

Ellipsiz Ltd

Still undervalued

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Recommendation:

BUY

Previous call: BUY at S\$0.605 on 30 August 2006

Note: There is a change of analyst covering this stock

Price

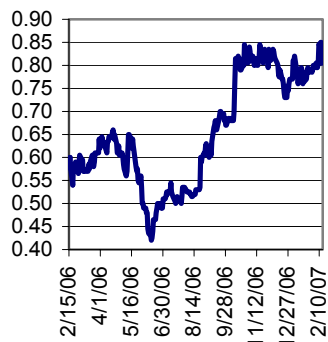
Previous close **S\$0.805**
Fair value **S\$1.02**

Share Statistics

Shares	255.2m
Market Cap.	S\$205.5m
Historical PER	7.6x
Forward PER	9.4x
P/NTA (1H FY07)	2.5x
52-week Price Range	S\$0.42 – S\$0.875
52-week PER Range (based on core EPS)	8.1x - 16.9x
Listing Bourse	Mainboard
	Chong Fook Choy
Major Shareholders	(11.3%) Aegis (7.5%)

Source: Bloomberg, Phillip Securities Research

Price Chart



Company Profile

Ellipsiz is a global probe card leader and outsourced service provider serving the semiconductor electronics industries. Its core businesses include probe card manufacturing, silicon reclaim, and equipment distribution & services.

1H FY07 results. Ellipsiz reported revenue of S\$104.6 million (+28% YoY) and net profit attributable to equity holders of S\$10.9 million (+95 % YoY) in 1H FY07. Growth in revenue was primarily driven by the probe cards and silicon reclaim business, which achieved higher revenue of S\$59 million (+132% YoY) and S\$10 million (+39% YoY) respectively. The equipment distribution & services business, however, reported lower revenue of S\$35 million (-28% YoY), due to the completion of a Total Chemical Management Project in FY06, the non-recurrence of a major facility project, and the de-emphasis of the low-margin second source trading business activities in Singapore. The significant jump in net profit was due to full contributions from key subsidiaries in the probe card and manufacturing test solutions business, following the company's acquisition of their remaining interests in 2H FY06.

Excess inventory and slack end-customer demand pose near term challenges to probe cards business. The company successfully completed the integration of the wafer test assets of Kulicke and Soffa ("K&S") into its probe cards business by the end of 2006. The acquisition boosted probe cards sales in 1H FY07 and increased annualised manufacturing capacity by 117% to 4.7 million points. However, revenue from the probe cards business grew by just 5% on a sequential basis (1H FY07 vis-à-vis 2H FY06), due to a slow down in end-customer demand (particularly for vertical probe cards) and inventory adjustments in the semiconductor supply chain towards the end of 2006. Looking ahead, the company sees limited visibility during the seasonally slower 1Q CY07.

Probe cards sales should pick up from 2Q CY07. Nonetheless, we expect probe cards sales to pick up going into 2Q CY07, given the healthy outlook for the global probe cards industry, with forecasted growth of 9.8% in 2007 (source: VLSI Research, June 2006), and the expectation among most industry participants for the inventory correction to ease by the end of 1Q CY07. In addition, we expect the probe cards business to generate higher margins in the coming years, due to increasing contribution of the higher-margin vertical probe cards and greater cost savings as the company progressively shifts part of the production of probe cards from its manufacturing facilities in the US and France to Vietnam.

Maintain BUY, raise Fair Value Estimate from S\$0.97 to S\$1.02. We have lowered our revenue and net profit estimates for FY07 and FY08 to factor in slower sales in the probe cards business and lower revenue contribution from the equipment distribution & services business, and introduced FY09 estimates. Despite our downward revisions, we remain positive over the company's prospects and expect core EPS (excluding non-recurring income and expenses) to grow at robust CAGR of 27% between FY07 and FY09. We believe that Ellipsiz remains undervalued at current levels, given that it trades at a significant discount to its global peers in the probe cards business (forward

PERs of between 18x to 27x), in spite of its position as the fourth largest probe card company in the world (see Figure 1).

Figure 1: Comparison of the Top Four Global Probe Card Companies^(a)

Company	Probe Card Sales (S\$m) ^(b)	Hist. PER (x)	Forward PER (x)	Mkt Cap (S\$m)	Country
Ellipsiz	116	7.6	9.4	205.5	S'pore
Form Factor	566	33.7	27.3	3138.1	U.S.
Japan Electronic Materials	207	35.0	17.8	413.0	Japan
Micronics Japan	163	27.9	23.1	1056.9	Japan

^(a)Based on market closing prices and exchange rates on 13 February 2007.

^(b)For the 12-month period from 1 Jan 2006 to 31 December 2006.

Source: Bloomberg, Phillip Securities Research

We raise our Fair Value Estimate from S\$0.97 to S\$1.02, based on a higher but undemanding relative valuation of 12x FY07 PER. We believe there is further upside to the share price, if the company manages the expansion of its probe cards business well, following the integration of the K&S assets, and builds on its other business segments, particularly the fast-growing silicon reclaim business. Downside risk to our forecast is protracted inventory adjustments in the semiconductor industry. Maintain BUY.

Key Financial Data

(Financial Year Ended 30 June)

	1H FY06	1H FY07	%ch	FY07E	FY08E	FY09E
Revenue (S\$m)	81.7	104.6	28.0	219.3	244.8	270.8
Gross Profit (S\$m)	23.1	34.4	49.0	72.3	81.2	90.5
Profit Before Taxation (S\$m)	9.8	13.0	32.3	26.5	30.2	33.9
Net Profit (S\$m)	5.6	10.9	95.1	21.6	24.3	27.0
Net Profit Margin (%)	6.8	10.4	3.6 ppt	9.9	9.9	10.0
ROE (%)	12.7*	18.3*	5.6 ppt	16.6	16.1	15.6
EPS (cents)	2.3	4.3	88.3	8.5	9.5	10.6
Net DPS (cents)	0.4	0.48	20	1.7	1.9	2.1
NTA per Share (cents)	29.1	32.2	10.7	35.9	43.8	52.5
BV per Share (cents)	35.3	46.6	32.0	51.2	59.0	67.7

*Annualised.

Source: Company, Phillip Securities Research

Financials

Income Statement

In S\$'000	FY05A	FY06A	FY07E	FY08E	FY09E
Revenue	118,276	186,044	219,308	244,778	270,766
Cost of sales	(79,559)	(129,379)	(147,048)	(163,606)	(180,255)
Gross profit	38,717	56,665	72,260	81,172	90,511
Other operating income	6,245	24,839	2,000	2,000	2,000
Distribution and selling expenses	(6,802)	(11,442)	(17,545)	(19,582)	(21,661)
Administrative expenses	(21,146)	(24,139)	(28,071)	(31,332)	(34,658)
Other operating expenses	(163)	(4,010)	(1,316)	(1,469)	(1,625)
Profit from operations	16,851	41,913	27,328	30,790	34,567
Finance costs	(591)	(836)	(868)	(692)	(748)
Share of result of associate	(26)	(149)	50	55	60
Profit before taxation	16,234	40,928	26,511	30,153	33,880
Income tax expense	(2,860)	(4,239)	(4,772)	(5,729)	(6,776)
Net profit attributable to minority interests	2,738	10,598	100	110	121
Net profit attributable to shareholders	10,636	26,091	21,639	24,314	26,983
Net profit attributable to shareholders, ex-EI	10,636	12,768	21,639	24,314	26,983

Balance Sheet

In S\$'000	FY05A	FY06A	FY07E	FY08E	FY09E
Current assets	77,584	125,016	107,627	129,557	143,774
Non-current assets ex-intangible assets	43,018	37,879	46,652	51,692	57,370
Intangible assets	11,772	39,366	38,952	38,538	38,124
Current liabilities	29,567	83,029	55,337	61,776	58,958
Non-current liabilities	6,198	6,635	5,923	5,979	6,036
Minority Interests	14,014	753	1,223	1,333	1,454
Shareholders equity	82,595	111,844	130,748	150,699	172,819

Cash Flow Statement

In S\$'000	FY05A	FY06A	FY07E	FY08E	FY09E
Profit before taxation	16,234	40,928	26,511	30,153	33,880
Depreciation	5,303	6,865	10,931	13,556	16,406
Operating profit before working capital changes	17,924	30,581	38,674	44,760	51,388
Net cash flow from operating activities	5,970	33,737	38,871	25,632	50,212
Net cash flow from investing activities	(19,490)	(21,421)	(39,025)	(19,305)	(20,000)
Net cash flow from financing activities	(9,081)	5,007	(8,324)	(3,807)	(1,713)
Net increase/(decrease) in cash/cash equivalents	(22,601)	17,323	(8,478)	2,520	28,499
Cash and cash equivalents at beginning of year	48,822	29,788	46,386	37,908	40,428
Exchange rate changes and other adjustments	3,567	725	0	0	0
Cash and cash equivalents at end of year	29,788	46,386	37,908	40,428	64,047

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BUY	>15% upside from the current price
HOLD	Trade within \pm 15% from the current price
SELL	>15% downside from the current price

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