3 Sep 2018, 8.15am/11.15am Morning Call/Webinar

PhillipCapital
Your Partner In Finance

Strategy/Tactical

Phillip Weekly Musings

Company Results

Micro-Mechanics (Holdings) Ltd
Health Management International
800 Super Holdings Ltd
CapitaLand Mall Trust
Geo Energy Resources Ltd

Initiation

ayondo Ltd

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Week 36 - Phillip Weekly Musings

Paul Chew
Phillip Securities Research Pte Ltd
3 Sep 2018

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Week 36 – Short-term Views

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Key Events Last Week

- Macro: Core PCE at Fed target, reinforce 2-rate hikes; German IFO and Chinese PMI data was stable; unemployment rate in EU back to pre-GFC lows
- SG data: turning softer; tourism + hospital data
- Apple announced 12Sep new iPhone line-up: Hi-P and Memtech
- TPG: set-up separate Singapore mobile operator and not part of Vodafone Hutchinson merger

Latest Views

- Banks: Strong SGD + SIBOR still creeping up
- REITs: Strong SGD support for REITS
- Rubber gloves: double don gloves by end2019 in US hospitals and labs, know as USP 800; additional 6bn gloves per year (or 7-8% US imports)

Conclusion

- Stay Defensive especially with upcoming imposition of tariffs; SGD will be another theme

Week Ahead

- 4Sep: Global Markit manufacturing PMI
- 6Sep: USTR ruling on tariffs for $200bn Chinese imports
- 7Sep: US wage and employment data

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Micro-Mechanics (Holdings) Ltd

Consumables provide resiliency

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Micro-Mechanics (Holdings) Ltd

(BUY (maintained), TP: S$2.30, Last: S$1.83)

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Results at a glance

S$ mn	4Q18	4Q17	YoY (%)	3Q18	QoQ (%)	Comment
Revenue	15.7	15.5	1.3%	16.1	-2.3%	Revenue has been decelerating.
Gross profit	8.6	9.2	-7.3%	9.0	-4.4%	Depreciation and right of use rose rose by S$1.5mn in FY18e
Admin. Exp.	(2.1)	(2.3)	-8.7%	(2.3)	-8.7%	
PATMI	4.0	4.6	-13.5%	4.1	-3.9%	Also hurt by higher effective tax in 4Q18e.
Gross margin	54.6%	59.6%	-8.4%	55.8%	-2.1%	
DPU (cents)	6.0	5.0	20.0%	0.0	n.m.	Final 5 cents plus 1 cent special.

Source: Company, PSR

Positives

- Final dividend rose 1 cent to 5 cents. MMH has doubled their dividends over the past 4 years.
- In FY18, U.S. revenue expanded by almost 30% and it turned profitable after 10 years of losses

Negatives

- Gross margins in 4Q18 was 54.6%. This is the weakest in more than three years.
- Revenue growth for MMH has been decelerating the past 3 - quarters.

Maintain BUY: Global semiconductors sales is expected to slow from 12.4% in 2018 to 4.4% in 2019. MMH business is more dependent on the volume and complexity of semiconductors. Demand for MMH products is recurrent because it needs to be replaced from several times a day (e.g. rubber tips) to several times a week (e.g. ejection needles).

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Target price based on 17x but sector not performing

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Back-end semiconductor industry trading at around 17x PE, MMH has superior margins/ROE

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													
ASE Technology	-0.9%	-5.5%	-3.1%	73.9	10,431	16.7	13.8	11.9	2.9	3.4%	17.5%	6.5	19.3%
Jiangsu Changjiang	-6.5%	-19.2%	-24.9%	16.0	3,198	63.4	33.6	20.8	2.4	0.2%	4.5%	8.0	17.0%
Amkor Tech.	-1.8%	-4.4%	-12.6%	8.8	2,103	8.1	15.6	10.5	1.2	0.0%	12.1%	3.6	23.5%
Inari Amertron	-3.3%	5.3%	4.6%	2.4	1,824	30.0	22.4	19.0	7.3	2.8%	27.8%	15.6	25.9%
Unisem	9.0%	26.1%	-20.5%	2.9	515	13.2	21.2	16.6	1.5	3.4%	7.6%	6.6	24.3%
MPI	8.8%	25.5%	-2.5%	12.3	597	17.2	16.5	14.3	2.1	2.4%	12.3%	5.1	23.4%
Globetronics	14.2%	23.4%	2.5%	2.9	473	37.9	24.5	19.3	6.6	2.8%	22.8%	14.8	27.5%
	-1.2%	-4.1%	-7.4%		19,142	17.7	16.7	13.4	3.1	2.4%	15.4%	7.5	20.4%
Equipment makers													
Teradyne	-5.8%	7.7%	-0.4%	41.7	7,774	30.2	19.4	16.0	4.5	0.8%	9.8%	11.8	29.9%
ASM Pacific	-9.0%	-18.3%	-21.6%	85.4	4,400	12.3	11.8	11.0	2.9	0.0%	24.4%	8.3	22.7%
BE Semiconductor	-3.6%	-36.0%	-45.6%	19.0	1,782	8.8	10.7	11.5	3.2	12.2%	44.4%	7.5	37.6%
Tokyo Seimitsu	-12.4%	-23.5%	-24.9%	3350	1,253	11.0	10.2	9.8	1.4	2.7%	13.3%	4.5	22.6%
Kulicke & Soffa	-2.0%	16.9%	8.3%	26.4	1,781	15.9	11.1	10.7	2.0	0.5%	7.2%	5.8	14.2%
Micro-Mechanics	1.7%	1.7%	-13.3%	1.83	187	14.8	13.6	11.8	4.5	5.5%	29.9%	8.6	41.6%
	-6.4%	-4.9%	-11.5%		17,177	16.2	13.9	12.7	3.5	1.9%	17.3%	9.3	26.8%

Source: Bloomberg, PSR

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Health Management International

Expansions continue to paint a rosy outlook

Tin Min Ying

Phillip Securities Research Pte Ltd

3 September 2018

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Health Management International

(Maintain BUY, unchanged TP:S$0.83)

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Results at a glance

(MYR mn)	FY17	FY18	YoY (%)	Comments
Hospital and other healthcare services	420.6	451.7	7.4%	Higher patient load and average bill sizes
Healthcare education and training	15.2	15.9	4.3%	
Revenue	435.8	467.6	7.3%	As above
Gross profit	143.8	165.8	15.3%	Higher revenue intensity and effective cost management. Gross margins +250bps to 35.5%
EBITDA	96.1	115.1	19.8%	EBITDA margins +250bps to 24.6%
NPAT	42.2	60.0	42.2%	Core NPAT +15.9% YoY
PATMI	20.6	60.6	194.4%	One-off impact of consolidation exercise, where 100% of net income now attributable to shareholders. Core PATMI +95.9% YoY

Source: Company, PSR

The positives:

- Patient volume and average bill sizes ramped up both hospitals' earnings.
- Day Surgery cases continue to lift margins.
- Better than expected EBITDA margins improvement.

The negatives:

- Finance costs increased +57.2% or RM3.23mn YoY.

Outlook:

- **Mahkota**: Completed renovation works for Ward 9A and Paediatric Rehabilitation + continuous upgrading and refurbishing of older wards over the next 2 years. More clinical space for diagnostic radiology will be added.
- **Regency:** New extension block will more than double its existing capacity with additional - inpatient beds (mid-term target 380 beds, and eventually 500), clinical services, operating theatres and clinical suites.
  - Construction expected to commence by end 2018 & slated for commission in 2021.
- **StarMed (StarMed Specialist Centre):** Acquisition completed in May 2018. The Group owns 62.5% of this one-stop ambulatory care centre in Singapore. StarMed has completed renovations and received licenses from the Ministry of Health's to operate.
  - Expected to incur gestation start-up losses from its operations and drag down margins for 2-3 years from its expected commencement in FY2019.

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800 Super Holdings Ltd

Oversold!

Richard Leow

Phillip Securities Research Pte Ltd

3 September 2018

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800 Super Holdings Ltd

(BUY, TP: $1.03, DPS: 1.5 cents (2.3%) , Last: $0.64)

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Results at a glance

(SGD mn)	FY18	FY17	YoY	Comments
Revenue	**151**	**157**	**-3.7%**	**Completion of term contracts and renewal of certain contracts at more competitive prices**
EBIT	12.8	21.6	-40.8%	Lower revenue exacerbated by S$3.07mn or 2.3% higher opex, resulted in lower margin of 8.5% from 13.8%
PATMI	**9.2**	**17.1**	**-46.5%**	

Source: Company, PSR

The Positives

- New sludge treatment facility is already treating sludge and expected to be fully operational by December 2018
- Pasir Ris-Bedok PWC contract has commenced and will start contribution in 1Q19

The Negatives

- Higher than expected manpower costs was the key contributor to earnings miss
- YoY weaker balance sheet, but it was expected
- YoY lower dividend and lower payout ratio
- $446k of goodwill from the acquisition of Iwash Laundry fully written off.

Outlook: positive

- 4Q18 loss is non-recurring and does not represent the future prospects
- Expect 19% revenue and 55% PATMI YoY growth in FY19e, driven by sludge treatment facility and PWC contract
- FY20e normalised; 8.18 cents EPS & 7.84 cents/share free cash flow

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CapitaLand Mall Trust

Entrenching presence in the Jurong Lake District

Tan Dehong

Phillip Securities Research Pte Ltd

3 September 2018

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CapitaLand Mall Trust

(Maintain Neutral, TP: $2.05, DPU: 11.4 cent (5.3%), Last: $2.15)

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- **CMT to acquire the remaining 70% stake in Westgate for S$790mn.**
- **Acquisition based on market value of Westgate at S$1,128mn ($2,746psf).**
- **Recycling of capital from Sembawang Shopping Centre sale into a newer asset at 4.3% entry yield.**
- **Latest committed occupancy at 98% with a 99y lease tenure from 2011.**

What do we think?

- Entry yield lower than portfolio NPI yield of 5.8%. Acquisition is only accretive if heavily funded by debt by our estimates.
- Market value of Westgate nudged up 14% in just two months.
- Entry yield comparable with Jurong Point transaction last year despite continued compression in cap rates since then.
- Entrenching their presence in the fast-growing Jurong Lake District.

Maintain NEUTRAL. Outlook:

✓ Depending on the funding capital structure, assuming minimum 70% debt-funded for an accretive acquisition, upside to our target price will range from flat to $0.02.

✓ Our current target price translates to an FY18e yield of 5.6% and P/NAV of 1.03.

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Geo Energy Resources Ltd

Higher start-up mining cost

Chen Guangzhi
Phillip Securities Research Pte Ltd
3 Sep 2018

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Geo Energy Resources Ltd

(BUY (Maintained), TP: S$0.34)

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Results at a glance

(US$ mn)	2Q18	2Q17	YoY (%)	Comments
Revenue	83.2	58.9	41.1	Higher sales volume and higher ASP
Gross profit	21.4	19.1	11.7	Higher cash costs due to higher ICI which the mining costs are pegged to
EBIT	18.6	16.4	13.1	In line with the above
PATMI	8.5	10.0	(15.3)	Higher interest expenses on the Senior Notes

Source: Company , PSR

Outlook

•The ramp-up in coal production will continue at least till FY19 (13mn to 15mn tonnes).

•The potential acquisition: a relatively high calorific value coal mine with 4,800 GAR/5,400 GAR

•A new offtake agreement for TBR mine

Positives

Growth in production amid healthy coal prices

•In 2Q18, the ICI 4,200 GAR price rose by 11.7% YoY to US$44.8/tonne

•Sales target: SDJ mine: 8mn tonnes, TBR mine:2mn/3mn tonnes

	2Q18	2Q17	YoY (%)	1H18	1H17	YoY (%)
Production volume (tonnes)	2.0	1.5	35.9	3.9	3.7	7.1
ASP (US$/tonne)	42.2	40.1	5.2	44.3	39.7	11.6
Cash cost (US$/tonne)	29.2	24.9	17.3	31.3	25.7	21.5
Revenue from coal mining (US$mn)	83.2	58.2	43.0	173.3	145.4	19.2
Net profit (US$mn)	8.5	10.0	(15.5)	17.4	24.6	(29.3)

Source: Company, PSR

The Negatives

Temporary increase in cash costs

•Strip ratio of TBR mine in FY18: 7.1, FY19: 3.9

•Production-weighted average strip ratio (SDJ and TBR mine): 3.9 in FY18, and 3.5 in FY19

•The average cash cost for the group in FY18: US$30/tonne (SDJ mine: US$28/tonne in FY17)

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ayondo Ltd

The alternative asset management platform

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ayondo Ltd; BUY (Initiate); TP: S$0.22, Last: S$0.088

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What it does?

• 2 parts to the business;

a) B2C customers: trade in a self-directed manner or replicate the portfolios of other top traders (called social trading). Called WeTrade.

b) B2B customers: traditional online or mobile brokers wishing to gain access to ayondo platform, products and technology (referred to as white labeling). Called TradeHub.

Products

• contracts for difference (CFD) and customers come from 60 countries.
• Its largest are from Germany, UK and Spain.
• Products available include stock indices, commodities, forex and cryptocurrencies;

History

• Origins traced to 2009.
• Listed on SGX in Mar2018 at S$0.26.

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ayondo Ltd; BUY (Initiate); TP: S$0.22, Last: S$0.088

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How ayondo makes money?

- CFD spread: Opposite side of a customer transactions
- 3 options: Hedge out to another liquidity provider + warehouse in books + square off against opposing side
- 4 types of revenue based on customer: B2C self-directed and social trading + B2B casual and introduced

Competitor

- Several other social trading but notable 3 are: eToro; ZuluTrade; ayondo

Cost Structure

- Rebates: > 40% of sales from B2B trades
- Staff cost: 28% of sales
- Marketing expenses: 11% of sales.

History

- Origins traced to 2009.
- Listed on SGX in Mar2018 at S$0.26.

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Investment Thesis

1.Superior economics of their platform business: erect high barriers and differentiate through network effect. More followers will attract top traders and virtuous cycle.

2.Fast growth underway: 3 growth drivers

1) New Geographies	2) New Products	3) More Partners
• B2C: Spain, Benelux, Scandinavia • B2B: Asia	• Simplified product of portfolios of top traders • Allow small portfolio managers to build track record • Acceptance of crypto as payments	• Commercial and Digital Banks • CFD brokers to extend product line • Introduce CFDs to new broker

3.Emerging alternative asset manager

i)fees are transparent and better linked to returns;

ii)client engagement and experience are provided real-time;

iii)bespoke solutions to diverse strategies at their preferred risk tolerance;

iv)accessibility to an underserved mass market

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Risk Factors

1.Reliance on BUX BV. As at Sep17, BUX accounted for 2/3 of ayondo active clients.

2.Trading book risk. Because ayondo is a counterparty to customer CFD trades, it will carry the risk of the trade onto it books.

3.Customer due diligence. ayondo is responsible for customer due diligence including the end clients of their B2B partners.

4.High competition. In the platform business, there is an ability to build large barriers of entry though scale and network effect. To gain traction in social trading market, ayondo has to be a leader to secure the best traders

5.Brexit. So-called ‘’hard’’ Brexit will imply this license is no longer valid or applicable in European Union (i.e. cessation of passporting rights).

6.Cash burn-rate. In 1H18, ayondo had a negative operating cash flow of almost CHF5mn. And cash on hand is only CHF3.2mn.

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ayondo Ltd; BUY (Initiate); TP: S$0.22, Last: S$0.088

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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	ROE Yr 0	P/Sales Yr 0	P/Sales Yr 1
Payment												
PayPal Holding	6.0%	11.9%	23.1%	90.6	107,253	59.8	38.1	32.3	6.8	13.6%	8.2	6.9
Square	15.7%	44.9%	133.1%	80.8	33,163	-528.0	154.2	85.8	28.8	-6.9%	15.0	21.5
Adyen N.V.	5.3%	157.1%	157.1%	617.0	21,260	254.8	162.6	109.4	35.4	n.m	17.9	55.0
Shopify	-9.5%	0.9%	43.6%	145.0	15,422	-385.6	733.2	246.6	9.5	-4.0%	22.9	15.0
PagSeguro Digital	-8.7%	-25.7%	22.3%	26.3	8,592	73.7	34.2	23.1	1.6	64.1%	14.0	9.4
Chong Sing Hldings	-7.9%	-42.0%	-43.7%	0.6	1,710	14.5	21.9	16.3	1.4	9.9%	2.4	3.4
EML Payments	22.7%	41.5%	-6.1%	1.8	318	197.4	26.9	20.3	3.0	0.5%	6.3	5.4
Huifu Payment	-27.9%	-51.3%	-51.3%	3.7	582	28.8	15.2	10.0	1.9	22.3%	2.3	1.2
	5.5%	30.9%	58.3%		188,298	92.7	52.9	41.7	13.8	9.3%	11.9	15.6
Excl. PayPal	5.0%	56.8%	105.9%		81,046	342.5	108.6	67.9	23.1	3.4%	16.7	27.1
Financing												
Green Dot	5.7%	18.2%	41.1%	85.0	4,470	52.0	27.7	24.3	4.8	15.8%	5.0	4.3
GreenSky	8.3%	-22.2%	-16.2%	19.3	3,598	25.9	28.7	20.8	n.m	n.m	11.0	8.2
Aftertouch Pay	38.6%	159.1%	234.2%	20.0	3,198	-489.0	187.1	64.9	14.8	-5.2%	38.5	17.7
Lending Tree	2.4%	-6.0%	-28.3%	244.3	3,131	201.0	34.2	29.2	8.3	23.5%	5.1	4.1
Yirendai	-5.7%	-33.7%	-58.6%	18.2	1,106	5.5	6.6	5.1	0.2	33.7%	1.4	1.2
OnDeck	22.0%	43.4%	46.9%	8.4	629	-54.6	19.1	15.8	2.2	-4.4%	1.8	1.7
Money3 Corp	-0.5%	6.8%	24.4%	2.0	263	11.2	10.2	9.1	1.6	17.2%	3.0	2.9
Zip Co	21.1%	46.9%	67.9%	1.2	253	-15.4	-125.9	62.9	13.2	-91.8%	8.8	4.7
	10.8%	29.8%	46.5%		16,648	38.7	26.8	20.7	6.0	8.6%	12.4	7.4
Others												
Black Knight	-0.1%	6.8%	20.7%	53.3	7,963	43.7	29.6	26.1	4.5	14.9%	7.6	7.1
ZhongAn Online	-10.3%	-31.5%	-49.2%	35.2	6,592	-45.1	-84.6	286.6	2.7	-8.3%	8.1	4.4
Ellie Mae	-1.0%	-1.1%	16.6%	104.2	3,609	68.3	50.0	37.9	4.6	4.8%	8.7	7.2
Envestnet	5.4%	14.2%	25.5%	62.6	2,839	-865.5	32.1	26.5	5.2	4.2%	4.2	3.5
EML Payments	22.7%	41.5%	-6.1%	1.8	318	197.4	26.9	20.3	3.0	0.5%	6.3	5.4
	~~3.4%~~	~~4.8%~~	~~1.4%~~		~~21,321~~	~~243.7~~	~~58.7~~	~~39.8~~	~~4.8~~	~~4.4%~~	~~7.4~~	~~5.8~~
Average (excl PayPal)	**4.3%**	**42.0%**	**78.4%**		**119,015**	**282.3**	**88.2**	**56.1**	**17.3**	**4.3%**	**14.5**	**20.5**
ayondo	**-2.2%**	**-30.2%**	**-66.2%**	**0.088**	**32.4**	**n.a.**	**n.a.**	**n.a.**	**1.1**	**-68.3%**	**3.2**	**2.4**

Source: Bloomberg, PSR

Target Px

- >50% discount to listed fintech universe of 14.5x

- S$0.22 is 6x FY18e net sales

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ayondo Ltd; BUY (Initiate); TP: S$0.22, Last: S$0.088

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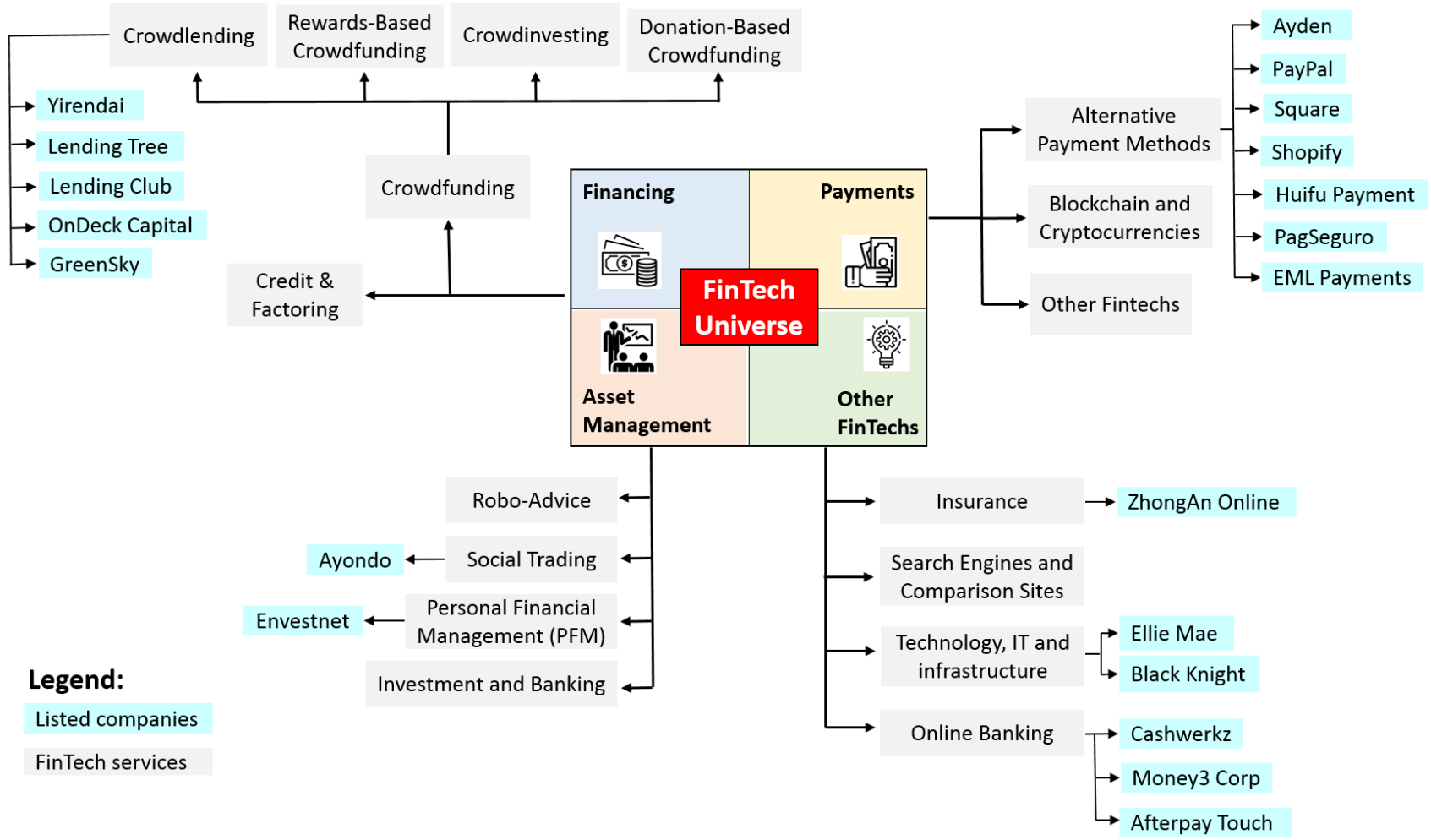

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