

Company Report

Micro-Mechanics (Holdings) Ltd - Initiation

Singapore Strategy Update

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Micro-Mechanics (Holdings) Ltd

High margin, High ROE consumables business

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25 Sept 2017

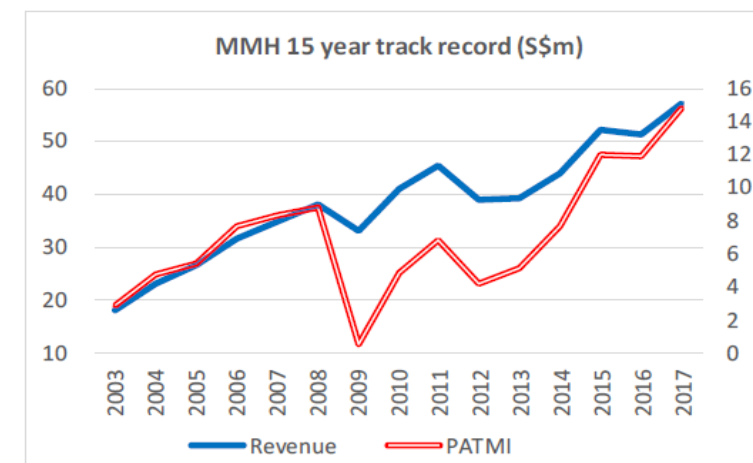
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Micro-Mechanics Holdings Ltd (BUY, TP:S\$2.00, Last: S\$1.545)

- Background
 - Founded 34 years ago with now five plants across SG, MY, PH, CH, USA
 - Manufactures precision tools and consumable products for the semiconductor industry
 - Building up capabilities to serve the front-end of the semiconductor industry through its US operations.

- Investment merits
 - A 60%-margin, 30%-ROE consumables business
 - 15-year earnings CAGR of 20%, unlevered returns and pays 5% yield
 - MMH Jun 17 quarter earnings jumped by 60% YoY, expect the momentum to sustain

- Valuations
 - Our target price pegs MMH at 15x PE FY/18e, in-line with peers in the back-end semiconductor supply chain
 - We believe this is conservative given its superior margins, ROE and dividend yield.



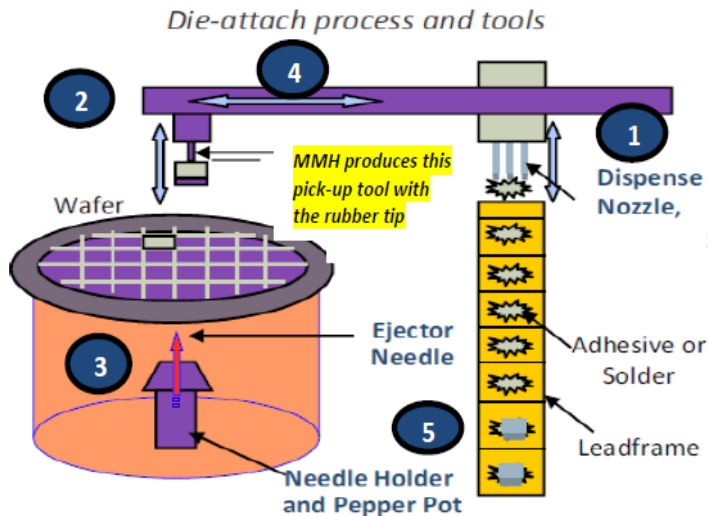
Source: Company, PSR

Category	5 years	15 years
Revenue (CAGR)	8.1%	9.6%
PATMI (CAGR)	28.6%	19.7%
Dividends per share (CAGR)	21.7%	16.6%
Revenue per employee (CAGR)	10.0%	3.8%
Gross margins (Average)	55.3%	54.6%
EBITDA margins (Average)	35.6%	31.6%

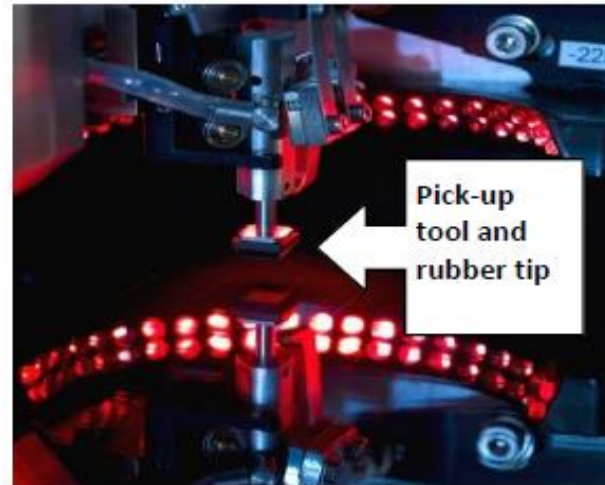
Source: Company, PSR

Micro-Mechanics Holdings Ltd – What it manufactures?

- MMH is focused on 2 steps of the back-end semiconductor process
- 1. Die attach: Pick up die from wafer and place onto the leadframe. MMH produces the rubber/plastic tips and metal tool.



Source: Company, PSR



Source: Kulicke & Soffa



Source: Company

Wafer Test



Dicing



Die Attach



Wire Bond



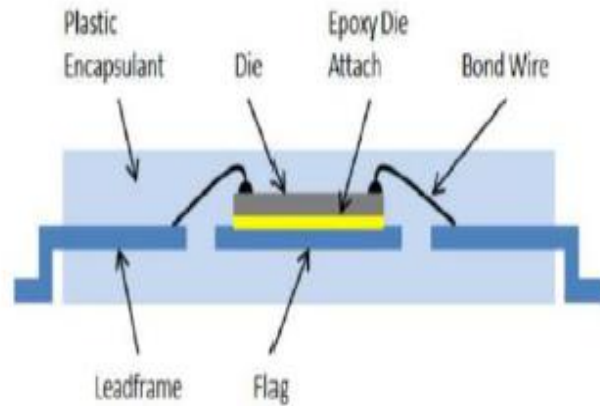
Encapsulate



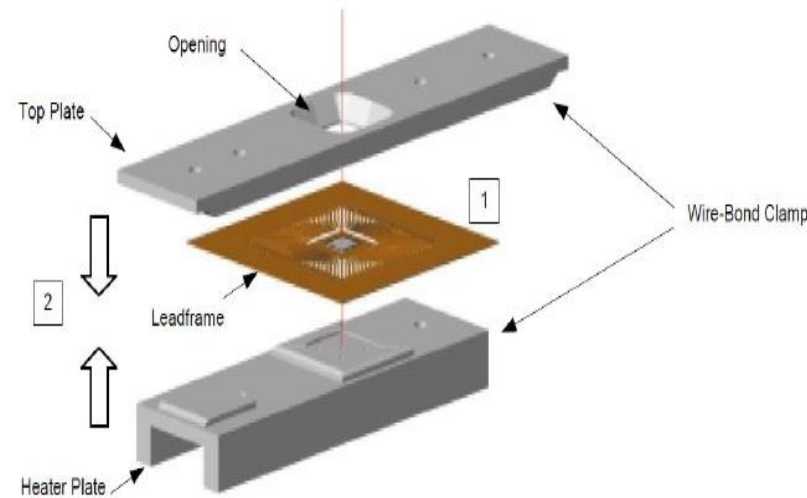
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Micro-Mechanics Holdings Ltd – What it manufactures?

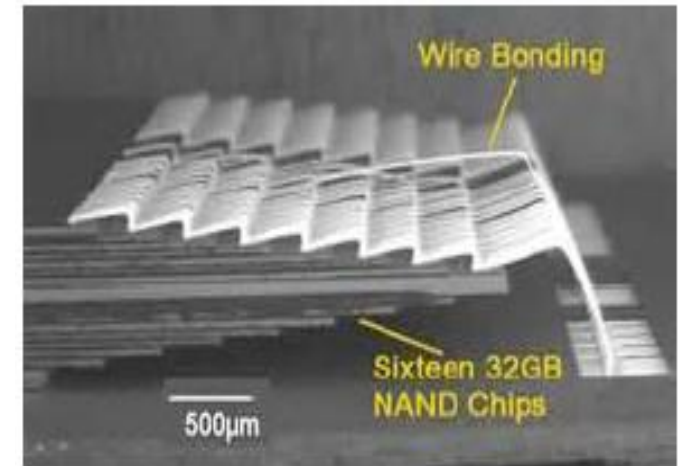
2. Wire bonding: Connect wires of the die onto the leadframe. MMH produces the clamp to hold the leadframe while the wire-bonding process occurs.



Source: BE Semiconductor



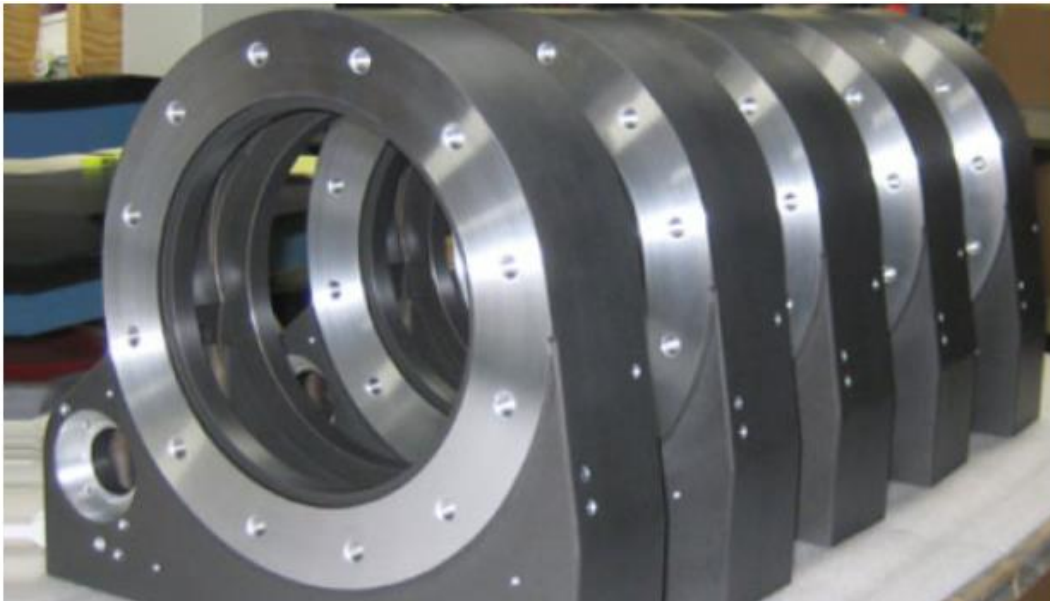
Source: Company Prospectus



Source: www.pcper.com

Micro-Mechanics Holdings Ltd – What it manufactures?

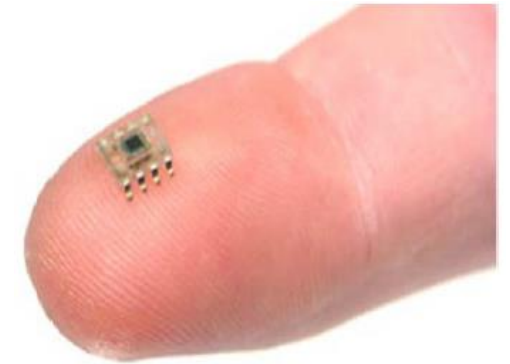
3. Front-end semiconductor parts: Parts used in the vapour deposition and etch machine. Small losses at present but strategy to penetrate front-end market.



Source: Company

Micro-Mechanics Holdings Ltd – Competitive Advantages

- Increased miniaturization - dies sizes are now as small as 1mm² to 10mm²
- Complex material engineering - materials must avoid electrostatic discharge (ESD) that can burn the semiconductor chip
- Need for customization - every customer will require some level of customization for their tools despite some using the same die attach or wire bonding machine
- High quality and reliability - accuracy in placing the die now encroaching the 3 micrometres
 - high volume and automated process in die attach
 - size and fragility of the die,



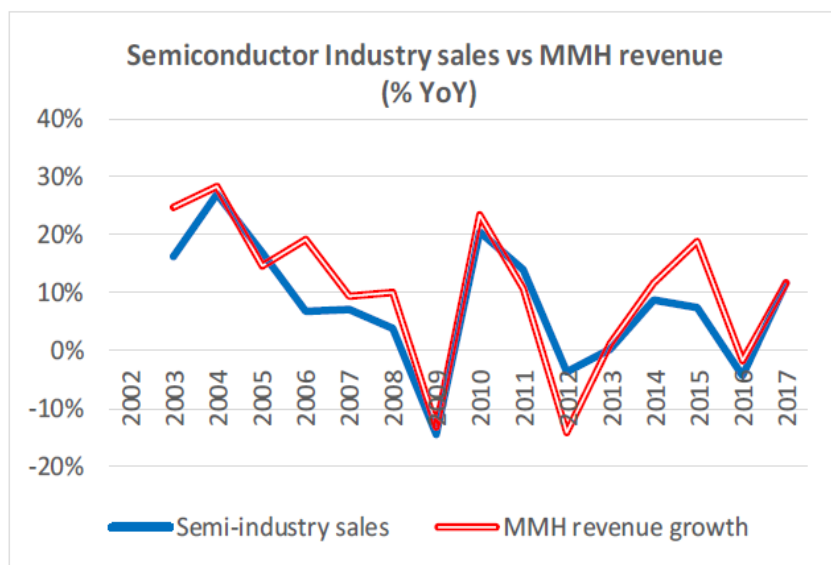
Source: Company

Micro-Mechanics Holdings Ltd – What we like about MMH?

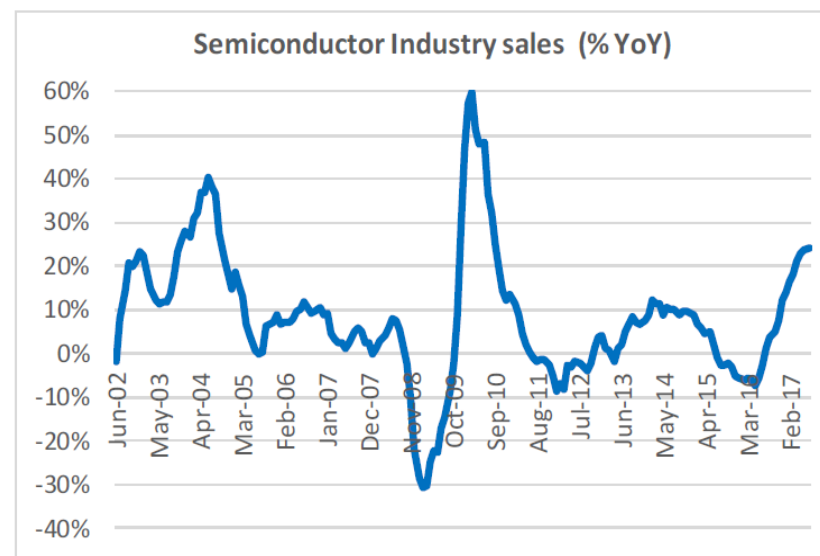
- Huge margins - gross margins averaged 55% over the past 5 years; recent quarter margin almost 60%; easily double of the industry average
- Great track record – past 15 years earnings CAGR 20%; 5-year track record for earnings is now 28% CAGR
- Health balance sheet - no leverage on its balance sheet for past 15 years; S\$22m net cash
- Consumable nature of the product - to be replaced every 8-hour shift by the customer
- Huge growth opportunity ahead - grow 9% per year on a per unit basis from 2016 till 2021, according to Gartner; from lighting, vehicles, IOT, solid state memory, wearable.
- Advanced packaging - requirement for the pick and placing of dies becomes ever more critical; for instance, flip chip and wafer level packaging

Micro-Mechanics Holdings Ltd – Outlook

- Robust revenue and earnings growth expected
 - revenue has a close correlation with semiconductor industry revenues.
 - Jun 17 quarter earnings jumped by 60% YoY
 - Latest July 2017 semiconductor sales growth was 24%, fastest pace of growth in almost 7 years. Late 2016 only saw the pick-up in industry semiconductor sales.



Source: Semiconductor Industry Association, Bloomberg, PSR



Source: Semiconductor Industry Association, Bloomberg, PSR

Micro-Mechanics Holdings Ltd –Valuation

- Target price of 15x in line with industry
- Conservative valuation considering superior margins, ROE and dividend yield.

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Share Px Local Crcy	Mkt. Cap. (US\$ m)	PE Yr 0	PE Yr + 1	PE Yr + 2	P/BV Yr 0	Dividend Yield	ROE Yr 0	EV/ EBITDA	EBITDA Margin
OSAT													
Advanced Semi.	0.8%	-1.2%	12.6%	37.1	10,152	14.2	13.5	12.2	1.8	3.7%	14.8%	6.7	20.4%
Silicon Precision Ind.	-0.4%	-4.1%	-0.3%	47.7	4,917	15.0	15.9	14.0	2.3	3.7%	13.6%	6.3	28.3%
Jiangsu Changjiang	8.7%	5.9%	-2.0%	17.3	3,568	221.2	51.0	32.0	2.7	0.1%	2.8%	10.0	15.8%
Amkor Tech.	16.0%	-9.2%	-7.0%	9.8	2,347	14.3	11.1	12.7	1.6	0.0%	19.3%	3.8	21.8%
Inari Amertron	-1.4%	22.8%	47.9%	2.5	1,179	21.7	19.0	16.5	5.6	3.4%	29.2%	13.3	26.3%
Unisem	-2.5%	11.9%	63.6%	3.9	675	17.5	15.1	13.8	3.2	2.8%	12.7%	6.8	25.4%
MPI	-3.6%	1.5%	80.8%	13.4	635	15.0	13.5	12.8	2.4	2.0%	16.9%	5.2	28.5%
Globetronics	0.2%	3.9%	79.3%	6.2	419	68.4	31.0	17.4	6.8	3.1%	9.8%	15.9	23.8%
	2.9%	0.2%	12.0%		23,893	17.5	15.8	14.3	2.3	2.7%	13.8%	7.3	22.2%
Equipment makers													
Teradyne	5.7%	9.3%	40.9%	35.8	7,080	23.8	18.2	17.3	3.5	0.8%	20.6%	10.1	3.4%
ASM Pacific	18.2%	4.5%	40.8%	115.7	6,051	32.3	18.5	18.3	4.5	0.0%	25.9%	13.0	17.1%
BE Semiconductor	8.2%	22.9%	87.7%	59.0	2,811	36.2	16.3	16.5	6.6	3.0%	33.7%	11.5	23.9%
Tokyo Seimitsu	5.4%	3.1%	13.6%	3935	1,453	16.5	14.3	13.1	1.8	1.8%	13.0%	6.9	20.7%
Kulicke & Soffa	4.6%	-5.7%	23.9%	19.8	1,406	25.8	11.4	9.8	1.6	-	10.2%	5.8	11.0%
Micro-Mechanics	20.8%	22.7%	78.0%	1.54	158	14.5	11.6	10.0	3.9	4.5%	28.1%	8.7	39.4%
	10.1%	8.3%	44.8%		18,959	26.5	16.8	16.1	4.0	0.9%	22.9%	10.7	13.0%

Source: Bloomberg, PSR, Prices as at 20Sep17

Singapore Strategy update

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25 Sept 2017

Singapore strategy update – September

- Maintain Neutral : STI Target 3270 unchanged
- Macro
 - Fed meeting: December rate hike expected; limited impact on USD and yields unless tax cuts happen
 - Near term data distortion from US due to hurricane and China due to production cuts in winter
 - Singapore macro: robust exports (YTD17 fastest in six years); PMI new order suggest trend to sustain
- BUY sustainable yield, property, coal and economic momentum
 - Yield: AsianPayTV, CCT, MINT, Ascendas REIT / Property: CapitaLand, Wheelock, Chip Eng Seng
 - Banyan Tree: large pipeline of hotel-management contracts for the next several years
 - Coal: strong production and beneficiary of SOE reform
 - DBS: 3 tailwinds of rising SIBOR + healthy capital markets + improving domestic economy
 - Micro-mechanics: proxy to surge in semiconductor sales
- Sector updates
 - Domestic retail sector still soft: retail but construction and materials recovering
 - Hopes of strong hospitality fizzled out in Jul17 data
 - Property sales up 60% YoY in August17, 2017 on track for best sales in five years

Singapore Coal Sector Video

Available on PhillipCapital YouTube channel

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