

ASM Pacific Tech (522 HK)

Overweight

Target price (HKD)	93.00
Share price (HKD)	79.00
Forecast dividend yield (%)	3.1
Potential return (%)	20.8

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

Dec	2013 a	2014 e	2015 e
HSBC EPS	1.40	3.92	5.75
HSBC PE	56.6	20.1	13.7
Performance	1M	3M	12M
Absolute (%)	9.0	3.9	13.8
Relative ^A (%)	10.4	1.9	5.0

Note: (V) = volatile (please see disclosure appendix)

5 March 2015

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MICA (P) 157/06/2014

MICA (P) 136/02/2015

MICA (P) 041/01/2015

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Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

OW: Mixed 4Q results; diversity driving growth and stability

- ▶ **Mixed 4Q14 with softer revs offset by margin beat. Non-op charges also impacted (excluding these net income was mostly in line)**
- ▶ **Seasonal 1Q15 outlook with bookings >20% q-o-q. Diversity to drive 2015 growth with LED, SMT, automotive, power management, and camera sensors most incremental**
- ▶ **Retain OW and HKD93 target price. Expanding addressable market not only drives growth, but customer/product breadth implies more stability too**

4Q results mixed, but ultimately in line. 1Q15 revenue to decline seasonally, with bookings set to rebound. 4Q14 revenue fell 29% q-o-q, and was weaker than our -22% estimate. Gross margin of 38% was much higher than consensus at 33% due to SMT gross margin of 41% (42.9% excluding charges), much higher than our 33.7% forecast due to a richer mix of Europe/USA customers. Reported net profit/EPS of HKD244m/HKD0.60 missed mainly due to amortization charges and tax provisions. Excluding these, EPS would have been in line to ahead of consensus' HKD1.01 estimate. Management guided 1Q bookings to rebound in the 'moderate double digit range' q-o-q (i.e. >20% q-o-q) and indicated 1Q15 revenue to decline low-to-mid teens q-o-q (in line with our -14% q-o-q estimate).

Reiterate OW and HKD93 target price based on unchanged 16x 2015e EPS.

Increasing customer, product and end-market diversity underappreciated. While 4Q results and 1Q outlook were a bit of a "mixed bag", we continue to believe an addressable market that is twice as large as a few years early will drive both revenue growth and stability. While smartphone growth is slowing and large assembly capacity adds in 2014 may create tough comparable this year, we like ASMPT's dominate market share in other key growth markets like LED, SMT/screen printing, and CIS assembly. The company is also targeting new segments like laser sawing and test handlers, as well as adding new thermal compression bonder customers. In addition to a full year impact from including DEK acquisition, we view ASMPT as a key beneficiary of multiple growth themes in 2015: 1) rising TV and camera resolutions and proliferation; 2) rising electronics content in automobiles and industrial applications; 3) increasing China government support of the semiconductor industry; 4) the ramp of advanced package assembly like flip chip outside of Taiwan; 5) the adoption of LEDs for general lighting; and 6) the internet-of-things, power management and the convergence back end and SMT assembly. Our 2015 EPS estimate is unchanged (lower revs but higher margin) and is 15% above consensus. Our unchanged target price of HKD93 remains based on 16x 2015e EPS.

Index ^A	HANG SENG INDEX
Index level	24,465
RIC	0522.HK
Bloomberg	522 HK

Source: HSBC

Enterprise value (HKDm)	31521
Free float (%)	60
Market cap (USDm)	4,101
Market cap (HKDm)	31,799

Source: HSBC

4Q results mixed but ultimately in line

- ▶ **4Q14 revenue missed on weaker SMT.** 4Q14 revenue declined 29% q-o-q, lower than our estimate of -22% and consensus' -20%. By segment, Assembly Equipment revenue declined 30% q-o-q (versus our -27%), Leadframe -11% q-o-q (versus our -10%) and SMT/DEK -32% q-o-q (versus our -20%). The company suggested that customers' delivery order push outs impacted 4Q revenue negatively.
- ▶ **Gross margin a solid beat mainly due to SMT.** Reported gross margin was at 38%, increasing 216bps q-o-q and higher than our 34.5% and consensus' 33%. Excluding amortization charges, gross margin was at 38.7%. By segment, Assembly and Leadframe combined gross margin was 35.6%, in line with our 35.2%, while SMT (combined placement and DEK) gross margin was 42.9% (excluding charges and 41% including), much higher than our 33.7%. The higher-than-expected SMT gross margin was mainly due to a richer mix of products sold to Europe and the U.S.
- ▶ **Higher opex led to lighter op profit/margin.** Op profit/margin of HKD490m/14.2% missed our HKD540m/14.3% and consensus' HKD530m/13.6% due to higher-than-expected OPEX (-2% q-o-q versus our expectations of -8%). If opex was at our estimates, op profit/margin would have been HKD543m/15.8%.
- ▶ **Net profit misses due to tax and DEK amortization charges. Excluding those items suggest EPS in line or ahead.** Net profit/EPS of HKD244m/HKD0.60 was lower than our HKD422m/HKD0.99 and consensus' HKD412m/HKD1.02 mainly due to amortization charges for DEK acquisition (HKD38.7m) and a tax-related provision (HKD168.4m). Excluding both charges, EPS would have been in line to ahead of our estimate and consensus.
- ▶ **Record bookings and ROE rebound in 2014.** ASM Pacific Tech's 2014 bookings reached a record high of USD1.9bn, increasing 37.8% q-o-q (increased for all three business segments). The company's ROE also rebounded to 20.9% versus the low of 8.2% in 2013.

1Q15 seasonal revenue decline with bookings set to rebound. Margins to downtick

- ▶ **Seasonal 1Q with rebound in bookings.** Management guided 1Q15 bookings to rebound in the 'moderate double-digit range' q-o-q (i.e. >20% q-o-q) and indicated that 1Q15 revenue will likely decline low-to-mid teens q-o-q (in line with our prior estimate of -14%).
- ▶ **4Q14's rich customer mix in SMT unlikely to continue, thus recent margin upside not sustainable.** Management reminded investors that 1Q15 SMT gross margins would not sustain the very strong 4Q14 level given that customer mix would increasingly shift toward Asia-based customers from the US and Europe throughout 2015. Hence, we forecast a 200-300bps sequential downtick in SMT margins in 1Q15.

ASMPT: Changes to quarterly estimates

(HKDm)	4Q14*			1Q15e		
	Estimates	Actuals	Consensus	Prior	New	Consensus
Revenue	3,780	3,446	3,893	3,259	2,977	3,576
Q-o-q growth	-22.1%	-29.0%	-19.8%	-13.8%	-13.6%	-8.1%
Gross margin	34.5%	38.0%	33.0%	34.3%	35.5%	31.5%
Op Profit	540	490	530	386	317	415
Op margin	14.3%	14.2%	13.6%	11.9%	10.6%	11.6%
Net profit	422	244	412	309	235	321
EPS (HKD)	0.99	0.60	1.02	0.72	0.58	0.79
Bookings	3,305	2,654		3,743	3,318	
Q-o-q growth	-20.0%	-35.7%		-10.0%	25.0%	
Book-to-bill	0.87	0.77		1.0	1.11	
Backlog	2,843	2,527		3,712	2,868	
Q-o-q growth	-14.3%	-23.8%		-2.3%	13.5%	

Source: Company data, HSBC estimates, Bloomberg consensus

*Full audited financial report for 2014 will likely be released in 2Q15

ASMPT: Changes to annual estimates

(HKDm)	2014*			2015e		
	Estimates	Actuals	Consensus	Prior	New	Consensus
Revenue	14,564	14,229	14,461	16,854	16,301	15,899
Y-o-y growth	34.3%	31.3%	33.4%	15.7%	14.6%	9.9%
Gross margin	34.7%	35.5%	34.3%	36.8%	37.2%	35.0%
Op Profit	2,169	2,119	2,184	3,078	2,916	2,517
Op margin	14.9%	14.9%	15.1%	18.3%	17.9%	15.8%
Net profit	1,778	1,600.0	1,749.0	2,462	2,323	2,051
EPS (HKD)	4.30	3.92	4.31	5.75	5.75	5.02

Source: Company data, HSBC estimates, Bloomberg consensus

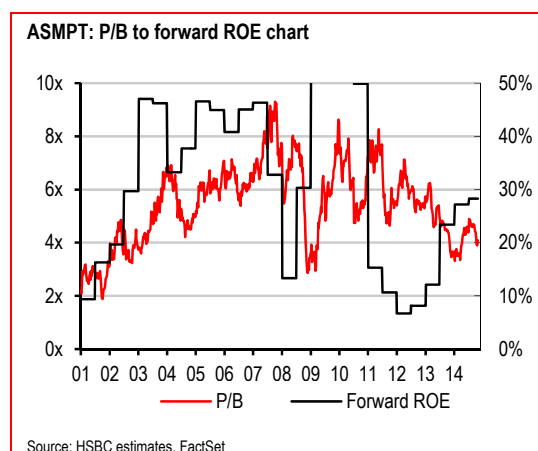
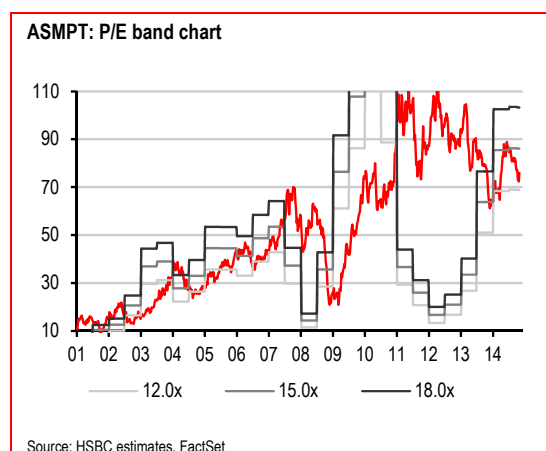
*Full audited financial report for 2014 will likely be released in 2Q15

ASMPT: Revenue by segment

(HKDm)	1Q14	2Q14	3Q14	4Q14	1Q15E	2Q15E	3Q15E	4Q15E	2013	2014	2015e
Assembly Equipment	1,269	1,851	2,168	1,516	1,364	1,882	2,353	1,882	5,200	6,804	7,482
Leadframe	443	506	503	450	414	489	586	557	1,724	1,902	2,047
SMT	782	1,080	1,872	1,245	1,008	1,351	1,756	1,581	3,917	4,979	5,697
DEK			310	235	190	255	332	298		545	1,075
Total	2,493	3,438	4,852	3,446	2,977	3,977	5,028	4,319	10,841	14,229	16,301

Source: Company data, HSBC estimates

Valuation and risks



Our 2015e EPS is unchanged.

Our target PE multiple of 16x is also unchanged and remains based on our 2015e EPS of HKD5.75 to recognise the full-year impact from a right-sized cost structure, LED recovery, new product ramps such as for thermo-compression bonding (TCB) and integration of the recently acquired DEK. Hence our target price remains at HKD93.

We believe 16x is the level that best represents where the stock should be trading at times of revenue, margin and ROE expansion.

Under our research model, the Neutral band for non-volatile stocks equals the local market hurdle rate set by our Global Equity Strategy team (8.5% for Hong Kong-traded stocks), plus or minus 5ppt, or a potential return of 3.5-13.5% required for ASMPT stock to merit a Neutral rating. As our target price implies a potential return of 20.8% (including forecast dividend yield), above the Neutral band, we reiterate our Overweight rating on the shares. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Downside risks to our rating and estimates include overcapacity or a cyclical slowdown, a slowdown in the LED sector, potential integration issues, an inability to implement cost-cutting measures successfully or excess supply, and unexpectedly weak demand resulting in an even greater-than-expected cyclical decline or a prolonged recovery.

ASMP: Profit and loss statement

(HKDm)	1Q14	2Q14	3Q14	4Q14	1Q15E	2Q15E	3Q15E	4Q15E	2013	2014	2015e
Revenue	2,493	3,438	4,852	3,446	2,977	3,977	5,028	4,319	10,841	14,229	16,301
q-o-q	-9.8%	37.9%	41.2%	-29.0%	-13.6%	33.6%	26.4%	-14.1%	3.6%	31.3%	14.6%
y-o-y	17.3%	20.6%	56.4%	24.7%	19.4%	15.7%	3.6%	25.3%	3.6%	31.3%	14.6%
COGS	1,686	2,241	3,115	2,138	1,920	2,468	3,120	2,736	7,662	9,180	10,245
% of revs	67.6%	65.2%	64.2%	62.0%	64.5%	62.1%	62.0%	63.4%	70.7%	64.5%	62.8%
Gross profit	808	1,196	1,737	1,308	1,057	1,509	1,908	1,583	3,179	5,050	6,056
Gross margin	32.4%	34.8%	35.8%	38.0%	35.5%	37.9%	38.0%	36.6%	29.3%	35.5%	37.2%
Op profit	211	513	905	490	317	729	1,078	793	772	2,119	2,916
Op margin	8.5%	14.9%	18.6%	14.2%	10.6%	18.3%	21.4%	18.4%	7.1%	14.9%	17.9%
Tax (credit)	41	91	202	93	52	129	189	141	114	429	510
Tax rate	20.9%	17.9%	20.6%	27.7%	18.0%	18.0%	18.0%	18.0%	17.0%	21.1%	18.0%
Net profit	157	417	782	244	235	588	859	640	559	1,600	2,323
EPS (HKD)	0.39	1.04	1.92	0.60	0.58	1.46	2.13	1.58	1.40	3.92	5.75

Source: Company data, HSBC estimates

Financials & valuation

Financial statements

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Profit & loss summary (HKDm)				
Revenue	10,841	14,229	16,301	16,784
EBITDA	1,195	2,519	3,316	3,355
Depreciation & amortisation	-424	-400	-400	-400
Operating profit/EBIT	772	2,119	2,916	2,955
Net interest	-99	-91	-84	-47
HSBC PBT	673	2,028	2,833	2,907
Taxation	-114	-429	-510	-523
HSBC net profit	559	1,600	2,323	2,384

Cash flow summary (HKDm)

Cash flow from operations	192	1,472	3,077	3,378
Capex	-350	-558	-600	-697
Cash flow from investment	-350	-558	-600	-697
Dividends	-260	-521	-976	-1,337
Change in net debt	-254	768	-1,634	-1,394
FCF equity	272	1,442	2,123	2,087

Balance sheet summary (HKDm)

Tangible fixed assets	2,722	3,656	3,856	4,153
Current assets	8,019	10,840	12,791	14,186
Cash & others	1,597	2,594	4,228	5,622
Total assets	10,740	14,496	16,648	18,339
Operating liabilities	3,108	3,975	3,897	3,897
Gross debt	551	2,316	2,316	2,316
Net debt	-1,046	-278	-1,912	-3,306
Shareholders funds	7,081	8,205	10,195	12,127
Invested capital	6,035	7,927	8,523	8,820

Ratio, growth and per share analysis

Year to	12/2013a	12/2014e	12/2015e	12/2016e
Y-o-y % change				
Revenue	3.6	31.3	14.6	3.0
EBITDA	-3.8	110.8	31.6	1.2
Operating profit	-11.0	174.6	37.6	1.3
PBT	-22.4	201.4	39.6	2.6
HSBC EPS	-19.2	181.0	46.6	-3.7

Ratios (%)

Revenue/IC (x)	1.8	2.0	2.0	1.9
ROIC	10.9	23.9	29.1	27.9
ROE	8.2	20.9	25.2	21.4
ROA	6.1	13.2	15.4	13.8
EBITDA margin	11.0	17.7	20.3	20.0
Operating profit margin	7.1	14.9	17.9	17.6
Net debt/equity	-14.8	-3.4	-18.8	-27.3
Net debt/EBITDA (x)	-0.9	-0.1	-0.6	-1.0

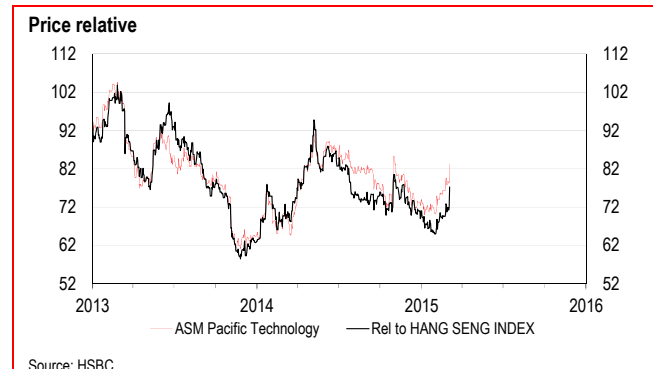
Per share data (HKD)

HSBC EPS (fully diluted)	1.40	3.92	5.75	5.54
DPS	0.65	1.28	2.42	3.11
Book value	17.70	20.13	25.25	28.19

Valuation data

Year to	12/2013a	12/2014e	12/2015e	12/2016e
EV/sales	2.8	2.2	1.8	1.7
EV/EBITDA	25.7	12.5	9.0	8.5
EV/IC	5.1	4.0	3.5	3.2
PE*	56.6	20.1	13.7	14.3
P/Book value	4.5	3.9	3.1	2.8
FCF yield (%)	0.9	4.5	6.7	6.6
Dividend yield (%)	0.8	1.6	3.1	3.9

Note: * = Based on HSBC EPS (fully diluted)



Source: HSBC

Note: price at close of 05 Mar 2015

Disclosure appendix

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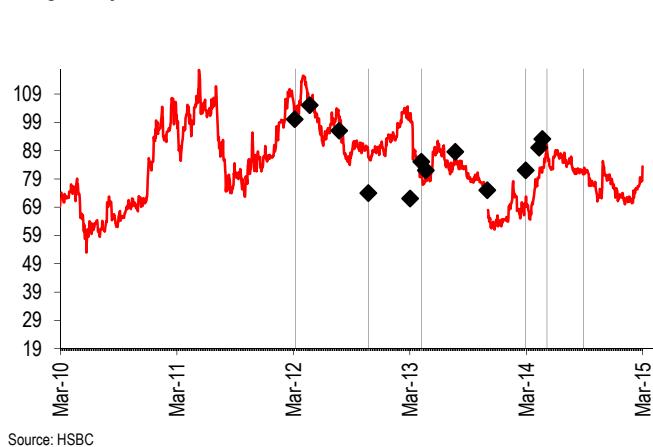
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As of 05 March 2015, the distribution of all ratings published is as follows:

Overweight (Buy)	42%	(30% of these provided with Investment Banking Services)
Neutral (Hold)	39%	(28% of these provided with Investment Banking Services)
Underweight (Sell)	19%	(20% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

ASM Pacific Technology (0522.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Neutral	Neutral (V)	09 March 2012
Neutral (V)	Underweight	25 October 2012
Underweight	Neutral	10 April 2013
Neutral	Overweight	03 March 2014
Overweight	Neutral	08 May 2014
Neutral	Overweight	01 September 2014
Target Price	Value	Date
Price 1	100.00	09 March 2012
Price 2	105.00	25 April 2012
Price 3	96.00	26 July 2012
Price 4	74.00	25 October 2012
Price 5	72.00	06 March 2013
Price 6	85.00	10 April 2013
Price 7	82.00	24 April 2013
Price 8	88.50	25 July 2013
Price 9	75.00	03 November 2013
Price 10	82.00	03 March 2014
Price 11	90.00	14 April 2014
Price 12	93.00	24 April 2014

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
ASM PACIFIC TECHNOLOGY	0522.HK	79.00	05-Mar-2015	1, 4, 5, 6, 7

Source: HSBC

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- 1 This report is dated as at 05 March 2015.
- 2 All market data included in this report are dated as at close 05 March 2015, unless otherwise indicated in the report.
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