Regional Industry Focus

ASEAN Technology

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Jul 2020

Flying on the semiconductor highway

- Tech was the best performing sector despite recent consolidation, outperformed market by 27% YTD
- Players with diversified geographical footprint will benefit from supply chain shift led by trade war and COVID-19
- COVID-19 accelerating digital transformation pace – benefits those with exposure to servers, storage, chips
- Semiconductor plays still in favour – AEM, UMS, Frencken; DELTA for exposure to data center

The best performing sector despite recent consolidation. Despite recent consolidation, the FTSE Technology Index (FSTTG Index) was the best performer and the only index to register a positive return YTD; the FSTTG Index outperformed the STI by 26.7%. The adoption of new technologies - Internet of Things, Big Data, Artificial Intelligence and 5G - is driving new demand.

Players with diversified geographical footprint will benefit from shift in supply chain. The onset of the US-China trade war, and now COVID-19 pandemic, is accelerating the shift of supply chains out of China. Companies with manufacturing facilities outside China would benefit from this shift. All the stocks in our coverage list have manufacturing facilities outside China. *(refer to page 5 on manufacturing footprints)*

COVID-19 stepping up pace of digital transformation. The pandemic has structurally increased the need for digital transformation. Demand for servers, storage, and network related products surged. Semiconductor plays, which are at the front end of the technology value chain, are key beneficiaries, while INRI is a direct exposure to the 5G theme. We also like DELTA for its exposure to data center business.

Continue to prefer semiconductor plays. SEMI expects global fab equipment spending to jump 24% y-o-y in 2021, 10ppts higher than its previous forecast made in 1Q 2020. The May semiconductor equipment billing data is up 14% y-o-y. We continue to expect semiconductor stocks to outperform, with or without COVID-19. AEM was upgraded to BUY from Hold with a higher TP of S$3.53; Frencken's TP is raised to S$1.02. UMS remains a BUY, S$1.04 TP. Exposure to medical and medical-related segments is also an added advantage for Venture, Frencken, Fu Yu, MPI during this pandemic.

Key risks: Escalation of US-China tensions, USD decline

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STOCKS

	Price LCY	Mkt Cap US$m	12-mth Target Price LCY	Performance (%) 3 mth	12 mth	Rating
AEM Holdings Ltd	3.14	618	3.53	78.7	184.5	BUY
Frencken Group	0.88	268	1.02	51.8	32.1	BUY
Fu Yu Corp Ltd	0.24	130	0.21	20.6	17.1	HOLD
Hi-P International	1.06	614	0.85	29.3	(23.7)	HOLD
UMS Holdings	0.895	343	1.04	45.9	41.3	BUY
Valuetronics	0.55	172	0.53	11.1	(19.7)	HOLD
Venture Corp	16.18	3,352	15.90	20.0	(2.8)	HOLD
Globetronics	2.14	334	1.95	50.4	28.7	HOLD
Inari Amertron Bhd	1.69	1,279	1.50	44.7	3.1	HOLD
Malaysian Pacific industries	11.00	510	10.45	23.6	19.3	HOLD
Unisem	2.05	348	2.00	25.5	(15.9)	HOLD
Delta Electronics	53.75	2,171	62.00	59.3	(21.0)	BUY
Hana Microelectronics	27.75	723	28.25	29.8	4.9	HOLD
KCE Electronics	22.80	866	20.60	68.0	13.2	HOLD
SVI PCL	2.76	192	2.70	40.6	(37.8)	HOLD

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 30 Jun 2020

Segmental Exposure*

	Semi-con	Medical/ Life Sci.	Server/ PC /Comms.	Auto	Cons. Goods	Mobile
AEM	✓					
DELTA			✓	✓		
FRKN	✓	✓	✓	✓	✓	
FUYU		✓		✓	✓	
GTB	✓			✓		✓
HANA			✓	✓	✓	
HIP			✓		✓	✓
INRI	✓		✓			✓
KCE						
MPI	✓	✓	✓	✓	✓	✓
SVI			✓		✓	
UMS	✓					
UNI	✓		✓	✓	✓	✓
VALUE				✓	✓	
VMS		✓	✓		✓	

Source: DBS Bank
**only include those with meaningful exposure*

DBS
Live more, Bank less

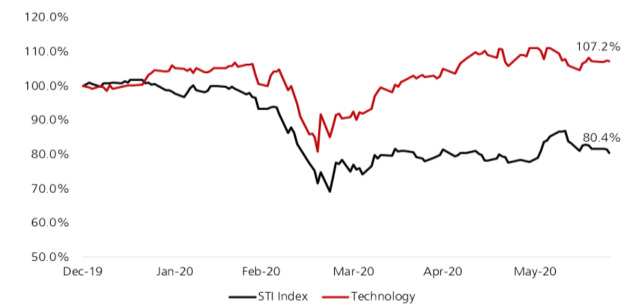
ed: JS/ sa: JC, PY, CS, contributed by CWL

Technology Sector Review

Best performing sector YTD despite recent consolidation. Technology stocks have staged a spectacular performance, especially from mid-March to mid-May, rebounding 32.6% since the trough in March. Although the sector has been consolidating since mid-May, the FTSE Technology Index (FSTTG Index) has outperformed the STI Index by 26.7% YTD, beating all other indices.

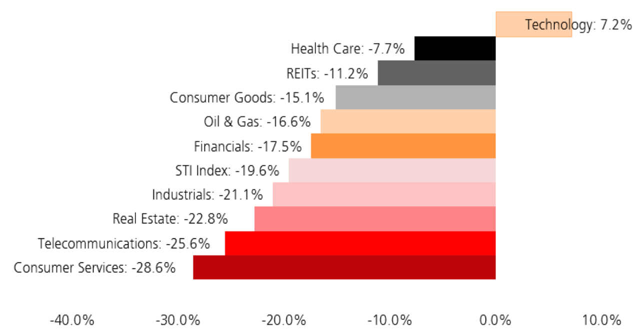
For Malaysia, the KLSE Technology Index has rebounded by a spectacular 71% from the trough in March, and is up by 7.2% YTD.

STI vs FTSE Technology Index YTD Performance



Source: FTSE, Bloomberg Finance L.P., DBS Bank

FTSE Straits Times Sector Indices YTD Performance



Source: FTSE, Bloomberg Finance L.P., DBS Bank

The adoption of new technologies - Internet of Things, Big Data, Artificial Intelligence and 5G, are driving new demands. Winners include **AEM**, which has surged 119.7% from its trough in March, mainly driven by a stellar set of 1Q20 business update, followed by bullish sales guidance of 17% to 19% higher than the previous guidance in February 2020. Others include **UMS**, which jumped 65% from the low in March.

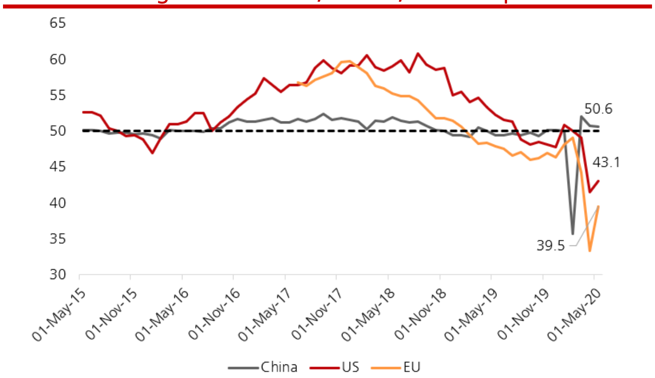
Global Economic Outlook

Expect a long and uneven recovery after a sharp contraction. As most of the technology stocks have global exposure in terms of customers, the global economic outlook plays a key role in determining demand. The International Monetary Fund (IMF) warned that the global economy faces an even deeper downturn than it previously projected. It now expects the global economy to shrink 4.9% this year, a sharper contraction than the 3% projection made in April. The recovery path is likely to be long and uneven.

PMIs still mostly negative but recovering. Though PMIs for most countries are still in negative territory, there are growing signs that the collapse in economic activity caused by the pandemic has bottomed out and a recovery is underway. In extreme conditions, the PMIs may be a better guide to turning points in activity rather than the actual output.

The manufacturing gauge in China has recovered and remains in the expansion region (above 50) since March 2020. The US and Europe remain well in contraction territory at 43.1 and 39.5, respectively, in May. However, this is off their lows in April.

Manufacturing PMIs in China, the US, and Europe



Source: China Federation of Logistics and Purchasing, Institute for Supply Management, Markit, Bloomberg Finance L.P., DBS Bank

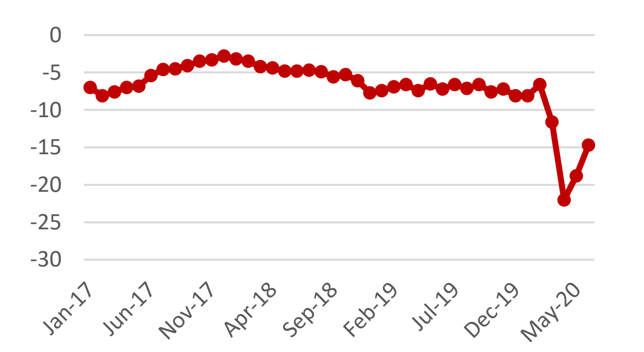
Barring any resurgence of COVID-19 cases globally and re-escalation of the US-China trade war, we expect technology companies to be on the road to recovery, though the recovery may be slow for some.

Consumer confidence index is improving but still below average. US and Eurozone's consumer confidence index has bottomed in April 202 and now experiencing an uptick. However, based on the latest information for June 2020, both regions' confidence index is still below a long-term trend.

University of Michigan Consumer Sentiment Index (US)

Source: Bloomberg Finance L.P., DBS Bank

European Commission Consumer Confidence Indicator (Eurozone)

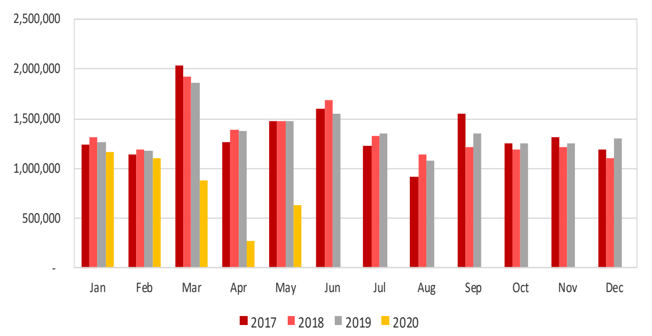


Source: Bloomberg Finance L.P., DBS Bank

Slowdown in automotive demand to weigh down the pace of the sector recovery. Another key underlying application for electronics sector under our coverage, specifically in Thailand, is automotive industry. This end demand is likely to recover slower than others, no thanks to its big-ticket size. Though we expect the unemployment rate to decline sharply after the ease of lockdown, there will be a residual level of higher than historical rate of unemployment. Large ticket consumer discretionary goods are likely to take longer time to recover, though, sales of light vehicles in major region have bottomed in April 2020 during the lockdown. Each region shows a different pace of recovery. Sales of light vehicle in Western Europe is lagging behind other peers in term of recovery.

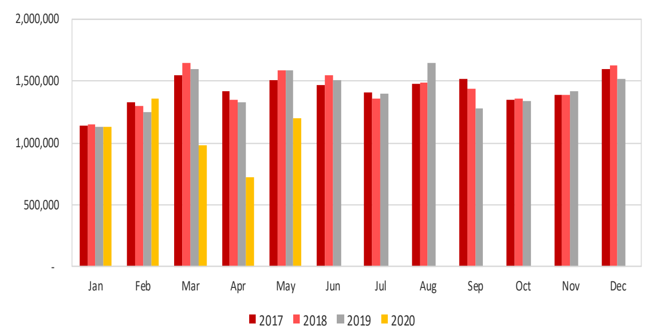
China sales has registered a positive growth in 22 months in May 2020. US's light vehicles sales show faster recovery in May 2020 as compared to Europe.

Wester Europe Light Vehicle Sales (units)



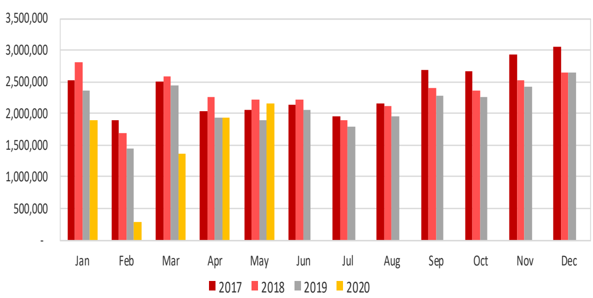
Source: Bloomberg Finance L.P., DBS Bank

US Light Vehicle Sales (units)



Source: Bloomberg Finance L.P., DBS Bank

China Light Vehicle Sales (units)



Source: Bloomberg Finance L.P., DBS Bank

Shift in Supply Chain

Shifting out of China. China, being the factory to the world, is where many manufacturing facilities are located. Many technology companies have manufacturing plants in China, mainly to take advantage of the lower labour cost compared to developed markets, a strong ecosystem, and the government's effort to attract foreign investments.

Push factor - Trade war and COVID-19. The onset of the US-China trade war, and now the COVID-19 pandemic, has underscored the need to shift the supply chain out of China.

1) Trade War

Majority of shipments out of China to the US are currently subject to tariffs that range from 7.5%-25%.

Tariffs on Chinese imports post Phase One trade deal

List	Value of imports affected (US$'bn)	Pre-deal tariff (%)	Post-deal tariff (%)
List 1	34	30.0	25.0
List 2	16	30.0	25.0
List 3	200	30.0	25.0
List 4A	120	15.0	7.5
List 4B	160	15.0	0.0

Source: Office of the United States Trade Representative, DBS Bank

This reignites risks that more companies would diversify their supply chains out of China for fear of a protraction or worsening of the tariff situation.

Shift to other ASEAN countries or back to the US. In recent years, ASEAN countries, including Thailand, Vietnam, Indonesia and Myanmar, are gaining popularity as a manufacturing site. As a result, several US companies are shifting their suppliers from China to other ASEAN countries in order to avoid the tax tariffs, while others have shifted to alternative suppliers in the US.

2) COVID-19 pandemic

The disruption to the supply chain as a result of the COVID-19 pandemic has led to many manufacturers to rethink their supply sources, to balance between efficiencies, resilience, costs, and to diversify their production networks instead of relying on a limited number of suppliers. Companies could shift to suppliers closer to its own manufacturing facilities in order to avoid delay in shipments, as well as cut down on transportation costs.

Winners or losers? Most of the companies under our coverage have manufacturing facilities both in China as well as in the ASEAN region. Thus, a shift in supply chain out of China could cut both ways. On one hand, if the customer shifts out of the China plant to other plants in the region within the group to be closer to its end customer, then this would be a win-win situation for both the customer and the group. Cost savings in terms of transportation costs can be derived by being close to the end customer, and for US customers, tax tariffs can be avoided. The group can retain the customer and at the same time provide better service by being near to each other's manufacturing facilities.

However, the group would be impacted if the customer chooses to relocate to a location where the group has no presence. A case in point is Valuetronics. The protraction of the US-China trade war, which began in early 2018, had started to weigh on its Consumer Electronics (CE) business in FY19. Due to on-going uncertainties, its smart lighting customer had begun to diversify its supply chain out of China, which resulted in Valuetronics losing some of its business. As a result, revenue from its CE business declined 16.9% y-oy in FY19. Going forward, we expect more of Valuetronics' customers to shift their supply chains out of China to other regions in ASEAN, or back to the US for those with end-customers in the US.

Besides Valuetronics, most of the technology stocks under our coverage also have exposure to US customers.

Revenue by geography, based on location of customers (%)

	China	Msia	Spore	Thai	USA	Eur.	Others
AEM	15	32	1		23	1	28^
DELTA					34	28	38^^
FRKN	14	8	7	23	5	37	6
FUYU	54	22	24				
GTB		25	68		7		
HANA	11	19	14		17		39
HIP	46	2	1	2	31	7	11
INRI		28	70		2		
KCE	11				20	53	16^^
MPI		18	21		15	11	35
SVI					9	26	66 ##
UMS		2	64		17		17#
UNI	36				49	15	
VALUE	28				39	7	26
VMS			19				81*

Source: Company; DBS Bank
^Vietnam accounts for 25%
^^ mainly other Asian countries
#Taiwan accounts for 16%
**Asia-Pacific (ex Spore) accounts for 76%*
##Scandinavia accounts for 53%

Diversified manufacturing footprints. Companies with manufacturing facilities outside China could benefit from the shift in supply chains out of China. A diversified manufacturing footprint would allow the group to achieve optimal allocation of resources, explore neighbouring suppliers to reduce transportation costs, and at the same time be closer to its customers.

Valuetronics has a manufacturing plant in Vietnam that began production in June 2019. With the launch of its trial production at its second facility in Vietnam, the group is expanding its Vietnam campus to offer existing as well as new customers an alternative to its production site in China. Its Vietnam campus has close to the same floor space as its facility in China and is expected to complete by the end of FY22F. The benefits of an alternative production site will flow in gradually from FY21F-22F.

Hi-P has accelerated its expansion plans in Thailand since the onset of the trade war in 2018. Phase 2 of its expansion, which is about 5x bigger than Phase one, is already in operation. **UMS** is also planning to expand its Penang plant by another 200,000 sq ft by 2022, which is a 40% increase in capacity.

DELTA has production facilities in various locations including Thailand, Europe, India and Myanmar. Starting in mid of 2019, DELTA has accelerated its expansion in Thailand in order to carry out the production of DELTA networking.

HANA also has production facilities in various countries including Thailand, China, US and Cambodia. In FY19, HANA has transferred orders from its China plant to Thailand as part of trade diversion. Thanks to COVID-19, it has been receiving interest for relocations mainly to its Cambodia and Thailand facilities. However, HANA expects the order to be materialised only in FY22F.

SVI is another candidate for EMS service relocation. As it has both Thailand and Cambodia facilities.

Manufacturing footprints

	China	Msia	Spore	Thai	Vietnam	Phil	Cambodia	India	Myanmar	USA	Europe
AEM	✓	✓	✓								
DELTA				✓				✓	✓		✓
FRKN		✓	✓	✓							✓
FUYU	✓	✓	✓								
GTB		✓									
HANA	✓			✓			✓			✓	
HIP	✓		✓	✓							✓
INRI	✓	✓				✓					
KCE				✓							
MPI	✓	✓									
SVI				✓			✓				✓
UMS		✓	✓							✓	
UNI	✓	✓									
VALUE	✓				✓						
VMS	✓	✓	✓							✓	

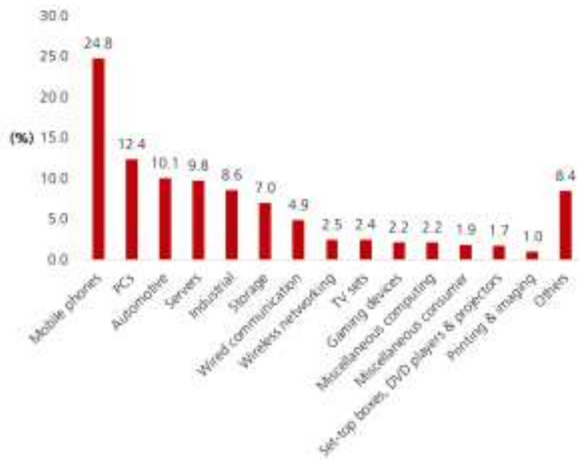
Source: Company; DBS Bank

Paradigm Shifts Post Pandemic

The New 'Normal'. The COVID-19 pandemic has created a pressing need for companies to begin their digital transformation by adopting technologies to increase their efficiency and competitiveness. Even as we move into life post lockdown, telecommuting and working from home continues to be the new normal for many.

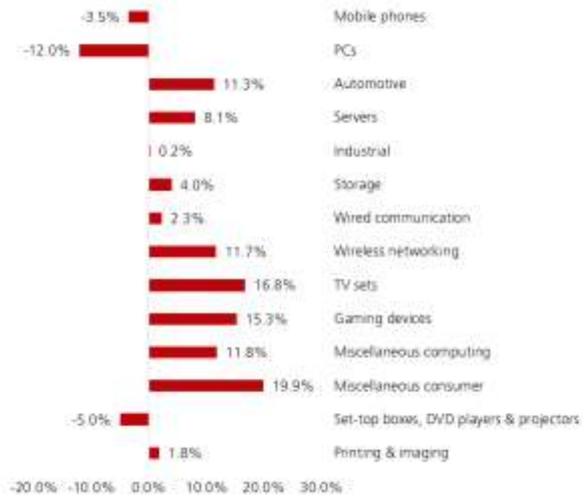
The work-from-home policy and online learning have increased the proliferation of certain segments of the technology value chain, in particular, semiconductors, memory and servers. The progress in cloud platforms, software and productivity tools enable a workforce to communicate seamlessly from home. The shift to working from home has also breathed new life into categories that were in decline, such as web cameras. Although the pandemic will recede, the structural changes caused by the pandemic is likely to persist to some degree. This will drive paradigm shifts in tech requirements and consumer behaviour. There will be a sustained demand for this digitisation trend as a result.

% attribution of chip revenue by end markets (TTM)



Source: IDC, Bloomberg Finance L.P., DBS Bank

1Q20 chip revenue growth by end markets (y-o-y)



Source: IDC, Bloomberg Finance L.P., DBS Bank

Servers, storage, network-related equipment to do well. Other beneficiaries would be segments with exposure to servers and cloud computing. According to data from International Data Corporation (IDC), 1Q20 chip revenue by end markets for servers, storage and wireless networking generated positive y-o-y growth. There are generally more players in this mid to downstream space within the whole technology value chain. Some have indirect exposure, as they could be manufacturers of component parts used in PCs and laptops. Thus, this space tends to be more competitive. Stocks in this space within our coverage include **Venture, Hi-P, Frencken, Fu Yu** and **Valuetronics.** Under Thai Electronics coverage, we have **DELTA** which has the direct exposure to server and storage, and HANA could be an indirect beneficiary from components parts used in PCs and laptops.

Expect semiconductors to outperform, with or without COVID. With the world emerging from lockdowns, we expect other segments to recover, though the recovery path could be slow and uneven. Those at the front end of the technology value chain, or those with exposure to new technologies - 5G, IoT etc including semiconductor and related plays - are expected to recover faster than the rest. Memory chips are used in a wide range of electronic devices. With the proliferation of technology, memory chips are now on various types of RAM. DRAM memory, used in desktop computers and servers, and NAND, used in smartphones. Thus, more sophisticated equipment and testing processes are needed to produce these chips. Hence, semiconductor equipment and component parts makers are clear beneficiaries. Proxies would include **AEM,**

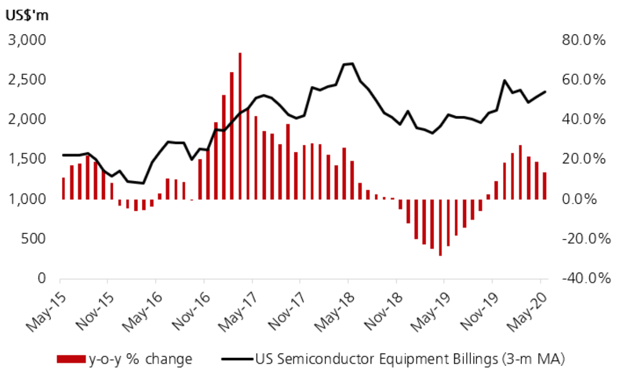
UMS and **Frencken**. Both AEM and UMS are semiconductor equipment and parts manufacturers, while Frencken provides essential components and assembly for Wafer Fabrication Tools (Lithography, PVD), die bonding, IC testers and manipulators, and vacuum solutions.

Inari (INRI) is a direct exposure to 5G theme, given its close relationship with one of the top RF (radio frequency) chip players in the world.

Bullish forecasts from SEMI. In its June update, Semiconductor Equipment & Materials International (SEMI) expects global fab equipment spending to jump 24% y-o-y in 2021, 10ppt higher than its previous forecast in 1Q 2020. All product segments, including memory fabs, logic and foundry, are expected to do well. In 1Q 2020, global fab equipment spending declined 15%, much narrower than the 26% decline forecast in February. For the full year, fab equipment spending is projected to ease 4% y-o-y in 2020, after an 8% decline in 2019. The trough spending has shifted from 1Q 2020 to 2Q 2020.

US semiconductor equipment billings is on an uptrend. Despite the volatility, the US semiconductor equipment billings are still on a y-o-y uptrend. The May semiconductor equipment billing data published by SEMI, which would have factored in the global shutdown amid COVID-19 outbreak, eased 6% from the end of 2019, but is still up 14% y-o-y, its eighth consecutive y-o-y increase since October last year and we view this as an optimistic sign for the industry.

US Semiconductor Equipment Billings



Source: SEMI, CEIC, DBS Bank

Risks

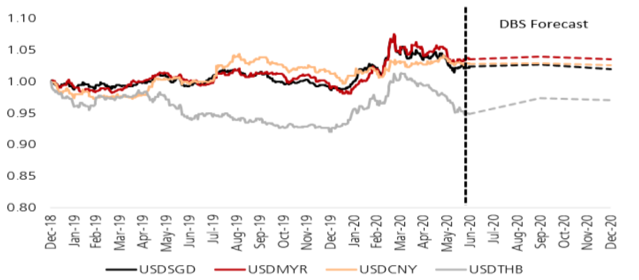
Resurfacing of US-China trade tensions could reignite risks. Even though the Phase One Trade Deal has improved the tariff situation, the remaining US tariffs on China would only be removed in the second phase. However, tensions between the two countries resurfaced after a recent series of events:

- **Spread of the COVID-19 pandemic** – The US has blamed China for the spread of the pandemic and has demanded an investigation into the origins of the virus.
- **China tightens its grip on Hong Kong** – The US is considering revoking Hong Kong's special trading status while Hong Kong's government has warned the US against interfering in its internal affairs.
- **Forced technology transfer** – The US has accused China 'forced technology transfer' and China has consistently denied the allegations. The Commerce Department has placed Huawei on blacklists aimed at preventing Chinese companies from using US technology for the chips that power its network gear. However, after suppliers found work-arounds, the Commerce tightened rules in May to bar any chipmakers using American equipment from selling to Huawei without US approval.

Weakening of the USD. As the daily new reported COVID-19 cases began to rise in China in mid-January 2020, the USDSGD strengthened rapidly from 1.34 to 1.40 as markets were fearful of the virus developing into an epidemic. In early March 2020, the USDSGD experienced a second sharp spike to 1.46 as the epidemic turned into a pandemic but has since declined to 1.39. Our currencies strategist is expecting USD to stabilize at 1.39 through 2020.

The technology companies under our coverage are exposed to USD as the bulk of their sales are in USD while costs are mainly in local currencies. While these companies do not hedge their currency exposures with forward contracts, the impact is mitigated by a partial 'natural hedge' through matching their financial assets and financial liabilities or procurement of their raw materials.

USD against other currency pairs since 2019

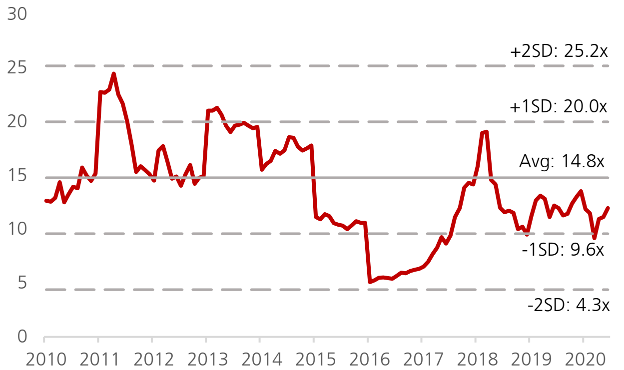


Source: SEMI, CEIC, DBS Bank

Valuation & Recommendation

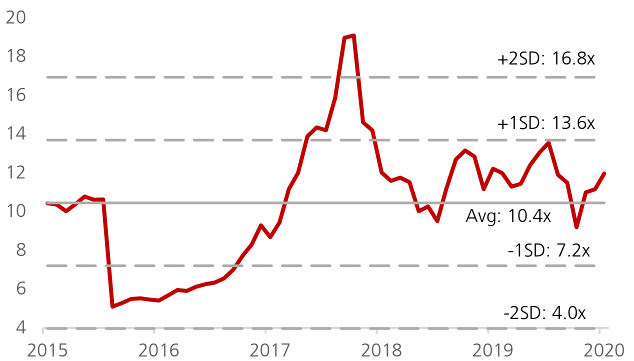
Based on our coverage of Singapore's technology stocks - AEM, FRKN, FUYU, HIP, UMS, VALUE, VMS, the current sector forward PE is still below its 10-year average. This is despite the sharp share price rebound from the March 2020 low. However, on a shorter 5-year basis, forward PE is above its 5-year average of 10.4x, mainly skewed by the semiconductor plays, notably AEM, trading above +1 SD of its mean PE, and UMS, near its +1 SD level. (*Refer to Forward PE valuation charts on page 10)*

10-Year Sector Forward PE (x) - Singapore



Source: DBS Bank, Bloomberg Finance L.P.

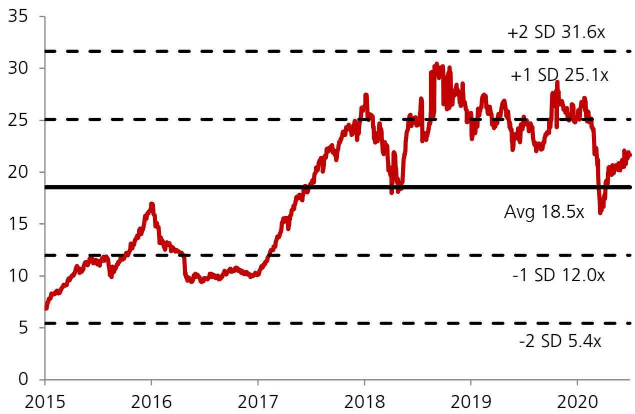
5-Year Sector Forward PE (x) - Singapore



Source: DBS Bank, Bloomberg Finance L.P.

Similarly, the Malaysia tech sector which are mainly involved in semiconductor, is also currently trading above its 5-year average of 18.5x forward PE (based on four stocks under our coverage – INRI, GTB, UNI, MPI)

5-Year Sector Forward PE (x) - Malaysia



Source: DBS Bank, Bloomberg Finance L.P.

For Thailand, we have noted that over the past two years, the sector earnings were under major key downward revisions, resulting from trade tension between US-China in 2019 and COVID-19 pandemic in 2020. As a result, the forward PE band has been highly inflated. We have decided to extend the PE band analysis from 5 years to 7 years in order to come up with our recommendation. Among the stocks under our coverage, KCE and DELTA are historically traded at a premium above the average, thanks to its higher gross margin. At current market price, the sector PE is c.21x of 1-year forward PE. We recommend selective BUY with the company that is going to benefit from structural changes like DELTA.

7-Year Sector Forward PE (x) - Thailand

Source: DBSVTH, Bloomberg Finance L.P.

Recommendation

Our preference is still on stocks in the semiconductor, medical and server/data space. This includes the two pure semiconductor plays, **AEM**, which we have upgraded to BUY after close to two months of consolidation, and **UMS**. Both AEM and UMS derive >90% of their revenue from their semiconductor customers. We also like **Frencken**, which has an 18% exposure to the semiconductor sector, based on FY19 revenue. All three stocks have already recovered beyond the pre-COVID level.

For Thai Electronics, we prefer **DELTA**, mainly thanks to its exposure to data center business which should account close to 30% of its topline. In addition, DELTA also has roughly 5% exposure to the medical space.

Exposure to Medical and medical-related segments an added advantage in this pandemic crisis

Venture's business segments include Medical Devices and Equipment, Healthcare & Wellness Technology, and also Life Science, Genomics and Molecular Diagnostics, which is an added advantage during this pandemic. **Fu Yu** had 18% revenue exposure to the medical segment in 2019 while **Frencken** has a 13% exposure. **DELTA** sees strong demand for power supplies for medical equipment, particularly for ventilators. DELTA has roughly 5% revenue exposure to medical segment.

Digital transformation drives demand for servers/PCs/storage.

The COVID-19 pandemic has accelerated digital transformation, leading to higher demand for servers/PCs/storage related products. There is a lot of demand for bandwidth and stable Internet connections from working from home and online learning while companies lacking technology and infrastructure required to support productive remote working are beefing up their technology capabilities.

Segmental Exposure*

	Semi-con	Medical/ Life Sci.	Server/ PC /Comms.	Auto	Cons. Goods	Mobile
AEM	✓					
DELTA			✓	✓		
FRKN	✓	✓	✓	✓	✓	
FUYU		✓		✓	✓	
GTB	✓			✓		✓
HANA			✓	✓	✓	
HIP			✓		✓	✓
INRI	✓		✓			✓
KCE						
MPI	✓	✓	✓	✓	✓	✓
SVI			✓		✓	
UMS	✓					
UNI	✓		✓	✓	✓	✓
VALUE				✓	✓	
VMS		✓	✓		✓	

Source: DBS Bank
**only include those with meaningful exposure*

Strong balance sheet and cashflow crucial during times of uncertainty

In these uncertain times, it is vital that businesses have enough cash buffers to tide them through. All the companies under our coverage are in net cash position with strong operating cashflow to tide through the current headwinds due to the pandemic. **Frencken, Fu Yu** and **Valuetronics** stand out with >50% of their market capitalisation backed by cash. Dividend payout ratio ranged from 26-95% of their latest historical results and we expect a similar trend going forward.

Cashflow and Balance Sheet Strength

Matrix	Net Debt/ Equity (x)	Total Debt (S$m)	Cash (S$m)	Cash as % of mkt cap	Cashflow from operation (S$m)	Dividend Payout Ratio (%)
AEM	cash	0.05	108	13.1	67.7	26.1
DELTA #	cash	0	12,394	18	5,166	76
FRKN	cash	53.2	122	32.6	94.9	30
FUYU	cash	0	88.5	50	27.3	94.9
GTB*	cash	4	146	10.1	251	90
HANA #	cash	500	9,018	41	3,211	58
HIP	cash	123	330	37.5	251	28
INRI*	cash	15	430	8	270	86
KCE #	0.09	2,060	957	4	2,215	57
MPI*	cash	0	713	31.6	404	40
SVI #	0.5	4,374	2,630	45	1,688	1117*
UMS	cash	9.3	34.4	14.4	53.6	64
UNI*	cash	174	343	22.6	161	60
VMS	cash	1.1	715	15.2	230	56
VALUE	cash	0	189	79	58.5	48.6

Source: DBS Bank, DBSVTH, AllianceDBS, Company

Note: Balance sheet and cashflow data as at end-December 2019, and end March 2020 for Valuetronics

**SVI declared special dividend of Bt1.93 per share in December 2019*

**RM m*

#THB m

Key Statistics

Company	Price 29 Jun	12-mth Target Price	Target Return	Mkt Cap (US$m)	Rcmd	PE 20F (x)	PE 21F (x)	EPS Gth 20F (%)	EPS Gth 21F (%)	Div Yid 20F (%)	P/BV 19A (x)	ROE 20F (%)	% fr 52 wks Low	% to 52 wks High	YTD Perf Rel Index	1m Perf Rel Index	3m Perf Rel Index	12m Perf Rel Index
Singapore																		
AEM Holdings	S$2.93	S$3.53	20%	577	BUY	8.9	8.4	68.3	6.2	2.9	5.88	53.1	187.3	-10.4	65.2	-6.8	71.7	207.0
Frencken	S$0.865	S$1.02	18%	264	BUY	9.7	8.9	-19.1	9.8	3.1	1.24	11.7	82.1	-11.3	13.6	6.3	46.7	54.6
Fu Yu	S$0.24	S$0.21	-13%	130	HOLD	11.3	12.8	25.6	-11.8	6.7	1.10	9.6	27.0	-15.8	14.2	4.1	17.5	39.6
Hi-P	S$1.06	S$0.85	-20%	614	HOLD	13.7	11.7	-22.4	17.2	1.5	1.44	10.1	47.2	-34.6	-10.6	-4.4	21.0	-1.2
UMS Holdings	S$0.89	S$1.04	17%	341	BUY	11.1	10.3	27.9	7.8	6.7	2.0	17.3	57.5	-17.6	6.5	-3.1	38.7	63.8
Valuetronics	S$0.55	S$0.53	-4%	172	HOLD	7.4	9.9	-10.6	-25.0	6.5	1.14	15.0	20.9	-34.9	-12.8	-17.3	4.1	2.8
Venture Corporation	S$15.84	S$15.90	0%	3,281	HOLD	14.3	12.5	-11.4	14.4	4.4	1.8	12.6	26.5	-7.3	17.9	1.0	13.0	19.7
AVERAGE						**10.9**	**10.6**	**8.3**	**2.7**	**4.5**	**2.1**	**18.5**						
Malaysia																		
Globetronics	RM2.15	RM1.95	-9%	336	HOLD	26.7	19.6	20.1	36.2	3.5	4.8	18.0	59.3	-13.3	-1.8	8.3	22.1	39.4
Inari Amertron Bhd	RM1.65	RM1.50	-9%	1,249	HOLD	36.5	24.9	-25.0	46.7	2.1	4.7	12.4	58.7	-20.7	3.0	9.3	22.4	13.8
Malaysian Pacific Ind	RM11.00	RM10.45	-5%	511	HOLD	17.2	19.4	-1.0	-11.2	2.5	1.7	9.7	31.0	-14.7	2.1	-1.4	9.6	29.9
Unisem	RM2.07	RM2.00	-3%	351	HOLD	21.6	18.3	nm	18.1	3.9	1.1	5.2	32.7	-24.7	1.8	1.5	20.4	-5.2
AVERAGE						**25.5**	**20.5**	**-2.0**	**22.5**	**3.0**	**3.1**	**11.3**						
Thailand																		
Delta Electronics Thai	Bt53.75	Bt62.00	15%	2,171	BUY	26.4	17.3	-13.1	52.2	2.5	2.0	7.7	79.2	-21.2	16.3	-1.3	40.0	2.2
Hana Microelectronics	Bt27.00	Bt28.25	5%	704	HOLD	21.2	14.4	-43.1	47.2	2.8	1.1	4.9	39.9	-27.5	-5.9	-9.0	-0.7	28.0
KCE Electronics	Bt21.50	Bt20.60	-4%	816	HOLD	37.1	20.9	-27.2	77.5	1.6	2.2	5.7	79.2	-14.9	3.6	15.9	38.8	36.3
SVI PCL	Bt2.70	Bt2.70	0%	188	HOLD	15.8	14.6	-1.3	8.7	1.9	1.7	10.3	43.6	-52.6	-9.2	-11.4	21.1	-14.6
AVERAGE						**25.1**	**16.8**	**-21.2**	**46.4**	**2.2**	**1.7**	**7.2**						

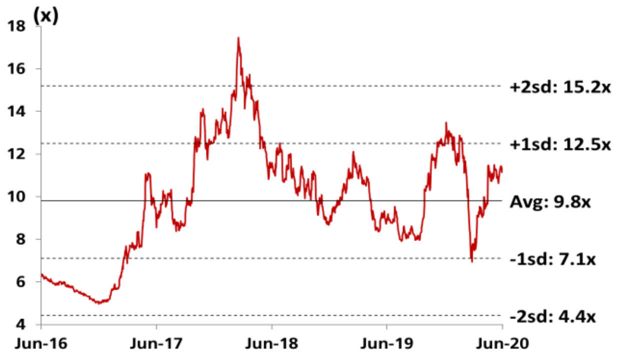
Source: DBS Bank, DBSVTH, AllianceDBS, Company, Bloomberg Finance L.P.

Forward PE Valuation Charts - Singapore

AEM

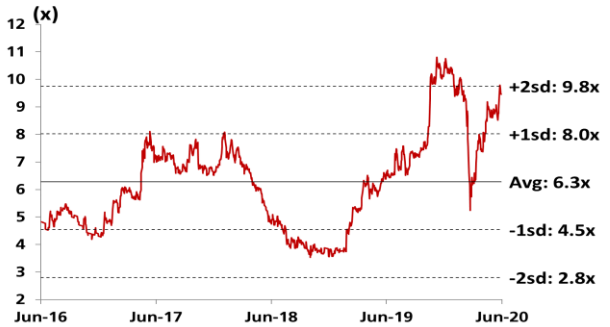
Hi-P

UMS

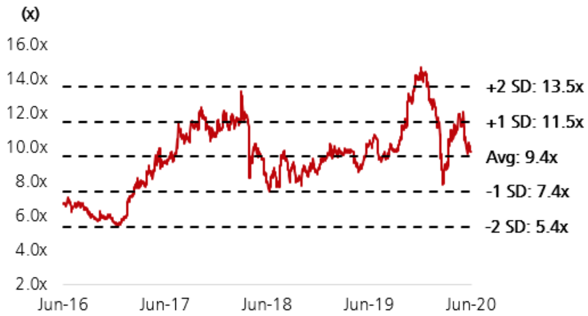


Fu Yu

Frencken



Valuetronics



Venture

Source: DBS Bank, Bloomberg Finance L.P.

Forward PE Valuation Charts - Malaysia

UNI

MPI

INRI

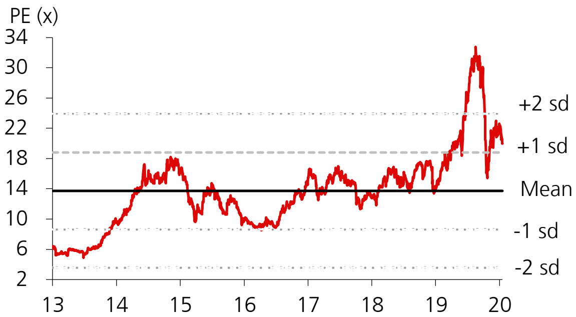
GTB

Source: AllianceDBS, Bloomberg Finance L.P.

Forward PE Valuation Charts - Thailand

DELTA

HANA



KCE

SVI

Source: DBSVTH, Bloomberg Finance L.P.

Singapore Company Guide
AEM Holdings Ltd

Version 6 | Bloomberg: AEM SP | Reuters: AEM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 Jun 2020

DBS is supported by the research Talent Development Grant Scheme which aims to groom research talent to expand research coverage of small-mid cap SGX listed companies

BUY (Upgrade from HOLD)

Last Traded Price (29 Jun 2020): S$2.93 **(STI :** 2,574.10)
Price Target 12-mth: S$3.53 (20% upside) (Prev S$2.87)

Analyst
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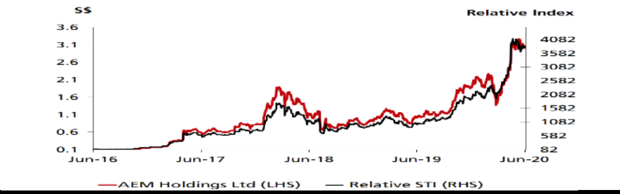
What's New

- Expecting prices to break out to hit new all-time highs
- US semiconductor equipment billings rose 13.6% y-o-y in May
- Telecommuting to drive demand for data center chips
- Upgrade to BUY with a higher TP of S$3.53

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019A	2020F	2021F
Revenue	262	323	506	538
EBITDA	41.6	69.5	113	120
Pre-tax Profit	40.0	63.7	107	114
Net Profit	33.5	52.8	88.8	94.3
Net Pft (Pre Ex.)	33.5	52.8	88.8	94.3
Net Pft Gth (Pre-ex) (%)	4.1	57.5	68.3	6.2
EPS (S cts)	12.4	19.6	32.9	34.9
EPS Pre Ex. (S cts)	12.4	19.6	32.9	34.9
EPS Gth Pre Ex (%)	(75)	57	68	6
Diluted EPS (S cts)	12.4	19.6	32.9	34.9
Net DPS (S cts)	3.41	5.10	8.59	9.12
BV Per Share (S cts)	33.3	49.8	74.1	99.9
PE (X)	23.5	15.0	8.9	8.4
PE Pre Ex. (X)	23.5	15.0	8.9	8.4
P/Cash Flow (X)	23.1	11.7	6.6	7.1
EV/EBITDA (X)	17.5	9.8	5.2	4.2
Net Div Yield (%)	1.2	1.7	2.9	3.1
P/Book Value (X)	8.8	5.9	4.0	2.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	45.5	47.1	53.1	40.2
Earnings Rev (%):			14	23
Consensus EPS (S cts):			30.3	29.8
Other Broker Recs:		B: 3	S: 0	H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Onward to new highs

Upgrade to BUY with a higher TP of S$3.53; expecting share price to breakout to new all-time highs. Since our HOLD recommendation on 8 May, AEM's share price has been consolidating between S$3.00-3.20. With positive developments in the industry, improving outlook as well as higher FY20F sales guidance, we believe AEM's share price could break out to hit a new record.

SEMI increases forecast for global fab spending in 2021 by 10%, US semiconductor equipment billings increases 13.6% y-o-y in May, and inventory builds in chip makers. This is the eighth consecutive y-o-y increase since October last year and we view this as an optimistic sign for the industry. In addition, we noted inventory builds (+9.6% y-o-y) in 1Q20 in top US chip makers on top of increases in revenue (+10.9% y-o-y).

Telecommuting as a structural change to drive data center chip demand. With the protraction of the pandemic and increase in employees' productivity levels from working-from-home, companies are reassessing more flexible working arrangements. We believe there will be some conversion post-COVID-19.

Where we differ: We are more optimistic on AEM's earnings and the pickup in momentum in the industry.

Potential catalysts: Stronger semiconductor equipment billings, increased sales guidance, acquisitions, new revenue streams.

Valuation:
Upgrade to BUY with a higher TP of S$3.53. We have raised our FY20F/21F earnings by 14%/23%, and our higher S$3.53 TP is based on 12-month rolling forward PE of 10.4x (+2.0 SD).

Key Risks to Our View:
Single-customer concentration risk, escalation of geopolitical events, protraction of the COVID-19 pandemic, and FX risk.

At A Glance

Issued Capital (m shrs)	274
Mkt. Cap (Sm/USm)	803 / 577
Major Shareholders (%)	
Toh Ban Leng	6.8
Standard Life Aberdeen PLC	5.6
UBS AG	4.9
Free Float (%)	82.7
3m Avg. Daily Val (US$m)	15.4

GIC Industry : Information Technology / Technology Hardware & Equipment

WHAT'S NEW

Momentum is picking up

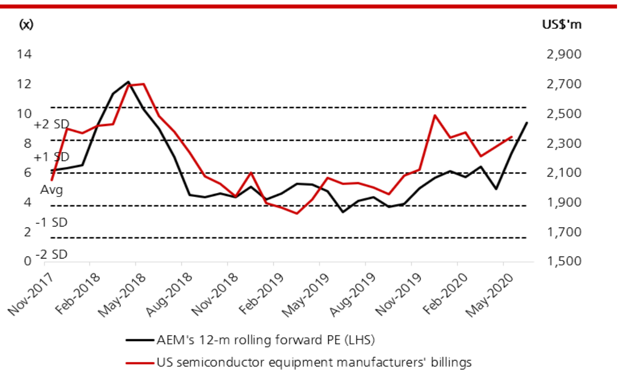
Upgrade to BUY with a higher TP of S$3.53 (previously S$2.87) as we lift FY21F/22F earnings and apply a higher valuation peg of 10.4x (+2 SD) 12-m forward PE. We are raising our FY21F/22F earnings by 14%/23% to incorporate our view of a structural increase in the telecommuting space which will continue to drive demand for data center chips. We have also increased our 12-m forward PE peg to 10.4x (+2 SD) from 10.0x (+1.5 SD) as we believe momentum is picking up, justifying a higher multiple.

Positive developments in the semiconductor industry

SEMI is expecting global fab equipment spending to increase by 24% y-o-y in 2021. On 9 June, SEMI announced that it is increasing its forecast of the global fab equipment spending in 2021 to S$67.7bn (+24% y-o-y), up 10% from its previous forecast. All product segments are expected to do well, with memory fabs leading, and leading-edge logic and foundry to rank second. We believe that the expected increase in spending on global fab equipment in 2021 is a positive development for AEM as it reinforces the current uptrend in the industry.

US 3-month rolling semiconductor equipment billings marks its eighth consecutive increase in May (+13.6% y-o-y). To prevent the further spread of the COVID-19 pandemic, many governments have locked down their countries, substantially reducing consumer spending and suspending some business operations. Despite this, the US 3-month rolling semiconductor equipment billings increased to US$2.3bn (+13.6% y-o-y) in May. This represents the eighth consecutive y-o-y increase since October 2019, and we believe the continued upward trend will lead to an upward re-rating of AEM's 12-m forward PE.

US semiconductor equipment billings continues driving AEM's 12-m forward PE



Source: SEMI, CEIC, Bloomberg Finance L.P., DBS Bank

Telecommuting to continue to drive demand for data center chips (structural change). Since our update on 1 April, we have continued to highlight that increased telecommuting as a result of working from home, will increase demand for unified communications and collaboration (UC&C) solution providers (Zoom, Webex, Microsoft Teams, and Skype) to upgrade IT infrastructure to cope with the surge in usage.

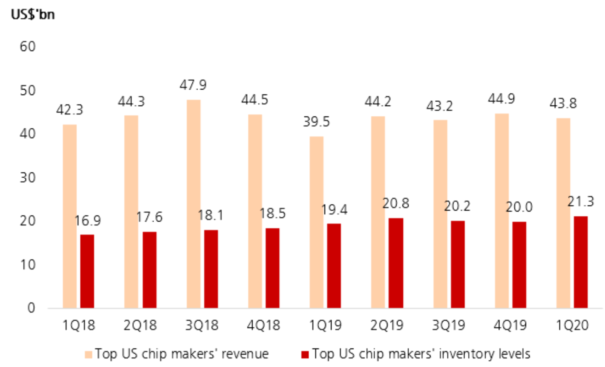
Below are some developments at UC&C solution providers:

- **Zoom:** 173 million monthly active users as of 27 May, up from 14 million on 4 March
- **Webex:** 324 million users in March – more than doubling in the US, four times in Europe, and 3.5 times in Asia Pacific.
- **Microsoft Teams:** 75 million daily active users as of 1Q20, up from 44 million in the first week of March. Microsoft is also planning to bring Teams to consumers.

With the protraction of the pandemic and increase in work productivity from working-from-home, companies are able to assess the viability of having more flexible working arrangements. We believe that some of the increase in telecommuting due to remote working is a structural change as companies are able to save on costs (travelling and accommodation expenses) and employees' productivity levels are greater. This will drive the longer-term demand for data centers and server processors, the segment which Intel is focusing on.

Top US chipmakers' sales increased 10.9% y-o-y in 1Q20, inventory build +9.6% y-o-y. Top US chipmakers such as Intel, Nvidia, and Broadcom, have reported an increase in revenue in 1Q20 despite the COVID-19 pandemic. While the outlook for the global economy has weakened, these firms continue to build inventory to cater to the expected increase in demand for semiconductor chips.

Top US chip makers continue to build inventory



Source: SEMI, CEIC, Bloomberg Finance L.P., DBS Bank

Re-iterate Intel's positive developments

In our report on 30 April, we had highlighted that we are still overall positive on AEM based on several positive developments at its key customer (Intel). We believe the most important driver for AEM's revenue is 'Intel's test time'.

Intel achieved better yields on its 10-nm chips. Intel's 1Q20 earnings call disclosed that it is achieving better yields on its 10-nm chips while it has axed its 14-nm Cooper Lake processor to focus on its 10-nm Ice Lake processor.

No changes to its plans – Intel to add c.25% capacity in FY20F. Intel is not changing its plans of adding c.25% to capacity and could in fact be adding slightly more.

Intel saw notebook volumes up over 20% in 1Q20. As many employees and individuals had to work-from-home, many took the opportunity to upgrade their PCs at home to cope with higher requirements and/or to keep themselves entertained. Intel saw notebook volumes up by over 20% in 1Q20 and is expecting a strong demand on PCs, heavily weighted towards notebooks.

Achieving better yields on its chips with smaller nodes, increasing production capacity, and higher chip sales will all increase test times, which will benefit AEM.

Earnings and Recommendation

Raise FY20F/21F earnings by 14%/23% on higher revenue. In our previous update, we highlighted that we are maintaining our positive outlook on the industry but preferred to err on the side of caution given the uncertain economic backdrop. However, after witnessing the continued positive developments in the industry and passing the peak of the impact from the pandemic, we are raising our FY20F/21F revenue for AEM by 13%/16% and accordingly earnings by 14%/23%.

We believe our FY20F sales forecast of S$506m, which is above Management's sales guidance of S$430-445m is justified. Our previous FY20F sales projection was S$449m, which translated to a net profit of S$77.9m (17.4% margin vs 16.3% in FY19). 1Q20 earnings formed 46.4% of our previous FY20F earnings forecast. Given that AEM's 1Q20 earnings forms 40.7% of our revised FY20F earnings estimate and combined with the positive developments we are witnessing in the industry and for its key customer Intel, we believe our higher FY20F earnings estimate is justified.

Time for new highs. We first downgraded AEM to HOLD on 30 April on limited upside and maintained this view in our last report on 8 May. Since our last report, AEM's share price has been consolidating above S$3.00, and we believe with the positive developments (improving outlook in the industry and higher FY20F sales guidance), it is time for AEM's share price to break out to new all-time highs. **Upgrade to BUY.**

CRITICAL DATA POINTS TO WATCH

Critical Factors

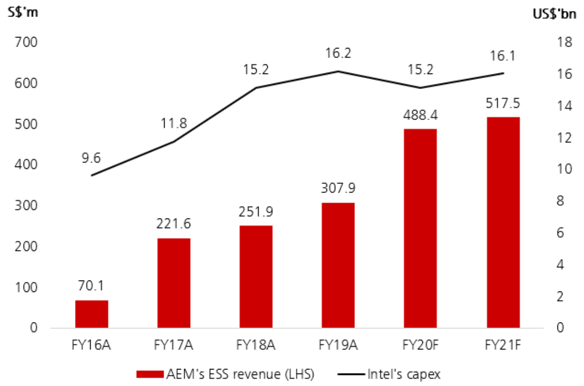
Intel's capital expenditure guidance. More than 90% of its revenue is currently derived from its key customer, Intel, and is captured in Intel's capex. Most of its revenue from Intel is classified under revenue from Equipment Systems Solutions (ESS). In its 1Q20 earnings presentation, while it has hinted of a possible pushback in capex in the near term due to the weak economy and various regulations, it remains very bullish on the fast-growing total addressable market (TAM). It also emphasized on the importance of its 10-nm, 7-nm, and 5-nm chips, and said that any capex related to these chips will not be delayed. We remain optimistic on the demand for server chips driving this market in the near term due to the structural increase in telecommuting. Working closely as a sticky key supplier to Intel, we believe AEM's ESS revenue will continue to grow in FY20F.

US semiconductor equipment billings. AEM's 12-month rolling forward PE correlates closely to the 3-month rolling US semiconductor equipment billings. We remain positive on the industry's recovery and expect equipment billings to trend upwards in the near term on the back of higher demand for server chips, notebooks, medical equipment, and 5G. We believe this will continue to re-rate AEM's forward PE.

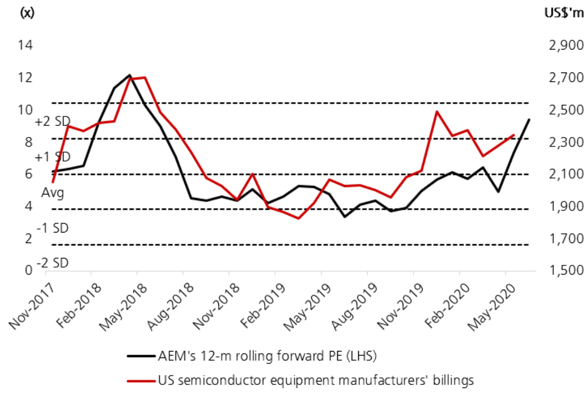
AEM's sales mix. While AEM's Consumables and Services segment generally has slightly higher margins as compared to Tools and Machines, it is shifting its focus to higher-margin machines. Intel has guided that it will be increasing the production capacities of its 14-nm and 10-nm chips by 25% each in 2020. We expect gross profit margins to improve slightly due to marginally higher revenue mix from higher-margin products in Tools and Machines in FY20F/21F.

Inventory levels of Intel and other US top chip makers. Inventory levels of Intel are a function of anticipated and current demand. It is a leading indicator for its revenue. In 1Q20, Intel's revenue increased 19.1% y-o-y and it has built up higher inventory levels (+23.5% y-o-y) ahead of the anticipated recovery in the semiconductor cycle and its increasing TAM. We are positive that the higher expected revenue for Intel is a bullish sign for AEM as more chips are produced, requiring more and longer test times. Revenue from other US top chip makers increased 10.9% y-o-y in 1Q20, with a 9.6% y-o-y increase in inventory levels in anticipation of the higher demand for semiconductor chips.

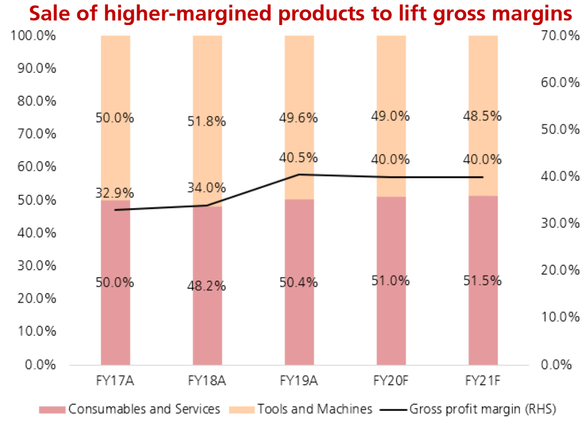
Intel's capex will continue to drive AEM's revenue



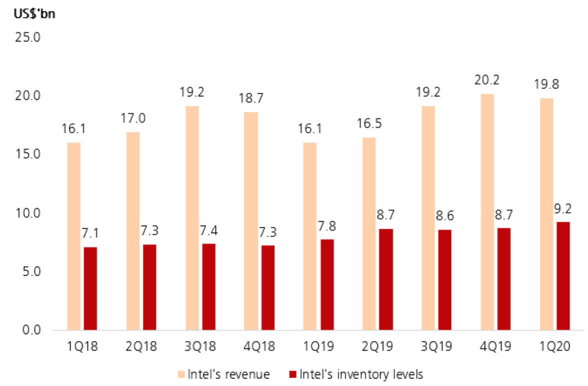
US semiconductor equipment manufacturers' billings lift AEM's forward PE



Sale of higher-margined products to lift gross margins



Intel's building inventories levels reaffirm our positive outlook



Source: Company, DBS Bank

Balance Sheet:

Net cash position with minimal debt. As of 1Q20, AEM has a cash balance of S$100.2m and minimal debt. In the last five years, AEM had close to negligible debt levels and was financing its operations and acquisitions through its own cashflow. It is on the lookout for potential acquisitions that could create synergies with its existing business.

Share Price Drivers:

US 3-month semiconductor billings. AEM's share price and forward PE correlate closely to the US 3-month semiconductor billings. We believe the recovery and telecommuting end-demand driven by server chips will drive semiconductor billings and re-rate AEM's forward PE.

Order book and sales guidance. Management provides guidance on its revenue which is estimated from its order book. In FY19, AEM raised its sales guidance four times, which resulted in its share price increasing by an average of 4.0% on each announcement day.

Key Risks:

Single-customer concentration risk. Around 90% of AEM's revenue is derived from Intel. Of this, c.50% is from sales of equipment, which is lumpy in nature and dependent on Intel's need to replace existing machines or increase its production capacity.

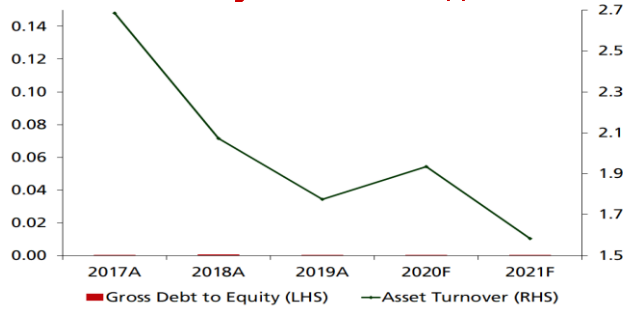
Prolonged COVID-19 situation. The COVID-19 pandemic has disrupted global supply chains in China and dampened the global economic outlook. If the COVID-19 situation is prolonged, it may weigh on the recovery of the semiconductor cycle.

Re-escalation of the US-China trade war. The US-China trade war weighed heavily on the global manufacturing cycle, reducing the demand for semiconductor end-products as well as disrupting the supply chain. A re-escalation of the trade war could hamper the recovery of the semiconductor industry.

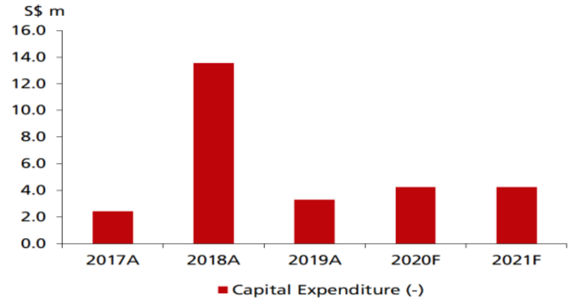
Company Background

AEM is a solutions provider for the back-end testing of the semiconductor manufacturing process. It works closely with its key customer, Intel, to design, engineer, and manufacture the test handlers. AEM then provides field support and post-sales replacements.

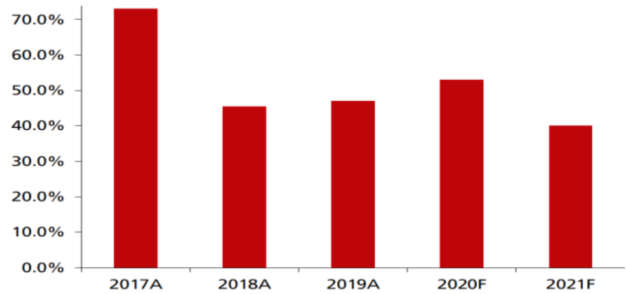
Leverage & Asset Turnover (x)



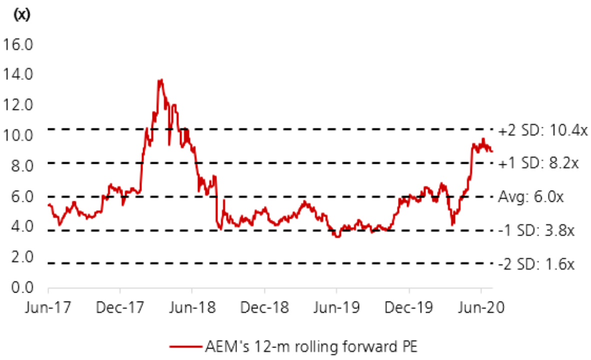
Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)

Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	222	262	323	506	538
Cost of Goods Sold	(149)	(173)	(192)	(304)	(323)
Gross Profit	**73.0**	**89.1**	**131**	**203**	**215**
Other Opng (Exp)/Inc	(35.4)	(49.4)	(67.9)	(96.2)	(102)
Operating Profit	**37.6**	**39.8**	**62.9**	**106**	**113**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.1)	0.0	0.46	0.0	0.0
Net Interest (Exp)/Inc	0.04	0.26	0.36	0.60	0.60
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**37.5**	**40.0**	**63.7**	**107**	**114**
Tax	(5.4)	(6.5)	(11.0)	(18.2)	(19.3)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**32.2**	**33.5**	**52.8**	**88.8**	**94.3**
Net Profit before Except.	32.2	33.5	52.8	88.8	94.3
EBITDA	38.2	41.6	69.5	113	120
Growth					
Revenue Gth (%)	216.0	18.4	23.2	56.7	6.3
EBITDA Gth (%)	449.5	8.9	67.0	62.6	6.5
Opg Profit Gth (%)	474.5	5.7	58.3	69.1	6.2
Net Profit Gth (Pre-ex) (%)	575.3	4.1	57.5	68.3	6.2
Margins & Ratio					
Gross Margins (%)	32.9	34.0	40.5	40.0	40.0
Opg Profit Margin (%)	17.0	15.2	19.5	21.0	21.0
Net Profit Margin (%)	14.5	12.8	16.3	17.5	17.5
ROAE (%)	73.1	45.5	47.1	53.1	40.2
ROA (%)	39.0	26.5	29.0	33.9	27.7
ROCE (%)	72.4	44.7	46.3	52.7	40.0
Div Payout Ratio (%)	24.9	27.4	26.1	26.1	26.1
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Revenue	52.7	97.9	83.9	88.7	147
Cost of Goods Sold	(32.6)	(62.8)	(52.2)	(44.9)	(86.5)
Gross Profit	**20.2**	**35.2**	**31.7**	**43.8**	**60.4**
Other Oper. (Exp)/Inc	(12.3)	(16.3)	(15.3)	(24.0)	(16.5)
Operating Profit	**7.82**	**18.9**	**16.4**	**19.8**	**43.8**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.09	0.05	0.08	0.25	0.0
Net Interest (Exp)/Inc	0.08	0.07	0.07	0.14	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**7.98**	**19.0**	**16.6**	**20.2**	**43.8**
Tax	(1.4)	(3.3)	(2.9)	(3.5)	(7.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	**6.60**	**15.7**	**13.7**	**16.7**	**36.1**
Net profit bef Except.	6.60	15.7	13.7	16.7	36.1
EBITDA	7.91	18.9	16.5	20.1	43.8
Growth					
Revenue Gth (%)	34.0	85.7	(14.4)	5.7	65.6
EBITDA Gth (%)	72.1	139.3	(12.8)	21.5	118.6
Opg Profit Gth (%)	79.8	141.4	(13.0)	20.6	121.3
Net Profit Gth (Pre-ex) (%)	50.2	138.1	(12.7)	22.0	115.8
Margins					
Gross Margins (%)	38.2	35.9	37.8	49.4	41.1
Opg Profit Margins (%)	14.8	19.3	19.6	22.3	29.9
Net Profit Margins (%)	12.5	16.0	16.4	18.9	24.6

Net profit margin surges on the back of a higher revenue base and lower raw material cost from local sourcing

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	3.62	5.73	8.44	7.01	4.90
Invts in Associates & JVs	4.13	4.15	4.57	4.57	4.57
Other LT Assets	3.45	17.8	17.0	16.1	15.2
Cash & ST Invts	46.1	58.9	108	200	282
Inventory	35.8	27.4	57.5	33.7	35.8
Debtors	23.6	18.0	28.0	29.5	37.1
Other Current Assets	0.0	4.49	4.86	4.86	4.86
Total Assets	**117**	**136**	**228**	**296**	**384**
ST Debt	0.01	0.0	0.0	0.0	0.0
Creditor	52.2	33.1	73.1	68.5	86.5
Other Current Liab	6.04	10.6	18.2	24.7	25.9
LT Debt	0.0	0.05	0.05	0.05	0.05
Other LT Liabilities	0.59	3.21	2.30	2.30	2.30
Shareholder's Equity	57.8	89.5	134	200	270
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	**117**	**136**	**228**	**296**	**384**
Non-Cash Wkg. Capital	1.10	6.22	(1.0)	(25.2)	(34.7)
Net Cash/(Debt)	46.1	58.8	108	200	282
Debtors Turn (avg days)	34.0	28.9	25.9	20.7	22.6
Creditors Turn (avg days)	85.1	90.9	104.1	86.9	89.6
Inventory Turn (avg days)	65.7	67.4	83.2	55.9	40.1
Asset Turnover (x)	2.7	2.1	1.8	1.9	1.6
Current Ratio (x)	1.8	2.5	2.2	2.9	3.2
Quick Ratio (x)	1.2	1.8	1.5	2.5	2.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	34,971.4	27,632.7	6,751.0	8,646.9	8,646.9

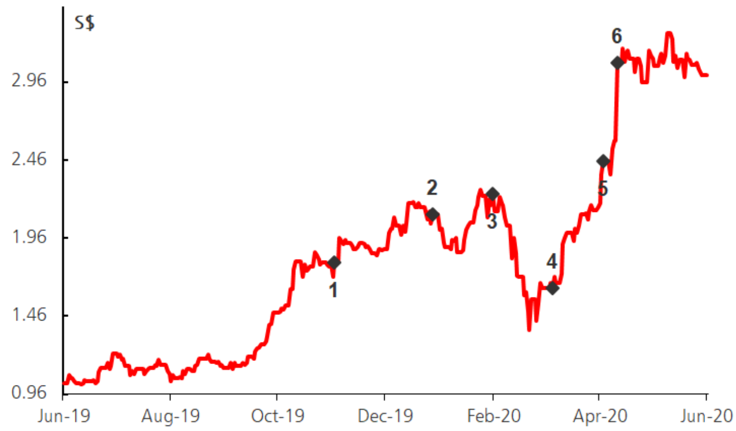
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	37.5	40.0	63.7	107	114
Dep. & Amort.	0.70	1.87	6.08	6.53	7.28
Tax Paid	(0.3)	(5.2)	(6.7)	(11.6)	(18.2)
Assoc. & JV Inc/(loss)	0.11	0.04	(0.5)	0.0	0.0
Chg in Wkg.Cap.	10.1	(4.7)	(2.2)	17.7	8.28
Other Operating CF	1.74	2.02	7.20	0.0	0.0
Net Operating CF	49.9	34.1	67.7	120	111
Capital Exp.(net)	(2.5)	(13.5)	(3.3)	(4.2)	(4.2)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.07	0.30	0.52	0.0	0.0
Net Investing CF	(2.4)	(13.2)	(2.8)	(4.2)	(4.2)
Div Paid	(4.5)	(8.4)	(10.5)	(23.2)	(24.6)
Chg in Gross Debt	(0.1)	(0.3)	(0.2)	0.0	0.0
Capital Issues	0.15	0.0	0.0	0.0	0.0
Other Financing CF	(2.0)	(0.6)	(4.5)	0.0	0.0
Net Financing CF	(6.4)	(9.2)	(15.2)	(23.2)	(24.6)
Currency Adjustments	(1.4)	1.17	(0.9)	0.0	0.0
Chg in Cash	39.8	12.8	48.8	92.2	82.1
Opg CFPS (S cts)	60.7	14.4	25.9	37.8	38.1
Free CFPS (S cts)	72.4	7.64	23.9	42.8	39.6

Source: Company, DBS Bank

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	29 Nov 19	1.80	2.38	BUY
2:	24 Jan 20	2.11	2.38	BUY
3:	27 Feb 20	2.24	2.52	BUY
4:	01 Apr 20	1.64	2.29	BUY
5:	30 Apr 20	2.45	2.47	HOLD
6:	08 May 20	3.08	2.87	HOLD

Source: DBS Bank

Analyst: Singapore Research Team
Lee Keng LING

DBS Bank 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 (-10% to +15% total return over the next 12 months for small caps, -10% to +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 share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 29 Jun 2020 18:06:43 (SGT)
Dissemination Date: 29 Jun 2020 18:07:25 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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Singapore Company Guide

Frencken Group Limited

Version 8 | Bloomberg: FRKN SP | Reuters: FREN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Jun 2020

BUY

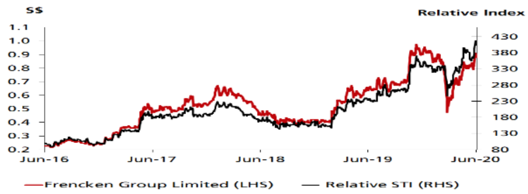
Last Traded Price (30 Jun 2020): S$0.88 (**STI :** 2,589.91)
Price Target 12-mth: S$1.02 (16% upside) (Prev S$0.92)

Analyst
Lee Keng LING +65 6682 3703 leekeng@dbs.com

What's New

- Improving outlook of semiconductor industry
- Expect Semiconductor and Medical, which account for c.30% of FY19 revenue, to post q-o-q revenue growth in 2Q20
- Diversification helps to provide resilience and stability
- Maintain BUY with higher TP of S$1.02

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019A	2020F	2021F
Revenue	626	659	628	676
EBITDA	61.4	80.5	69.9	76.1
Pre-tax Profit	40.2	53.9	48.0	52.6
Net Profit	30.0	42.4	37.7	41.4
Net Pft (Pre Ex.)	33.9	46.5	37.7	41.4
Net Pft Gth (Pre-ex) (%)	47.7	37.1	(19.1)	9.8
EPS (S cts)	7.12	9.99	8.88	9.75
EPS Pre Ex. (S cts)	8.05	11.0	8.88	9.75
EPS Gth Pre Ex (%)	46	36	(19)	10
Diluted EPS (S cts)	7.12	9.99	8.88	9.75
Net DPS (S cts)	2.14	3.00	2.66	2.92
BV Per Share (S cts)	62.8	69.6	75.8	82.7
PE (X)	12.4	8.8	9.9	9.0
PE Pre Ex. (X)	10.9	8.0	9.9	9.0
P/Cash Flow (X)	14.8	3.9	6.2	7.1
EV/EBITDA (X)	6.1	3.8	4.0	3.4
Net Div Yield (%)	2.4	3.4	3.0	3.3
P/Book Value (X)	1.4	1.3	1.2	1.1
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	11.3	14.3	11.7	11.8
Earnings Rev (%):			-	-
Consensus EPS (S cts):			9.4	10.3
Other Broker Recs:		B: 5	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Tailwinds from semiconductor and medical segments

Maintain BUY with higher TP of S$1.02. Frencken's strong presence across a wide variety of industries and business segments should help to provide resilience and stability to the Group. Furthermore, Frencken has good exposure (c.13% FY19 revenue) to the Medical segment, which is an added advantage during this pandemic crisis. We also expect the Semiconductor sector to fare better than others in the technology value chain, as it forms part of the essential goods supply chain. Frencken has c.20% exposure to this segment. Outlook for semiconductors remains positive. SEMI expects global fab equipment spending to jump 24% y-o-y in 2021, 10ppt higher than its previous forecast in 1Q 2020. May's semiconductor equipment billing data was up 14% y-o-y, its eighth consecutive y-o-y increase since October last year and we view this as an optimistic sign for the industry.

At 9.9x FY20F and 9.0x FY21F earnings, Frencken is trading at about c.30% discount to its peers' average of 13x PE. The stock is supported by a dividend yield of about 3% based on a 30% payout ratio.

Where we differ: We are optimistic that Frencken can tide over this period of extreme volatility given its diversified exposure.

Potential catalysts: 1) Recovery of supply chain; 2) Further positive developments on US-China trade war front; 3) Better operational efficiency to improve margins.

Valuation:

Maintain BUY with higher TP of S$1.02. We raised our TP to S$1.02 as we shift our valuation base to FY21F, still pegged to 10.4x PE, at a 20% discount to peers' average given Frencken's smaller scale.

Key Risks to Our View:

Dependence on global market conditions. Frencken has exposure to customers in the US, European Union (EU) and Asia. A broad global economic slowdown could impact demand and earnings.

At A Glance

Issued Capital (m shrs)	425
Mkt. Cap (Sm/USm)	374 / 268
Major Shareholders (%)	
Thong Low Heang.	6.3
Micro Compact (M) Sdn. Bhd	6.2
Precico Holdings	6.2
Free Float (%)	81.3
3m Avg. Daily Val (US$m)	1.2
GIC Industry : Industrials / Capital Goods	

Live more, Bank less

CRITICAL DATA POINTS TO WATCH

Critical Factors

Technological advancements and ongoing transformation. The accelerating technological advancements and market trends in cloud computing, big data, artificial intelligence (AI), augmented reality (AR), virtual reality (VR), proliferation of connected devices and Internet of Things (IOT), as well as the transformation of the automotive industry and advances in the analysis of biotech and genomics are drivers for Frencken's various business divisions. Among the rising trends are electric cars and connectivity technologies (e.g. smart Wi-Fi systems). Frencken collaborates closely with existing and new customers to develop the next generation of products and technology.

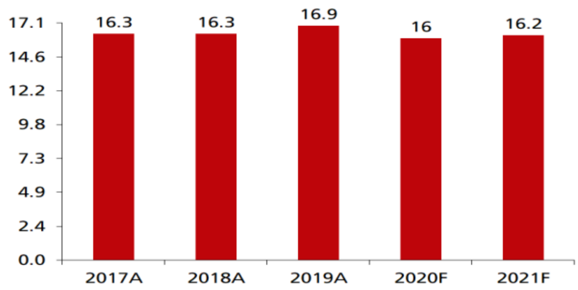
Diversification provides greater resilience and stability. Diversification helps to buffer the Group from adverse impact from a cyclical downturn in any industry and in turn brings resilience and stability to the Group. With its diverse exposure, Frencken can participate in the various segments, via collaboration with its partners. In terms of revenue breakdown for FY19, contribution from each segment ranges from 10-30%. We expect this trend to continue.

Exposure to high-growth segments. Among Frencken's five key business segments, we expect the Analytical & Life Sciences and Industrial & Industrial Automotive segments to be the main growth drivers in the long term. Near term, the turnaround in the Semiconductor industry, where Frencken has c.20% revenue exposure, should benefit the Group.

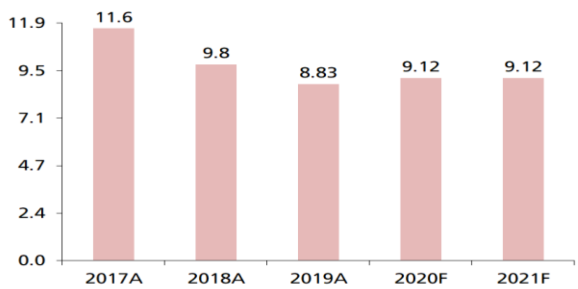
Frencken is in a sweet spot with its exposure to evolving technologies, especially in the Analytical & Life Sciences and Industrial Automotive segments. We expect revenue contribution from these two segments to be >20% each in 2020 and 2021.

Operational efficiencies to drive margins. Frencken's earnings recovered strongly in FY16, after a prolonged period of negative earnings growth from FY11-FY15. During this period, besides challenging market conditions, the Group was also hit by impairment losses for subsidiaries and deferred development costs. An optimisation exercise was undertaken and some subsidiaries were wound up for a leaner structure. A sustainable and improvement of its earnings momentum should continue to re-rate the stock. We expect net margins to remain at around 6% in FY20F and FY21F, from an average of 4.9% during the FY16-FY18 period.

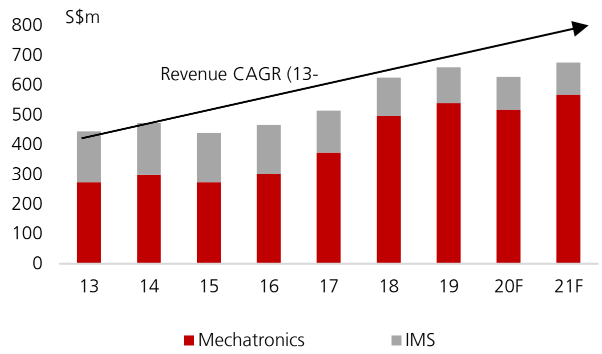
Gross Margin %



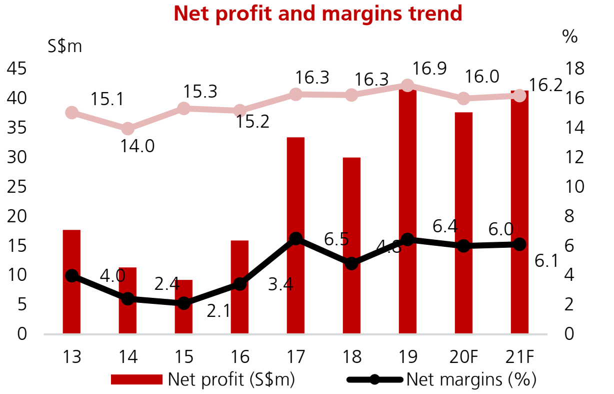
% of SGA



Revenue trend



Net profit and margins trend



Source: Company, DBS Bank

Balance Sheet:

Return to net cash position. The bulk of Frencken's borrowings is in the form of short-term borrowings and is an integral part of the Group's cash management. The borrowings are mainly denominated in Euro (EUR), US Dollar (USD), Singapore Dollar (SGD), Indonesian Rupiah (INR) and Malaysian Ringgit (MYR) at interest rates of 1.36-11.75% (for FY18). Frencken is in a net cash position of S$92.9m (as at end-1Q20).

Share Price Drivers:

Revenue and earnings momentum. Frencken's revenue registered a CAGR of 6% in FY12-FY19. Earnings recovered strongly in FY16, after a prolonged period of negative earnings growth in FY11-FY15 due to challenging market conditions. The Group was also hit by impairment losses for subsidiaries and deferred development costs. Optimisation exercises were undertaken and some subsidiaries were wound up for a leaner structure. A sustainable and improved earnings momentum should continue to re-rate the stock.

Key Risks:

Dependence on global market conditions. Frencken has exposure to customers in the US, EU and Asia. A broad global economic slowdown could have an impact on Frencken's operations due to its vulnerability to business cycles. Political and policy risks could also affect Frencken's business in these regions. A case in point is the ongoing US-China trade war.

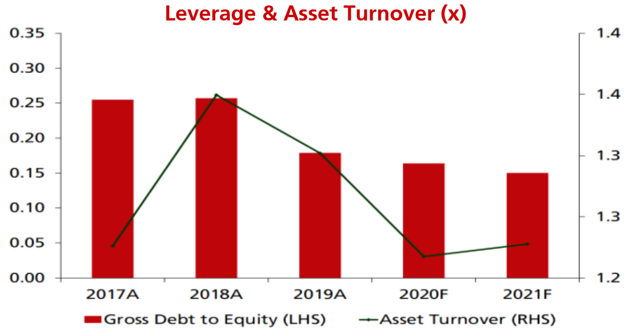
Forex exposure. A weakening USD against SGD, Renminbi (RMB) and MYR could impact Frencken's earnings but should be minimal. Our sensitivity analysis shows that every 5% appreciation of USD against SGD, RMB and MYR will increase Frencken's net profit by 2%.

Vulnerable to industry cycles. Some industries that Frencken is exposed to, such as the semiconductor industry, are cyclical in nature. A sudden swing in the cycle could affect Frencken's operations, especially its inventory level and profitability.

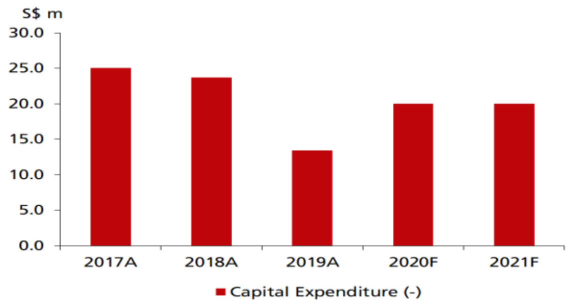
Company Background

FRKN Group Limited provides end-to-end solutions across the entire customer value chain. It offers comprehensive original design, original equipment and diversified integrated manufacturing solutions for world-class multinational companies in the automotive, healthcare, industrial, life sciences and semiconductor industries.

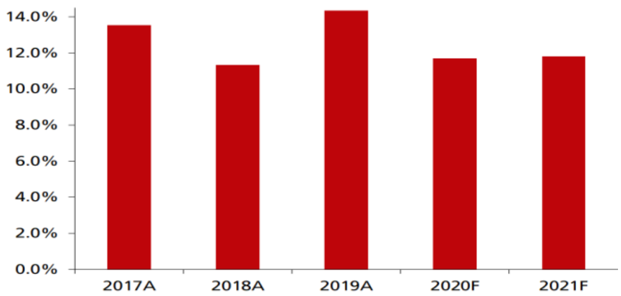
Leverage & Asset Turnover (x)



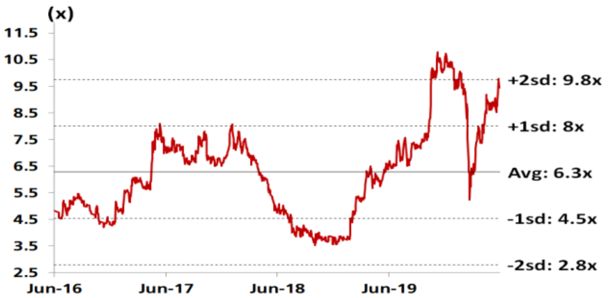
Capital Expenditure



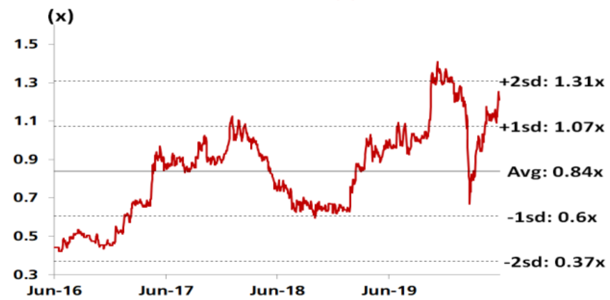
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

DBS
Live more, Bank less

Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross Margin %	16.3	16.3	16.9	16.0	16.2
% of SGA	11.6	9.80	8.83	9.12	9.12

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (S$m)					
Mechatronics	373	497	540	516	567
IMS	142	129	120	111	109
Total	515	626	659	628	676
Operating profit (EBIT)					
Mechatronics	19.0	30.3	46.9	50.9	41.3
IMS	2.97	1.95	0.81	6.10	1.67
Total	21.9	32.3	47.7	57.0	43.0
Operating profit (EBIT) Margins (%)					
Mechatronics	5.1	6.1	8.7	9.9	7.3
IMS	2.1	1.5	0.7	5.5	1.5
Total	4.3	5.2	7.2	9.1	6.4

Income Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	515	626	659	628	676
Cost of Goods Sold	(431)	(524)	(548)	(527)	(567)
Gross Profit	83.9	102	111	100	110
Other Opng (Exp)/Inc	(59.9)	(61.3)	(58.2)	(57.3)	(61.7)
Operating Profit	23.9	40.4	53.3	43.2	47.9
Other Non Opg (Exp)/Inc	6.35	4.64	6.08	6.08	6.08
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.3)	(1.0)	(1.3)	(1.3)	(1.3)
Exceptional Gain/(Loss)	10.5	(3.9)	(4.2)	0.0	0.0
Pre-tax Profit	40.4	40.2	53.9	48.0	52.6
Tax	(6.6)	(9.8)	(11.3)	(10.1)	(11.1)
Minority Interest	(0.4)	(0.3)	(0.2)	(0.2)	(0.2)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	33.4	30.0	42.4	37.7	41.4
Net Profit before Except.	23.0	33.9	46.5	37.7	41.4
EBITDA	45.2	61.4	80.5	69.9	76.1
Growth					
Revenue Gth (%)	10.4	21.5	5.3	(4.8)	7.7
EBITDA Gth (%)	19.6	35.9	31.0	(13.2)	8.9
Opg Profit Gth (%)	52.0	68.8	31.8	(19.0)	10.9
Net Profit Gth (Pre-ex) (%)	44.5	47.7	37.1	(19.1)	9.8
Margins & Ratio					
Gross Margins (%)	16.3	16.3	16.9	16.0	16.2
Opg Profit Margin (%)	4.6	6.5	8.1	6.9	7.1
Net Profit Margin (%)	6.5	4.8	6.4	6.0	6.1
ROAE (%)	13.5	11.3	14.3	11.7	11.8
ROA (%)	8.0	6.5	8.4	7.3	7.5
ROCE (%)	7.1	9.6	12.3	9.2	9.4
Div Payout Ratio (%)	29.8	30.0	30.0	30.0	30.0
Net Interest Cover (x)	70.8	40.5	41.2	33.4	37.0

Gains from disposal of subsidiary

Impairment losses

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	176	159	164	170	166
Cost of Goods Sold	(146)	(134)	(136)	(143)	(134)
Gross Profit	**29.3**	**25.1**	**28.0**	**27.0**	**31.3**
Other Oper. (Exp)/Inc	(14.7)	(13.5)	(13.5)	(12.6)	(16.6)
Operating Profit	**14.6**	**11.6**	**14.5**	**14.4**	**14.7**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.4)	(0.4)	(0.4)	(0.3)	(0.2)
Exceptional Gain/(Loss)	0.14	0.0	0.0	0.0	0.0
Pre-tax Profit	**14.4**	**11.2**	**14.1**	**14.1**	**14.5**
Tax	(3.2)	(2.6)	(2.9)	(2.6)	(3.2)
Minority Interest	(0.1)	0.0	(0.1)	(0.1)	0.00
Net Profit	**11.0**	**8.60**	**11.1**	**11.4**	**11.2**
Net profit bef Except.	10.9	8.60	11.1	11.4	11.2
EBITDA	18.5	16.9	19.9	19.5	20.0
Growth					
Revenue Gth (%)	7.2	(9.5)	3.3	3.5	(2.7)
EBITDA Gth (%)	13.2	(9.0)	17.8	(1.6)	2.6
Opg Profit Gth (%)	21.0	(20.5)	24.6	(0.7)	2.4
Net Profit Gth (Pre-ex) (%)	16.9	(20.9)	29.2	2.9	(1.7)
Margins					
Gross Margins (%)	16.7	15.8	17.0	15.9	18.9
Opg Profit Margins (%)	8.3	7.3	8.8	8.4	8.9
Net Profit Margins (%)	6.3	5.4	6.8	6.7	6.8

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	93.9	97.4	92.1	91.9	90.3
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	32.1	26.9	39.3	42.6	43.1
Cash & ST Invts	68.2	67.1	122	151	171
Inventory	112	145	141	114	123
Debtors	100	116	97.6	102	110
Other Current Assets	13.5	11.9	14.1	14.1	14.1
Total Assets	**420**	**464**	**506**	**516**	**551**
ST Debt	61.7	67.5	53.1	53.1	53.1
Creditor	61.9	79.2	87.8	66.8	71.8
Other Current Liab	39.9	42.8	49.5	53.3	54.3
LT Debt	1.87	1.21	0.17	0.17	0.17
Other LT Liabilities	5.25	5.47	17.5	17.5	17.5
Shareholder's Equity	247	265	295	322	351
Minority Interests	2.34	2.63	2.78	3.00	3.23
Total Cap. & Liab.	**420**	**464**	**506**	**516**	**551**
Non-Cash Wkg. Capital	124	150	115	110	120
Net Cash/(Debt)	4.55	(1.6)	69.2	97.9	118
Debtors Turn (avg days)	71.1	67.6	54.1	59.1	59.1
Creditors Turn (avg days)	54.3	56.9	60.9	48.1	48.1
Inventory Turn (avg days)	98.3	104.0	97.5	82.2	82.2
Asset Turnover (x)	1.2	1.3	1.3	1.2	1.2
Current Ratio (x)	1.8	1.8	2.0	2.2	2.3
Quick Ratio (x)	1.0	1.0	1.2	1.5	1.6
Net Debt/Equity (X)	CASH	0.0	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	0.0	CASH	CASH	CASH
Capex to Debt (%)	39.4	34.5	25.2	37.6	37.6

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	40.4	40.2	53.9	48.0	52.6
Dep. & Amort.	14.9	16.4	21.1	20.6	22.2
Tax Paid	(6.6)	(9.8)	(11.3)	(10.1)	(11.1)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(5.6)	(26.8)	26.0	1.54	(11.4)
Other Operating CF	(8.3)	5.10	5.10	0.0	0.0
Net Operating CF	**34.9**	**25.1**	**94.9**	**60.0**	**52.4**
Capital Exp.(net)	(25.1)	(23.7)	(13.4)	(20.0)	(20.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	38.6	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.70	0.56	1.66	0.0	0.0
Net Investing CF	**14.2**	**(23.2)**	**(11.7)**	**(20.0)**	**(20.0)**
Div Paid	(5.0)	(10.1)	(9.1)	(11.3)	(12.4)
Chg in Gross Debt	9.83	7.33	(10.6)	0.0	0.0
Capital Issues	1.91	0.95	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.56	0.0	0.0
Net Financing CF	**6.77**	**(1.8)**	**(19.1)**	**(11.3)**	**(12.4)**
Currency Adjustments	(1.3)	0.34	0.53	0.0	0.0
Chg in Cash	54.6	0.46	64.5	28.7	20.0
Opg CFPS (S cts)	9.72	12.3	16.2	13.8	15.0
Free CFPS (S cts)	2.35	0.32	19.2	9.44	7.63

Source: Company, DBS Bank

Target Price & Ratings History

Note *: Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Feb 20	0.83	1.06	BUY
2:	01 Apr 20	0.57	0.74	BUY
3:	15 May 20	0.83	0.92	BUY

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank 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 (-10% to +15% total return over the next 12 months for small caps, -10% to +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 share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 30 Jun 2020 17:59:24 (SGT)
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UMS Holdings

BUY

Last Traded Price (12 May 2020): S$0.795 **(STI :** 2,587.81)
Price Target 12-mth: S$1.04 (31% upside) (Prev S$0.77)

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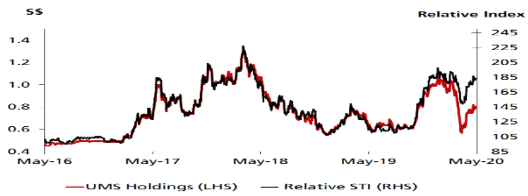
What's New

- 1Q20 core earnings in line; higher DPS a positive signal that annual DPS could revert to 6cts
- Management cautious in the near term; but long term outlook remains intact
- Raised FY20F/FY21F earnings by 20%/14% as growth drivers are intact
- Maintain BUY with higher TP of S$1.04

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019A	2020F	2021F
Revenue	128	132	161	178
EBITDA	51.6	43.0	51.9	55.4
Pre-tax Profit	45.5	35.5	45.4	49.0
Net Profit	43.1	33.6	42.9	46.2
Net Pft (Pre Ex.)	43.1	33.6	42.9	46.2
Net Pft Gth (Pre-ex) (%)	(17.2)	(22.1)	27.9	7.8
EPS (S cts)	8.03	6.26	8.00	8.62
EPS Pre Ex. (S cts)	8.03	6.26	8.00	8.62
EPS Gth Pre Ex (%)	(17)	(22)	28	8
Diluted EPS (S cts)	8.03	6.26	8.00	8.62
Net DPS (S cts)	4.50	4.00	6.00	6.00
BV Per Share (S cts)	42.6	45.3	47.3	50.0
PE (X)	9.9	12.7	9.9	9.2
PE Pre Ex. (X)	9.9	12.7	9.9	9.2
P/Cash Flow (X)	11.0	8.0	12.7	10.1
EV/EBITDA (X)	8.3	9.4	7.9	7.3
Net Div Yield (%)	5.7	5.0	7.5	7.5
P/Book Value (X)	1.9	1.8	1.7	1.6
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	19.4	14.2	17.3	17.7
Earnings Rev (%):			20	14
Consensus EPS (S cts):			7.10	7.80
Other Broker Recs:		B: 3	S: 1	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Outlook remains positive

Maintain BUY with higher TP of S$1.04. Management is cautious on the near term outlook and expects some challenges due to supply chain disruptions, manpower constraints and other issues from the COVID 19 fallout. However, with the gradual removal of restrictions globally, the supply chain should be more stable going forward. The March semiconductor equipment billing data published by SEMI, which has accounted for the global shutdown amid the COVID-19 outbreak, eased 7% from the end of 2019, which is within our expectations. On a y-o-y basis, the data is still on track to show a positive growth trajectory. Furthermore, consensus is still expecting its key customer, AMAT to register strong growth in FY20F.

We remain positive on the semiconductor sector, on the back of the acceleration of 5G, artificial intelligence (AI) and other technology-driven developments such as Smart Cities and increased demand for data.

Where we differ: We are more bullish and expect the next few quarters performance to be at least on par with 1Q20.

Potential catalysts: Stronger recovery in semiconductor equipment sales, memory chips; client diversification, earnings-accretive M&As.

Valuation:

Maintain BUY with higher TP of S$1.04 pegged to 13x FY20F, +1SD of its mean. We have revised up earnings by 20%/14% for FY20F/FY21F on the back of the still positive outlook. Demand remains strong while supply side is more stable now. Our TP is raised to S$1.04 (prev S$0.77) pegged to +1SD of its mean or 13x PE on FY20F earnings. Maintain BUY. Dividend yield of 7.5% is attractive based on 6cts DPS forecast.

Key Risks to Our View:

Key client risk. Historically, c.90% of UMS's revenues on average was attributed to Applied Materials (AMAT). Disruptions to the relationship or weakness in AMAT's end-demand could significantly weigh on UMS's performance.

At A Glance

Issued Capital (m shrs)	533
Mkt. Cap (Sm/USm)	424 / 299
Major Shareholders (%)	
Luong Andy	20.8
Free Float (%)	79.2
3m Avg. Daily Val (US$m)	4.2

GIC Industry : Information Technology / Semiconductors & Semiconductor Equipment

WHAT'S NEW

1Q20 core earnings in line; higher DPS a positive signal

Strong customer demand. UMS reported a 52% y-o-y jump in net profit to S$10.7m as revenue grew 22% to S$34.9m in 1QFY20. Compared to 1Q19, the semiconductor business, which accounts for 91% of total revenue, saw a robust improvement in demand as the semiconductor sector only turned around in 2H19. Revenue from its integrated systems business rose 3% to S$12.9m while component sales surged 29% to S$18.8m. Others segment was mainly derived from its subsidiary, Starke Singapore's material distribution business.

Weaker q-o-q due to COVID-19. However, on a q-o-q basis, revenue dipped 14%. This was mainly a result of the movement control order (MCO) in Malaysia, which led to the group's Malaysia operations being halted temporarily from 18 March 2020 to 6 April 2020. The group's Penang facilities have resumed normal operations since 29 April 2020.

Bottom-line boosted by higher net margins and Associates contribution. Gross margin of 53.3% in 1Q20 is comparable to 53.2% in 1Q19. Net margins, however, improved to 30.7% from 24.6% in 1Q19. Bottomline was boosted by higher contributions from its associate company, JEP Holdings, and also foreign exchange gain of S$1.5m and S$0.2m from the disposal of fixed assets during the quarter. Excluding these items, core earnings were in line with our expectations.

Proposed higher interim dividend, a positive signal. An interim DPS of 1Sct was declared, vs 0.5Scts in 1Q19. This could be a positive signal that dividend could revert to 6Scts per year, which was the average paid annually from FY13-FY17. DPS was cut to 4.5Scts in FY18 and 4Scts in FY19.

Healthy cashflow. UMS continued to generate a healthy free cash flow of S$8.9m, though a dip from S$10.7m in 1Q19. Net cash grew 27% to S$31.8m during the same period.

Management cautious near term due to supply chain disruptions, but longer term demand growth drivers remain intact. Management is cautious on the outlook near term, and expects some challenges due to supply chain disruptions, manpower constraints and other issues from the COVID-19 fallout. However, with the gradual removal of the restrictions globally, the supply chain should be more stable going forward.

Furthermore, according to consensus forecasts, key customer Applied Materials (AMAT) is still expected to register earnings growth of 26% in FY20F and 10% in FY21F. This is despite AMAT withdrawing its bullish outlook guidance for 2Q FY October 2020 as a result of the COVID-19 pandemic back in February.

Overall, we remain positive on the semiconductor sector, on the back of the acceleration of 5G, artificial intelligence (AI) and other technology-driven developments such as Smart Cities and increased demand for data.

Raised FY2F/FY21F earnings by 20%/14%, TP lifted to S$1.04
We have revised up earnings by 20%/14% for FY20F/FY21F on the back of the still positive outlook. Demand remains strong while supply side is more stable now. Our TP is raised to S$1.04 (prev S$0.77) pegged to +1SD of its mean (vs +0.5SD previously and +1.5SD for peer, AEM Holdings) or 13x PE on FY20F earnings. Dividend yield of 7.5% is attractive based on 6cts DPS forecast. Maintain BUY.

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2019	4Q2019	1Q2020	% chg yoy	% chg qoq
Revenue	28.6	40.4	34.9	21.9	(13.7)
Cost of Goods Sold	(13.4)	(19.8)	(16.3)	21.6	(17.6)
Gross Profit	15.2	20.6	18.6	22.2	(10.0)
Other Oper. (Exp)/Inc	(8.1)	(9.1)	(7.5)	(8.1)	(17.4)
Operating Profit	7.06	11.6	11.1	57.1	(4.2)
Other Non Opg (Exp)/Inc	0.01	(2.5)	(0.1)	nm	(97.4)
Associates & JV Inc	0.46	0.64	0.85	86.2	34.3
Net Interest (Exp)/Inc	(0.2)	(0.1)	(0.1)	58.3	1.5
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	7.37	9.63	11.8	60.3	22.7
Tax	(0.6)	(0.3)	(1.0)	83.5	237.5
Minority Interest	0.23	(0.1)	(0.1)	nm	26.8
Net Profit	7.05	9.24	10.7	51.8	15.8
Net profit bef Except.	7.05	9.24	10.7	51.8	15.8
EBITDA	9.22	11.4	13.7	48.8	20.4
Margins (%)					
Gross Margins	53.2	51.1	53.3		
Opg Profit Margins	24.7	28.6	31.8		
Net Profit Margins	24.6	22.9	30.7		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Semiconductor outlook

Despite the positive semiconductor equipment billing data published by SEMI for March 2020 which has accounted for the shutdown in China amid the outbreak of the COVID-19, we expect data to taper down going forward. Supply disruption and weaker demand persist. However, on a y-o-y basis, it could still record positive growth given a weak 1H2019.

Overall, we expect the semiconductor sector to fare better than others in the technology value chain, as it forms part of the essential goods supply chain.

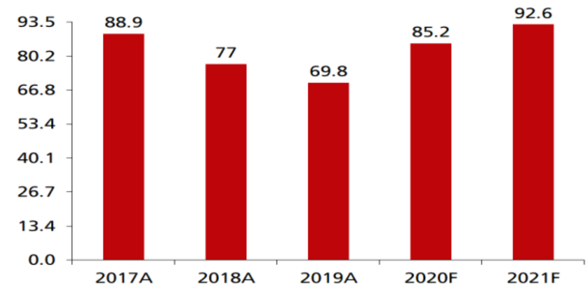
UMS, which is at the forefront of the technology value chain, remains a beneficiary of capital equipment spending, driven by new technologies and 5G, though growth momentum is much muted now.

Leveraging on key customer Applied Materials (AMAT). Key customer AMAT has recently withdrawn its business outlook for 2Q FY October 2020 because the COVID-19 pandemic is affecting its supply chain and manufacturing operations. Consensus is still positive on AMAT, expecting earnings to grow 26% in FY20 and 10% in FY21. About 90% of UMS's revenue is attributed to AMAT.

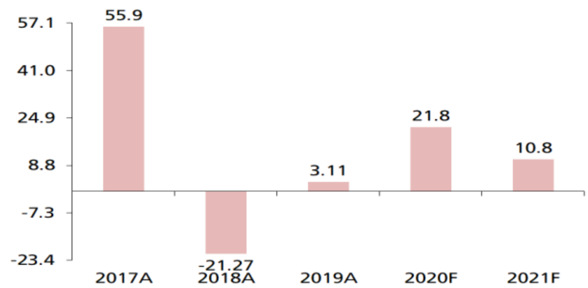
Attractive dividends. Despite the lower DPS of 4 Scts in FY19 (down from 4.5 Scts in FY18) and an average of 6 Scts paid annually from FY13-FY17, dividend yield is still attractive at c.4%. Going forward, DPS could revert to 6Scts representing a dividend yield of c.7.5%.

Diversification into other businesses could bear fruit in the longer term. UMS has invested in JEP Holding, which is in the precision engineering business; Starke Singapore, a non-ferrous metal specialist; Kalf Engineering, a water and chemical engineering solutions company; and All Star Fortress, an aerospace component manufacturer. These investments provide the group with alternative growth opportunities and diversification from the cyclical semiconductor business.

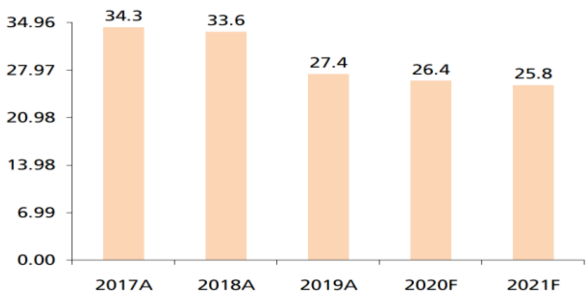
Gross Profit (S$ m)



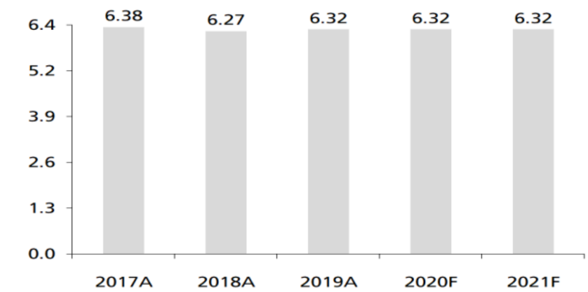
Revenue Growth (%)



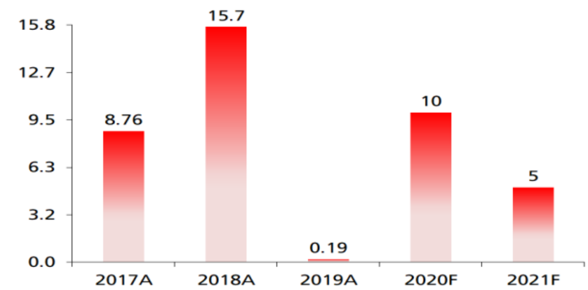
Operating Profit Margin (%)



Effective Tax Rate (%)



Capex (S$ m)



Source: Company, DBS Bank

Balance Sheet:

Healthy cash level. UMS invested S$6.9m to raise its equity stake in JEP Holdings from 29% to 39% in 2Q19. Even after making an additional investment in JEP and paying dividends of S$10.7m, the group's net cash had risen to S$31.8m by end-1Q20, reversing from net debt of S$1.4m as at end-4Q18.

Share Price Drivers:

A sustainable recovery in semiconductor industry. Industry bodies like SEMI and Worldwide Semiconductor Trade Statistics (WSTS) are forecasting a return to growth for the semiconductor industry in 2020. A sustainable recovery should drive earnings, and thus push its share price higher.

M&A opportunities. UMS continues to be on the lookout for diversification opportunities (outside of the semiconductor industry) with good long-term growth potential. New avenues of growth outside the semiconductor space could help drive re-rating of its share price.

Potential takeover target. UMS has only one large shareholder, with a 20% stake. With its entrenched relationship with AMAT, consistently strong cash flows and net cash position, we see UMS as an attractive takeover target.

Key Risks:

Key client risk – AMAT. UMS's performance is closely tied to that of AMAT. About 90% of UMS's revenues are attributable to AMAT.

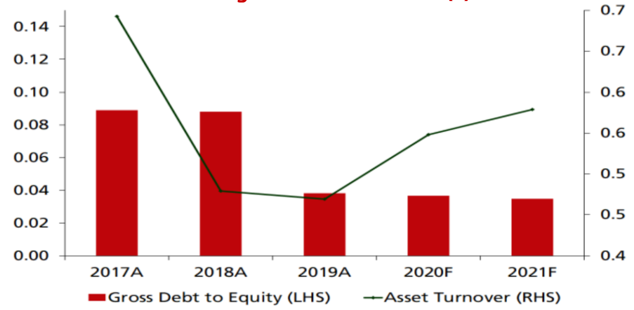
Disruptions to the relationship (i.e. loss of market share) or weakness in AMAT's end-demand could significantly weigh on UMS's performance.

Underlying demand for semiconductor manufacturing equipment. As demand for semiconductor manufacturing equipment is largely driven by capex cycles of chipmakers and foundries, an extension of the life cycle of existing systems or a slowdown in the global economy could result in deferments in their planned capital investments.

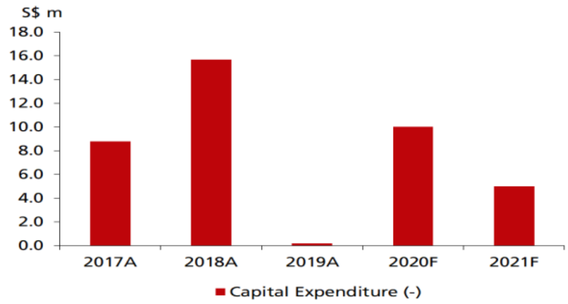
Company Background

UMS Holdings (UMSH SP) is an integrated OEM for front-end semiconductor equipment manufacturing, providing both component manufacturing and sub-assembly services, primarily to key client, Applied Materials (AMAT).

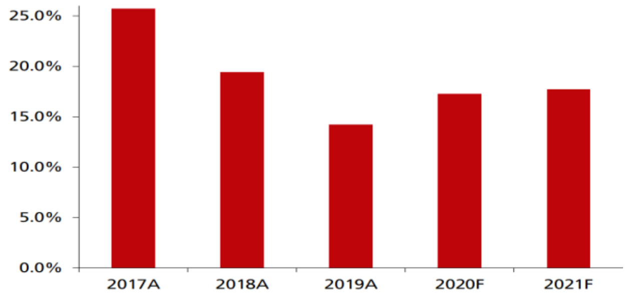
Leverage & Asset Turnover (x)



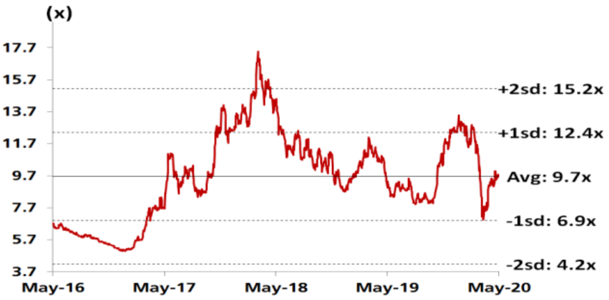
Capital Expenditure



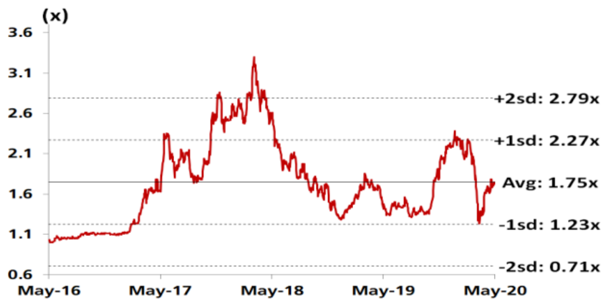
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross Profit (S$ m)	88.9	77.0	69.8	85.2	92.6
Revenue Growth (%)	55.9	(21.3)	3.11	21.8	10.8
Operating Profit Margin	34.3	33.6	27.4	26.4	25.8
Effective Tax Rate (%)	6.38	6.27	6.32	6.32	6.32
Capex (S$ m)	8.76	15.7	0.19	10.0	5.00

Segmental Breakdown

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenues (S$m)					
Components	73.0	76.4	61.9	75.5	81.6
Semiconductor Integrated	87.4	46.6	58.8	71.7	80.3
Others	2.10	4.94	11.2	13.5	16.1
Total	162	128	132	161	178

Income Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	162	128	132	161	178
Cost of Goods Sold	(73.6)	(50.9)	(62.1)	(75.5)	(85.5)
Gross Profit	**88.9**	**77.0**	**69.8**	**85.2**	**92.6**
Other Opng (Exp)/Inc	(33.2)	(34.0)	(33.7)	(42.7)	(46.6)
Operating Profit	**55.7**	**43.0**	**36.2**	**42.4**	**45.9**
Other Non Opg (Exp)/Inc	(0.4)	2.36	(2.7)	0.0	0.0
Associates & JV Inc	0.0	0.53	2.57	2.57	2.57
Net Interest (Exp)/Inc	0.0	(0.4)	(0.6)	0.43	0.46
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**55.2**	**45.5**	**35.5**	**45.4**	**49.0**
Tax	(3.5)	(2.9)	(2.2)	(2.9)	(3.1)
Minority Interest	0.32	0.42	0.34	0.35	0.36
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**52.0**	**43.1**	**33.6**	**42.9**	**46.2**
Net Profit before Except.	52.0	43.1	33.6	42.9	46.2
EBITDA	59.6	51.6	43.0	51.9	55.4
Growth					
Revenue Gth (%)	55.9	(21.3)	3.1	21.8	10.8
EBITDA Gth (%)	98.4	(13.4)	(16.7)	20.7	6.8
Opg Profit Gth (%)	89.7	(22.7)	(15.9)	17.3	8.3
Net Profit Gth (Pre-ex) (%)	130.3	(17.2)	(22.1)	27.9	7.8
Margins & Ratio					
Gross Margins (%)	54.7	60.2	52.9	53.0	52.0
Opg Profit Margin (%)	34.3	33.6	27.4	26.4	25.8
Net Profit Margin (%)	32.0	33.7	25.4	26.7	26.0
ROAE (%)	25.7	19.4	14.2	17.3	17.7
ROA (%)	22.2	16.1	11.9	14.6	15.0
ROCE (%)	24.2	17.2	12.6	16.1	16.6
Div Payout Ratio (%)	57.7	56.0	63.9	75.0	69.6
Net Interest Cover (x)	55,695.0	107.3	57.1	NM	NM

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Revenue	28.6	30.0	32.9	40.4	34.9
Cost of Goods Sold	(13.4)	(14.1)	(14.9)	(19.8)	(16.3)
Gross Profit	**15.2**	**15.9**	**18.1**	**20.6**	**18.6**
Other Oper. (Exp)/Inc	(8.1)	(7.9)	(8.9)	(9.1)	(7.5)
Operating Profit	**7.06**	**7.98**	**9.18**	**11.6**	**11.1**
Other Non Opg (Exp)/Inc	0.01	0.0	0.24	(2.5)	(0.1)
Associates & JV Inc	0.46	0.83	0.65	0.64	0.85
Net Interest (Exp)/Inc	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**7.37**	**8.57**	**9.89**	**9.63**	**11.8**
Tax	(0.6)	(0.6)	(0.8)	(0.3)	(1.0)
Minority Interest	0.23	0.15	0.05	(0.1)	(0.1)
Net Profit	**7.05**	**8.09**	**9.18**	**9.24**	**10.7**
Net profit bef Except.	7.05	8.09	9.18	9.24	10.7
EBITDA	9.22	10.5	11.8	11.4	13.7
Growth					
Revenue Gth (%)	10.4	4.8	9.8	22.7	(13.7)
EBITDA Gth (%)	(14.1)	13.9	12.4	(3.4)	20.4
Opg Profit Gth (%)	(5.3)	13.0	15.0	26.2	(4.2)
Net Profit Gth (Pre-ex) (%)	(26.5)	14.7	13.4	0.8	15.8
Margins					
Gross Margins (%)	53.2	53.1	54.9	51.1	53.3
Opg Profit Margins (%)	24.7	26.6	27.9	28.6	31.8
Net Profit Margins (%)	24.6	27.0	27.9	22.9	30.7

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	38.8	53.4	52.3	55.4	53.6
Invts in Associates & JVs	0.0	29.5	39.4	42.0	44.5
Other LT Assets	87.7	87.6	87.3	87.3	87.3
Cash & ST Invts	59.6	18.9	34.4	25.7	30.7
Inventory	49.6	70.4	51.7	57.9	65.6
Debtors	23.4	15.1	22.1	30.8	34.1
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	**259**	**275**	**287**	**299**	**316**
ST Debt	19.0	20.3	9.33	9.33	9.33
Creditor	18.1	14.1	18.8	20.3	22.9
Other Current Liab	3.29	3.72	4.42	4.54	4.76
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	4.99	6.43	9.81	9.81	9.81
Shareholder's Equity	215	229	243	254	268
Minority Interests	(1.3)	1.91	1.62	1.27	0.91
Total Cap. & Liab.	**259**	**275**	**287**	**299**	**316**
Non-Cash Wkg. Capital	51.7	67.7	50.6	63.9	72.0
Net Cash/(Debt)	40.6	(1.4)	25.0	16.4	21.3
Debtors Turn (avg days)	49.8	55.0	51.5	60.1	66.6
Creditors Turn (avg days)	91.3	129.9	108.7	103.8	100.4
Inventory Turn (avg days)	214.4	484.3	403.9	291.6	286.8
Asset Turnover (x)	0.7	0.5	0.5	0.5	0.6
Current Ratio (x)	3.3	2.7	3.3	3.4	3.5
Quick Ratio (x)	2.1	0.9	1.7	1.7	1.7
Net Debt/Equity (X)	CASH	0.0	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	0.0	CASH	CASH	CASH
Capex to Debt (%)	46.1	77.2	2.0	107.1	53.6
Z-Score (X)	7.4	7.2	7.4	7.6	7.4

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	55.2	45.5	35.5	45.4	49.0
Dep. & Amort.	4.32	5.67	6.87	6.87	6.87
Tax Paid	(2.1)	(3.6)	2.34	(2.8)	(2.9)
Assoc. & JV Inc/(loss)	0.04	(0.5)	(2.6)	(2.6)	(2.6)
Chg in Wkg.Cap.	(18.4)	(7.5)	12.9	(13.4)	(8.3)
Other Operating CF	0.02	(1.0)	(1.4)	0.0	0.0
Net Operating CF	**39.2**	**38.7**	**53.6**	**33.5**	**42.1**
Capital Exp.(net)	(8.8)	(15.7)	(0.2)	(10.0)	(5.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(0.1)	(33.4)	(7.3)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(2.1)	0.21	0.29	0.0	0.0
Net Investing CF	**(11.0)**	**(48.8)**	**(7.2)**	**(10.0)**	**(5.0)**
Div Paid	(26.8)	(29.5)	(18.8)	(32.2)	(32.2)
Chg in Gross Debt	18.8	(0.3)	(10.9)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(0.4)	(0.6)	(0.9)	0.0	0.0
Net Financing CF	**(8.5)**	**(30.5)**	**(30.7)**	**(32.2)**	**(32.2)**
Currency Adjustments	(2.8)	0.0	(0.3)	0.0	0.0
Chg in Cash	17.0	(40.6)	15.4	(8.6)	4.94
Opg CFPS (S cts)	10.7	8.60	7.59	8.76	9.40
Free CFPS (S cts)	5.67	4.29	9.96	4.39	6.92

Assume higher investment in Malaysia

Source: Company, DBS Bank

Target Price & Ratings History

***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	14 May 19	0.65	0.55	FULLY VALUED
2:	16 May 19	0.63	0.45	FULLY VALUED
3:	16 Aug 19	0.60	0.49	FULLY VALUED
4:	24 Oct 19	0.74	0.87	BUY
5:	13 Nov 19	0.86	1.00	BUY
6:	24 Jan 20	1.03	1.16	BUY
7:	26 Feb 20	0.94	1.12	BUY
8:	01 Apr 20	0.62	0.77	BUY

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank 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 (-10% to +15% total return over the next 12 months for small caps, -10% to +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 share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 13 May 2020 15:05:42 (SGT)
Dissemination Date: 13 May 2020 17:03:25 (SGT)

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Thailand Company Guide
Delta Electronics Thai

Version 33 | Bloomberg: DELTA TB | Reuters: DELT.BK **Refer to important disclosures at the end of this report**

DBS Group Research . Equity 1 Jul 2020

BUY

Last Traded Price (30 Jun 2020): Bt53.75 (**SET :** 1,339.03)
Price Target 12-mth: Bt62.00 (15% upside) (Prev Bt47.00)

Analyst
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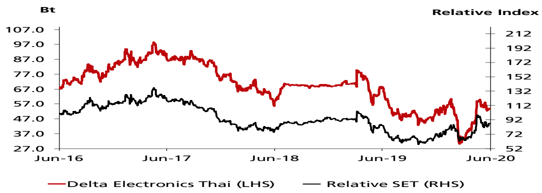
What's New

- Prime beneficiary of post--COVID-19 paradigm shift
- Fine-tune FX assumption and trim earnings forecast
- Roll over valuation to end-FY21F after ascribing higher multiple of 20x to reflect liquidity surge
- Maintain BUY with higher TP of Bt62.00, pegged to 20x FY21F PE

Price Relative



Forecasts and Valuation

FY Dec (Btm)	2018A	2019A	2020F	2021F
Revenue	53,067	51,172	50,156	52,845
EBITDA	6,261	4,434	4,398	5,949
Pre-tax Profit	5,312	2,970	2,633	4,008
Net Profit	5,137	2,960	2,542	3,868
Net Pft (Pre Ex.)	4,984	2,927	2,542	3,868
Net Pft Gth (Pre-ex) (%)	(14.2)	(41.3)	(13.1)	52.2
EPS (Bt)	4.12	2.37	2.04	3.10
EPS Pre Ex. (Bt)	4.00	2.35	2.04	3.10
EPS Gth Pre Ex (%)	(14)	(41)	(13)	52
Diluted EPS (Bt)	4.12	2.37	2.04	3.10
Net DPS (Bt)	2.30	1.80	1.33	2.02
BV Per Share (Bt)	27.2	26.5	26.7	28.5
PE (X)	13.1	22.7	26.4	17.3
PE Pre Ex. (X)	13.5	22.9	26.4	17.3
P/Cash Flow (X)	15.7	13.0	12.6	13.1
EV/EBITDA (X)	8.2	12.3	12.3	9.1
Net Div Yield (%)	4.3	3.3	2.5	3.8
P/Book Value (X)	2.0	2.0	2.0	1.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	15.5	8.8	7.7	11.2
Earnings Rev (%):			(8)	(6)
Consensus EPS (Bt):			2.13	3.03
Other Broker Recs:		B: 4	S: 4	H: 3

Source of all data on this page: Company, DBSVTH, Bloomberg Finance L.P

Beneficiary of paradigm shift

Structural changes offer opportunities for DELTA: DELTA remains the most resilient player in the Thai electronics space, mainly thanks to its foray into the high-growth data centre segment. It also sees solid prospects for its telecom networking products and power supplies for medical equipment. Though other production categories like non-EV fans and its regional business in India were hit by a slowdown in the global economy, we believe that DELTA's topline would be least impacted by COVID-19 given its strong data centre-related sales We continue to like DELTA for its strong well-balanced profile that will benefit from structural changes including higher demand for telecom services that will boost data centre demand and more clean energy use that will boost the demand for its EV power supplies in the long term. As we roll forward our valuation using a higher FY21F PE of 20x, our TP rises to Bt62.00. Given the 15% potential upside, we maintain BUY on DELTA.

Where we differ. We are more bullish in terms of margin recovery for FY21F as we believe the demand recovery will spur a more favourable change in product mix.

Potential catalysts. DELTA could benefit from stronger global demand for: (i) chargers and fans for the global automotive industry, and (ii) telecom power systems and power supplies for data centres in India.

Valuation:

Our TP of Bt62.00 for DELTA is based on 20x FY21F PE.

Key Risks to Our View:

A global economic slowdown and the depreciation of the US dollar could erode the demand for DELTA's products.

At A Glance

Issued Capital (m shrs)	1,247
Mkt. Cap (Btm/US$m)	67,047 / 2,169
Major Shareholders (%)	
Delta Electronics Int`l (Singapore) Pte. Ltd	42.9
DELTA International Holding Limited Shares	15.4
CITI (Nominees) Limited-Cbhk-Pbgsg-Restricted	13.9
Free Float (%)	22.35
3m Avg. Daily Val (US$m)	2.1
GIC Industry : Information Technology / Technology Hardware &	

DBS
Live more, Bank less

WHAT'S NEW

Prime beneficiary of post-COVID-19 paradigm shift

Structural change post-COVID-19 to support data centre demand: Though the surge in data centre demand may cool down in 2H20 on the back of the easing of city lockdowns, we believe COVID-19 has accelerated the transformation of how people interact with one another like never before. Even in the post-COVID-19 era, it is unlikely that people will fully return to their normal lives. We believe a certain extent of work from home, telecommunication, video conference practices will persist.

DELTA's auto division to benefit from stimulus package in the short term: Based on the stimulus package announced by various European local governments, we see a good chance for the rise in demand for DELTA's power supplies for the automotive industry. French President Macron has announced the plan to support clean vehicles by raising the incentive for consumers buying EVs to EUR7,000 from EUR6,000. Corporates buying EV will be eligible to receive an incentive of EUR5,000. The German government has announced its package to boost the demand for the auto industry as well. This package includes a 6-month 3% VAT cut effective from 1 July 2020 and extra incentives for consumers buying EVs with a net list price of up to EUR40,000. The incentive comprises EUR6,000 from the government and EUR3,000 from automakers.

Fine-tuning our assumptions and trimming forecasts: We have tracked the performance of DELTA Electronics Inc's (DELTA Taiwan) monthly sales report to gauge DELTA's current performance. We note that DELTA Taiwan's sales held up quite well during this challenging period. Given that DELTA Taiwan's April sales dropped by 1.0% y-o-y and May sales slid by almost 4% y-o-y, we bump our sales forecast for DELTA and also bake in more conservative forex assumptions, as summarised in the table below. Overall, our FY20F/21F earnings drop by 8%/6%, respectively.

	Old		New	
	FY20F	FY21F	FY20F	FY21F
Average THB/USD	32.0	31.7	31.3	30.5
Revenue in US$m	1,597	1,701	1,602	1,733
Revenue growth % in US$	-3.1%	6.5%	-2.7%	8.1%
Gross margin %	21.0%	23.0%	21%	23%

Source: DBSVTH

Assigning higher multiple of 7-year mean PE: Having discovered that the 5-year average PE has been inflated by a series of earnings cut during the episode of US-China trade tensions in FY19 and the COVID-19 pandemic in FY20F, we have decided to base our valuation on a longer-time span of seven years. In addition, the recent surge in liquidity injected by global central banks push for higher valuation. We have established that DELTA's 7-year historical average 1-year forward PE stands at 19x. Given that it expects to benefit from both structural changes including higher demand for data centre and the transition to clean- energy vehicles like EVs, we have decided to assign a slight premium of 20x PE to value DELTA.

DELTA: 7-year historical 1-year forward PE

Source: Bloomberg Finance L.P, DBSVTH

Maintain BUY with higher TP of Bt62.00: As we roll forward our valuation using 20x FY21F PE (upon assigning a slight premium to DELTA's historical 7-year 1-year forward PE of 19x), our TP rises to Bt62.00. Our TP now offers 15% potential upside from the current market price. Using a payout ratio of 65%, we expect its FY20F/21F yield to be 2.4%/3.7%, respectively. As a result, we maintain BUY on DELTA.

CRITICAL DATA POINTS TO WATCH

Critical Factors

Automotive industry. The automotive market currently contributes c.16% of DELTA's total revenue. DELTA supplies two main products – power supplies and direct current (DC) fans – to the automotive industry. In the power supplies business, the company is now a tier-1 supplier to EV and plug-in hybrid electric vehicle (PHEV) makers including; (i) European carmakers like Mercedes-Benz, Volkswagen, Porsche, Audi and Renault, (ii) North American car makers (through DELTA Taiwan) such as Tesla, Chrysler, Ford, Land Rover and General Motors (GM), (iii) Asian carmakers like China's Anhui Jianghuai Automobile Co Ltd (JAC Motors).

The company's key products include alternate current/direct current (AC/DC) onboard chargers for EV/PHEV cars, DC/AC inverters, DC/DC converters, power distribution units, battery junction boxes, AC charging stations and DC fast-charging stations. All of DELTA's products for the automotive industry are manufactured by DELTA in Thailand.

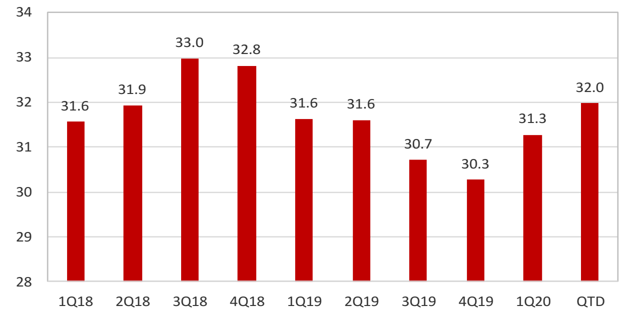
DELTA sees huge growth potential in the automotive market and expects its contribution to rise to 30% of total revenue in the next five years (vs. 8% currently). Besides the expanded product roadmap and successful new product launches, DELTA added global original equipment manufacturer (OEM) market leaders to its customer portfolio in 2017.

Growing regional business, especially India. DELTA's regional trading business contributed c.26% of total revenue, while the original design manufacturing (ODM) business accounted for 74%. It plans to grow its regional business contribution to as high as 50% of total revenue by 2020. The key drivers include: (i) India, (ii) diversification of product types, and (iii) expansion of services by providing total solutions to customers which may lead to higher gross profit margins.

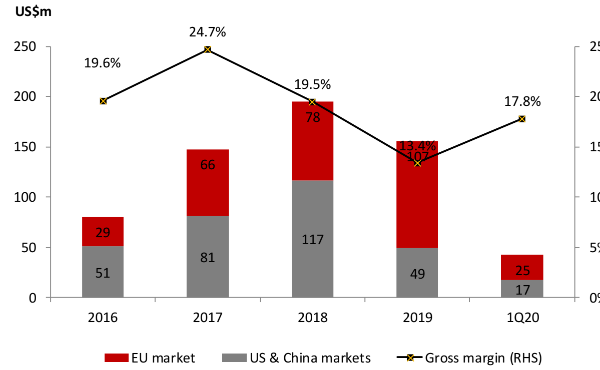
Delta Electronics India has been in operations since 2003 and is a 100%-owned subsidiary of DELTA. With ten regional offices, three manufacturing facilities in Rudrapur, Gurgaon and Hosur and two research and development (R&D) centres in Gurgaon and Bangalore, DELTA has a strong presence across India. It is now the largest telecom power systems provider in India with a 60% market share (according to management) and is now expanding into power supplies for the data centre sector in India.

With the huge success of its businesses in India, the country is the headquarters for its regional business. India now contributes 14.1% of the company's total sales, up sharply from 6.6% in 2012. DELTA's management is expecting India's sales contribution to continue growing and be the key driver for its regional business going forward.

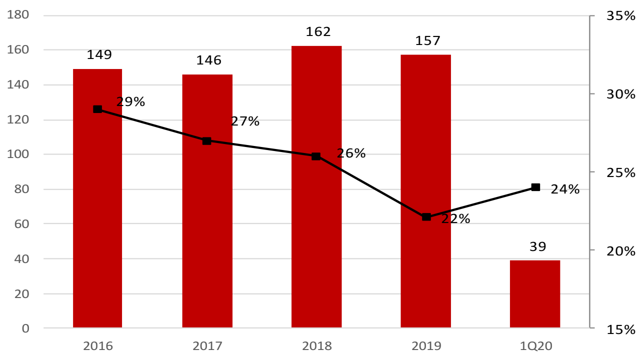
Average THB/USD



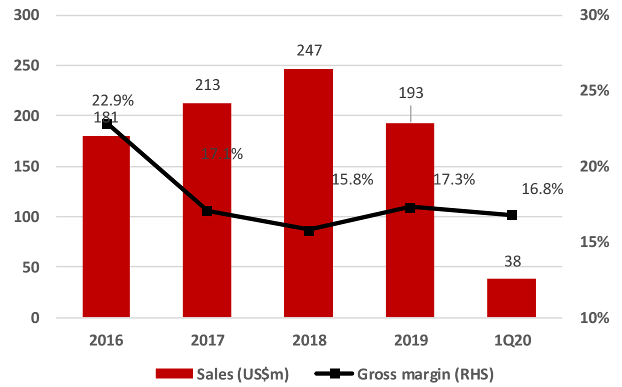
Power chargers for automotive industry (US$m)



DC Fans sales (US$m)



Revenue/ Gross margin in India (US$m)



Source: Company, DBSVTH

Balance Sheet:

DELTA is cash rich. As at end-4Q19, it had a cash pile of Bt12.4bn (Bt9.9 per share). DELTA has a long term policy of maintaining a cash balance of US$500m (or c.Bt15.5bn) for any future acquisitions. Assuming 65% dividend payout ratio, DELTA offers dividend yields of 2.4% in FY20F and 3.7% in FY21F.

Share Price Drivers:

Recovery of global economy. As DELTA's products are mostly exported, a recovery of the global economy should result in increased demand and higher revenue for the company.
Strong revenue growth in automotive sector. It is becoming apparent that the 2020s will be the decade for EVs. An expanded product roadmap, successful new product launches and the ability to secure more automotive clients will be the key growth drivers for DELTA's revenue, earnings and share price.

Key Risks:

Global economic slowdown. As most of DELTA's products are exported, a slow global economy could hurt its sales and profits.
Strong THB vs. USD. As DELTA derives most of its revenue in foreign currencies, mainly USD and Euro, a strong Thai baht (THB) would be unfavourable for the company. However, DELTA also enjoys some degree of natural hedge, given its above mentioned revenue and cost structures.

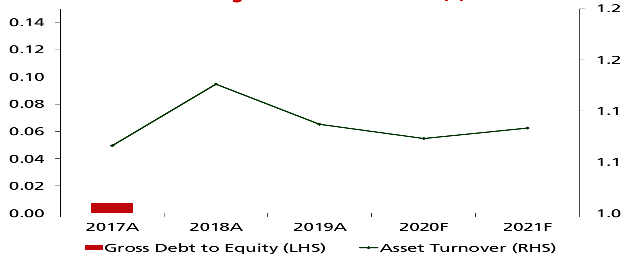
Environment, Social, Governance:

DELTA has good disclosure with clarity in its environmental, social and governance (ESG) and financial reports. During its last fiscal year, DELTA made regular disclosures regarding its financial and operational activities.

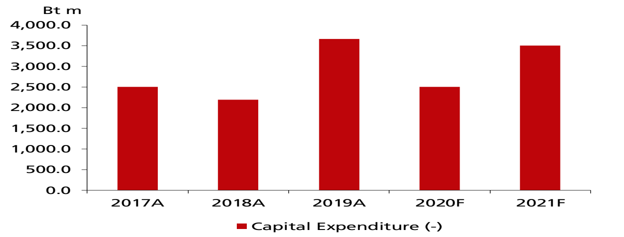
Company Background

Delta Electronics (Thailand) PCL (DELTA) designs and manufactures electronic equipment. The company produces power systems for telecommunications, medical equipment and industrial automation. DELTA also produces fans, electromagnetic interference filters and solenoids.
On 1 April 2019, DELTA Electronics Inc.'s (DELTA Taiwan) increased its equity stake (through its subsidiaries) in DELTA from 20.93% to 63.78% at the tender offer price of Bt71.00 per share. As a result, DELTA is now a subsidiary of DELTA Taiwan

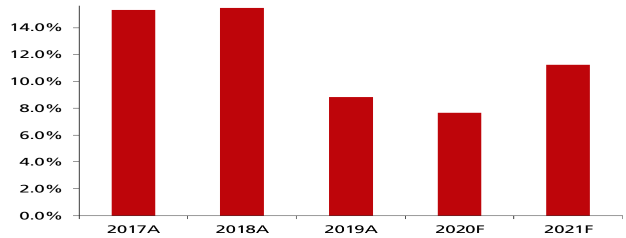
Leverage & Asset Turnover (x)



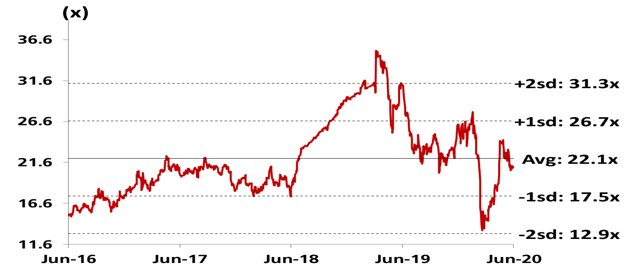
Capital Expenditure



ROE (%)

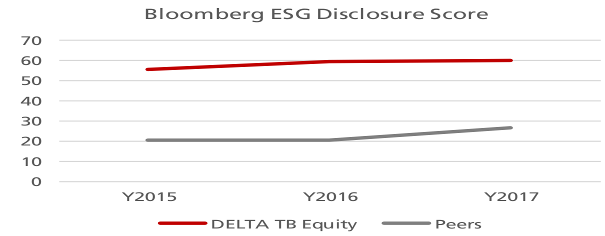


Forward PE Band (x)



PB Band (x)

Environment, Social, Governance



Source: Company, DBSVTH

Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
Average Bt/US$	33.9	32.3	31.1	31.3	30.5
Sales in US$m	1,452	1,641	1,648	1,602	1,733
Sales growth in US$ %	9.79	13.1	0.38	(2.8)	8.12
Gross margin %	25.5	22.8	20.5	21.1	23.0
SG&A to sales %	14.2	14.0	16.0	16.5	16.0

Income Statement (Btm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	49,224	53,067	51,172	50,156	52,845
Cost of Goods Sold	(36,677)	(40,944)	(40,595)	(39,573)	(40,690)
Gross Profit	12,547	12,123	10,577	10,583	12,154
Other Opng (Exp)/Inc	(6,976)	(7,445)	(8,180)	(8,258)	(8,478)
Operating Profit	5,571	4,678	2,294	2,325	3,676
Other Non Opg (Exp)/Inc	277	197	382	186	196
Associates & JV Inc	59.3	52.7	24.9	28.6	41.1
Net Interest (Exp)/Inc	173	231	236	93.0	93.0
Exceptional Gain/(Loss)	(875)	153	33.5	0.0	0.0
Pre-tax Profit	5,205	5,312	2,970	2,633	4,008
Tax	(276)	(185)	(18.8)	(91.2)	(139)
Minority Interest	2.14	10.6	8.30	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	1.00
Net Profit	4,931	5,137	2,960	2,542	3,868
Net Profit before Except.	5,806	4,984	2,927	2,542	3,868
EBITDA	7,030	6,261	4,434	4,398	5,949
Growth					
Revenue Gth (%)	5.0	7.8	(3.6)	(2.0)	5.4
EBITDA Gth (%)	11.8	(10.9)	(29.2)	(0.8)	35.3
Opg Profit Gth (%)	9.3	(16.0)	(51.0)	1.4	58.1
Net Profit Gth (Pre-ex) (%)	8.9	(14.2)	(41.3)	(13.1)	52.2
Margins & Ratio					
Gross Margins (%)	25.5	22.8	20.7	21.1	23.0
Opg Profit Margin (%)	11.3	8.8	4.5	4.6	7.0
Net Profit Margin (%)	10.0	9.7	5.8	5.1	7.3
ROAE (%)	15.3	15.5	8.8	7.7	11.2
ROA (%)	10.7	10.9	6.3	5.4	7.9
ROCE (%)	15.3	12.8	6.4	6.4	9.7
Div Payout Ratio (%)	55.7	55.8	75.9	65.3	65.3
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBSVTH

Quarterly / Interim Income Statement (Btm)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Revenue	12,949	13,915	12,404	11,903	12,683
Cost of Goods Sold	(9,972)	(11,041)	(10,031)	(9,552)	(10,094)
Gross Profit	**2,978**	**2,874**	**2,373**	**2,351**	**2,589**
Other Oper. (Exp)/Inc	(1,999)	(2,114)	(1,964)	(2,106)	(2,039)
Operating Profit	**979**	**761**	**409**	**245**	**550**
Other Non Opg (Exp)/Inc	59.7	162	64.6	95.4	61.7
Associates & JV Inc	6.18	7.38	19.6	(8.4)	(58.9)
Net Interest (Exp)/Inc	68.7	64.0	55.3	48.1	42.0
Exceptional Gain/(Loss)	(21.0)	(96.8)	27.1	22.1	219
Pre-tax Profit	**1,093**	**898**	**577**	**405**	**816**
Tax	(9.4)	(29.4)	41.9	(21.9)	39.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	**1,083**	**868**	**618**	**383**	**855**
Net profit bef Except.	1,104	965	591	361	637
EBITDA	1,424	1,343	959	814	1,086
Growth					
Revenue Gth (%)	(5.3)	7.5	(10.9)	(4.0)	6.6
EBITDA Gth (%)	12.7	(5.6)	(28.6)	(15.1)	33.4
Opg Profit Gth (%)	(2.1)	(22.3)	(46.2)	(40.1)	124.2
Net Profit Gth (Pre-ex) (%)	22.5	(12.6)	(38.8)	(39.0)	76.5
Margins					
Gross Margins (%)	23.0	20.7	19.1	19.8	20.4
Opg Profit Margins (%)	7.6	5.5	3.3	2.1	4.3
Net Profit Margins (%)	8.4	6.2	5.0	3.2	6.7

Balance Sheet (Btm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	7,302	8,177	11,601	12,242	13,709
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	2,298	2,036	1,979	1,368	1,532
Cash & ST Invts	17,535	15,831	12,395	12,985	12,958
Inventory	7,684	9,461	8,963	8,674	8,918
Debtors	10,468	11,558	9,739	10,924	11,510
Other Current Assets	730	1,138	1,281	1,317	1,415
Total Assets	**46,018**	**48,201**	**45,958**	**47,510**	**50,041**
ST Debt	229	0.0	0.0	0.0	0.0
Creditor	10,480	11,801	10,151	11,406	11,728
Other Current Liab	991	556	688	688	688
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	1,844	1,902	2,114	2,114	2,114
Shareholder's Equity	32,474	33,941	33,006	33,303	35,512
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	**46,018**	**48,201**	**45,958**	**47,510**	**50,041**
Non-Cash Wkg. Capital	7,411	9,799	9,145	8,821	9,427
Net Cash/(Debt)	17,307	15,831	12,395	12,985	12,958
Debtors Turn (avg days)	78.5	75.7	76.0	75.2	77.5
Creditors Turn (avg days)	112.0	102.7	103.1	104.3	109.2
Inventory Turn (avg days)	76.9	79.0	86.5	85.3	83.1
Asset Turnover (x)	1.1	1.1	1.1	1.1	1.1
Current Ratio (x)	3.1	3.1	3.0	2.8	2.8
Quick Ratio (x)	2.4	2.2	2.0	2.0	2.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	1,096.2	N/A	N/A	N/A	N/A
Z-Score (X)	5.7	5.9	6.0	5.7	5.7

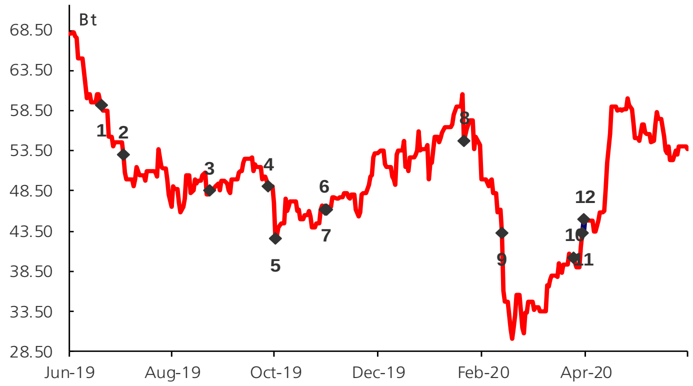
Source: Company, DBSVTH

Cash Flow Statement (Btm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	5,205	5,312	2,970	2,633	4,008
Dep. & Amort.	1,123	1,333	1,733	1,858	2,033
Tax Paid	(276)	(185)	(18.8)	(91.2)	(139)
Assoc. & JV Inc/(loss)	(59.3)	(52.7)	(24.9)	(28.6)	(41.1)
Chg in Wkg.Cap.	1,248	(4,794)	797	937	(770)
Other Operating CF	(2,764)	2,666	(291)	28.6	40.1
Net Operating CF	**4,475**	**4,279**	**5,166**	**5,337**	**5,131**
Capital Exp.(net)	(2,507)	(2,192)	(3,659)	(2,500)	(3,500)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(174)	(181)	(1,308)	0.0	0.0
Net Investing CF	**(2,681)**	**(2,373)**	**(4,967)**	**(2,500)**	**(3,500)**
Div Paid	(3,742)	(2,744)	(2,869)	(2,245)	(1,659)
Chg in Gross Debt	(92.4)	(229)	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(325)	(645)	(544)	0.0	0.0
Net Financing CF	**(4,160)**	**(3,618)**	**(3,413)**	**(2,245)**	**(1,659)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(2,365)	(1,712)	(3,214)	591	(28.0)
Opg CFPS (Bt)	2.59	7.27	3.50	3.53	4.73
Free CFPS (Bt)	1.58	1.67	1.21	2.27	1.31

Source: Company, DBSVTH

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	18 Jul 19	59.25	53.00	FULLY VALUED
2:	31 Jul 19	53.00	53.00	FULLY VALUED
3:	20 Sep 19	48.50	55.00	HOLD
4:	25 Oct 19	49.00	43.00	FULLY VALUED
5:	29 Oct 19	42.50	43.00	FULLY VALUED
6:	27 Nov 19	46.25	51.00	HOLD
7:	28 Nov 19	46.25	51.00	HOLD
8:	18 Feb 20	54.75	57.00	HOLD
9:	11 Mar 20	43.25	48.00	HOLD
10:	23 Apr 20	40.25	47.00	BUY
11:	28 Apr 20	43.25	47.00	BUY
12:	29 Apr 20	45.00	47.00	BUY

Note : Share price and Target price are adjusted for corporate actions.

Source: DBSVTH
Analyst: Phanthila THARACHATR, CFA

THAI-CAC (as of Jun 2019) Declared
Corporate Governance CG Rating (as of Oct 2019)

THAI-CAC is Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of May 2018) are categorised into:

Score	Description
Declared	Companies that have declared their intention to join CAC
Certified	Companies certified by CAC.

Corporate Governance CG Rating is based on Thai Institute of Directors (IOD)'s annual assessment of corporate governance practices of listed companies. The assessment covers 235 criteria in five categories including board responsibilities (35% weighting), disclosure and transparency (20%), role of stakeholders (20%), equitable treatment of shareholders (10%) and rights of shareholders (15%). The IOD then assigns numbers of logos to each company based on their scoring as follows:

Score	Range Number of Logo	Description
90-100		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	No logo given	N/A

DBSVTH 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 (-10% to +15% total return over the next 12 months for small caps, -10% to +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 share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 1 Jul 2020 06:13:44 (THA)
Dissemination Date: 1 Jul 2020 07:03:09 (THA)

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