

BUY S\$0.81 STI : 3,149.16

Price Target: 12-Month S\$ 1.10 (Prev S\$ 1.02)

Reason for Report : 1HFY07 earnings release

Potential Catalyst: Pick up in semiconductor growth, higher than expected utilization of its new wafer reclaim capacity.

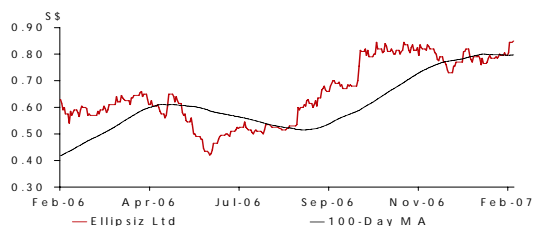
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FORECASTS AND VALUATION

FY Jun (S\$ m)	2005A	2006A	2007F	2008F
Turnover	118.3	186.0	214.5	255.5
EBITDA	21.8	34.8	35.2	40.4
Pre-tax Profit	16.7	40.9	26.7	30.8
Net Profit	11.1	26.1	21.5	24.9
Net Pft (Pre Ex.)	11.1	14.5	21.5	24.9
EPS (S cts)	4.6	10.3	8.5	9.8
EPS Gth (%)	20	121	(18)	16
Diluted EPS (S cts)	4.6	10.3	8.5	9.8
Net DPS (S cts)	1.0	1.0	1.3	1.5
BV Per Share (S cts)	34.5	44.1	51.6	60.1
PE (X)	17.3	7.8	9.5	8.2
P/Cash Flow (X)	11.6	6.1	6.8	6.0
EV/EBITDA (X)	8.5	5.0	4.7	3.8
Net Div Yield (%)	1.2	1.2	1.6	1.8
P/Book Value (X)	2.3	1.8	1.6	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	14.3	26.9	17.7	17.5

SHARE PRICE CHART**AT A GLANCE**

Issued Capital (m shrs)	255
Mkt. Cap (S\$m/US\$m)	205 / 133
Major Shareholders	
Chong Fook Choy (%)	11.3
Aegis Portfolio (%)	7.5
3 I Group (%)	6.7
Free Float (%)	74.5
Avg. Daily Vol. ('000)	2,539

Earnings Rev :	2006: 0.3%	2007: 0.1%
Consensus EPS :	2007: -	2008: -
Variance vs Cons :	2007: -	2008: -

Sector : Technology

Bloomberg/Reuters Code: ELL SP EQUITY/ELPZ.SI

Principal Business: A leading provider of integrated solutions to the semiconductor and electronics related industry.

SGX MAS Research Incentive scheme**Ellipsiz Holdings****Commendable performance in a tough market**

➤ **Story:** Ellipsiz reported 1HFY07 earnings that exceeded our expectations by c.14%.

➤ **Point:** Stronger than expected performance was driven by full contribution from its subsidiaries, which included its acquisition of the wafer probe business from Kulick & Soffa in 2HFY06. This mitigated a slowdown in orders during 1H07 due to semiconductor inventory correction and new order push outs by a key customer.

➤ **Relevance:** We have refined our assumptions and estimates but earnings remain largely unchanged for now. Further improvement in the industry outlook, resumption of customers' orders and better than expected utilisation at its newly expanded silicon reclaim plant could lead us to revise our numbers higher later. The stock is trading at 9.5x FY07 and 8.2x FY08 earnings. We have raised our target price to S\$1.10 as we rollover it to a blend of FY07/08 earnings. Reiterate BUY.

Better than expected earnings growth. We had earlier expected earnings to expand 70% y-o-y to about S\$9.5m. Ellipsiz beat that expectations and achieve c.94% y-o-y earnings growth to S\$10.8m. Wafer probe card sales expanded c.132% y-o-y to S\$59.3m while silicon reclaim sales expanded c.39% y-o-y to S\$10.0m. Distribution sales declined 28% y-o-y to S\$35m due to slower equipment orders by semiconductor companies. Gross margin has continued to improve, rising from 28.3% a year ago to 32.9% in 1H07. This still represents an improvement from 32.5% in 2H06. There was a total charge of about S\$1.4m in relation to inventory obsolescence, bad debts written off, inventories write off and exchange loss.

Resilient business model weathers storm. Ellipsiz weathered the semiconductor downturn well and has further expanded its silicon reclaim capacity by c.67%. The contribution from advanced vertical probe cards has risen to account for c.41% from c.25% of sales, previously, in that division. Although the distribution sales have declined during the period, the impact on its bottom line is less significant due to the lower value add when compared to the other businesses. All in, Ellipsiz looks to continue its growth momentum organically through higher capital spending to expand its capacity aided by the expected recovery in the semiconductor industry. The Group remains on the lookout for M&A opportunities and a successful transaction could further improve its growth outlook.

Reiterate BUY, raising target price to S\$1.10. We reiterate our BUY recommendation on the stock and raise our target price to S\$1.10 as we rollover our time frame to end of year. We have used the same sum of parts valuation method to arrive at our target price. The target price pegs the stock to approximately 12x blended FY07/08 earnings. The stock is currently trading at 9.5x FY07 and 8.2x FY08 earnings. A more definite and visible recovery in the semiconductor cycle would likely improve its growth prospects leading to better earnings performance and a re-rating of the stock given its business relationship.

Company Focus

Ellipsiz Holdings

Results Summary and Comments

FY Jun (\$m)	1H06A	2H06A	1H07A	Growth y-o-y	Growth h-o-h	1H07 Comments
Distribution services and solutions	48.9	57.0	35.2	-28.0%	N.A	Reclassification of business segment, this now consists of equipment distribution and provision of maintenance and support services.
Silicon Reclaim Solutions	7.2	9.0	10.0	39.3%	N.A	Reclassification of business segment, provision of outsourcing service for reclamation of silicon wafers, previously was part of Wafer Fab solution
Probe Cards	25.6	39.0	59.3	131.6%	N.A	Renamed from Fabless division. Advanced probe cards contributed 41% of sales in this segment, up from 25% from 2H06.
Sales	81.7	104.3	104.6	28.0%	0.2%	
Cost of Goods Sold	(58.6)	(70.8)	(70.1)	19.7%	-1.0%	
Gross Profit	23.1	33.5	34.4	49.0%	2.7%	
Other Operating Income	0.4	10.3	0.8	107.6%	-91.8%	In 2H06, it comprised gain from divestment of its stake in EEMS previously. Amount is about S\$9.7m
Operating Expenses	(13.8)	(25.8)	(22.2)	61.1%	-13.7%	
EBIT	9.7	18.0	13.0	34.2%	-27.6%	
Non-Operating Income	0.2	0.2	0.2	-14.0%	-12.5%	
Interest Income	0.3	0.5	0.4	33.0%	-22.2%	
Finance charges	(0.3)	(0.5)	(0.6)	84.5%	8.7%	Exchange differences
Share of Associates' or JV Income	(0.1)	(0.1)	(0.0)	-57.8%	-68.2%	
Exceptional Gains/(Losses)	0.0	13.0	0.0		-100.0%	In 2H06, there was a negative goodwill of about S\$13m in relation to the acquisition of K&S probe card business.
Pretax Profit	9.8	31.1	13.0	32.3%	-58.1%	
Tax	(1.2)	(3.0)	(2.2)	77.4%	-28.6%	
Minority Interests	(3.0)	(7.6)	(0.0)	-99.2%	-99.7%	
Net Profit	5.6	20.5	10.8	94.3%	-47.2%	
Preference Dividend for the period	0.0	0.0	0.0			
Net Profit after Preference Div	5.6	20.5	10.8	94.3%	-47.2%	
EBIT	9.7	18.0	13.0			
Depreciation	2.9	4.0	5.3			
Amortisation	0.1	0.1	0.2			
Depreciation & Amortisation	2.9	4.1	5.5			
EBITDA	12.7	22.1	18.6			
Cash Flow	8.6	24.7	16.4			
Margins (%)						
Gross Margin	28.3	32.2	32.9			Improved margins attributable to improved utilisation at its wafer reclaim (est at 95% in CY2006), improved economies of scale and product mix change. Contributions from higher value add Vertical probe cards.
SGA % Sales	16.9	24.7	21.3			
EBITDA Margin	15.5	21.2	17.7			
EBIT Margin	11.9	17.3	12.5			
Pre-tax Margin	12.0	29.8	12.5			
Net Margin	6.8	19.7	10.4			
Depr % of sales	3.6	3.9	5.3			
Effective Tax Rate %	12.4	9.7	16.6			

Source : Company, DBS Vickers

Company Focus

Ellipsiz Holdings

Income Statement (\$\$ m)

FY Jun	2005A	2006A	2007F	2008F
Turnover	118.3	186.0	214.5	255.5
Cost of Goods Sold	(79.6)	(129.4)	(144.8)	(172.5)
Gross Profit	38.7	56.7	69.7	83.0
Other Opg (Exp)/Inc	(22.3)	(28.9)	(43.0)	(51.7)
EBIT	16.4	27.7	26.7	31.4
Other Non Opg (Exp)/Inc	0.5	0.4	0.4	0.4
Associates & JV Inc	0.0	(0.1)	0.0	0.0
Net Interest (Exp)/Inc	(0.2)	0.0	(0.4)	(0.9)
Exceptional Gain/(Loss)	0.0	13.0	0.0	0.0
Pre-tax Profit	16.7	40.9	26.7	30.8
Tax	(2.9)	(4.2)	(4.8)	(5.5)
Minority Interest	(2.7)	(10.6)	(0.4)	(0.4)
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	11.1	26.1	21.5	24.9
Net profit before Except.	11.1	14.5	21.5	24.9
EBITDA	21.8	34.8	35.2	40.4
Sales Gth (%)	70	57	15	19
EBITDA Gth (%)	112	60	1	15
EBIT Gth (%)	99	69	(4)	18
Effective Tax Rate (%)	17.2	10.4	18.0	18.0

Cash Flow Statement (\$\$ m)

FY Jun	2005A	2006A	2007F	2008F
Pre-Tax Profit	16.7	40.9	26.7	30.8
Dep. & Amort.	5.4	7.1	8.6	9.1
Tax Paid	(2.0)	(2.9)	(5.1)	(4.8)
Assoc. & JV Inc/(loss)	0.0	0.1	0.0	0.0
Chg in Wkg. Capital	(9.8)	6.0	(1.6)	(2.4)
Other Operating CF	(4.4)	(17.5)	0.0	0.0
Net Operating CF	5.9	33.7	28.5	32.7
Capital Exp.(net)	(20.0)	(8.0)	(18.0)	(18.0)
Other Invts.(net)	0.0	22.8	0.0	0.0
Invts in Assoc. & JV	0.3	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	0.3	(36.2)	0.0	0.0
Net Investing CF	(19.4)	(21.4)	(18.0)	(18.0)
Div Paid	(2.3)	(2.0)	(2.5)	(3.2)
Chg in Gross Debt	(0.1)	21.2	20.0	20.0
Capital Issues	0.1	0.1	0.0	0.0
Other Financing CF	(3.2)	(15.0)	0.0	0.0
Net Financing CF	(5.5)	4.3	17.5	16.8
Net Cashflow	(19.0)	16.6	28.0	31.5

Quarterly / Interim Income Statement (\$\$ m)

FY Jun	2H2005	1H2006	2H2006	1H2007
Turnover	57.6	81.7	104.3	104.6
Cost of Goods Sold	(38.1)	(58.6)	(70.8)	(70.1)
Gross Profit	19.5	23.1	33.5	34.4
Other Oper. (Exp)/Inc	(11.4)	(13.4)	(15.5)	(21.4)
EBIT	8.1	9.7	18.0	13.0
Other Non Opg (Exp)/Inc	N/A	N/A	N/A	N/A
Associates & JV Inc	(0.1)	(0.1)	(0.1)	0.0
Net Interest (Exp)/Inc	0.0	0.0	0.0	(0.1)
Exceptional Gain/(Loss)	0.0	0.0	13.0	0.0
Pre-tax Profit	8.1	9.8	31.1	13.0
Tax	(1.2)	(1.2)	(3.0)	(2.2)
Minority Interest	(1.0)	(3.0)	(7.6)	0.0
Net Profit	5.9	5.6	20.5	10.8
Net profit bef Except.	5.9	5.6	8.8	10.8
EBITDA	11.0	12.7	22.1	17.5
Sales Gth (%)	(5)	42	28	0
EBITDA Gth (%)	2	15	75	(21)
EBIT Gth (%)	(3)	21	85	(28)
Gross Margins (%)	33.8	28.3	32.2	32.9
EBIT Margins (%)	14.0	11.9	17.3	12.5

Source: Company, DBS Vickers

Balance Sheet (\$\$ m)

FY Jun	2005A	2006A	2007F	2008F
Net Fixed Assets	19.7	34.6	44.1	53.0
Invts in Assocs & JVs	1.7	1.4	1.4	1.4
Other LT Assets	33.4	41.2	41.2	41.2
Cash & ST Invts	29.8	46.4	74.4	105.9
Other Current Assets	47.8	78.6	89.6	105.5
Total Assets	132.4	202.3	250.7	307.0
ST Debt	4.9	14.1	14.1	14.1
Other Current Liab	24.9	68.9	78.0	92.2
LT Debt	4.7	1.0	21.0	41.0
Other LT Liabilities	1.5	5.6	5.6	5.6
Shareholder's Equity	82.4	111.8	130.8	152.5
Minority Interests	14.0	0.8	1.2	1.6
Total Cap. & Liab.	132.4	202.3	250.7	307.0
Non-Cash Wkg. Cap	22.9	9.7	11.6	13.3
Net Cash/(Debt)	20.2	31.2	39.2	50.7

Rates & Ratios

FY Jun	2005A	2006A	2007F	2008F
Gross Margin (%)	32.7	30.5	32.5	32.5
EBITDA Margin (%)	18.4	18.7	16.4	15.8
EBIT Margin (%)	13.8	14.9	12.4	12.3
Net Profit Margin (%)	9.4	14.0	10.0	9.7
ROAE (%)	14.3	26.9	17.7	17.5
ROA (%)	14.7	17.2	12.2	11.7
ROCE (%)	(25.8)	(15.7)	6.4	9.6
Div Payout Ratio (%)	21.5	9.5	15.0	15.0
Interest Cover (x)	106.3	NM	75.9	33.5
Debtors Turn (days)	82.7	79.0	90.8	89.5
Creditors Turn (days)	38.1	88.8	133.9	131.0
Inventory Turn (days)	29.7	44.4	60.5	59.6
Current Ratio (x)	2.6	1.5	1.8	2.0
Quick Ratio (x)	2.3	1.2	1.5	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	208.7	52.5	51.2	32.6
N.Cash/(Debt)PS (\$ cts)	8.5	12.3	15.5	20.0
Opq CFPS (\$ cts)	6.62	10.9	11.9	13.8
Free CFPS (\$ cts)	(5.9)	10.2	4.1	5.8

PE Chart (x)



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