

Ellipsiz

Undervalued despite slowdown

BUY

◆ Impact of excess inventory mitigated by cost savings

Excess inventory remains the key concern going into 2007. Customers such as Texas Instruments reduced 4Q06 net profit guidance due to overhang of unsold inventory. Taiwanese customers such as TSMC and UMC have also reported a drop in utilisation rates since third quarter 2006. We believe our estimates are already conservative but in light of the inventory buildup, we have trimmed our topline forecasts by 2%. Nonetheless, we are maintaining our net profit of \$20.1m as we expect better cost synergies from past acquisitions.

◆ Slowdown expected; utilisation fell to ~70-75%

We are expecting a slowdown in sales for its Fabless Solutions through 3M07. Utilisation rates fell to ~70-75% since October from a peak of 85% but recent meeting with management affirmed that ASP for its cantilever, epoxy and vertical probe cards remain stable. Although the wafer reclaim business remains strong due to favourable demand-supply outlook in the industry, this segment is small and represents only circa 8% of topline sales.

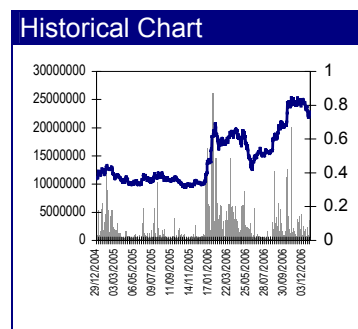
◆ New contributions flowing through in FY08

Management expects the JV with Sojitz Corporation in India to start contributing in FY08 as it is still in the exploration stage. Second, iNetest recent award for Agilent's basic instruments such as in-circuit testers for the Singapore, Malaysia and Thailand markets will enlarge its customer base to institutions and laboratories.

◆ Maintain Buy; still undervalued

Despite the recent pull back in share price, we believe that Ellipsiz remains undervalued vis-à-vis its peers, which are trading at 21x FY07 PE. We maintain fair value at a conservative 13x FY07 PE and target price of \$1.05. Key concerns include overhang of customers' excess inventory and the coming seasonal slower 3QFY07. Maintain Buy.

Price	\$0.81
Target	\$1.05
ST Index	3,037.74



Stock Information	
Ticker code	ELPZ.SI ELL SP
Market Cap (\$m)	201.8
52-week high (\$)	0.875
52-week low (\$)	0.340
Shares issued (m)	249.2
6m avg. daily vol (m)	1.7
Free float (%)	61.5
Major Shareholders (%)	
	Xavier Chong (11.3)
	Aegis Portfolio Managers (7.7)
	3I Group PLC (6.7)

Key Indicators	
ROE (%)	26.9
Net Gearing	Net cash
NTA (S c)	29.09
Interest cover (x)	50.0

Year End Jun	2004	2005	2006	2007F	2008F
Sales (\$m)	69.5	118.3	186.0	264.5	297.0
Pretax profit (\$m)	8.7	16.7	40.9	25.1	28.9
Net profit (\$m)	8.2	11.1	26.1	20.1	23.4
EPS (cts)	3.3	4.5	10.6	8.1	9.5
EPS ex-EI (cts)	1.7	2.6	5.2	8.1	9.5
EPS ex-EI growth (%)	nm	54.6	103.8	55.6	16.6
PER ex- EI (x)	48.9	31.6	15.5	10.0	8.6
EV/EBITDA (x)	22.4	9.5	4.8	6.2	5.4
DPS (cts)	0.0	1.2	1.0	1.8	2.2
Yield (%)	0.0	1.5	1.2	2.2	2.7

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PROFIT & LOSS (\$m)

Year end Jun	2004	2005	2006	2007F	2008F
Turnover	69.5	118.3	186.0	264.5	297.0
COGS	(55.8)	(79.6)	(129.4)	(185.1)	(205.0)
Gross Profit	13.7	38.7	56.7	79.3	92.1
Other Operating Income	1.7	1.6	2.2	2.0	2.0
Distribution Costs	(3.8)	(6.8)	(11.4)	(17.2)	(19.3)
Administration Expenses	(9.4)	(20.7)	(24.1)	(33.9)	(41.6)
Other Operating Expenses	(0.7)	(0.2)	(4.0)	(3.6)	(1.5)
Operating Profit	8.8	17.3	41.9	26.7	31.7
Interest Expense	(0.1)	(0.6)	(0.8)	(1.6)	(2.8)
Associates	0.1	0.1	(0.0)	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax Profit	8.7	16.7	40.9	25.1	28.9
Taxation	(0.5)	(2.9)	(4.2)	(3.0)	(3.5)
Minority Interests	(0.1)	(2.7)	(10.6)	(2.0)	(2.0)
Net Profit	8.2	11.1	26.1	20.1	23.4

EPS (¢)	3.9	4.6	10.6	8.1	9.5
EPS Growth	-148.7%	19.8%	127.1%	-23.1%	16.6%
Gross DPS (¢)	0.0	1.2	1.0	1.8	2.2
Sales Growth	35.9%	70.1%	57.3%	42.2%	12.3%
Gross Profit Growth	230.6%	182.1%	46.4%	40.0%	16.0%
Operating Profit Growth	-149.3%	95.5%	142.5%	-36.2%	18.6%
Pretax Profit Growth	-148.1%	90.8%	145.5%	-38.7%	15.1%
Net Profit Growth	-152.0%	35.1%	135.7%	-23.1%	16.6%
Gross Margin	19.7%	32.7%	30.5%	30.0%	31.0%
Operating Margin	12.7%	14.6%	22.5%	10.1%	10.7%
Pretax Margin	12.6%	14.1%	22.0%	9.5%	9.7%
Effective Tax Rate	5.5%	17.2%	10.4%	12.0%	12.0%
Interest Cover (x)	60.8	29.2	50.0	16.2	11.2
Dividend Cover (x)	0.0	4.9	13.1	4.5	4.3

SEGMENT BREAKDOWN

Year end Jun	2004	2005	2006	2007F	2008F
Wafer Fab Solutions	65.0	73.9	80.5	87.8	94.8
MTS	4.6	7.1	23.3	24.5	27.2
Fabless Solutions	0.0	37.3	82.3	152.2	175.0
Total Revenue	69.5	118.3	186.0	264.5	297.0
Wafer Fab Solutions	93%	63%	43%	33%	32%
MTS	7%	6%	13%	9%	9%
Fabless Solutions	0%	32%	44%	58%	59%
% Revenue Breakdown	100%	100%	100%	100%	100%
Wafer Fab Solutions	36%	14%	9%	9%	8%
MTS	38%	54%	230%	5%	11%
Fabless Solutions	-100%	0%	121%	85%	15%
Revenue Growth	36%	70%	57%	42%	12%

Sources: Company data, KE estimates

BALANCE SHEET (\$m)

As at Jun	'004	2005	2006	2007F	'008F
Current Assets	82.6	77.6	125.0	155.3	190.9
Cash & ST Invts	52.2	29.8	51.8	59.3	90.1
Receivables	26.1	38.4	49.6	70.6	72.5
Inventories	3.2	8.9	22.2	23.8	26.7
Project in Progress	0.5	0.3	0.1	0.1	0.1
Others	0.6	0.2	1.3	1.5	1.5
Fixed Assets	15.2	19.7	34.6	45.7	54.4
Associates	4.2	1.5	1.3	5.3	5.3
JV	0.4	0.2	0.1	0.1	0.1
Investments	0.1	21.3	0.1	0.1	0.1
Other Assets	(0.8)	12.1	41.1	39.1	37.3
Total Assets	101.7	132.4	202.3	245.7	288.1
Current Liabilities	21.5	29.8	83.0	89.9	91.1
ST Borrowings	1.8	4.9	14.1	14.1	14.1
Payables	18.6	23.4	61.1	69.4	70.1
Others	1.1	1.5	7.8	6.3	6.9
LT Loans	5.6	4.7	1.0	21.0	41.0
Deferred Liabilities	0.6	1.4	4.7	4.7	4.7
Redeem. Convert. Pref. S	0.0	0.1	0.1	0.1	0.1
Other Payables	0.0	0.0	0.8	0.8	0.8
Total Liabilities	27.8	36.0	89.7	116.5	137.8
Share Capital	59.4	59.7	117.2	117.2	117.2
Reserves	12.5	22.7	(5.3)	11.3	32.4
Minority Interests	2.0	14.0	0.8	0.8	0.8
Total Equity + MI	74.0	96.4	112.6	129.2	150.3

Debtors Turnover (days)	83	83	72	73	79
Stock Turnover (days)	17	19	31	32	31
Creditors Turnover	35	46	43	43	47
Current Ratio (x)	3.8	2.6	1.5	1.7	2.1
Net Debt/Equity (x)	-62.2%	-24.5%	-27.9%	-14.5%	-19.7%
Total Debt/Equity (x)	10.3%	11.6%	13.6%	27.4%	36.9%
NBV/Share (S\$)	12.84	29.55	29.09	36.53	45.78
ROE	14.9%	14.3%	26.9%	16.7%	16.8%
ROA	10.5%	9.5%	15.6%	9.0%	8.8%

CASH FLOW (\$m)

Year end Jun	'004	2005	2006	2007F	'008F
Pretax Profit	8.7	16.7	40.9	25.1	28.9
Depreciation	1.7	5.3	6.9	8.9	11.3
(Profit)/Loss on Sale of	0.0	0.0	0.0	0.0	0.0
Associates Profits	0.1	0.1	(0.0)	0.0	0.0
Tax Paid	0.1	(1.5)	2.7	(4.5)	(2.9)
Change in Working capital	(8.5)	(12.6)	14.9	(14.5)	(4.1)
Operating Cash Flow	2.2	8.0	65.4	15.0	33.2
Net Capex	(14.6)	(9.8)	(21.8)	(20.0)	(20.0)
Associates & Investments	(4.6)	(18.5)	16.1	(4.0)	0.0
Change in Other Assets	3.2	(12.9)	(28.2)	2.0	1.9
Investing Cash Flow	(16.0)	(41.2)	(33.9)	(22.0)	(18.1)
Change in Share Capital	25.6	0.4	3.7	0.0	0.0
Net Change in Debt	0.7	9.3	5.6	20.0	20.0
Dividends Paid	0.0	(2.3)	(2.0)	(3.5)	(2.2)
Others	0.7	9.3	(23.9)	(2.0)	(2.0)
Financing Cash Flow	32.6	10.8	(14.9)	14.5	15.8
Net Cash Flow	18.8	(22.4)	16.6	7.5	30.8
Cash/(Debt) at Beg of Yr	33.4	52.2	29.8	46.4	53.9
Cash/(Debt) at End of Yr	52.2	29.8	46.4	53.9	84.7

Sources: Company data, KE estimates

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