

ASM Pacific Technology

Growth to decelerate in 2015

Slower semi OSAT capex cycle (to offset solid LED capex) and high base in 2014

ASMPAT achieved impressive c190% YoY earnings growth in 2014, driven by: 1) organic industry growth in LED and semis; 2) a contribution from newly merged entities; and 3) margin improvement due to cost reduction efforts such as more outsourcing. However, we believe the growth outlook into 2015 will normalize, given: 1) a high base in 2014; 2) a potential slowdown in the semi/OSAT capex cycle to offset growth from LED; and 3) limited room for further margin improvement. We see downside risk to current consensus 2015E sales of HK\$16.6bn, or up c15% YoY, as we believe the YoY comparison could be tough for H215. As a result, we forecast only 11% earnings growth in 2015E and maintain our Neutral rating.

Ongoing efforts to expand addressable market could take time to materialize

ASMPAT is working aggressively to expand its product offering to address new markets, such as advanced packaging technology (ie, thermal compression bonding [TCB] and laser dicing) and SiP (by combining the product offering in backend equipment and surface mount technology [SMT]), while diversifying into auto and power management related markets. However, we think growth from these new segments will take time to make a significant contribution, as customers are still in the early stages of adopting new technologies.

Q414 results and Q115 outlook below UBS and consensus estimates

ASMPAT reported Q414 sales of HK\$3.45bn, down 29% QoQ but up 25% YoY, below UBS-e/consensus of HK\$3.66/3.97bn. Q414 gross/operating margin of 38.0%/15.0% were better than UBS-e of 33.1%/11.9% and consensus of 33.7%/13.9%. However, EPS of HK\$0.61 was 10%/43% lower than UBS-e/consensus of HK\$0.67/1.07. ASMPAT's Q115 billing guidance implies Q115 sales could fall by mid-teens QoQ, lower than consensus of down 4% QoQ. Q115 gross margin is also likely to fall QoQ, as SMT margin will not stay at its Q414 level.

Valuation: Maintain Neutral; lowering PT to HK\$80.0 from HK\$82.0

We are trimming our 2015E/16E EPS to HK\$4.41/4.46 from HK\$4.55/4.54 to reflect a lower revenue forecast. Therefore, we are lowering our PT to HK\$80.0 from HK\$82.0 based on the same 18x 2015E PE (at the trough of the historical trading range of 18-29x).

Equities

Hong Kong
Semiconductors

12-month rating **Neutral**

12m price target **HK\$80.00**
Prior: HK\$82.00

Price **HK\$79.00**

RIC: 0522.HK BBG: 522 HK

Trading data and key metrics

52-wk range HK\$91.15-64.65

Market cap. HK\$31.5bn/US\$4.07bn

Shares o/s 399m (ORD)

Free float 48%

Avg. daily volume ('000) 583

Avg. daily value (m) HK\$43.2

Common s/h equity (12/14E) HK\$8.21bn

P/BV (12/14E) 3.9x

Net debt / EBITDA (12/14E) NM

EPS (UBS, diluted) (HK\$)

	From	To	% ch	Cons.
12/14E	4.05	3.97	-1.96	4.33
12/15E	4.55	4.41	-3.02	5.04
12/16E	4.54	4.46	-1.75	5.52

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Highlights (HK\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	12,915	10,461	10,841	14,229	14,789	15,692	16,519	17,220
EBIT (UBS)	2,294	884	804	2,205	2,253	2,271	2,388	2,607
Net earnings (UBS)	2,905	688	559	1,600	1,776	1,797	1,901	2,189
EPS (UBS, diluted) (HK\$)	7.33	1.73	1.40	3.97	4.41	4.46	4.72	5.44
DPS (HK\$)	3.30	1.41	0.65	2.10	2.43	2.45	2.60	2.80
Net (debt) / cash	1,297	795	1,046	278	1,685	2,450	3,242	4,164
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	17.8	8.5	7.4	15.5	15.2	14.5	14.5	15.1
ROIC (EBIT) %	56.4	16.5	13.6	31.6	29.4	30.8	32.2	34.8
EV/EBITDA (core) x	13.3	29.7	26.3	11.8	11.3	10.5	9.7	8.5
P/E (UBS, diluted) x	12.6	55.9	59.0	19.9	17.9	17.7	16.7	14.5
Equity FCF (UBS) yield %	0.7	(0.3)	0.3	(1.2)	7.1	5.8	5.7	6.5
Net dividend yield %	3.6	1.5	0.8	2.7	3.1	3.1	3.3	3.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of HK\$79.00 on 05 Mar 2015 22:26 HKT

Investment Thesis

ASM Pacific Technology

Investment case

We remain cautious about ASM Pacific Technology's (ASMPT) long-term outlook. We think earnings growth in 2015 should decelerate. An improving industry outlook in LED could be offset by slow OSAT capex cycle. Nonetheless, the stock is trading at a trough-cycle multiple and we see limited upside to the share price and have a Neutral rating.

Upside scenario

ASMPT's sales growth could be stronger as follows: 1) IC demand growth remains robust; 2) LED lighting demand ramps up; 3) SMT has good synergy with the merged DEK; and 4) there is stronger sales momentum in new TCB machines. If these events materialise, we forecast 15% YoY revenue growth in 2015, compared with our base-case estimate of 1%. Gross margin would rise to 35.9% compared with our base-case estimate of 34.3% and 2015E EPS could increase to HK\$5.84 (base-case estimate: HK\$4.41). We would estimate a fair value of HK\$128.55 per share on 22x 2015E PE.

Downside scenario

If IC/LED wirebonder demand turns weak and ASMPT fails to deliver good SMT/TCB products to clients, its 2015 YoY revenue growth could drop to 5%. This would represent a drop in 2015E EPS to HK\$2.56. We would estimate a fair value of HK\$41.04 per share on a lower trading multiple of 16x 2015E PE.

Upcoming catalysts

Q115 results announcement before end-April 2015.

12-month rating

Neutral

12m price target

HK\$80.00

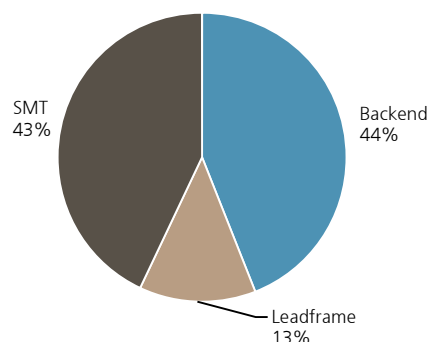
Business description

ASM Pacific Technology is a global market leader in the supply of semiconductor packaging and assembly (backend) equipment. In terms of product mix, semi-backend equipment accounted for 48% of sales, surface-mount technology (SMT) 30%, and lead frames the remainder in 2013. The company was formed in 1975 and is a subsidiary of Dutch-listed ASM International. ASM Pacific Technology was listed on the Hong Kong Stock Exchange in 1989.

Industry outlook

LED wirebonder demand could improve in 2015 due to a ramp-up in the general lighting market. For backend equipment, we think the European market will remain weak. Domestic China packaging companies could turn more aggressive on capex with the support of the country's new subsidy policy for the semiconductor industry. For SMT equipment, we expect the market to remain stable and ASMPT to maintain a leading position in Europe and the US. However, we need to see whether ASMPT can penetrate the Asian market with lower-cost products to improve its profitability.

Q414 revenue by segment



Source: Company data

Revenue by product segment

(HK\$ m)	2013	2014	2015E	2016E	2017E
Backend	5,200	6,804	7,799	8,962	9,524
Leadframe	1,724	1,902	1,866	1,796	1,852
SMT	3,917	5,524	5,124	4,934	5,143

Source: Company data, UBS estimates

Figure 1: Q414 results review

(HK\$ m)	Q414A	Q414E	Diff.	Q314	QoQ	Q413	YoY
Sales	3,446	3,663	-6%	4,852	-29%	2,764	25%
Gross profit	1,308	1,211	8%	1,737	-25%	749	75%
- Gross margin	38.0%	33.1%	-	35.8%	-	27.1%	-
Operating profit	516	437	18%	957	-46%	123	319%
- OP margin	15.0%	11.9%	-	19.7%	-	4.5%	-
Non-Op Income	-179	-118	-52%	28	n.m.	-110	-63%
Pre-tax income	337	319	6%	985	-66%	13	2491%
Tax	-93	-51	83%	-202	-54%	34	n.m.
- Tax rate	27.7%	16.0%	-	20.5%	-	-262.6%	-
Net Income	244	268	-9%	782	-69%	47	416%
EPS (HK\$)	0.61	0.67	-10%	1.95	-69%	0.12	400%

Source: Company data, UBS estimates

Figure 2: ASM Pacific Technology earnings forecast

(HK\$ m)	2013	Q114	Q214	Q314	Q414	2014	Q115E	Q215E	Q315E	Q415E	2015E	2016E
Revenue	10,841	2,493	3,438	4,852	3,446	14,229	2,888	3,799	4,155	3,947	14,789	15,692
- YoY chg (%)	4%	17%	21%	56%	25%	31%	16%	11%	-14%	15%	4%	6%
- QoQ chg (%)	-	-10%	38%	41%	-29%	-	-16%	32%	9%	-5%	-	-
Gross profit	3,179	808	1,196	1,737	1,308	5,050	960	1,341	1,565	1,422	5,288	5,217
- Gross margin	29.3%	32.4%	34.8%	35.8%	38.0%	35.5%	33.2%	35.3%	37.7%	36.0%	35.8%	33.2%
OPEX	-2,408	-596	-683	-833	-818	-2,930	-647	-771	-827	-793	-3,038	-2,950
- Opex ratio	22.2%	23.9%	19.9%	17.2%	23.7%	20.6%	22.4%	20.3%	19.9%	20.1%	20.5%	18.8%
OP income	804	213	519	957	516	2,205	314	571	739	629	2,253	2,271
- OP margin	7.4%	8.6%	15.1%	19.7%	15.0%	15.5%	10.9%	15.0%	17.8%	15.9%	15.2%	14.5%
Non-op income	-131	-15	-11	28	-179	-177	-35	-35	-35	-35	-139	-132
Pre-tax income	673	198	508	985	337	2,028	279	536	704	594	2,114	2,139
Income tax	-114	-41	-91	-202	-93	-429	-45	-86	-113	-95	-338	-342
Tax rate	17.0%	20.9%	17.9%	20.6%	27.7%	21.1%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Net income	559	157	417	782	244	1,600	234	451	592	499	1,776	1,797
EPS (NT\$)	1.40	0.39	1.04	1.95	0.61	3.97	0.58	1.12	1.47	1.24	4.41	4.46
- YoY chg (%)	-19%	1848%	79%	183%	412%	184%	49%	8%	-25%	105%	11%	1%
- QoQ chg (%)	-	231%	166%	88%	-69%	-	-4%	92%	31%	-16%	-	-

Source: Company data, UBS estimates

ASM Pacific Technology (0522.HK)

	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Income statement (HK\$m)										
Revenues	12,915	10,461	10,841	14,229	31.3	14,789	3.9	15,692	16,519	17,220
Gross profit	4,426	3,162	3,179	5,050	58.8	5,288	4.7	5,217	5,556	5,858
EBITDA (UBS)	2,607	1,258	1,217	2,623	115.6	2,704	3.1	2,797	2,964	3,258
Depreciation & amortisation	(313)	(374)	(413)	(418)	1.1	(451)	7.9	(526)	(576)	(651)
EBIT (UBS)	2,294	884	804	2,205	174.5	2,253	2.2	2,271	2,388	2,607
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	1,054	(9)	(19)	(56)	-203.8	0	-	0	0	0
Net interest	(85)	(7)	(112)	(121)	-7.7	(139)	-15.5	(132)	(126)	(119)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	3,262	868	673	2,028	201.4	2,114	4.2	2,139	2,263	2,607
Tax	(357)	(180)	(114)	(429)	-274.5	(338)	21.1	(342)	(362)	(390)
Profit after tax	2,905	688	559	1,600	186.4	1,776	11.0	1,797	1,901	2,217
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	2,905	688	559	1,600	186.4	1,776	11.0	1,797	1,901	2,189
Net earnings (UBS)	2,905	688	559	1,600	186.4	1,776	11.0	1,797	1,901	2,189
Tax rate (%)	11.0	20.7	17.0	21.1	24.3	16.0	-24.3	16.0	16.0	15.0
Per share (HK\$)										
EPS (UBS, diluted)	7.33	1.73	1.40	3.97	184.1	4.41	11.0	4.46	4.72	5.44
EPS (local GAAP, diluted)	7.33	1.73	1.40	3.97	184.1	4.41	11.0	4.46	4.72	5.44
EPS (UBS, basic)	7.33	1.73	1.40	3.99	185.3	4.43	11.0	4.48	4.74	5.46
Net DPS (HK\$)	3.30	1.41	0.65	2.10	222.5	2.43	15.8	2.45	2.60	2.80
Cash EPS (UBS, diluted)*	8.12	2.66	2.43	5.01	105.9	5.53	10.4	5.77	6.15	7.06
Book value per share	15.97	16.42	17.74	20.47	15.4	22.66	10.7	24.51	26.73	29.10
Average shares (diluted)	396.12	398.54	399.27	402.57	0.8	402.57	0.0	402.57	402.57	402.57
Balance sheet (HK\$m)										
Cash and equivalents	1,628	1,490	1,597	2,594	62.5	4,000	54.2	4,765	5,557	6,479
Other current assets	5,513	6,036	6,422	8,246	28.4	9,372	13.6	9,676	10,044	10,470
Total current assets	7,141	7,526	8,019	10,840	35.2	13,372	23.4	14,441	15,601	16,949
Net tangible fixed assets	2,074	2,106	2,001	2,073	3.6	2,083	0.4	1,996	1,861	1,649
Net intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments / other assets	397	593	721	1,583	119.6	20	-98.7	20	20	20
Total assets	9,612	10,224	10,740	14,496	35.0	15,474	6.7	16,457	17,482	18,619
Trade payables & other ST liabilities	2,827	2,657	2,752	3,607	31.1	3,656	1.3	3,891	4,007	4,177
Short term debt	331	695	551	151	-72.52	151	0.00	151	151	151
Total current liabilities	3,158	3,352	3,303	3,759	13.8	3,807	1.3	4,043	4,158	4,328
Long term debt	0	0	0	2,164	-	2,164	0.0	2,164	2,164	2,164
Other long term liabilities	188	315	356	368	3.5	422	14.6	427	445	464
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	3,346	3,667	3,659	6,291	71.9	6,393	1.6	6,634	6,767	6,956
Common s/h equity	6,266	6,557	7,081	8,205	15.9	9,081	10.7	9,823	10,715	11,662
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	9,612	10,224	10,740	14,496	35.0	15,474	6.7	16,457	17,482	18,619
Cash flow (HK\$m)										
Net income (before pref divs)	2,905	688	559	1,600	186.4	1,776	11.0	1,797	1,901	2,189
Depreciation & amortisation	313	374	413	418	1.1	451	7.9	526	576	651
Net change in working capital	(1,559)	(470)	(260)	(887)	-241.4	(1,167)	-31.5	(120)	(261)	(281)
Other operating	(837)	(236)	19	(944)	-	1,653	-	52	7	(67)
Operating cash flow	821	356	731	187	-74.4	2,713	NM	2,255	2,223	2,492
Tangible capital expenditure	(582)	(459)	(620)	(559)	9.9	(460)	17.7	(440)	(440)	(440)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	(51)	(41)	0	5	-	0	-	0	0	0
Investing cash flow	(633)	(501)	(620)	(554)	10.7	(460)	16.9	(440)	(440)	(440)
Equity dividends paid	(1,307)	(560)	(260)	(844)	-225.1	(977)	-15.8	(988)	(1,045)	(1,126)
Share issues / (buybacks)	0	0	0	0	-	0	-	0	0	0
Other financing	(643)	134	418	335	-19.88	130	-61.15	(61)	54	46
Change in debt & pref shares	331	364	(144)	1,566	-	0	-	0	0	0
Financing cash flow	(1,619)	(62)	15	1,058	NM	(846)	-	(1,049)	(991)	(1,080)
Cash flow inc/(dec) in cash	(1,431)	(207)	125	690	NM	1,406	103.7	765	792	972
FX / non cash items	1,081	69	(19)	307	-	0	-	0	0	(50)
Balance sheet inc/(dec) in cash	(351)	(138)	107	997	NM	1,406	41.0	765	792	922

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts. *Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

ASM Pacific Technology (0522.HK)

Valuation (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted)	12.6	55.9	59.0	19.9	17.9	17.7	16.7	14.5
P/E (UBS, diluted)	12.6	55.9	59.0	19.9	17.9	17.7	16.7	14.5
P/CEPS	11.4	36.2	33.9	15.7	14.2	13.6	12.8	11.1
Equity FCF (UBS) yield %	0.7	(0.3)	0.3	(1.2)	7.1	5.8	5.7	6.5
Net dividend yield (%)	3.6	1.5	0.8	2.7	3.1	3.1	3.3	3.5
P/BV x	5.8	5.9	4.7	3.9	3.5	3.2	3.0	2.7
EV/revenues (core)	2.7	3.6	3.0	2.2	2.1	1.9	1.7	1.6
EV/EBITDA (core)	13.3	29.7	26.3	11.8	11.3	10.5	9.7	8.5
EV/EBIT (core)	15.1	NM	NM	14.0	13.6	13.0	12.0	10.7
EV/OpFCF (core)	13.6	NM	27.6	12.1	11.6	10.8	9.9	8.8
EV/op. invested capital	8.5	7.0	5.4	4.4	4.0	4.0	3.9	3.7
Enterprise value (HK\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Market cap.	36,359	38,372	32,960	31,540	31,540	31,540	31,540	31,540
Net debt (cash)	(1,637)	(1,046)	(920)	(662)	(981)	(2,067)	(2,846)	(3,703)
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	34,722	37,326	32,040	30,878	30,559	29,473	28,695	27,838
Non core assets	0	0	0	0	0	0	0	0
Core enterprise value	34,722	37,326	32,040	30,878	30,559	29,473	28,695	27,838
Growth (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenue	35.7	-19.0	3.6	31.3	3.9	6.1	5.3	4.2
EBITDA (UBS)	-24.3	-51.7	-3.3	115.6	3.1	3.4	6.0	9.9
EBIT (UBS)	-28.7	-61.5	-9.1	174.5	2.2	0.8	5.2	9.1
EPS (UBS, diluted)	1.9	-76.5	-19.0	184.1	11.0	1.2	5.8	15.2
Net DPS	3.1	-57.4	-53.8	NM	15.8	1.2	5.8	7.7
Margins & Profitability (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Gross profit margin	34.3	30.2	29.3	35.5	35.8	33.2	33.6	34.0
EBITDA margin	20.2	12.0	11.2	18.4	18.3	17.8	17.9	18.9
EBIT margin	17.8	8.5	7.4	15.5	15.2	14.5	14.5	15.1
Net earnings (UBS) margin	22.5	6.6	5.2	11.2	12.0	11.4	11.5	12.7
ROIC (EBIT)	56.4	16.5	13.6	31.6	29.4	30.8	32.2	34.8
ROIC post tax	50.2	13.1	11.3	24.9	24.7	25.8	27.0	29.6
ROE (UBS)	50.9	10.7	8.2	20.9	20.5	19.0	18.5	19.6
Capital structure & Coverage (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Net debt / EBITDA	(0.5)	(0.6)	(0.9)	(0.1)	(0.6)	(0.9)	(1.1)	(1.3)
Net debt / total equity %	(20.7)	(12.1)	(14.8)	(3.4)	(18.6)	(24.9)	(30.3)	(35.7)
Net debt / (net debt + total equity) %	(26.1)	(13.8)	(17.3)	(3.5)	(22.8)	(33.2)	(43.4)	(55.5)
Net debt/EV	(3.7)	(2.1)	(3.3)	(0.9)	(5.5)	(8.3)	(11.3)	(15.0)
Capex / depreciation %	186.2	122.9	150.0	133.7	102.0	83.6	76.4	67.6
Capex / revenue %	4.5	4.4	5.7	3.9	3.1	2.8	2.7	2.6
EBIT / net interest	26.9	NM	7.2	18.3	16.2	17.2	19.0	21.8
Dividend cover (UBS)	2.2	1.2	2.2	1.9	1.8	1.8	1.8	2.0
Div. payout ratio (UBS) %	45.0	81.4	46.5	52.5	54.8	54.8	54.8	51.2
Revenues by division (HK\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	12,915	10,461	10,841	14,229	14,789	15,692	16,519	17,220
Total	12,915	10,461	10,841	14,229	14,789	15,692	16,519	17,220
EBIT (UBS) by division (HK\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	2,294	884	804	2,205	2,253	2,271	2,388	2,607
Total	2,294	884	804	2,205	2,253	2,271	2,388	2,607

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+1.3%
Forecast dividend yield	3.1%
Forecast stock return	+4.4%
Market return assumption	6.6%
Forecast excess return	-2.2%

Statement of Risk

The company's sales are tied to the global semiconductor industry, which has historically been tied to global economic growth and is volatile. Although it is the market leader in the packaging assembly industry, the company faces global competition. It is relatively weak in the flip chip bonder segment, which the industry forecasts could grow at the expense of the traditional wirebonder segment. Failure to adapt to technological changes is a risk.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	37%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 December 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities Pte. Ltd., Taipei Branch: Samson Hung. **UBS AG Hong Kong Branch:** Nicolas Gaudois; Eric Chen.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
ASM Pacific Technology⁴	0522.HK	Neutral	N/A	HK\$79.00	05 Mar 2015

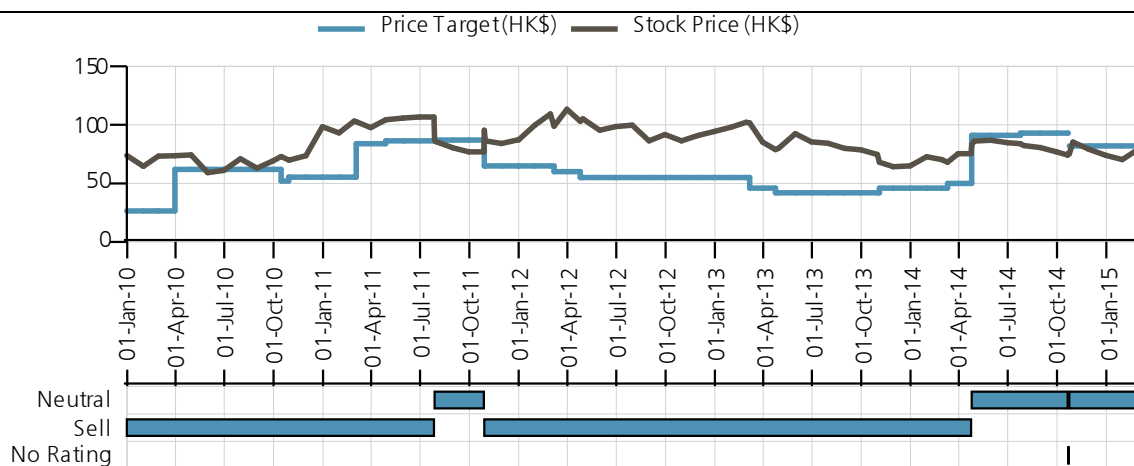
Source: UBS. All prices as of local market close.

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ASM Pacific Technology (HK\$)



Source: UBS; as of 05 Mar 2015

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