

HISAKA Holdings Ltd.

Conserving its Strength

*HISAKA Holdings Ltd (HISAKA) reported a 30.5% decline in net attributable profit to S\$6.4m for FY11 ended Sep 2011. Our Q&A with the management led us to conclude a weak outlook for HISAKA's core semiconductor equipment and components business; with a very modest recovery expected only after CNY in late Jan 2012. In the interim, HISAKA plans to maintain its extremely robust balance sheet while continuing to develop new income streams from new medical products and new markets, e.g. India. Our updated model yields a valuation of **S\$0.475** and we revise our rating on HISAKA to **Fairly Valued**.*

Key Developments:

Very Robust Balance Sheet: HISAKA ended FY11 with S\$27.8m of cash and zero debt. This works out to cash of S\$0.151 per share that can be redistributed to shareholders or invested in new business opportunities. The company has declared a 0.5 S cent final dividend per share for FY11. In the last quarter of FY11, HISAKA has also returned S\$2.9m to shareholders via the buy back of 6.2m shares at an average price of S\$0.470.

Medical Devices to See Higher Momentum: The highly anticipated portable blood warmer will now most likely be launched by mid 2Q 2012 – following further 'CE Mark' tests after the company made additional product improvements. HISAKA has since started developing its next medical product for commercialization – the Digital Stereo Microscope – under a licensing agreement with A*STAR's Exploit Technologies Pte Ltd.

Expanding into India: HISAKA has also invested S\$0.6m in a JV in India. The said JV will combine the technological expertise of HISAKA and its partners to enter the Indian market. This JV is expected to start contributing in 2H FY12.

In spite of these developments, we revised our rating on HISAKA to fairly valued based on its current operating environment and will revisit our rating later in 2012 when the company's new initiatives show progress.

Fairly Valued

- Intrinsic Value S\$0.475
- Prev Close S\$0.420

Main Activities

HISAKA Holdings Ltd. provides automation solutions with a focus on the sourcing and manufacturing of mechanical motion and mechatronics integration products. The company has since expanded into the eco-friendly products and medical devices industries.

Financial Highlights

(Y/E Sep) S\$ m	FY10	FY11	FY12F
Revenue	80.9	68.0	70.1
Gross Profit	17.9	15.3	15.7
Operating Profit	10.8	7.8	7.9
Earnings	9.2	6.4	6.8
EPS (S cts)	5.13	3.68	3.70

Source: Company, SIAS Research

Key ratios (FY12F)

PER	11.4
P/BV	1.2
Return on Common Equity	13.4%
Return on Assets	10.8%
Gross Debt to Common Equity	0%
Current ratio	4.8

Source: SIAS Research

Indexed Price Chart

Green (FSSTI)
White (HISAKA)



Source: Bloomberg

52wks High-Low	S\$0.5195 / S\$0.310
Number of Shares	184.2m
Market Capitalization	S\$77.4m

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Business Update: Revenue fell by 15.9% to S\$68.0m in FY11 versus S\$80.9m in FY10 due to a slowdown in demand in 2H FY11. Accordingly, business momentum continues to be sluggish in 1Q FY12 (4Q 2011) with a pick up in orders more likely to occur from Feb 2012 onwards. As such, HISAKA's performance for 1H FY12 (Oct 2011 to Mar 2012) is expected to be weak.

Geographical Expansion: 2H FY12 looks more promising. In FY11, HISAKA invested S\$0.6m in a 33.33% stake in Singapore Synergy Holdings Pte Ltd – a JV to expand into India. The JV will combine Hisaka's expertise in automation as well as its partners' know how in plastics and precision engineering to enter the Indian market. What we do know is that this JV will not be constrained to the semiconductor industry and that the investment is non-speculative in nature – there are existing orders to support the initial phase of the JV. We await more disclosures regarding this development.

Close to Seeing Growth From Medical Devices: The portable blood warmer is poised to be launched in 3Q FY12 (Apr to Jun 2012) and may provide some upside to HISAKA's financials in 2H FY12. The company has decided that it is more cost effective to outsource the manufacturing of the portable blood warmer, rather than to acquire new equipment. Given these developments, HISAKA's outlook for 2H FY12 is substantially brighter.

Next New Product: In the mean time, the company has started developing its next new medical product – the Digital Stereo Microscope (DSM). The DSM technology is obtained under a licensing agreement with Exploit Technologies Pte Ltd, the commercialization arm of A*STAR. The DSM is an intelligent digital touchscreen interface that can potentially replace the optical surgical microscopes currently used in surgeries (see Figure 1 for illustration). The DSM is expected to contribute towards sales in 2013.

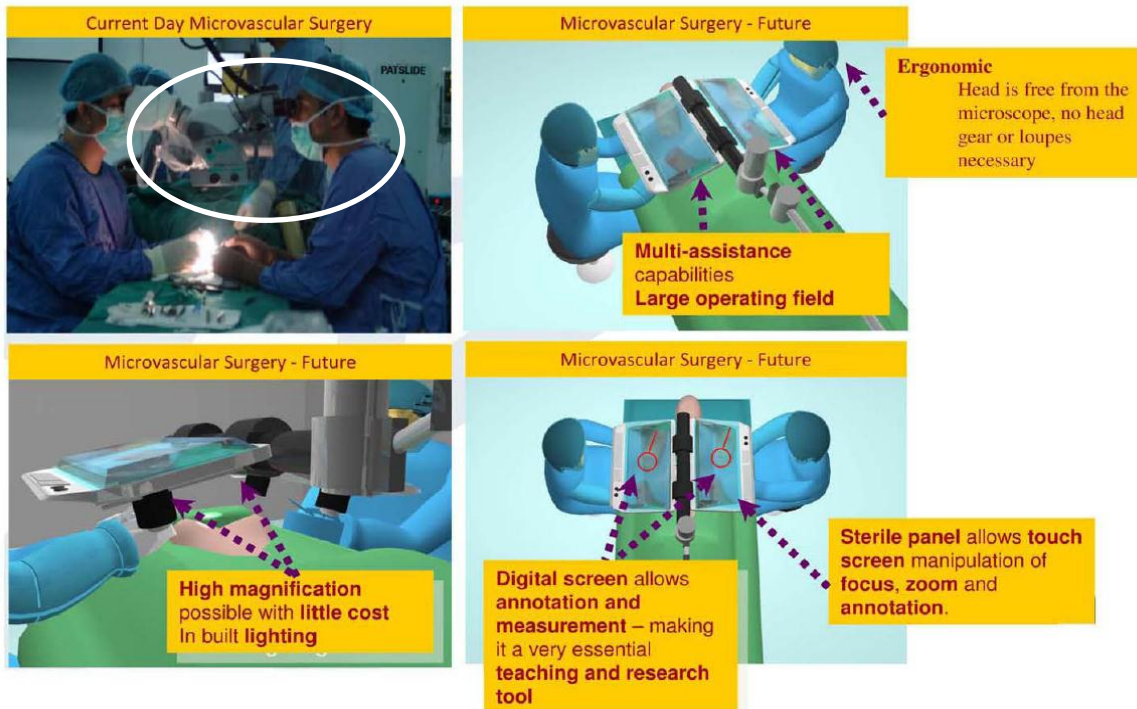
Coal Trading: More recently, the company has incorporated a new subsidiary Hisaka Energy Pte. Ltd, which will be involved in coal trading. This development is currently still in a very early stage. Our view is that HISAKA is studying the Indonesian coal industry before making further investments.

Bottom-Line: HISAKA's efforts to develop new sources of income can be seen from the multiple initiatives that it has started over the last one year. The financial contribution of these investments will however commence in 2H FY12. As there is no existing performance from these initiatives for us to form forward expectations, we based our forecasts on HISAKA's current business and now expects the company to make S\$70.1m of sales and S\$6.8m of net profit in FY12.

Our updated model yields an intrinsic value S\$0.475. For this update, we assigned HISAKA with a conservative Fairly Valued rating, pending further developments or updates from its new businesses.

Figure 1: Digital Stereo Microscope Technology

Based on this diagram, current technology requires the surgeon to peer through a microscope for microsurgeries. The DSM removes this hassle, is more ergonomic and may offer more functionality.



Source: Company

Figure 2: Economic Profit Valuation Model

S\$m	FY12F	FY13F	FY14F
Revenue	70.1	80.6	92.7
EBIT	7.9	10.0	11.6
Tax on EBIT	-1.1	-1.4	-1.7
NOPLAT	6.7	8.6	9.9
Invested Capital	49.5	52.9	57.3
% of Debt	0	0	0
% of Equity	100%	100%	100%
WACC (%)	10.75%	10.75%	10.75%
Capital Charge	5.3	5.7	6.2
Economic Profit	1.4	2.9	3.7
Terminal Value			43.6
Discount Rate	0.90	0.82	0.74
Present Value	1.3	2.4	2.8
Book Value (A)	49.3	Risk Free	2.5%
Explicit Value (B)	6.4	Beta	1.1
Terminal Value (C)	32.1	Market RP	7.5%
Value of Equity (A+B+C)	87.8	Cost of Equity	10.75%
Number of Shares (m)	184.2	Cost of Debt	NM
Value per share (S\$)	0.475	LT Growth	2.00%

Source: SIAS Research

Figure 3: Financial Forecasts and Estimates

	FY09	FY10	FY11	FY12F	FY13F	FY14F
Revenue	34.2	80.9	68.0	70.1	80.6	92.7
Gross Profit	6.3	17.9	15.3	15.7	18.1	20.8
Operating Profit	0.8	10.8	7.8	7.9	10.0	11.6
Net Profit	0.7	9.2	6.4	6.8	8.7	10.0
Attributable to Shareholders						
Total Current Assets	39.7	48.8	55.8	60.0	67.0	73.3
Total Non-Current Assets	4.6	5.1	5.4	5.4	5.3	5.3
Total Current Liabilities	6.4	12.9	11.7	12.5	15.1	16.3
Total Non-Current Liabilities	0.1	0.2	0.2	0.2	0.2	0.2
Total Equity	37.7	40.8	49.3	52.7	57.0	62.0
Cash from Operating Activities	1.16	7.41	10.56	7.72	4.16	9.6
Cash from Investing Activities	-0.07	-0.03	-0.66	-0.40	-0.40	-0.4
Cash from Financing Activities	-3.53	-6.04	1.46	-3.41	-4.34	-5.0
Net change in cash	-2.44	1.35	11.36	3.91	-0.58	4.2
Inventory Days	136	43	65	65	65	65.0
Receivable Days	161	94	111	95	95	95.0
Payable Days	94	50	76	75	75	75.0
ROE (%)	1.7%	23.5%	14.3%	13.4%	15.8%	0.2
ROA (%)	1.4%	18.8%	11.2%	10.8%	12.6%	0.1
Debt/Equity	0.1%	0.0%	0.0%	0.0%	0.0%	0.0
Current Ratio	6.2	3.8	4.8	4.8	4.4	4.5
EPS (S cents)	0.35	5.13	3.68	3.70	4.71	5.41
BV/Share (S cents)	19.9	23.6	26.7	33.8	36.1	38.8
PER	120.0	8.2	11.4	11.4	8.9	7.8
P/BV	2.1	1.8	1.6	1.2	1.2	1.1

Source: Company, SIAS Research

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value. Readers can consider increasing their exposure in their portfolio to a higher level.

Invest – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.

Fairly Valued – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.

Take Profit – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.

Reduce Exposure - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.

IMPORTANT DISCLOSURE

As of the date of this report, the analyst and his immediate family 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. Portfolio structure should be the responsibility of the investor and they should take into consideration their financial position and risk profile when structuring their portfolio. Investors should seek the assistance of a qualified and licensed financial advisor to help them structure their portfolio. This research report is based on information, which we believe to be reliable. Any opinions expressed reflect our judgment at report date and are subject to change without notice. This research material is for information only. It does not have regards to the specific investment objectives, financial situation and the particular needs of any specific person who may receive or access this research material. It is not to be construed as an offer, or solicitation of an offer to sell or buy securities referred herein. The use of this material does not absolve you of your responsibility for your own investment decisions. We accept no liability for any direct or indirect loss arising from the use of this research material. We, our associates, directors and/or employees may have an interest in the securities and/or companies mentioned herein. This research material may not be reproduced, distributed or published for any purpose by anyone without our specific prior consent.
