

Ellipsiz

Not at the bottom yet

HOLD

Earnings hit by pricing pressure and weak USD

Ellipsiz announced lower 1HFY08 net profit of \$3m (-73% yoy, -28% hoh) despite receiving a tax credit of \$0.9m. Operating profit fell 86% yoy (but up 49% hoh) to \$1.8m while gross margin was at its lowest level of 22% vs 33% a year ago. The poor performance was attributed to thinner margins arising from the falling US dollar vs Sing dollar, further selling price attrition of 15-20% as well as losses at its subsidiaries.

Segmental margins continue to contract

Probe Card segment (PCS) reported topline revenue of \$45m (-24% yoy, +2% hoh) while points manufactured (volume) was 2.1m (-12% yoy, +35% hoh). PCS EBIT margin declined to 1.3% from 11% a year ago as operating de-leverage kicks in. Distribution and Services Solution (DSS) segment which now includes the Silicon Reclaim business, saw revenue rise to \$56.6m (+25% yoy, +9% hoh) as there were higher contributions from its test jigs and fixture and facilities business units in China. However, the Silicon Reclaim segment also faced flat topline growth and margin erosion. DSS EBIT margins shrunk to 2% from 14% as product mix shifted towards lower margin trading business.

Outlook remains challenging

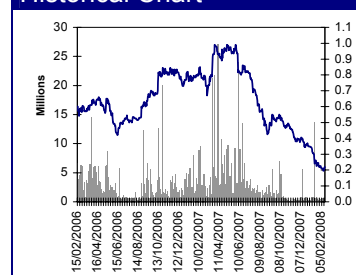
Management remains cautious on its business outlook. Persistent headwinds ie industry and macroeconomic issues will continue to confront Ellipsiz especially in the coming quarter. We are reducing our earnings estimates by 40% to \$3.7m for FY08 given the seasonally weaker third quarter and semiconductor slowdown, which is envisaged to recover only at the beginning of FY09.

Maintain Hold and TP at \$0.22

We are maintaining our Hold recommendation and target price of \$0.22 based on 0.6x FY08 P/B. Historically, Ellipsiz trades between the seven-year P/B range of 0.3–4.0x P/B. We believe it is unjustified for Ellipsiz to be trading at its previous lows when it was loss-making as new acquisitions have resulted in better market and product positioning than two years ago. Key risks include continued pricing pressure from customers and sustained slowdown in the technology sector.

Price	\$0.22
Target	\$0.22
ST Index	3088.68

Historical Chart



Stock Information

Bloomberg code	ELL SP
Reuters code	ELPZ.SI
Market Cap (S\$m)	56.2
52-week high (\$)	1.01
52-week low (\$)	0.195
Shares issued (m)	255.7
6m avg. daily vol (m)	2.4
Free float (%)	65.7
Major Shareholders (%)	
	Chong Fook Choy – Executive Chairman (11.3)
	Aegis Portfolio Managers (10.1)
	Atlantis Investment Mgmt (5.6)

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)	0.6

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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	4.4	15.1
Net profit (S\$m)	11.1	26.1	15.0	3.7	12.5
EPS (S cts)	4.5	10.6	5.9	1.5	4.9
Ex. EI EPS (S cts)	2.6	5.2	5.9	1.5	4.9
Ex. EI EPS growth (%)	54.6	103.8	12.8	(75.4)	238.2
PER (x)	8.6	4.2	3.7	15.2	4.5
EV/EBITDA (x)	1.6	0.5	1.5	2.4	0.9
DPS (S cts)	1.2	1.0	0.6	0.1	0.5
Yield (%)	5.4	4.5	2.7	0.7	2.2

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	112.2	140.3
COGS	(79.6)	(129.4)	(143.8)	(149.4)	(157.0)	Cash & ST Invt	29.8	51.8	27.8	37.1	67.3
Gross Profit	38.7	56.7	56.9	44.6	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)	(21.3)	(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	5.3	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
Pretax Profit	16.7	40.9	14.1	4.4	15.1	Total Assets	132.4	202.3	171.8	193.5	221.8
Taxation	(2.9)	(4.2)	1.5	(0.7)	(2.6)	Current Liabilities	29.8	83.0	41.7	44.1	45.1
Minority Interests	(2.7)	(10.6)	(0.5)	-	-	ST Borrowings	4.9	14.1	5.7	5.7	5.7
Net Profit	11.1	26.1	15.0	3.7	12.5	Payables	23.4	61.1	31.7	35.9	34.6
						Others	1.5	7.8	4.2	2.5	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	65.5	82.5
						Share Capital	59.7	117.2	121.1	121.1	121.1
						Reserves	22.7	(5.3)	1.8	5.1	16.4
						Minority Interests	14.0	0.8	1.8	1.8	1.8
						Total Equity + MI	96.4	112.6	124.7	128.0	139.3
						Debtors Turnover (days)	83	72	69	72	71
						Stock Turnover (days)	28	71	62	57	56
						Creditors Turnover (days)	46	43	36	38	47
						Current Ratio (x)	2.6	1.5	2.2	2.5	3.1
						Net Debt/Equity (x)	-24.5%	-27.9%	-15.8%	-10.0%	-19.5%
						Total Debt/Equity (x)	11.6%	13.6%	6.9%	19.4%	29.4%
						NBV/Share (\$)	29.55	29.09	33.54	34.91	40.05
						ROE	14.3%	26.9%	12.8%	3.0%	9.5%
						ROA	9.5%	15.6%	8.0%	2.0%	6.0%

EPS (¢)					
	2005	2006	2007	2008F	2009F
EPS Growth	19.8%	127.1%	-44.2%	-75.4%	238.2%
Gross DPS (¢)	1.2	1.0	0.6	0.1	0.5
Sales Growth	70%	57%	8%	-3%	11%
Gross Profit Growth	182%	46%	0%	-22%	30%
Operating Profit Growth	95%	142%	-66%	-63%	210%
Pretax Profit Growth	91%	146%	-66%	-69%	246%
Net Profit Growth	35%	136%	-42%	-75%	238%
Gross Margin	33%	30%	28%	23%	27%
Operating Margin	15%	23%	7%	3%	8%
Pretax Margin	14%	22%	7%	2%	7%
Effective Tax Rate	17%	10%	-10%	15%	17%
Interest Cover (x)	29	50	21	7	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	4.4	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)
						Tax Paid	(1.5)	2.7	(3.5)	(2.4)	(0.3)
Distribution & Services Sol	59%	47%	39%	44%	43%	Change in Working Capital	(12.6)	14.9	(23.1)	(5.1)	0.8
Silicon Reclaim	10%	9%	10%	8%	9%	Operating Cash Flow	8.0	65.4	(1.9)	9.3	30.4
Probe Cards	32%	44%	52%	48%	48%	Net Capex	(9.8)	(21.8)	(12.3)	(16.0)	(16.0)
% Revenue	100%	100%	100%	100%	100%	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
Distribution & Services Sol		26%	-12%	10%	10%	Investing Cash Flow	(41.2)	(33.9)	(6.4)	(15.6)	(14.9)
Silicon Reclaim		41%	24%	-20%	20%	Change in Share Capital	0.4	3.7	3.9	0.0	0.0
Probe Cards		121%	26%	-10%	10%	Net Change in Debt	9.3	5.6	(6.7)	16.0	16.0
Revenue Growth		57%	8%	-3%	11%	Dividends Paid	(2.3)	(2.0)	(2.3)	(0.4)	(1.3)
						Others	10.5	(22.2)	(5.2)	0.0	0.0
						Financing Cash Flow	10.8	(14.9)	(10.2)	15.7	14.7
						Net Cash Flow	(22.4)	16.6	(18.6)	9.3	30.2
						Cash/(Debt) at Beg of Year	52.2	29.8	46.4	27.8	37.1
						Cash/(Debt) at End of Year	29.8	46.4	27.8	37.1	67.3

Source: Company data, KELive estimates

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