

Hisaka Holdings

2H11 results update

Neutral

Current Price **S\$0.42**
24 November 2011

Fair Value **S\$0.44**

Jacky Lee
65 6236 6887
jacky.lee@nracapital.com

Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$72.6m
52-HI	S\$0.520
52-LOW	S\$0.31
Avg Vol (1 yr)	2,831,783
Shares Outstanding	184.2m
Free Float	144.0m

Key Indicators

ROE 12F	12%
ROA 12F	10%
P/BK	1.44x
Net cash	S\$28m

Major Shareholders

U9 Investment Pte Ltd	16.7%
-----------------------	-------

Taking a break

- **Earnings within expectations.** 2H11 net profit of \$2.4m was in line with our expectation. The key variances were better-than-expected revenue and gross margins but mostly offset by lower contribution from associates, impairment loss on inventories and TDR expenses. Sales dropped 32% yoy to S\$30.3m mainly due to its semiconductor and automation customers deferred capital expenditure under the uncertain economic environment.
- **Gross margins holding up well at 23%,** due to better product mix from Medical division, however, EBITDA margins contracted by 2.2% point to 9.6% as higher ratio of SG&A expenses. Including S\$0.2m forex gain, S\$0.7m impairment loss and TDR listing cost. Pretax and net profit dropped 47% and 53% yoy respectively.
- **Solid capital management.** Despite its cash conversion cycle increased by 11 days to 108 days as compared to end Sept-2010 (mainly increased working capital requirement on its medical products). Hisaka still generated strong positive free cash flow of S\$10m in FY09/11. Including S\$7.7m dividend payout, share buy-back and S\$10m share issues on TRD, net cash jump from S\$16m to S\$28m with zero debt. Given the weak market outlook forward, the group declared a lower final dividend of 0.5 cts (a total 1 ct for the full year as compare 1.75 cts last year).
- **A view on Thai floods.** We believe most of the equipment maker component suppliers will be affected in the short-term given the halt in production. However, we also think that in the mid to longer-term, the situation will turn positive when manufacturers start to order new equipment to replace the damages. Besides Western Digital and Honda, semiconductor suppliers whose test and assembly operations have been affected include ON Semiconductor, ROHM Semiconductor, Lapis Semiconductor, Hana Semiconductor, Stars Microelectronics, Vigilant Technology, STATS ChipPac and Toshiba.
- **Two views on the technology world.** Meanwhile, we believe the growth within the semiconductor industry will slow as consumers are reluctant to spend in view of the gloomy global economic outlook. However, advanced technologies continue to gain traction, gadget hounds refuse to stop buying the latest devices as the mobile Internet takes off, according to two new sets of figures from Gartner.
- **Maintain Neutral.** We have cut our FY12-13 earnings estimates by 15-26% to factor in lower sales. As a result, our fair value has slipped 1 ct from S\$0.45 to S\$0.44, still pegged at 1.5x PER FY09/12 or 7x PER ex-cash. Maintain our **Neutral** rating. After 8.8m treasury share cancellation, the group is now able to buy back up to 10m shares on the market.

Key Financial Data

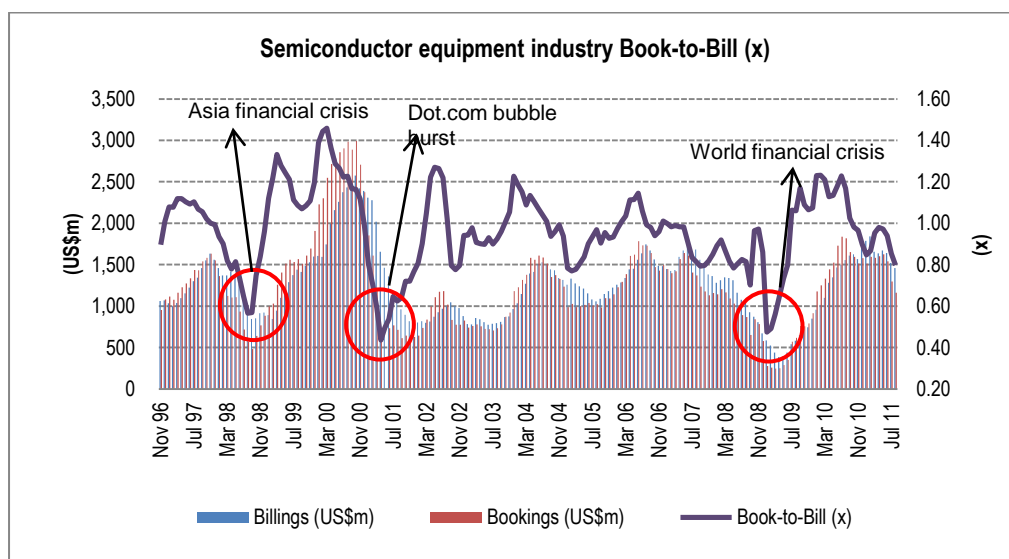
(S\$ m, FYE Sep)	2010	2011	2012F	2013F	2014F
Sales	80.9	68.0	64.6	71.1	78.2
Gross Profit	17.9	15.3	13.6	14.9	16.4
Net Profit	9.3	6.4	6.3	8.1	8.9
EPS (cents)	5.4	3.5	3.4	4.4	4.8
EPS growth (%)	high	(34.8)	(2.3)	28.4	10.5
PER (x)	7.8	12.0	12.3	9.6	8.7
NTA/share (cents)	23.6	26.7	29.2	32.6	36.4
DPS (cents)	1.8	1.0	1.0	1.0	1.0
Div Yield (%)	4.2	2.4	2.4	2.4	2.4

Source: Company, NRA Capital estimates

Results comparison

FYE Sep (\$ m)	2H11	2H10	yoy % chg	1H11	hoh % chg	Prev. 2H11F	Comments
Revenue	30.3	44.4	(32)	37.7	(20)	28.8	5% above expectation
Operating costs	(27.4)	(39.1)	(30)	(33.2)	(18)	(26.6)	In line
EBITDA	2.9	5.2	(44)	4.5	(35)	2.3	Above, better-than-expected GPM
EBITDA margin (%)	9.6	11.8		11.9		7.9	1.6% point above our expectation
Depn & amort.	(0.2)	(0.2)	(5)	(0.3)	(12)	(0.2)	In line
EBIT	2.7	5.0	(46)	4.2	(37)	2.1	Above, better-than-expected GPM
Interest expense	(0.0)	(0.0)	(88)	(0.0)	0	(0.0)	In line
Interest & invt inc	0.3	(0.3)	174	(0.3)	192	0.1	Above, due to S\$0.2m forex gain
Associates' contrib	0.6	1.0	(45)	0.8	(30)	1.0	Below, lower contribution from China JV
Exceptionals	(0.6)	0.3	(313)	(0.1)	362	0.0	Impairment on inventories and TDR expenses
Pretax profit	2.9	6.0	(51)	4.6	(38)	3.2	Below
Tax	(0.5)	(0.9)	(47)	(0.6)	(15)	(0.7)	Below, lower-than-expected effective tax rate
Tax rate (%)	17.1	15.8		12.6		23.4	Below
Minority interests	0.0	0.1	<i>nm</i>	(0.0)	<i>nm</i>	0.1	
Net profit	2.4	5.1	(53)	4.0	(41)	2.5	In line
EPS (cts)	1.3	2.9	(56)	2.4	(45)	1.5	

Source: NRA Capital estimates



Source: SEMI, only North America-based manufacturers of semiconductor equipment

Profit & Loss (S\$ m, FYE Sep)	2010	2011	2012F	2013F	2014F
Revenue	80.9	68.0	64.6	71.1	78.2
Operating expenses	(71.3)	(60.6)	(58.5)	(63.1)	(69.5)
EBITDA	9.6	7.4	6.2	8.0	8.7
Depreciation & amortisation	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
EBIT	9.2	6.9	5.7	7.5	8.2
Net interest & invt income	(0.6)	(0.0)	0.1	0.2	0.0
Associates' contribution	1.5	1.4	1.7	2.0	2.4
Exceptional items	0.8	(0.7)	0.0	0.0	0.0
Pretax profit	10.9	7.5	7.5	9.6	10.6
Tax	(1.7)	(1.1)	(1.2)	(1.5)	(1.7)
Minority interests	0.1	0.0	0.0	0.0	0.0
Net profit	9.3	6.4	6.3	8.1	8.9
Wt. shares (m)	172.8	184.2	184.2	184.2	184.2
Shares at year-end (m)	172.8	184.2	184.2	184.2	184.2

Balance Sheet (S\$ m, as at Sep)	2010	2011	2012F	2013F	2014F
Fixed assets	2.4	2.0	1.6	1.3	0.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	2.7	3.4	3.4	3.4	3.4
Total non-current assets	5.1	5.4	5.0	4.7	4.3
Cash and equivalents	16.4	27.8	29.6	34.4	39.8
Stocks	7.1	11.5	11.7	12.9	14.2
Trade debtors	23.3	14.3	15.5	17.1	18.8
Other current assets	2.0	2.2	2.1	2.3	2.5
Total current assets	48.8	55.8	58.9	66.7	75.2
Trade creditors	10.9	10.4	9.0	10.0	10.9
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Other current liabilities	1.9	1.3	1.0	1.2	1.3
Total current liabilities	12.9	11.7	10.0	11.1	12.2
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	0.2	0.2	0.2	0.2	0.2
Total long-term liabilities	0.2	0.2	0.2	0.2	0.2
Shareholders' funds	40.8	49.3	53.7	60.0	67.1
Minority interests	0.0	0.0	(0.0)	(0.0)	(0.0)
NTA/share (S\$)	0.24	0.27	0.29	0.33	0.36
Total Assets	53.9	61.2	64.0	71.3	79.5
Total Liabilities + S'holders' funds	53.9	61.2	64.0	71.3	79.5

Cash Flow (S\$ m, FYE Sep)	2010	2011	2012F	2013F	2014F
Pretax profit	10.9	7.5	7.5	9.6	10.6
Depreciation & non-cash adjustments	(1.5)	(0.7)	0.4	(0.0)	(0.0)
Working capital changes	(1.6)	5.3	(2.8)	(1.8)	(2.2)
Cash tax paid	(0.4)	(1.6)	(1.2)	(0.8)	(1.0)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	7.4	10.6	3.9	6.9	7.4
Capex	(0.5)	(0.2)	(0.2)	(0.2)	(0.2)
Net investments & sale of FA	0.4	(0.5)	0.0	0.0	0.0
Others	0.1	0.1	0.0	0.0	0.0
Cash flow from investing	(0.0)	(0.7)	(0.2)	(0.2)	(0.2)
Debt raised/(repaid)	(0.0)	(0.0)	0.0	0.0	0.0
Equity raised/(repaid)	(4.1)	6.2	0.0	0.0	0.0
Dividends paid	(1.9)	(3.8)	(1.8)	(1.8)	(1.8)
Cash interest & others	0.0	(0.9)	0.0	0.0	0.0
Cash flow from financing	(6.0)	1.5	(1.8)	(1.8)	(1.8)
Change in cash	1.3	11.4	1.8	4.9	5.4
Change in net cash/(debt)	1.4	11.4	1.8	4.9	5.4
Ending net cash/(debt)	16.4	27.8	29.6	34.4	39.8

KEY RATIOS (FYE Sep)	2010	2011	2012F	2013F	2014F
Revenue growth (%)	136.7	(15.9)	(5.0)	10.0	10.0
EBITDA growth (%)	1,591.9	(23.1)	(16.4)	28.8	9.4
Pretax margins (%)	13.5	11.1	11.6	13.5	13.6
Net profit margins (%)	11.5	9.5	9.7	11.4	11.4
Interest cover (x)	991.0	3,759.5	nm	nm	nm
Effective tax rates (%)	15.4	14.3	16.0	16.0	16.0
Net dividend payout (%)	32.6	28.6	29.3	22.8	20.6
Debtors turnover (days)	105.0	76.8	87.6	87.6	87.6
Stock turnover (days)	41.4	79.7	84.0	84.0	84.0
Creditors turnover (days)	49.4	56.0	51.1	51.1	51.1

Source: Company, NRA Capital Estimates

NRA Capital Pte. Ltd ("NRA Capital") has received compensation for this valuation report. This publication is confidential and general in nature. It was prepared from data which NRA Capital believes to be reliable, and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. No representation, express or implied, is made with respect to the accuracy, completeness or reliability of the information or opinions in this publication. Accordingly, neither we nor any of our affiliates nor persons related to us accept any liability whatsoever for any direct, indirect, special or consequential damages or economic loss that may arise from the use of information or opinions in this publication. Opinions expressed are subject to change without notice.

NRA Capital and its related companies, their associates, directors, connected parties and/or employees may own or have positions in any securities mentioned herein or any securities related thereto and may from time to time add or dispose of or may be materially interested in any such securities. NRA Capital and its related companies may from time to time perform advisory, investment or other services for, or solicit such advisory, investment or other services from any entity mentioned in this report. The research professionals who were involved in the preparing of this material may participate in the solicitation of such business. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. You acknowledge that the price of securities traded on the Singapore Exchange Securities Trading Limited ("SGX-ST") are subject to investment risks, can and does fluctuate, and any individual security may experience upwards or downwards movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities traded on the SGX-ST. You are aware of the risk of exchange rate fluctuations which can cause a loss of the principal invested. You also acknowledge that these are risks that you are prepared to accept.

You understand that you should make the decision to invest only after due and careful consideration. You agree that you will not make any orders in reliance on any representation/advice, view, opinion or other statement made by NRA Capital, and you will not hold NRA Capital either directly or indirectly liable for any loss suffered by you in the event you do so rely on them.

You understand that you should seek independent professional advice if you are uncertain of or have not understood any aspect of this risk disclosure statement or the nature and risks involved in trading of securities on the SGX-ST.