

**HOLD S\$0.51 STI : 3,370.91**

(Downgrade from Buy)

Price Target : 12-Month S\$ 0.58 (Prev S\$ 0.95)

Reason for Report : 2H07 Results

Potential Catalyst: Stronger than expected margin recovery

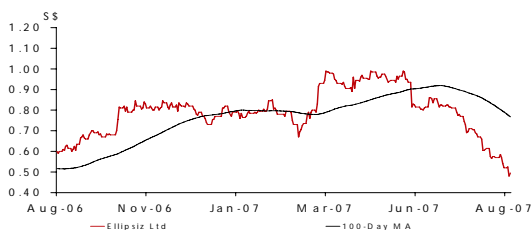
**ANALYST**

Ai Teng Tan +65 6398 7967

AiTeng@dbsvickers.com

**FORECASTS AND VALUATION**

FY Jun (\$\$ m)	2006A	2007A	2008F	2009F
Turnover	186.0	200.6	215.4	247.7
EBITDA	35.0	25.1	28.0	32.1
Pre-tax Profit	40.9	14.1	15.7	19.2
Net Profit	26.1	15.0	12.9	16.0
Net Pft (Pre Ex.)	13.1	15.0	12.9	16.0
EPS (\$ cts)	10.3	5.9	5.1	6.3
EPS Gth (%)	130	(42)	(14)	24
Diluted EPS (\$ cts)	10.3	5.9	5.1	6.3
Net DPS (\$ cts)	1.0	0.6	0.5	0.9
BV Per Share (\$ cts)	44.1	49.0	53.5	59.3
PE (X)	5.0	8.6	10.0	8.1
P/Cash Flow (X)	3.9	4.9	5.2	4.6
EV/EBITDA (X)	2.8	3.9	3.2	2.5
Net Div Yield (%)	1.9	1.2	1.0	1.9
P/Book Value (X)	1.2	1.0	1.0	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	26.9	12.7	10.0	11.2

**SHARE PRICE CHART****AT A GLANCE**

Issued Capital (m shrs)	256
Mkt. Cap (\$\$m/US\$m)	130 / 86
Major Shareholders	
Chong Fook Choy (%)	11.3
Aegis Portfolio (%)	10.1
Legg Mason Asset Mgmt (%)	6.9
Free Float (%)	71.7
Avg. Daily Vol. ('000)	2,968

Earnings Rev (%)	2008: (35.4)	2009: -
Consensus EPS (\$ cts)	2008: 8.8	2009: 10.8
Variance vs Cons (%)	2008: (42.0)	2009: (41.7)

Sector : Technology

Bloomberg/Reuters Code: ELL SP/ELPZ.SI

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

**SGX MAS Research Incentive scheme****Ellipsiz Ltd****Outlook is still murky**

➤ **Story:** Ellipsiz's 2H07 results came in worse than expected. Bottomline of S\$4.1m came in 25% below our revised forecast of S\$5.5m due to margin compression. Excluding tax credit of S\$3.6m, operating profit would be even lower at S\$0.5m.

➤ **Point:** Looking ahead, management expects pricing pressure and demand volatility to persist in the next fiscal year and have therefore maintained a cautious outlook. Notwithstanding near term challenges, Ellipsiz continues to restructure its business actively - through production transfers and new technology development - so as to offset margin compression and position itself for long-term growth.

➤ **Relevance:** Although we continue to believe in the long-term viability and opportunity of Ellipsiz's business model, near-term share appreciation is unlikely given a lack of positive catalysts. Hence, we are downgrading our rating on Ellipsiz to a Hold with a lowered target price of S\$0.58 based on sum-of-parts valuation, which translates to 11.4x FY08 earnings.

Gross margin plunged 9.6%pts to 23.3%, compared to 32.9% in 1H07 and our forecast of 30%. This was largely affected by negative operating leverage from lower sales and stronger than expected pricing pressure. Margin at the operating level fell a wider 12.1%pts as R&D expenses escalated significantly for the development of advanced vertical probe cards technology. On a net basis, however, bottomline was mitigated by a S\$3.6m worth of tax credit/writeback granted for the pioneer status of the wafer reclaim business.

Revenue fell 7.9% yoy and 8.1% hoh to S\$96.1m, in line with our forecast of S\$96.4m. Contrary to our expectation, Distribution & Services recovered 19% hoh whereas Probe Cards dived 25% on customers push-outs given the soft market and ASP pressures. Silicon Reclaim also dipped a marginal 2% as pricing pressure and a less favourable product mix offset higher shipment.

**Near term outlook is still challenging.** We expect a seasonal bounce in 1QFY08 but this may not be sufficient to offset strong margin pressure. Coupled with little order visibility in the horizon, we have slashed earnings estimates by 35% to S\$12.9m in FY08. In our view, FY08 would be a year of consolidation and the company's restructuring efforts would only yield benefits from late FY08 or even into FY09.

**Results Summary and Comments**

FY Jun (\$\$m)	2H06A	1H07A	2H07F	Growth y-o-y	Growth h-o-h	1H07 Comments
Distribution services and solutions	39.0	35.2	42.0	7.9%	19.3%	Reclassification of business segment, this now consists of equipment distribution and provision of maintenance and support services.
Wafer Reclaim Solutions	9.4	10.0	9.8	3.8%	-2.0%	Reclassification of business segment, provision of outsourcing service for reclamation of silicon wafers, previously was part of Wafer Fab solution
Probe Cards	56.6	59.3	44.2	-21.9%	-25.4%	Qoq decline due to customer pushouts given the soft market and ASP pressures.
Sales	104.3	104.6	96.1	-7.9%	-8.1%	
Cost of Goods Sold	-70.8	-70.1	-73.6	4.0%	5.0%	
Gross Profit	33.5	34.4	22.4	-33.2%	-34.9%	
Other Operating Income	10.3	1.2	-0.1	n.a	n.a	In 2H06, it comprised gain from divestment of its stake in EEMS previously. Amount is about S\$9.7m
Other Opex	-25.8	-22.2	-21.6	n.a	n.a	
EBIT	18.0	13.4	0.8	-95.8%	-94.4%	
Non-Operating Income	0.2	0.0	0.0	n,a	n,a	
Interest Income	0.5	0.0	0.8	n,a	n,a	
Finance charges	-0.5	-0.4	-0.3	n,a	n,a	Exchange differences
Share of Associates' or JV Income	-0.1	0.0	-0.2	n,a	n,a	
Exceptional Gains/(Losses)	13.0	0.0	0.0	n,a	n,a	In 2H06, there was a negative goodwill of about S\$13m in relation to the acquisition of K&S probe card business.
Pretax Profit	31.1	13.0	1.1	-96.5%	-91.7%	
Tax	(3.0)	(2.2)	3.6	n,a	n,a	
Minority Interests	(7.6)	0.0	(0.6)	n,a	n,a	
Net Profit	20.5	10.9	4.1	-79.8%	-62.0%	
Preference Dividend	0.0	0.0	0.0	n,a	n,a	
Net Profit after Preference Div	20.5	10.9	4.1	-79.8%	-62.0%	
EBIT	18.0	13.4	0.8			
Depreciation	4.0	5.3	5.4			
Amortisation	0.1	0.2	0.2			
Depreciation & Amortisation	4.1	5.5	5.6			
EBITDA	22.1	18.9	6.4			
Cash Flow	24.7	16.4	10.0			
<b>Margins (%)</b>						
Gross Margin	32.2	32.9	23.3			
SGA % Sales	24.7	21.3	22.5			
EBITDA Margin	21.2	18.1	6.7			
EBIT Margin	17.3	12.8	0.8			
Pre-tax Margin	29.8	12.5	1.1			
Net Margin	19.7	10.4	4.3			
Depr % of sales	3.9	5.3	5.9			
Effective Tax Rate %	9.7	16.6	-335.1			

Source : Company, DBS Vickers

**Income Statement (\$\$ m)**

FY Jun	2006A	2007A	2008F	2009F
Turnover	186.0	200.6	215.4	247.7
Cost of Goods Sold	(129.4)	(143.8)	(152.9)	(174.6)
<b>Gross Profit</b>	<b>56.7</b>	<b>56.9</b>	<b>62.5</b>	<b>73.1</b>
Other Opg (Exp)/Inc	(28.6)	(42.7)	(45.9)	(53.0)
<b>EBIT</b>	<b>28.1</b>	<b>14.2</b>	<b>16.6</b>	<b>20.1</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.1)	(0.2)	(0.2)	(0.2)
Net Interest (Exp)/Inc	0.1	0.1	(0.7)	(0.7)
Exceptional Gain/(Loss)	13.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>40.9</b>	<b>14.1</b>	<b>15.7</b>	<b>19.2</b>
Tax	(4.2)	1.5	(2.2)	(2.7)
Minority Interest	(10.6)	(0.5)	(0.5)	(0.5)
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>26.1</b>	<b>15.0</b>	<b>12.9</b>	<b>16.0</b>
Net profit before Except.	13.1	15.0	12.9	16.0
EBITDA	35.0	25.1	28.0	32.1
Sales Gth (%)	57.3	7.8	7.4	15.0
EBITDA Gth (%)	57.4	(28.2)	11.5	14.4
EBIT Gth (%)	66.6	(49.5)	16.8	21.4
Effective Tax Rate (%)	10.4	N/A	14.0	14.0

**Cash Flow Statement (\$\$ m)**

FY Jun	2006A	2007A	2008F	2009F
Pre-Tax Profit	40.9	14.1	15.7	19.2
Dep. & Amort.	7.1	11.2	11.7	12.2
Tax Paid	(2.9)	(5.1)	1.5	(2.2)
Assoc. & JV Inc/(loss)	0.1	0.2	0.2	0.2
Chg in Wkg. Capital	6.0	(0.8)	(0.9)	(1.9)
Other Operating CF	(17.5)	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>33.7</b>	<b>19.6</b>	<b>28.2</b>	<b>27.5</b>
Capital Exp.(net)	(8.0)	(16.0)	(16.0)	(16.0)
Other Invts.(net)	22.8	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0
Other Investing CF	(36.2)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(21.4)</b>	<b>(16.0)</b>	<b>(16.0)</b>	<b>(16.0)</b>
Div Paid	(2.0)	(2.5)	(1.5)	(1.3)
Chg in Gross Debt	21.2	20.0	20.0	20.0
Capital Issues	0.1	0.0	0.0	0.0
Other Financing CF	(15.0)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>4.3</b>	<b>17.5</b>	<b>18.5</b>	<b>18.7</b>
Net Cashflow	16.6	21.1	30.6	30.2

**PE Chart (x)**


Source: Company, DBS Vickers

**Balance Sheet (\$\$ m)**

FY Jun	2006A	2007A	2008F	2009F
Net Fixed Assets	34.6	39.5	43.8	47.7
Invts in Assocs & JVs	1.4	1.2	1.0	0.8
Other LT Assets	41.2	41.2	41.2	41.2
Cash & ST Invts	46.4	67.5	98.1	128.3
Other Current Assets	78.6	84.3	90.0	102.5
<b>Total Assets</b>	<b>202.3</b>	<b>233.6</b>	<b>274.1</b>	<b>320.4</b>
ST Debt	14.1	14.1	14.1	14.1
Other Current Liab	68.9	67.2	75.7	86.8
LT Debt	1.0	21.0	41.0	61.0
Other LT Liabilities	5.6	5.6	5.6	5.6
Shareholder's Equity	111.8	124.4	135.8	150.5
Minority Interests	0.8	1.3	1.8	2.4
<b>Total Cap. &amp; Liab.</b>	<b>202.3</b>	<b>233.6</b>	<b>274.1</b>	<b>320.4</b>
Non-Cash Wkg. Cap	9.7	17.1	14.3	15.7
Net Cash/(Debt)	31.2	32.3	42.9	53.1

**Rates & Ratios**

FY Jun	2006A	2007A	2008F	2009F
Gross Margin (%)	30.5	28.3	29.0	29.5
EBITDA Margin (%)	18.8	12.5	13.0	12.9
EBIT Margin (%)	15.1	7.1	7.7	8.1
Net Profit Margin (%)	14.0	7.5	6.0	6.5
ROAE (%)	26.9	12.7	10.0	11.2
ROA (%)	15.6	6.9	5.1	5.4
ROCE (%)	24.1	11.9	10.8	11.9
Div Payout Ratio (%)	9.5	10.2	10.0	15.0
Interest Cover (x)	NM	NM	24.7	30.0
Debtors Turn (avg days)	79.0	93.8	94.0	90.9
Creditors Turn (avg days)	89.0	132.2	133.2	128.9
Inventory Turn (avg days)	44.4	58.8	59.5	58.0
Current Ratio (x)	1.5	1.9	2.1	2.3
Quick Ratio (x)	1.2	1.6	1.8	2.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	52.5	45.5	29.0	21.3
N.Cash/(Debt)PS (\$ cts)	12.3	12.7	16.9	20.9
Opq CFPS (\$ cts)	10.9	8.0	11.4	11.6
Free CFPS (\$ cts)	10.2	1.4	4.8	4.5

DBSV recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (0-15% total return over the next 12 months for small caps, 0-10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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