8
Dividends per share (HK cts)	20.0	20.0	20.0	20.0	20.0	21.7

Expect slightly lower blended ICE gross margins as Valuetronics ramps up on automotive-related products, which carry slightly lower margins compared to existing ICE portfolio

Assumes dividends paid based on higher of 20 HKcts or 50% payout

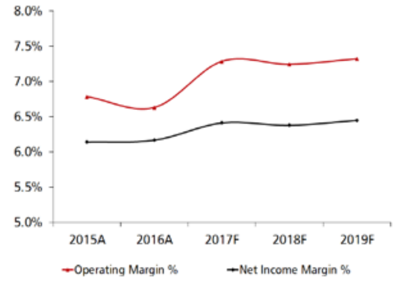
Segmental Breakdown

FY Mar	2014A	2015A	2016A	2017F	2018F	2019F
Revenues (HK$m)						
Consumer Electronics (CE)	1,653	1,473	825	924	988	1,048
Industrial and Commercial Electronics (ICE)	780	956	1,128	1,264	1,403	1,515
Total	2,433	2,429	1,953	2,187	2,391	2,562

Income Statement (HK$m)

FY Mar	2014A	2015A	2016A	2017F	2018F	2019F
Revenue	2,433	2,429	1,953	2,187	2,391	2,562
Cost of Goods Sold	(2,106)	(2,098)	(1,655)	(1,847)	(2,022)	(2,170)
Gross Profit	327	331	297	340	369	393
Other Opng (Exp)/Inc	(161)	(167)	(168)	(181)	(196)	(205)
Operating Profit	166	165	129	159	173	188
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	1.14	2.86	6.20	(0.8)	(0.8)	(0.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	167	168	136	159	172	187
Tax	(19.0)	(18.5)	(15.3)	(18.2)	(19.8)	(21.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	148	149	120	140	153	165
Net Profit before Except.	148	149	120	140	153	165
EBITDA	205	203	166	196	211	227
Growth						
Revenue Gth (%)	8.5	(0.2)	(19.6)	12.0	9.3	7.2
EBITDA Gth (%)	50.8	(1.3)	(18.0)	18.1	7.5	7.5
Opg Profit Gth (%)	79.3	(0.6)	(21.4)	23.0	8.7	8.3
Net Profit Gth (Pre-ex) (%)	88.0	0.9	(19.3)	16.5	8.7	8.4
Margins & Ratio						
Gross Margins (%)	13.4	13.6	15.2	15.5	15.4	15.3
Opg Profit Margin (%)	6.8	6.8	6.6	7.3	7.2	7.3
Net Profit Margin (%)	6.1	6.1	6.2	6.4	6.4	6.5
ROAE (%)	22.4	19.4	14.5	15.8	15.9	15.9
ROA (%)	11.7	10.1	8.0	8.9	8.9	9.0
ROCE (%)	22.5	19.8	15.2	15.6	15.8	15.8
Div Payout Ratio (%)	49.8	50.2	63.0	54.5	50.1	50.1
Net Interest Cover (x)	NM	NM	NM	193.4	210.2	227.7

Margins Trend



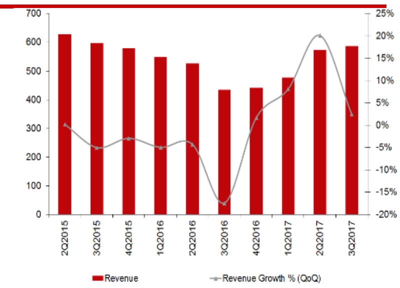
Source: Company, DBS Bank

Quarterly / Interim Income Statement (HK$m)

FY Mar	2Q2016	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	527	435	442	478	574	588
Cost of Goods Sold	(450)	(364)	(370)	(401)	(490)	(497)
Gross Profit	77.0	70.5	71.5	76.6	83.5	91.0
Other Oper. (Exp)/Inc	(40.3)	(41.5)	(38.7)	(42.2)	(40.6)	(41.7)
Operating Profit	36.7	29.0	32.7	34.4	43.0	49.3
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	36.5	28.8	32.5	34.2	42.8	49.1
Tax	(4.3)	(3.6)	(3.0)	(4.6)	(4.7)	(6.3)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	32.2	25.2	29.6	29.6	38.1	42.9
Net profit bef Except.	32.2	25.2	29.6	29.6	38.1	42.9
EBITDA	46.6	38.2	40.8	42.7	51.2	57.6
Growth						
Revenue Gth (%)	(4.3)	(17.5)	1.7	8.1	20.1	2.4
EBITDA Gth (%)	(2.6)	(18.0)	6.8	4.8	19.9	12.4
Opg Profit Gth (%)	(3.6)	(21.0)	13.0	5.0	25.0	14.8
Net Profit Gth (%)	(3.8)	(21.8)	17.4	0.0	28.6	12.6
Margins						
Gross Margins (%)	14.6	16.2	16.2	16.0	14.6	15.5
Opg Profit Margins (%)	7.0	6.7	7.4	7.2	7.5	8.4
Net Profit Margins (%)	6.1	5.8	6.7	6.2	6.6	7.3

Source: Company, DBS Bank

Revenue Trend

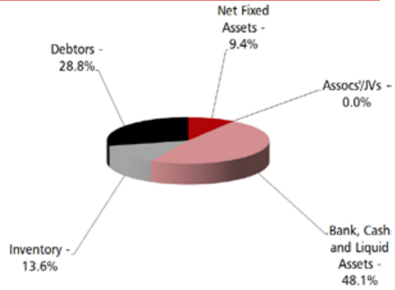


Balance Sheet (HK$m)

FY Mar	2014A	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	182	172	164	147	130	111
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0	0.0
Other LT Assets	33.0	80.0	91.1	90.7	90.2	89.8
Cash & ST Invts	478	513	700	761	830	912
Inventory	199	222	199	213	233	250
Debtors	530	536	353	449	491	527
Other Current Assets	0.50	0.0	0.0	0.0	0.0	0.0
Total Assets	1,422	1,523	1,506	1,661	1,774	1,888
ST Debt	0.0	0.0	0.0	0.0	0.0	0.0
Creditor	354	347	286	380	415	446
Other Current Liab	338	365	359	357	358	360
LT Debt	0.0	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	2.63	1.63	3.02	3.02	3.02	3.02
Shareholder's Equity	727	809	857	921	997	1,080
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	1,422	1,523	1,506	1,661	1,774	1,888
Non-Cash Wkg. Capital	36.6	45.1	(94.3)	(74.4)	(49.9)	(29.7)
Net Cash/(Debt)	478	513	700	761	830	912
Debtors Turn (avg days)	75.8	80.0	83.0	66.9	71.8	72.5
Creditors Turn (avg days)	52.6	62.1	71.4	67.1	73.1	73.8
Inventory Turn (avg days)	33.3	37.3	47.4	41.5	41.0	41.3
Asset Turnover (x)	1.9	1.7	1.3	1.4	1.4	1.4
Current Ratio (x)	1.7	1.8	1.9	1.9	2.0	2.1
Quick Ratio (x)	1.5	1.5	1.6	1.6	1.7	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH	CASH

Source: Company, DBS Bank

Asset Breakdown (2017)

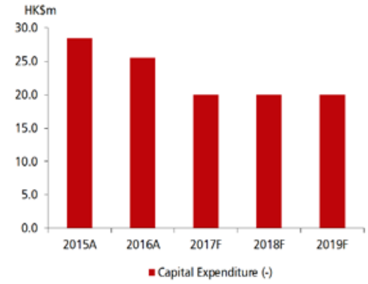


Cash Flow Statement (HK$m)

FY Mar	2014A	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	167	168	136	159	172	187
Dep. & Amort.	39.7	38.0	36.8	37.0	37.8	39.2
Tax Paid	(8.8)	(13.4)	(20.4)	(20.9)	(18.2)	(19.8)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	101	(14.0)	141	(17.3)	(26.1)	(21.9)
Other Operating CF	4.34	(1.6)	(4.2)	0.0	0.0	0.0
Net Operating CF	303	177	289	157	166	184
Capital Exp.(net)	(20.4)	(28.5)	(25.5)	(20.0)	(20.0)	(20.0)
Other Invts.(net)	(7.8)	(55.2)	(15.7)	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.86	3.47	7.02	0.0	0.0	0.0
Net Investing CF	(26.3)	(80.2)	(34.1)	(20.0)	(20.0)	(20.0)
Div Paid	(29.2)	(74.6)	(75.5)	(76.5)	(76.5)	(82.9)
Chg in Gross Debt	0.0	0.0	0.0	0.0	0.0	0.0
Capital Issues	7.31	7.27	3.43	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(21.9)	(67.4)	(72.0)	(76.5)	(76.5)	(82.9)
Currency Adjustments	1.64	(1.1)	0.31	0.0	0.0	0.0
Chg in Cash	256	27.9	183	60.8	69.5	81.4
Opg CFPS (S cts)	9.42	8.88	6.89	8.13	8.94	9.60
Free CFPS (S cts)	13.2	6.90	12.3	6.39	6.80	7.65

Source: Company, DBS Bank

Capital Expenditure



VALUATIONS

PE and P/B valuations seem fair at first glance. Based on our estimates, Valuetronics currently trades at 12x CY17F PE and 11x CY18F PE - near +2 std dev of the last two years' forward PE, and appears to be in line with local manufacturing peers' average of 13x and 10x, respectively. The group's higher P/B also seems justified given higher ROE of 15.3%.

Risk Assessment: Moderate

Category	Risk Rating 1 (Low) - 3 (High)	Wgt	Wgtd Score
Earnings	2	40%	0.8
Financials	1	20%	0.2
Shareholdings	1	40%	0.4
Overall			1.4

Source: DBS Bank

But among lowest in its peer group on an ex-cash basis. With nearly 35% of its market cap backed by net cash, Valuetronics trades at just 7x CY17F ex-cash PE vs peers' 9x. Given its record of strong cashflow generation and firm earnings outlook, we believe that Valuetronics deserves to at least trade at 8x CY 17F ex-cash PE. Our fair value works out to be S$0.95, representing potential upside of 14%.

Forward PE ratio (x) currently trading near two-year high

Source: ThomsonReuters, DBS Bank

Company		Last Px (19 May)	Mkt Cap US$m	PER Crnt	PER Forw	Price-to-Book Hist	Price-to-Book Crnt	ROE Crnt	Crnt Yield	% Net Cash*	Ex-cash P/E Crnt
VENTURE	SGD	12.79	2,601.2	16.3	14.9	1.8	1.8	10.8%	4.1%	13.6%	14.1
SUNNINGDALE TECH	SGD	1.830	248.38	10.4	9.3	1.0	0.9	8.9%	4.1%	3.7%	10.0
MEMTECH INTL.	SGD	0.810	84.18	9.7	8.8	0.7	0.7	7.1%	5.0%	33.9%	6.4
FU YU	SGD	0.200	108.69	20.0	10.0	0.8	0.9	6.5%	10.0%	69.2%	6.2
UMS HOLDINGS	SGD	1.055	326.76	10.5	9.0	2.3	2.2	20.6%	5.7%	10.6%	9.4
Average				13.4	10.4	1.3	1.3	10.8%	5.8%		9.2
VALUETRONICS	SGD	0.830	230.8	11.8	11.0	2.1	1.9	15.3%	4.3%	34.5%	7.3

**based on cash position as at latest financial reporting period*
Source: ThomsonReuters, DBS Bank

Explorations

Addvalue (S$0.058, ADDV SP)

Addvalue, which provides one-stop mobile satellite broadband communication terminals and solutions, is expected to turnaround from losses in the last few years, with the launch of improved products targeting a niche market. The addition of a new business, the world's first Inter-Satellite Data Relay System (IDRS), would be a game changer and big boost to Addvalue's earnings when commercialisation starts, likely in the next two to three years. Furthermore, Addvalue can also derive recurring income from airtime revenue for this new product. Near term, securing contracts from government agencies and other industrial players would be a catalyst for the stock. Addvalue could also be a potential takeover target, especially with the commercialisation of the IDRS terminal. It has already been approached by a few parties.

Provides one-stop mobile satellite broadband communication terminals and solutions

Established since 1994 and listed on the mainboard of SGX in 2000, Addvalue provides one-stop mobile satellite broadband communication terminals and solutions for a variety of voice and IP-based data applications. Addvalue's mobile satellite terminals support coverage provided by mobile satellite communication operators such as Inmarsat and Thuraya.

Launched improved-version of maritime communication system, targeting niche market. Currently, one of Addvalue's source of income is from the sale of communication terminals targeting small fishing vessels. Its strategy is to target a niche market, instead of dealing directly with the bigger boys. Late last year, Addvalue launched an improved version of a maritime product, iFleetOne, catering to the needs of small and mid-sized fishing and leisure vessels. Positioning as a low cost, high volume product, this device has built-in Wi-Fi, which makes it cost effective, and allows users to maintain connections via smart phones, tablets or laptops, to use applications such as weather chart updates and fish catch reporting data.

New Machine-to-Machine (M2M) terminals

In response to the burgeoning market demands for surveillance products utilising the Internet-of-Things (IoT) tools, Addvalue also aims to launch new M2M products.

Adding a new leg – Inter-Satellite Data Relay System (IDRS)

Addvalue has developed a communication terminal that allows 24/7, continuous monitoring and control of the Low Earth Orbit (LEO) satellite by communication with a Geostationary (GEO) satellite, using Inmersat's satellite system. Addvalue has been testing this system for a few years and is now trying to commercialise this new technology.

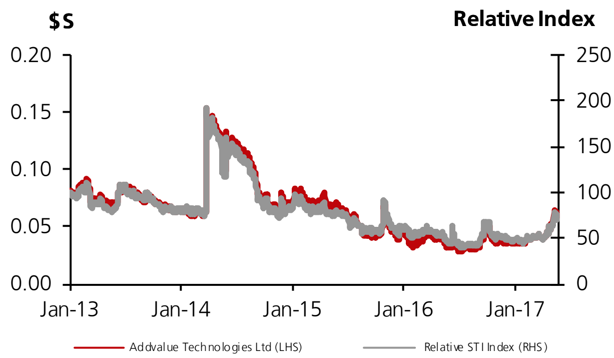
The LEO satellite orbits over 1000 miles above the earth's surface while the GEO satellite is another type of satellite system that is much bigger and sits much further up, over 22,000 miles, above the earth. GEO satellites cover large geographical areas but there is considerable time delay in the signal as it is far from the earth. LEO provides better signal strength but is only visible for about 15 to 20 minutes from a particular area as it is fast-moving and circles around the earth as often as once every 90 minutes. GEO satellite, on the other hand, appears stationary from the ground as they orbit at the same speed as the earth.

At A Glance

Issued Capital (m shrs)	1,687
Market Cap (Sm/USm)	97.8 / 70.6
Major Shareholders (%)	
Merida Resources Inc	4.6
Free Float (%)	95.4
Avg Daily Vol (m shrs)	26.3

Valuation

FY Mar (US$ m)	2013	2014	2015	2016
Turnover	10.2	13.6	14.7	9.9
EBITDA	1.7	2.3	(3.1)	(0.9)
Pre-tax Profit	(0.2)	0.0	(5.2)	(4.7)
Net Profit	(0.1)	0.0	(6.2)	(4.7)
EPS (S cts)	(0.01)	0.00	(0.37)	(0.28)
EPS Gth (%)	(114.3)	(140.0)	n.m.	(23.1)
Net DPS (S cts)	-	-	-	-
BV Per Share (S cts)	2.2	2.2	1.5	0.9
PE (X)	(816.3)	2,040.8	(15.7)	(20.4)
P/Cash Flow (X)	(0.0)	(0.1)	(0.1)	(0.1)
EV/EBITDA (X)	43.4	60.1	(21.8)	(47.1)
Net Div Yield (%)	0.0%	0.0%	0.0%	0.0%
P/Book Value (X)	2.7	2.6	3.9	6.1
Net Debt/Equity (X)	13.37	13.95	26.57	53.61
ROA (%)	-0.36	0.17	-24.82	-20.71
ROE (%)	-0.48	0.24	-38.90	-44.37



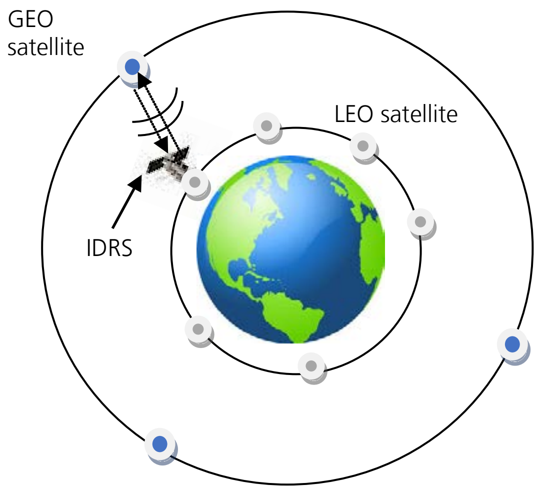
Source: Bloomberg Finance L.P., DBS Bank

Analyst Ling Lee Keng; +65 6682 3703 leekeng@dbs.com

IDRS terminal addresses current challenges faced by LEO satellite operations

Addvalue's IDRS is an innovative new service that addresses a long standing constraint on the operation of LEO satellites. Currently, communications with LEO satellites is only available when the satellite is within sight of an earth station. Further, this limited connectivity is available only on a rigid time schedule based on the particular LEO satellite orbit and the geographic placement of the earth stations. With the IDRS system placed on LEO satellites, LEO satellites would be able to have continuous communication with Inmersat's GEO satellites, and have their signals relayed to the earth stations.

Inter-Satellite Data Relay System (IDRS)



Source: DBS Bank, Company

Airtime agreement with Inmersat provides recurring income for Addvalue

A Memorandum of Understanding with Inmarsat had been entered into to allow Addvalue to offer air time services on an exclusive basis. Satellites using Inmersat's system would need to pay for airtime. As an exclusive distributor, Addvalue will get a cut from the airtime sales. Thus, Addvalue would be able to derive recurring income during the contract period, which typically could last from five to seven years.

Sizeable potential market for IDRS terminals

Addvalue has already been engaging with potential customers including Airbus Defence and Space and other satellite manufacturers and operators. Each terminal costs about US$500,000 and the customer is also likely to buy airtime.

Plans to segregate its IDRS business from other businesses

There are plans to streamline and rationalise the group's businesses, so as to segregate its IDRS business (which is expected to carry air time revenue in time to come) from the group's other existing businesses. Addvalue is planning to separately list its wholly-owned subsidiary unit, Addvalue Solutions Pte Ltd (Singapore), on the SGX.

War chest of S$13.1m to accelerate growth plans and commercialisation of the IDRS system

Through a combination of equity and debt, Addvalue has recently raised S$13.1m to accelerate its growth plans and commercialisation of the world's first IDRS services. The injection of fresh capital will strengthen the group's balance sheet, improve cash flow and optimise overall cost of capital.

Expect improvement in profitability

Addvalue has been reporting net losses in the past few years. For 9-month ended 31 Dec 2016, Addvalue reported a net loss of US$1.2m on turnover of US$9.4m. The loss was mainly due to the continued amortization of a unit that is in the process of being sold. With the launch of new products targeting the niche market, Addvalue could soon turnaround from losses in the last few years.

Potential takeover target

Addvalue has been approached by a few parties with regards to taking a significant stake in the group that could result in a change of control. One of them is an offer by a Chinese party to acquire its wholly-owned subsidiary, Addvalue Communications for S$308m cash.

Key Risks

Delay / failure in the launch of the IDRS system

Addvalue has spent a few years developing the IDRS system and is now close to commercialisation. Delay or failure to launch this product could affect profitability.

Unable to secure customers

A successful launch of the IDRS system is able to generate revenue if it can sign up customers. Securing new customers could be challenging, especially for a new product.

Unable to secure grants to cover high R&D expenses

Ongoing development expenditure could be high as Addvalue needs to continue to develop its proprietary products, including new spin-off products. In the past, Addvalue has received grants to cover part of the high R&D expenses.

CDL Hospitality Trusts

Version 8 | Bloomberg: CDREIT SP | Reuters: CDLT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 May 2017

BUY

Last Traded Price (5 May 2017): S$1.55 (STI : 3,229.73)
Price Target 12-mth: S$1.75 (13% upside and 6.4% yield)
(Prev S$1.70)

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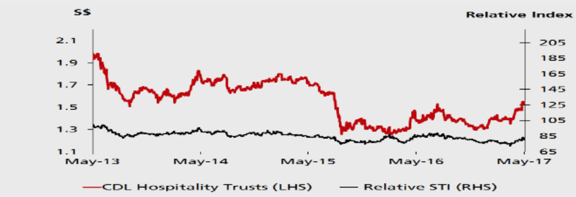
What's New

- **Purchases The Lowry Hotel in Manchester for GBP52.9m and on a 7.3% proforma FY16 NPI yield**
- **2-3% uplift to FY17-18F DPU post acquisition**
- **Timely purchase to mitigate the near-term headwinds in Singapore**

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2015A	2016A	2017F	2018F
Gross Revenue	172	181	194	211
Net Property Inc	137	138	149	161
Total Return	50.7	49.3	95.7	103
Distribution Inc	110	110	110	118
EPU (S cts)	8.21	7.15	9.58	10.3
EPU Gth (%)	(23)	(13)	34	7
DPU (S cts)	10.1	10.0	9.93	10.6
DPU Gth (%)	(8)	(1)	(1)	6
NAV per shr (S cts)	159	155	155	155
PE (X)	18.8	21.6	16.1	15.1
Distribution Yield (%)	6.5	6.5	6.4	6.8
P/NAV (x)	1.0	1.0	1.0	1.0
Aggregate Leverage (%)	36.2	36.6	38.6	38.3
ROAE (%)	5.1	4.5	6.2	6.6
Distn. Inc Chng (%):			2	3
Consensus DPU (S cts):			10.0	10.0
Other Broker Recs:		B: 5	S: 2	H: 10

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

The "City" of dreams

Attractive valuations. We maintain our BUY call on CDL Hospitality Trusts (CDREIT) with a revised TP of S$1.75. Although we expect the Singapore market to only recover in 2018, we believe the current low share price has largely priced in the current downturn and CDREIT offers compelling long-term value given its Singapore portfolio trades on a heavily discounted implied price per key. In addition, CDREIT offers patient investors an attractive 6.4% yield (based on 90% payout ratio) ahead of the eventual upturn.

Cheapest REIT to ride the eventual upturn. CDREIT's implied price per key for its Singapore portfolio stands at around S$500,000 which is below its replacement cost of c.S$700,000, recent market transactions of above S$650,000, and that of other listed Singapore hospitality REITs of between S$650,000 and S$1m. Given the quality of the portfolio and CDREIT's long-term track record, we believe this discount is unwarranted. Thus, CDREIT is the cheapest REIT providing exposure to the upturn in the Singapore hospitality market which we project will occur in 2018 as supply pressure eases.

Several mitigating factors during downturn in the Singapore hospitality market. While CDREIT's core Singapore market faces a downturn, we believe this will be tempered by higher earnings contribution from New Zealand, following the appointment of Millennium & Copthorne Hotels as the new operator of CDREIT's Auckland property and the negotiation of a more favourable lease structure. In addition, acquisition of The Lowry Hotel should minimise downside risks to earnings this year.

Valuation:

After incorporating the acquisition of The Lowry Hotel, we raised our DCF-based TP to S$1.75 from S$1.70.

Key Risks to Our View:

Weaker-than-expected demand supply outlook in Singapore. The key risk to our view is a weaker-than-expected demand-supply outlook for the Singapore hospitality market.

At A Glance

Issued Capital (m shrs)	998
Mkt. Cap (Sm/USm)	1,541 / 1,097
Major Shareholders (%)	
Hospitality Holdings Pte Ltd	31.5
M & C Reit Management Limited	5.5
Free Float (%)	63.0
3m Avg. Daily Val (US$m)	1.2

ICB Industry : Real Estate / Real Estate Investment Trust

WHAT'S NEW

Acquires The Lowry Hotel

Expands UK presence with initial entry into Manchester
CDREIT announced that it has entered into an agreement to purchase The Lowry Hotel in Manchester, UK for GBP52.9m (approximately S$94.7m) and on a 7.3% proforma FY16 NPI yield. The total acquisition costs including stamp duty and fees stands at GBP53.8m (c.S$96.4m).

The Lowry a 5-star luxury hotel
The property is a 5-star luxury hotel with 165 rooms, located in close proximity to the heart of the Manchester city centre and is 16km from the Manchester Airport. It is also in the vicinity of office developments such as Spinningfields, prominent retail establishments such as Amdale Shopping Centre, one of the busiest retail malls in the UK, as well as entertainment hubs such as Royal Theatre Exchange, the Manchester Opera House and Manchester Arena. The hotel is synonymous with the Manchester United Football club, given the football manager resides in the hotel.

The property was only recently refurbished in 2015 and 2016, and reported a 6.9% y-o-y increase in revenue per available room (RevPAR). Average daily rate and occupancy were reported to be at GBP160 and 80% respectively. A significant proportion of the guests are in the leisure category (less than 60%) as there is a large component of guests who travel to Manchester for football matches and concerts. The remainder are corporate customers who have a lower yield than leisure customers (in the low GBP100's). In addition, with 38 Premier League matches being hosted in the city each year, weekends see the strongest demand. Seasonality is also present on a quarterly basis, with first quarter being the weakest and fourth quarter the strongest.

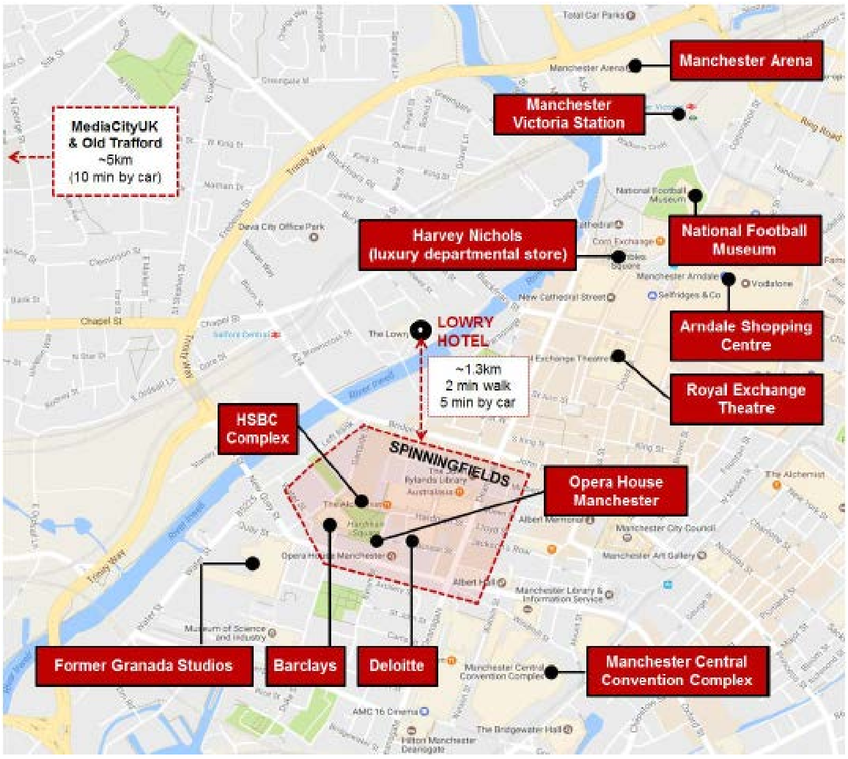
100% debt-funded acquisition with 2-3% DPU accretion
CDREIT intends to fully fund the acquisition with offshore GBP-denominated debt through a fresh multi-currency bridge loan which we have assumed has an interest rate of around 2.5%. We estimate a 2-3% uplift to our FY17-18F DPU post the acquisition of The Lowry Hotel in May 2017. Gearing is likewise expected to rise to c.39% from 36.8% as at end-March 2017. In terms of geographic exposure by NPI, CDREIT's presence in the UK will rise from 6% to 11%, with the contribution from Singapore dropping from 62% to 59%.

Positive development despite some risks
We are generally positive on the acquisition given the DPU accretion as well as helping CDREIT buffer its earnings near term due to the headwinds in Singapore and Maldives. In addition, based on the disclosed information, the property provides CDREIT exposure to a city that has (1) a higher than average GDP growth (2.9% in 2016 versus 1.8% for the rest of the UK), (2) major development projects including the expansion of rail and airport infrastructure as well as large mixed-use redevelopments (GBP800m N.O.M.A and GBP1bn St John's quarter projects) which should improve the city's future economic growth prospects, and (3) strong demand from football-related sector given two leading football clubs are located in the city (Manchester United and Manchester City).

Some risk but mitigating factors in place
While there may be some push-back from certain investors given gearing will now climb to c.39%, we take comfort from the fact that the acquisition is naturally hedged with GBP-denominated debt. In addition, Brexit is a risk but in our view, this is partially mitigated by the fact that 60% of the room nights are sourced from domestic guests, with the Manchester economy being more diversified and less exposed to the financial services sector than say London. To manage its FX exposure, CDREIT intends to hedge in excess of 50% of its GBP income two quarters forward (we have conservatively assumed GBPSGD FX rate of 1.70 over the next couple of years). Furthermore, we understand new hotel supply is expected to grow at a CAGR of 5.3% over the next three years. This could be a headwind to the property despite the prospects for strong demand growth. To price in this risk, we have assumed flat ADR performance over the next three years.

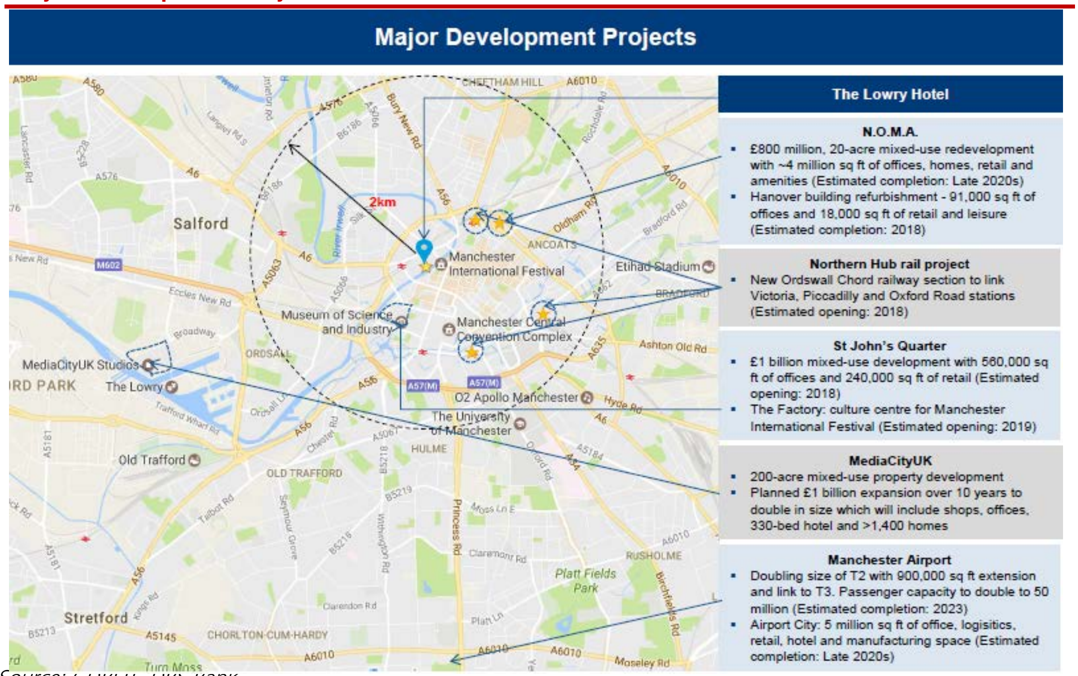
Maintain BUY, with revised TP of S$1.75
Following the upward revisions to our earnings estimates, we raised our DCF-based TP to S$1.70 from S$1.75. With 13% capital upside and 6.4% yield, we reiterate our BUY call. We believe with CDREIT tempering the downside risk to earnings this year with the acquisition of The Lowry Hotel, at current levels, CDREIT offers an attractive entry point to an expected recovery in the Singapore hospitality market next year.

Location of The Lowry Hotel



Source: CDREIT, DBS Bank

Major Development Projects



Source: CDREIT, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Challenging near-term operating conditions in Singapore. CDREIT's profitability is largely dependent on earnings from its Singapore hotels. Near term, we see headwinds to the group's core operations due to the growth in new hotel room supply in Singapore (6-7% of existing supply). The more competitive landscape is likely to lead to pressure on ADRs (average room rates) and occupancies, which we estimate will result in a c.4% decline in RevPAR in 2017. Nevertheless, over the medium term, as the Singapore government has not released any land for hotel development over the past two years, supply pressure should ease from 2018 onwards.

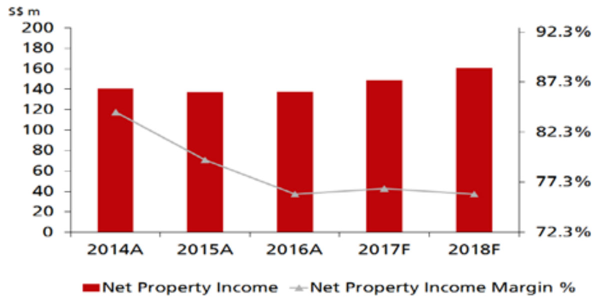
Softness from Maldives. The significant depreciation of the Russian rubble has resulted in a decline in the number of high-yielding Russian guests into the Maldives. Combined with a recent slowdown in Chinese visitors, we expect softness in CDREIT's Maldives operations on the back of more aggressive price competition by other resorts. Nevertheless, this could be partially offset by a weakening of the SGD versus USD, as forecast by our DBS economists. CDREIT's income from the Maldives is generated in USD.

Boost from Japanese and UK acquisitions as well as reopening of Claymore Link mall. The timely acquisitions of two Japanese business hotels, Hotel MyStays Asakusabashi and Hotel MyStays Kamata in December 2014 worth c.S$64m, should help CDREIT buffer against the slowdown in its core Singapore operations. The expected growth in tourist arrivals into Japan should translate into higher room rates and occupancies for CDREIT's properties in the medium term albeit near term there may be some volatility in performance due to the recent strength in the JPY. Furthermore, CDREIT should benefit from the acquisition of Cambridge City Hotel and the recent appointment of Hilton as its operator, as well as the recently announced acquisition of The Lowry Hotel. Moreover, the recent reopening of the Claymore Link, a retail mall in the heart of Orchard Road (after a 1.5-year renovation), is another positive for CDREIT's earnings.

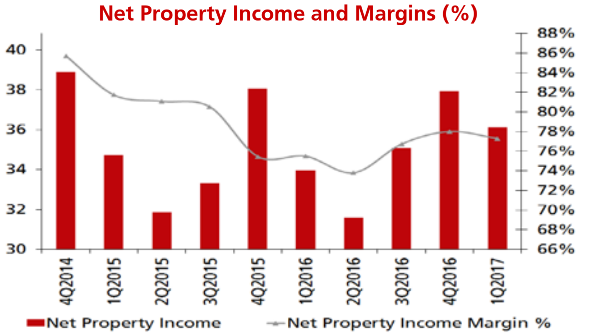
Upside from New Zealand. CDREIT recently appointed Millennium & Copthorne Hotels as the new operator at its Auckland property with a more favourable lease structure. Combined with strong performance of the Auckland hospitality market on the back of limited supply and healthy inbound tourists, CDREIT's New Zealand operations should provide an earnings boost over the coming year.

Asset optimisation. In the medium term, we believe CDREIT can further maximise the returns of its portfolio by undertaking AEIs such as the recently completed refurbishments at Grand Copthorne Waterfront Hotel and M Hotel in Singapore.

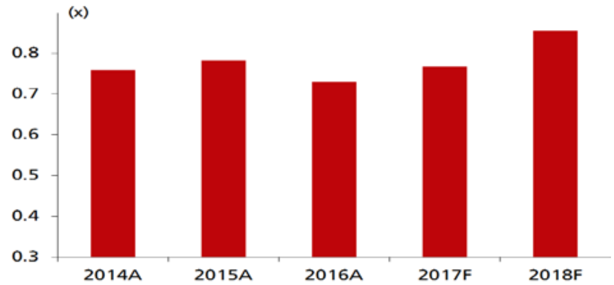
Net Property Income and Margins (%)



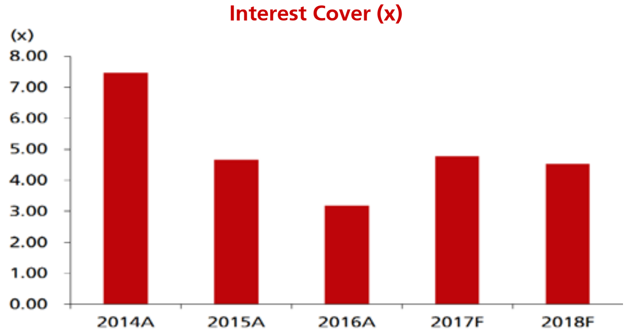
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing within optimal range. CDREIT's gearing is expected to settle around 39% following the acquisition of the Lowry Hotel, which is within its optimal gearing range of 35-40%.

Moderate exposure to rising interest rates. Approximately 61% of CDREIT's borrowings are on fixed interest rates. Thus, CDREIT has moderate exposure to rising interest rates.

Share Price Drivers:

Near-term earnings risk priced in. While CDREIT's earnings are expected to be under pressure near term due to projected supply and demand imbalance in Singapore, we believe this has largely been priced in. The implied price per key for CDREIT's Singapore portfolio stands at c.S$500,000, which is below its replacement cost of c.S$700,000 and recent market transactions of above S$650,000.

Unjustified discount to other hospitality REITs. Compared to other hospitality S-REITs, CDREIT offers the cheapest exposure to the eventual upturn in the Singapore market. The implied price per key for other S-REITs stands at between S$650,000 and S$1m versus c.S$500,000 for CDREIT. Given the mid-tier to luxury category of CDREIT's room inventory and its successful track record, we believe this valuation discount is unjustified.

Key Risks:

Interest rate risk. Any increase in interest rates will result in higher interest payments, which could result in lower distribution per unit (DPU) for unitholders.

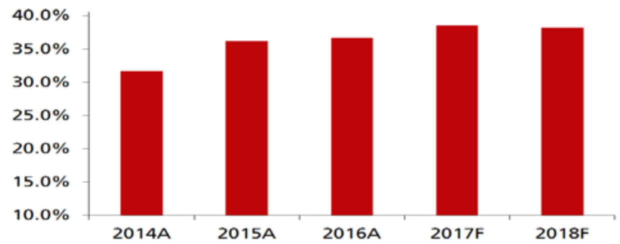
Currency risk. As CDREIT earns rental income in various currencies (AUD, GBP, JPY, NZD and USD), a depreciation of any foreign currency against the SGD could negatively impact distribution income, which is distributed in SGD.

Brexit. With the UK voting to exit EU (Brexit), this may negatively impact business activities in the UK and CDREIT's Hilton Cambridge property. In addition, Brexit may result in a depreciation of the GBP versus SGD, which will negatively impact distributions in SGD.

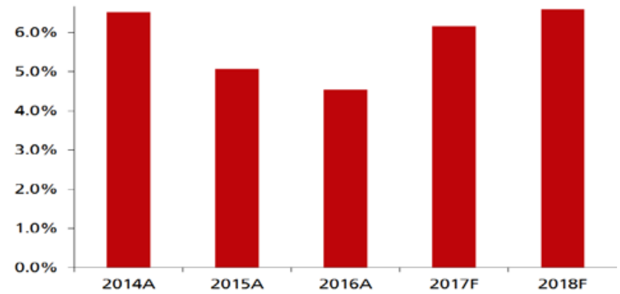
Company Background

CDL Hospitality Trusts (CDREIT) is a stapled group comprising H-REIT and HBT. H-REIT is a real estate investment trust that invests in a portfolio of income-producing hospitality-related properties while HBT is a business trust.

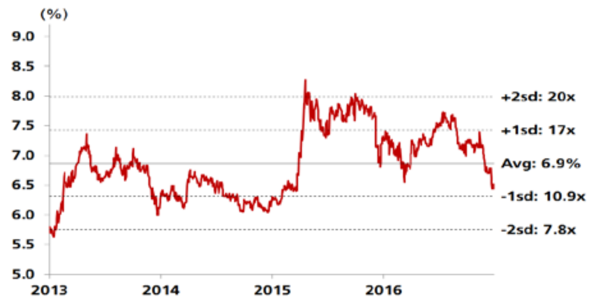
Aggregate Leverage (%)



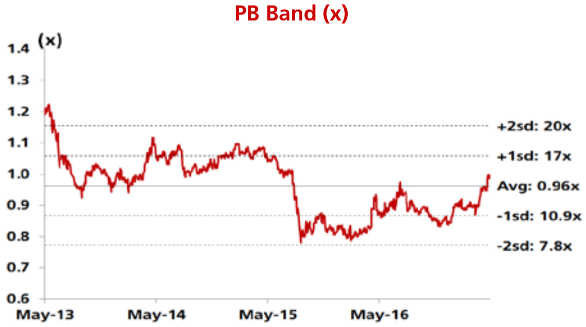
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Gross revenue	167	172	181	194	211
Property expenses	(26.3)	(35.4)	(43.3)	(45.4)	(50.6)
Net Property Income	141	137	138	149	161
Other Operating expenses	(17.8)	(32.9)	(32.7)	(22.4)	(22.9)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(16.4)	(22.3)	(32.9)	(26.5)	(30.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	106	81.8	72.0	99.8	107
Tax	(1.4)	(0.9)	(1.0)	(4.1)	(4.2)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	105	80.9	71.0	95.7	103
Total Return	122	50.7	49.3	95.7	103
Non-tax deductible Items	11.4	59.4	38.7	14.5	15.0
Net Inc available for Dist.	120	110	110	110	118
Growth & Ratio					
Revenue Gth (%)	12.1	3.4	4.9	7.3	8.8
N Property Inc Gth (%)	2.3	(2.5)	0.4	8.1	8.1
Net Inc Gth (%)	1.0	(22.8)	(12.3)	34.9	7.8
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0	90.0
Net Prop Inc Margins (%)	84.2	79.5	76.1	76.6	76.1
Net Income Margins (%)	62.8	46.9	39.2	49.3	48.8
Dist to revenue (%)	71.6	63.9	60.6	56.8	55.9
Managers & Trustee's fees	10.7	19.1	18.1	11.6	10.8
ROAE (%)	6.5	5.1	4.5	6.2	6.6
ROA (%)	4.4	3.2	2.8	3.7	3.9
ROCE (%)	5.1	4.2	4.1	4.7	5.1
Int. Cover (x)	7.5	4.7	3.2	4.8	4.5

Source: Company, DBS Bank

Recovery in earnings on the back of an upturn in the Singapore hospitality market due to limited new room supply in 2018 and boost from the acquisition of The Lowry Hotel.

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Gross revenue	44.7	42.5	45.4	48.3	46.4
Property expenses	(11.0)	(11.1)	(10.6)	(10.6)	(10.5)
Net Property Income	33.7	31.3	34.8	37.7	35.9
Other Operating expenses	(5.5)	(6.2)	(6.5)	(14.5)	(6.2)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(6.3)	(6.3)	(5.8)	(14.6)	(11.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**21.9**	**18.9**	**22.6**	**8.60**	**18.7**
Tax	(1.0)	(1.0)	0.0	0.99	(1.1)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**20.9**	**17.9**	**22.6**	**9.59**	**17.6**
Total Return	0.0	0.0	0.0	0.0	0.0
Non-tax deductible Items	3.44	5.84	4.31	42.6	9.20
Net Inc available for Dist.	24.4	23.7	26.9	30.6	26.8
Growth & Ratio					
Revenue Gth (%)	(11)	(5)	7	6	(4)
N Property Inc Gth (%)	(11)	(7)	11	8	(5)
Net Inc Gth (%)	35	(15)	26	(57)	84
Net Prop Inc Margin (%)	75.5	73.8	76.7	78.0	77.3
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0	90.0

Balance Sheet (S$m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Investment Properties	2,206	2,177	2,175	2,275	2,281
Other LT Assets	146	278	251	251	251
Cash & ST Invts	76.5	72.0	82.2	109	121
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	20.0	19.1	25.7	23.3	25.4
Other Current Assets	1.37	1.28	1.22	1.22	1.22
Total Assets	**2,450**	**2,547**	**2,535**	**2,660**	**2,680**
ST Debt	317	219	0.0	0.0	0.0
Creditor	39.7	32.2	33.4	46.1	50.2
Other Current Liab	0.89	0.27	2.54	6.60	10.8
LT Debt	458	703	929	1,025	1,025
Other LT Liabilities	18.6	19.3	24.1	24.1	24.1
Unit holders' funds	1,616	1,573	1,546	1,557	1,569
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**2,450**	**2,547**	**2,535**	**2,660**	**2,680**
Non-Cash Wkg. Capital	(19.1)	(12.1)	(9.1)	(28.2)	(34.4)
Net Cash/(Debt)	(698)	(850)	(847)	(917)	(904)
Ratio					
Current Ratio (x)	0.3	0.4	3.0	2.5	2.4
Quick Ratio (x)	0.3	0.4	3.0	2.5	2.4
Aggregate Leverage (%)	31.6	36.2	36.6	38.6	38.3
Z-Score (X)	1.3	1.2	1.3	1.3	1.3

Source: Company, DBS Bank

Increase in gearing post the acquisition of The Lowry Hotel

Cash Flow Statement (S$m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Income	106	81.8	72.0	99.8	107
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(0.2)	(1.0)	(0.8)	0.0	0.0
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	3.83	0.23	1.76	15.1	2.02
Other Operating CF	29.6	50.2	60.5	14.5	15.0
Net Operating CF	139	131	133	129	124
Net Invt in Properties	(93.0)	(149)	(14.2)	(100)	(5.3)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.35	(2.0)	(3.9)	0.0	0.0
Net Investing CF	(92.6)	(151)	(18.1)	(100)	(5.3)
Distribution Paid	(106)	(103)	(97.2)	(99.2)	(106)
Chg in Gross Debt	83.2	138	15.0	96.4	0.0
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(16.6)	(19.7)	(22.9)	0.0	0.0
Net Financing CF	(39.1)	15.3	(105)	(2.8)	(106)
Currency Adjustments	0.0	0.46	(0.6)	0.0	0.0
Chg in Cash	7.72	(4.0)	9.63	26.3	12.8
Operating CFPS (S cts)	13.9	13.3	13.3	11.4	12.2
Free CFPS (S cts)	4.75	(1.8)	12.0	2.91	11.8

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	20 Jun 16	1.42	1.51	BUY
2:	29 Jul 16	1.47	1.65	BUY
3:	29 Aug 16	1.41	1.65	BUY
4:	05 Sep 16	1.38	1.65	BUY
5:	26 Sep 16	1.39	1.65	BUY
6:	18 Oct 16	1.35	1.65	BUY
7:	31 Oct 16	1.34	1.59	BUY
8:	08 Nov 16	1.34	1.59	BUY
9:	27 Jan 17	1.42	1.65	BUY
10:	27 Apr 17	1.53	1.70	BUY
11:	03 May 17	1.53	1.70	BUY

***Note**: Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

Analyst: Mervin SONG CFA
Derek TAN

mm2 Asia

Version 10 | Bloomberg: MM2 SP | Reuters: MM2A.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 May 2017

BUY

Last Traded Price (19 May 2017): S$0.61 (STI : 3,216.92)
Price Target 12-mth: S$0.70 (16% upside) (Prev S$0.63)
Potential Catalyst: Earnings-accretive acquisitions
Analyst

Lee Keng LING +65 6682 3703 leekeng@dbs.com

Price Relative

Forecasts and Valuation

FY Mar (S$ m)	2016A	2017F	2018F	2019F
Revenue	38.3	99.2	147	182
EBITDA	19.4	32.6	44.9	52.5
Pre-tax Profit	9.99	23.2	33.1	40.7
Net Profit	8.18	16.7	22.6	28.0
Net Pft (Pre Ex.)	8.18	16.7	22.6	28.0
Net Pft Gth (Pre-ex) (%)	59.4	103.9	35.4	24.0
EPS (S cts)	0.90	1.59	2.16	2.68
EPS Pre Ex. (S cts)	0.90	1.59	2.16	2.68
EPS Gth Pre Ex (%)	46	76	35	24
Diluted EPS (S cts)	0.90	1.59	2.16	2.68
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	4.00	6.78	8.94	11.6
PE (X)	66.9	37.9	28.0	22.6
PE Pre Ex. (X)	66.9	37.9	28.0	22.6
P/Cash Flow (X)	nm	39.3	25.5	17.9
EV/EBITDA (X)	28.2	18.9	14.3	12.1
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	15.1	8.9	6.8	5.2
Net Debt/Equity (X)	CASH	CASH	0.0	CASH
ROAE (%)	29.5	31.1	27.5	26.1
Core earnings Rev (%):		-	-	-
Consensus EPS (S cts):		1.7	2.2	2.8
Other Broker Recs:		B: 2	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

An UnUsUal boost

Raised target price to S$0.70 after incorporating a higher valuation for UnUsUal, and slightly higher margins for core business. UnUsUal has staged a spectacular performance post listing on the Catalist board of SGX on 10 April 2017. Share price has gained a whopping 170% vs its IPO price of S$0.20. After incorporating the current valuation for UnUsUal and tweaked net margins for core business to 25% from 24% previously, our target price is now S$0.70.

Growth supported by core business and UnUsUal; cinemas to build recurring income. We continue to project mm2 to grow at an EPS CAGR of 52% from FY16-FY19, underpinned by growth in productions, expansion into the China market, and contribution from UnUsUal. The cinema arm, on the other hand, helps the group to build a recurring income base.

Where we differ: **Higher valuation peg vs consensus.** We value the core business and post-production segments based on 28x PE, in line with peers listed in Asia, vs consensus of about 25x. For UnUsUal, we value it at current valuation. For the cinema segment, we use a 21x valuation peg.

Potential Catalyst: **Reaping fruits of success in North Asia.** We expect North Asia to contribute >70% of core revenue from FY17F, up from 23% in FY16. Upside to earnings could come from more projects, especially in China where the market is bigger and budgets are much higher.

Valuation:

Maintain BUY with a higher TP of S$0.70 based on SOTP valuation. We have switched the valuation methodology for mm2 to sum-of-parts valuation from the PE method, as contribution from the different business units will be more meaningful going forward.

Key Risks to Our View:

No long-term financing arrangements for productions. The commencement of each production is dependent on mm2's ability to secure funding.
Availability of good scripts. Lack of good scripts for production may lead to less support from stakeholders.

At A Glance

Issued Capital (m shrs)	1,029
Mkt. Cap (Sm/USm)	622 / 449
Major Shareholders (%)	
Wee Chye Ang	45.1
Yeo Khee Seng	9.2
StarHub Ltd	8.6
Free Float (%)	36.4
3m Avg. Daily Val (US$m)	1.5

ICB Industry : Consumer Services / Media

CRITICAL DATA POINTS TO WATCH

Critical Factors:

Acquisitions to strengthen competitive edge and build income base

mm2 has made several acquisitions to maintain its competitive advantage. It has just signed the agreement for the acquisition of 13 cinemas in Malaysia. Upon completion, mm2 will own a total of 18 cinemas with a market share of about 14% in terms of number of screens, propelling the company to become a top four player in Malaysia. In Singapore, mm2 announced that it is in discussion with Village Cinemas for the purchase of its stake in the Golden Village Cinema business in Singapore. Golden Village is Singapore's leading cinema exhibitor with 11 multiplexes housing 92 screens. The ownership of cinemas will provide a source of recurring income to the group and cost savings in the longer term, as mm2 usually has to pay about 50% of its gross intake for rental of cinemas. Cinema operation is a profitable business, and could be profitable even with less than 50% of the seats occupied.

Other than cinemas, mm2 has entered into an MOU to acquire up to 30% stake in RINGS.TV, a leading interactive live streaming broadcast platform, for S$4.5m in a bid to beef up its OTT (over-the-top) platform. In February 2016, mm2 acquired a 51% stake in UnUsUal Group, one of Asia's largest promoters and organisers of shows and entertainment acts, for S$26m.

Healthy production pipeline

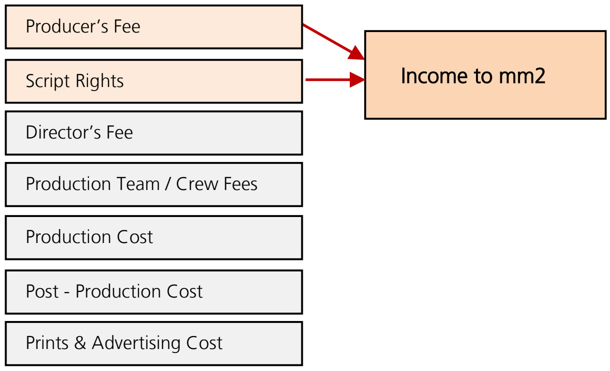
The number of production titles has increased steadily over the last few years; from six production for FY March 2014, to about 18 for FY March 2017. mm2 has a robust production pipeline of 37 production titles for the next 18 months, from April 2017 to September 2018. Out of these, 23 titles or 62% are from North Asia. In terms of production budget, North Asia accounts for almost 80% of the total budget.

Going for niche markets in North Asia; adaptation of successful movies. In terms of strategy in China, instead of competing directly with the local big boys, mm2's strategy is to go for small, niche markets and replicate its proven business model that it has in Singapore.

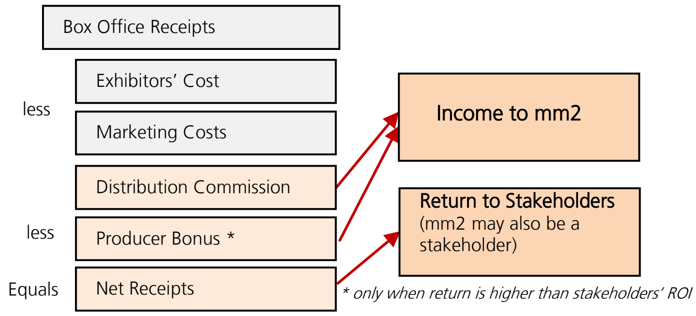
Besides production of movies and dramas, mm2 can also produce variety shows, either on its own or via tie-ups with local players like Hesheng Media, which is one of the largest integrated media companies in China.

Distribution of movies, another core competency of mm2 apart from production and advertising, is also another channel that can broaden mm2's income in China.

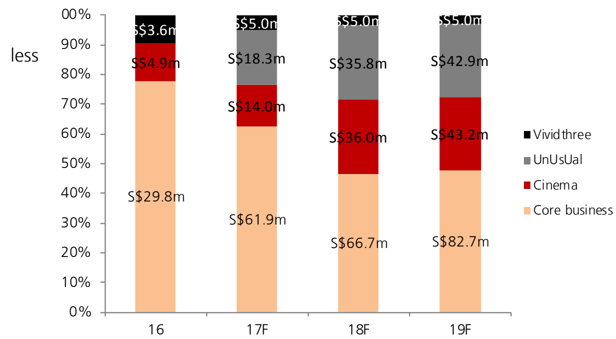
Business Model – The Film Budget



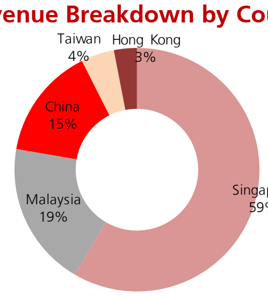
Business Model – Gross Receipts (Box Office)



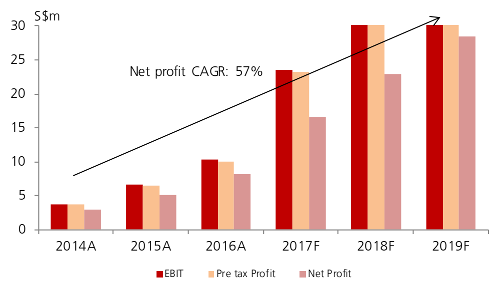
Revenue Breakdown by Segment



FY16 Revenue Breakdown by Country



Profitability Trend



Source: Company, DBS Bank

Balance Sheet:

Net cash position. mm2 was in a net cash position as at September 2016. Though we do not rule out the possibility of the group taking on more debt, as it is constantly on the lookout for acquisitions that can complement its existing business and also to build its recurring income base, the full impact from its recent acquisitions should lead to stronger earnings and equity base.

Asset-light business model. More than half of its assets are current assets, comprising mainly cash and receivables, even with the acquisition of cinemas and UnUsUal.

Share Price Drivers:

UnUsUal listing. UnUsUal was listed on 10 April 2017. This would enable mm2 to crystallise gains and unlock value, and allow UnUsUal to tap on public funds for expansion.

Growing production and distribution income

Its core business, which includes production, distribution and sponsorship, is expected to account for at least 70% of total revenue going forward. We expect more than half of the production to come from North Asia. In China, we are expecting the group to also produce dramas, which will have a much bigger production budget than movies. Even for movies in China, their production budgets and margins are also better than local productions.

To beef up on content creation, mm2 has entered into an agreement with Turner Asia Pacific, a global media conglomerate, to co-produce five cinematic films over the next three years. In Malaysia, mm2 has entered into a non-binding MOU with Pinewood Iskandar Malaysia Studios and Rhizophora Ventures, to produce up to 12 movie projects and up to five dramas in over the next three years.

Key Risks:

No long-term financing arrangements for productions. The commencement of each production is dependent on mm2's ability to secure funding.

Availability of good scripts. Lack of good scripts for production may lead to less support from stakeholders.

Unable to predict the commercial success of movies produced. The commercial success of its productions is primarily determined by inherently unpredictable audience reactions.

Company Background

mm2 Asia is a leading producer of films and TV/online content in Asia. As a producer, mm2 provides services over the entire film-making process – from financing and production to marketing and distribution, and thus has diversified revenue streams. mm2 also owns entertainment company, UnUsUal, and cinemas in Malaysia.

Number of Titles (Production & Distribution)

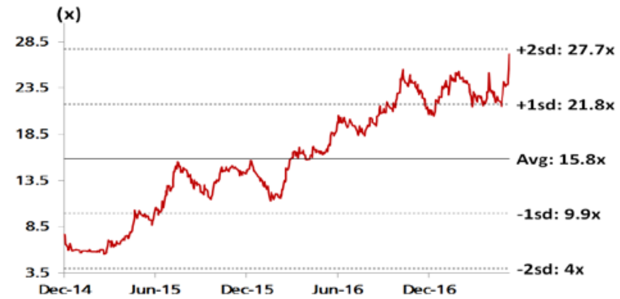
Year	Number of Titles (Production)	Number of Titles (Distribution)
FY Mar 2012	3	2
FY Mar 2013	6	8
FY Mar 2014	6	18
FY Mar 2015	9	26
FY Mar 2016	14	24
FY Mar 2017 (estimate)	18	30
Apr 17 to Sep 18*	37	

** projection*

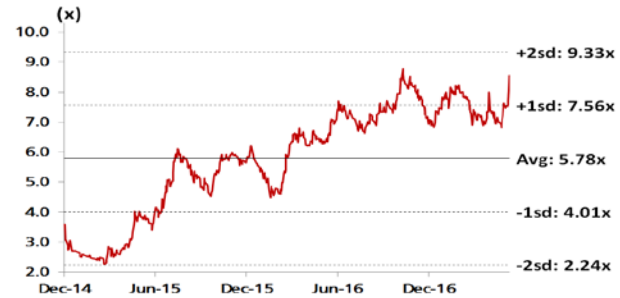
Details of cinemas acquired

Cinema	Place	Capacity
Cathay Cineplex City Square	Johor Bahru	14 screens, 2,826 seats
Cathay Cineplex Damansara	Damansara	16 screens, 2,472 seats
Mega Cineplex Prai	Penang	6 screens, 1,420 seats
Mega Cineplex Langkawi	Langkawi	3 screens 536 seats
Mega Cineplex Bertam	Bertam	4 screens 756 seats
LFS 1 Plaza, Kuala Selangor	Selangor	5 screens, 733 seats
LFS Seri Iskandar	Perak	7 screens, 1,349 seats
LFS 1 Segamat	Johor	8 screens, 1,703 seats
LFS Prangin Mall	Penang	8 screens, 1,490 seats
LFS Bahau	Negeri Sembilan	6 screens, 1,036 seats
LFS Shaw Centre, Point Klang	Selangor	4 screens, 875 seats
LFS Riverside, Kuching	Sarawak	4 screens, 585 seats
LFS IOI Kulai	Johor	6 screens, 920 seats
LFS Kerian Sentral Mall	Perak	8 screens, 1,183 seats
LFS Summer Mall	Sarawak	12 screens, 2,038 seats
LFS Mahkota Parade	Malacca	4 screens, 645 seats
LFS Bukit Jambul	Penang	6 screens, 1,167 seats
LFS Kampar	Perak	6 screens, 846 seats

Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Segmental Breakdown

FY Mar	2015A	2016A	2017F	2018F	2019F
Revenues (S$m)					
Core Business	24.3	29.8	61.9	73.7	92.8
Production			51.9	63.7	82.8
TV Content			10.0	10.0	10.0
Cinema		4.9	14.0	32.7	37.8
UnUsUal			18.3	37.9	49.2
Vividthree		3.6	5.0	5.0	5.0
Total	24.3	38.3	99.2	149.2	184.8
Gross profit (S$m)					
Core Business	9.6	13.1	23.3	28.2	36.3
Production			21.8	26.7	34.8
TV Content			1.5	1.5	1.5
Cinema		2.8	7.7	18.0	20.8
UnUsUal			6.8	15.8	20.5
Vividthree		2.5	3.5	3.5	3.5
Total	9.6	18.4	41.3	65.5	81.1
Gross profit Margins (%)					
Core Business	39%	44%	38%	38%	39%
Production			42%	42%	42%
TV Content			15%	15%	15%
Cinema		57%	55%	55%	55%
UnUsUal			37%	42%	42%
Vividthree		69%	70%	70%	70%
Total	39%	48%	42%	44%	44%

Partial contributions from UnUsUal

Includes partial contribution from latest acquisition of Lotus cinemas

Income Statement (S$m)

FY Mar	2015A	2016A	2017F	2018F	2019F
Revenue	24.3	38.3	99.2	147	182
Cost of Goods Sold	(14.7)	(20.0)	(58.0)	(82.4)	(102)
Gross Profit	9.58	18.4	41.3	64.6	79.9
Other Opng (Exp)/Inc	(3.0)	(8.0)	(17.7)	(28.7)	(36.4)
Operating Profit	6.62	10.4	23.6	35.9	43.5
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.00	(0.4)	(0.4)	(2.8)	(2.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	6.58	9.99	23.2	33.1	40.7
Tax	(1.5)	(1.1)	(3.9)	(5.6)	(6.9)
Minority Interest	0.0	(0.7)	(2.6)	(4.9)	(5.8)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	5.08	8.18	16.7	22.6	28.0
Net Profit before Except.	5.13	8.18	16.7	22.6	28.0
EBITDA	9.92	19.4	32.6	44.9	52.5
Growth					
Revenue Gth (%)	50.7	57.9	158.8	48.1	23.8
EBITDA Gth (%)	38.5	95.2	68.4	37.7	16.9
Opg Profit Gth (%)	78.3	56.7	127.6	52.1	21.1
Net Profit Gth (Pre-ex) (%)	68.1	59.4	103.9	35.4	24.0
Margins & Ratio					
Gross Margins (%)	39.5	48.0	41.6	43.9	43.9
Opg Profit Margin (%)	27.3	27.1	23.8	24.4	23.9
Net Profit Margin (%)	20.9	21.3	16.8	15.4	15.4
ROAE (%)	44.5	29.5	31.1	27.5	26.1
ROA (%)	18.5	15.3	16.0	12.5	11.2
ROCE (%)	37.7	25.0	27.3	18.5	16.5
Div Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0
Net Interest Cover (x)	NM	26.8	61.0	12.9	15.6

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Mar	1H15	2H15	1H16	2H16	1H17
Revenue	9.7	14.6	12.7	25.6	35.0
Cost of Goods Sold	(4.0)	(10.7)	(4.3)	(15.6)	(15.3)
Gross Profit	5.7	3.9	8.4	10.0	19.8
Other Oper. (Exp)/Inc	(1.2)	(1.8)	(3.0)	(5.4)	(8.9)
Operating Profit	4.5	2.1	5.4	4.6	10.9
Other Non Opg (Exp)/Inc	0.0	(0.0)	0.0	(0.0)	(0.0)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	4.5	2.0	5.4	4.6	10.9
Tax	(0.9)	(0.6)	(0.9)	(0.2)	(2.0)
Minority Interest	0.0	0.0	(0.5)	(0.7)	(1.0)
Net Profit	3.6	1.5	4.0	3.7	7.8
Net profit bef Except.	3.6	1.5	4.5	4.4	8.9
EBITDA	5.3	4.6	6.7	4.6	13.5
Growth					
Revenue Gth (%)		51	(13)	102	37
EBITDA Gth (%)		(13)	45	(31)	160
Opg Profit Gth (%)		(32)	118	18	98
Net Profit Gth (Pre-ex) (%)		(60)	175	(9)	113
Margins					
Gross Margins (%)		26.7	66.1	39.0	56.4
Opg Profit Margins (%)		26.3	66.1	38.6	55.8
Net Profit Margins (%)		10.0	31.6	14.3	22.4

Volatile margins mainly due to different stages of revenue recognition

Balance Sheet (S$m)

FY Mar	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	0.10	3.65	20.4	66.4	85.9
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	6.36	26.1	17.6	9.18	0.72
Cash & ST Invts	5.76	4.74	21.6	29.8	45.2
Inventory	4.77	9.83	21.2	30.1	37.3
Debtors	20.6	24.4	58.2	86.2	107
Other Current Assets	0.0	0.26	0.26	0.26	0.26
Total Assets	37.6	69.0	139	222	276
ST Debt	0.22	0.20	0.20	0.20	0.20
Creditor	14.7	23.8	55.9	79.5	98.4
Other Current Liab	1.46	4.21	5.11	6.79	8.08
LT Debt	0.09	2.85	2.85	32.8	32.8
Other LT Liabilities	1.92	0.75	0.75	0.75	0.75
Shareholder's Equity	19.2	36.2	70.9	93.5	121
Minority Interests	0.0	0.98	3.59	8.52	14.3
Total Cap. & Liab.	37.6	69.0	139	222	276
Non-Cash Wkg. Capital	9.19	6.49	18.7	30.4	37.8
Net Cash/(Debt)	5.45	1.69	18.6	(3.2)	12.1
Debtors Turn (avg days)	240.0	214.2	152.0	179.4	193.6
Creditors Turn (avg days)	417.3	640.7	297.1	336.8	349.1
Inventory Turn (avg days)	100.2	243.0	115.7	127.7	132.4
Asset Turnover (x)	0.9	0.7	1.0	0.8	0.7
Current Ratio (x)	1.9	1.4	1.7	1.7	1.8
Quick Ratio (x)	1.6	1.0	1.3	1.3	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	0.0	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	0.0	CASH
Capex to Debt (%)	645.4	279.3	565.8	141.0	60.5
Z-Score (X)	15.8	10.3	6.2	4.3	4.1

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Mar	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	6.58	9.99	23.2	33.1	40.7
Dep. & Amort.	3.29	8.98	8.98	8.98	8.98
Tax Paid	(1.5)	(1.1)	(3.1)	(3.9)	(5.6)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(12.0)	(22.6)	(13.1)	(13.4)	(8.7)
Other Operating CF	1.00	0.0	0.0	0.0	0.0
Net Operating CF	**(2.6)**	**(4.7)**	**16.1**	**24.8**	**35.3**
Capital Exp.(net)	(2.0)	(8.5)	(17.3)	(46.6)	(20.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	**(2.0)**	**(8.5)**	**(17.3)**	**(46.6)**	**(20.0)**
Div Paid	0.0	0.0	0.0	0.0	0.0
Chg in Gross Debt	2.94	2.35	0.0	30.0	0.0
Capital Issues	7.75	9.10	18.0	0.0	0.0
Other Financing CF	(1.6)	(0.7)	0.0	0.0	0.0
Net Financing CF	**9.05**	**10.7**	**18.0**	**30.0**	**0.0**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	4.44	(2.5)	16.9	8.22	15.3
Opg CFPS (S cts)	1.13	1.98	2.79	3.65	4.22
Free CFPS (S cts)	(0.6)	(1.5)	(0.1)	(2.1)	1.47

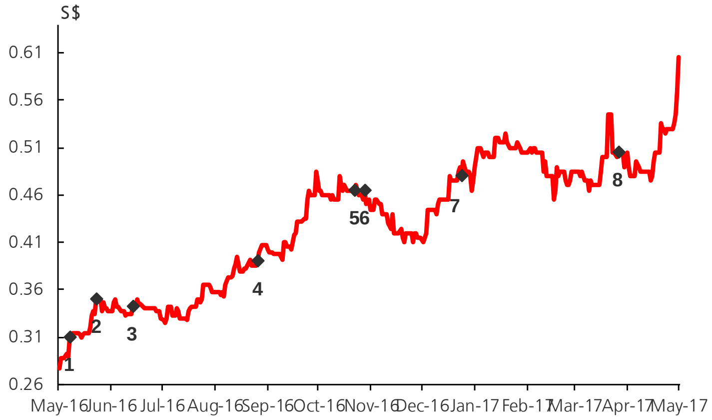
FY17 and FY18 - Acquisition of cinemas and RINGS.TV

Assume partial debt financing for the acquisition of cinemas

Issue of shares to finance recent acquisitions

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1	25 May 16	0.31	0.37	BUY
2	10 Jun 16	0.35	0.37	BUY
3	01 Jul 16	0.34	0.41	BUY
4	13 Sep 16	0.39	0.47	BUY
5	09 Nov 16	0.47	0.56	BUY
6	15 Nov 16	0.47	0.56	BUY
7	11 Jan 17	0.48	0.56	BUY
8	13 Apr 17	0.51	0.63	BUY

Note : *Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

Analyst: Lee Keng LING

Riverstone Holdings

Version 9 | Bloomberg: RSTON SP | Reuters: RVHL.SI

DBS Group Research . Equity

5 May 2017

BUY (Upgrade from HOLD)

Last Traded Price (4 May 2017): S$0.885 (**STI :** 3,228.62)
Price Target 12-mth: S$1.07 (20% upside) (Prev S$0.92)

Potential Catalyst: Higher cleanroom mix, capacity expansion
Where we differ: We are above consensus on the assumption that the momentum in cleanroom is sustained

Analyst
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What's New

- **1Q17 profits hold up better than expected on improved cleanroom demand**
- **Ups guidance on capacity expansion plans to 10bn gloves by end-FY19F (vs 8.2bn by end-FY18F previously)**
- **Takes on debt to fund expansion but remains in net cash position of RM122.7m (as at end-1Q17)**
- **More positive on earnings outlook; upgrade to BUY with higher TP of S$1.07, based on FY18F earnings**

Price Relative

Forecasts and Valuation

FY Dec (RM m)	2016A	2017F	2018F	2019F
Revenue	655	839	942	1,018
EBITDA	169	200	228	245
Pre-tax Profit	139	156	175	184
Net Profit	120	135	152	160
Net Pft (Pre Ex.)	120	135	152	160
Net Pft Gth (Pre-ex) (%)	(4.9)	12.4	12.3	5.1
EPS (S cts)	5.24	5.89	6.62	6.96
EPS Pre Ex. (S cts)	5.24	5.89	6.62	6.96
EPS Gth Pre Ex (%)	(5)	12	12	5
Diluted EPS (S cts)	5.24	5.89	6.62	6.96
Net DPS (S cts)	2.10	2.23	2.50	2.63
BV Per Share (S cts)	24.2	27.8	31.9	36.3
PE (X)	16.9	15.0	13.4	12.7
PE Pre Ex. (X)	16.9	15.0	13.4	12.7
P/Cash Flow (X)	17.1	15.3	11.1	10.0
EV/EBITDA (X)	11.4	9.6	8.2	7.4
Net Div Yield (%)	2.4	2.5	2.8	3.0
P/Book Value (X)	3.7	3.2	2.8	2.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	23.2	22.7	22.1	20.4
Earnings Rev (%):		8	5	New
Consensus EPS (S cts):		5.0	4.9	5.0
Other Broker Recs:		B: 5	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Expanding on growth ambitions

Upgrade to BUY as we raise TP to S$1.07; Earnings catalysed by strong cleanroom demand and new three-year expansion plan. Riverstone surprised in 1Q17, as the uptick in cleanroom demand (+20% y-o-y – which carry higher margins, held up profits better than expected. With demand in the cleanroom segment mainly stemming from the semiconductor and mobile tablet sectors, we see Riverstone as an indirect beneficiary of the current semiconductor upcycle.

We arrive at a higher TP of S$1.07 after rolling forward our earnings base to FY18F and raising our profit estimates by +8%/+5% for FY17F/FY18F on 1) increase in total production capacity of 10 bn pieces p.a. by end-2019 (+22% from earlier guidance of 8.2 bn pieces p.a. by end-2018, 2) higher cleanroom glove mix, and 3) higher margins.

Margins should stabilise at a higher level. Despite industry headwinds, we believe Riverstone's edge in the high-tech cleanroom segment sets it apart from the bigger boys.

As Riverstone ramps up on cleanroom production, we see gross margins stabilising at a higher level going forward as margins for this segment are generally more defensible.

Capacity expansion to underpin long-term growth; ups guidance to 10bn by end-2019. In anticipation of strong demand for both its cleanroom and healthcare gloves, Riverstone is now in the process of accelerating its expansion plans. Under the new three-year expansion plan, we expect total glove production capacity to grow to 8.6bn pieces by end-2018 (vs 8.2bn previously) and 10bn pieces p.a. by end-2019.

Backed by robust demand, we project earnings to grow at a 10% CAGR from RM120m in FY16 to RM160m by FY19F.

Valuation:

Upgrade to BUY with a higher TP of S$1.07; earnings base rolled forward to FY18F. Our TP of S$1.07 is based on 16x FY18F PE, at a discount to larger peers. At current prices, a prospective yield of 2.5% is also on offer.

Key Risks to Our View:

Global economic slowdown. While margins for cleanroom gloves tend to be resilient, demand for these gloves could be threatened in the event of a slowdown in the global economy.

At A Glance

Issued Capital (m shrs)	741
Mkt. Cap (Sm/USm)	656 / 468
Major Shareholders (%)	
Ringlet Investment Limited	50.8
Wai Keong Lee	11.7
Free Float (%)	33.5
3m Avg. Daily Val (US$m)	0.11

ICB Industry : Health Care / Health Care Equipment & Services

WHAT'S NEW

1Q17 profits hold up better than expected despite headwinds; ups guidance on capacity expansion plans

Record-high quarterly sales in 1Q17, bottom line performance above expectations. Riverstone delivered record-high quarterly sales of RM205.7m (+12.4% q-o-q) on a combination of improved cleanroom demand (particularly from the semiconductor and mobile tablet sectors) and favourable ASP adjustments.

As a result, the group was able to sustain gross margins at the 25% level (vs 26.2% in the previous quarter) despite raw material prices surging to 5-year highs of c. US$1,300/metric tonne.

Momentum in cleanroom demand expected to continue. During the quarter, the group's cleanroom product continued to garner strong interest from both existing and new customers.

Ahead, we expect strong cleanroom order momentum to be sustained by higher manufacturing activity in the broader semiconductor and electronics space and substitution from PVC to nitrile gloves.

Expect fluctuations in ASPs but margins should stabilise at a higher level. Volatility in USD/MYR trends and raw material prices could lead to fluctuations in ASPs under the cost-plus mechanism. While the strong pullback in Butadiene prices in March could result in downward adjustments to ASPs in the subsequent quarters, we expect gross margins to stabilise at a higher level (than previously expected) on a higher cleanroom mix as margins for this segment are generally more defensible.

Company ups guidance on capacity expansion plans. In anticipation of strong demand for both its cleanroom and healthcare gloves, Riverstone announced that it will be accelerating its expansion plans.

From 2014, the group has been committed to growing capacity by 1bn p.a. to at least 8.2bn gloves p.a. by end-2018. Under the new three-year expansion plan, we expect total glove production capacity to grow to 8.6bn pieces by end-2018 and 10bn pieces p.a. by end-2019.

Upgrade to BUY with a higher TP of S$1.07. Despite industry headwinds, we believe Riverstone's edge in the high-tech cleanroom segment sets it apart from the bigger boys.

After rolling forward our earnings base to FY18F and raising our profit estimates by +8%/5% for FY17F/18F on 1) increase in total production capacity of 10bn pieces p.a. by end-2019 (+22% from earlier guidance of 8.2bn pieces p.a. by end-2018, 2) higher cleanroom glove mix, and 3) higher margins, we arrive at a higher TP of S$1.07.

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2016	4Q2016	1Q2017	% chg yoy	% chg qoq
Revenue	148	183	206	38.9	12.4
Cost of Goods Sold	(105)	(135)	(154)	46.6	14.2
Gross Profit	**43.1**	**48.2**	**51.8**	**20.1**	**7.4**
Other Oper. (Exp)/Inc	(11.4)	(6.8)	(12.4)	8.3	82.7
Operating Profit	**31.7**	**41.4**	**39.4**	**24.3**	**(5.0)**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	0.0	0.0	(0.2)	nm	nm
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	**31.7**	**41.4**	**39.2**	**23.8**	**(5.4)**
Tax	(4.5)	(5.4)	(5.6)	23.8	3.2
Minority Interest	0.0	0.0	0.0	-	-
Net Profit	**27.2**	**36.0**	**33.6**	**23.7**	**(6.7)**
Net profit bef Except.	27.2	36.0	33.6	23.7	(6.7)
EBITDA	39.7	49.7	47.6	19.8	(4.1)
Margins (%)					
Gross Margins	29.1	26.3	25.2		
Opg Profit Margins	21.4	22.6	19.1		
Net Profit Margins	18.3	19.7	16.3		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Growth in global demand for healthcare gloves, at least in near to medium term. The Malaysian Rubber Glove Manufacturers Association (MARGMA) estimates that demand for healthcare gloves is likely to grow at 8-12% p.a. between 2014 and 2020.

As a relatively new entrant in the healthcare glove industry and with ambitions to grow revenue from this segment quickly to drive its earnings, we project a ramp-up in Riverstone's healthcare glove production at a 23.6% CAGR between FY14 and FY19F.

Long-term trends also indicate favourable demand prospects. According to MARGMA, the global demand ratio of natural rubber and synthetic (nitrile) rubber gloves shifted from 74:26 in 2009 to 53:47 in 2014. On the back of rising awareness of latex allergies in emerging economies and the synthetic variety's low cost, we expect the ratio to shift away from natural rubber gloves in the long run.

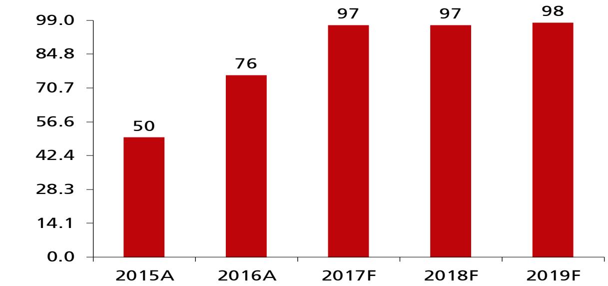
Riverstone could be a beneficiary of the long-run substitution of rubber gloves (and PVC gloves, especially for the cleanroom segment) by nitrile gloves as it is principally engaged in the production of the latter.

Capacity expansion to underpin growth. To capitalise on the favourable demand growth outlook in both the short and long term, Riverstone guided that it expects to expand its manufacturing capacity to a minimum of 10bn gloves by 2019, as compared to 8.2bn gloves by 2018 previously.

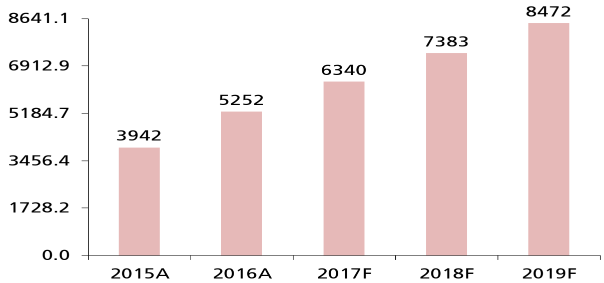
We expect new production capacities to propel top-line growth at a CAGR of 20% between FY14 and FY19F, as they gradually come on stream.

Greater efficiency from higher automation and larger scale should help to maintain margins. As Riverstone scales up on its production and further automation efforts, we expect net margins to be maintained around 16% over the longer term, to support stable growth in net profit ahead.

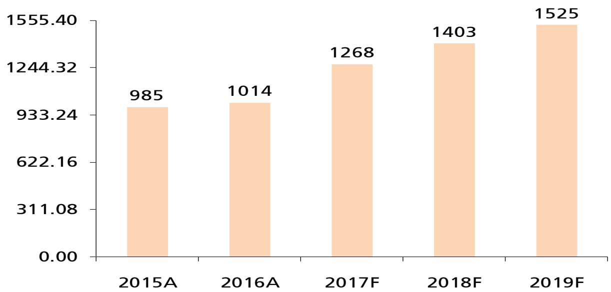
Capital Expenditure (RM$m)



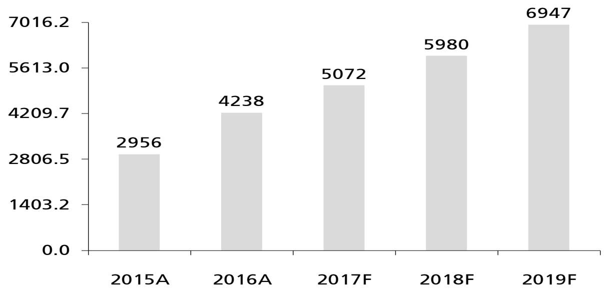
Production Capacity (m gloves)



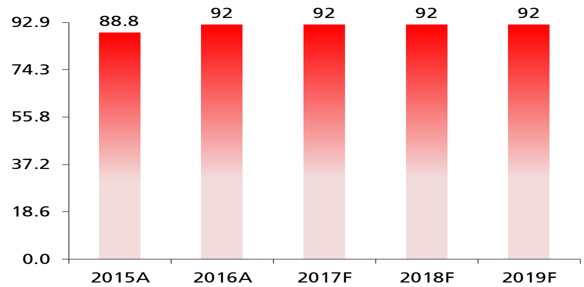
Cleanroom Gloves (m gloves)



Healthcare Gloves (m gloves)



Utilization Rate (%)



Source: Company, DBS Bank

Balance Sheet:

Healthy balance sheet. In 1Q17, the company took on debt for the first time in five years to fund its upcoming expansion plans. Despite this, we note that Riverstone remained in a net cash position of RM122.7m as at end 1Q17.

Forecast net fixed asset growth at a CAGR of c.12.5% between 2014 and 2019. As capacity is expected to nearly double in 2018 from 2014 levels, we project the group's net fixed assets to jump by nearly 80% from RM228m in 2014 to RM410m in 2018.

Share Price Drivers:

Opportunities for inorganic growth. Due to the stringent requirements for the establishment of cleanroom facilities, Riverstone does not rule out the possibility of acquiring quality cleanroom glove manufacturing companies in the future.

Cultivation of new markets for cleanroom products. As cleanroom products are manufactured in controlled environments and are subject to stringent requirements, they are able to deliver much higher margins relative to healthcare gloves. The ability to cultivate new markets for cleanroom products, similar to what Riverstone recently achieved with its diversification into the consumer electronics sector, should help to boost earnings.

Key Risks:

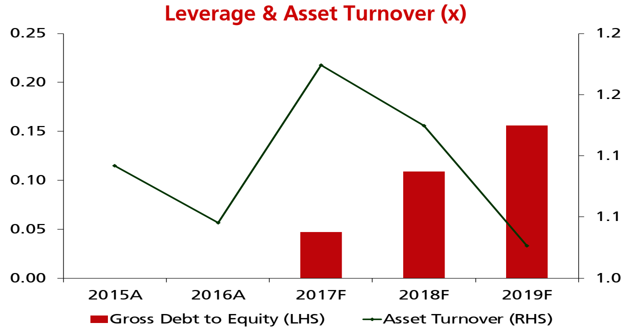
Global economic slowdown could impact cleanroom sales. A slowdown in the general economy could lead to declines in discretionary spending and manufacturing activity in the HDD industry. Although Riverstone has been gradually reducing its exposure to HDDs, down from historical highs of up to 70%, they still make up less than 50% of the company's cleanroom portfolio today.

Intensifying competition could erode profitability. While we believe that oversupply over the next few years is unlikely, the influx of healthcare gloves beyond 2017 could threaten Riverstone's market share and pricing power if it fails to advance on the technological front.

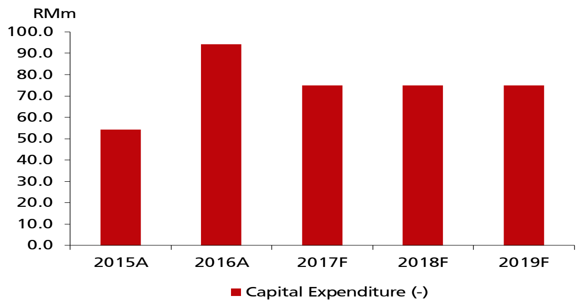
Company Background

Riverstone Holdings (RSTON SP) is a natural rubber and nitrile (synthetic rubber) glove manufacturer specialising in cleanroom and healthcare gloves. It is also engaged in the manufacture and distribution of other ancillary products such as finger cots, packaging bags and face masks.

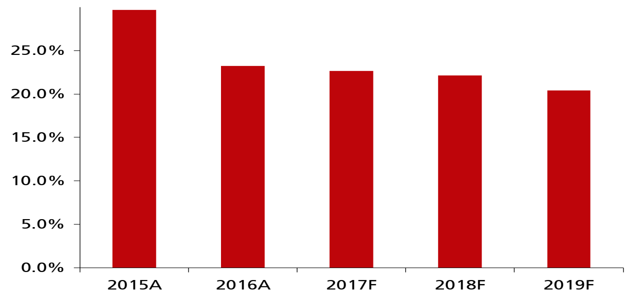
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)

PB Band (x)

Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
Capital Expenditure	50.0	76.0	97.0	97.0	98.0
Production Capacity (m	3,942	5,252	6,340	7,383	8,472
Cleanroom Gloves (m	985	1,014	1,268	1,403	1,525
Healthcare Gloves (m	2,956	4,238	5,072	5,980	6,947
Utilization Rate (%)	88.8	92.0	92.0	92.0	92.0

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (RMm)					
Cleanroom Gloves	274	257	335	367	391
HealthcareGloves	274	386	491	561	613
Other Cleanroom	11.3	11.9	12.5	13.1	13.7
Total	560	655	839	942	1,018

Income Statement (RMm)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	560	655	839	942	1,018
Cost of Goods Sold	(385)	(482)	(633)	(713)	(775)
Gross Profit	175	173	205	229	243
Other Opng (Exp)/Inc	(30.5)	(34.3)	(48.5)	(51.5)	(55.6)
Operating Profit	144	139	157	177	187
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	0.0	(0.7)	(1.9)	(3.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	144	139	156	175	184
Tax	(17.8)	(18.5)	(20.8)	(23.3)	(24.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	127	120	135	152	160
Net Profit before Except.	127	120	135	152	160
EBITDA	169	169	200	228	245
Growth					
Revenue Gth (%)	40.3	16.9	28.0	12.3	8.1
EBITDA Gth (%)	68.4	(0.3)	18.5	13.8	7.7
Opg Profit Gth (%)	78.0	(3.8)	12.9	13.0	5.8
Net Profit Gth (Pre-ex) (%)	78.4	(4.9)	12.4	12.3	5.1
Margins & Ratio					
Gross Margins (%)	31.2	26.4	24.5	24.3	23.9
Opg Profit Margin (%)	25.8	21.2	18.7	18.8	18.4
Net Profit Margin (%)	22.6	18.4	16.1	16.1	15.7
ROAE (%)	29.7	23.2	22.7	22.1	20.4
ROA (%)	24.7	19.2	18.9	18.1	16.1
ROCE (%)	28.8	22.7	21.6	19.9	17.4
Div Payout Ratio (%)	37.8	40.0	37.8	37.8	37.8
Net Interest Cover (x)	nm	nm	217.7	92.3	60.1

Source: Company, DBS Bank

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	148	157	167	183	206
Cost of Goods Sold	(105)	(118)	(123)	(135)	(154)
Gross Profit	**43.1**	**38.2**	**43.6**	**48.2**	**51.8**
Other Oper. (Exp)/Inc	(11.4)	(6.6)	(9.5)	(6.8)	(12.4)
Operating Profit	**31.7**	**31.7**	**34.1**	**41.4**	**39.4**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	0.0	0.0	0.0	(0.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**31.7**	**31.7**	**34.1**	**41.4**	**39.2**
Tax	(4.5)	(4.3)	(4.2)	(5.4)	(5.6)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	**27.2**	**27.3**	**29.8**	**36.0**	**33.6**
Net profit bef Except.	27.2	27.3	29.8	36.0	33.6
EBITDA	39.7	39.7	41.6	49.7	47.6
Growth					
Revenue Gth (%)	(3.5)	5.8	6.5	9.6	12.4
EBITDA Gth (%)	(15.0)	(0.1)	4.8	19.4	(4.1)
Opg Profit Gth (%)	(19.2)	(0.1)	7.6	21.7	(5.0)
Net Profit Gth (Pre-ex) (%)	(27.0)	0.5	9.2	20.8	(6.7)
Margins					
Gross Margins (%)	29.1	24.4	26.1	26.3	25.2
Opg Profit Margins (%)	21.4	20.2	20.4	22.6	19.1
Net Profit Margins (%)	18.3	17.4	17.9	19.7	16.3

Balance Sheet (RMm)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	277	337	368	393	410
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	9.61	8.62	8.52	8.52	8.52
Cash & ST Invts	129	103	139	239	356
Inventory	61.2	67.0	64.7	72.6	78.6
Debtors	103	140	168	188	204
Other Current Assets	6.06	11.9	11.9	11.9	11.9
Total Assets	**585**	**668**	**761**	**914**	**1,069**
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	84.4	90.5	69.5	78.0	84.5
Other Current Liab	7.65	9.92	9.92	9.92	9.92
LT Debt	0.0	0.0	30.0	80.0	130
Other LT Liabilities	11.7	12.7	12.7	12.7	12.7
Shareholder's Equity	482	555	639	733	832
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	**585**	**668**	**761**	**914**	**1,069**
Non-Cash Wkg. Capital	78.2	119	165	185	200
Net Cash/(Debt)	129	103	109	159	226
Debtors Turn (avg days)	61.8	67.8	67.0	69.0	70.3
Creditors Turn (avg days)	68.3	70.7	49.5	40.7	41.4
Inventory Turn (avg days)	52.3	51.8	40.7	37.8	38.5
Asset Turnover (x)	1.1	1.0	1.2	1.1	1.0
Current Ratio (x)	3.2	3.2	4.8	5.8	6.9
Quick Ratio (x)	2.5	2.4	3.9	4.9	5.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	250.0	93.8	57.7
Z-Score (X)	14.8	20.3	19.2	18.4	18.4

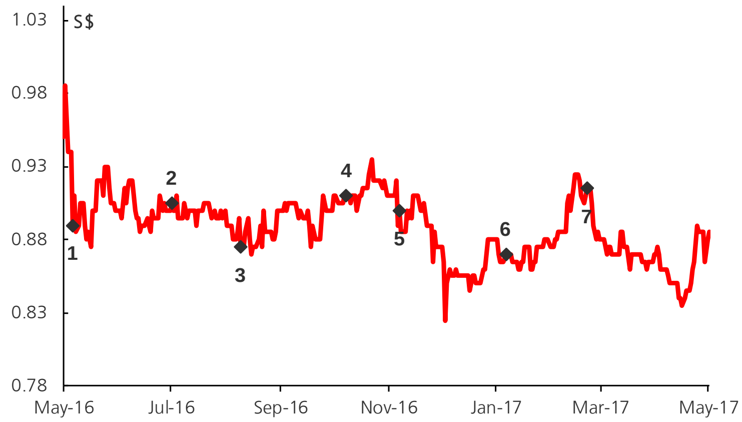
Source: Company, DBS Bank

Cash Flow Statement (RMm)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	144	139	156	175	184
Dep. & Amort.	24.8	29.9	43.2	50.4	57.7
Tax Paid	(18.5)	(22.6)	(20.8)	(23.3)	(24.5)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(26.3)	(31.8)	(46.1)	(20.0)	(14.8)
Other Operating CF	(2.3)	4.65	0.0	0.0	0.0
Net Operating CF	**122**	**119**	**132**	**182**	**203**
Capital Exp.(net)	(54.2)	(94.3)	(75.0)	(75.0)	(75.0)
Other Invts.(net)	0.0	(2.3)	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	**(54.2)**	**(96.6)**	**(75.0)**	**(75.0)**	**(75.0)**
Div Paid	(25.8)	(48.5)	(51.2)	(57.5)	(60.4)
Chg in Gross Debt	0.0	0.0	30.0	50.0	50.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	**(25.8)**	**(48.5)**	**(21.2)**	**(7.5)**	**(10.4)**
Currency Adjustments	7.07	0.65	0.0	0.0	0.0
Chg in Cash	49.2	(25.5)	36.2	99.8	117
Opg CFPS (S cts)	6.47	6.57	7.77	8.82	9.47
Free CFPS (S cts)	2.96	1.08	2.50	4.68	5.56

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	09 May 16	0.89	1.00	HOLD
2:	04 Jul 16	0.91	1.00	HOLD
3:	12 Aug 16	0.88	0.96	HOLD
4:	11 Oct 16	0.91	0.96	HOLD
5:	10 Nov 16	0.90	0.97	HOLD
6:	09 Jan 17	0.87	0.97	HOLD
7:	24 Feb 17	0.92	0.92	HOLD

Note : Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Singapore Research Team
Lee Keng LING

Singapore Company Guide

Singapore O&G

Version3 | Bloomberg: SOG SP | Reuters: N/A

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 May 2017

BUY

Last Traded Price (15 May 2017): S$0.67 (STI : 3,264.21)
Price Target 12-mth: S$0.80 (19% upside)

Analyst
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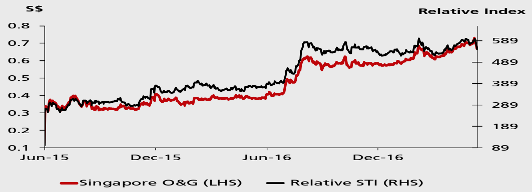
What's New

- **Muted growth in 1Q17 impacted by dermatology division, and higher costs**
- **Number of births up 10%, market share at 7.4%**
- **Growth momentum picking up in cancer division**
- **Paediatrics division to commence in July 2017**

Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2016A	2017F	2018F	2019F
Revenue	28.7	33.6	40.3	48.2
EBITDA	10.8	12.7	15.1	17.9
Pre-tax Profit	10.1	11.9	14.7	17.4
Net Profit	8.80	10.4	12.9	15.3
Net Pft (Pre Ex.)	8.80	10.4	12.9	15.3
Net Pft Gth (Pre-ex) (%)	64.8	18.6	23.6	18.6
EPS (S cts)	3.69	2.19	2.71	3.21
EPS Pre Ex. (S cts)	3.69	2.19	2.71	3.21
EPS Gth Pre Ex (%)	51	(41)	24	19
Diluted EPS (S cts)	3.69	2.19	2.71	3.21
Net DPS (S cts)	3.10	1.84	2.27	2.70
BV Per Share (S cts)	17.5	8.30	8.73	9.25
PE (X)	18.1	30.6	24.8	20.9
PE Pre Ex. (X)	18.1	30.6	24.8	20.9
P/Cash Flow (X)	15.4	27.3	23.6	19.9
EV/EBITDA (X)	12.8	23.4	19.4	16.1
Net Div Yield (%)	4.6	2.7	3.4	4.0
P/Book Value (X)	3.8	8.1	7.7	7.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	26.8	25.7	31.8	35.7
Earnings Rev (%):		0	0	0
Consensus EPS (S cts):		4.50	5.50	6.60
Other Broker Recs:		B: 3	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Slow start

Maintain BUY rating, TP of S$0.80 (adjusted for share split). We maintain our BUY rating and remain positive on Singapore O&G (SOG)'s growth prospects. Key potential catalysts are: i) better-than-expected growth from its cancer and dermatology divisions, ii) expansion into new specialisations such as paediatrics, which is expected to commence in July 2017, and complementary services including in-vitro fertilisation (IVF), imaging or childcare, and iii) better-than-expected improvement in margins.

1Q17 growth was muted. 1Q17 net profit was up 2.8% y-o-y to S$2m, forming 19% of our FY17F earnings. However, management highlighted that 1Q is typically the weakest quarter. In addition, we have factored in marginal contributions from paediatrics in our FY17 estimates. Key positives from the results: i) number of births up 10% y-o-y, ii) positive growth momentum in cancer division; and iii) expects to commence paediatrics division in July 2017. Key negatives: i) revenue of dermatology were flat, ii) O&G market share fell marginally to 7.4% (vs 7.5% in FY16), iii) EBIT margin deteriorated.

Expanding into higher-margin complementary specialised services. Now that paediatrics division will commence soon, management continues to explore new opportunities both in terms of new specialisations and/or new markets. We believe other complementary services to explore include IVF, child care and imaging.

Valuation:

Our target price of S$0.80 (post share split) is based on the average valuation using 30x PE and DCF valuation. Our estimates have incorporated marginal contributions from paediatrics division.

Key Risks to Our View:

Key risks that could derail our thesis include i) Execution risks due to lack of track record, ii) highly dependent on a few key doctors, and iii) low stock liquidity.

At A Glance

Issued Capital (m shrs)	476.8
Mkt. Cap (Sm/USm)	319 / 228
Major Shareholders (%)	
Tung Lan Heng	29.4
Keen Whye Lee	17.1
Suan Tiong Beh	10.2
Free Float (%)	43.3
3m Avg. Daily Val (US$m)	0.22

ICB Industry : Health Care / Health Care Equipment & Services

WHAT'S NEW

A slow start

1Q17 (typically a weak quarter) growth was muted, partially impacted by dermatology and higher cost. Singapore O&G (SOG)'s 1Q17 net profit +2.8% y-o-y to S$2m; 19% of our FY17 estimates. However, management highlighted that 1Q is typically the weakest quarter. In addition, we have factored in marginal contributions from paediatrics in our FY17F earnings. Revenue grew 6% y-o-y to S$7m led by O&G (+S$0.3m) and cancer (+S$0.1m) divisions while dermatology division was relatively flat.

EBIT margin dropped 1.6ppts to 34.2%, largely due to higher staff costs (+11%) from higher headcount (9 additional staff) of which 2 are specialist medical practitioners, and accrual of staff bonuses, which are now made every quarter (c. S$0.5m), lower government grants of S$37k from S$102k, and higher depreciation (55%). We note that higher fees of S$115k were recognised in 1Q16 for the acquisition of Dr Joyce Lim's clinics, and excluding this, EBIT margin would have dropped by 3.3 ppts.

O&G division: Delivered 404 births (+10% y-o-y); market share fell marginally to 7.4%. Despite the number of national births falling 1% y-o-y, possibly due to the Zika virus scare in 1Q16, SOG delivered 404 births in 1Q17 (+10% y-o-y) but market share fell marginally to 7.4% from 7.5% in FY16.

Cancer division: Growth momentum picking-up. Revenue from the cancer division achieved positive growth with management continuing to see growth momentum picking-up further for the cancer division.

Dermatology division: Despite the strong FY16 results driven by the dermatology division, 1Q17 is typically a weak quarter.

Paediatrics division: On 5 Apr 2017, SOG announced the incorporation of SOG Children (Paediatrics) Pte Ltd. Management expects that the new division will commence in July 17 with at least 1 new paediatrician on board.

We maintain our BUY rating on SOG and remain positive on SOG's near- to medium-term growth prospects. Key potential catalysts are i) better-than-expected growth from its cancer and dermatology divisions, ii) expansion into new specialisations such as paediatrics in July17 and complementary services including IVF, child care and imaging, and iii) better-than- expected improvement in margins.

However, with the recent strong share price performance following the share split, we believe there could be near-term pull back stemming from the overall soft 1Q17 results.

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2016	1Q2017	% chg yoy
Revenue	6.58	6.99	6.1
Cost of Goods Sold	0.0	0.0	-
Gross Profit	6.58	6.99	6.1
Other Oper. (Exp)/Inc	(4.2)	(4.6)	8.8
Operating Profit	2.36	2.39	1.4
Other Non Opg (Exp)/Inc	0.0	0.0	-
Associates & JV Inc	0.0	0.0	-
Net Interest (Exp)/Inc	(0.1)	(0.1)	52.1
Exceptional Gain/(Loss)	0.0	0.0	-
Pre-tax Profit	2.24	2.34	4.1
Tax	(0.3)	(0.3)	12.5
Minority Interest	0.0	0.0	-
Net Profit	1.95	2.00	2.8
Net profit bef Except.	1.95	2.00	2.8
EBITDA	2.43	2.51	3.1
Margins (%)			
Gross Margins	100.0	100.0	
Opg Profit Margins	35.8	34.2	
Net Profit Margins	29.6	28.6	

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Growing its market share in O&G. Singapore O&G (SOG) is a chain of medical practices, specialising in women's health. It derives 60% of its revenue from its obstetrics and gynaecology (O&G) services, leveraging on the healthcare segment which is predominantly served by the private sector (57% of babies are delivered through the private sector).

In its effort to increase fertility rates, the Singapore government continues to provide incentives including baby bonus, tax benefits and more recently, an extension of paternal leave. SOG currently has five doctors specialising in O&G and has plans to further expand its market share in this segment via the recruitment of new doctors. SOG is well positioned to benefit from the potential increase in birth rate.

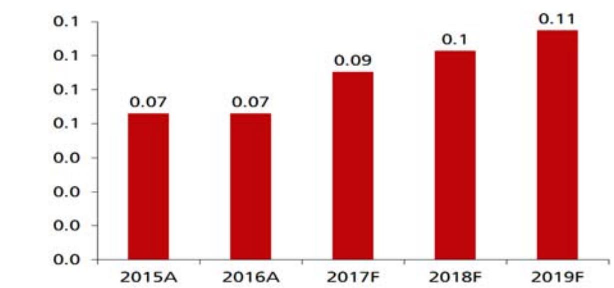
Diversifying into higher-margin complementary services. SOG has the potential to grow its women's cancer-related, and newly acquired dermatology and aesthetics businesses by leveraging on referrals from its existing bread-and-butter O&G business. SOG aims to achieve equal revenue contributions from four key segments in the medium term. In line with its goal to be an integrated women's health medical practice, we believe other complementary services to explore include paediatrics, IVF and child care services.

Expanding into new markets. In the longer-term, SOG aspires to have a regional presence and continues to explore overseas opportunities in countries including Indonesia, Myanmar, IndoChina, Malaysia and China.

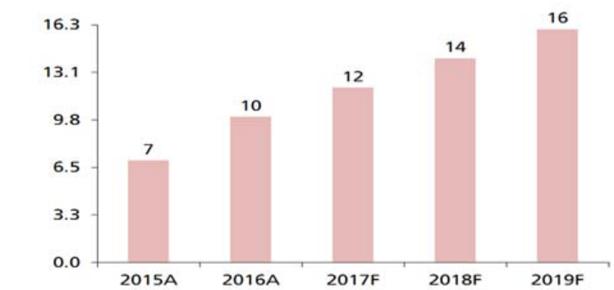
Up to 8-year service agreements with key doctors. SOG has signed 5-year service agreements with key doctors who were 'acquired' together with the doctors' medical practices ('acquired' doctors), mostly expiring in Dec 2019. The 'acquired' doctors receive remuneration based on basic salary and bonus of up to 20% on earnings generated above a pre-determined target.

Number of clinics have doubled to 10. SOG currently operates ten clinics in six locations. SOG's O&G specialist medical practitioners are accredited to perform deliveries and O&G surgeries in all major private hospitals in Singapore including Parkway Group of Hospitals, Mount Alvernia Hospital and Thomson Medical Centre. Similarly, its women cancer specialists are accredited to perform surgeries in all major private hospitals including Parkway Group of Hospitals, Mount Alvernia Hospital and Raffles Medical Hospital, and public hospitals including Khoo Teck Phuat Hospital.

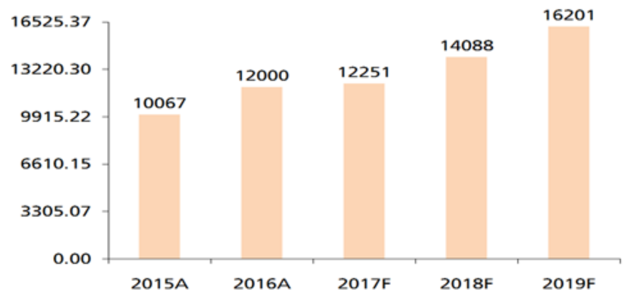
Market share of babies delivered (%)



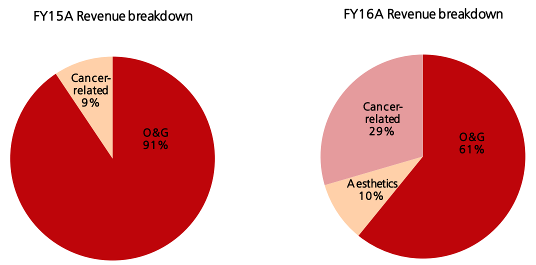
No. of doctors



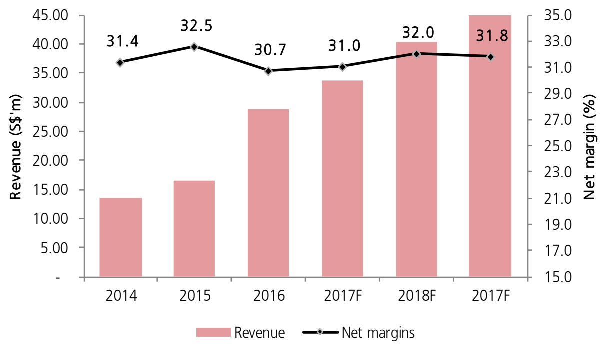
No. of patient visits



Revenue breakdown by business segment



Revenue (S$'m) and net margin (%)



Source: Company, DBS Bank

Balance Sheet:

Net cash. SOG has the ability to generate positive free cash flow as recurring capex requirements are small. It is currently in net cash position. While a more efficient capital structure may benefit the company better, SOG has an ample war chest for acquisition of medical practices to expand its business and potential expansion into regional markets.

Share Price Drivers:

As a newly listed company (in 2015) coupled with the lack of historical earnings growth, we believe consistent strong organic earnings growth would be a strong testament to its ability to execute its strategy and to deliver earnings growth.

Successful inorganic growth. With the lack of a track record in acquisitions, we believe the ability to achieve earnings growth from its acquisitions would instill more confidence in future M&A activities.

High dividend payout. With SOG's high dividend payout policy, dividends will continue to grow as earnings expand. We believe sustainable high dividend yields would be a catalyst for the share price.

Key Risks:

Execution risks; lacks track record. SOG lacks a track record in quality recruitment, successful retention of doctors, and successful acquisitions of new medical practices.

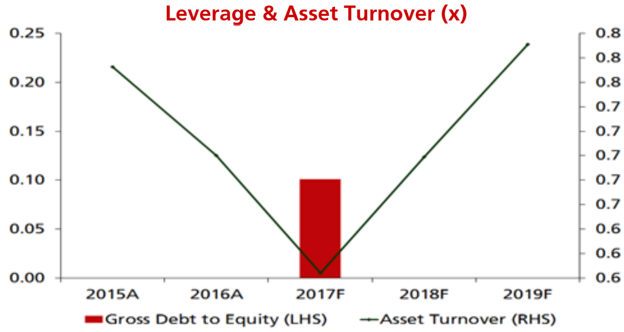
Dependent on key doctors. SOG is dependent on its key doctors and there could be earnings risk should it fail to renew their service contracts which expire in 2019.

Low liquidity. With a market cap of US$141m and ADV of US$0.05m, SOG is a small cap with liquidity risks.

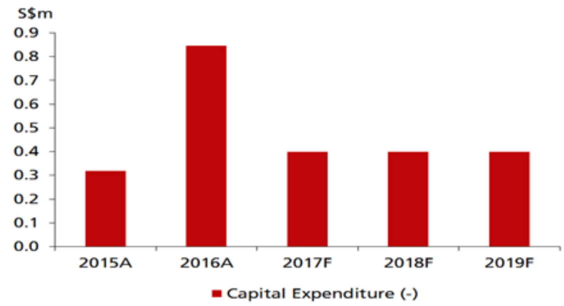
Company Background

Medical practice specializing in Women's Health. Singapore O&G (SOG) is a chain of medical practices, specialising in women's health mainly in obstetrics and gynaecology (O&G). It currently operates ten clinics in six locations with nine medical practitioners. Currently, SOG offers 3 major women's specialised medical services, namely, obstetrics and gynaecology, women's cancer-related and dermatology and aesthetics.

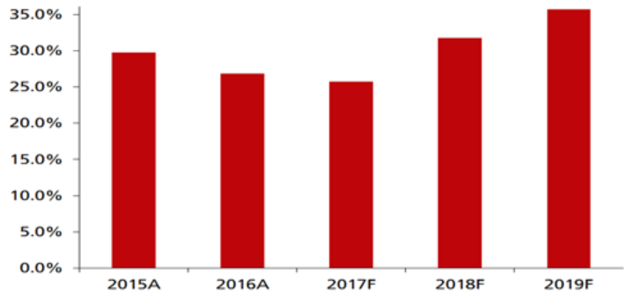
Leverage & Asset Turnover (x)



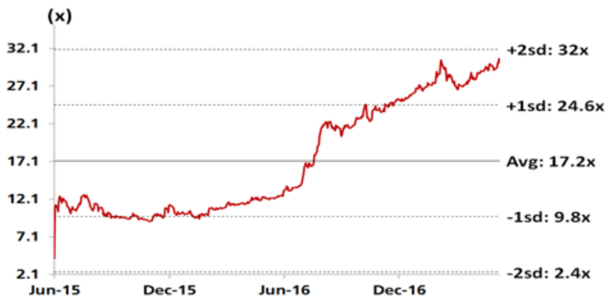
Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)

Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
Market share of babies	0.07	0.08	0.09	0.10	0.11
No. of doctors	7.00	10.0	12.0	14.0	16.0
No. of patient visits	10,067	12,000	12,251	14,088	16,201

Segmental Breakdown

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenues (S$m)					
O&G	14.9	17.4	20.7	24.5	29.0
Cancer-related	1.54	2.76	3.65	4.81	6.40
Dermatology	0.0	8.47	8.97	9.60	10.4
Paediatrics	0.0	0.0	0.36	1.41	2.42
Others	0.0	0.0	0.0	0.0	0.0
Total	16.4	28.7	33.6	40.3	48.2
Operating profit (S$m)					
O&G	6.13	7.04	8.47	10.2	12.0
Cancer-related	(0.1)	0.39	0.55	0.77	1.09
Dermatology	0.0	2.97	3.15	3.37	3.64
Paediatrics	0.0	0.0	0.04	0.21	0.48
Others	0.0	0.0	0.0	0.0	0.0
Total	6.06	10.4	12.2	14.5	17.2
Operating profit Margins					
O&G	41.2	40.4	41.0	41.5	41.5
Cancer-related	(4.6)	14.0	15.0	16.0	17.0
Dermatology	N/A	35.1	35.1	35.1	35.1
Paediatrics	N/A	N/A	10.0	15.0	20.0
Others	N/A	N/A	N/A	N/A	N/A
Total	36.9	36.3	36.3	36.0	35.8

Acquired an aesthetics business at end-2015

Potential commencement of paediatrics division

Income Statement (S$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	16.4	28.7	33.6	40.3	48.2
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	16.4	28.7	33.6	40.3	48.2
Other Opng (Exp)/Inc	(10.4)	(18.3)	(21.4)	(25.8)	(30.9)
Operating Profit	6.06	10.4	12.2	14.5	17.2
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.13	(0.3)	(0.3)	0.18	0.18
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	6.18	10.1	11.9	14.7	17.4
Tax	(0.8)	(1.3)	(1.4)	(1.8)	(2.1)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	5.34	8.80	10.4	12.9	15.3
Net Profit before Except.	5.34	8.80	10.4	12.9	15.3
EBITDA	6.30	10.8	12.7	15.1	17.9
Growth					
Revenue Gth (%)	21.2	74.7	17.3	19.8	19.5
EBITDA Gth (%)	20.4	71.2	18.1	18.8	18.7
Opg Profit Gth (%)	20.1	71.7	17.4	18.9	18.8
Net Profit Gth (Pre-ex) (%)	25.7	64.8	18.6	23.6	18.6
Margins & Ratio					
Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margin (%)	36.9	36.3	36.3	36.0	35.8
Net Profit Margin (%)	32.5	30.7	31.0	32.0	31.8
ROAE (%)	29.8	26.8	25.7	31.8	35.7
ROA (%)	25.1	21.5	18.7	22.4	25.1
ROCE (%)	30.4	24.4	22.7	30.7	36.1
Div Payout Ratio (%)	87.2	83.9	83.9	83.9	83.9
Net Interest Cover (x)	NM	33.2	38.0	NM	NM

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2016	1Q2017
Revenue	6.58	6.99
Cost of Goods Sold	0.0	0.0
pGross Profit	6.58	6.99
Other Oper. (Exp)/Inc	(4.2)	(4.6)
Operating Profit	2.36	2.39
Other Non Opg (Exp)/Inc	0.0	0.0
Associates & JV Inc	0.0	0.0
Net Interest (Exp)/Inc	(0.1)	(0.1)
Exceptional Gain/(Loss)	0.0	0.0
Pre-tax Profit	2.24	2.34
Tax	(0.3)	(0.3)
Minority Interest	0.0	0.0
Net Profit	1.95	2.00
Net profit bef Except.	1.95	2.00
EBITDA	2.43	2.51
Growth		
Revenue Gth (%)	N/A	N/A
EBITDA Gth (%)	nm	nm
Opg Profit Gth (%)	nm	nm
Net Profit Gth (Pre-ex) (%)	nm	nm
Margins		
Gross Margins (%)	100.0	100.0
Opg Profit Margins (%)	35.8	34.2
Net Profit Margins (%)	29.6	28.6

Implicit discount to deferred payment of acquisition

Balance Sheet (S$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	0.68	1.56	1.43	1.21	0.90
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	0.99	27.1	27.1	27.1	27.1
Cash & ST Invts	24.2	21.4	25.1	25.7	30.6
Inventory	0.28	2.15	1.43	1.71	2.04
Debtors	1.48	2.09	2.10	2.51	3.00
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	27.6	54.3	57.1	58.2	63.7
ST Debt	0.0	0.0	4.00	0.0	0.0
Creditor	1.65	7.05	2.90	3.47	4.15
Other Current Liab	1.89	1.74	10.6	13.0	15.3
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	0.09	3.83	0.07	0.07	0.07
Shareholder's Equity	24.0	41.6	39.6	41.6	44.1
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	27.6	54.3	57.1	58.2	63.7
Non-Cash Wkg. Capital	(1.8)	(4.5)	(10.0)	(12.2)	(14.5)
Net Cash/(Debt)	24.2	21.4	21.1	25.7	30.6
Debtors Turn (avg days)	37.9	22.7	22.7	20.8	20.9
Creditors Turn (avg days)	(2,584.3)	(4,177.1)	(3,439.5)	(1,883.2)	(1,969.4)
Inventory Turn (avg days)	(367.5)	(1,167.0)	(1,237.3)	(927.5)	(969.9)
Asset Turnover (x)	0.8	0.7	0.6	0.7	0.8
Current Ratio (x)	7.3	2.9	1.6	1.8	1.8
Quick Ratio (x)	7.3	2.7	1.6	1.7	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	10.0	N/A	N/A
Z-Score (X)	51.4	11.0	12.3	13.5	13.5

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	6.18	10.1	11.9	14.7	17.4
Dep. & Amort.	0.24	0.38	0.53	0.62	0.71
Tax Paid	(0.2)	(1.5)	(1.4)	(1.4)	(1.8)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	0.38	1.03	0.33	(0.1)	(0.1)
Other Operating CF	(0.2)	0.32	0.32	(0.2)	(0.2)
Net Operating CF	**6.39**	**10.4**	**11.7**	**13.6**	**16.0**
Capital Exp.(net)	(0.3)	(0.8)	(0.4)	(0.4)	(0.4)
Other Invts.(net)	0.0	(6.0)	(4.0)	(4.0)	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.04	0.05	0.15	0.18	0.18
Net Investing CF	**(0.3)**	**(6.8)**	**(4.2)**	**(4.2)**	**(0.2)**
Div Paid	(3.4)	(6.4)	(3.7)	(8.8)	(10.8)
Chg in Gross Debt	0.0	0.0	0.0	0.0	0.0
Capital Issues	10.2	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	**6.82**	**(6.4)**	**(3.7)**	**(8.8)**	**(10.8)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	12.9	(2.8)	3.71	0.57	4.97
Opg CFPS (S cts)	2.76	3.91	2.38	2.87	3.39
Free CFPS (S cts)	2.79	3.99	2.37	2.76	3.28

Staggered payment for the acquisition of aesthetics business

Source: Company, DBS Bank

Target Price & Ratings History

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	04 Jul 16	0.46	0.53	BUY
2:	12 Aug 16	0.62	0.75	BUY
3:	05 Sep 16	0.58	0.75	BUY
4:	11 Oct 16	0.62	0.75	BUY
5:	17 Feb 17	0.63	0.80	BUY
6:	17 Mar 17	0.63	0.80	BUY

Note: *Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank
Analyst: Rachel TAN
Andy SIM CFA

UMS Holdings

BUY

Last Traded Price (19 May 2017): S$1.055 **(STI :** 3,216.92)
Price Target 12-mth: S$1.33 (26% upside) (Prev S$1.07)

Analyst
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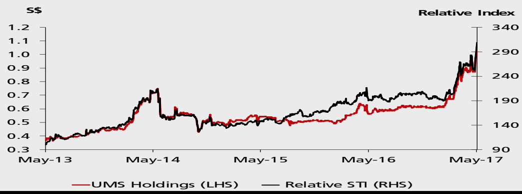
What's New

- **Maintain BUY with higher TP of S$1.33 as we raise conviction on more positive industry data**
- **Key client Applied Materials sets new earnings record for its fourth consecutive quarter and expects to grow sustainably above industry - which augurs well for UMS**
- **To capture the growth potential arising from the strong semiconductor uptrend, we impute a higher valuation peg of 11x FY18F PE vs peers' 14x**
- **As a dividend play, the stock's attractiveness is further enhanced by the prospect of higher dividends**

Price Relative



Forecasts and Valuation

FY Dec (S$ m)	2016A	2017F	2018F	2019F
Revenue	104	172	189	204
EBITDA	32.0	58.8	65.2	67.3
Pre-tax Profit	24.7	52.1	58.2	60.1
Net Profit	22.6	45.9	52.0	53.7
Net Pft (Pre Ex.)	22.6	45.9	52.0	53.7
Net Pft Gth (Pre-ex) (%)	(34.1)	103.1	13.4	3.3
EPS (S cts)	5.26	10.7	12.1	12.5
EPS Pre Ex. (S cts)	5.26	10.7	12.1	12.5
EPS Gth Pre Ex (%)	(34)	103	13	3
Diluted EPS (S cts)	5.26	10.7	12.1	12.5
Net DPS (S cts)	6.00	6.50	6.50	6.50
BV Per Share (S cts)	44.2	48.3	54.0	60.0
PE (X)	20.0	9.9	8.7	8.4
PE Pre Ex. (X)	20.0	9.9	8.7	8.4
P/Cash Flow (X)	13.4	9.6	7.5	7.2
EV/EBITDA (X)	12.8	6.9	5.9	5.3
Net Div Yield (%)	5.7	6.2	6.2	6.2
P/Book Value (X)	2.4	2.2	2.0	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	11.8	23.1	23.7	22.0
Earnings Rev (%):		-	-	-
Consensus EPS (S cts):		10.0	11.0	9.0
Other Broker Recs:		B: 2	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Hot chips

Maintain BUY with higher TP of S$1.33; conviction raised as positive data and outlook for key client Applied Materials augurs well for UMS. SEMI predicts that global fab equipment spending could reach an industry all-time high of over US$46bn in 2017, before climbing closer to US$50bn in 2018.

Just days ago, Applied Materials – a leading producer of semiconductor equipment and key client of UMS – announced record earnings for its fourth consecutive quarter as the industry benefitted from strong order momentum, and remains confident in growing sustainably faster vs industry through the expansion of its addressable market and market share gains.

We believe this augurs well for UMS given its primary role in the manufacture of components for various semiconductor equipment and that it handles c.70% of manufacturing and assembly for Applied Material's Endura deposition system. Plans to grow production capacity by approximately 30% by end-2018 also allows UMS to better capitalise on this strong end demand.

To capture the growth potential arising from the strong semiconductor uptrend, we impute a higher valuation multiple from 9x to 11x FY18F PE (or 9x ex-cash). This still represents a discount to larger peers' 14x. Maintain BUY with higher TP of S$1.33.

Attractive 6.2% yield on offer. Backed by current net cash of S$47.8m, proven cash flow-generation capabilities and positive earnings outlook, we believe a higher dividend payout of 6.5 Scts (vs 6 Scts p.a. in FY14-16) for FY17F is probable. As a steady dividend play, the stock's attractiveness can be further enhanced by the prospect of even higher dividends.

Takeover potential. The group only has one large shareholder with a 20% stake. With the extension of the Endura contract providing good earnings visibility, strong cash flow and net cash, UMS is an attractive takeover target.

Valuation:
Maintain BUY with higher TP of S$1.33, which is based on 11x (or 9x ex-cash pe) FY18F PE, at a discount to larger peers 14x. A prospective 6.2% yield is also on offer.

Key Risks to Our View:
Key client risk. Historically, c.90% of UMS' revenues on average can be attributed to Applied Materials. Disruptions to its entrenched relationship or weakness in Applied Materials' end demand could significantly weigh on UMS' outlook.

At A Glance

Issued Capital (m shrs)	429
Mkt. Cap (Sm/USm)	453 / 327
Major Shareholders (%)	
Andy Luong	20.0
Free Float (%)	80.0
3m Avg. Daily Val (US$m)	1.7
ICB Industry : Industrials / Industrial Engineering	

CRITICAL DATA POINTS TO WATCH

Critical Factors

Higher fab equipment spending. As procurement of semiconductor equipment tends to lag construction of new fabs/facilities by chipmakers and foundries by 12-18 months, we believe that the new construction of new 300mm fabs in 2015 and 2016 provides support for more robust growth in equipment spending in 2017 and 2018. The pick-up in Applied Materials's and UMS's orders in recent quarters also confirm this.

Similarly, SEMI also predicts that fab equipment spending will reach an industry all-time record of more than US$46bn in 2017 before nearing the US$50bn mark in 2018.

Earnings to recover from trough in FY16. As a long-standing manufacturing partner to Applied Materials in the manufacture of components for various semiconductor equipment, and as the main manufacturer and sub-assembler of Applied Materials's flagship Endura deposition system, UMS naturally benefits from the uplift in demand for Applied Materials's higher-tech wafer fabrication equipment.

Benefitting from the current semiconductor upcycle and recovering from the trough in FY16, we assume revenue growth of 65% and higher operating margin of 30% in FY17F, which implies that earnings will more than double from c. S$22.6m in FY16 to c. S$45.9m in FY17F.

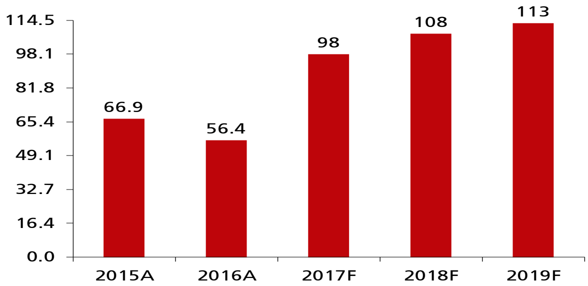
Strong cash flow generation underpins expectations of dividend of 6.5 Scts per share. Despite operating in a highly cyclical industry, the group's strengths lie in its stable cash flow (even after paying dividends) generation, which coupled with its strong net cash position of 11 Scts per share, allows the group to finance upcoming capex needs internally, while providing security for higher dividends of 6.5 Scts (vs 6 Scts p.a. for FY14-16) to be paid.

In the longer term, UMS's diversification into other businesses could also bear fruit. In 2017, UMS acquired a 51% stake in water and chemical engineering solutions company, Kalf Engineering. Kalf has secured seven projects worth approximately S$13m, which is expected to contribute to the group's performance in 2H17 and 2H18.

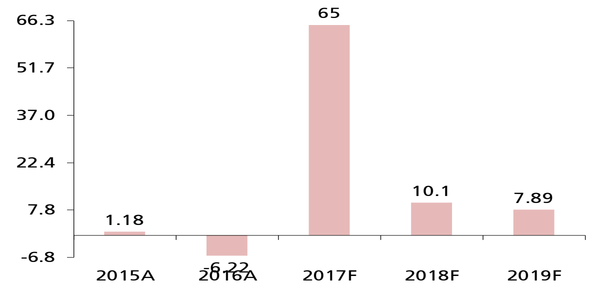
Last year, the group also diversified into the aerospace components via a 10% stake in All Star Fortress Sdn, Bhd (ASF). While we think that ASF is unlikely to be profitable within the next 2-3 years, risks inherent in this diversification remains low given the small initial investment.

These investments should provide the group with alternate growth opportunities in the medium-to-long term, and provide diversification away from the cyclical semiconductor business.

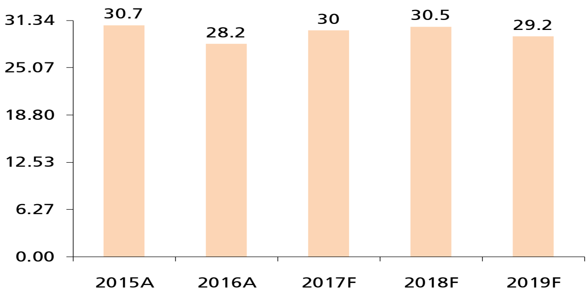
Gross Profit (S$ m)



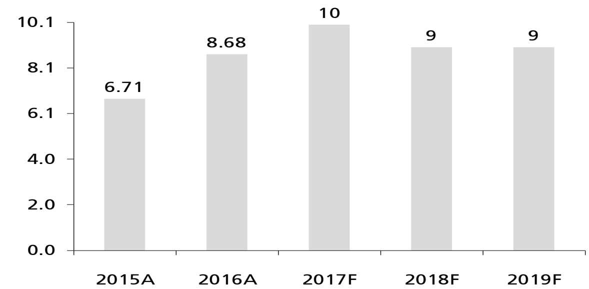
Revenue Growth (%)



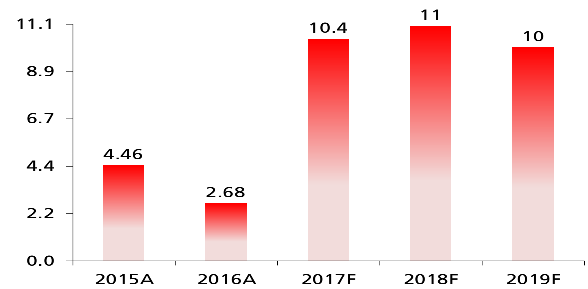
Operating Profit Margin (%)



Effective Tax Rate (%)



Capex (S$ m)



Source: Company, DBS Bank

Balance Sheet:

Healthy balance sheet. UMS's net cash position has strengthened significantly, and has more than doubled from S$15.3m at end-FY12 to S$47.8m in 1Q17. All else constant, our projections show that UMS should be able to fund management's upcoming RM80m investment at its Penang facility, with ample balance to fund margin-accretive M&A opportunities, if any.

Share Price Drivers:

Acquisition of new clients. As part of its strategy, UMS has also embarked on new customer acquisition efforts and is actively seeking sustainable, margin-accretive opportunities outside of the cyclical semiconductor industry.

If successful, this could accelerate earnings growth going forward.

M&A opportunities. Following its recent 10% stake acquisition in aerospace component manufacturer ASF, UMS continue to be on the lookout for diversification opportunities (outside of the semiconductor industry) with good long-term growth potential. If successful, these new avenues of growth could help drive further re-rating of the share price.

Potential takeover target. UMS only has one large shareholder with a 20% stake. With the renewal of the Endura contract providing good earnings visibility, consistently strong cash flows and net cash of S$47.8m (and growing), we now see UMS as an attractive takeover target.

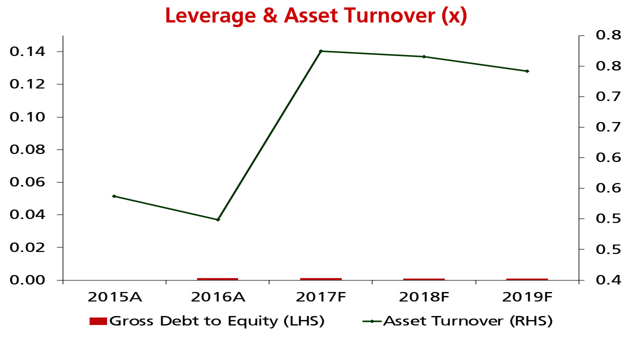
Key Risks:

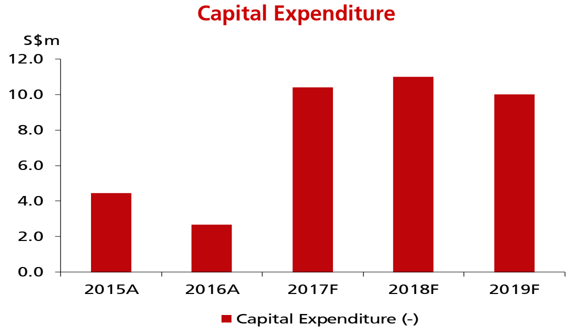
Key client risk – Applied Materials. UMS's performance is closely tied to that of Applied Materials. Management estimates that between 80% and 90% of UMS's revenues are attributable to Applied Materials.

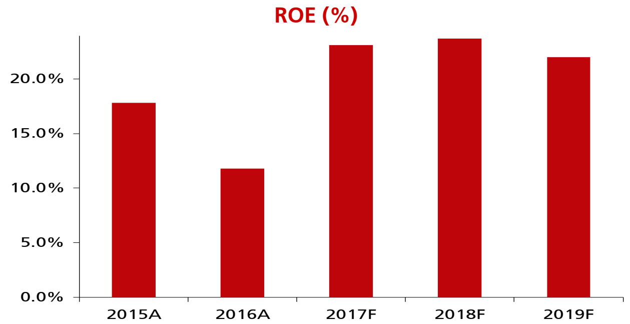
Underlying demand for semiconductor manufacturing equipment. As demand for semiconductor manufacturing equipment is largely driven by capex cycles of chipmakers and foundries, an extension of the life cycle of existing systems or slowdown in global economy could result in deferments in their planned capital investments.

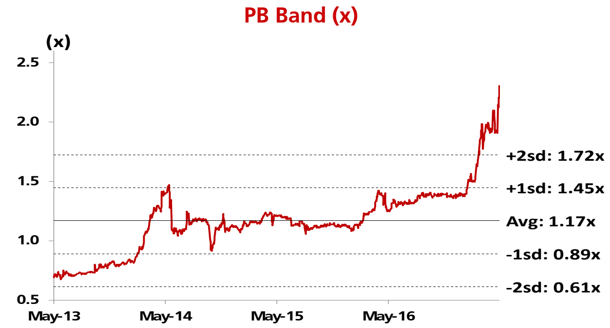
Company Background

UMS Holdings (UMSH SP) is an integrated OEM for front-end semiconductor equipment manufacturing, providing both component manufacturing and sub-assembly services, primarily to key client, Applied Materials.









Source: Company, DBS Bank

Key Assumptions

FY Dec	2015A	2016A	2017F	2018F	2019F
Gross Profit (S$ m)	66.9	56.4	98.0	108	113
Revenue Growth (%)	1.18	(6.2)	65.0	10.1	7.89
Operating Profit Margin	30.7	28.2	30.0	30.5	29.2
Effective Tax Rate (%)	6.71	8.68	10.0	9.00	9.00
Capex (S$ m)	4.46	2.68	10.4	11.0	10.0

Income Statement (S$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Revenue	111	104	172	189	204
Cost of Goods Sold	(44.2)	(47.8)	(73.9)	(81.4)	(90.9)
Gross Profit	**66.9**	**56.4**	**98.0**	**108**	**113**
Other Opng (Exp)/Inc	(32.8)	(27.0)	(46.4)	(50.2)	(53.7)
Operating Profit	**34.1**	**29.4**	**51.6**	**57.7**	**59.6**
Other Non Opg (Exp)/Inc	2.51	(4.7)	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.13	0.15	0.47	0.48	0.50
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**36.8**	**24.7**	**52.1**	**58.2**	**60.1**
Tax	(2.5)	(2.1)	(5.2)	(5.2)	(5.4)
Minority Interest	0.0	0.0	(1.0)	(1.0)	(1.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**34.3**	**22.6**	**45.9**	**52.0**	**53.7**
Net Profit before Except.	34.3	22.6	45.9	52.0	53.7
EBITDA	44.1	32.0	58.8	65.2	67.3
Growth					
Revenue Gth (%)	1.2	(6.2)	65.0	10.1	7.9
EBITDA Gth (%)	24.5	(27.3)	83.7	10.9	3.2
Opg Profit Gth (%)	24.8	(14.0)	75.7	11.9	3.3
Net Profit Gth (Pre-ex) (%)	37.6	(34.1)	103.1	13.4	3.3
Margins & Ratio					
Gross Margins (%)	60.2	54.1	57.0	57.0	55.5
Opg Profit Margin (%)	30.7	28.2	30.0	30.5	29.2
Net Profit Margin (%)	30.9	21.7	26.7	27.5	26.3
ROAE (%)	17.8	11.8	23.1	23.7	22.0
ROA (%)	16.6	10.8	20.7	21.0	19.5
ROCE (%)	17.7	11.7	23.1	23.5	21.8
Div Payout Ratio (%)	75.1	114.0	60.8	53.6	51.9
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2016	2Q2016	3Q2016	4Q2016	1Q2017
Revenue	20.4	23.6	26.1	34.2	41.8
Cost of Goods Sold	(8.1)	(10.0)	(11.1)	(18.5)	(20.3)
Gross Profit	**12.2**	**13.6**	**15.0**	**15.6**	**21.4**
Other Oper. (Exp)/Inc	(6.7)	(6.3)	(7.4)	(6.9)	(8.1)
Operating Profit	**5.55**	**7.25**	**7.53**	**8.67**	**13.4**
Other Non Opg (Exp)/Inc	(1.9)	0.0	0.0	(2.5)	(1.0)
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.03	0.03	0.03	0.06	0.07
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**3.71**	**7.27**	**7.54**	**6.23**	**12.4**
Tax	(0.3)	(0.8)	(0.8)	(0.3)	(1.3)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	**3.38**	**6.47**	**6.79**	**5.96**	**11.2**
Net profit bef Except.	3.38	6.47	6.79	5.96	11.2
EBITDA	5.10	8.81	9.07	7.73	13.6
Growth					
Revenue Gth (%)	(7.0)	15.9	10.5	30.9	22.3
EBITDA Gth (%)	(54.7)	72.8	3.0	(14.8)	76.0
Opg Profit Gth (%)	(41.7)	30.8	3.9	15.1	54.5
Net Profit Gth (Pre-ex) (%)	(66.1)	91.4	4.9	(12.2)	87.5
Margins					
Gross Margins (%)	60.1	57.6	57.3	45.7	51.4
Opg Profit Margins (%)	27.2	30.7	28.9	25.4	32.1
Net Profit Margins (%)	16.6	27.4	26.0	17.4	26.7

Balance Sheet (S$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	34.8	31.7	34.9	38.4	40.7
Invts in Associates & JVs	0.0	0.0	0.99	0.99	0.99
Other LT Assets	84.1	83.2	83.2	83.2	83.2
Cash & ST Invts	38.9	42.6	50.7	72.1	97.4
Inventory	37.4	31.7	40.5	40.1	39.8
Debtors	12.4	20.9	23.6	25.9	28.0
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	**208**	**210**	**234**	**261**	**290**
ST Debt	0.0	0.25	0.25	0.25	0.25
Creditor	9.76	16.6	18.2	20.1	22.4
Other Current Liab	1.98	2.21	5.21	5.24	5.41
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	1.42	1.68	1.68	1.68	1.68
Shareholder's Equity	194	189	207	232	257
Minority Interests	0.0	0.0	0.98	1.95	2.95
Total Cap. & Liab.	**208**	**210**	**234**	**261**	**290**
Non-Cash Wkg. Capital	38.0	33.9	40.6	40.8	40.0
Net Cash/(Debt)	38.9	42.4	50.4	71.9	97.2
Debtors Turn (avg days)	41.5	58.4	47.2	47.7	48.2
Creditors Turn (avg days)	103.4	118.9	95.2	94.6	93.2
Inventory Turn (avg days)	351.0	312.2	197.6	199.1	175.5
Asset Turnover (x)	0.5	0.5	0.8	0.8	0.7
Current Ratio (x)	7.6	5.0	4.8	5.4	5.9
Quick Ratio (x)	4.4	3.3	3.1	3.8	4.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	1,077.5	4,176.7	4,417.7	4,016.1
Z-Score (X)	15.1	14.5	13.9	13.5	13.5

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	36.8	24.7	52.1	58.2	60.1
Dep. & Amort.	7.43	7.43	7.23	7.48	7.69
Tax Paid	(2.8)	(2.7)	(2.2)	(5.2)	(5.2)
Assoc. & JV Inc/(loss)	0.0	0.05	0.0	0.0	0.0
Chg in Wkg.Cap.	(4.9)	0.53	(9.7)	(0.2)	0.60
Other Operating CF	(0.7)	3.80	0.0	0.0	0.0
Net Operating CF	**35.8**	**33.9**	**47.3**	**60.3**	**63.2**
Capital Exp.(net)	(4.5)	(2.7)	(10.4)	(11.0)	(10.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	(0.9)	(1.0)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.12	0.14	0.0	0.0	0.0
Net Investing CF	**(4.3)**	**(3.4)**	**(11.4)**	**(11.0)**	**(10.0)**
Div Paid	(25.7)	(25.7)	(27.9)	(27.9)	(27.9)
Chg in Gross Debt	0.0	0.25	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.25	0.0	0.0	0.0	0.0
Net Financing CF	**(25.5)**	**(25.5)**	**(27.9)**	**(27.9)**	**(27.9)**
Currency Adjustments	(0.5)	(1.3)	0.0	0.0	0.0
Chg in Cash	5.39	3.69	8.06	21.4	25.3
Opg CFPS (S cts)	9.48	7.77	13.3	14.1	14.6
Free CFPS (S cts)	7.30	7.27	8.61	11.5	12.4

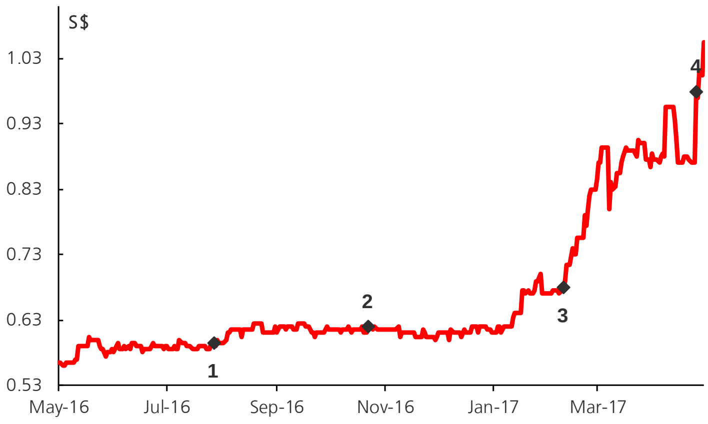
Source: Company, DBS Bank

Peers Valuation (Based on Consensus)

Company		Last Px	Mkt Cap US$m	PER Crnt	PER Forw	Price-to-Book Hist	Price-to-Book Crnt	ROE Crnt	Crnt Yield
COHU	USD	18.05	493.32	12.4	10.7	n.a.	n.a.	n.a.	n.a.
XCERRA	USD	9.69	524.86	27.1	16.5	1.9	1.8	6.5%	n.a.
APPLIED MATS.	USD	44.08	47598.92	14.6	13.8	6.9	5.5	37.5%	0.9%
Average				18.0	13.7	4.4	3.6	22.0%	0.9%
UMS Holdings	SGD	1.055	326.760	21.10	10.55	2.3	2.2	20.6%	5.7%

Source: Bloomberg Finance L.P., DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 Aug 16	0.60	0.61	HOLD
2:	11 Nov 16	0.62	0.61	HOLD
3:	01 Mar 17	0.68	0.73	BUY
4:	15 May 17	0.98	1.07	BUY

***Note** : Share price and Target price are adjusted for corporate actions.*

Source: DBS Bank

Analyst: Singapore Research Team
Lee Keng LING

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

DBS Bank Equity Explorer return ratings reflect return expectations based on an assumed earnings profile and valuation parameters:

1	(>20% potential returns over the next 12 months)
2	(0 - 20% potential returns over the next 12 months)
3	(negative potential return over the next 12 months)

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Dissemination Date: 23 May 2017 10:42:41 (SGT)

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