

**ASM Pacific Tech. ----- Maintain OUTPERFORM**

**New report: High base from the strong 2014 sets up a milder 2015**

EPS: ▼ TP: ◀▶

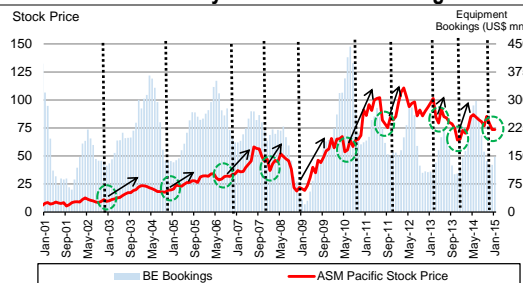
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- 4Q14 results mixed. 4Q14 revenue was HK\$3.45 bn, -29% QoQ and +25% YoY, below guidance of +30% YoY sales, due to back-end push-outs into the low season. GM grew 220 bp QoQ to 38%, above CS/street at 33%, on mix of European sales in SMT, lifting SMT margins to 41.1% in 4Q14. [Full report.](#)
- 1Q15 down seasonally QoQ. Although 1Q15 sales will be down QoQ, as 4Q14 backlog declined 20% QoQ, ASM is seeing seasonal bookings recovery, post CNY, and moderate double-digit QoQ bookings growth in 1Q15. ASM expects stronger order momentum from backend customers in 1H15 with SMT added as a second driver.
- SMT and advanced packaging growing at higher margins. ASM targets its SMT business to be the #1 player and will work to improve SMT margins to back-end levels of 40%. It will also expand in advanced packaging (SiP, fan-out, RDL, 2.5D/3D).
- Maintain OUTPERFORM. 2015 should still show moderate growth, off strong 2014, with upcoming catalyst ahead of further growth in industry bookings, as order momentum seasonally accelerates into 2Q15/3Q15. Our TP of HK\$97 reflects 4.4x/4.1x 2015/2016 BV.

1H15, with SMT added as a second driver, though full-year growth, off a high base, may be more moderate than of 2014.

**Figure 1: ASM's stock normally rebounds with bookings**



Source: Company data, Credit Suisse research, Semi

**SMT and advanced packaging growing; to improve margins**

ASM targets its SMT business to be the #1 player and will work to improve SMT margins to back-end levels, keeping both at around 40%. It will also expand in advanced packaging (SiP, fan-out, RDL, 2.5D/3D), now at 40% of sales, up from 20% in 2010. Other growth drivers for ASM include IC/discrete, LED lighting, automotive, power management, and CMOS image sensor.

**Company drivers into 2014 and 2015**

ASM Pacific delivered solid 2014 results and expects a few drivers in 2015, including: (1) Significant gross-margin improvement on favourable geographical mix in 4Q14, (2) SMT seeing share gains and margin improvement at record high levels, making this business the second growth driver for the company, (3) diversification of product portfolio to expand addressable market in advanced packaging (SiP, fan-out, RDL, 2.5D/3D), dropping mature wirebonders from 80% of sales in 2010 to below 60% in 2014, (4) further share gains in advanced packaging and high-end thermal compression bonders at Intel, which contributed substantial revenue in 2014, and (5) end-market growth from IC/discrete, LED lighting, semiconductor drivers (automotive, IoT, power management), and higher megapixel cameras. The company has also made progress in reducing the cyclical nature of the back-end business by raising outsourcing and adding contract staff to limit seasonal margin volatility.

**Maintain OUTPERFORM, ahead of bookings recovery**

We maintain our target price of HK\$97, reflecting 4.4x/4.1x 2015/2016 BV (in line with its 3-7x range) and 20.4x/18.3x 2015/2016 EPS. On lower sales base, we trim our 2015/2016 EPS from HK\$5.00/HK\$5.50 to HK\$4.75/HK\$5.30, slightly below prior street's HK\$5.00/HK\$5.56. 2015 should still show moderate growth, off a strong 2014, with upcoming catalyst ahead of further growth in industry bookings, as order momentum seasonally accelerates into 2Q15/3Q15.

Bbg/RIC	522 HK / 0522.HK	Price (06 Mar 15, HK\$)	81.50		
Rating (prev. rating)	O (O)	TP (prev. TP HK\$)	97.00 (97.00)		
Shares outstanding (mn)	402.52	Est. pot. % chg. to TP	19		
Daily trad vol - 6m avg (mn)	0.65	52-wk range (HK\$)	91.2 - 64.7		
Daily trad val - 6m avg (US\$ mn)	5.7	Mkt cap (HK\$/US\$ mn)	32,805.3/ 4,229.8		
Free float (%)	50.0	Performance	1M	3M	12M
Major shareholders	Warburg Pincus	Absolute (%)	8.7	7.2	17.9
		Relative (%)	10.8	6.5	11.5
Year	12/12A	12/13A	12/14E	12/15E	12/16E
Revenue (HK\$ mn)	10,461	10,841	14,229	15,426	16,632
EBITDA (HK\$ mn)	1,251	1,105	2,621	2,946	3,242
Net profit (HK\$ mn)	689	663	1,843	1,914	2,133
EPS (HK\$)	1.74	1.66	4.58	4.75	5.30
- Change from prev. EPS (%)	n.a.	n.a.	2.2	(5.0)	(3.6)
- Consensus EPS (HK\$)	n.a.	n.a.	4.33	5.09	5.56
EPS growth (%)	(62.7)	(4.6)	176.7	3.7	11.4
P/E (x)	46.9	47.7	17.2	16.6	14.9
Dividend yield (%)	1.1	1.1	2.7	4.0	4.5
EV/EBITDA (x)	25.7	28.0	12.0	10.8	9.5
P/B (x)	5.0	4.6	4.1	3.8	3.5
ROE (%)	11.1	10.0	25.3	23.9	24.6
Net debt(cash)/equity (%)	(10.1)	(12.7)	(3.2)	(1.1)	(11.7)

Note 1: ORD/ADR=3.00. Note 2: ASM Pacific Technology Limited (ASM) is an investment holding company. Through its subsidiaries, the Company is engaged in the design, manufacture and marketing of machines, tools and materials used in the semiconductor industry.

[Click here](#) for detailed financials

**4Q14 sales soft, but margins beat**

4Q14 revenue was HK\$3.45 bn, -29% QoQ and +25% YoY, below guidance of +30% YoY sales, due to back-end push-outs into the low season. GMs grew 220 bp QoQ to 38%, above CS/street at 33%, on mix of European sales in SMT, lifting SMT margins to 41.1% in 4Q14. GAAP EPS was light at HK\$0.61, but pro forma EPS, excluding one-time DEK amortisation and HK tax provision, was in line at HK\$1.12.

**1Q15 down seasonally QoQ**

1Q15 sales will be down QoQ, as 4Q14 backlog declined 20% QoQ. Despite weaker billings, ASM is seeing seasonal bookings recovery, post CNY, and moderate double-digit QoQ bookings growth in 1Q15. ASM expects stronger order momentum from back-end customers in

**Figure 2: ASM Pacific 4Q14 results and 1Q15/2Q15 estimates summary**

ASM Pacific	Reported	Dec-14			Mar-15E			Jun-15E		
		CS Orig	Cons	Guidance	CS	CS Orig	Cons	CS	CS Orig	Cons
Revenue	\$3,445.7	\$3,822.7	\$3,893.3	\$2,923.6	\$3,088.1	\$3,576.3	\$3,722.7	\$3,801.2	\$4,247.7	
% Q/Q chng	-29.0%	-21.2%	-18.8%	-15.2%	-19.2%	-3.8%	27.3%	23.7%	45.3%	
% Y/Y chng	24.7%	38.3%	33.0%	35.8%	32.3%	31.5%	10.8%	10.8%	36.9%	
Gross Margin	38.0%	32.9%	33.0%	35.8%	32.3%	31.5%	36.7%	35.7%	34.3%	
Op Margin	10.9%	14.6%	13.6%	10.9%	10.7%	11.6%	15.9%	17.0%	15.2%	
Net Income (PF)	\$426.7	\$426.7	\$412.3	\$231.0	\$240.4	\$321.0	\$451.8	\$496.9	\$504.7	
Net Margin	7.1%	11.2%	10.6%	7.9%	7.8%	9.0%	12.1%	13.1%	11.9%	
GAAP EPS	\$0.61	\$1.00	\$1.02	\$0.57	\$0.56	\$0.79	\$1.12	\$1.17	\$1.23	
Pro Forma EPS	\$1.12	\$1.08	\$1.02	\$0.57	\$0.65	\$0.79	\$1.12	\$1.25	\$1.23	
Diluted shares	402.6	426.5		402.6	426.5		402.6	426.5		

Source: Company data, Credit Suisse estimates, Bloomberg consensus

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**Companies Mentioned** (Price as of 06-Mar-2015)

**ASM Pacific Tech.** (0522.HK, HK\$81.5, OUTPERFORM, TP HK\$97.0)  
**Apple Inc** (AAPL.OQ, \$126.41)  
**Intel Corp.** (INTC.OQ, \$33.73)  
**STMicroelectronics NV** (STM.PA, €8.48)

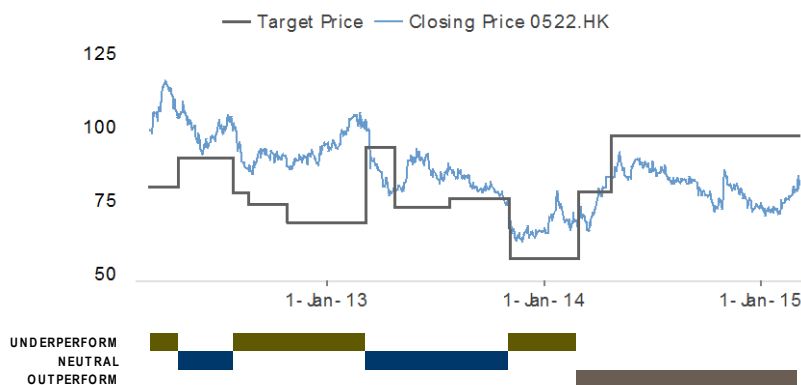
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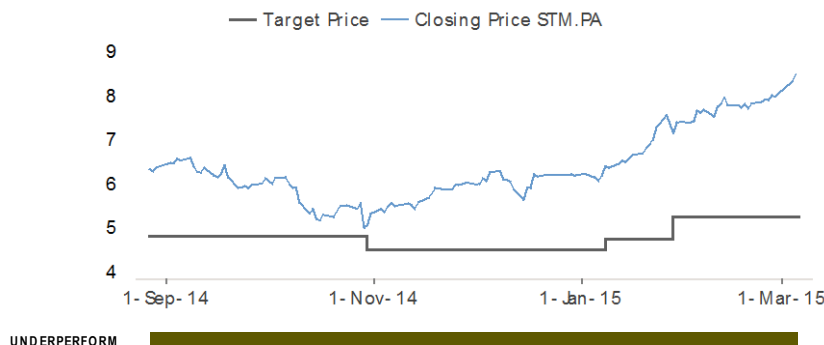
0522.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
08-Mar-12	98.95	79.50	U
25-Apr-12	103.10	89.50	N
27-Jul-12	101.10	77.50	U
22-Aug-12	85.05	73.50	
26-Oct-12	86.70	67.50	
07-Mar-13	101.60	93.00	N
24-Apr-13	78.80	72.50	
26-Jul-13	86.20	75.50	
04-Nov-13	68.05	55.20	U
27-Feb-14	70.25	78.00	O
13-Mar-14	67.50		*
24-Apr-14	82.80	97.00	O



\* Asterisk signifies initiation or assumption of coverage.

**3-Year Price and Rating History for STMicroelectronics NV (STM.PA)**

STM.PA	Closing Price	Target Price	
Date	(€)	(€)	Rating
27-Aug-14	6.33	4.80	U*
30-Oct-14	5.06	4.50	
08-Jan-15	6.40	4.75	
28-Jan-15	7.15	5.25	



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### Price Target: (12 months) for ASM Pacific Tech. (0522.HK)

**Method:** Our target price of HK\$97.00 for ASM Pacific reflects 4.4x/4.1x 2015/2016 book value and 20.4x/18.3x 2015/2016 EPS. In prior industry cycles from 2001-12, ASM's share price bottomed at a 3x trough cycle P/B and peaked at 7x upcycle P/B. With a cyclical upturn, we value ASM with an up-cycle valuation of 5x 2015E P/B.

**Risk:** Risks to our HK\$97.00 target price for ASM Pacific include: (1) a shorter-than-expected recovery in semiconductor equipment investment, which would have a direct negative impact on ASM's backend equipment business. (2) The cyclical nature of the semiconductor industry and a short order leadtime are the major risks in terms of the accuracy of earnings forecasts, which form the basis of our target price derivation.

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