# Ellipsiz

## *Facing strong headwinds*

**SELL**

### ▪ FY07 results below expectations

Ellipsiz reported disappointing FY07 results with a 42% decline in net profit to $15m while revenue rose 8% to $200.6m. Excluding exceptionals, EBITDA would have dropped 14% to $24.8m from $29m in FY06. Gross margins also slipped to 28.3% from 30.5% due to price attrition arising from a more competitive environment. Non-cash ROE (excl EI) declined from 39% to 15% in FY07. We are slashing our FY08 and FY09 forecasts by 43% to $12.9 and 42% to $16.2m respectively as a result of continued pricing pressure as well as higher R&D expenses as the group expands wafer test activities for the Probe Card solutions business.

### ▪ Business segments performed poorly

Both recurring businesses - Probe Card solutions (PCS) and Silicon Reclaim solutions (SRS) reported uninspiring topline growth. PCS revenue grew 26% to $103.6m (52% of sales) due to consolidation of the wafer test business of Kulicke & Soffa (K&S), which was acquired in Mar 2006. PCS performance was severely affected by the industry slowdown with EBIT margins dipping to 3% from 31%. Assuming zero organic growth, K&S and SV Probe should have contributed to at least 80% topline growth for the PCS segment. SRS revenue grew 24% to $19.8m due to increased demand spurred on by high silicon prices and 50% ramp in production capacity. Distributon and Services solutions revenue (DSS) fell 12% to $77.2m as major projects ended in FY06.

### ▪ No near term catalysts from Viet plant and new projects

The new Vietnam facility for its Probe Cards is scheduled to to be completed in Sep 2007 but we do not expect any substantial contribution for the next six months. New product technology for its PCS segment is still in development stage. Management expects a 18-24 months time frame before any fruition from the R&D projects.

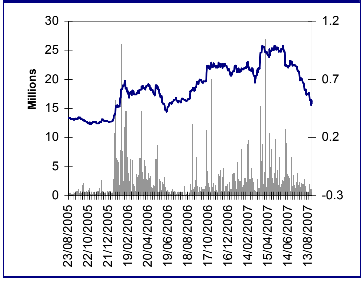
### ▪ Downgrade to Sell from Buy

We are downgrading Ellipsiz to Sell from Buy. We believe Ellipsiz will continue to face pricing pressure from major customers and foresee no near term catalysts. Ellipsiz is currently trading at 10x FY08 PE, above its two-year historical average of 9x but well below global industry PEs of 16x. We see fair value at $0.46 based on a 9x FY08 PE (1.2x FY08 P/B). The group is not proposing any final dividend apart from the 0.6¢ interim payout in Mar 2007.

| Year End Jun | 2005 | 2006 | 2007 | 2008F | 2009F |
|---|---|---|---|---|---|
| Sales ($m) | 118.3 | 186.0 | 200.6 | 221.1 | 253.7 |
| Pretax profit ($m) | 16.7 | 40.9 | 14.1 | 16.3 | 20.2 |
| Net profit ($m) | 11.1 | 26.1 | 15.0 | 12.9 | 16.2 |
| EPS (cts) | 4.5 | 10.6 | 5.9 | 5.1 | 6.3 |
| EPS ex EI (cts) | 2.6 | 5.2 | 5.9 | 5.1 | 6.3 |
| EPS ex EI growth (%) | 54.6 | 103.8 | 12.8 | (14.0) | 25.1 |
| PER (x) | 19.9 | 9.8 | 8.7 | 10.1 | 8.0 |
| Non cash PER (x) | 10.4 | 3.9 | 7.9 | 9.3 | 6.4 |
| EV/EBITDA (x) | 4.9 | 2.0 | 4.5 | 3.8 | 2.7 |
| DPS (cts) | 1.2 | 1.0 | 0.6 | 0.5 | 0.6 |
| Yield (%) | 2.3 | 2.0 | 1.2 | 1.0 | 1.2 |

| | |
|---|---|
| **Price** | **$0.51** |
| **Target** | **$0.46** |
| **ST Index** | **3370.91** |

Historical Chart




Stock Information

| | |
|---|---|
| Bloomberg ticker code | ELL SP |
| Reuters ticker code | ELPZ.SI |
| Market cap (S$m) | 130.4 |
| 52-week high ($) | 1.01 |
| 52-week low ($) | 0.47 |
| Shares issued (m) | 255.6 |
| 6m avg. daily vol (m) | 2.05 |
| Free float (%) | 71.7 |
| Major Shareholders (%) | |
| Chong Fook Choy – CEO (11.3) | |
| Ageis Portfolio Managers (10.1) | |
| Legg Mason (6.9) | |

Key Indicators – FY07

| | |
|---|---|
| Gross Margin (%) | 28.3 |
| Operating Margin (%) | 7.1 |
| ROE (%) | 12.8 |
| ROA (%) | 8.0 |
| Current Ratio (x) | 2.2 |
| Net Debt/Equity (%) | (15.8) |
| Interest cover (x) | N.A |
| BVPS(¢) | 33.5 |
| P/B (x) | 1.5 |

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## Figure 1: Ellipsiz Financial Results

| Year End Jun (S$m) | FY07 | FY06 | % YoY |
|---|---|---|---|
| **Sales** | **200.61** | **186.04** | **8%** |
| COGS | (143.76) | (129.38) | 11% |
| **Gross Profit** | **56.85** | **56.67** | **0%** |
| Other Operating Income | 1.18 | 24.84 | -95% |
| Distribution Costs | (16.21) | (11.44) | 42% |
| Administration Expenses | (21.17) | (24.14) | -12% |
| Other Operating Expenses | (0.65) | (4.01) | -84% |
| **Operating Profit** | **14.18** | **41.91** | **-66%** |
| Interest Expense | 0.13 | (0.84) | -115% |
| Associates | (0.11) | (0.04) | 162% |
| Joint Venture | (0.10) | (0.11) | -9% |
| **Pretax Profit** | **14.10** | **40.93** | **-66%** |
| Taxation | 1.46 | (4.24) | -135% |
| Minority Interests | (0.54) | (10.60) | -95% |
| **Net Profit** | **15.02** | **26.09** | **-42%** |
| Gross DPS (cts) | 0.60 | 1.00 | -40% |
| **EPS (S cts)** | **5.89** | **10.56** | **-44%** |
| Gross Margins (%) | 28% | 30% | -7% |
| Operating Margins (%) | 7% | 23% | -69% |
| Pretax Margins (%) | 7% | 22% | -68% |
| Return on Equity (%) | 13% | 27% | -52% |
| Return on Assets (%) | 8% | 16% | -48% |

| Year End Jun (S$m) | 2H07 | 2H06 | % YoY | 1H07 | % HoH |
|---|---|---|---|---|---|
| **Sales** | **96.05** | **104.35** | **-8%** | **104.56** | **-8%** |
| COGS | (73.64) | (70.80) | 4% | (70.11) | 5% |
| **Gross Profit** | **22.41** | **33.55** | **-33%** | **34.44** | **-35%** |
| Other Operating Income | (0.05) | 23.93 | -100% | 1.24 | -104% |
| Distribution Costs | (7.88) | (7.15) | 10% | 1.24 | -737% |
| Administration Expenses | (7.85) | (14.96) | -48% | (13.33) | -41% |
| Other Operating Expenses | (0.06) | (3.68) | -98% | (0.59) | -89% |
| **Operating Profit** | **0.75** | **31.70** | **-98%** | **13.43** | **-94%** |
| Interest Expense | 0.51 | (0.53) | -197% | (0.38) | -233% |
| Associates | (0.09) | (0.02) | 411% | (0.02) | 411% |
| Interest Expense | (0.09) | (0.07) | 31% | (0.01) | 878% |
| **Pretax Profit** | **1.08** | **31.08** | **-97%** | **13.02** | **-92%** |
| Taxation | 3.62 | (3.02) | -220% | (2.16) | -268% |
| Minority Interests | (0.52) | (7.55) | -93% | (3.05) | -83% |
| **Net Profit** | **4.18** | **20.51** | **-80%** | **10.84** | **-61%** |
| **EPS (S cts)** | **1.64** | **8.21** | **-80%** | **4.25** | **-61%** |
| Gross Margins (%) | 23% | 32% | -27% | 33% | -29% |
| Operating Margins (%) | 1% | 30% | -97% | 13% | -94% |
| Pretax Margins (%) | 1% | 30% | -96% | 12% | -91% |

*Source: Company data, KELive*

## HALF-YEARLY PERFORMANCE (S$m)

| 6 months to ($ m) | Jun 07 | Jun 06 | % YoY | Dec 06 | %HoH |
|---|---|---|---|---|---|
| Turnover | 96.1 | 104.35 | -8% | 104.6 | -8% |
| Operating Profit | 0.8 | 31.70 | -98% | 13.4 | -94% |
| Pretax Profit | 1.1 | 31.08 | -97% | 13.0 | -92% |
| Net Profit | 4.2 | 20.51 | -80% | 10.8 | -61% |
| EPS Cents | 1.6 | 8.21 | -80% | 4.2 | -61% |
| *Key ratios* | | | | | |
| Operating Margin | 23.3% | 29.8% | -6.5% | 32.9% | -9.6% |
| Pretax Margin | 0.8% | 9.7% | -8.9% | 12.8% | -12.1% |
| Net Margin | 4.4% | 19.7% | -15.3% | 10.4% | -6.0% |

## PROFIT & LOSS (S$m)

| Year end Jun | 2005 | 2006 | 2007 | 2008F | 2009F |
|---|---|---|---|---|---|
| **Turnover** | **118.3** | **186.0** | **200.6** | **221.1** | **253.7** |
| COGS | (79.6) | (129.4) | (143.8) | (157.0) | (180.1) |
| **Gross Profit** | **38.7** | **56.7** | **56.9** | **64.1** | **73.6** |
| Other Operating Income | 9.0 | 6.2 | 24.8 | 1.2 | 2.0 |
| Distribution Costs | (6.8) | (11.4) | (16.2) | (17.2) | (17.8) |
| Administration Expenses | (20.7) | (24.1) | (21.2) | (23.2) | (25.4) |
| R&D Expenses | 0.0 | 0.0 | (5.8) | (7.7) | (10.1) |
| Other Operating Exp | (0.2) | (4.0) | (0.6) | (0.7) | (0.8) |
| **Operating Profit** | **17.3** | **41.9** | **14.2** | **17.3** | **21.5** |
| Interest Expense | (0.6) | (0.8) | 0.1 | (0.7) | (1.0) |
| Associates | 0.1 | (0.0) | (0.1) | (0.2) | (0.3) |
| Exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Pretax Profit** | **16.7** | **40.9** | **14.1** | **16.3** | **20.2** |
| Taxation | (2.9) | (4.2) | 1.5 | (2.8) | (3.4) |
| Minority Interests | (2.7) | (10.6) | (0.5) | (0.6) | (0.6) |
| **Net Profit** | **11.1** | **26.1** | **15.0** | **12.9** | **16.2** |
| **EPS (¢)** | **4.6** | **10.6** | **5.9** | **5.1** | **6.3** |
| **EPS Growth** | **19.8%** | **127.1%** | **-44.2%** | **-14.0%** | **25.1%** |
| **Gross DPS (¢)** | **1.2** | **1.0** | **0.6** | **0.5** | **0.6** |
| **Sales Growth** | **70%** | **57%** | **8%** | **10%** | **15%** |
| **Gross Profit Growth** | **182%** | **46%** | **0%** | **13%** | **15%** |
| **Operating Profit Growth** | **95%** | **142%** | **-66%** | **22%** | **25%** |
| **Pretax Profit Growth** | **91%** | **146%** | **-66%** | **16%** | **24%** |
| **Net Profit Growth** | **35%** | **136%** | **-42%** | **-14%** | **25%** |
| **Gross Margin** | **33%** | **30%** | **28%** | **29%** | **29%** |
| **Operating Margin** | **15%** | **23%** | **7%** | **8%** | **8%** |
| **Pretax Margin** | **14%** | **22%** | **7%** | **7%** | **8%** |
| **Effective Tax Rate** | **17%** | **10%** | **-10%** | **17%** | **17%** |
| **Interest Cover (x)** | **29** | **50** | **NA** | **24** | **21** |
| **Dividend Cover (x)** | **5** | **13** | **10** | **10** | **10** |

## SEGMENT BREAKDOWN (S$m)

| Year end Jun | 2005 | 2006 | 2007 | 2008F | 2009F |
|---|---|---|---|---|---|
| Distribution & Services Sol | 69.7 | 87.9 | 77.2 | 83.4 | 91.8 |
| Silicon Reclaim | 11.3 | 15.9 | 19.8 | 23.7 | 30.9 |
| Probe Cards | 37.3 | 82.3 | 103.6 | 113.9 | 131.0 |
| **Total Revenue** | **118.3** | **186.0** | **200.6** | **221.1** | **253.7** |
| Distribution & Services Sol | 59% | 47% | 39% | 38% | 36% |
| Silicon Reclaim | 10% | 9% | 10% | 11% | 12% |
| Probe Cards | 32% | 44% | 52% | 52% | 52% |
| **% Revenue** | **100%** | **100%** | **100%** | **100%** | **100%** |
| Distribution & Services Sol | | 26% | -12% | 8% | 10% |
| Silicon Reclaim | | 41% | 24% | 20% | 30% |
| Probe Cards | | 121% | 26% | 10% | 15% |
| **Revenue Growth** | | **57%** | **8%** | **10%** | **15%** |

*Sources: Company data, KE estimates*

## BALANCE SHEET (S$m)

| As at Jun | 2005 | 2006 | 2007 | 2008F | 2009F |
|---|---|---|---|---|---|
| Current Assets | 77.6 | 125.0 | 93.7 | 128.9 | 155.5 |
| Cash & ST Invts | 29.8 | 51.8 | 27.8 | 46.8 | 71.0 |
| Receivables | 38.4 | 49.6 | 40.7 | 55.8 | 55.9 |
| Inventories | 8.9 | 22.2 | 21.5 | 24.3 | 26.6 |
| Project in Progress | 0.3 | 0.1 | 0.5 | 0.5 | 0.5 |
| Others | 0.2 | 1.3 | 3.3 | 1.5 | 1.5 |
| Fixed Assets | 19.7 | 34.6 | 36.2 | 39.6 | 40.7 |
| Associates | 1.5 | 1.3 | 4.3 | 4.3 | 4.3 |
| JV | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Investments | 21.3 | 0.1 | 0.0 | 0.0 | 0.0 |
| Other Assets | 12.1 | 41.1 | 37.5 | 37.3 | 36.5 |
| **Total Assets** | **132.4** | **202.3** | **171.8** | **210.2** | **237.0** |
| Current Liabilities | 29.8 | 83.0 | 41.7 | 48.5 | 50.7 |
| ST Borrowings | 4.9 | 14.1 | 5.7 | 5.7 | 5.7 |
| Payables | 23.4 | 61.1 | 31.7 | 37.7 | 39.1 |
| Others | 1.5 | 7.8 | 4.2 | 5.1 | 5.9 |
| LT Loans | 4.7 | 1.0 | 2.7 | 22.7 | 32.7 |
| Deferred Liabilities | 1.4 | 4.7 | 2.4 | 2.4 | 2.4 |
| Red. Con, Pref. Shares | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other Payables | 0.0 | 0.8 | 0.2 | 0.2 | 0.2 |
| **Total Liabilities** | **36.0** | **89.7** | **47.1** | **73.9** | **86.1** |
| Share Capital | 59.7 | 117.2 | 121.1 | 121.1 | 121.1 |
| Reserves | 22.7 | (5.3) | 1.8 | 13.5 | 28.0 |
| Minority Interests | 14.0 | 0.8 | 1.8 | 1.8 | 1.8 |
| **Total Equity + MI** | **96.4** | **112.6** | **124.7** | **136.3** | **150.9** |
| **Debtors Turnover (days)** | **83** | **72** | **69** | **68** | **70** |
| **Stock Turnover (days)** | **28** | **71** | **62** | **58** | **59** |
| **Creditors Turnover (days)** | **46** | **43** | **36** | **38** | **46** |
| **Current Ratio (x)** | **2.6** | **1.5** | **2.2** | **2.7** | **3.1** |
| **Net Debt/Equity (x)** | **-24.5%** | **-27.9%** | **-15.8%** | **-13.6%** | **-21.8%** |
| **Total Debt/Equity (x)** | **11.6%** | **13.6%** | **6.9%** | **21.1%** | **25.8%** |
| **NBV/Share (S c)** | **29.55** | **29.09** | **33.54** | **38.16** | **44.59** |
| **ROE** | **14.3%** | **26.9%** | **12.8%** | **10.1%** | **11.4%** |
| **ROA** | **9.5%** | **15.6%** | **8.0%** | **6.8%** | **7.2%** |

## CASH FLOW (S$m)

| Year end Jun | 2005 | 2006 | 2007 | 2008F | 2009F |
|---|---|---|---|---|---|
| Pretax Profit | 16.7 | 40.9 | 14.1 | 16.3 | 20.2 |
| Depreciation | 5.3 | 6.9 | 10.7 | 12.5 | 14.9 |
| (Profit)/Loss on Sale of Asset | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Associates Profits | 0.1 | (0.0) | (0.1) | (0.2) | (0.3) |
| Tax Paid | (1.5) | 2.7 | (3.5) | (1.9) | (2.6) |
| Change in Working Capital | (12.6) | 14.9 | (23.1) | (10.2) | (0.9) |
| **Operating Cash Flow** | **8.0** | **65.4** | **(1.9)** | **16.5** | **31.4** |
| Net Capex | (9.8) | (21.8) | (12.3) | (16.0) | (16.0) |
| Associates & Investments | (18.5) | 16.1 | 2.7 | 0.2 | 0.3 |
| Change in Other Assets | (12.9) | (28.2) | 3.2 | 0.2 | 0.9 |
| **Investing Cash Flow** | **(41.2)** | **(33.9)** | **(6.4)** | **(15.6)** | **(14.9)** |
| Change in Share Capital | 0.4 | 3.7 | 3.9 | 0.0 | 0.0 |
| Net Change in Debt | 9.3 | 5.6 | (6.7) | 20.0 | 10.0 |
| Dividends Paid | (2.3) | (2.0) | (2.3) | (1.3) | (1.6) |
| Others | 10.5 | (22.2) | (5.2) | (0.6) | (0.6) |
| **Financing Cash Flow** | **10.8** | **(14.9)** | **(10.2)** | **18.1** | **7.7** |
| **Net Cash Flow** | **(22.4)** | **16.6** | **(18.6)** | **19.0** | **24.2** |
| Cash/(Debt) at Beg of Yr | 52.2 | 29.8 | 46.4 | 27.8 | 46.8 |
| Cash/(Debt) at End of Yr | 29.8 | 46.4 | 27.8 | 46.8 | 71.0 |

*Sources: Company data, KE estimates*

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