CLSA

ASM Pacific

HK$79.00 - SELL

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Hong Kong
Technology

Reuters	0522.HK
Bloomberg	522 HK

Priced on 5 March 2015
HK HSI @ 24,193.0

12M hi/lo HK$91.15/64.65

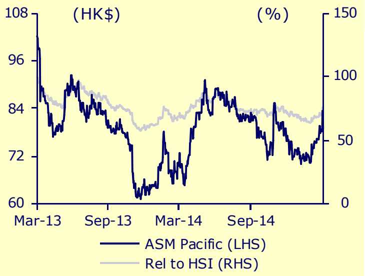
12M price target	HK$66.77
±% potential	-15%
Shares in issue	396.1m
Free float (est.)	60.3%
Market cap	US$4,100m

3M average daily volume
HK$43.5m (US$5.6m)

Major shareholders
ASM Pacific Holding 39.8%

Stock performance (%)

	1M	3M	12M
Absolute	9.0	3.9	13.8
Relative	11.6	3.1	6.2
Abs (US$)	9.0	3.8	13.8



Source: Bloomberg

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Results review

Weak 4Q14, weak 1Q15

Slow growth, rich valuations, maintain Sell

ASM Pac reported a weak 4Q14 with sales declining -29% QoQ, Operating Profit -9% below Consensus and EPS -41% below. We expect a slight decline in revenues in 2015 and slow EPS growth in 2015 and 2016, at +5% and +9% YoY. The stock is trading at 3.3x 2016CL book value for a 20% ROE, the most expensive semi stock in Hong Kong / Taiwan, which is the main reason why we maintain our Sell rating, fair value HK$66.77.

4Q14 miss on multiple levels

4Q14 revenues were disappointing at HK$3.45bn, declining -29% QoQ, worse than book-to-bill suggested on orders pushed-out to 1Q15. ASM mentioned that clients' capex requirements were mostly fulfilled by 3Q14, delaying deliveries to 1Q15. High Opex, especially high R&D expenditures brings Operating Profits -9% below consensus. The miss at the Profit Before Tax level increases to -35% below Consensus, EPS -41% below Consensus and -51% below CLSA.

1Q15 to be weak again, management expecting growth in 2Q15

Book-to-bill suggests 1Q15 revenues will decline by -20% to -25% QoQ; management guidance for 1Q book-to-bill suggests +15% to +20% revenue growth in 2Q15 as high equipment deliveries of 2Q-3Q14 are digested. This highlights, in our opinion, a seasonal slowdown in Equipment demand from Camera Module makers in China and in SMT demand for smartphone. This means that 1H15 revenues will likely be flat YoY (we forecast +1%) and that 2H15 revenues must increase by +38% HoH for 2015 revenues to be flat YoY. Not impossible but certainly demanding.

A mixed bag of positive LED and Camera Module demand against weak semi demand

We believe that ASM Pac benefitted in 2014 from strong capex from Camera Module makers and LED packagers in China as well as large volume growth for US smartphone brand (SMT). We expect Camera Module and LED demand to be sustainable, but not to increase in 2015. On the flip side, we believe that wire-bonding demand from semis will decline. A mixed bag that offers little room for revenue growth, in our opinion.

Upgrade earnings, reiterate SELL

We have increased our net income forecast by +2% for 2015 and +23% for 2016. The stock is trading at 3.3x 2016CL book value for a 20% ROE, the most expensive semi stock in Hong Kong / Taiwan. We retain our Sell rating and base our fair value on 3.0x 2015CL book value or fair value of HK$ 66.77.

Financials

Year to 31 December	12A	13A	14CL	15CL	16CL
Revenue (HK$m)	10,461	10,841	14,229	13,488	14,979
Rev forecast change (%)	*-*	*-*	*2.3*	*(8.8)*	*9.1*
Net profit (HK$m)	689	559	1,600	1,674	1,829
NP forecast change (%)	*-*	*-*	*10.3*	*2.1*	*23.4*
EPS (HK¢)	172.6	139.4	397.5	415.8	454.4
CL/consensus (14) (EPS%)	-	-	92	82	80
EPS growth (% YoY)	(76.6)	(19.2)	185.1	4.6	9.3
PE (x)	45.8	56.7	19.9	19.0	17.4
Dividend yield (%)	1.8	0.8	2.7	2.9	3.7
ROE (%)	10.7	8.2	20.9	19.5	19.7
PB (x)	4.8	4.5	3.9	3.5	3.3

Source: CLSA

For important disclosures please refer to page 7.

4Q14 review: a weak quarter

4Q14 revenues were disappointing at HK$3.45bn, declining -29% QoQ. Book-to-bill reported with 3Q14 results suggested that 4Q14 revenues would decline by -16% QoQ. Orders were pushed-out from 4Q14 to 1Q15, but not cancelled according to ASM.

On the positive side, Gross margin improved by +216 bps QoQ

On the positive side, Gross margin improved by +216 bps QoQ in 4Q14 from cost reduction efforts in the Back-end Equipment business, as well as better sales and product mix in Europe for the SMT business, helped by Euro depreciation.

However, Opex ratio increased to 23.7% from 9M14 average of 19.5% due to amortisation cost in DEK business and increasing R&D expenditures. The tax rate was also higher at 28% due to one-off tax expense and provision.

4Q14 EPS -41% below Consensus and -51% below CLSA.

Figure 1

ASM Pac 4Q14 versus Consensus

522 HK ASMPT	Dec-13 4Q13 actual	Mar-14 1Q14 actual	Jun-14 2Q14 actual	Sep-14 3Q14 actual	Dec-14 4Q14 actual	YoY	QoQ	Dec-14 4Q14 CLSA	versus CLSA	Dec-14 3Q14 consensus	versus consensus
revenue	2,764	2,493	3,438	4,852	3,446	25%	-29%	4,585	-25%	3,888	-11%
gross profit	749	808	1,196	1,737	1,308	75%	-25%	1,527	-14%	1,305	0%
gross margin	27%	32%	35%	36%	38%	10.9 pct pts	2.2 pct pts	33%		33.6%	
operating profit	103	211	513	905	490	376%	-46%	610	-20%	538	-9%
operating margin	3.7%	8.5%	14.9%	18.6%	14.2%	10.5 pct pts	-4.5 pct pts	13.3%	6.9%	13.8%	2.9%
PBT	13	198	508	985	337	2491%	-66%	610	-45%	517	-35%
tax	34	-41	-91	-202	-93			-109	15%	-101	8%
net income	47	157	417	782	244	416%	-69%	500	-51%	415	-41%
EPS HK ₡	0.12	0.39	1.04	1.95	0.61	416%	-69%	1.25	-51%	1.03	-41%

Source: CLSA, Company

Back-end equipment and SMT were both weak

Looking at revenue segments, the 2 critical segments, back-end equipment and SMT were both weak:

Figure 2

AS Pac 4Q14 by segment

522 HK ASMPT	Dec-13 4Q13	Mar-14 1Q14	Jun-14 2Q14	Sep-14 3Q14	Dec-14 4Q14	YoY	QoQ
Bill US$ m	356	321	443	625	444	25%	-29%
Book US$ m	292	403	631	533	343	17%	-36%
book/bill	0.82	1.26	1.42	0.85	0.77		
Equipments							
revenues	1,240	1,269	1,851	2,168	1,516	22%	-30%
segment result	71	171	388	564	249	249%	-56%
segment margin	5.8%	13.5%	21.0%	26.0%	16.4%	10.7 pct pts	-9.6 pct pts
Lead frame							
revenues	397	443	506	503	450	13%	-10%
segment result	25	37	57	44	36	44%	-17%
segment margin	6.3%	8.4%	11.2%	8.7%	8.1%	1.8 pct pts	-0.6 pct pts
SMT							
revenues	1,127	782	1,080	2,181	1,480	31%	-32%
segment result	79	19	109	365	237	199%	-35%
segment margin	7.0%	2.5%	10.1%	16.7%	16.0%	9 pct pts	-0.8 pct pts

Source: CLSA, Company

- back-end equipment revenues declined -30% QoQ and net profit margin declined 10 percentage points to 16%
- SMT revenues declined -32% QoQ and net profit margin was flat at 16%

Bookings in 1Q15 to increase, suggesting revenue to rise in 2Q15

2Q15 revenue to increase QoQ

Management mentioned that bookings in 1Q15 will increase by 10% to 20% QoQ which suggests 2Q15 revenues increasing by +15% to +20% QOQ.

ASM Pacific's back-end equipment demand broken down into 3 main segments

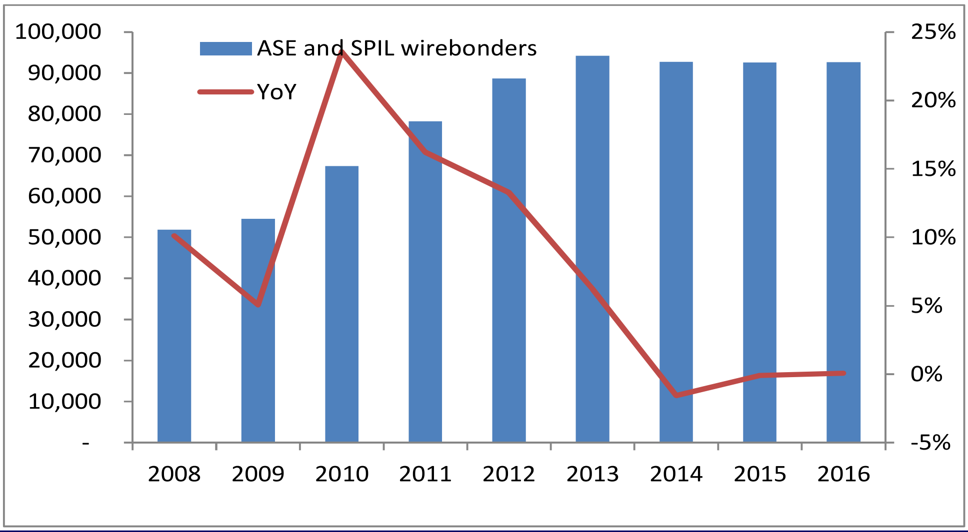
Back-End equipment demand

We estimate that ASM Pacific's back-end equipment demand can be broken down into 3 main segments:

- Conventional semi demand which, in our opinion is slightly declining. The figure below shows the number of wire-bonders of ASE ad SPIL which is flat from 2014 (Bruce Lu, CAST). We realize that ASE and SPIL have higher exposure to leading edge chips that are migrating faster to flip chip packages, which makes the firms not representative of the total market. Yet, we think that end-market demand growth is at best growing at par with semi global production or +3% per year.

Figure 3

ASE and SPIL wire-bonders



Source: CLSA, Companies

- LED demand which should be flattish as capacity additions are slow and concentrated on San An Opto in China
- Camera Module demand from Chinese makers which reached the peak of capacity increase in 2014.

Figure 4

Camera Module capacity in China (m/y)

camera module capacity	2013	2014	2015	2016
Sunny Optical	138	185	235	292
Q-Tech	48	83	112	150
O-film	26	100	150	170
Truly	89	101	122	146
Total	**301**	**469**	**618**	**758**
capacity addition		**168**	**149**	**140**

Source: CLSA, Companies

Forecasts and Valuation

We have taken a constructive view on margins

We have cut our 2015 revenues by -9% on weak back-end demand as highlighted above but have taken a constructive view on margins as Euro depreciation should help SMT margins. We have increased 2016 revenues by +9%, assuming at LED and Camera Module demand will sustain in 2016. We have also increased margins substantially as revenues increase sequentially.

This results in EPS increasing by +5% in 2015 and by +9% in 2016. We have increased our net income forecast by +2% for 2015 and +23% for 2016.

The forecast ROE in 2015 and 2016 are 19.5% and 19.7%.

Figure 5

CLSA forecast change

	FY15			FY16		
HK$ m	**New**	**Old**	**%Diff**	**New**	**Old**	**%Diff**
Sales	13,488	14,786	-9%	14,979	13,724	9%
Gross profit	5,022	5,029	0%	5,396	4,619	17%
OP Profit	2,189	1,998	10%	2,400	1,806	33%
PBT	2,041	1,998	2%	2,230	1,806	23%
Net profit	1,674	1,639	2%	1,829	1,482	23%
Margins						
GM	37.2%	34.0%	322 bps	36.0%	33.7%	237 bps
OPM	16.2%	13.5%	272 bps	16.0%	13.2%	287 bps
PBT margin	15.1%	13.5%	163 bps	14.9%	13.2%	173 bps
Net margin	12.4%	11.1%	133 bps	12.2%	10.8%	142 bps

Source: CLSA

ASM Pacific the most expensive Semi stock in Hong Kong and Taiwan

Despite these higher forecasts we cannot derive ROE above 20% in 2015 and 2016. Yet the stock is trading at 3.5x and 3.3x CLSA book value forecasts for 2015 and 2016, making ASM Pacific the most expensive Semi stock in Hong Kong and Taiwan, more richly valued than TSMC and Vanguard for example.

We maintain our Sell rating and base our fair value on 3.0x 2015CL book value or fair value of HK$66.77.

Figure 6

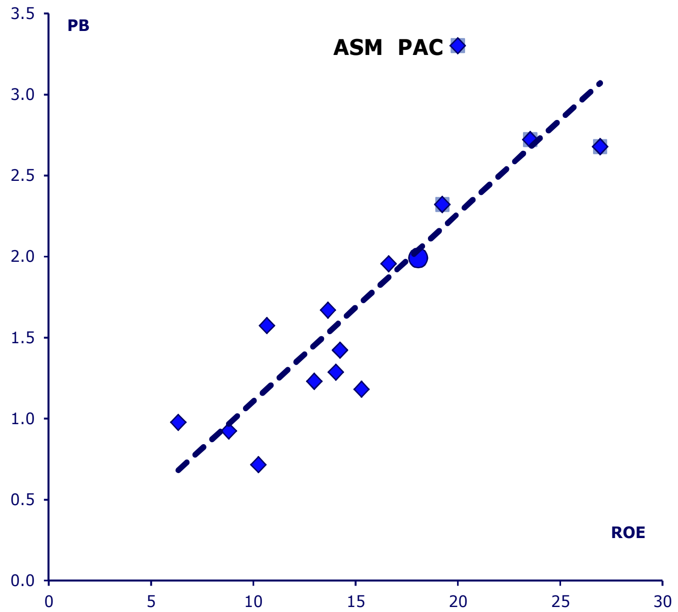
Hong Kong / Taiwan Semi ROE and PB (2016)

	ROE	PB
ASM Pacific	20.0	3.3
Vanguard	23.5	2.7
TSMC	27.0	2.7
SPIL	19.2	2.3
ASE	18.1	2.0
ChipMOS	16.6	2.0
Chipbond	13.7	1.7
Win Semi	10.7	1.6
Amkor	14.3	1.4
KYEC	14.0	1.3
Powertech	13.0	1.2
Ardentec	15.3	1.2
SMIC	6.3	1.0
UMC	8.8	0.9
Hua Hong	10.3	0.7

Source: CLSA, Bloomberg

Figure 7

Hong Kong / Taiwan Semi ROE and PB (2016)



Source: CLSA, Bloomberg

Valuation details

We base valuations of all asset-heavy firms under our coverage, including semiconductor related firms, on PB versus ROE. We use the valuation identity (ROE-g)/(COE-g) with g=0 as we believe that 1) the very low growth rate of semi demand globally and 2) pricing and margins pressure do not warrant a positive perpetual growth rate. We use COE at 8.5% for all Hong Kong listed firms. We cross check the PB multiple with the PE identity (ROE-g)/(ROE*(COE-g)) and with a scatter plot of PB versus ROE of semiconductor firms oin the region. For ASM Pacific, we recognize that the firm has historically traded at premium valuations and use a higher PB multiple of 3.0x than the ROE profile warrants (2.3x to 2.6x).

Investment risks

Macro risks: global demand slowdown for semiconductors and IT hardware in general. Company specific: ongoing migration of logic semiconductors from wirebonding to flip chip packages. Dependency on Capex from Chinese firms in the LED and Camera Module segments.

evalu@tor The Global Equities Database

Summary financials

Year to 31 December	2012A	2013A	2014CL	2015CL	2016CL
Summary P&L forecast (HK$m)					
Revenue	**10,461**	**10,841**	**14,229**	**13,488**	**14,979**
Op Ebitda	1,256	1,186	2,505	2,640	2,546
Op Ebit	868	764	2,119	2,189	2,400
Interest income	0	0	0	0	0
Interest expense	(9)	(19)	(121)	(148)	(169)
Other items	9	(73)	30	-	-
Profit before tax	**869**	**673**	**2,028**	**2,041**	**2,230**
Taxation	(180)	(114)	(429)	(367)	(401)
Minorities/Pref divs	-	-	-	-	-
Net profit	**689**	**559**	**1,600**	**1,674**	**1,829**
Summary cashflow forecast (HK$m)					
Operating profit	**868**	**764**	**2,119**	**2,189**	**2,400**
Operating adjustments	(179)	(206)	(519)	(516)	(571)
Depreciation/amortisation	388	422	385	451	147
Working capital changes	(698)	(487)	(778)	(560)	(340)
Net interest/taxes/other	98	430	384	-	-
Net operating cashflow	**476**	**924**	**1,591**	**1,565**	**1,636**
Capital expenditure	(459)	(347)	(443)	(848)	(500)
Free cashflow	**17**	**577**	**1,148**	**717**	**1,136**
Acq/inv/disposals	(93)	(84)	161	-	-
Int, invt & associate div	-	-	-	-	-
Net investing cashflow	**(552)**	**(431)**	**(282)**	**(848)**	**(500)**
Increase in loans	492	(104)	1,777	188	217
Dividends	(561)	(260)	(521)	(921)	(1,172)
Net equity raised/other	(10)	(43)	368	-	-
Net financing cashflow	**(79)**	**(407)**	**1,624**	**(733)**	**(955)**
Incr/(decr) in net cash	**(155)**	**87**	**2,933**	**(16)**	**181**
Exch rate movements	12	23	(1,936)	(318)	0
Opening cash	**1,630**	**1,487**	**1,597**	**2,594**	**2,260**
Closing cash	**1,487**	**1,597**	**2,594**	**2,260**	**2,441**
Summary balance sheet forecast (HK$m)					
Cash & equivalents	1,487	1,597	2,594	2,260	2,441
Debtors	3,155	3,116	4,120	4,442	4,512
Inventories	2,876	3,236	3,886	4,231	4,512
Other current assets	7	70	49	64	65
Fixed assets	2,106	2,001	2,073	2,788	3,142
Intangible assets	15	10	1,033	1,033	1,033
Other term assets	577	711	741	741	741
Total assets	**10,224**	**10,740**	**14,496**	**15,559**	**16,447**
Short-term debt	695	551	151	-	-
Creditors	2,092	2,152	2,918	2,918	2,918
Other current liabs	565	601	689	810	824
Long-term debt/CBs	129	145	2,180	2,520	2,737
Provisions/other LT liabs	186	211	352	352	352
Minorities/other equity	0	0	0	0	0
Shareholder funds	6,557	7,081	8,205	8,958	9,616
Total liabs & equity	**10,224**	**10,740**	**14,496**	**15,559**	**16,447**
Ratio analysis					
Revenue growth (% YoY)	(19.0)	3.6	31.3	(5.2)	11.1
Ebitda growth (% YoY)	(51.7)	(5.5)	111.1	5.4	(3.6)
Ebitda margin (%)	12.0	10.9	17.6	19.6	17.0
Net profit margin (%)	6.6	5.2	11.2	12.4	12.2
Dividend payout (%)	81.4	46.5	52.7	55.0	64.1
Effective tax rate (%)	20.7	17.0	21.1	18.0	18.0
Ebitda/net int exp (x)	143.1	63.9	20.8	17.8	15.0
Net debt/equity (%)	(10.1)	(12.7)	(3.2)	2.9	3.1
ROE (%)	10.7	8.2	20.9	19.5	19.7
ROIC (%)	12.3	10.3	23.0	20.3	20.0
EVA®/IC (%)	3.8	1.8	14.5	11.8	11.5

Source: CLSA

Companies mentioned

ASM Pacific (522 HK - HK$79.00 - SELL)[1]
ASE (2311 TT - NT$43.7 - BUY)[2]
O-film (N-R)
Q Tech (1478 HK - HK$1.89 - BUY)[1]
Sanan (N-R)
SPIL (2325 TT - NT$55.8 - BUY)[2]
Sunny Optical (2382 HK - HK$12.52 - BUY)[1]
trul (N-R)

[1] Covered by CLSA; [2] Covered by CAST

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Important disclosures

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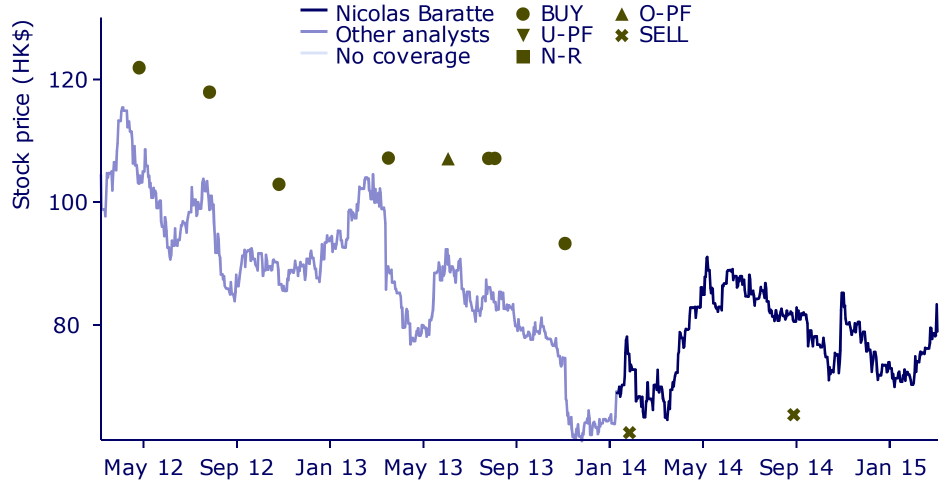

Date	Rec	Target	Date	Rec	Target
29 Aug 2014	SELL	65.47	03 Jun 2013	O-PF	107.20
26 Jan 2014	SELL	62.55	17 Mar 2013	BUY	107.27
03 Nov 2013	BUY	93.35	25 Oct 2012	BUY	103.00
03 Aug 2013	BUY	107.20	26 Jul 2012	BUY	118.00
03 Aug 2013		Dropped Coverage	25 Apr 2012	BUY	122.00
26 Jul 2013	BUY	107.20			

Source: CLSA

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