

5 March 2009

WesTech Electronics Ltd

SELL

In dire situation

S\$0.02

Stock Code: WTEH.SI
 Reuters: 5BW
 ISIN Code: WTE SP
 Bloomberg: Update
 Event: Update

General Data	
Issued Capital (m)	137
Mkt Cap (S\$m/US\$m)	3 / 2
Major Shareholder	
	Siak Lian Tan (30.76%), Acal Plc (30.06%)
Free Float (%)	38.3
NTA per share (S\$)	-0.13
Daily Vol 3-mth ('000)	75
52Wh (S\$)	0.235
52Wk Low (S\$)	0.015

Heavy losses amid provision for doubtful debts. WesTech Electronics (WTE) recently posted a dreary set of FY08 results as guided. For its continuing operations, revenue declined 6.4% to S\$123.5m due to the downturn in the semiconductor and electronics industry, while net profit fell 23.5% to S\$3.7m on unfavourable sales mix, pricing pressures and higher-percentage operating expenses. Its Components division saw steep margin erosion, which fell 2ppt from 4.2% in FY07 to 2.2% at the operating profit level. By contrast, its Systems division actually improved 0.5ppt to 9.9%. Despite the positive bottomline from continuing operations, WTE suffered hefty provisions for doubtful debts amounting to S\$65.1m from its discontinued operations, due to default by major customers in the Display segment. Consequently, FY08 earnings came in at a net loss of S\$63.6m, as compared to S\$7.5m profit in FY07. This had also inadvertently wiped out its earnings accumulated over the years, dragging the group into a negative equity position of S\$18.1m, or negative NTA of 13.2 S cents/share.

In dire situation. Following the default, WTE had filed an insurance claim of around US\$13.5m on the bad debts and is currently in the process of liaising with the insurer. In addition, it had entered into a standstill agreement with certain financial institutions on 19 Dec 2008, which will be in force for a period of six months. Facing the weak economic environment, WTE is also expecting the semiconductor and electronics industry to remain highly challenging. As such, it will continue to streamline its operations to reduce costs, while intensifying its focus on core business segments. Based on preliminary projections, WTE is expecting sales from both Systems and Components divisions to register approximately 30-40% decline in FY09, and for its operating costs to reduce by a similar percentage as well.

String of unfavourable developments, SELL. Our view on WTE's business viability had grown increasingly pessimistic. While finance costs appear seemingly small at S\$0.5m in FY08, we note that most of the expenses have been charged to its discontinued operations. As such, interest expenses are likely to balloon to S\$2-3m in FY09 when the group assumes all the debt liabilities. In this exceptionally tough global environment, we see difficulty for the group to breakeven at the net profit level in FY09. As its equity, hence NTA, is not likely to turn positive even with a successful insurance claim (not forgetting missing all dividend prospects, and uncertain outcome from standstill agreement), we are recommending exiting the stock. **SELL.**

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Year to 31 Dec	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS* (cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07	131.9	7.8	7.5	5.4	0.7	0.4	97.3
FY 08	123.5	5.7	-63.6	-46.3	nm	nm	10.0
FY 09F	84.5	3.5	0.1	0.0	nm	44.6	-
FY 10F	92.5	4.4	0.7	0.5	972.2	4.2	-

*FY09F EPS is 0.04 S cents

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

WesTech's Key Financial Data

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F*	FY10F
Revenue	131.9	123.5	84.5	92.5
EBITDA	7.8	5.7	3.5	4.4
Depreciation & amortisation	-1.0	-1.5	-0.7	-0.8
Operating Profit	6.9	4.3	2.7	3.7
Net interest	-0.3	-0.5	-2.6	-2.7
Associates	0.1	0.0	0.0	0.0
Pre-tax profit	6.6	3.8	0.1	0.9
Tax	-1.8	0.0	0.0	-0.2
Net profit from continuing operations	4.8	3.7	0.1	0.7
Profit from discontinued operations	2.7	-67.3	0.0	0.0
Minority interests	-0.1	0.0	0.0	-0.1
Net profit	7.5	-63.6	0.1	0.7
Earnings per share (cents)	5.4	-46.3	0.0	0.5
Fully diluted earnings per share (cents)	5.4	-46.3	0.0	0.5

*Excluding any insurance claim on bad debts

BALANCE SHEET

As at 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Cash	31.2	6.8	6.0	3.2
Other current assets	128.5	29.3	20.1	22.0
Fixed assets	4.1	4.1	3.4	2.8
Other long term assets	3.1	0.2	0.2	0.2
Total assets	166.9	40.4	29.8	28.1
Current liabilities less debt	75.1	10.7	7.6	8.2
Debt	44.1	47.7	40.2	37.2
Other long term liabilities	0.1	0.1	0.1	0.1
Total liabilities	119.2	58.5	47.8	45.4
Shareholders equity	47.6	-18.1	-18.1	-17.4
Minority interests	0.2	0.0	0.1	0.1
Total equity and liabilities	166.9	40.4	29.8	28.1
NTA per share (cents)	33.9	-13.2	-13.2	-12.7

CASH FLOW

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	16.1	6.2	3.3	4.2
Working capital changes	-31.2	-19.3	6.0	-1.3
Interest and tax	-4.1	-4.2	-2.5	-2.7
Net cash from operations	-19.3	-17.4	6.8	0.2
Capex	-0.2	-0.9	0.0	-0.1
Other investing flows	-3.0	1.1	0.0	0.0
Investing cash flow	-3.2	0.2	0.0	-0.1
Change in equity	7.1	0.0	0.0	0.0
Net change in debt	43.2	-5.7	-7.5	-3.0
Dividends paid	-2.0	-2.1	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing cash flow	48.3	-7.8	-7.5	-3.0
Net cash flow	25.8	-25.0	-0.7	-2.9
Cash at beginning of year	5.3	31.2	6.8	6.0
Add: Bank overdrafts	0.0	0.6	0.0	0.0
Cash at end of year	31.2	6.8	6.0	3.2

Key Ratios

PER (x)	0.4	nm	44.6	4.2
Price/NTA (x)	0.1	-0.2	-0.2	-0.2
EV/EBITDA (x)	2.0	7.6	10.6	8.4
Dividend yield (%)	97.3	10.0	0.0	0.0
ROIC (%)	8.2	366.1	1.1	-4.1
ROE (%)	18.2	-429.2	-0.5	-4.0
Net gearing (%)	27.1	-225.5	-188.9	-195.5
PE to growth (x)	0.5	nm	-0.4	0.0

Source: Company data, OIR estimates

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