

Ellipsiz

1H08 profit warning

HOLD

Cutting net profit estimates

Ellipsiz released a profit warning last night stating that 1H08 net profit will be significantly lower vs. the previous corresponding period of \$10.8m. We are cutting our FY08 and FY09 full year net profit estimates by 52% to \$6.2m (EPS: 2.4 cents) and 27% to \$11.9m (EPS: 4.7 cents) respectively in light of worse than expected pricing pressure from key customers, intense competition and inventory issues. Management maintains that 1H08 will still be profitable.

Margin erosion amidst a weak dollar environment

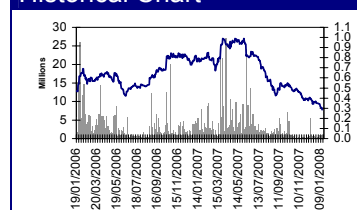
From a brief discussion with management, we are expecting weaker performance from the silicon reclaim and distribution and services segments which are burdened by continued pricing pressures and a weaker US dollar environment

Maintain Hold; TP lowered to \$0.22

We are still maintaining our Hold recommendation but reducing our target price to \$0.22 based on our revised net profit estimates. Our fair value is pegged to 9x FY08 PE, which is consistent with the mean of Ellipsiz's historic PE band. Currently, it is trading at 11x FY08 PE and 0.8x FY08 P/B. The company will be releasing its 1H08 results on 14th February 2008.

Price	\$0.27
Target	\$0.22
ST Index	3285.58

Historical Chart



Stock Information

Bloomberg code	ELL SP
Reuters code	ELPZ.SI
Market Cap (S\$m)	69.0
52-week high (\$)	1.01
52-week low (\$)	0.26
Shares issued (m)	255.6
6m avg. daily vol (m)	2.6
Free float (%)	65.7
Major Shareholders (%)	
	Chong Fook Choy – Executive Chairman (11.3)
	Aegis Portfolio Managers (10.1)
	Atlantis Investment Mgmt (4.9)

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 (%)	(19.4)
Interest cover (x)	21.2
NTA (S c)	33.5
P/NTA (x)	0.8

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Year End Jun	2005	2006	2007	2008F	2009F
Sales (S\$m)	118.3	186.0	200.6	194.0	215.0
Pretax profit (S\$m)	16.7	40.9	14.1	8.2	15.1
Net profit (S\$m)	11.1	26.1	15.0	6.2	11.9
EPS (S cts)	4.5	10.6	5.9	2.4	4.7
Ex. EI EPS (S cts)	2.6	5.2	5.9	2.4	4.7
Ex. EI EPS growth (%)	54.6	103.8	12.8	(58.5)	91.4
PER (x)	10.5	5.2	4.6	11.1	5.8
EV/EBITDA (x)	2.2	0.8	2.0	2.5	1.3
DPS (S cts)	1.2	1.0	0.6	0.2	0.5
Yield (%)	4.4	3.7	2.2	0.9	1.7

PROFIT & LOSS (\$m)						BALANCE SHEET (\$m)					
Year end Jun	2005	2006	2007	2008F	2009F	As at Jun	2005	2006	2007	2008F	2009F
Turnover	118.3	186.0	200.6	194.0	215.0	Current Assets	77.6	125.0	93.7	114.0	141.5
COGS	(79.6)	(129.4)	(143.8)	(143.6)	(157.0)	Cash & ST Invt	29.8	51.8	27.8	38.9	68.5
Gross Profit	38.7	56.7	56.9	50.4	58.1	Receivables	38.4	49.6	40.7	49.9	48.4
Other Operating Income	6.2	24.8	1.2	2.0	2.0	Inventories	8.9	22.2	21.5	23.3	22.6
Distribution Costs	(6.8)	(11.4)	(16.2)	(13.6)	(15.1)	Project in Progress	0.3	0.1	0.5	0.5	0.5
Administration Expenses	(20.7)	(24.1)	(21.2)	(23.3)	(21.5)	Others	0.2	1.3	3.3	1.5	1.5
R&D	0.0	-	(5.8)	(5.8)	(6.5)	Fixed Assets	19.7	34.6	36.2	39.6	40.7
Other Operating Expenses	(0.2)	(4.0)	(0.6)	(0.6)	(0.6)	Associates	1.5	1.3	4.3	4.3	4.3
Operating Profit	17.3	41.9	14.2	9.2	16.4	JV	0.2	0.1	0.0	0.0	0.0
Interest Expense	(0.6)	(0.8)	(0.7)	(0.7)	(1.0)	Investments	21.3	0.1	0.0	0.0	0.0
Associates	0.1	(0.0)	(0.1)	(0.2)	(0.3)	Other Assets	12.1	41.1	37.5	37.3	36.5
Exceptionals	0.0	0.0	0.0	0.0	0.0	Total Assets	132.4	202.3	171.8	195.3	223.0
Pretax Profit	16.7	40.9	14.1	8.2	15.1	Current Liabilities	29.8	83.0	41.7	43.6	44.5
Taxation	(2.9)	(4.2)	1.5	(1.4)	(2.6)	ST Borrowings	4.9	14.1	5.7	5.7	5.7
Minority Interests	(2.7)	(10.6)	(0.5)	(0.6)	(0.6)	Payables	23.4	61.1	31.7	34.5	34.0
Net Profit	11.1	26.1	15.0	6.2	11.9	Others	1.5	7.8	4.2	3.4	4.8
						LT Loans	4.7	1.0	2.7	18.7	34.7
						Deferred Liabilities	1.4	4.7	2.4	2.4	2.4
						Redeemable Convertible P.S	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	65.0	82.0
						Share Capital	59.7	117.2	121.1	121.1	121.1
						Reserves	22.7	(5.3)	1.8	7.4	18.2
						Minority Interests	14.0	0.8	1.8	1.8	1.8
						Total Equity + MI	96.4	112.6	124.7	130.3	141.0
EPS (¢)	4.6	10.6	5.9	2.4	4.7	Debtors Turnover (days)	83	72	69	72	71
EPS Growth	19.8%	127.1%	-44.2%	-58.5%	91.4%	Stock Turnover (days)	28	71	62	57	58
Gross DPS (¢)	1.2	1.0	0.6	0.2	0.5	Creditors Turnover (days)	46	43	36	39	46
Sales Growth	70%	57%	8%	-3%	11%	Current Ratio (x)	2.6	1.5	2.2	2.6	3.2
Gross Profit Growth	182%	46%	0%	-11%	15%	Net Debt/Equity (x)	-24.5%	-27.9%	-15.8%	-11.2%	-20.1%
Operating Profit Growth	95%	142%	-66%	-35%	79%	Total Debt/Equity (x)	11.6%	13.6%	6.9%	19.0%	29.0%
Pretax Profit Growth	91%	146%	-66%	-42%	83%	NBV/Share (\$)	29.55	29.09	33.54	35.80	40.73
Net Profit Growth	35%	136%	-42%	-58%	91%	ROE	14.3%	26.9%	12.8%	5.0%	8.9%
Gross Margin	33%	30%	28%	26%	27%	ROA	9.5%	15.6%	8.0%	3.4%	5.7%
Operating Margin	15%	23%	7%	5%	8%						
Pretax Margin	14%	22%	7%	4%	7%						
Effective Tax Rate	17%	10%	-10%	17%	17%						
Interest Cover (x)	29	50	21	13	16						
Dividend Cover (x)	5	13	10	10	10						
SEGMENT BREAKDOWN (\$m)						CASH FLOW (\$m)					
Year end Jun	2005	2006	2007	2008F	2009F	Year end Jun	2005	2006	2007	2008F	2009F
Distribution & Services Sol	69.7	87.9	77.2	85.0	93.5	Pretax Profit	16.7	40.9	14.1	8.2	15.1
Silicon Reclaim	11.3	15.9	19.8	15.8	19.0	Depreciation	5.3	6.9	10.7	12.5	14.9
Probe Cards	37.3	82.3	103.6	93.2	102.5	(Profit)/Loss on Sale of Assets	0.0	0.0	0.0	0.0	0.0
Total Revenue	118.3	186.0	200.6	194.0	215.0	Associates Profits	0.1	(0.0)	(0.1)	(0.2)	(0.3)
Distribution & Services Sol	59%	47%	39%	44%	43%	Tax Paid	(1.5)	2.7	(3.5)	(2.2)	(1.2)
Silicon Reclaim	10%	9%	10%	8%	9%	Change in Working Capital	(12.6)	14.9	(23.1)	(6.5)	1.6
Probe Cards	32%	44%	52%	48%	48%	Operating Cash Flow	8.0	65.4	(1.9)	11.9	30.3
% Revenue	100%	100%	100%	100%	100%	Net Capex	(9.8)	(21.8)	(12.3)	(16.0)	(16.0)
Distribution & Services Sol		26%	-12%	10%	10%	Associates & Investments	(18.5)	16.1	2.7	0.2	0.3
Silicon Reclaim		41%	24%	-20%	20%	Change in Other Assets	(12.9)	(28.2)	3.2	0.2	0.9
Probe Cards		121%	26%	-10%	10%	Investing Cash Flow	(41.2)	(33.9)	(6.4)	(15.6)	(14.9)
Revenue Growth		57%	8%	-3%	11%	Change in Share Capital	0.4	3.7	3.9	0.0	0.0
						Net Change in Debt	9.3	5.6	(6.7)	16.0	16.0
						Dividends Paid	(2.3)	(2.0)	(2.3)	(0.6)	(1.2)
						Others	10.5	(22.2)	(5.2)	(0.6)	(0.6)
						Financing Cash Flow	10.8	(14.9)	(10.2)	14.8	14.2
						Net Cash Flow	(22.4)	16.6	(18.6)	11.1	29.5
						Cash/(Debt) at Beg of Year	52.2	29.8	46.4	27.8	38.9
						Cash/(Debt) at End of Year	29.8	46.4	27.8	38.9	68.5

Source: Company data, KELive estimates

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