

MITA No. 010/06/2008

28 April 2009

# Micro-Mechanics Holdings

Maintain

## HOLD

Previous Rating: HOLD

### S\$0.205

### Fair Value: S\$0.19

Stock Code: MMEC.SI  
 Reuters: 5DD  
 ISIN Code: MMHSP  
 Bloomberg: MMHSP

Event: Results

#### General Data

Issued Capital (m)	138
Mkt Cap (S\$m/US\$m)	28/19
Major Shareholder	
Sarcadia LLC (27.27%),	
Borch Christopher (25.66%),	
Ming Wah Low (5.15%)	
Free Float (%)	38.3
NTA per share (S\$)	0.27
Daily Vol 3-mth ('000)	57
52Wk High (S\$)	0.730
52Wk Low (S\$)	0.200

## Posted 3QFY09 loss, maintains cautious view on 4QFY09

**Larger-than-expected 3QFY09 loss.** Micro-Mechanics (MMH) reported a 40.4% YoY decline (-39.0% QoQ) in its 3QFY09 revenue to S\$5.5m, as the ongoing global financial turmoil and economic recession had led to an unprecedented drop in customer orders across all its worldwide manufacturing locations. This in turn resulted in the group suffering its first-ever quarterly loss of S\$1.4m (3QFY08: S\$2.1m profit, 2QFY09: S\$171k profit). The biggest drag came mainly from its CMA (Custom Machining & Assembly) manufacturing plant in US, which accounted for ~67% of its operating loss in 3QFY09. For 9MFY09, however, MMH remained in the black with net profit of S\$873k on revenue of S\$26.1m. While we have always held to our view that MMH's profitability would be afflicted by the exceptionally harsh market conditions, and that the group is likely to sink into the red amid the shorter/slower quarter, the magnitude of the impact appears to be larger than expected. Notably, 9MFY09 revenue makes up 73.2% of our FY09 sales forecast, while the net income constitutes 72.8% of our earnings estimate.

**Credit management, cost reduction measures paid off.** Since the start of 2009, fortunately, MMH has embarked on various initiatives to structurally lower its cost base, including a combination of pay, benefits and working-hour reductions. These measures had helped the group to achieve cost savings of ~S\$790k and alleviated its net loss in 3QFY09. On its operational front, we note that MMH has also been keeping a steady hand on its credit management. As of 31 March 2009, only S\$91k (or 2.6%) of its total trade receivables of S\$3.5m was outstanding for >90 days, while its bad debt expenses for 9MFY09 was a minimal S\$4.8k. If not for these proactive measures, MMH would not have been able to maintain its strong financial position, with cash balances of S\$8.6m (S\$10.1m as at end-2008) and no borrowings.

**Maintain HOLD.** While MMH has seen some improvements in orders in March, it is maintaining a cautious view on its 4QFY09 performance. On our side, we have also conservatively adjusted our FY09F earnings to reflect a possible loss for the fiscal year. However, as earnings and business activity is likely to remain uncertain and volatile, we are now switching our valuation to 0.8x FY10F NTA from 7x FY10F EPS. This pares our fair value to S\$0.19 from S\$0.24 previously. Nevertheless, we are keeping our **HOLD** rating on MMH as negatives seem to be priced in.

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Year to 30 Jun	Turnover (S\$m)	Gross Profit (S\$m)	Net Profit (S\$m)	EV/EBITDA (x)	EPS (SG cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	34.7	20.1	8.3	1.1	6.0	7.4	3.4	24.4
FY 08	38.2	22.2	8.9	1.2	6.4	6.7	3.2	24.4
FY 09F	31.9	11.5	-0.4	6.3	-0.3	nm	nm	4.9
FY 10F	31.0	12.5	2.0	3.3	1.4	nm	14.4	4.9

Please refer to the important disclosures at the back of this document.

**MMH's Key Financial Data**

<b>MMH Results</b> Year Ended 30 Jun (S\$ m)	<b>3Q08</b> (S\$m)	<b>3Q09</b> (S\$m)	<b>% Chg</b> (YoY)	<b>2Q09</b> (S\$m)	<b>% Chg</b> (QoQ)
Revenue	9.2	5.5	-40.4%	9.0	-39.0%
Gross profit	5.3	1.2	-76.8%	3.2	-62.2%
Gross margin	57.7%	22.5%		36.2%	
EBITDA	3.1	-0.7	-122.4%	1.1	-161.3%
Depreciation & amortisation	-0.6	-0.8	24.9%	-0.8	1.8%
Operating profit	2.5	-1.5	-160.5%	0.4	-520.8%
Net interest	0.0	0.0	nm	0.0	nm
Associates	0.0	0.0	nm	0.0	nm
Pre-tax profit	2.5	-1.5	-160.5%	0.4	-520.8%
Tax	-0.4	0.1	-122.4%	-0.2	-147.1%
Minority interests	0.0	0.0	nm	0.0	nm
Net profit	2.1	-1.4	-167.6%	0.2	-925.0%
Net Margin	22.7%	-25.8%		1.9%	

**EARNINGS FORECAST**

<b>Year Ended 30 Jun (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Revenue	34.7	38.2	31.9	31.0
EBITDA	13.2	13.5	3.4	5.9
Depreciation & amortisation	-3.0	-2.6	-3.2	-3.4
Operating Profit	10.2	11.0	0.2	2.6
Net interest	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0
Pre-tax profit	10.2	11.0	0.2	2.6
Tax	-1.9	-2.1	-0.6	-0.6
Minority interests	0.0	0.0	0.0	0.0
Net profit	8.3	8.9	-0.4	2.0
Earnings per share (cents)	6.0	6.4	-0.3	1.4
Fully diluted earnings per share (cents)	6.0	6.4	-0.3	1.4

**BALANCE SHEET**

<b>As at 30 Jun (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Cash	13.6	11.5	7.0	9.1
Other current assets	7.0	8.8	6.4	6.2
Fixed assets	22.0	23.2	22.0	20.7
Other long term assets	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>42.6</b>	<b>43.5</b>	<b>35.4</b>	<b>35.9</b>
Current liabilities less debt	4.3	5.1	3.0	2.9
Debt	0.0	0.0	0.0	0.0
Other long term liabilities	1.0	1.0	1.0	1.0
<b>Total liabilities</b>	<b>5.3</b>	<b>6.1</b>	<b>4.0</b>	<b>3.9</b>
Shareholders equity	37.4	37.4	31.4	32.0
Minority interests	0.0	0.0	0.0	0.0
<b>Total equity and liabilities</b>	<b>42.6</b>	<b>43.5</b>	<b>35.4</b>	<b>35.9</b>
NTA per share (cents)	27.0	27.0	22.7	23.1

**CASH FLOW**

<b>Year Ended 30 Jun (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Operating profit before working cap. changes	12.9	13.3	3.1	5.7
Working capital changes	0.1	-1.2	1.1	0.1
Interest and tax	-1.2	-1.5	-1.2	-0.3
<b>Net cash from operations</b>	<b>11.8</b>	<b>10.6</b>	<b>3.0</b>	<b>5.5</b>
Capex	-5.5	-4.6	-2.0	-2.0
Other investing flows	0.0	0.0	0.0	0.0
<b>Investing cash flow</b>	<b>-5.5</b>	<b>-4.6</b>	<b>-2.0</b>	<b>-2.0</b>
Change in equity	0.0	0.0	0.0	0.0
Net change in debt	0.0	0.0	0.0	0.0
Dividends paid	-5.5	-7.6	-5.5	-1.4
Others	0.0	0.0	0.0	0.0
<b>Financing cash flow</b>	<b>-5.5</b>	<b>-7.6</b>	<b>-5.5</b>	<b>-1.4</b>
<b>Net cash flow</b>	<b>0.8</b>	<b>-1.6</b>	<b>-4.5</b>	<b>2.1</b>
Cash at beginning of year	12.9	13.6	11.5	7.0
Effect of exchange rate fluctuations	0.0	-0.6	0.0	0.0
<b>Cash at end of year</b>	<b>13.6</b>	<b>11.5</b>	<b>7.0</b>	<b>9.1</b>

**Key Ratios**

PER (x)	3.4	3.2	nm	14.4
Price/NTA (x)	0.8	0.8	0.9	0.9
EV/EBITDA (x)	1.1	1.2	6.3	3.3
Dividend yield (%)	24.4	24.4	4.9	4.9
ROIC (%)	9.2	5.2	-23.3	1.8
ROE (%)	23.2	23.7	-1.2	6.2
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE to growth (x)	0.5	0.5	0.6	0.0

*Source: Company data, OIR estimates*

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