

MITA No. 010/06/2008

11 June 2008

# Micro-Mechanics Holdings

Maintain

## BUY

Previous Rating: BUY

### S\$0.65

### Fair Value: S\$0.74

Stock Code: MMEC.SI  
 Reuters: 5DD  
 ISIN Code: MMHSP  
 Bloomberg: MMHSP

Event: Update

## Secret of success is consistency of purpose

**Small place, big value.** We recently visited Micro-Mechanics (MMH) plant at its new premises in Kaki Bukit, Singapore, and witnessed the systematic, higher-value production facilities in place. MMH has two plastic molding machines, approximately eight Electronic Discharge Machining (EDM) machines and several CNC milling machines in the plant, serving both local and overseas customers. According to management, these highly durable machines - some of them have already been fully depreciated - produce most of the higher-margin semiconductor consumable tools and even their own rubber moulds. Through this, we better appreciate the group's decision to extend the depreciation period and useful life of certain PPE from five to 10 years back in FY07.

**Expansion of CMA business.** Consistent with MMH's intention to focus on CMA (Custom Machining & Assembly) customers in Europe and United States so as to diversify its revenue from the cyclicity of the semiconductor industry, the group had on 21 May 2008 entered into an asset purchase agreement with AMP III, LLC (AMP3) to acquire its assets for US\$1.85m. Silicon Valley-based AMP3 manufactures precision components and assemblies for a diverse range of customers in the aircraft, medical, bioscience, semiconductor and other high-tech industries. The acquisition, which would include all of AMP's equipment, inventory and intellectual property, will be conditional upon a number of stipulated matters including the ability to secure employment agreements with key employees and satisfactory disclosure and discharge of supplier and other claims prior to completion.

MMH intends to offer employment to nearly all of the AMP team as it believes they will have an important role to play in the success of the acquisition and expansion of its know-how and range of customers. We understand from MMH, which presently has only a CMA division in Penang, Malaysia, that the acquisition will help accelerate growth in this segment and to move quickly into several key industries it does not serve. The acquisition will be fully financed using the internal resources.

**Maintain BUY with S\$0.74 fair value.** We like MMH for its consistency in growth strategies and effective cost management. While we have revised down our FY08 sales and net profit forecasts by a slight 2.7% and 2.5% respectively, we are confident that MMH will still maintain its >50% gross margin despite increased raw material prices, higher headcount and price pressures. We derive a fair value of S\$0.74, based on a 10x blended FY08/09F PER. Maintain **BUY**.

General Data	
Issued Capital (m)	138
Mkt Cap (S\$m/US\$m)	90/66
Major Shareholder	Christopher Reid Borch (63.1%)
Free Float (%)	30.3
NTA per share (S\$)	0.25
Daily Vol 3-mth ('000)	74
52Wk High (S\$)	0.745
52Wk Low (S\$)	0.580

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Year to 30 Jun	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 06	31.7	12.1	7.7	5.6	43.6	11.6	5.4
FY 07	34.7	12.9	8.3	6.0	7.4	10.8	7.7
FY 08F	38.1	13.9	9.4	6.8	12.6	9.6	8.5
FY 09F	44.3	16.0	11.1	8.0	19.1	8.1	8.8

Please refer to the important disclosures at the back of this document.

**MMH's Key Financial Data**
**EARNINGS FORECAST**

Year Ended 30 Jun (S\$ m)	FY06	FY07	FY08F	FY09F
Revenue	31.7	34.7	38.1	44.3
EBITDA	12.1	12.9	13.9	16.0
Depreciation & amortisation	-2.6	-3.0	-2.7	-2.6
Net interest	0.2	0.3	0.2	0.3
Associates	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0
Pre-tax profit	9.7	10.2	11.5	13.7
Tax	-2.0	-1.9	-2.1	-2.5
Minority interests	0.0	0.0	0.0	0.0
Net profit	7.7	8.3	9.4	11.1
Earnings per share (cents)	5.6	6.0	6.8	8.0
Fully diluted earnings per share (cents)	5.6	6.0	6.8	8.0

**BALANCE SHEET**

As at 30 Jun (S\$ m)	FY06	FY07	FY08F	FY09F
Cash	12.9	13.6	19.3	26.2
Other current assets	7.0	7.0	8.0	9.8
Fixed assets	19.3	22.0	21.3	18.6
Other long term assets	0.0	0.0	0.0	0.0
Total assets	39.2	42.6	48.5	54.6
Current liabilities less debt	4.2	4.3	4.9	5.4
Debt	0.0	0.0	0.0	0.0
Other long term liabilities	0.8	1.0	1.1	1.1
Total liabilities	5.0	5.3	6.0	6.5
Shareholders equity	34.2	37.4	42.6	48.1
Minority interests	0.0	0.0	0.0	0.0
Total equity and liabilities	39.2	42.6	48.5	54.6
NTA per share (cents)	24.7	27.0	30.7	34.8

**CASH FLOW**

<b>Year Ended 30 Jun (S\$ m)</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08F</b>	<b>FY09F</b>
Operating profit before working cap. changes	12.2	12.9	16.7	20.5
Working capital changes	-0.6	0.1	-0.7	-1.2
Interest and tax	-0.8	-1.2	-1.4	-2.2
Net cash from operations	10.7	11.8	14.5	17.1
Capex	-4.4	-5.5	-2.0	-2.5
Other investing flows	0.1	0.0	0.0	0.0
Investing cash flow	-4.3	-5.5	-2.0	-2.5
Change in equity	0.0	0.0	0.0	0.0
Net change in debt	0.0	0.0	0.0	0.0
Dividends paid	-3.6	-5.5	-6.9	-7.6
Financing cash flow	-3.6	-5.5	-6.9	-7.6
Other adjustments	0.0	0.0	0.0	0.0
Net cash flow	2.7	0.8	5.6	7.0
Cash at beginning of year	10.1	12.9	13.6	19.3
Cash at end of year	12.9	13.6	19.3	26.2
<b>Key Ratios</b>				
PER (x)	11.6	10.8	9.6	8.1
Price/NTA (x)	2.6	2.4	2.1	1.9
EV/EBITDA (x)	6.4	5.9	5.1	4.0
Dividend yield (%)	5.4	7.7	8.5	8.8
ROIC (%)	22.6	22.2	22.0	23.1
ROE (%)	22.6	22.2	22.0	23.7
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE to growth (x)	0.3	1.5	0.8	0.4

**Source: Company data, OIR estimates**

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