

SELL S\$0.30 FSSTI : 3,218.14

(Downgrade from HOLD)

Price Target : 12-Month S\$ 0.20 (Prev S\$ 0.58)

Reason for Report : Company update

Potential Catalyst: Stronger than expected rebound in semicon demand.

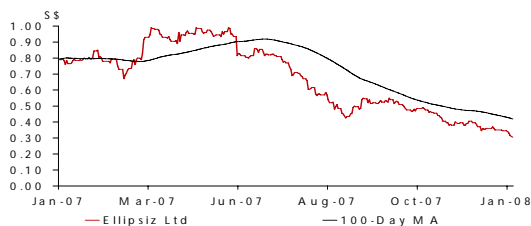
ANALYST

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FORECASTS AND VALUATION

FY Jun (\$\$ m)	2006A	2007A	2008F	2009F
Turnover	186.0	200.6	172.9	190.2
EBITDA	35.9	25.1	18.4	19.5
Pre-tax Profit	40.9	14.1	6.1	6.7
Net Profit	26.1	15.0	4.8	5.3
Net Pft (Pre Ex.)	13.1	15.0	4.8	5.3
EPS (S cts)	10.3	5.9	1.9	2.1
EPS Pre Ex. (S cts)	5.2	5.9	1.9	2.1
EPS Gth Pre Ex (%)	16	14	(68)	11
Diluted EPS (S cts)	10.3	5.9	1.9	2.1
Net DPS (S cts)	1.0	0.6	0.2	0.2
BVPer Share (S cts)	44.1	48.4	49.7	51.6
PE (X)	2.9	5.1	15.8	14.3
PE Pre Ex. (X)	5.8	5.1	15.8	14.3
P/Cash Flow (X)	2.3	2.9	4.6	4.3
EV/EBITDA (X)	1.3	2.3	2.2	2.1
Net Div Yield (%)	3.3	2.0	0.6	0.7
P/Book Value (X)	0.7	0.6	0.6	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	26.9	12.8	3.9	4.2

SHARE PRICE CHART**AT A GLANCE**

Issued Capital (m shrs)	256
Mkt. Cap (\$\$m/US\$m)	76.7 / 53.7
Major Shareholders	
Chong Fook Choy (%)	11.3
Aegis Portfolio (%)	10.1
Atlantis Investment (%)	5.0
Free Float (%)	73.6
Avg. Daily Vol. ('000)	348

Earnings Rev (%): 2008: (62.8) 2009: (66.6)

Consensus EPS (S cts): 2008: 3.8 2009: 5.5

Variance vs Cons (%): 2008: (50.1) 2009: (61.7)

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****More downside expected**

➤ **Story:** Ellipsiz warned that its upcoming 1HFY08 results would be significantly lower compared to 1HFY07 although the company expects to remain profitable for now.

➤ **Point:** Apparently, the sluggish demand in 1HFY07 failed to rebound in 1HFY08 despite Jun-Dec months being a seasonally stronger period. To worsen matters, Ellipsiz faced strong margin erosion as customers pressured suppliers to cut pricings. At this juncture, the outlook of the industry remains elusive given very low customer visibility and uncertain order indications.

➤ **Relevance:** We have slashed FY08 and FY09 earnings by 63% and 67% respectively. Consequently, our target price based on sum-of-the-parts valuations is reduced to S\$0.20 or 10.6x FY08 earnings. Admittedly, our earnings forecasts could err on the conservative side but we prefer to upgrade estimates as visibility improves over the quarters. For now, price downside is possible given earning risks and market volatility. Downgrade to Sell.

Void of seasonal bounce as semicon weakness continues... Contrary to the historical trend of a stronger first half fiscal year for Ellipsiz, our update with management suggests that orderflow in the past six months has been flattish despite this being a seasonally stronger period. The weaker than expected demand was broad-based and due to continued semicon weakness and intensifying pricing pressure as customers push for more aggressive price cuts.

Margin squeeze poses a bigger dent on bottomline. We expect gross margins for distribution and wafer reclaim businesses to contract further HoH from the 23.3% recorded in 2HFY07 even though revenue appears to have held steady. We believe Wafer Probe could be the only bright spot with slightly improved margins, thanks to production transfer from the US and France to Vietnam. Consequently, we have cut our gross margin assumption to 22.6% from 29% previously.

Outlook remains murky. For now, management finds it difficult to assess the demand situation as customers' visibility and order indications are reportedly choppy amid recession fears. Although Ellipsiz is developing new products such as advanced probe cards, which offer superior cost to performance benefits and shorter leadtime than the competition, market reception of new launches may still be unenthusiastic.

Income Statement (\$\$ m)

FY Jun	2006A	2007A	2008F	2009F
Turnover	186.0	200.6	172.9	190.2
Cost of Goods Sold	(129.4)	(143.8)	(134.1)	(147.5)
Gross Profit	56.7	56.9	38.8	42.7
Other Opg (Exp)/Inc	(27.7)	(42.7)	(31.8)	(35.1)
Operating Profit	29.0	14.2	7.0	7.6
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	(0.8)	0.1	(0.7)	(0.7)
Exceptional Gain/(Loss)	13.0	0.0	0.0	0.0
Pre-tax Profit	40.9	14.1	6.1	6.7
Tax	(4.2)	1.5	(0.7)	(0.8)
Minority Interest	(10.6)	(0.5)	(0.5)	(0.5)
Preference Dividend	0.0	0.0	0.0	0.0
Net Profit	26.1	15.0	4.8	5.3
Net profit before Except.	13.1	15.0	4.8	5.3
EBITDA	35.9	25.1	18.4	19.5
Sales Gth (%)	57.3	7.8	(13.8)	10.0
EBITDA Gth (%)	61.4	(29.9)	(26.7)	6.0
Operating Profit Gth (%)	71.9	(51.0)	(50.9)	8.6
Effective Tax Rate (%)	10.4	N/A	12.0	12.0

Cash Flow Statement (\$\$ m)

FY Jun	2006A	2007A	2008F	2009F
Pre-Tax Profit	40.9	14.1	6.1	6.7
Dep. & Amort.	7.1	11.2	11.7	12.2
Tax Paid	(2.9)	(5.9)	(2.5)	(0.7)
Assoc. & JV Inc/(loss)	0.1	0.2	0.2	0.2
Non-Cash Wkg.Cap.	6.0	(1.2)	20.4	(1.0)
Other Operating CF	(17.5)	2.2	0.0	0.0
Net Operating CF	33.7	20.6	35.9	17.3
Capital Exp.(net)	(8.0)	(11.0)	(16.0)	(16.0)
Other Invts.(net)	22.8	5.6	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)	(21.4)	0.0	0.0
Net Investing CF	(21.4)	(26.9)	(16.0)	(16.0)
Div Paid	(2.0)	(2.5)	(1.5)	(0.5)
Chg in Gross Debt	21.2	6.3	0.0	0.0
Capital Issues	0.1	0.5	0.0	0.0
Other Financing CF	(15.0)	(16.6)	0.0	0.0
Net Financing CF	4.3	(12.2)	(1.5)	(0.5)
Net Cashflow	16.6	(18.6)	18.3	0.8

PE Chart (x)


Source: Company, DBS Vickers

Balance Sheet (\$\$ m)

FY Jun	2006A	2007A	2008F	2009F
Net Fixed Assets	34.6	36.2	40.5	44.4
Invts in Assocs & JVs	1.4	4.4	4.2	4.0
Other LT Assets	41.2	37.5	37.5	37.5
Cash & ST Invts	46.4	27.8	46.2	47.0
Other Current Assets	78.6	65.9	70.6	77.3
Total Assets	202.3	171.8	198.9	210.1
ST Debt	14.1	5.7	5.7	5.7
Other Current Liab	68.9	35.9	59.3	65.0
LT Debt	1.0	2.7	2.7	2.7
Other LT Liabilities	5.6	2.7	2.7	2.7
Shareholder's Equity	111.8	122.9	126.2	131.0
Minority Interests	0.8	1.8	2.3	2.8
Total Cap. & Liab.	202.3	171.8	198.9	210.1
Non-Cash Wkg. Cap	9.7	30.0	11.3	12.3
Net Cash/(Debt)	31.2	19.4	37.7	38.5

Rates & Ratios

FY Jun	2006A	2007A	2008F	2009F
Gross Margin (%)	30.5	28.3	22.5	22.5
Operating Margin (%)	15.6	7.1	4.0	4.0
Net Profit Margin (%)	14.0	7.5	2.8	2.8
ROAE (%)	26.9	12.8	3.9	4.2
ROA (%)	15.6	8.0	2.6	2.6
ROCE (%)	24.8	12.0	4.8	5.1
Div Payout Ratio (%)	9.5	10.2	10.2	10.2
Interest Cover (x)	34.6	NM	10.4	11.3
Asset Turnover (x)	1.1	1.1	0.9	0.9
Debtors Turn (avg days)	79.0	82.1	91.6	92.9
Creditors Turn (avg days)	89.5	96.6	104.7	127.7
Inventory Turn (avg days)	44.4	55.5	57.4	53.8
Current Ratio (x)	1.5	2.2	1.8	1.8
Quick Ratio (x)	1.2	1.7	1.5	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
Capex to Debt (%)	52.5	130.3	189.2	189.2
N.Cash/(Debt)PS (\$ cts)	12.3	7.6	14.9	15.2
Opg CFPS (\$ cts)	10.9	8.6	6.1	7.2
Free CFPS (\$ cts)	10.2	3.8	7.8	0.5

DBSV recommendations are based 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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