

# China / Hong Kong Company Update

## ASM Pacific

Bloomberg: 522 HK EQUITY | Reuters: 0522.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Feb 2022

### BUY

Last Traded Price (23 Feb 2022): HK\$85.00 (HSI : 23,660)  
Price Target 12-mth: HK\$138 (62% upside) (Prev HK\$125)

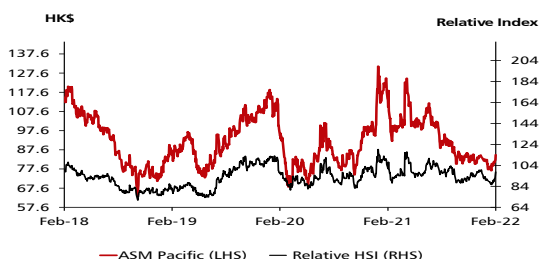
#### Analyst

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#### What's New

- FY21 results ahead, revenue and net profit surged 49% and 195% y-o-y
- Group margin up 5.6ppts to 40.6%, with SMT margin rising by 4.4 ppts y-o-y
- Raised FY22/23F revenue and net profit by 0.4%/5.0% and 11.8%/16.2%
- Maintain BUY for its attractive valuation and c.5% yield with DPS CAGR of c.12% in FY21-24, TP at HK\$138

#### Price Relative



#### Forecasts and Valuation

FY Dec (HK\$ m)	2021A	2022F	2023F	2024F
Turnover	21,948	24,020	27,147	29,446
EBITDA	4,981	5,267	5,895	6,533
Pre-tax Profit	4,092	4,282	4,934	5,537
Net Profit	3,169	3,340	3,844	4,314
Net Pft (Pre Ex) (core profit)	3,212	3,399	3,910	4,387
Net Profit Gth (Pre-ex) (%)	285.9	5.8	15.0	12.2
EPS (HK\$)	7.69	8.10	9.32	10.46
Core EPS (HK\$)	7.79	8.24	9.48	10.64
EPS Gth (%)	93.8	5.4	15.1	12.3
Core EPS Gth (%)	282.6	5.8	15.0	12.2
Diluted EPS (HK\$)	7.69	8.10	9.32	10.46
DPS (HK\$)	3.28	3.96	4.09	4.66
BV Per Share (HK\$)	37.01	41.69	43.55	50.23
PE (X)	11.1	10.5	9.1	8.1
CorePE (X)	10.9	10.3	9.0	8.0
P/Cash Flow (X)	14.5	10.3	9.4	7.8
P/Free CF (X)	16.8	12.7	11.9	9.6
EV/EBITDA (X)	6.6	6.1	5.2	4.5
Net Div Yield (%)	3.9	4.7	4.8	5.5
P/Book Value (X)	2.3	2.0	2.0	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	22.3	20.6	20.9	20.6
Earnings Rev (%)		12	16	New
Consensus EPS (HK\$)		6.74	6.72	7.34
Other Broker Recs:		B:15	S:1	H:8

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## Massive equipment investment upcycle

### Investment Thesis

**Global foundries continue to grow CAPEX.**

Due to underinvestment especially in legacy process nodes, leading foundries are expected to undertake massive investments to upgrade equipment until 2023 with industry-wide capital intensity ratio (CAPEX to sales) exceeding 20%. This will boost ASM Pacific's (ASMP) revenue growth in the coming 1-2 years.

**SMT's margin expansion to support overall margins.** Advance Packaging market offers strong revenue growth potential, expanding at 11% CAGR in 2021-26. Surface-mount technology (SMT) demand especially for SiP placement tools should increase and thus, we expect margins to expand to 41.8% in FY24.

**c.5% dividend yield with c.12% dividend CAGR.** ASMP offers an attractive dividend yield of c. 4.7%/4.8% for FY22/23, based on an average dividend payout ratio of over 50% (as in the past 5 years) and DPS CAGR of c. 12% in FY21-24.

### Valuation:

Our TP of HK\$138 is based on expected mean reversion to its 7-year average forward PE of 17x, implying FY22F PB of 3.7x. We like ASMP for its cheap valuation, and as a beneficiary of sustainable growth in semiconductors' players CAPEX.

### Where we differ:

The market expects ASMP sales to slow down or even decline due to sluggish or negative growth from smartphone shipment. However, we believe semiconductor manufacturers' CAPEX will maintain high single-digit growth due to underinvestment. Our FY22-23F EPS is 22%/55% higher than the market.

### Key Risks to Our View:

1) Slower-than-expected global semiconductor growth due to economic downturn and 2) weaker-than-expected demand from the automotive end market owing to the uncertainty in the regulations and development of autonomous driving.

### At A Glance

Issued Capital (m shrs)	413
Mkt Cap (HK\$m/US\$m)	35,105 / 4,498
Major Shareholders (%)	
ASM International NV	25.0
Free Float (%)	75.0
3m Avg. Daily Val. (US\$m)	10.12
GICS Industry: Information Technology / Semiconductors & Semiconductor	



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## ASM Pacific

### WHAT'S NEW

#### Growth momentum sustains and margin expansion on the track

**FY21 results ahead:** FY21 revenue was HK\$22.0bn (US\$2.82bn), up 49.3% y-o-y, beating market consensus by 1.8%. This was mainly due to robust growth from the automotive, consumer and industrial sectors driven by strong capex investment in the semiconductor industry. Gross margin climbed to 40.6%, up 5.63ppt y-o-y.

**FY21 net profit rocketed 195.4% to HK\$3.17bn**, beating market consensus by 21.6%. EPS was HK\$7.69. DPS was HK\$ 3.28. Dividend payout was 51%, down 17ppts y-o-y, consistent with the average level of 50% in the past 10 years.

**4Q revenue jumped 43.9% y-o-y** to HK\$ 6.20bn but declined 8.2% q-o-q due to a high base effect and general seasonality trend. 4Q gross margin increased 5.88 ppts y-o-y to 41.3% due to economies of scale from higher shipment volume and capacity utilization rate, and a better product mix.

**SEMI and SMT segment's FY21 revenue record a strong y-o-y growth** of 69.6% and 25.3% respectively, driven by IC/Discrete and Optoelectronics units. Both segments experienced margin expansion of 3.04ppts and 4.41ppts y-o-y.

**FY 21 book-to-bill ratio higher at 1.19x, on higher bookings.** FY21 bookings were HK\$261.2bn, +65.6% y-o-y, implying a book-to-bill ratio of 1.19x and an increase from 1.09x in FY20. The book-to-bill ratio at the SEMI and SMT divisions increased from 1.13/1.01 in FY20 to 1.18/1.21 respectively, implying a strong demand in both segments in FY21. As for 1Q22 outlook, the company guided for slightly lower revenue of US\$640-690m versus 4Q21, but this is US\$80.7m to US\$130.7m higher than 1Q21.

#### Outlook

With lead time for chips increasing to 25.8 weeks in Dec2021, there is no signs that the chip shortage situation is easing. With high consumer electronics demand, localization of foundries by nations like China, and growing demand from the auto sector, we expect CAPEX investments by semiconductor manufacturers to accelerate in 2022.

**Contribution from Automotive solutions grew** to c. US\$430m (more than double y-o-y) after the acquisition of AEi (an automotive camera equipment provider) and securing a significant number of new clients. This unit accounted for 16% of the total revenue. We expect automotive demand momentum to continue in FY22 and ASMPT should be able to capture further market share. The addressable market for automotive is expected to be US\$2.9bn in 2026 from US\$1.9bn in 2021.

**Margin expansion ahead** led by higher contribution from advanced packaging ("AP") and automotive market segments, which recorded y-o-y revenue growth of 35% and more than 200% in FY21. AP's strong book-to-bill ratio of 1.15 in FY21 implies strong demand momentum from customers. We expect its R&D to sales ratio to be maintained at c.9% to 10%, which should help to further fuel margin expansion in the coming few years. Therefore, we expect the overall gross margin to expand to 41.8% in FY24 from 40.6% currently.

#### Revenue and earnings Forecasts

While the drop in 4Q21 book-to-bill ratio to 0.85 may indicate a potential slowing in recent client demand growth, 1Q22 revenue guidance of US\$640-690m represents stronger y-o-y growth from 14.8% to 23.8%. We also expect a margin expansion and increasing efficiency of cost control in the coming few years

Therefore, we have raised FY22/23F revenue and net profit forecasts by 0.4%/5.0% and 11.8%/16.2% respectively, on margin expansion and increasing operational efficiency. Our FY22-23F EPS is 22%/55% higher than the market consensus. We project FY24F revenue and net profit to be HK\$29.4bn and HK\$4.3bn. This results in an EPS FY21-24F CAGR of 10.8%.

#### Valuation

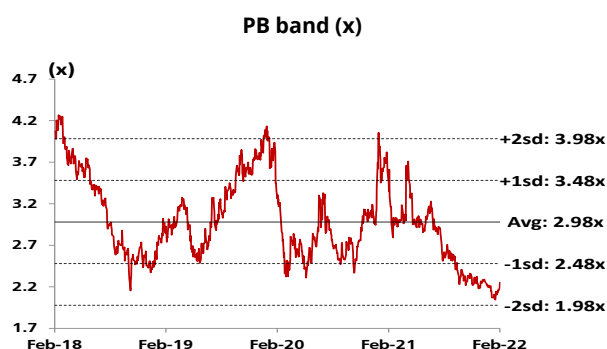
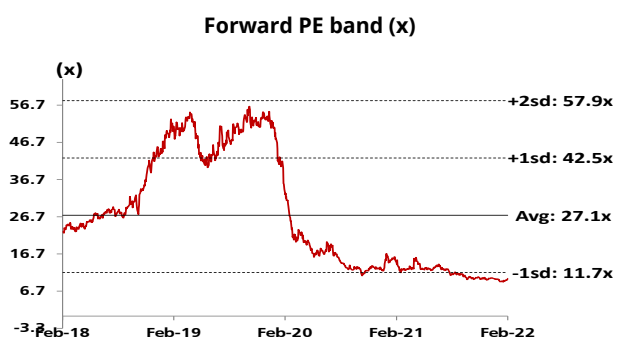
ASMPT is currently trading at 10.5x FY22F PE, below its 7-year of more than 1.5 SD. We raise its target price to HK\$138.0 is based on a higher EPS forecast and expected mean reversion to its 7-year average forward P/E of 17x. This implies FY22F forward PB of 3.68x, 1SD above its 7-yr average. We reiterate BUY based on its cheap valuation, sustainable growth in semiconductors' players CAPEX and attractive yield of c.5% in FY22/23 on FY21-24 DPS CAGR of c. 12.4%.

## ASM Pacific

### Company Background

Founded in 1975 and listed in 1988, ASM Pacific Technology (ASMPT) is the world's leading back-end semiconductor production equipment (SPE) supplier, with 30% market share. ASMPT expanded into surface mount technology (SMT) equipment business in 2011, and is the world's second largest SMT equipment supplier, with 22% market share. (1) Semi solutions, (2) Materials, (3) SMT solutions accounted for 44%, 12%, and 44% of FY19 revenues respectively. ASM International (ASM NA), which is the world's leading front-end SPE supplier, is the largest shareholder with a 25% stake.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## ASM Pacific

### Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
Semiconductor solution revenue	7,967.3	13,513.9	14,411.7	16,288.4	17,667.5
Gross Margin (%)	38.2	43.8	43.9	44.1	45.0
SMT solution revenue	6,732.9	8,433.7	9,607.8	10,859.0	11,778.3
Gross Margin (%)	31.1	35.5	36.0	36.5	37.0

Source: Company, DBS HK

### Segmental Breakdown (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
<b>Revenues (HK\$ m)</b>					
Semiconductor solutions	7,967	13,514	14,412	16,288	17,667
Surface mount technology solutions	6,733	8,434	9,608	10,859	11,778
Materials (Discontinued)	2,187	0	0	0	0
<b>Total</b>	<b>16,887</b>	<b>21,948</b>	<b>24,020</b>	<b>27,147</b>	<b>29,446</b>

Source: Company, DBS HK

## ASM Pacific

### Income Statement (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	16,887	21,948	24,020	27,147	29,446
Cost of Goods Sold	(11,406)	(13,040)	(14,240)	(16,007)	(17,145)
<b>Gross Profit</b>	<b>5,482</b>	<b>8,908</b>	<b>9,780</b>	<b>11,140</b>	<b>12,301</b>
Other Opng (Exp)/Inc	(4,189)	(4,766)	(5,417)	(6,123)	(6,641)
<b>Operating Profit</b>	<b>1,292</b>	<b>4,142</b>	<b>4,362</b>	<b>5,017</b>	<b>5,660</b>
Other Non Opg (Exp)/Inc	(74)	(38)	(62)	(74)	(80)
Associates & JV Inc	0	138	138	138	138
Net Interest (Exp)/Inc	(151)	(106)	(96)	(80)	(109)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	789	(43)	(59)	(67)	(72)
<b>Pre-tax Profit</b>	<b>1,857</b>	<b>4,092</b>	<b>4,282</b>	<b>4,934</b>	<b>5,537</b>
Tax	(226)	(917)	(934)	(1,076)	(1,207)
Minority Interest	(9)	(6)	(9)	(15)	(15)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,622</b>	<b>3,169</b>	<b>3,340</b>	<b>3,844</b>	<b>4,314</b>
Net Profit before Except.	832	3,212	3,399	3,910	4,387
EBITDA	2,079	4,981	5,267	5,895	6,533
<b>Growth</b>					
Revenue Gth (%)	6.3	30.0	9.4	13.0	8.5
EBITDA Gth (%)	0.7	139.5	5.8	11.9	10.8
Opg Profit Gth (%)	2.4	220.5	5.3	15.0	12.8
Net Profit Gth (%)	161.9	95.4	5.4	15.1	12.3
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	32.5	40.6	40.7	41.0	41.8
Opg Profit Margin (%)	7.7	18.9	18.2	18.5	19.2
Net Profit Margin (%)	9.6	14.4	13.9	14.2	14.7
ROAE (%)	13.1	22.3	20.6	20.9	20.6
ROA (%)	7.4	12.8	12.1	12.6	12.7
ROCE (%)	6.5	16.7	16.2	16.8	17.0
Div Payout Ratio (%)	35.3	42.8	49.0	43.9	44.6
Net Interest Cover (x)	8.6	39.0	45.3	62.6	52.1

Source: Company, DBS HK

## ASM Pacific

### Balance Sheet (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	4,094	4,018	3,936	3,961	4,047
Invt in Associates & JVs	1,240	1,386	1,550	1,735	1,942
Other LT Assets	3,030	2,846	2,885	2,858	2,859
Cash & ST Invt	4,506	4,884	6,016	7,288	8,932
Inventory	5,773	7,456	8,160	9,222	10,003
Debtors	4,306	5,887	6,289	7,106	7,707
Other Current Assets	214	24	44	67	92
<b>Total Assets</b>	<b>23,164</b>	<b>26,501</b>	<b>28,879</b>	<b>32,236</b>	<b>35,582</b>
ST Debt	547	449	421	429	429
Creditors	4,134	5,398	5,562	6,262	6,735
Other Current Liab	654	1,042	1,179	1,317	1,448
LT Debt	2,500	2,250	2,378	2,420	2,420
Other LT Liabilities	2,133	1,950	1,991	2,032	2,086
Shareholder's Equity	13,170	15,275	17,204	19,617	22,289
Minority Interests	25	136	145	160	175
<b>Total Cap. &amp; Liab.</b>	<b>23,164</b>	<b>26,501</b>	<b>28,879</b>	<b>32,236</b>	<b>35,582</b>
Non-Cash Wkg. Capital	5,504	6,926	7,751	8,816	9,619
Net Cash/(Debt)	1,459	2,186	3,217	4,439	6,083
Debtors Turn (avg days)	97.4	84.8	92.5	90.0	91.8
Creditors Turn (avg days)	132.7	141.4	149.2	142.0	145.3
Inventory Turn (avg days)	208.8	196.3	212.5	208.8	214.9
Asset Turnover (x)	0.8	0.9	0.9	0.9	0.9
Current Ratio (x)	2.8	2.6	2.9	3.0	3.1
Quick Ratio (x)	1.7	1.6	1.7	1.8	1.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	13.6	12.1	23.8	26.8	29.3
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

### Cash Flow Statement (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	1,857	4,092	4,282	4,934	5,537
Dep. & Amort.	861	739	830	814	816
Tax Paid	(226)	(917)	(934)	(1,076)	(1,207)
Assoc. & JV Inc/(loss)	0	(138)	(138)	(138)	(138)
(Pft)/ Loss on disposal of FAs	(789)	43	59	67	72
Chg in Wkg.Cap.	1,436	(1,422)	(825)	(1,065)	(804)
Other Operating CF	97	12	140	184	199
<b>Net Operating CF</b>	<b>3,235</b>	<b>2,410</b>	<b>3,415</b>	<b>3,721</b>	<b>4,476</b>
Capital Exp.(net)	(413)	(326)	(665)	(764)	(833)
Other Invt.(net)	(61)	(100)	117	(20)	(27)
Invt in Assoc. & JV	(1,240)	(8)	(27)	(47)	(69)
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	809	(283)	(143)	(147)	(156)
<b>Net Investing CF</b>	<b>(905)</b>	<b>(718)</b>	<b>(718)</b>	<b>(978)</b>	<b>(1,086)</b>
Div Paid	(572)	(1,356)	(1,636)	(1,688)	(1,924)
Chg in Gross Debt	4	(349)	100	50	0
Capital Issues	(26)	(31)	(31)	(31)	(31)
Other Financing CF	398	275	128	177	182
<b>Net Financing CF</b>	<b>(197)</b>	<b>(1,461)</b>	<b>(1,439)</b>	<b>(1,493)</b>	<b>(1,774)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	2,133	231	1,258	1,251	1,616
Opg CFPS (HK\$)	4.40	9.29	10.28	11.61	12.80
Free CFPS (HK\$)	6.90	5.05	6.67	7.17	8.83

Source: Company, DBS HK

**ASM Pacific**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	5-Nov-21	HK\$81.50	HK\$125.00	Buy

Source: DBS HK

Analyst: Jim Au

Tsz Wang Tam

## ASM Pacific

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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**ASM Pacific**

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