

ASTI Holdings

4Q09 results update

BUY

Current Price S\$0.07
03 March 2010

Fair Value S\$0.18

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Historical Chart



Source: Bloomberg

Stock Statistics

Market Cap	S\$37.5m
52-HI	S\$0.14
52-LOW	S\$0.055
Avg Vol (1 yr)	1,156,776
Shares Outstanding	572.8m
Free Float	380.5m

Key Indicators

ROE 10F	6.0%
ROA 10F	2.2%
P/BK	0.5
Net gearing	0.17x

Major Shareholders

Michael Loh S.G.	20.3%
Tan Kee Liang	6.9%
Heah Theare Haw	6.5%

Strong turnaround in core earnings

- **Core earnings above expectation due to exceptional item.** 4Q09 core net profit of \$10.2m was above our S\$3.3m expectation due mainly to higher-than-expected sales as well as better-than-expected margins recovery. However, including the S\$9.8m non-cash exceptional items (one-off item), net profit of S\$0.5m was 86% below our expectation.
- **Sales increased 2% yoy or 11% qoq to S\$122.4m in 4Q09** as business from equipment showed strong growth toward the end of FY09. Sales of backend equipment solutions & technologies (BEST) increased 68% yoy to form 31% of total sales (improved from 26% in 3Q09). However, sales of distribution & services fell 13% yoy to S\$84.9m as management restructured and consolidated its distribution business.
- **Gross margins expanded by 5.5% pts yoy to 19.5% in 4Q09**, due mainly to higher contribution from BEST division, which generated higher margins. Together with various cost saving initiatives and better economies of scale from its BEST division, EBITDA margins rose from negative 3.6% in 4Q08 to positive 8.8% in 4Q09. Despite a S\$0.7m forex loss and S\$9.6m exceptional loss on restructuring of the group's businesses, net profit has turned around from S\$6.7m loss to S\$0.5m profit.
- **Balance sheet remains healthy.** ASTI generated S\$10.7m of positive free cash flow in this quarter due mainly to the strong core earnings generated and controlled capex. However its cash conversion cycle increased by 43 days qoq to 116 days due to higher working capital requirements. As a result, net gearing increased slightly from 14% as at end-Sep09 to 17%.
- **Outlook remains bright.** Management expects the equipment industry will return to normal seasonal patterns after a better-than-expected year for the global semiconductor industry in 2009. Traditionally, 1Q is the weakest quarter for ASTI. However, we see the data is still showing growth as North America-based manufacturers of semiconductor equipment posted US\$1.13bn in orders in January 2010 and a book-to-bill ratio of 1.20. This is the first time orders have grown back above a billion dollars since its decline below this level in June 2008.
- **Maintain target price and Buy recommendation.** We have tweaked our FY10-11 profit forecasts by -2% to -4% after cutting our FY10-11 sales estimate by 15-18% to factor in disposed of the Taiwan distribution business and higher margins from the BEST division. Our fair value inched up from S\$0.17 to S\$0.18 as we roll forward our valuation pegged from 1.26x PBR FY09 to 1.2x PBR FY10 (still in line with its 5 years mean forward price to book ratio). Maintain Buy.

Key Financial Data

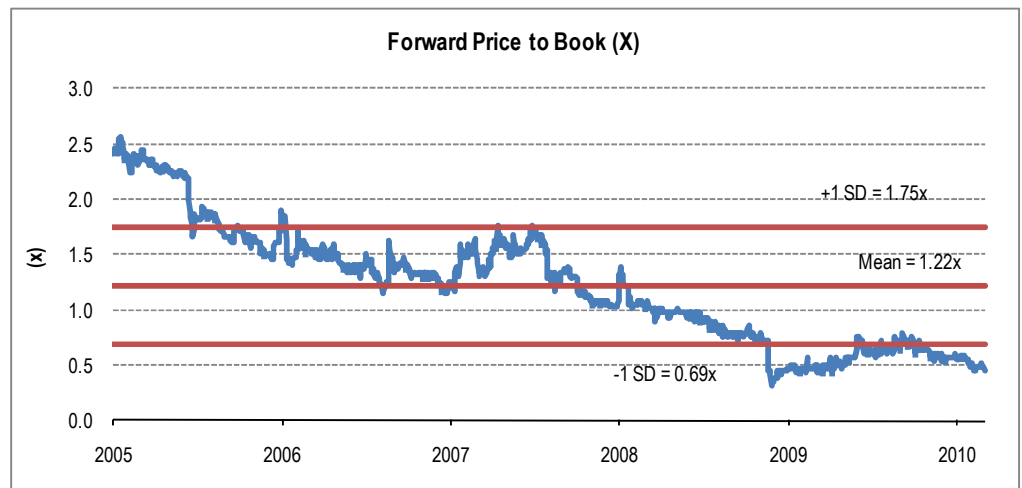
(S\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Sales	515.8	428.7	414.8	471.2	475.6
Gross Profit	73.5	71.4	72.2	80.1	78.5
Net Profit	(14.7)	(3.7)	5.1	10.5	9.5
Core Net Profit	(11.8)	7.7	6.4	10.5	9.5
Core EPS (cents)	(2.3)	1.4	1.2	2.0	1.8
Core EPS growth (%)	nm	162.6	(17.0)	64.7	(8.9)
PER (x)	nm	4.9	5.9	3.6	3.9
NTA/share (cents)	14.4	14.0	15.3	17.3	19.2

Source: Company, NRA Capital

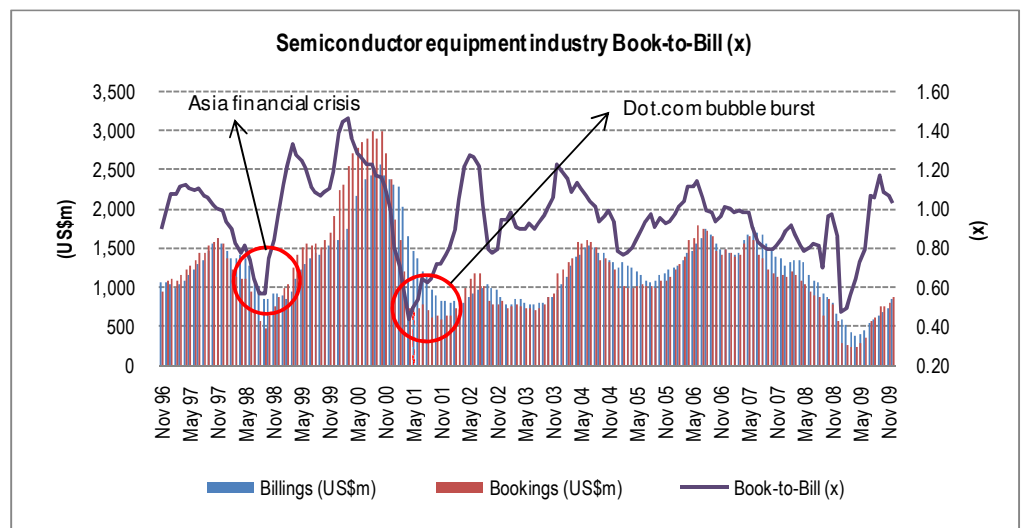
Results comparison

FYE Dec (\$ m)	4Q09	4Q08	yoy % chg	3Q09	qoq % chg	Prev. 4Q09F	Comments
Revenue	122.4	119.5	2	110.7	11	99.6	23% above expectation
Operating costs	(111.6)	(123.8)	(10)	(103.3)	8	(93.4)	Above, higher-than-expected sales
EBITDA	10.8	(4.3)	352	7.4	46	6.3	Above, higher-than-expected sales and margins
EBITDA margin (%)	8.8	(3.6)		6.7		6.3	Above, better economics of scale
Depn & amort.	(2.5)	(3.1)	(20)	(2.5)	0	(2.5)	In line
EBIT	8.3	(7.4)	211	4.9	70	3.7	Above, better-than-expected sales and margins
Interest expense	(1.3)	(2.0)	(37)	(1.3)	(2)	(0.9)	Above, higher-than-expected loan rate
Interest & invt inc	1.2	3.3	(64)	(0.6)	304	1.6	Below, affected by S\$0.7m forex loss
Associates' contrib	0.0	0.0	(67)	(0.0)	114	(0.1)	
Exceptionals	(9.8)	(2.7)	258	0.0	nm	0.0	Impairment on restructuring of businesses
Pretax profit	(1.6)	(8.8)	(82)	3.0	(153)	4.3	Below, affected by impairment losses
Tax	(0.9)	0.4	(335)	(0.7)	32	(1.1)	
Tax rate (%)	(57.6)	4.4		23.2		26.6	
Minority interests	2.9	1.7	70	0.1	3,869	0.1	
Net profit	0.5	(6.7)	107	2.4	(80)	3.3	Below, affected by impairment losses
EPS (cts)	0.1	(1.3)	107	0.4	(80)	0.6	Below, affected by impairment losses
Core net profit	10.2	(4.0)	355	2.4	335	3.3	Above, higher-than-expected sales and margins
Core EPS (cts)	2.0	(0.7)	375	0.6	237	0.6	Above, higher-than-expected sales and margins

Source: NRA Capital estimates



Source: Bloomberg, NRA Capital Estimates



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

Profit & Loss (\$\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue	515.8	428.7	414.8	471.2	475.6
Operating expenses	(511.3)	(408.7)	(395.8)	(445.4)	(452.5)
EBITDA	4.5	20.0	19.0	25.8	23.2
Depreciation & amortisation	(12.5)	(11.0)	(9.8)	(11.1)	(10.7)
EBIT	(8.1)	9.0	9.2	14.7	12.5
Net interest & invt income	(3.2)	(4.1)	(3.4)	(1.4)	(0.4)
Associates' contribution	(1.5)	(0.1)	1.2	1.2	1.2
Exceptional items	(2.7)	(9.8)	0.0	0.0	0.0
Pretax profit	(15.5)	(5.0)	7.0	14.5	13.3
Tax	(1.7)	(2.5)	(2.0)	(4.1)	(3.7)
Minority interests	2.5	3.8	0.0	0.0	0.0
Net profit	(14.7)	(3.7)	5.1	10.5	9.5
Wt. shares (m)	515.7	536.0	536.0	536.0	536.0
Shares at year-end (m)	515.7	536.0	536.0	536.0	536.0
Balance Sheet (\$\$ m, as at Dec)	2008	2009	2010F	2011F	2012F
Fixed assets	40.4	28.4	26.0	22.9	20.1
Intangible assets	14.7	13.1	12.5	11.9	11.3
Other long-term assets	6.8	2.7	2.8	2.8	2.9
Total non-current assets	62.0	44.2	41.2	37.6	34.3
Cash and equivalents	52.7	45.1	60.1	48.1	50.7
Stocks	54.0	46.6	48.0	54.8	55.6
Trade debtors	103.1	97.9	102.6	116.5	117.6
Other current assets	31.9	51.2	36.7	38.1	39.8
Total current assets	241.6	240.9	247.4	257.4	263.7
Trade creditors	37.1	21.6	31.1	25.9	23.8
Short-term borrowings	79.2	56.3	47.7	42.4	33.3
Other current liabilities	76.7	99.4	97.7	103.5	108.3
Total current liabilities	193.0	177.2	176.5	171.8	165.4
Long-term borrowings	3.2	5.7	4.1	3.8	3.7
Other long-term liabilities	2.4	2.0	1.5	2.5	2.5
Total long-term liabilities	5.6	7.7	5.6	6.2	6.2
Shareholders' funds	89.0	88.0	94.3	104.7	114.2
Minority interests	16.0	12.2	12.2	12.2	12.2
NTA/share (\$\$)	0.14	0.14	0.15	0.17	0.19
Total Assets	303.6	285.1	288.6	295.0	298.0
Total Liabilities + S'holders' funds	303.6	285.1	288.6	295.0	298.0
Cash Flow (\$\$ m, FYE Dec)	2008	2009	2010F	2011F	2012F
Pretax profit	(15.5)	(5.0)	7.0	14.5	13.3
Depreciation & non-cash adjustments	9.3	20.6	15.0	12.1	10.1
Working capital changes	0.7	11.2	3.0	(25.8)	(3.2)
Cash tax paid	(2.2)	(2.0)	(4.1)	(2.5)	(3.5)
Others	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	(7.8)	24.8	21.0	(1.6)	16.6
Capex	(6.2)	(2.1)	(5.0)	(5.0)	(5.0)
Net investments & sale of FA	(0.9)	4.1	0.0	0.0	0.0
Others	(0.4)	1.0	0.0	0.0	0.0
Cash flow from investing	(7.5)	3.0	(5.0)	(5.0)	(5.0)
Debt raised/(repaid)	(1.6)	(19.6)	(10.1)	(5.6)	(9.2)
Equity raised/(repaid)	(2.8)	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Cash interest & others	(2.3)	(15.0)	9.2	0.2	0.2
Cash flow from financing	(6.8)	(34.6)	(1.0)	(5.5)	(9.0)
Change in cash	(22.0)	(6.8)	15.0	(12.1)	2.6
Change in net cash/(debt)	(20.4)	12.8	25.1	(6.4)	11.8
Ending net cash/(debt)	(29.6)	(16.8)	8.3	1.9	13.7
KEY RATIOS (FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue growth (%)	(13.6)	(16.9)	(3.2)	13.6	0.9
EBITDA growth (%)	(81.2)	347.5	(4.9)	35.7	(10.4)
Pretax margins (%)	(3.0)	(1.2)	1.7	3.1	2.8
Net profit margins (%)	(2.8)	(0.9)	1.2	2.2	2.0
Interest cover (x)	(1.1)	0.1	2.6	4.9	5.5
Effective tax rates (%)	(10.7)	(50.9)	28.0	28.0	28.0
Net dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Debtors turnover (days)	74.9	85.6	88.2	84.8	89.8
Stock turnover (days)	51.0	51.4	50.4	47.9	50.7
Creditors turnover (days)	28.5	25.0	23.2	22.1	19.1

Source: Company, NRA Capital Estimates

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