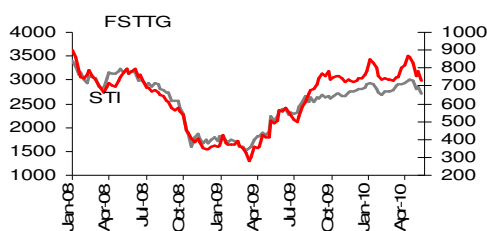


26 May 2010

# Overweight

## Semiconductor Sector

### Expect a banner year in 2010



**Good 1Q10 results.** Consistent with our view expressed in our sector report dated 9 Apr, both semiconductor companies under our coverage had recently turned in strong quarterly results, driven by healthy sales momentum and recovery in economic conditions. For Avi-Tech Electronics, earnings were as expected as growth in its Burn-In Services and Board Manufacturing segments more than offset the slower pick-up in Engineering Services segment. For Micro-Mechanics, earnings surpassed our expectation as the group benefited from sustained activity in its semiconductor tooling segment and recovery in Custom Machining & Assembly segment, as well as from better operational efficiency. We view this positively as the results may mean that the companies have already started to turn the corner and are now on path to earnings recovery.

**More affirmative outlook.** Indeed, both Avi-Tech and Micro-Mechanics, we note, have become markedly positive on their outlook for 2010, saying that they have been seeing a healthy level of customer orders and are expecting to further progress in their core segments in the coming quarters. While they anticipate volatility in demand patterns, forex rates and operating expenses going forward, both companies are confident of weathering the uncertain economic climate and capture any sales opportunities that arise.

**Chip sales to experience remarkable growth.** Our checks on the recent 2010 global semiconductor revenue growth forecasts by various market watchers also showed that they expect the industry to achieve a remarkable growth this year. While research firms had offered widely different views on the industry growth rate in past two quarters, we observe that recent forecasts by a number of them converged around the 31% level. This growth rate is stronger than their previous forecasts and our growth assumptions for both companies under coverage. As such, we see upside potential to our earnings forecasts on these companies, should they perform in line with industry expectations. In addition, we note that Singapore's total fab capacity is likely to increase 6.8% in 2010, based on projections by SEMI. This should help to bolster demand for services provided by both Avi-Tech and Micro-Mechanics.

**Maintain OVERWEIGHT.** We are maintaining our **OVERWEIGHT** view on the semiconductor industry. We also keep our **BUY** ratings on Avi-Tech (S\$0.24 fair value) and Micro-Mechanics (S\$0.57 fair value), as we see them as strong beneficiaries of the industry upswing. We believe the current market weakness is an opportune time to accumulate the stocks. Both companies are in strong net-cash positions and offer attractive FY11F yields of 8-9%.

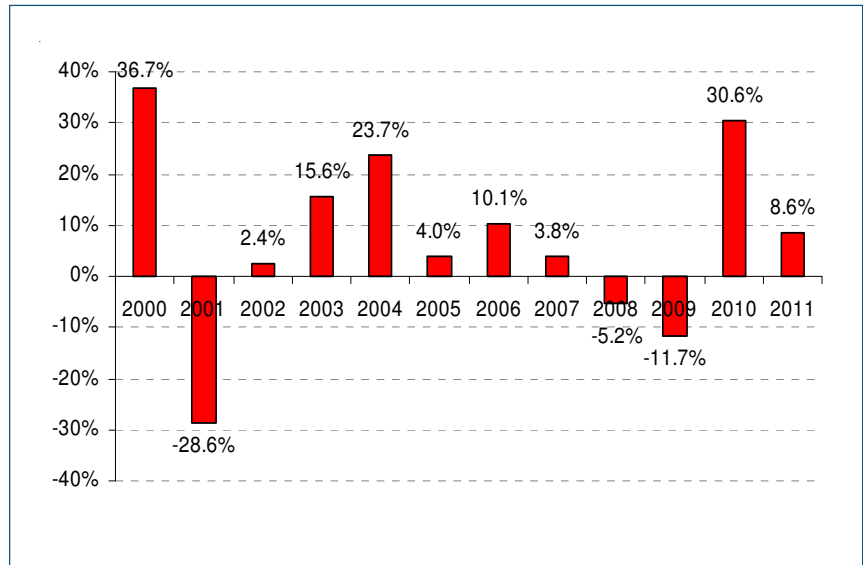
	Share price (\$S)	Fair value (\$S)	FY11F Yield (%)	Rating	Valuation
Avi-Tech Electronics	0.165	0.24	7.6	BUY	1.2x FY11F NTA
Micro-Mechanics	0.400	0.57	8.8	BUY	12x FY11F EPS

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Exhibit 1: Annual growth rate in global semiconductor revenue



Source: iSuppli, EE Times

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