

COMPANY NOTE

Company Update

China | Technology | Semiconductors

28 May 2015

Jefferies

ASM Pacific Technology (522 HK) Investor Meeting Takeaways

Key Takeaway

ASMPT clarified that while the visibility into 2H15 is not as good as last year, it is normal in a typical year. It is confident of outgrowing the market. We are relatively more positive on SMT as ASMPT will launch new products to improve competitiveness and penetrate into new segments. However, with a slow capex environment this year and full valuation on the stock, we maintain Hold and HK\$79 PT. Further yen weakness will pressure the stock in the near term.

Low visibility into 2H15 is not abnormal. ASMPT has been guiding a less clear 2H15 outlook as compared with the same period last year, which is actually normal for its business with typically one quarter of visibility. ASMPT acknowledges slower market growth in 2015, but it has not seen capex cuts by leading semiconductor manufacturers trigger further demand weakness. At the same time, ASMPT is confident of outperforming the market with its broad product portfolio.

Backend growth drivers. By application, automotive and industrial have recently been the strongest growth drivers, followed by smartphones and CIS. ASMPT expects wire bonding to remain the mainstream technology due to cost advantage, and therefore expects the market will not shrink significantly. For advanced packaging, ASMPT sees big potential for TCB in wireless devices, but we are less optimistic given the throughput bottlenecks in the intrinsically slow compression process.

New SMT products. Leveraging on backend technology in dispensing solder paste, ASMPT plans to launch an integrated system with DEK printers by the end of this year. ASMPT expects the improved SMT yields offered by the new unique product to be attractive to customers. As we expected, having been focusing on high-end SMT equipment, ASMPT plans to launch mid-speed products later this year to expand its addressable market segments without diluting margins.

Capex and dividends. ASMPT is on track to spend US\$109mn capex this year, in which about US\$49mn is for a new building in Singapore to house all businesses under one roof to improve efficiency. Considering the need to build a cash reserve for repaying the CBs issued last year in case holders do not convert, ASMPT will maintain 50-60% payout. ASMPT is open to acquisition opportunities that can complement existing businesses.

Valuation/Risks

Our PT remains HK\$79, implying 3.7x 2015 year-end diluted BPS, below historical average. Upside risk is stronger market demand. Downside risk is deeper semiconductor downturn.

HKD	Prev.	2014A	Prev.	2015E	Prev.	2016E	Prev.	2017E
Rev. (MM)	--	14,229.2	--	15,336.7	--	17,200.3	--	18,668.2
EV/Rev		2.3x		2.1x		1.9x		1.7x
EBIT (MM)	--	2,119.3	--	2,420.6	--	3,083.1	--	3,656.3
ROE	--	22.0%	--	23.7%	--	26.9%	--	28.0%
BV/Share	18.94	19.06	--	21.34	--	24.23	--	27.66
P/B		4.3x		3.8x		3.4x		3.0x
Dividend	--	2.10	--	2.53	--	3.24	--	3.84
Div. Yield		2.57%		3.10%		3.97%		4.71%
EPS								
FY Dec	--	3.97	--	4.80	--	6.13	--	7.27
FY P/E		20.6x		17.0x		13.3x		11.2x

HOLD

Price target HK\$79.00
Price HK\$81.60

Bloomberg: 522 HK
Reuters: 0522.HK

Financial Summary

Book Value (MM):	HK\$8,205.2
Book Value/Share:	HK\$18.94
Net Debt (MM):	(HK\$262.0)
Return on Avg. Equity:	21.2%
Net Debt/Capital:	(2.5)%
Long-Term Debt (MM):	HK\$2,180.4
LTD/Cap:	20.7%
Dividend Yield:	3.1%
Cash & ST Invest. (MM):	HK\$2,593.8

Market Data

52 Week Range:	HK\$90.00 - HK\$69.45
Total Entprs. Value (MM):	HK\$32,043.4
Market Cap. (MM):	HK\$32,305.4
Insider Ownership:	41.4%
Institutional Ownership:	59.1%
Shares Out. (MM):	395.9
Float (MM):	234.6
Avg. Daily Vol.:	712,008

Ken Hui *

Equity Analyst
+852 3743 8061 khui@jefferies.com

Cynthia Meng *

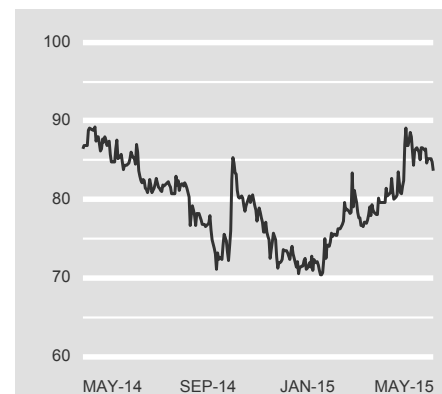
Equity Analyst
+852 3743 8033 cmeng@jefferies.com

Qin Wang *

Equity Associate
+852 3743 8016 qin.wang@jefferies.com

* Jefferies Hong Kong Limited

Price Performance



Scenarios

Target Investment Thesis

- Sales to grow 7.8%/12.2% in 2015/16 on stabilizing market share and pricing in semiconductor backend equipment.
- Operating margin to recover to 15.8%/17.9% in 2015/16 on better utilizations and margin improvement in SMT equipment.
- ROE to improve to 23.7%/26.9% in 2015/16.
- PT HK\$79 based on 3.7x 2015 year-end BPS of HK\$21.3.

Upside Scenario

- Sales to grow 10%/14.5% in 2015/16 on market share expansion in semiconductor backend equipment, partly due to good TCB traction.
- Operating margin to recover to 16.5%/18% in 2015/16 on better product mix and margin improvement in SMT equipment.
- ROE to improve to 25.7%/27.8% in 2015/16.
- PT HK\$107.7 based on 5x 2015 year-end BPS of HK\$20.54.

Downside Scenario

- Sales to grow 5%/10% in 2015/16 on poor market demand and weaker pricing in semiconductor backend equipment.
- Operating margin to recover to 15.3%/17% in 2015/16 on weaker pricing and slow improvement in SMT equipment.
- ROE to improve to 22.9%/24.6% in 2015/16.
- PT HK\$59.5 based on 2.8x 2015 year-end BPS of HK\$21.26.

Long Term Analysis

1 Year Forward P/B



Source: Bloomberg, Jefferies

Long Term Financial Model Drivers

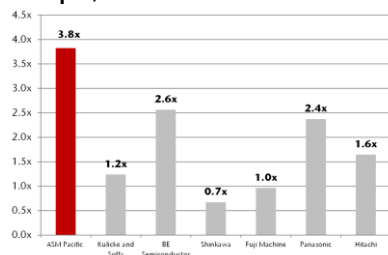
LT Earnings CAGR	22.3%
Organic Revenue Growth	9.5%
Acquisition Contribution	0%
Operating Margin Expansion	4.7%

Other Considerations

ASMPT is the midst of transition from being a leader in gold wire bonders to catching up competitors in advanced packaging technologies.

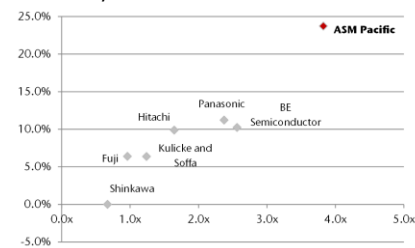
Peer Group

Group P/Bs 2015



Source: Bloomberg, Jefferies estimates

ROE vs P/B 2015



Source: Bloomberg, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
522 HK	Hold	HK\$79
KLIC US	NC	NA
BESI NA	NC	NA
6274 JP	NC	NA
6134 JP	NC	NA
6752 JP	Buy	JPY1,880

Catalysts

- Deteriorating semiconductor equipment industry book-to-bill ratios
- Capex cut by semiconductor packaging companies
- Company reports earnings and bookings below expectations

Company Description

ASM Pacific Technology, through its subsidiaries, designs, manufactures and markets semiconductor assembly and packaging equipment and materials as well as surface mount technology (SMT) equipment. In 2012, semiconductor assembly and packaging equipment, leadframe and SMT equipment accounted for 48%, 16% and 36% of sales, respectively.

Table 1: Quarterly income statements

HK\$mn	1Q15	2Q15E	3Q15E	4Q15E	1Q16E	2Q16E	3Q16E	4Q16E
Net revenues	3,056	4,083	4,300	3,897	3,872	4,431	4,668	4,230
YoY %	22.6%	18.8%	-11.4%	13.1%	26.7%	8.5%	8.5%	8.5%
QoQ %	-11.3%	33.6%	5.3%	-9.4%	-0.7%	14.4%	5.3%	-9.4%
Cost of revenues	1,943	2,498	2,629	2,422	2,406	2,703	2,827	2,586
Gross profit	1,113	1,585	1,671	1,475	1,466	1,728	1,841	1,644
Gross margin	36.4%	38.8%	38.9%	37.9%	37.9%	39.0%	39.4%	38.9%
Opex	750	863	906	906	815	897	942	942
Opex as % of rev	24.5%	21.1%	21.1%	23.2%	21.1%	20.2%	20.2%	22.3%
R&D	281	323	340	340	306	336	353	353
S&M	298	343	360	360	324	356	374	374
G&A	171	196	206	206	186	204	214	214
Operating income	363	723	765	569	651	831	899	702
Operating margin	11.9%	17.7%	17.8%	14.6%	16.8%	18.8%	19.3%	16.6%
Other income – net	40	0	0	0	0	0	0	0
PBT	403	723	765	569	651	831	899	702
Tax expense	119	145	153	114	130	166	180	140
Effective tax rate	29.4%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Net income	285	578	612	456	521	665	719	562
YoY %	81.6%	38.6%	-21.7%	86.9%	82.9%	15.0%	17.4%	23.3%
Net margin	9.3%	14.2%	14.2%	11.7%	13.4%	15.0%	15.4%	13.3%
Diluted shares (mn)	403	403	403	403	403	403	403	403
Diluted EPS (HK\$)	0.707	1.436	1.521	1.132	1.293	1.652	1.786	1.395

Source: Jefferies estimates, company data

Table 2: Annual income statements

HK\$mn	2010	2011	2012	2013	2014	2015E	2016E	2017E
Net revenues	9,515	12,915	10,461	10,841	14,229	15,337	17,200	18,668
YoY %	101.1%	35.7%	-19.0%	3.6%	31.3%	7.8%	12.2%	8.5%
Cost of revenues	5,007	8,489	7,298	7,662	9,180	9,492	10,522	11,275
Gross profit	4,508	4,426	3,162	3,179	5,050	5,845	6,678	7,393
Gross margin	47.4%	34.3%	30.2%	29.3%	35.5%	38.1%	38.8%	39.6%
Opex	1,313	2,165	2,294	2,408	2,930	3,424	3,595	3,737
Opex as % of rev	13.8%	16.8%	21.9%	22.2%	20.6%	22.3%	20.9%	20.0%
R&D	434	885	905	948	1,148	1,284	1,348	1,401
S&M	603	867	937	898	1,161	1,361	1,429	1,485
G&A	276	413	452	561	621	780	819	851
Operating income	3,195	2,261	868	772	2,119	2,421	3,083	3,656
Operating margin	33.6%	17.5%	8.3%	7.1%	14.9%	15.8%	17.9%	19.6%
Other income	24	1,028	0	(99)	(91)	40	0	0
PBT	3,220	3,289	869	673	2,028	2,461	3,083	3,656
Tax expense	378	357	180	114	429	530	617	731
Effective tax rate	11.7%	10.9%	20.7%	17.0%	21.1%	21.5%	20.0%	20.0%
Net income	2,842	2,932	689	559	1,600	1,931	2,467	2,925
YoY %	N/A	3.2%	-76.5%	-18.9%	186.4%	20.7%	27.8%	18.6%
Net margin	29.9%	22.7%	6.6%	5.2%	11.2%	12.6%	14.3%	15.7%
Diluted shares (mn)	392	398	399	400	403	403	403	403
Diluted EPS (HK\$)	7.24	7.37	1.73	1.40	3.97	4.80	6.13	7.27

Source: Jefferies estimates, company data

Company Description

ASM Pacific Technology (ASMP), through its subsidiaries, designs, manufactures and markets semiconductor assembly and packaging equipment as well as surface mount technology (SMT) equipment.

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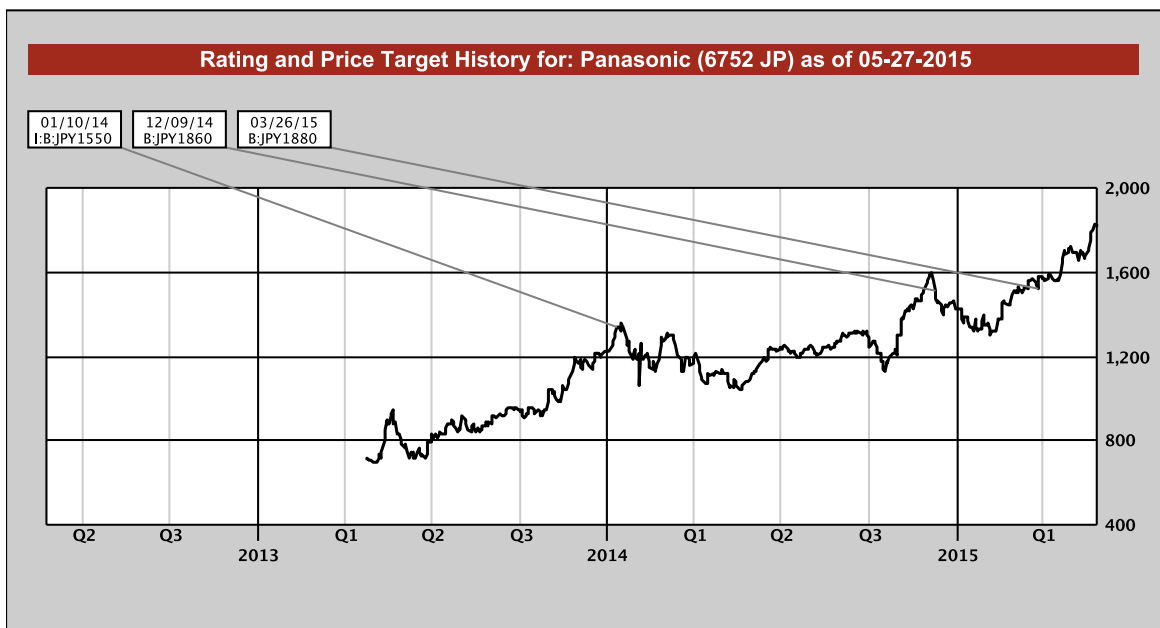
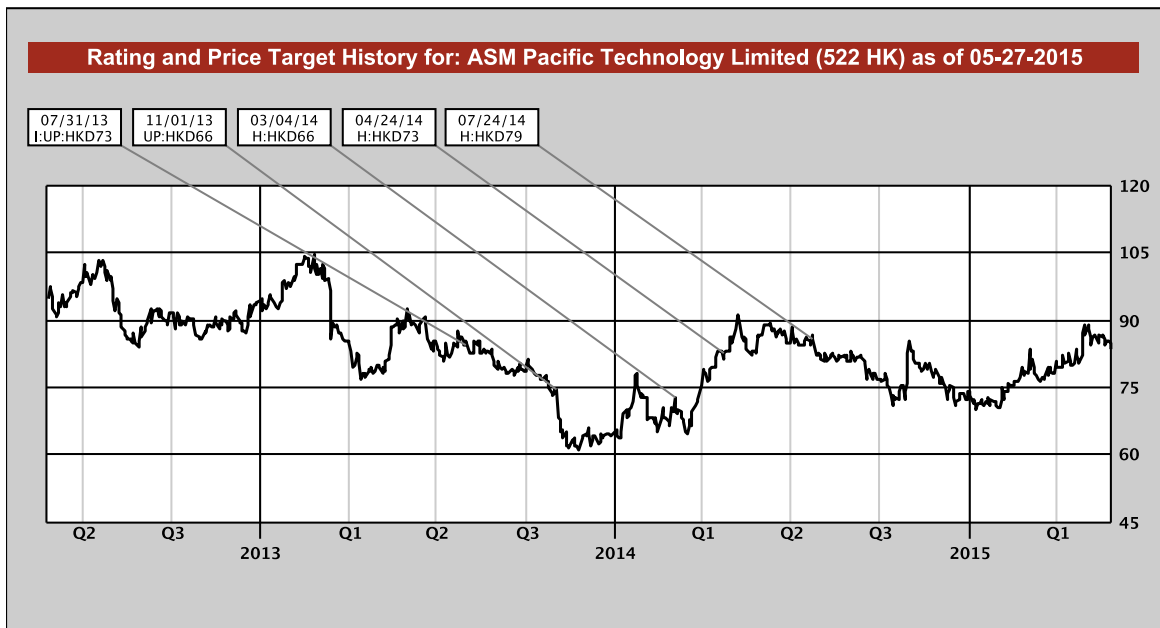
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Other Companies Mentioned in This Report

- Panasonic (6752 JP: ¥1,843, BUY)



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