

**HLIB Research**

PP 9484/12/2012 (031413)

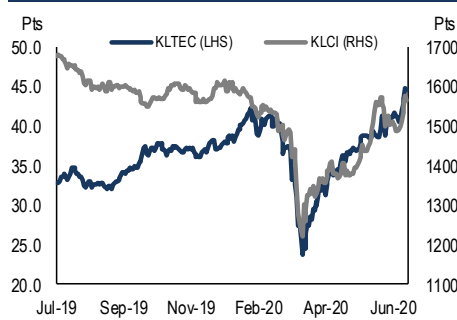
Tan J Young

[jt看@hlib.hongleong.com.my](mailto:jt看@hlib.hongleong.com.my)

(603) 2083 1721

**NEUTRAL** (Maintain)

**KLTEC vs KLCI**



**Stock Rating**

Stock	Rating	Price	Target
Frontken	BUY	3.15	3.47
Inari	HOLD	1.83	1.57
Revenue	HOLD	1.30	1.19
Unisem	HOLD	2.39	2.32
UWC	BUY	4.25	4.90
ViTrox	SELL	9.90	8.43

# Technology

## Race to supremacy

Outperformed the broader index after a remarkable recovery from Mar's plunge. For strategic and security reasons, many heavy investments are earmarked to for frontend subsector which will likely lead to robust capex in near to mid-term. However, we do not see such catalyst for OSAT and view frontend's forward integration as a threat and will erode its market share. While semiconductor sales forecast remains lacklustre, capital spending projection is encouraging reinforcing our position of favouring frontend over backend players. Maintain **NEUTRAL** on the sector with Frontken and UWC as our top picks.

**Outperformed in 1H20.** After a rapid recovery from Mar's plunge, KLTEC gained 8% vs KLCI's 6% decline (see Figure #1). Our earlier bearish view was proven right and share prices of our 3 SELL calls nosedived beyond our TP. Our only regret was not able to upgrade the sector timely enough when market sentiment turned around.

**Blessing in disguise.** Following the spark of US-China/Huawei tech war, many have rushed to develop their semiconductor capabilities, especially in leading edge ( $\leq 7\text{nm}$ ) frontend fabrication (foundry) to be self-sufficient on the back of national strategic and security interests. As a result, this has led to huge investment commitments such as China IC Fund (USD29bn), American Foundries Act (USD20bn), CHIPS for America Act (USD10bn), TSMC's Arizona foundry (USD12bn), SMIC's Shanghai share sale (USD6.6bn), Taiwan subsidies (USD260m) and more. Coupled with the undersupply situation for advance node in the market, we opine that frontend subsector capex will be robust in the near to mid-term, benefiting companies such as Frontken, UWC and SAM Engineering (not rated).

**How about OSAT?** The solid frontend orders should trickle-down, benefiting backend players. However, heavy investment is not expected to be a catalyst or ploughed into this low-value segment which only contribute circa 10% of the value of an IC. As such, frontend's gradual forward integration will eventually erode pure OSAT's market share by providing one-stop and superior solutions (2.5/3D heterogeneous integration, HBM, chiplets and etc).

**Global semiconductor sales.** Despite achieving 6% growth to USD137bn in 4M20 (see Figure #2), the latest industry average growth projection is slashed from initial 7% to merely 2% (see Figure #3), this is even lower than our earlier conservative estimate of circa 5%. The growth is chiefly driven by memory (+15%) followed by logic and micro (+3%), offsetting the weaknesses in discrete (-7%), analog (-6%), opto (-5%) and sensors (-2%) (see Figure #4). If memory prices continue to head south (see Figure #5), we do not discount another downward revision in global sales estimate. As for 2021, the sector is expected to pick up the slack in 2020 with an average growth of 11% (see Figure #6).

**Equipment spending.** Capital investment was strong in 5M20 with 21% gain in 3MA billings to USD12bn (see Figure #7). Based on SEMI's latest forecast, there will be 13 new fab constructions (Chinax4, Taiwanx4, Americasx2, SEAx2 and Othersx1) in 2020 with a total investment of USD38bn yielding additional installed capacity of 473kwpm (200mm equivalent). For 2021, 7 new fabs will be developed (Americasx2, Chinax2, Taiwanx1, Koreax1 and Othersx1) with total capex of USD37bn with a total capacity of 289kwpm. This projection validates our view on frontend's vigorous capex ahead and reinforces our bullishness on this sub segment.

**Stronger greenback.** HLIB expects USD to be stronger in 2020 averaging RM4.23-4.28/USD compared to 2019's average of RM4.14/USD (see Figure #8). As such, we expect tech firms to be marginally boosted thanks to their USD-denominated sales while partly offset by the USD cost items.

**High input cost.** Gold and copper prices are on the upward trajectories (see Figure #9) and may spell bad news for OSATs. Compounded by stronger USD projection, pricier commodities will exert pressures on margins for packagers. On the contrary, steel and aluminium prices have retraced materially from the elevated levels during 2018-19 which will benefit equipment players such as UWC and ViTrox.

**Segmental view.** Recovery in smartphone along with communication segments are expected to be the major growth driver on the back of 5G proliferation. Next would be high-performance computing (HPC) supported by the robust cloud investments by global tech giants. Although IoT device generally has lower IC content, the sheer forecasted volume suggests that this market is too big to ignore. Lastly, automotive is still stuck in the low gear as global car sales has yet to see any material uptick.

**Maintain NEUTRAL.** However, we tactically position ourselves in favour of frontend over backend players based on the thesis above. As such, our top picks for the sector are Frontken and UWC.

In line with our upbeat outlook on the subsector, we rerate frontend players to 35x PE (previously 28x) which is more reflective to global peers' valuations (see Figure #10) with a slight premium. We adjust **Frontken** FY21-22 earnings forecasts by +16% and +15%, respectively while keeping FY20 unchanged taking into consideration of the pandemic impact on its O&G segment. In turn, Frontken TP is raised from RM2.40 to **RM3.47** (35x of FY21 EPS) and we upgrade its rating to **BUY** from Hold. As for **UWC**, we adjust FY21-22 EPS by +11% and +17%, respectively taking into consideration of the potential contribution from new frontend client commencing FY21. After the upward earnings revision, our TP is lifted from RM3.45 to **RM4.90**, pegged to 35x of CY21 EPS. Maintain **BUY**. We strongly believe that Frontken and UWC will continue to chart record high earnings in coming quarter and for FY20.

**A hidden gem?** Under-researched **SAM Engineering and Equipment (not rated)** has morphed into a sizable semiconductor contract manufacturer after successful diversification strategy from aerospace market. Its equipment business has outgrown aerospace in FY20 with revenue and PBT accounted for 52% and 63% of overall. Supported by strong parents (SAM Group and Accuron Technologies), SAM has exposure in semiconductor frontend and storage devices with reputable customers (Agilent, Teradyne, KLA Tencor, Bosch, P&G and etc) in telecommunication, medical and automotive sectors. Conservatively, assuming that any slack from aerospace will be compensated by equipment's strength and yield a flattish bottom line for FY21 (RM80m), SAM is currently trading at undemanding 13.6x PE. However, we do note the concerns of liquidity and severe-than-expected slump in aerospace segment which should be mitigated by its initiatives to divert capacity to equipment business.

As for OSATs, we left their earnings untouched but increased their TP after pegging to higher PE multiples. **Inari Amertron** TP is now **RM1.57** from RM1.28, pegged to 25x (previously 20x) of CY21 FD EPS while **Unisem** TP is now **RM2.32** from RM1.74, valued at 20x (previously 15x) of FY21 EPS. **HOLD** calls for both are unchanged.

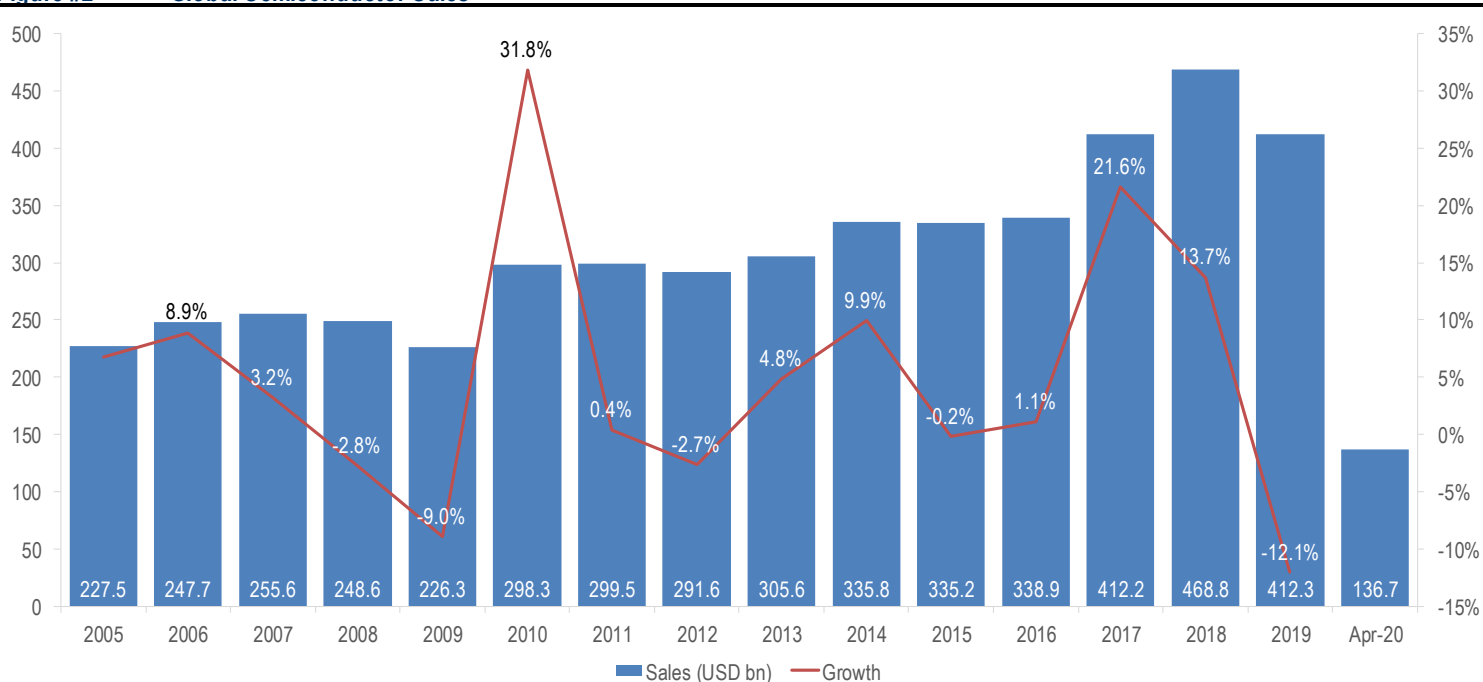
**SELL** call on **ViTrox** is maintained even after we bump up its TP from RM6.74 to **RM8.43** with a higher valuation of 30x of FY21 EPS (previously 24x).

**Figure #1 Techs' Share Price Performance**

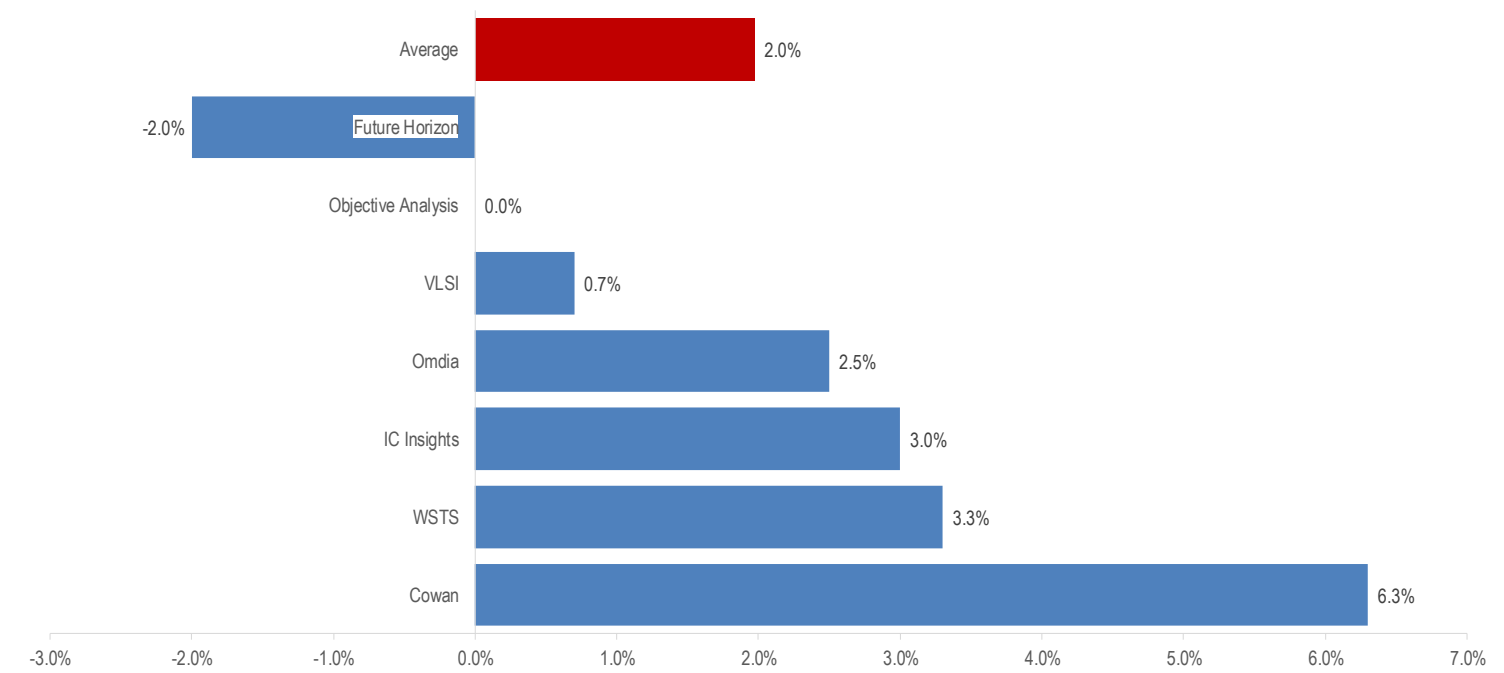
	Closing Price (RM)				Change (%)		
	2017	2018	2019	1H20	2018	2019	1H20
KLCI	1,796.81	1,690.58	1,588.76	1,500.97	-5.9	-6.0	-5.5
Technology	41.86	29.34	37.91	41.01	-29.9	29.2	8.2
Elsoft	2.70	1.09	0.83	0.62	-3.1*	-23.9	-25.9
Frontken	0.46	0.71	2.29	2.53	53.3	224.8	10.5
Globetronics	6.60	1.75	2.33	2.14	-38.1*	33.1	-8.2
Inari Amertron	3.40	1.50	1.70	1.69	-33.8*	13.3	-0.6
MPI	12.61	9.95	11.44	11.00	-21.1	15.0	-3.8
Revenue		1.22	1.39	1.18	N/A	89.9*	-15.1
Unisem	3.65	3.28	2.16	2.05	-10.1	-34.1	-5.1
UWC		0.82	3.20	3.67	N/A	290.2	14.7
VisDynamics	0.62	0.50	0.53	0.47	-20.2	7.1	-12.3
ViTrox	6.21	6.29	7.92	9.14	1.3	25.9	15.4
<b>Average</b>					<b>-9.0</b>	<b>64.1</b>	<b>-3.0</b>

\* Adjusted for bonus issue  
HLIB

**Figure #2 Global Semiconductor Sales**



WSTS, HLIB

**Figure #3** 2020 Global Semiconductor Sales Forecasts

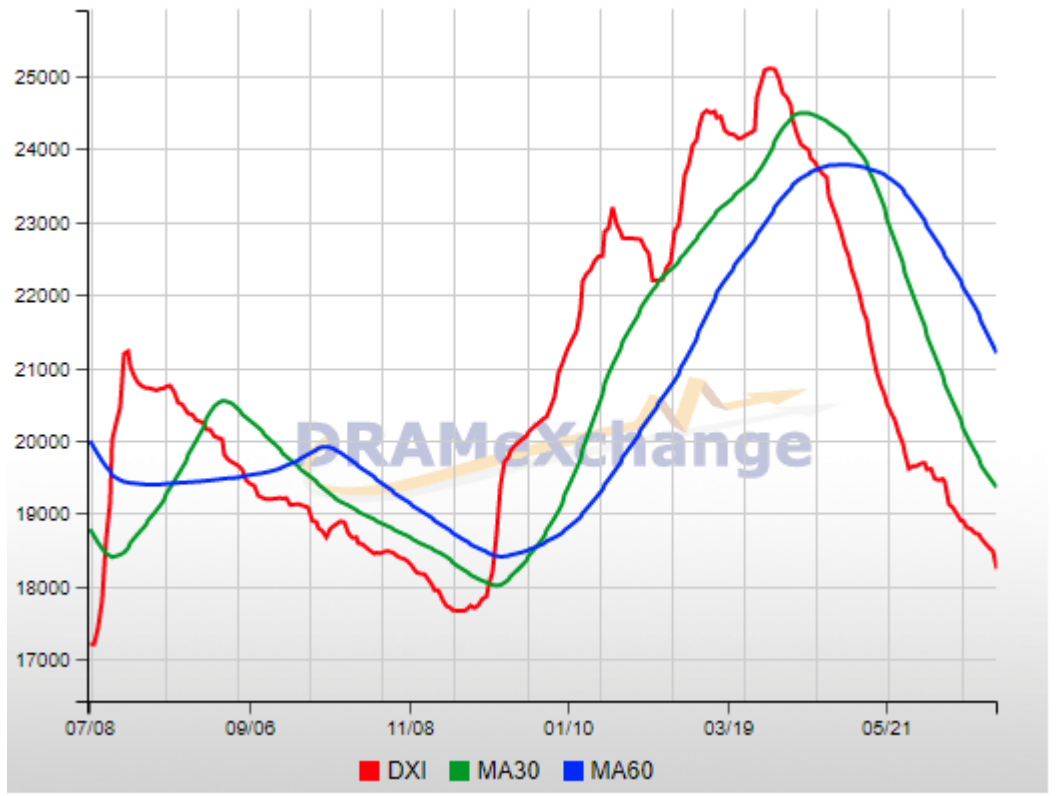
Various, HLIB

**Figure #4** WSTS Semiconductor Market Forecast Breakdown

	Sales (USD m)			YoY Growth (%)		
	2019	2020	2021	2019	2020	2021
<b>Region</b>						
Americas	78,619	88,694	94,598	-23.7	12.8	6.7
Europe	39,816	38,174	40,381	-7.3	-4.1	5.8
Japan	35,993	34,400	35,547	-9.9	-4.4	3.3
Asia Pacific	257,879	264,697	281,725	-8.8	2.6	6.4
<b>Total</b>	<b>412,307</b>	<b>425,965</b>	<b>452,251</b>	<b>-12.0</b>	<b>3.3</b>	<b>6.2</b>
<b>Products</b>						
Discrete semiconductors	23,881	22,309	23,579	-0.9	-6.6	5.7
Optoelectronics	41,561	39,441	41,850	9.3	-5.1	6.1
Sensors	13,511	13,230	13,839	1.2	-2.1	4.6
Integrated circuits	333,354	350,985	372,987	-15.2	5.3	6.3
Analog	53,939	50,808	53,809	-8.2	-5.8	5.9
Micro	66,440	68,151	69,129	-1.2	2.6	1.4
Logic	106,535	109,668	113,973	-2.5	2.9	3.9
Memory	106,440	122,358	136,076	-32.6	15.0	11.2
<b>Total</b>	<b>412,307</b>	<b>425,965</b>	<b>452,255</b>	<b>-12.0</b>	<b>3.3</b>	<b>6.2</b>

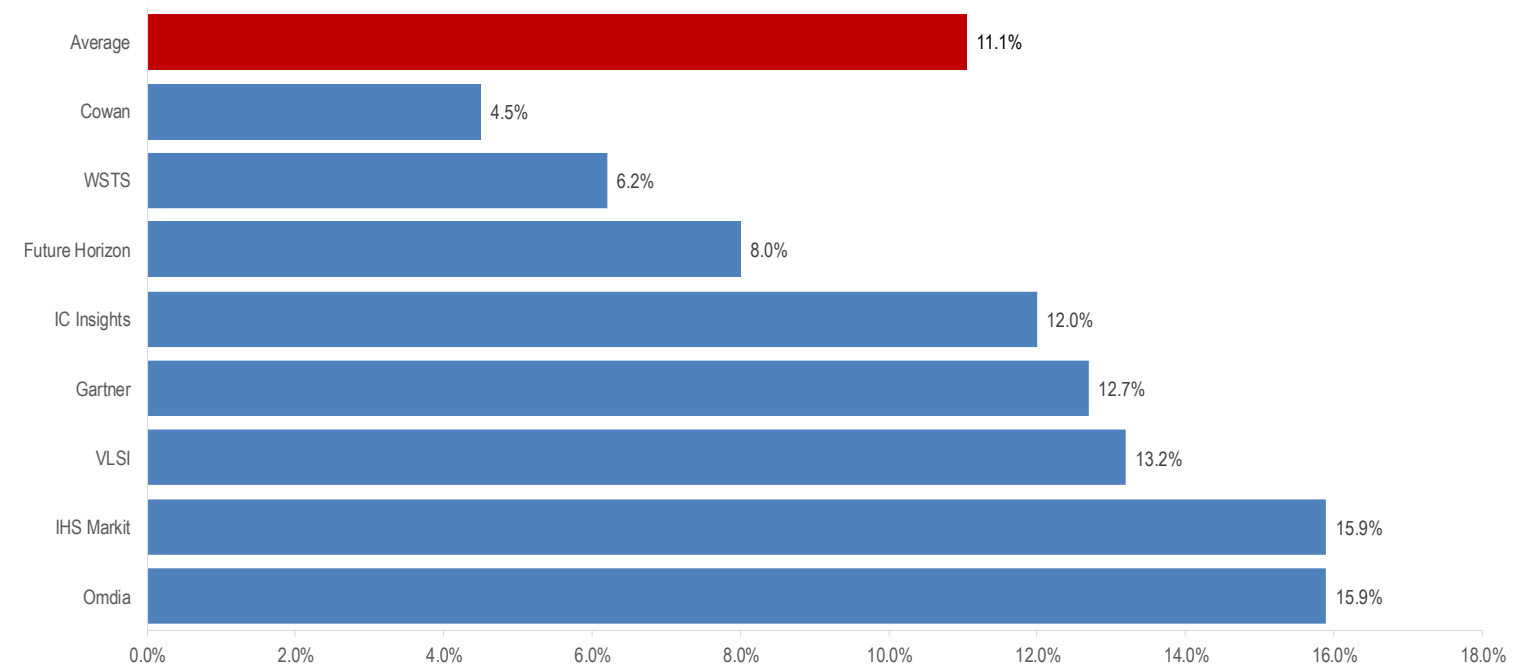
WSTS

**Figure #5** DRAM eXchange Index (In the Past Year)



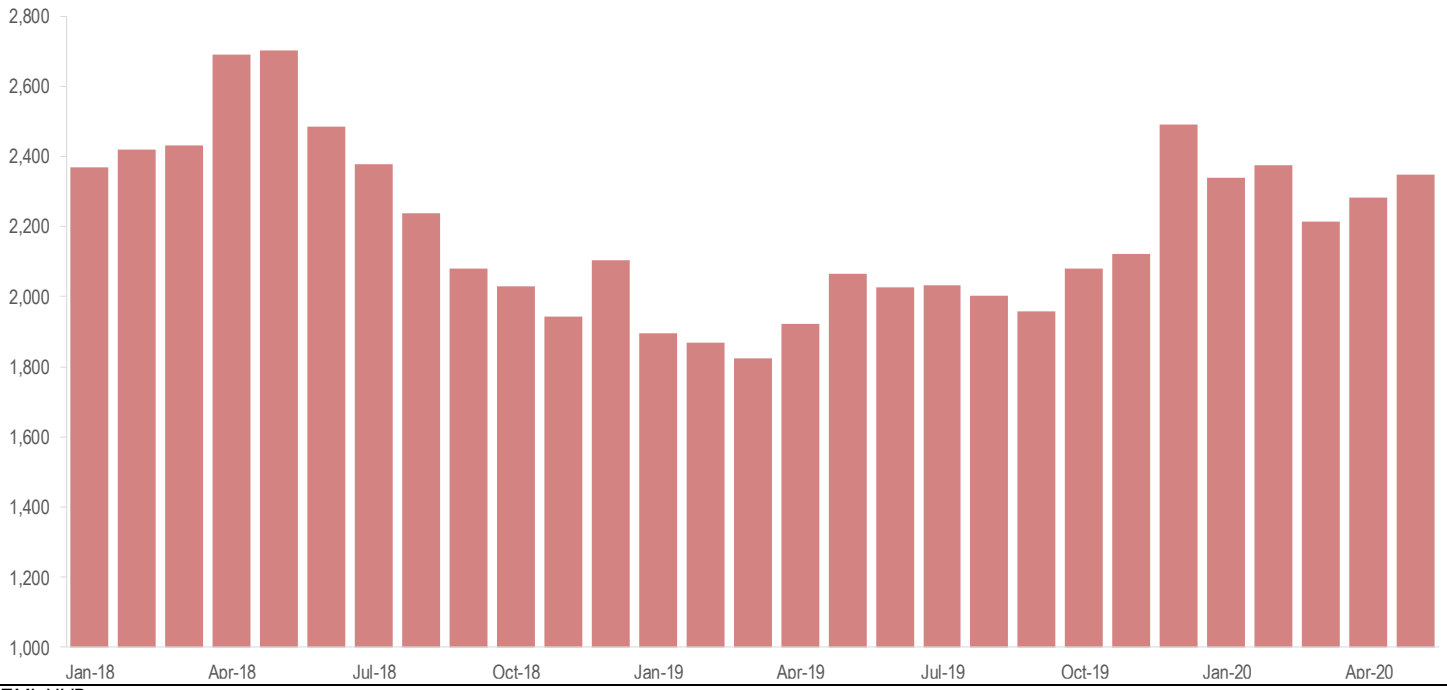
TrendForce

**Figure #6** 2021 Global Semiconductor Sales Forecasts



Various, HLIB

**Figure #7** 3MA Billings (USD m)

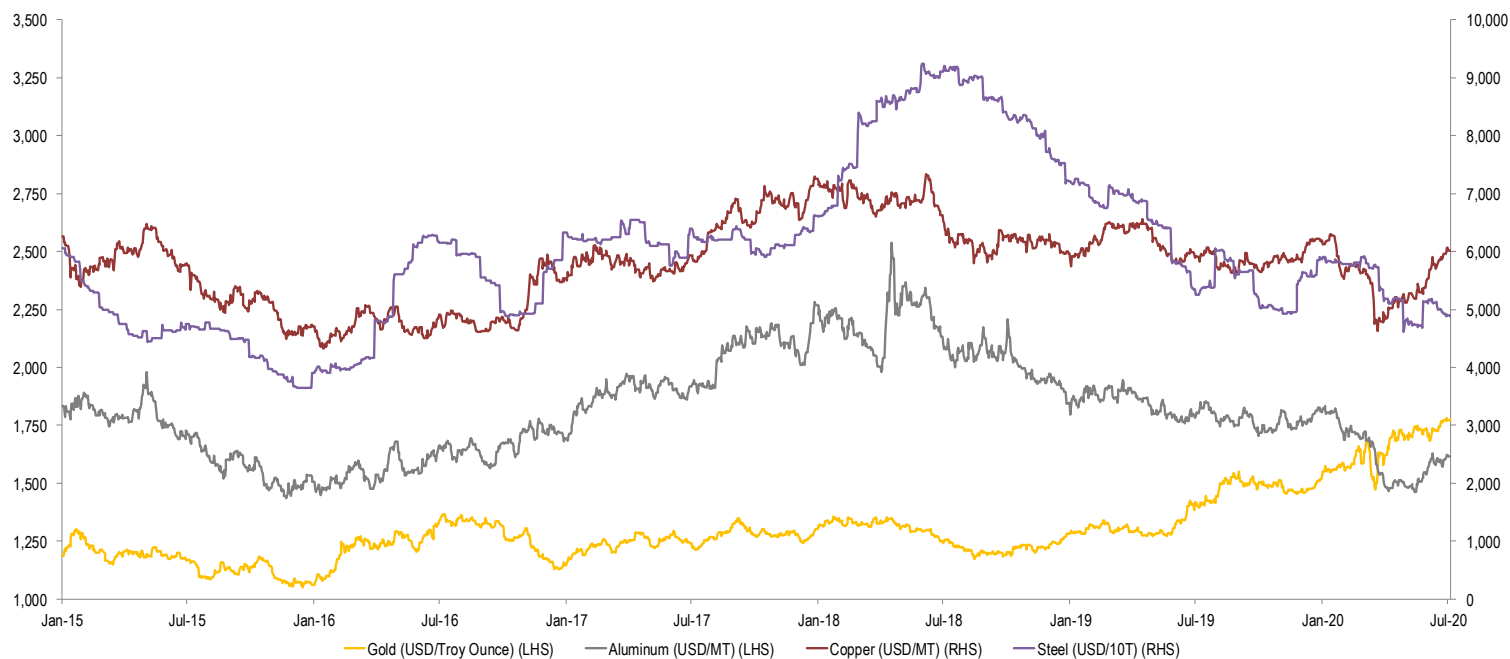


SEMI, HLIB

**Figure #8** RM/USD Rate



Bloomberg, HLIB

**Figure #9 Gold, Copper and Aluminium Prices**

Bloomberg, HLIB

**Figure #10 Peers comparison for Frontend Players**

Company	FYE	Price (Local)	Market Cap (Local)	P/E (x)		P/B (x)		ROE (%)
				2020	2021	2020	2021	2020
Lasertec	Jun	11,510.00	1,085,236.5	96.3	53.4	26.7	20.2	31.5
Tokyo Electron	Mar	29,610.00	4,655,015.1	22.5	18.9	5.0	4.5	23.3
ASM	Dec	146.80	7,530.5	27.7	22.2	3.8	3.5	13.7
ASML	Dec	348.25	148,236.1	48.4	34.3	10.7	9.8	21.5
Books Automation	Sep	45.30	3,341.3	50.4	36.8	2.2	2.2	NA
CyberOptics	Dec	38.52	276.5	91.7	64.5	NA	NA	NA
Entegris	Dec	61.14	8,229.8	30.5	25.7	6.1	5.1	12.6
FormFactor	Dec	31.99	2,436.4	27.1	24.3	3.5	3.1	10.3
Lam Research	Jun	335.76	48,739.7	22.0	18.9	10.3	8.0	46.7
<b>Average</b>				<b>46.3</b>	<b>33.2</b>	<b>8.6</b>	<b>7.0</b>	<b>22.8</b>

Bloomberg

## Frontken Financial Forecast

All items in (RM m) unless otherwise stated

### Income statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Revenue	327.2	339.9	376.8	447.2	469.6
COGS	(234.7)	(226.2)	(251.4)	(293.8)	(308.5)
EBITDA	92.6	113.7	125.4	153.4	161.1
D&A	(17.3)	(17.8)	(16.0)	(15.2)	(14.7)
EBIT	75.3	95.9	109.4	138.1	146.3
Net Interest Income	0.3	0.4	1.3	1.8	2.3
Associates	0.0	0.0	0.0	0.0	0.0
PBT	75.6	96.3	110.8	139.9	148.6
Tax	(18.6)	(22.0)	(23.3)	(29.4)	(31.2)
Net Profit	57.0	74.2	87.5	110.5	117.4
MI	(4.7)	(5.1)	(5.1)	(6.3)	(5.8)
PATAMI	52.3	69.2	82.4	104.3	111.6
Exceptionals	2.2	0.5	0.0	0.0	0.0
<b>Adj PATAMI</b>	<b>54.4</b>	<b>69.6</b>	<b>82.4</b>	<b>104.3</b>	<b>111.6</b>
Basic Shares (m)	1,053.0	1,053.0	1,053.0	1,053.0	1,053.0
Rep EPS (sen)	5.0	6.6	7.8	9.9	10.6
Adj EPS (sen)	5.2	6.6	7.8	9.9	10.6
Adj FD EPS (sen)	5.2	6.6	7.8	9.9	10.6

### Balance sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	133.0	197.2	257.6	328.8	407.3
Receivables	106.8	86.3	95.7	113.5	119.2
Inventories	13.7	15.1	16.8	19.6	20.6
Investment	0.0	0.0	0.0	0.0	0.0
PPE	140.4	145.5	139.5	134.2	129.5
Intangibles	33.8	33.8	33.8	33.8	33.8
Other Assets	27.4	37.9	37.9	37.9	37.9
<b>Total Assets</b>	<b>455.1</b>	<b>515.7</b>	<b>581.3</b>	<b>667.9</b>	<b>748.3</b>
Payables	82.4	84.0	93.4	109.1	114.6
ST borrowings	3.9	0.8	0.8	0.8	0.8
LT borrowings	7.5	0.0	0.0	0.0	0.0
Other Liabilities	16.5	32.1	32.1	32.1	32.1
<b>Total liabilities</b>	<b>110.4</b>	<b>117.0</b>	<b>126.3</b>	<b>142.1</b>	<b>147.6</b>
Shareholders' Funds	325.0	377.0	428.0	492.6	561.8
MI	19.6	21.8	26.9	33.1	38.9
Total S/H Equity	344.6	398.7	454.9	525.8	600.7
<b>Ttl Liab&amp;S/H Funds</b>	<b>455.1</b>	<b>515.7</b>	<b>581.3</b>	<b>667.9</b>	<b>748.3</b>

### Cashflow Analysis

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
EBITDA	92.6	113.7	125.4	153.4	161.1
Tax Paid	(14.2)	(19.8)	(23.3)	(29.4)	(31.2)
WC Changes	(14.6)	21.3	(1.7)	(4.9)	(1.2)
Other	(0.4)	(0.3)	1.3	1.8	2.3
<b>CFO</b>	<b>63.3</b>	<b>114.9</b>	<b>101.8</b>	<b>120.8</b>	<b>130.9</b>
<b>FCF</b>	<b>55.8</b>	<b>107.9</b>	<b>91.8</b>	<b>110.8</b>	<b>120.9</b>
CAPEX(CF)	(7.5)	(7.0)	(10.0)	(10.0)	(10.0)
Acquisitions	(7.1)	(2.6)	0.0	0.0	0.0
Other	7.5	(2.4)	0.0	0.0	0.0
<b>CFI</b>	<b>(7.1)</b>	<b>(12.1)</b>	<b>(10.0)</b>	<b>(10.0)</b>	<b>(10.0)</b>
Dividend	(10.0)	(18.9)	(31.3)	(39.7)	(42.5)
Debt changes	(16.7)	(10.7)	0.0	0.0	0.0
Other	(1.1)	(4.2)	0.0	0.0	0.0
<b>CCF</b>	<b>(27.8)</b>	<b>(33.7)</b>	<b>(31.3)</b>	<b>(39.7)</b>	<b>(42.5)</b>
<b>Net Cashflow</b>	<b>28.4</b>	<b>69.1</b>	<b>60.5</b>	<b>71.2</b>	<b>78.5</b>

### Quarterly financial summary

FYE Dec	1Q19	2Q19	3Q19	4Q19	1Q20
Revenue	83.8	80.1	87.0	88.9	84.9
COGS	(56.5)	(52.5)	(56.4)	(60.9)	(55.8)
EBITDA	27.4	27.7	30.6	28.0	29.1
D&A	(4.8)	(4.6)	(4.6)	(3.8)	(4.7)
EBIT	22.6	23.0	26.0	24.3	24.4
Net Interest Income	(0.0)	0.1	0.1	0.2	0.3
Associates	0.0	0.0	0.0	0.0	0.0
PBT	22.5	23.1	26.1	24.5	24.7
Tax	(6.2)	(5.3)	(5.6)	(4.9)	(6.5)
Net Profit	16.3	17.8	20.5	19.6	18.2
MI	(0.9)	(1.3)	(1.4)	(1.4)	(1.2)
PATAMI	15.4	16.5	19.0	18.2	17.0
Exceptionals	(0.0)	0.8	(1.0)	0.7	(0.7)
<b>Adj PATAMI</b>	<b>15.4</b>	<b>17.3</b>	<b>18.0</b>	<b>18.9</b>	<b>16.3</b>
Basic Shares (m)	1,053.0	1,053.0	1,053.0	1,053.0	1,053.0
Rep EPS (sen)	1.5	1.6	1.8	1.7	1.6
Adj EPS (sen)	1.5	1.6	1.7	1.8	1.6
Adj FD EPS (sen)	1.5	1.6	1.7	1.8	1.6

### Valuation Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
PER (x)	63.5	48.0	40.3	31.8	29.7
Core PER (x)	60.9	47.6	40.3	31.8	29.7
FD PER (x)	60.9	47.6	40.3	31.8	29.7
DPS (sen)	1.5	2.5	3.0	3.8	4.0
Net DY (%)	0.5	0.8	0.9	1.2	1.3
Book/share (sen)	30.9	35.8	40.6	46.8	53.4
P/Book (x)	10.2	8.8	7.7	6.7	5.9
FCF/share (sen)	5.3	10.2	8.7	10.5	11.5
FCF yield (%)	1.7	3.3	2.8	3.3	3.6
Mkt Cap	3,317.0	3,317.0	3,317.0	3,317.0	3,317.0
Net Cash/Debt	121.5	196.3	256.8	328.0	406.4
EV	3,195.4	3,120.6	3,060.2	2,989.0	2,910.5
EV/EBITDA (x)	34.5	27.5	24.4	19.5	18.1
ROE (%)	16.7	18.5	19.3	21.2	19.9
Current Ratio (x)	2.9	3.5	3.9	4.2	4.7
Quick Ratio (x)	2.8	3.3	3.7	4.0	4.6
Interest Cover (x)	132.5	126.8	4,321.0	5,455.7	5,779.7

### Other Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Sales Growth (%)		3.9	10.9	18.7	5.0
EBITDA Growth (%)		22.8	10.3	22.3	5.0
EBIT Growth (%)		27.4	14.1	26.3	5.9
PBT Growth (%)		27.3	15.1	26.3	6.2
Net Profit Growth (%)		30.2	17.9	26.3	6.2
EBITDA Margin (%)	28.3	33.4	33.3	34.3	34.3
EBIT Margin (%)	23.0	28.2	29.0	30.9	31.2
PBT Margin (%)	23.1	28.3	29.4	31.3	31.6
Net Profit Margin (%)	17.4	21.8	23.2	24.7	25.0
Net Debt/Equity (%)	Cash	Cash	Cash	Cash	Cash
CAPEX/Sales (%)	2.3	2.1	2.7	2.2	2.1



## UWC Financial Forecast

All items in (RM m) unless otherwise stated

### Income statement

FYE Jul	FY18	FY19	FY20f	FY21f	FY22f
Revenue	136.5	144.4	206.4	265.5	333.5
COGS	(89.9)	(87.2)	(131.0)	(166.4)	(208.3)
EBITDA	46.6	57.1	75.4	99.1	125.1
D&A	(7.7)	(9.0)	(10.3)	(12.2)	(14.5)
EBIT	38.8	48.1	65.1	86.9	110.6
Net Interest Income	(1.5)	(1.9)	(0.5)	(0.5)	(0.5)
Associates	0.0	0.0	0.0	0.0	0.0
PBT	37.3	46.2	64.6	86.4	110.1
Tax	(6.1)	(10.0)	(12.9)	(17.3)	(22.0)
Net Profit	31.2	36.2	51.7	69.2	88.1
MI	0.0	0.0	0.0	0.0	0.0
PATAMI	31.2	36.2	51.7	69.2	88.1
Exceptionals	(6.6)	(7.7)	0.0	0.0	0.0
<b>Core PATAMI</b>	<b>24.6</b>	<b>28.5</b>	<b>51.7</b>	<b>69.2</b>	<b>88.1</b>
Basic Shares (m)	550.2	550.2	550.2	550.2	550.2
Rep EPS (sen)	5.7	6.6	9.4	12.6	16.0
Core EPS (sen)	4.5	5.2	9.4	12.6	16.0
Core FD EPS (sen)	4.5	5.2	9.4	12.6	16.0

### Cumulative and quarterly financial summary

FYE Jul	3Q19	4Q19	1Q20	2Q20	3Q20
Revenue	38.3	46.9	46.9	54.9	55.8
COGS	(24.0)	(30.4)	(29.8)	(35.8)	(35.4)
EBITDA	14.3	16.5	17.1	19.1	20.4
D&A	(2.3)	(2.3)	(2.4)	(2.4)	(2.6)
EBIT	12.1	14.2	14.7	16.7	17.8
Net Interest Income	(0.5)	(0.3)	0.1	0.3	0.2
Associates	0.0	0.0	0.0	0.0	0.0
PBT	11.5	13.9	14.8	17.0	18.0
Tax	(2.7)	(3.8)	(3.6)	(3.7)	(3.4)
Net Profit	8.8	10.1	11.2	13.3	14.6
MI	0.0	0.0	0.0	0.0	0.0
PATAMI	8.8	10.1	11.2	13.3	14.6
Exceptionals	1.0	1.0	(0.7)	(0.0)	(1.4)
<b>Core PATAMI</b>	<b>9.8</b>	<b>11.1</b>	<b>10.6</b>	<b>13.3</b>	<b>13.2</b>
Basic Shares (m)	550.2	550.2	550.2	550.2	550.2
Rep EPS (sen)	1.6	1.8	2.0	2.4	2.7
Core EPS (sen)	1.8	2.0	1.9	2.4	2.4
Core FD EPS (sen)	1.8	2.0	1.9	2.4	2.4

### Balance sheet

FYE Jul	FY18	FY19	FY20f	FY21f	FY22f
Cash	13.1	54.4	50.7	54.2	61.1
Receivables	38.9	44.5	67.9	87.3	109.6
Inventories	30.8	37.1	53.8	68.4	85.6
Investment	0.0	0.0	0.0	0.0	0.0
PPE	92.5	95.8	110.2	129.9	155.4
Intangibles	0.0	0.0	0.0	0.0	0.0
Other Assets	4.9	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>180.2</b>	<b>231.8</b>	<b>282.6</b>	<b>339.8</b>	<b>411.8</b>
Payables	32.2	17.7	32.3	41.0	51.4
ST borrowings	16.4	12.8	12.8	12.8	12.8
LT borrowings	34.9	11.9	11.9	11.9	11.9
Other Liabilities	12.5	12.9	12.9	12.9	12.9
<b>Total liabilities</b>	<b>96.0</b>	<b>55.3</b>	<b>69.9</b>	<b>78.6</b>	<b>89.0</b>
Shareholders' Funds	84.2	176.5	212.7	261.1	322.8
MI	0.0	0.0	0.0	0.0	0.0
Total S/H Equity	84.2	176.5	212.7	261.1	322.8
<b>Ttl Liab&amp;S/H Funds</b>	<b>180.2</b>	<b>231.8</b>	<b>282.6</b>	<b>339.8</b>	<b>411.8</b>

### Valuation Ratios

FYE Jul	FY18	FY19	FY20f	FY21f	FY22f
PER (x)	74.9	64.5	45.2	33.8	26.5
Core PER (x)	94.9	82.1	45.2	33.8	26.5
FD PER (x)	94.9	82.1	45.2	33.8	26.5
DPS (sen)	0.0	3.0	2.8	3.8	4.8
Net DY (%)	0.0	0.7	0.7	0.9	1.1
Book/share (sen)	15.3	32.1	38.7	47.5	58.7
P/Book (x)	27.8	13.2	11.0	9.0	7.2
FCF/share (sen)	0.5	0.1	2.1	4.4	6.1
FCF yield (%)	0.1	0.0	0.5	1.0	1.4
Mkt Cap	2,338.4	2,338.4	2,338.4	2,338.4	2,338.4
Net Cash(Debt)	(38.2)	29.7	25.9	29.4	36.4
EV	2,376.6	2,308.7	2,312.4	2,308.9	2,302.0
EV/EBITDA (x)	51.0	40.4	30.7	23.3	18.4
ROE (%)	29.3	16.1	24.3	26.5	27.3
Current Ratio (x)	1.7	4.5	3.8	3.9	4.0
Quick Ratio (x)	1.1	3.2	2.6	2.6	2.7
Interest Cover (x)	22.0	20.6	57.1	76.3	97.1

### Cashflow Analysis

FYE Jul	FY18	FY19	FY20f	FY21f	FY22f
EBITDA	46.6	57.1	75.4	99.1	125.1
Tax Paid	(5.3)	(7.2)	(12.9)	(17.3)	(22.0)
WC Changes	(14.9)	(26.4)	(25.5)	(25.2)	(29.2)
Other	(7.3)	(9.8)	(0.5)	(0.5)	(0.5)
<b>CFO</b>	<b>19.1</b>	<b>13.7</b>	<b>36.6</b>	<b>56.1</b>	<b>73.4</b>
<b>FCF</b>	<b>2.8</b>	<b>0.7</b>	<b>11.8</b>	<b>24.2</b>	<b>33.4</b>
CAPEX(CF)	(16.4)	(13.0)	(24.8)	(31.9)	(40.0)
Acquisitions	1.4	13.0	0.0	0.0	0.0
Other	0.4	0.4	0.0	0.0	0.0
<b>CFI</b>	<b>(14.5)</b>	<b>0.4</b>	<b>(24.8)</b>	<b>(31.9)</b>	<b>(40.0)</b>
Dividend	(15.0)	0.0	(15.5)	(20.7)	(26.4)
Debt changes	17.6	(26.6)	0.0	0.0	0.0
Other	(1.8)	53.8	0.0	0.0	0.0
<b>CCF</b>	<b>0.9</b>	<b>27.2</b>	<b>(15.5)</b>	<b>(20.7)</b>	<b>(26.4)</b>
<b>Net Cashflow</b>	<b>5.5</b>	<b>41.3</b>	<b>(3.7)</b>	<b>3.5</b>	<b>7.0</b>

### Other Ratios

FYE Jul	FY18	FY19	FY20f	FY21f	FY22f
Sales Growth (%)		5.8	43.0	28.6	25.6
EBITDA Growth (%)		22.7	32.0	31.5	26.3
EBIT Growth (%)		23.9	35.3	33.6	27.2
PBT Growth (%)		23.7	39.9	33.8	27.4
Net Profit Growth (%)		16.1	42.7	33.8	27.4
Core PATAMI Growth (%)		15.6	81.4	33.8	27.4
EBITDA Margin (%)	34.1	39.6	36.5	37.3	37.5
EBIT Margin (%)	28.5	33.3	31.5	32.8	33.2
PBT Margin (%)	27.3	32.0	31.3	32.6	33.0
Net Profit Margin (%)	22.9	25.1	25.0	26.0	26.4
Core PATAMI Margin (%)	18.1	19.7	25.0	26.0	26.4
Net Debt/Equity (%)	45.4	Cash	Cash	Cash	Cash
CAPEX/Sales (%)	12.0	9.0	12.0	12.0	12.0

**Figure #11 Peers comparison for Equipment Vendors**

Company	FYE	Price (Local)	Market Cap (USD m)	P/E (x)		P/B (x)		Gross DY (%)
				2020	2021	2020	2021	2020
<b>Malaysia</b>								
ViTrox	Dec	9.90	1,093.2	44.4	36.4	8.4	7.2	0.6
Aemulus	Sep	0.32	40.6	-24.2	157.5	2.6	2.4	N/A
Elsoft Research	Dec	0.66	103.6	33.0	16.5	N/A	N/A	3.0
<b>Average</b>				<b>17.7</b>	<b>70.1</b>	<b>5.5</b>	<b>4.8</b>	<b>1.8</b>
<b>Asia</b>								
Advantest	Mar	6,960.00	13,014.0	27.3	21.6	5.3	4.6	1.1
Koh Young Technology	Dec	98,000.00	1,204.5	42.2	30.1	5.0	4.4	0.6
Chroma ATE	Dec	155.00	2,202.2	23.8	18.6	4.0	3.6	2.7
<b>Average</b>				<b>28.9</b>	<b>22.3</b>	<b>4.8</b>	<b>4.3</b>	<b>1.7</b>
<b>Europe</b>								
BE Semiconductor	Dec	39.71	3,589.4	34.0	23.2	9.4	8.3	2.8
ASML	Dec	348.60	167,515.3	48.4	34.3	10.7	9.8	0.7
<b>Average</b>				<b>41.2</b>	<b>28.8</b>	<b>10.1</b>	<b>9.1</b>	<b>1.8</b>
<b>US</b>								
National Instruments	Dec	37.56	4,905.2	31.6	24.3	3.8	3.6	2.8
Teradyne	Dec	88.46	14,663.9	28.8	24.9	8.7	8.1	0.4
KLA-Tencor	Jun	203.59	31,566.4	20.3	19.8	12.9	10.5	1.5
Applied Materials	Oct	63.49	58,187.3	16.7	14.8	5.8	4.9	1.4
Veeco Instruments	Dec	13.66	675.2	27.7	16.1	N/A	N/A	N/A
Brooks Automation	Sep	45.30	3,341.3	50.4	36.8	2.2	2.2	0.9
<b>Average</b>				<b>27.5</b>	<b>21.7</b>	<b>7.3</b>	<b>6.2</b>	<b>1.4</b>
<b>Overall Average</b>				<b>27.7</b>	<b>31.2</b>	<b>6.7</b>	<b>5.9</b>	<b>1.6</b>

Bloomberg

**Figure #12 Peers comparison for OSAT**

Company	FYE	Price (Local)	Market Cap (USD m)	P/E (x)		P/B (x)		Gross DY (%)
				2020	2021	2020	2021	2020
<b>Malaysia</b>								
Inari Amertron	Jun	1.83	1,395.9	38.1	27.3	5.1	4.8	2.1
Globetronics Tech	Dec	2.30	360.9	27.7	22.5	5.1	4.8	3.0
Unisem	Dec	2.39	407.3	23.7	19.3	1.3	1.2	2.7
MPI	Jun	12.22	569.7	17.9	15.6	1.9	1.8	2.2
<b>Average</b>				<b>26.8</b>	<b>21.2</b>	<b>3.3</b>	<b>3.2</b>	<b>2.5</b>
<b>Foreign</b>								
Broadcom	Oct	321.50	129,302.6	14.6	13.4	5.7	5.3	4.0
Analog Devices	Oct	124.25	45,776.8	28.9	24.7	4.0	3.9	1.9
Skyworks Solutions	Sept	132.73	22,144.1	23.7	19.9	5.9	5.6	1.3
Texas Instruments	Dec	130.43	119,705.1	32.7	26.6	17.7	18.8	2.8
Qualcomm	Sept	93.25	104,899.5	26.3	16.3	44.2	31.0	2.7
Infineon Tech	Sept	22.075	32,548.5	41.7	25.2	2.7	2.6	1.1
Qorvo	Mar	113.11	12,942.5	20.3	16.0	2.9	2.7	0.3
Amkor	Dec	8.74	2,093.6	15.6	10.7	1.1	1.0	N/A
ASE	Dec	73.90	10,390.4	14.5	12.6	1.6	1.5	3.1
Powertech	Dec	88.90	2,254.8	10.3	9.1	1.7	1.6	5.8
Chipbond	Dec	64.80	1,369.5	10.7	12.5	1.6	1.5	5.6
<b>Average</b>				<b>21.6</b>	<b>16.5</b>	<b>7.5</b>	<b>6.4</b>	<b>2.5</b>
<b>Overall average</b>				<b>22.9</b>	<b>17.7</b>	<b>6.5</b>	<b>5.6</b>	<b>2.5</b>

Bloomberg

## Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 13 July 2020, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -

2. As of 13 July 2020, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -

## Published & printed by:

### Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

## Stock rating guidelines

<b>BUY</b>	Expected absolute return of +10% or more over the next 12 months.
<b>HOLD</b>	Expected absolute return of -10% to +10% over the next 12 months.
<b>SELL</b>	Expected absolute return of -10% or less over the next 12 months.
<b>UNDER REVIEW</b>	Rating on the stock is temporarily under review which may or may not result to a change from the previous rating.
<b>NOT RATED</b>	Stock is not or no longer within regular coverage.

## Sector rating guidelines

<b>OVERWEIGHT</b>	Sector expected to outperform the market over the next 12 months.
<b>NEUTRAL</b>	Sector expected to perform in-line with the market over the next 12 months.
<b>UNDERWEIGHT</b>	Sector expected to underperform the market over the next 12 months.

The stock rating guidelines as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.