

# Hisaka Holdings

*Ride the cyclical upturn*

HISA SP

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**INITIATING COVERAGE**

6 January 2009

<b>RECOM</b>	BUY
<b>PRICE/TARGET PRICE</b>	S\$0.24/S\$0.30
<b>MKT CAPITALISATION</b>	S\$48.2m
<b>BOARD</b>	Main Board
<b>SECTOR</b>	Electronic Components

SINGAPORE

- Initiate with BUY and target price of S\$0.30**, pegged at the technology sector peer average CY11 P/E of 6.7x. At Sep 09, the group had a net cash position of S\$15m. At S\$0.30, Hisaka would be trading at an ex-cash P/E of 3.7x. Going forward, we expect the group to benefit from an upturn in the semiconductor industry and industry diversification. We are projecting a 34.1% CAGR for EPS and improving ROE of 13.9-19.2% for FY10-12. Hisaka could also benefit from cooperation opportunities with Concord Corporation following Concord's strategic stake investment in Hisaka in Sep 09 and the appointment of Concord Capital's chairman, Mr Tan Ngee Teck, as Hisaka's non-executive director.
- Leading automation service provider.** Hisaka is an automation solutions provider specialising in mechanical motion products. Its business can be broadly classified as Services and Manufacturing, with supply chain management an integral part of both.
- 2010 expected to be a better year for semiconductor industry.** Gartner has raised its forecast for global semiconductor spending for 2010 to an increase of 45.3% yoy. Hisaka's major customers in the semiconductor industry like ASM and K&S Group have been receiving more orders, with the latter guiding for a better performance in the next quarter. Downstream demand in the PC and mobile phone markets is also growing sequentially, with shipment volumes for the former projected to rise 12.6% yoy in 2010.

**Financial summary**

FYE Sep	2008	2009	2010F	2011F	2012F
Revenue (S\$ m)	56.3	34.2	57.2	68.7	78.0
EBITDA (S\$ m)	5.7	0.9	6.9	9.8	12.0
EBITDA margins (%)	10.1	2.7	12.1	14.3	15.4
Pretax profit (S\$ m)	4.8	0.9	7.0	10.1	12.5
Net profit (\$ m)	3.9	0.7	5.5	8.0	9.9
EPS (S cts)	2.4	0.3	2.9	4.2	5.2
EPS growth (%)	-45%	-86%	732%	45%	24%
P/E (x)	9.9	68.8	8.3	5.7	4.6
Gross DPS (S cts)	1.0	1.0	1.0	1.0	1.0
Dividend yield (%)	4.2	4.2	4.2	4.2	4.2
P/NTA (x)	1.2	1.2	1.1	1.0	0.8
ROE (%)	12.5	1.7	13.9	18.0	19.2
Net cash per share (S\$)	0.09	0.08	0.08	0.10	0.13
P/CF (x)	10.8	54.8	8.1	5.8	4.7
EV/EBITDA (x)	4.6	27.8	3.8	2.7	2.2

Source: Company, CIMB-GK estimates

**Market capitalisation & share price info**

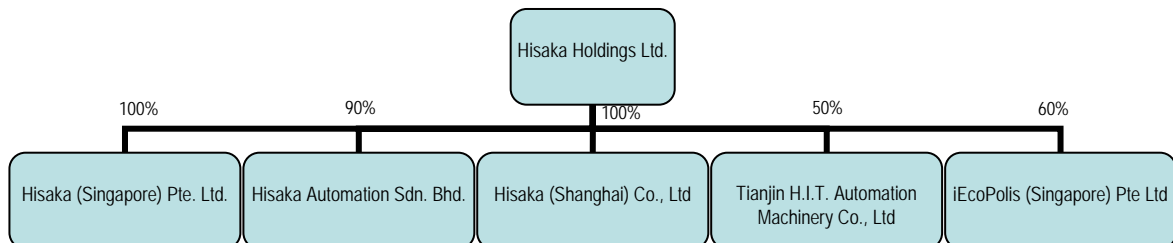
Market cap	S\$48.2m	Share price perf. (%)	1M	3M	12M
12-mth price range	S\$0.10/S\$0.31	Relative	1.9	3.6	7.3
3-mth avg daily volume	S\$0.09m	Absolute	6.7	17.1	62.8
# of shares (m)	200.6	<b>Major shareholders</b>	<b>% held</b>		
Est. free float (%)	45.6	U9 Investment Pte Ltd	38.8		
Wrts/ICULS o/s (m)	None	Concord Capital Pte Ltd	10.0		
Conv. price (S\$)	None				

Source: Company, CIMB-GK Research, Bloomberg

## Background

Hisaka specialises in mechanical motion products. Established in 1992 and listed on the main board in May 08, it began operations as a trading firm providing mechanical parts to Japanese and American MNCs based in Singapore. The group has since expanded its products and services to include mechanical motion components management, metallic precision manufacturing and mechatronics integration.

Figure 1: Group structure



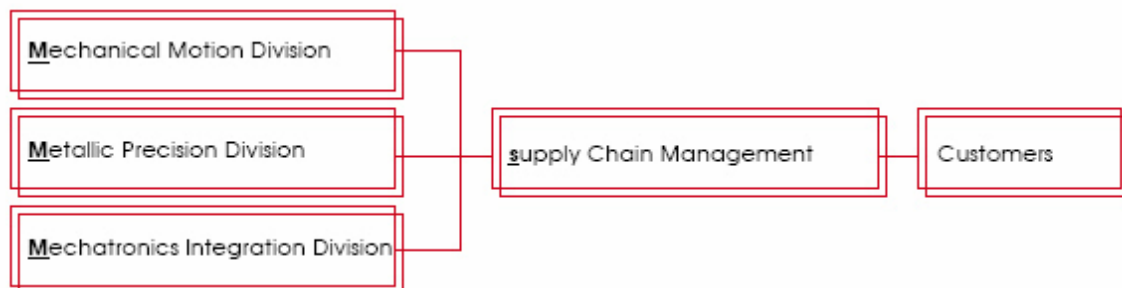
Source: Company

### Key businesses

Hisaka's business can be broadly classified as **Services** and **Manufacturing**, with supply chain management being an integral part of both. Its main revenue source is Services, which contributed 75.1% of its revenue in FY09.

- i) **Services** include the provision of *Mechanical Motion Components Management*. These components include rotary bearings, linear bearings, linear guides, ballscrews, lead screws, couplings, pulleys and belts while mechanical parts refer to fasteners, levelling pads, caster wheels, machine elements, knobs, shaft and metal plates, serving functions like guiding, loads handling, friction and the transmission of energy in both rotary and linear motion in the mechatronics system.
- ii) **Manufacturing** consists of *Metallic Precision Manufacturing* and *Mechatronics Integration*. Under *Metallic Precision Manufacturing*, Hisaka's technicians customise and fabricate components which are not available as standard parts in the market, tailored to customers' specifications. Meanwhile, *Mechatronics Integration* involves the integration and combination of mechanical engineering, electrical and electronic engineering and software engineering techniques to provide advanced hybrid systems to customers.

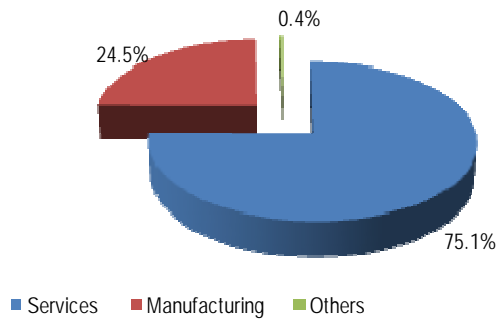
Figure 2: '3Ms Business Model'



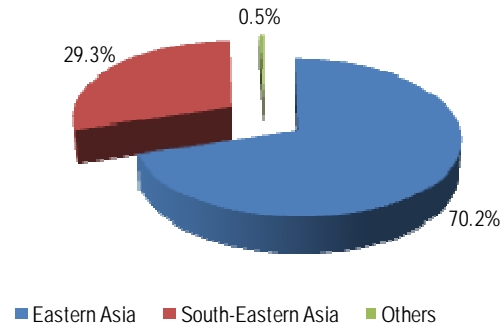
Source: Company

Figure 3: FY09 revenue contributions

By business segment



By geographical segment

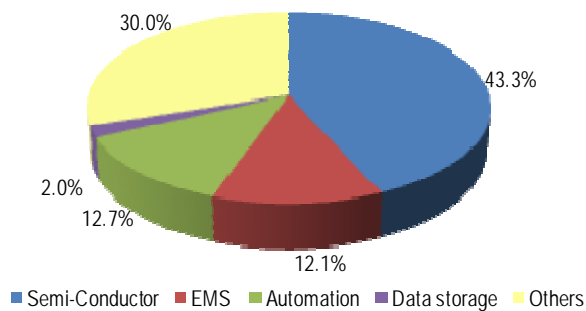


Source: Company

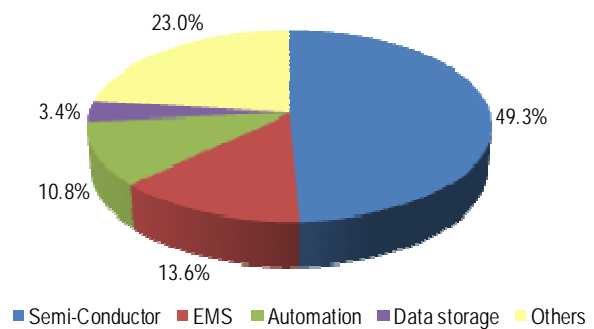
**Industry diversification.** Hisaka serves various segments in the technology industry, including semiconductor, electronics manufacturing, data storage and automation. While the semiconductor industry remains its largest revenue contributor, contributions from this source had fallen to 43.3% in FY09 following the group's diversification strategy and the downturn in the semiconductor industry. In particular, the group recently made inroads into the environmental and medical industry with contract wins of S\$8.7m and S\$7m in each industry respectively. We expect such contract wins to open doors to new industries for the group.

Figure 4: Revenue by industry

FY09



FY08



Source: Company

**More than 300 suppliers.** Hisaka's raw materials include mechanical motion components, required for the production lines of customers. Hisaka currently has more than 300 suppliers in Singapore and overseas. Key suppliers include NSK Singapore, THK Co., Ltd, Hiwin Technologies Corporation and SBC Linear Co., Ltd which provide components like linear actuators, linear guide ways, actuator systems for Hisaka.

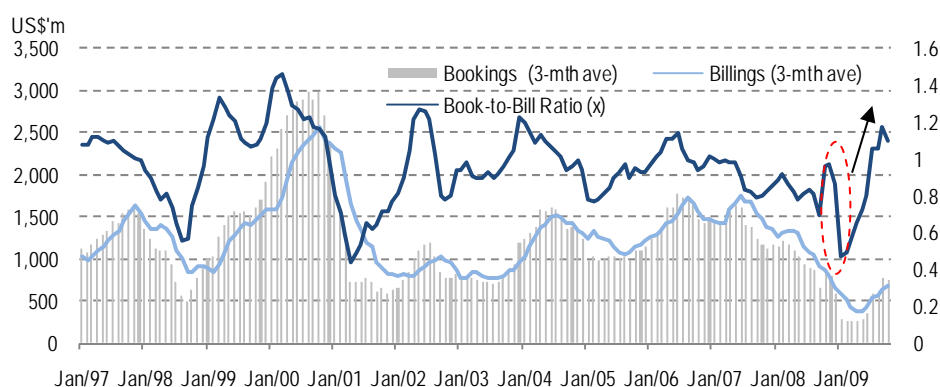
**Diversified customer base.** Hisaka has more than 1,600 customers which include semiconductor companies like the ASM Group and Kulicke & Soffa Group, companies from EMS industries like the Kinergy Group and Flextronics Group and automation companies like Tianjin H.I.T Automation Machinery Co., Ltd. Hisaka's ability to service these clients has placed it in a stronger position to secure new projects from existing and new customers. In addition, Hisaka enjoys strong ties with its customers, with repeat customers accounting for 75-80% of its revenue.

**Competitors.** Hisaka faces keen competition from local players such as Elshin International Pte Ltd, Plant & Mills Supplies Pte Ltd and ISDN Holdings Ltd, Chinese players like Tianjing Jingang Drive & Transmission Co. Ltd and Nissan Bearing & Industrial Service in Malaysia.

## Industry outlook

**Upturn in semiconductor equipment industry.** As a result of an inventory correction and rapid demand deterioration at end-2008 and beginning 2009, sharp falls were seen in both orders and billings. Book-to-bill ratios (3-month average) among North American semiconductor equipment manufacturers fell to 0.47x in Jan 09 from 0.97x in Nov 08. Nonetheless, following a general recovery in the macro environment, book-to-bill ratios among North American firms had returned to 1.1x as at Oct 09. Orders and billings are still low compared with pre-crisis levels and thus have room for improvements as demand normalises.

Figure 5: Book-to-bill ratio



Source: SEMI, Only includes data for North American headquartered semiconductor equipment producers.

**Strong recovery in worldwide semiconductor equipment spending expected.** While worldwide semiconductor equipment capex could have ended 2009 down 42.6% yoy, Gartner expects semiconductor equipment spending to increase 45.3% in 2010, up from the 34.3% previously projected in September. In particular, various major semiconductor foundries including TSMC and UMC have also raised their capex projections for next year.

Figure 6: Strong projected growth in semiconductor and equipment capex

	2009	2010	2011	2012	2013	2014
Semiconductor Capital Spending	25,272.40	36,728.40	47,826.30	56,959.00	48,734.60	53,636.90
Growth (%)	-42.6	45.3	30.2	19.1	-14.4	10.1
Capital Equipment	16,297.20	25,471.80	32,660.40	38,584.40	31,469.50	35,604.70
Growth (%)	-46.8	56.3	28.2	18.1	-18.4	13.1
Wafer Fab Equipment	12,572.20	19,685.90	25,451.00	30,466.70	25,297.30	28,475.10
Growth (%)	-48.1	56.6	29.3	19.7	-17	12.6
Packaging and Assembly Equipment	2,378.10	3,634.70	4,626.10	5,270.90	3,996.70	4,686.40
Growth (%)	-40.5	52.8	27.3	13.9	-24.2	17.3
Automated Test Equipment	1,346.90	2,151.20	2,583.30	2,846.80	2,175.50	2,443.10
Growth (%)	-44.9	59.7	20.1	10.2	-23.6	12.3
Other Spending	8,975.30	11,256.60	15,165.90	18,374.60	17,265.10	18,032.30
Growth (%)	-32.9	25.4	34.7	21.2	-6	4.4

Source: Gartner (December 2009)

**View reinforced by recovery in PC segment...** After declining by 6.5% and 5% in 1Q09 and 2Q09 respectively, worldwide PC shipments grew by a better-than-expected 0.5% vs. consensus estimates of a 5.6% decline. This led Gartner to project a 2.8% rise in shipment volumes for 2009, to a total of 298.9m units. Gartner further predicts that shipment volumes could rise by 12.6% to 336.6m units in 2010, powered by demand for mobile PCs and low prices. In addition, the recent launch of the new Windows 7 operating system which is generally being received more positively than Vista could also stir PC-buying interest.

**...and the mobile-phone segment.** Demand in the mobile phone market is also improving. According to IDC, worldwide mobile phone shipments rose 5.6% qoq as channel players promoted older devices at significantly reduced prices. This sets the stage for further gains as vendors launch new devices to meet pent-up demand. Demand for smartphones meanwhile had been strong all year round. In 3Q09, vendors shipped 43.3m units, up 4.2% and 3.2% yoy and qoq respectively.

**Recovery and plans of major customers.** As a result of the recovery in downstream demand, business for Hisaka's main customers like ASM Pacific Technology, the K&S Group and Flextronics had improved in the last quarter. They have generally guided for better performances in the next quarter. In addition, both ASM Pacific and Kulicke & Soffa appear to have plans to increase their penetration in Asia. ASM Pacific intends to consolidate its operations in Singapore and close its facilities in Nagaoka, Almere and Phoenix. Meanwhile, Kulicke & Soffa plans to shift its die bonder manufacturing facility to Singapore by 1Q10 and its wedge bonder manufacturing facility to Singapore by FY10.

Figure 7: Recovery at major customers

	Latest quarter	Interim Revenue	Interim Net profit	Order flows	Revenue guidance for next quarter
ASM Pacific Technology	3QFY09: Jul - Sep 09	HK\$1.6bn (+61% qoq)	HK\$401m (+151.1% qoq)	New orders: US\$233m Order backlog: US\$153m	
Flextronics	2QFY10: Aug - Oct 09	US\$5.8bn (+1% qoq)	US\$104m (+65% qoq)		US\$6.0 - 6.4bn (+3.4% qoq)
Kulicke & Soffa Group of Companies	4QFY09: Jul - Sep 09	US\$111m (+112% qoq)	US\$6.5m (+147% qoq)	Order backlog: US\$42m	US\$115 - 120m (+4 - 8% qoq)

Source: Various companies

**Going green.** In the wake of alarming findings on the impact of global warming and environmental pollution, countries and governments are stepping up their regulatory and other efforts to protect the environment. The recent Copenhagen Climate Summit and announcements by China and US on carbon emission reduction targets are perhaps some indicators of the potential pressure that could be exerted on companies to adopt 'greener' practices. There is thus potential demand for 'environmentally-friendly' equipment and solutions.

## Company outlook

**Ride on recovery in semiconductor and EMS industries.** As a result of the financial meltdown and the marked slowdown in the semiconductor and EMS industries, Hisaka's performance was adversely affected. Nonetheless, with a recovery in the semiconductor and EMS industries, we believe that the Group's ties with various leading customers in the industry will put it in good stead to benefit from the upturn. In particular, many of its key customers like ASM Group, Flextronics and K&S have seen vast improvements in their recent interim performance and increase in order flows. Flextronics and K&S have also guided for a stronger quarter going forward.

**Priorities moving forward.** Post-crisis, the Group's key priorities are to keep fixed costs, borrowings and interest expenses low. Through this, the Group hopes to conserve cash and maintain a strong balance sheet to ensure that it is able to capitalise on any investment opportunities in high-growth businesses.

**Diversification of industry sectors.** To reduce its reliance on the semiconductor industry, the Group plans to diversify its business exposure to those in the marine, environmental, automobile and medical industries for its customer base. The group will be focusing marketing efforts for new customers through an expansion of its sales and marketing team and network. In particular, the Group's contract wins in industries like environmental and medical industry this year is also expected to open doors for the Group in these industries.

**Forays into the 'green' sector with cutting-edge technology.** In diversifying its revenue streams, a key area the Group will be venturing into will be the 'Green' segment. In February this year, Hisaka incorporated a new subsidiary, iEcoPolis, which aims to provide intelligent eco-facility and infrastructure development and management solutions. Made up of three business units namely Connectivity, Lifestyle and Cleantech, Hisaka's portfolio includes the G3 Green Gas Generator, SolarDome Greenhouse Observatory, SSL LED Engine and so forth. In particular, green gas is a type of fuel gas derived from the separation of water. As it does not generate green house gases and pollutants when burned, green gas has the ability to replace traditional forms of fuel gases like acetylene, LPG and town gas in widespread commercial applications in industrial cutting, metal working and even cooking. Nonetheless, sales contribution from the division remains low and is currently classified as 'others' in segmental revenue contributions. However, with the group's plans to increase market acceptance for these products and favourable market trends, we believe that contributions from the division will increase over time.

**Strategic investment by Concord Capital.** In September 2009, Concord Capital acquired a 10.6% stake in Hisaka Holdings through a married deal with U9 Investment Pte Ltd, the dominant shareholder of the Group. The transaction was carried out at S\$0.25 per share, representing a CY09 P/BV of 1.2x. Concord Capital's chairman who concurrently sits on the boards of Concord Corporation Pte Ltd and AMS Group of Companies, Mr Tan Ngee Teck, has been appointed as a non-executive chairman of Hisaka. Concord Corporation provides engineering, procurement, design and installation services for Electrical, Instrumentation and Mechanical systems for infrastructural projects in areas like power generation, railway and transportation in Singapore, Malaysia and United Arab Emirates. Due to the similarity in business nature between Concord Corporation and Hisaka's manufacturing arm, we believe that the strategic investment could potentially open new doors for Hisaka's manufacturing segment in infrastructure projects and in new markets like United Arab Emirates which the Group has less exposure in.

Figure 8: SWOT analysis

<p style="text-align: center;"><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Comprehensive array of products and services.</li> <li>• Diverse base of more than 1,600 customers.</li> <li>• Business ties with industry leaders including ASM Group.</li> </ul>	<p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Upturn in the semiconductor equipment industry.</li> <li>• Order flows from the 'green' sector and new industries like the medical industry.</li> <li>• Strategic investment by Concord Capital.</li> </ul>
<p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Susceptibility to downturn in the semiconductor industry.</li> <li>• Reliance on a few key suppliers.</li> </ul>	<p style="text-align: center;"><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Downturn in the semiconductor industry.</li> <li>• Intense competition.</li> <li>• Susceptibility to foreign exchange fluctuations.</li> <li>• Exposure to fluctuation in cost of raw materials.</li> </ul>

## Risks

**Susceptibility to downturn in the semiconductor industry.** The Group is heavily reliant on the semiconductor industry as more than 40% of its total revenue comes from the industry. As this industry is highly cyclical, a slowdown in the industry could result in a significant decrease in demand for Hisaka's products, which might threaten the Group's profitability and financial position.

**Intense competition in industries which the Group operates in.** The industries which the Group operates in are highly competitive. Margins of the group can be adversely affected should the competitors engage in price wars to increase their market shares.

**Reliance on a few key suppliers.** Hisaka's top five suppliers account for more than 50% of the Group's total purchases in each year. The Group does not have long-term contracts with these suppliers. As such, any discontinuation in business relations or disruption in supplies, can delay the Group's operations and affect the Group's ability to deliver on time.

**Susceptible to foreign exchange fluctuations.** Hisaka's purchases are mainly made in USD\$, JPY, RMB while the Group's sales are mainly denominated in S\$, US\$, JPY and RMB or the local currency of the respective country of domicile of the company making the sales. Currently, Hisaka does not have any specific hedging policy to manage its foreign exchange exposure though it might occasionally engage in forwards to manage its foreign risks. Poor matching of sales and expenses coupled with adverse movements in foreign exchange can result in foreign exchange losses for Hisaka.

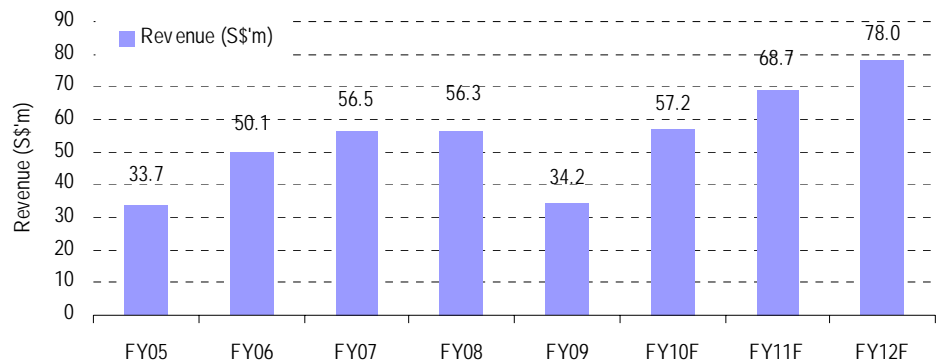
**Exposure to fluctuations in costs of raw materials.** Cost of raw materials account for more than 95% of Hisaka's cost of sales. Hisaka's raw materials include steel, aluminium, alloys, metals and components procured include linear motion, bearing, power transmission, pneumatic optical, guides, actuators, ball bearings and couplings products as well as electronic and mechanical components. Hisaka's cost of sales could increase substantially if the Group fails to locate cheaper sources in times of hikes in prices of raw materials and components.

## Financials

**Hurt by the downturn...** Due to Hisaka's reliance on the semiconductor industry, its business is highly cyclical. As such, while its revenue has been growing steadily pre-crisis, revenue dipped by 0.3% and 39.3% in FY08 and FY09 respectively as a result of weakening demand. Net profit meanwhile fell by a larger 34.6% and 82.7% in FY08 and FY09 respectively as operating margins plunged.

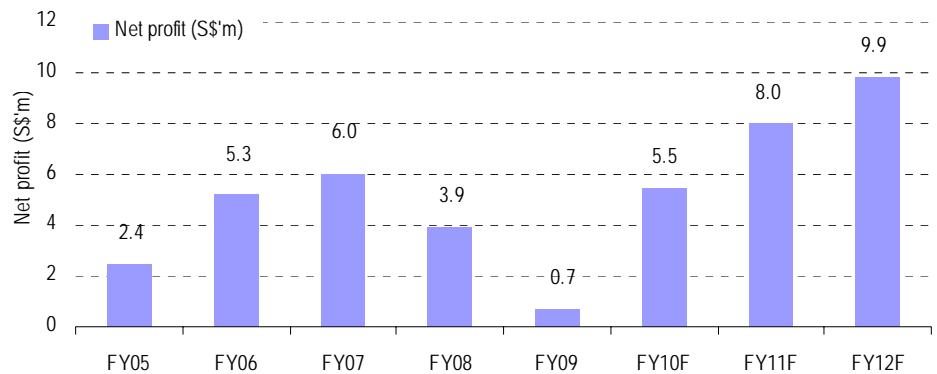
**...but upturn going forward.** However, with a strong recovery in downstream PC and mobile phone demand and semiconductor and equipment capex, we are expecting to see a strong recovery in net income and revenue in FY10. Post-FY10, we expect both the top and bottom line to grow in tandem with recovery in the semiconductor and EMS industries as we project increased order flows. In addition, with the Group's plan to diversify its revenue streams, we are expecting increased earnings flow from the 'green' sector.

Figure 9: Historical and projected revenue



Source: CIMB-GK Research, Company

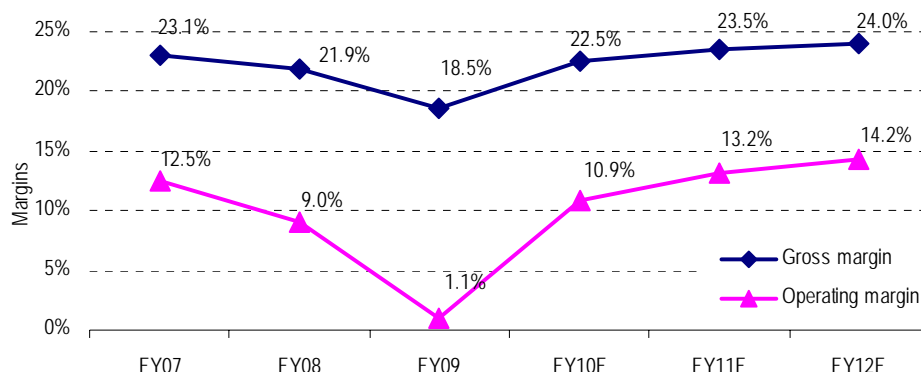
Figure 10: Historical and projected net profit



Source: CIMB-GK Research, Company

**Margins to recover from FY10.** Hisaka's margins fell sharply in FY09 as a result of the downturn. Nonetheless, with an upturn in sight, we expect gross and operating margins to track the upturn and return back to pre-crisis levels. In addition, we expect further improvements in margins with increased contributions from projects in the 'green' sector.

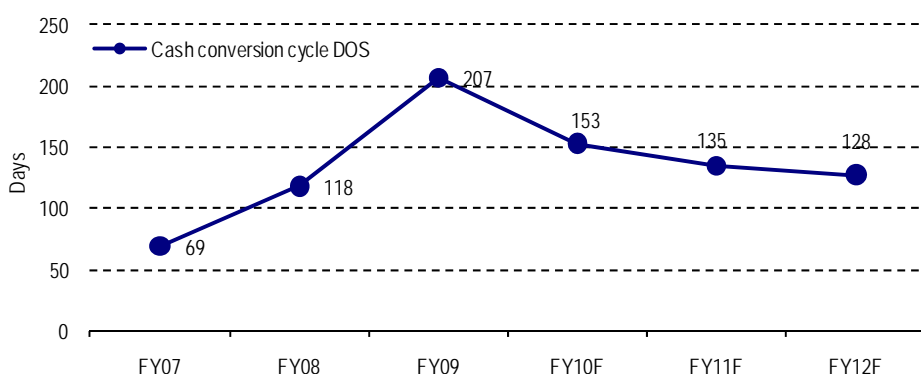
Figure 11: Historical and projected gross and operating margins



Source: CIMB-GK Research, Company

**Working capital cycle.** In FY09, cash conversion cycle days spiked up considerably due to longer receivable and inventory days, which we believe is largely a result of the industry downturn. However, going forward, we expect receivables days to shorten as business conditions improve. We also expect Hisaka to keep inventories lean and inventory days to decrease accordingly. Overall, with the culmination of the above, we expect cash conversion cycle days to shorten over time.

Figure 12: Working Capital Trends and forecasts



	FY07	FY08	FY09	FY10F	FY11F	FY12F
Receivables DOS	106	108	165	131	117	110
Inventory DOS	105	115	136	120	117	117
Payables DOS	142	104	94	99	99	99
Cash conversion cycle DOS	69	118	207	153	135	128

Source: CIMB-GK Research, Company

**Dividend payout.** While Hisaka does not have a formal dividend policy, the Group has consistently rewarded shareholders with an annual dividend of 1sct for FY08 and FY09, despite FY09 being a comparatively weaker year in terms of profitability. Going forward, we have pencilled in a dividend of 1sct each year. This translates to a decent dividend yield of 4.2% each year at the current price of S\$0.24. With improvement and strengthening of the Group's profitability and financial position, there is room for the Group to raise its dividend payout.

## Valuation and recommendation

**Initiate with BUY and target price of S\$0.30**, pegged at the technology sector peer average CY11 P/E of 6.7x. We feel that this is reasonable in light of Hisaka's strong financial position and ability to ride on the upturn in the semiconductor industry. The target price of S\$0.30 also implies a CY10 P/BV of 1.3x, which is similar to the 1.2x CY09 P/BV paid by Concord Capital in September 2009 when it invested in a 10.6% stake at S\$0.25 per share. At end-Sep 09, the Group is in a net cash position of S\$15m and at S\$0.30, Hisaka would be trading at an undemanding ex-cash CY11 P/E of 3.7x. With the semiconductor industry recovery in full swing, we believe that Hisaka could enjoy EPS CAGR of 34.1% for FY10 – 12. ROE could also increase from 13.9% in FY10 to 19.2% in FY12. We also see potential catalyst from synergistic cooperation opportunities between Hisaka and Concord Corporation following the strategic stake invested by the latter and the appointment of Concord Capital's chairman, Mr Tan Ngee Teck, as the non-executive director of Hisaka.

Figure 10: Technology Sector

	Bloomberg ticker	Recom.	Price (Local)	Target price (Local)	Mkt cap (US\$ m)	Core P/E (x)		3-yr EPS CAGR (%)	P/BV (x) CY2010	ROE (%) CY2010	Div yield (%) CY2010
						CY2010	CY2011				
Hisaka Holdings	HISA SP	Buy	\$0.22	\$0.30	31.4	7.3	5.2	46.4	0.9	17.8	4.5
Armstrong	ARMS SP	O	0.27	0.37	99	8.3	6.7	3.8	1.4	17.1	3.6
Broadway	BWAY SP	O	0.63	1.04	92	4.6	3.6	11.8	0.6	13.5	3.2
Cal-Comp	CCET TB	U	3.08	2.81	366	8.2	6.3	2.8	0.8	9.9	6.5
Creative	CREAF SP	U	6.50	4.88	397	(9.3)	(12.9)	43.4	1.1	(7.0)	1.5
Delta	DELTA TB	O	18.90	23.65	711	10.2	7.9	(0.7)	1.3	14.1	6.5
Elec & Eltek	ELEC SP	O	1.86	1.99	334	7.6	6.2	8.6	1.0	12.8	11.0
Huan Hsin	HUAN SP	O	0.26	0.41	74	6.8	3.9	223.7	0.3	4.8	-
Innovalues	IP SP	N	0.17	0.18	39	16.2	7.5	20.9	0.9	5.9	-
Kingboard	KCF SP	O	0.31	0.35	158	10.6	6.3	10.3	0.5	4.8	2.1
Meiban	MEI SP	O	0.31	0.45	74	8.2	6.3	(4.2)	0.7	8.4	6.5
Venture	VMS SP	U	8.90	9.58	1,746	14.3	12.7	(11.9)	1.2	8.3	5.6
Simple average (excl. Hisaka Holdings)						9.5	6.7	28.0	0.9	8.4	4.2

Source: CIMB-GK Research, Bloomberg

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## Management



### **Anthony Cheng (Executive Chairman)**

Mr Anthony Cheng is the Executive Chairman and the founder of Hisaka. He was appointed to the Board on 23 June 2005. While he is responsible for setting the Group's corporate and business directions, he is also actively involved in its PRC operations. With over 20 years of experience in the automation and semiconductor industry, Mr Cheng provides leadership for the Group and is responsible for the expansion of Hisaka overseas.



### **Jackie Cheng (Chief Executive Director)**

Mr Jackie Cheng is the Group's Chief Executive Officer and was appointed to the Board on 23 June 2005. While he is responsible for the overall management and business development of our Group, he also works closely with the Executive Chairman to set the Group's corporate and business directions. In addition, Mr Cheng is also responsible for the Group's corporate exercises, mergers and acquisitions and fund raising activities.



### **Jessica Ong (Executive Director – Strategic Business)**

Ms Jessica Ong is the Group's Executive Director – Strategic Business and was appointed to the Board on 28 September 2007. She assists the Chief Executive Officer with the planning, evaluation and implementation of business opportunities and is responsible for managing the strategic growth of our Group. Ms Ong is also actively involved in the Group's corporate exercises, mergers and acquisitions and fund raising activities.



### **John Tan (Non-Executive Director)**

Mr John Tan is Hisaka's Non-Executive Director and was appointed on 4 March 2008. He is also the Director and Managing Director of many local companies. Backed by his extensive experience in finance, investments and M&A, he provides investment and consulting services to individuals and companies on their investment and M&A exercises. Mr Tan is also an Independent Director of BRC Asia Limited and the Non-Executive Director of See Hup Seng Limited, both of which are listed on the official list of the SGX-ST.



### **Tan Ngee Teck (Non-Executive Director)**

Mr Tan Ngee Teck was appointed as Hisaka's Non-Executive Director on 15 October 2009. He is the Chairman and Chief Executive Officer of AMS Group, a company that provides engineering and manufacturing services to the semiconductor, medical and marine and offshore industries. He is also the Executive Director of Concord Corporation Pte Ltd, a company that provides engineering design, project management and construction works on electrical and instrumentation installation for the infrastructure and process plant industry. Mr Tan was formerly the Executive Chairman of Alantac Technology Ltd, where he was responsible for the overall management, corporate strategic planning, operations and marketing of the Group. Mr Tan graduated with a Bachelor Degree major in Finance & Banking and minor in Accountancy from the Northeast Louisiana University, USA. In addition to being a member of Board of Directors of listed company, he is also a member of Board of Directors of SID.



### **Goon Kok Loon (Lead Independent Director)**

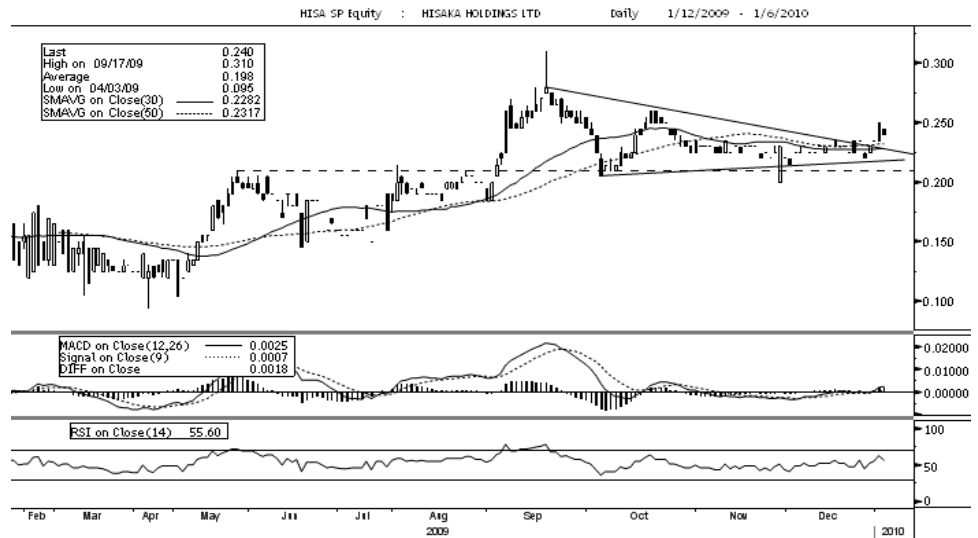
Mr Goon Kok Loon is the Group's Lead Independent Director and was appointed on 4 March 2008. He is currently the Executive Chairman of Global Maritime Services Pte Ltd. He is also an Independent Director of Yongnam Holdings Ltd, Jaya Holdings Limited and Venture Corporation Ltd, all of which are listed on the official list of the SGX-ST. With over 40 years of extensive experience in corporate management, operations and administration, both locally and internationally, Mr Goon has been conferred both the silver and gold public administration medals from the Singapore Government. He is a fellow of the Chartered Institute of Logistics and Transport.



### **Chong Weng Hoe (Independent Director)**

Mr Chong Weng Hoe was appointed as Hisaka's Independent Director on 4 March 2008. He is currently the Chief Executive Officer of TUV SUD PSB Pte Ltd. Backed by extensive experience in financial management, marketing and customer support and project management, Mr Chong is also a director of several companies, both locally and overseas. In addition to being a member of the Singapore National Council for International Electrotechnical Commission and the Consumer Product Safety Advisory Committee, he is also a member of the task force for the Singapore-Thailand Enhanced Economic relationship (STEER).

## Technical view



- Technical **BUY**.
- Hisaka has formed a consolidation triangle while trading sideways for about 4-month and it has now broken out of this consolidation pattern. This breakout with decent volume augurs well for the stock in the days ahead.
- As long as prices stay above the S\$0.205-0.21 support level, we think that the bulls are still in game. With indicators starting to rise, the stock could continue to head higher towards S\$0.26-0.28 first and could even reach S\$0.31, the Sept 09 highs.
- Aggressive traders may opt to buy some now and the rest on weakness but place a stop below S\$0.20.

## Financial tables

<b>PROFIT &amp; LOSS (\$\$ m, FYE Sep)</b>	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
Revenue	56.3	34.2	57.2	68.7	78.0
Operating expenses	(50.6)	(33.2)	(50.3)	(58.9)	(66.0)
EBITDA	5.7	0.9	6.9	9.8	12.0
Depreciation & amortisation	(0.6)	(0.6)	(0.7)	(0.8)	(0.9)
EBIT	5.1	0.4	6.2	9.0	11.1
Net interest & invt income	(0.0)	0.2	0.1	0.2	0.2
Associates' contribution	1.0	0.4	0.6	0.9	1.2
Exceptional items	(1.1)	-	-	-	-
<b>Pretax profit</b>	<b>4.8</b>	<b>0.9</b>	<b>7.0</b>	<b>10.1</b>	<b>12.5</b>
Tax	(0.9)	(0.3)	(1.5)	(2.1)	(2.6)
Minority interests	(0.0)	(0.0)	-	-	-
<b>Net profit</b>	<b>3.9</b>	<b>0.7</b>	<b>5.5</b>	<b>8.0</b>	<b>9.9</b>
Wt. shares (m)	162.2	194.6	189.3	189.3	189.3
Shares at year-end (m)	200.6	189.3	189.3	189.3	189.3

<b>BALANCE SHEET (\$\$ m, FYE Sep)</b>	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
Fixed assets	2.8	2.6	2.4	2.1	1.7
Intangible assets	-	-	-	-	-
Other long-term assets	1.6	2.0	2.6	3.5	4.7
<b>Total non-current assets</b>	<b>4.4</b>	<b>4.6</b>	<b>5.0</b>	<b>5.6</b>	<b>6.4</b>
Cash and equivalents	17.8	15.1	14.7	19.4	25.4
Stocks	13.2	7.5	14.6	16.8	19.0
Trade debtors	13.8	17.1	20.6	22.0	23.4
Other current assets	0.5	-	-	-	-
<b>Total current assets</b>	<b>45.3</b>	<b>39.7</b>	<b>49.9</b>	<b>58.2</b>	<b>67.7</b>
Trade creditors	8.2	6.1	12.0	14.2	16.0
Short-term borrowings	0.1	0.0	0.0	0.0	0.0
Other current liabilities	0.9	0.3	1.5	2.1	2.6
<b>Total current liabilities</b>	<b>9.1</b>	<b>6.4</b>	<b>13.5</b>	<b>16.3</b>	<b>18.6</b>
Long-term borrowings	0.1	0.0	0.0	0.0	0.0
Other long-term liabilities	0.1	0.1	0.1	0.1	0.1
<b>Total long-term liabilities</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>Shareholders' funds</b>	<b>40.4</b>	<b>37.7</b>	<b>41.3</b>	<b>47.4</b>	<b>55.4</b>
Minority interests	0.0	0.1	0.1	0.1	0.1
NTA/share (\$\$)	0.20	0.20	0.22	0.25	0.29

<b>CASH FLOW (\$\$ m, FYE Sep)</b>	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
Pretax profit	4.8	0.9	7.0	10.1	12.5
Depreciation & non-cash adjustments	0.9	(0.1)	(0.1)	(0.3)	(0.5)
Working capital changes	1.6	1.1	(4.8)	(1.4)	(1.7)
Cash tax paid	(1.2)	(0.9)	(0.3)	(1.5)	(2.1)
Others	-	-	-	-	-
<b>Cash flow from operations</b>	<b>6.2</b>	<b>1.2</b>	<b>1.8</b>	<b>7.0</b>	<b>8.2</b>
Capex	(0.5)	(0.4)	(0.5)	(0.5)	(0.5)
Net investments & sale of FA	0.1	0.3	0.1	0.2	0.2
Others	-	-	-	-	-
<b>Cash flow from investing</b>	<b>(0.4)</b>	<b>(0.1)</b>	<b>(0.4)</b>	<b>(0.3)</b>	<b>(0.3)</b>
Debt raised/(repaid)	(2.5)	(0.1)	-	-	-
Equity raised/(repaid)	14.7	-	-	-	-
Dividends paid	(2.0)	(2.0)	(1.9)	(1.9)	(1.9)
Cash interest & others	(2.2)	(1.4)	(0.0)	(0.0)	(0.0)
<b>Cash flow from financing</b>	<b>7.9</b>	<b>(3.5)</b>	<b>(1.9)</b>	<b>(1.9)</b>	<b>(1.9)</b>
<b>Change in cash</b>	<b>13.7</b>	<b>(2.4)</b>	<b>(0.4)</b>	<b>4.8</b>	<b>6.0</b>
<b>Change in net cash/(debt)</b>	<b>16.2</b>	<b>(2.3)</b>	<b>(0.4)</b>	<b>4.8</b>	<b>6.0</b>
Translation & others	-	-	-	-	-
<b>Ending net cash/(debt)</b>	<b>17.4</b>	<b>15.0</b>	<b>14.6</b>	<b>19.4</b>	<b>25.4</b>

<b>KEY RATIOS (FYE Sep)</b>	<b>2008</b>	<b>2009</b>	<b>2010F</b>	<b>2011F</b>	<b>2012F</b>
Revenue growth (%)	(0.3)	(39.3)	67.4	20.1	13.4
EBITDA growth (%)	(25.4)	(83.5)	635.8	42.5	22.1
Pretax margins (%)	8.6	2.8	12.2	14.7	16.0
Net profit margins (%)	7.0	2.0	9.6	11.6	12.7
Interest cover (x)	51.3	119.6	2,209.9	3,206.0	3,973.1
Effective tax rates (%)	18.6	28.3	21.0	21.0	21.0
Net dividend payout (%)	51.1	278.8	34.4	23.7	19.1
Ave Debtors turnover (days)	108	165	120	113	106
Ave Stock turnover (days)	115	111	71	84	84
Ave Creditors turnover (days)	104	76	58	69	71

Source: CIMB-GK Research

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**HOLD:** The stock's total return is expected to range between +15% and -15% over the next three months.

**SELL:** The stock's total return is expected to be -15% or worse over the next three months.

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