

DBS Group Research . Equity

21 Apr 2022

BUY

Last Traded Price (20 Apr 2022): HK\$76.40 (HSI : 20,945)
Price Target 12-mth: HK\$138 (81% upside)

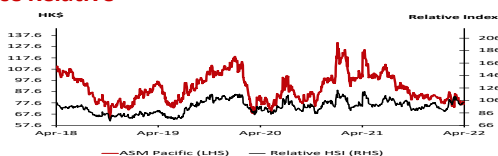
Analyst

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What's New

- 1Q22 revenue increased 21.5% y-o-y to HK\$ 5.3bn, in line with management guidance
- SEMI and SMT margins expanded 0.68ppt and 3.31ppt y-o-y mainly due to the higher mix of automotive solutions
- Book-to-bill ratio rebounded to 1.34x to support 2Q22 revenue
- Maintain BUY due to semiconductor players' CAPEX growth and 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\$)	7.69	8.10	9.32	10.46
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)	9.9	9.4	8.2	7.3
CorePE (X)	9.8	9.3	8.1	7.2
P/Cash Flow (X)	13.1	9.2	8.5	7.0
P/Free CF (X)	15.1	11.5	10.7	8.6
EV/EBITDA (X)	5.9	5.4	4.6	3.9
Net Div Yield (%)	4.3	5.2	5.4	6.1
P/Book Value (X)	2.1	1.8	1.8	1.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	22.3	20.6	20.9	20.6
Earnings Rev (%)		Nil	Nil	Nil
Consensus EPS (HK\$)		7.12	6.99	7.53
Other Broker Recs:		B:16	S:1	H:7

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

Advance packaging momentum and margin expansion persist in 2022

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 the industry-wide capital intensity ratio (CAPEX to sales) exceeding 20%. This will boost ASM Pacific's (ASMPT) revenue growth in the coming one to two years.

SMT's margin expansion to support overall margins. Advance packaging market offers strong revenue growth potential, expanding at a 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. ASMPT offers an attractive dividend yield of c.5.2%/5.4% for FY22/23, based on an average dividend payout ratio of over 50% (as in the past five years) and a DPS CAGR of c.12% in FY21-24.

Valuation:

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

Where we differ:

The market expects ASMPT sales to slow down or even decline due to sluggish or negative growth of smartphone shipments. 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) prolonged lockdown in production area due to Covid-19 outbreaks.

At A Glance

Issued Capital (m shrs)	413
Mkt Cap (HKm/US\$m)	32,503 / 4,144
Major Shareholders (%)	
ASM International NV	25.0
Free Float (%)	75.0
3m Avg. Daily Val. (US\$m)	14.53
GICS Industry: Information Technology / Semiconductors & Semiconductor	

ASM Pacific

WHAT'S NEW

Advanced packaging and automotive growth persist; expect growing contribution

1Q results ahead

1Q22 revenue increased 21.5% y-o-y to HK\$5.3bn, in line with management guidance, due to the continued strong demand in advanced packaging ("AP") and automotive tools. Gross margin increased 0.68ppt y-o-y to 44.7% due to margin expansion in all segments and a better product mix.

SEMI and SMT segments' FY21 revenue recorded a sequential y-o-y growth of 8.8% and 42.2%, respectively. Both segments experienced margin expansion of 0.68ppt and 3.31ppt y-o-y, mainly due to the higher mix of automotive solutions and economies of scale.

1Q22 net profit increased 57.1% to HK\$830.2m, mainly attributed to the margin expansion in both segments, beating the market consensus by 31.5%. EPS was HK\$2.02.

1Q22 book-to-bill ratio rebounded to 1.34x, from 0.85x in 4Q21, on higher bookings underpinned by AP and automotive's strong bookings. AP's contribution in bookings increased to 35% while automotive solutions' bookings grew 49% q-o-q, implying a strong support in their 2Q22 revenue.

As for 2Q22 outlook, the company guided for higher revenue of HK\$5.2-5.8m versus 1Q21, implying 5.8% y-o-y growth at the midpoint.

Our View

ASMPT's net profit growth exceeded expectations amid continued supply chain challenges caused by the Omicron outbreak and geopolitical tensions. This was mainly achieved by 1) strategic investment in and preparation of external manufacturing capacities and 2) redesigning the subsystem to enable more component options in the manufacturing process.

The impact of lockdowns in China in 1Q was limited and temporary. We expect to experience a mild impact from sporadic Covid-19 measures and supply chain woes due to good deliveries in 1H22.

Meanwhile, we expect the revenue growth and the margin expansion to continue, driven by 1) steady growth in mainstream solutions and 2) higher contribution from AP and automotive solutions in FY22, riding on persistently strong CAPEX investment in the semiconductor industry and global momentum for automotive electrification.

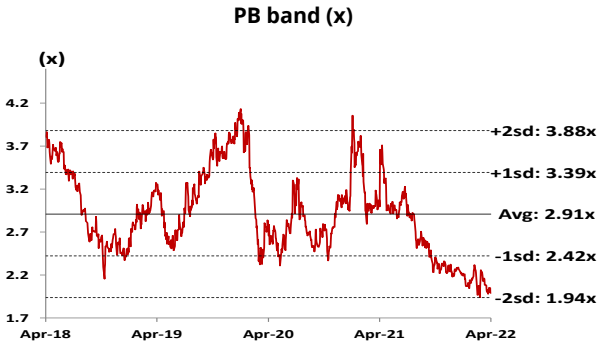
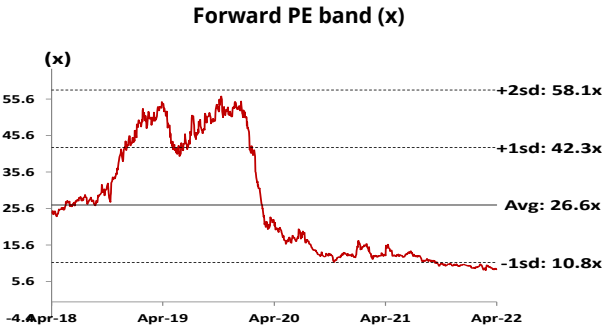
We maintain our earnings forecast and our TP at HK\$138.0, based on an expected mean reversion to its seven-year average forward P/E of 17.0x. This implies FY22F forward PB of 3.68x, 1SD above its seven-yr average. We reiterate BUY based on sustainable growth in semiconductor players' CAPEX and an attractive yield of 5.2%/5.4% in FY22/23 on the back of a FY21-24 DPS CAGR of c.12.4%.

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 a 30% market share. ASMPT expanded into the surface mount technology (SMT) equipment business in 2011, and is the world's second largest SMT equipment supplier, with a 22% market share. (1) Semi solutions, (2) materials, and (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.

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Historical PE and PB band



Source: Thomson Reuters, DBS HK

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Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
Semiconductor solution revenue (HK\$ m)	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 (HK\$ m)	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
Revenues (HK\$ m)					
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

Source: Company, DBS HK

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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)
Gross Profit	5,482	8,908	9,780	11,140	12,301
Other Opng (Exp)/Inc	(4,189)	(4,766)	(5,417)	(6,123)	(6,641)
Operating Profit	1,292	4,142	4,362	5,017	5,660
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)
Pre-tax Profit	1,857	4,092	4,282	4,934	5,537
Tax	(226)	(917)	(934)	(1,076)	(1,207)
Minority Interest	(9)	(6)	(9)	(15)	(15)
Preference Dividend	0	0	0	0	0
Net Profit	1,622	3,169	3,340	3,844	4,314
Net Profit before Except.	832	3,212	3,399	3,910	4,387
EBITDA	2,079	4,981	5,267	5,895	6,533
Growth					
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
Margins & Ratio					
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

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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
Total Assets	23,164	26,501	28,879	32,236	35,582
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
Total Cap. & Liab.	23,164	26,501	28,879	32,236	35,582
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

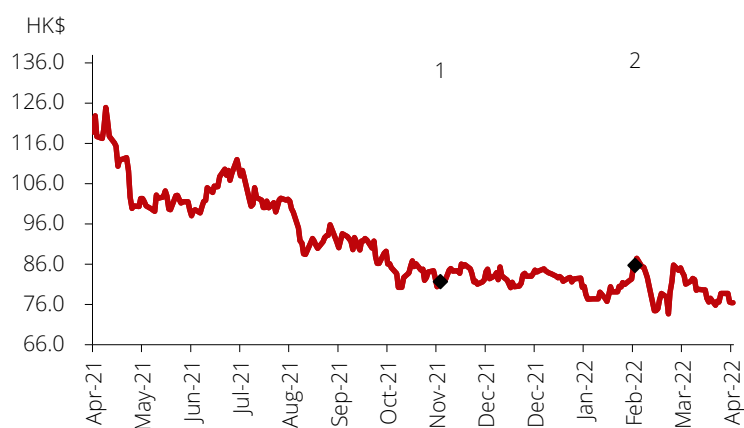
Cash Flow Statement (HK\$ m)

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
Net Operating CF	3,235	2,410	3,415	3,721	4,476
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)
Net Investing CF	(905)	(718)	(718)	(978)	(1,086)
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
Net Financing CF	(197)	(1,461)	(1,439)	(1,493)	(1,774)
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

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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
2:	24-Feb-22	HK\$85.00	HK\$138.00	Buy

Source: DBS HK

Analyst: Jim Au

Tsz Wang Tam

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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

Completed Date: 21 Apr 2022 18:26:45 (HKT)

Dissemination Date: 21 Apr 2022 18:55:33 (HKT)

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

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