

Malaysia

ADD (initiation)

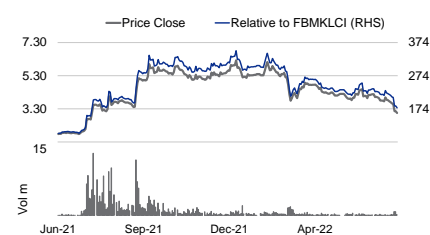
Consensus ratings*: Buy 0 Hold 0 Sell 0

Current price:	RM3.05
Target price:	RM3.80
Previous target:	N/A
Up/downside:	24.6%
CGS-CIMB / Consensus:	na
Reuters:	SAEG.KL
Bloomberg:	SEQB MK
Market cap:	US\$375.3m
	RM1,651m
Average daily turnover:	US\$0.14m
	RM0.61m
Current shares o/s:	541.4m
Free float:	28.5%

*Source: Bloomberg

Key changes in this note

➤ N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-22.6	-35.7	71.5
Relative (%)	-16.2	-26.9	77.3

Major shareholders

	% held
Singapore Aviation Manufacturing	71.5
iCapital Biz	3.5

Analyst(s)


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SAM Engineering & Equipment

Proxy to global aviation demand recovery

- We initiate coverage on SAMEE with an Add rating and a RM3.80 TP, based on 18x CY23F P/E, a 10% discount to its 3-year historical mean P/E.
- The group is poised to benefit from: 1) recovery in global aviation demand, 2) capacity spending in semiconductor industry, and 3) new capacity expansion.
- We expect SAMEE to register a 3-year core EPS CAGR of 24% (FY22-25F).

A contract manufacturer with dual exposure in aero and equipment

SAM Engineering & Equipment (SAMEE) is a 71.5%-owned subsidiary of Singapore Aerospace Manufacturing (SAM) group, which in turn is a unit of Singapore's sovereign wealth fund Temasek. In FY3/22, SAMEE derived 78% of its revenue from the equipment division, which serves the front-end and back-end semiconductor industry and the data storage market. Meanwhile the remaining 22% came from the aerospace division. SAMEE provides end-to-end manufacturing solutions for critical aircraft engine parts and aerospace-related equipment parts, like engine cases, nacelle beam and prismatic parts.

Riding on global aviation demand recovery

We see stronger recovery prospects for SAMEE's aerospace division beyond CY22F, driven by the robust demand outlook for commercial aircraft production. Aviation industry market research group Forecast International Inc projects total commercial aircraft production by Airbus and Boeing combined to grow by 32%/26%/11% in 2022F/23F/24F. Meanwhile, The International Air Transport Association (IATA) expects overall traveller numbers to reach 4.0bn in 2024F, exceeding pre-Covid-19 levels. Hence, we expect airlines to step up their reinvestment cycle in new capacity to capture market share, which should bode well for aircraft manufacturers, as well as suppliers (such as SAMEE).

Projecting a healthy 24% core net profit CAGR in FY3/22-25F

We project a 3-year core EPS CAGR of 24% (FY3/22-25F), driven by: 1) the recovery in global aviation demand and a pick-up in fan cases and nacelles production volume, 2) higher fab spending globally and commercialisation of newer products portfolio for its equipment customers, and 3) an additional 18% production floor area expansion with the opening of its second phase expansion in the Thailand plant by CY23F.

Initiate with an Add rating and a RM3.80 target price

We initiate coverage on SAMEE with an Add rating and RM3.80 target price, based on 18x CY23F P/E, a 10% discount to its 3-year mean P/E of 20x due to weak sentiment in the tech sector. The stock has fallen by 46% YTD, wider than the 35% YTD decline in Bursa Malaysia Technology Index. We believe the stock offers compelling value on the back of robust earnings growth prospects, driven by aviation demand recovery and new capacity expansion in Thailand. The stock also trades at 0.7x FY23F PEG ratio. A stronger recovery in aerospace demand and higher fab spending are potential catalysts, while delays in air travel recovery due to a new wave of Covid-19 infections and overcapacity in the semiconductor market are potential downside risks to our Add call.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (RMm)	874	1,148	1,333	1,518	1,654
Net Profit (RMm)	58.8	75.5	92.6	121.5	133.2
Core EPS (RM)	0.08	0.13	0.17	0.22	0.25
Core EPS Growth	(55.2%)	73.3%	31.3%	31.1%	9.7%
FD Core P/E (x)	40.58	23.39	17.83	13.60	12.39
Price To Sales (x)	1.89	1.44	1.24	1.09	1.00
DPS (RM)	0.028	0.035	0.045	0.060	0.070
Dividend Yield	0.90%	1.15%	1.48%	1.97%	2.30%
EV/EBITDA (x)	15.21	11.70	9.68	7.85	7.09
P/FCFE (x)	73.65	55.31	45.44	25.09	17.17
Net Gearing	11.8%	25.9%	22.0%	15.8%	8.0%
P/BV (x)	2.63	2.38	2.16	1.94	1.74
ROE	6.6%	10.7%	12.7%	15.0%	14.8%
% Change In Core EPS Estimates					
CGS-CIMB/Consensus EPS (x)					

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Proxy to global aviation demand recovery

Investment thesis

Riding on global aviation demand recovery ➤

We believe SAMEE is poised to benefit from the recovery in aviation industry demand, driven by global economic recovery, the easing of travel restrictions as international borders reopen, and accelerated progress in vaccination rates. The group is involved in the manufacturing of aerospace components, such as engine cases, nacelle beam and prismatic parts for tier-1 aircraft and engine suppliers. We gather from management during our meeting in Mar 22 that SAMEE has secured an over-RM3bn order backlog as of end-Dec 2021, of which a majority are related to the aerospace segment, and the remaining from the equipment segment servicing semiconductor and data storage applications.

Figure 1: SAM derives revenue from two divisions: Aerospace and Equipment

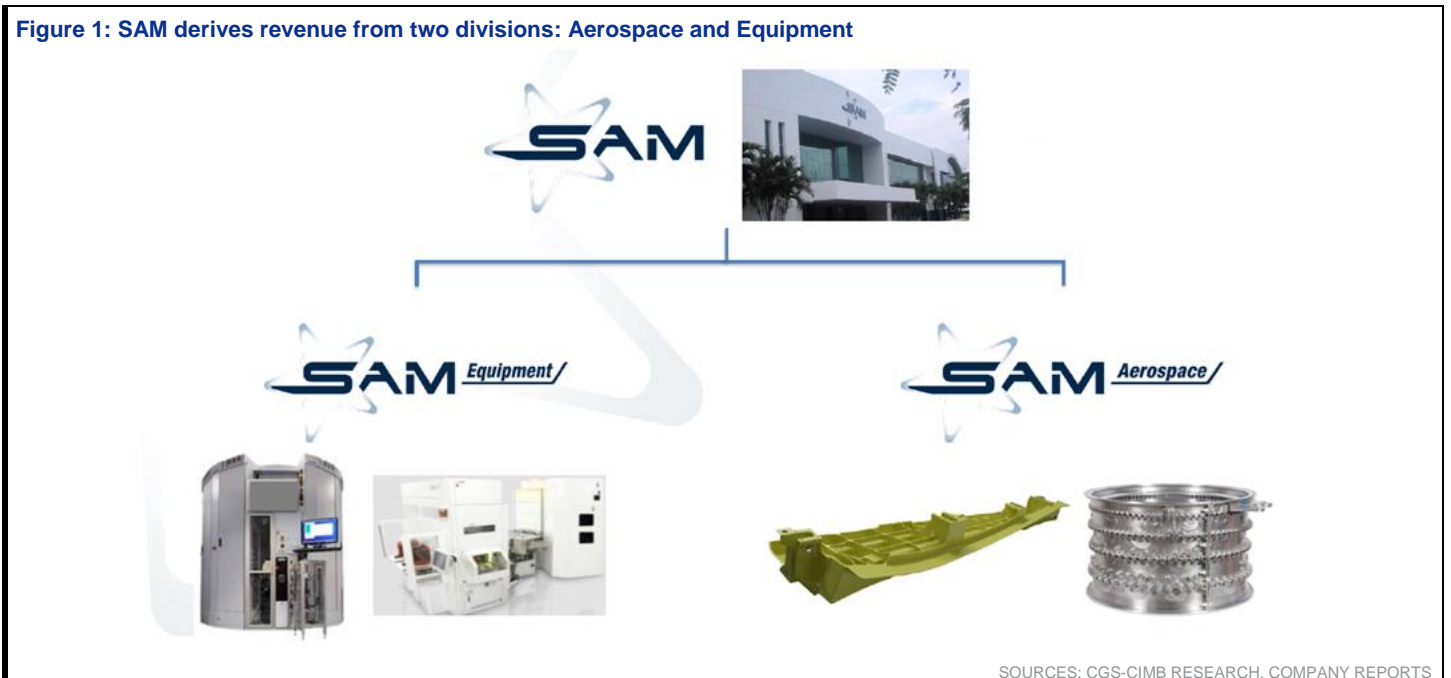
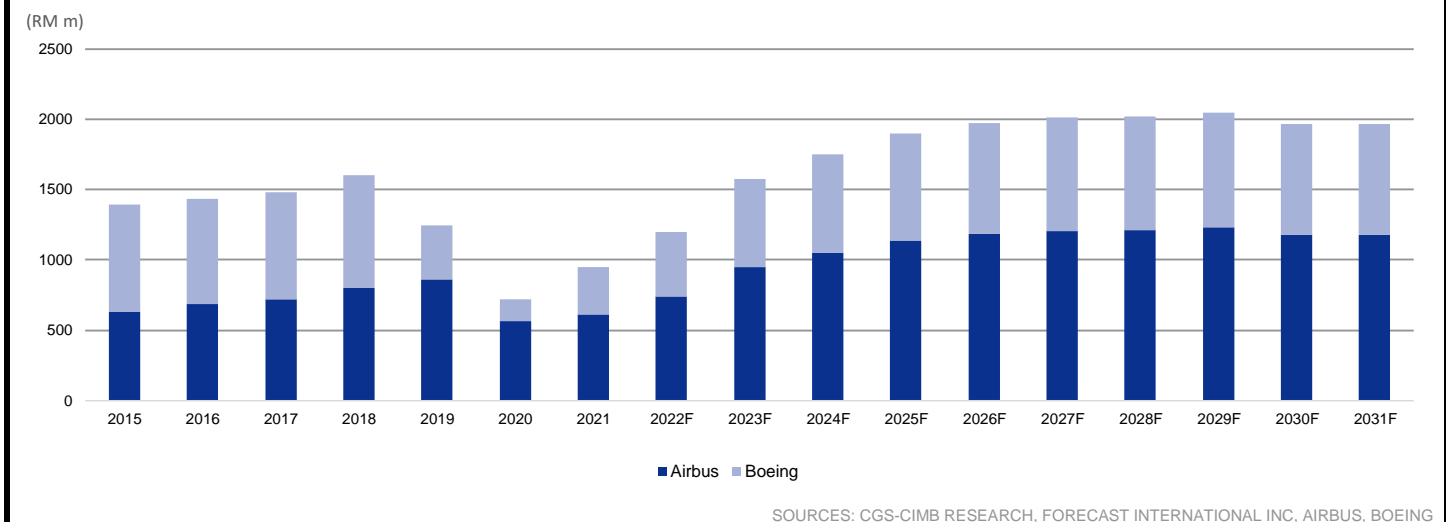


Figure 2: SAMEE is involved in the manufacture of aerospace products, like engine cases and nacelle beams



We see encouraging recovery prospects for SAMEE’s aerospace division beyond CY22F driven by a robust demand outlook for commercial aircraft production. Aviation industry market research group, Forecast International Inc, projects the total number of new commercial aircraft production rate by Airbus and Boeing combined growing by 26%/31%/11% in 2022F/23F/24F. Boeing and Airbus have delivered 165 (+49% yoy) and 237 (+8% yoy) aircraft, respectively, in 5M22. Airbus aims to deliver 720 commercial aircraft in 2022F, which implies 18% yoy growth, as per the group’s announcement during its 1Q22 results on 4 May 2022.

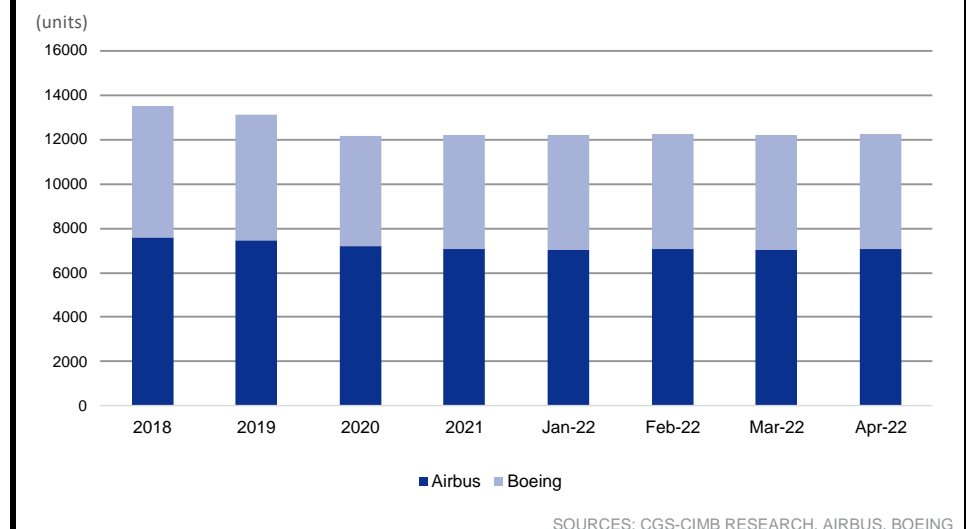
Figure 3: Historical annual and Forecast International’s projected annual aircraft production for Airbus and Boeing in 2015-2031F



Airbus’s and Boeing’s combined order backlog stood at 12,179 units as of May 22, which was broadly in line with historical levels in 2020 (12,181 units) and 2021 (12,218 units), but below those of 2018 (13,528 units) and 2019 (13,107 units) levels.

In addition, we believe the industry is gradually ramping up production in order to meet robust demand from airlines. For example, Boeing announced during its 1Q22 results on 27 Apr 2022 that it expects its 737 MAX production rate to increase from 26 units per month in 1QCY22 to 31 units per month in 2QCY22F. According to a Reuters published report on 5 Mar 2022, Boeing aims to increase its 737 MAX production rate to around 38 units per month in 1HCY23F, and 47 units per month in 2HCY23F.

Figure 4: Historical annual and monthly (2022) order backlog for Airbus and Boeing

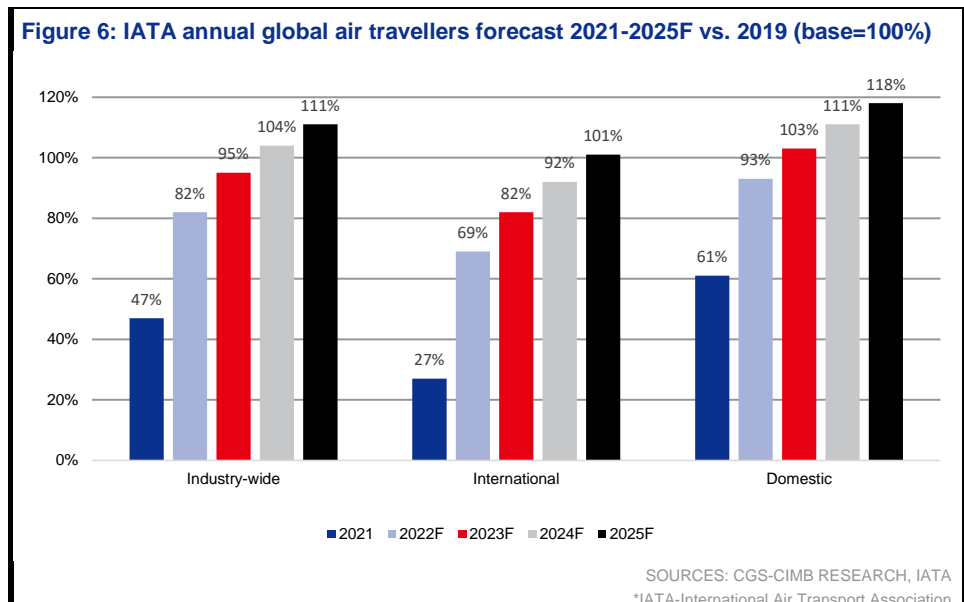


Meanwhile, Airbus expects the commercial aircraft market to recover to pre-Covid-19 levels between 2023 and 2025, led by the single-aisle aircraft segment. For example, the group announced during its 1Q22 results on 4 May 2022 that it expects the A320 family monthly production rate to increase from 50 units per month to 75 units per month in 2025F. Overall, we expect these forecasts to provide healthy order visibility for SAMEE in line with global economic recovery.



The International Air Transport Association (IATA) expects overall traveller numbers to reach 4.0bn in 2024F, exceeding pre-Covid-19 levels (104% of 2019's number).

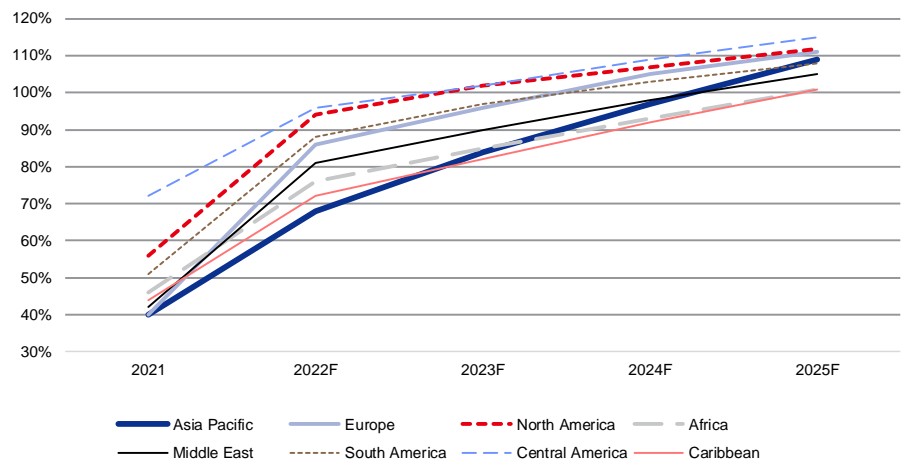
IATA estimates the North America, Central America, South America and Europe markets to be leaders in air transport recovery in 2021-2025F.



Although there has been some shift in the near-term recovery rate to reflect the evolution of government-imposed travel restrictions in some markets, IATA believes the overall recovery prospects remain unchanged, prior to the Omicron variant.

"The trajectory for the recovery in passenger numbers from Covid-19 was not changed by Omicron variant. People want to travel and when travel restrictions are lifted, they return to the skies. There is still a long way to go to reach a normal state of affairs, but the forecast for the evolution in passenger numbers gives good reason to be optimistic," said Willie Walsh, IATA's Director General as per IATA's press release on 1 Mar 2022.

Figure 7: IATA annual global air travellers forecast 2021-2025F vs. 2019 (base=100%) by region



SOURCES: CGS-CIMB RESEARCH, IATA
*IATA-International Air Transport Association

Overall, we expect the positive demand outlook to be favourable for airline companies and their suppliers. We expect airlines to gear up reinvestment in new capacity to capture market share. This in turn should bode well for aerospace component suppliers such as SAMEE given that the group is already involved in various aircraft manufacturing programmes for Airbus, Boeing, and others.

Benefitting from semis industry capex upcycle ►

In addition to the recovery in global aviation demand, we expect SAMEE to benefit from the ongoing semiconductor industry capex upcycle in view of resilient demand for semiconductor chips, due to the group's exposure in both the front-end and back-end semiconductor industry. For example, the group is involved in manufacturing equipment and systems for its customers going into 1) wafer inspection system, 2) deposition equipment support for front-end of line processes, and 3) data storage back-end test modules.

The World Semiconductor Trade Statistics Association (WSTS) expects global semiconductor sales to increase by 16.3% yoy to US\$646bn in 2022F (vs. US\$556bn in 2021), driven by strong demand in the integrated circuits (ICs) segment, led by logic (20.8%), analog (19.2%) and memory (18.7%). Meanwhile, the sensors, discreet and optoelectronics markets are projected to grow by 16%, 10% and flat yoy, respectively.

Figure 8: Historical and projected 2022-23F semiconductor sales by segment

	Sales (US\$ bn)					Annual growth (%)			
	2019	2020	2021	2022F	2023F	2020	2021	2022F	2023F
Discrete	24	24	30	33	35	(0.3)	27.4	10.2	3.8
Optoelectronics	42	40	43	44	45	(2.8)	7.4	0.3	3.7
Sensors	14	15	19	22	23	10.7	28.0	15.7	3.6
Integrated Circuits	333	361	463	547	577	8.4	28.2	18.2	5.4
Analog	54	56	74	88	93	3.2	33.1	19.2	5.7
Micro	66	70	80	89	94	4.9	15.1	11.4	5.3
Logic	107	118	155	187	201	11.1	30.8	20.8	7.3
Memory	106	117	154	183	189	10.4	30.9	18.7	3.4
Total	412	440	556	646	680	6.8	26.2	16.3	5.1

SOURCES: CGS-CIMB RESEARCH, WSTS
*WSTS-World Semiconductor Trade Statistics Association

Meanwhile, WSTS forecasts all major semiconductor markets to register positive sales growth in 2022F, led by the Americas (22.6%) followed by Europe (20.8%),

Asia Pacific-ex Japan (13.9%) and Japan (12.6%). This will be another impressive year following a record-breaking growth of 26% in 2021F.

Figure 9: Historical and projected 2022-23F semiconductor sales by region

	Sales (US\$ bn)					Annual growth (%)			
	2019	2020	2021	2022F	2023F	2020	2021	2022F	2023F
Americas	79	95	121	149	156	21.3	27.4	22.6	4.4
Europe	40	38	48	58	61	(5.8)	27.3	20.8	5.1
Japan	36	36	44	49	52	1.3	19.8	12.6	4.8
Asia Pacific	258	271	343	391	412	5.1	26.5	13.9	5.5
Total	412	440	556	646	680	6.8	26.2	16.3	5.1

SOURCES: CGS-CIMB RESEARCH, WSTS
*WSTS-World Semiconductor Trade Statistics Association

This is above the average sales growth projections from various market research groups (Figure 10), which are forecasting an average of 12.7% sales growth in 2022F, vs. 26% growth in 2021.

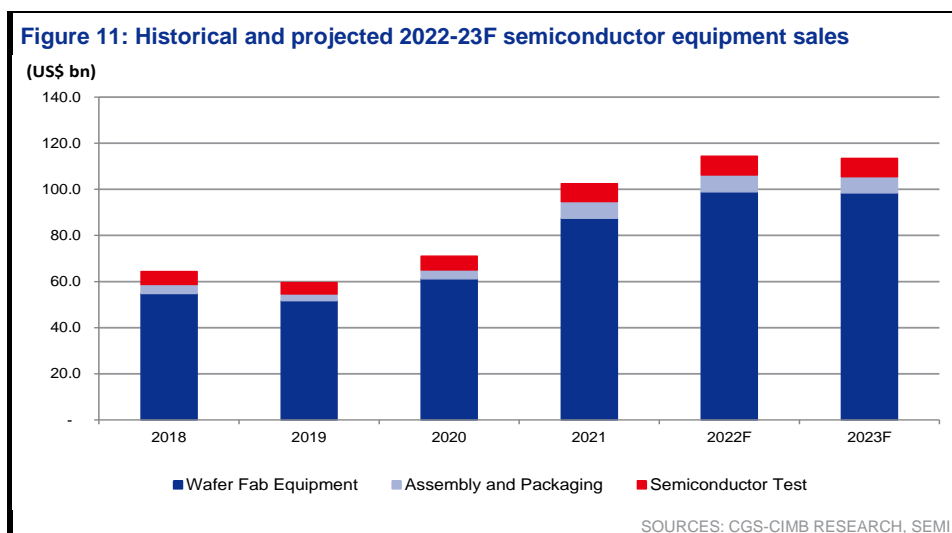
Figure 10: Worldwide semiconductor industry sales forecasts

Semiconductor sales growth forecast (%)	2022F	2023F
Gartner	13.6	3.6
IDC	13.7	-
WSTS	16.3	5.1
IC Insights	11.0	-
Semiconductor Intelligence	9.0	3.0
Average	12.7	3.9

SOURCES: CGS-CIMB RESEARCH, SEMICONDUCTOR-INTELLIGENCE

SEMI, the global industry association representing the electronics manufacturing and design supply chain, expects global semiconductor equipment spending to reach US\$114bn (+12% yoy) in 2022F driven by higher fab spending for front-end equipment. SEMI estimates total fab equipment spending to grow by 20% yoy in 2022F reaching a new all-time high of over US\$109bn. SEMI reported total fab equipment spending grew 17% in 2020 and 42% in 2021. The industry saw the last three consecutive years of growth from 2016 to 2018.

The association highlighted that the fab equipment market enjoyed unprecedented growth, with an increase in spending in six out of the past seven years, as chipmakers continue to invest in capacity to meet structural growth for various emerging technologies, such as artificial intelligence, autonomous machines, and quantum computing. This is on top of stronger demand for remote learning and working, telehealth and other applications.



We see higher fab equipment demand driven by new capacity expansion within the semiconductor industry. Market research group, Knometa Research, highlighted that there were 153 fabs processing 300mm wafer for the fabrication of ICs, including CMOS image sensors and non-IC products such as power discretes at the end of 2021. The semiconductor industry added 14 new fabs in 2021. Knometa Research expects an additional 10 and 13 new fabs scheduled to open in 2022F and 2023F, respectively. The market research group estimates the semiconductor industry will have over 200 fabs for 300mm wafer by 2026F.

Figure 12: Numbers of semiconductor fabs using 300mm wafers

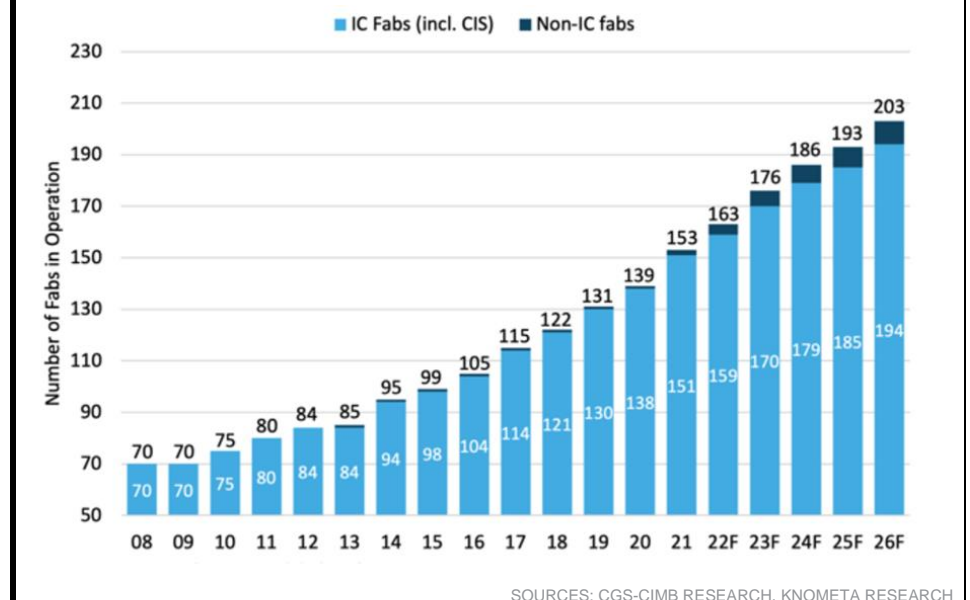


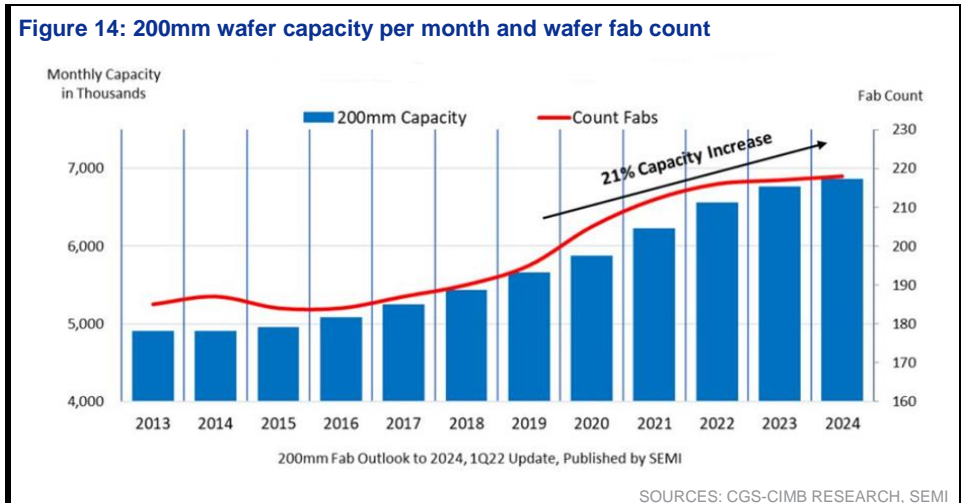
Figure 13: 300mm wafer fabs opening in 2022F

Company	Fab Name	Location	Products
CR Micro	Runxin Microelectronics	Chongqing, China	Power semiconductors
Silan	Xiamen Silan	Xiamen, Fujian, China	Power discretes, sensors
SK Hynix	M15, Phase 2	Cheongju, Korea	NAND
SMIC	SMIC Shenzhen	Shenzhen, China	Foundry
ST/Tower	Agrate300	Agrate, Italy	Mixed-signal, power, RF, foundry
TI	RFAB2	Richardson, Texas, USA	Analog
TSMC	Fab 18, Phase 4	Tainan, Taiwan	Foundry
TSMC	Fab 16, Phase 2	Nanjing, Jiangsu, China	Foundry
TSMC	Fab 18, Phase 5	Tainan, Taiwan	Foundry
Winbond	Kaohsiung Fab, Phase 1	Kaohsiung, Taiwan	DRAM

SOURCES: CGS-CIMB RESEARCH, KNOMETA RESEARCH

In addition to the expansion in 300mm wafer fabs capacity, SEMI also reported that the industry is investing in capacity for 200mm wafer fabs globally. For example, SEMI expects the 200mm wafer fab capacity to grow by 1.2m wafers per month or 21% to 6.9m wafers per month from 2019 to 2024F. SEMI reported the total equipment spending for 200mm wafers jumped to US\$5.3bn in 2021 and it expects the spending to moderate to about US\$4.9bn in 2022F.

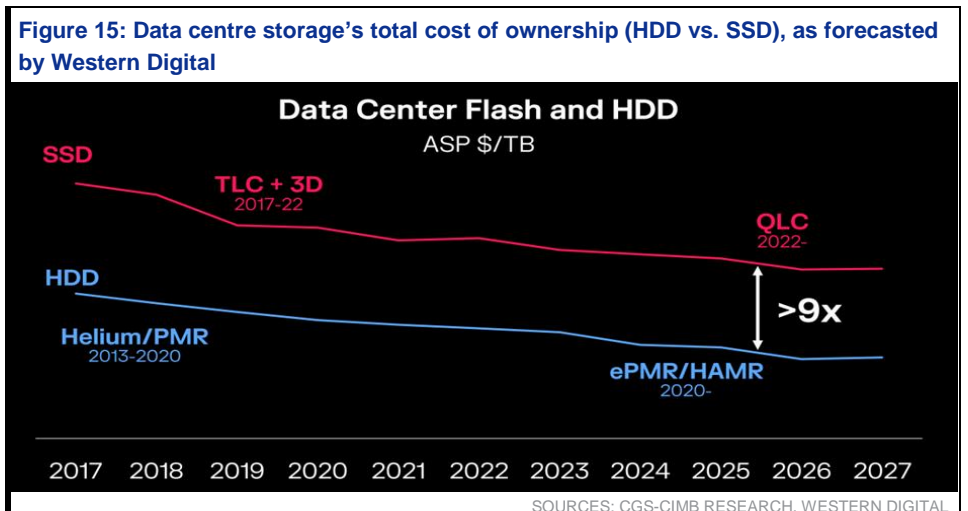
“Wafer manufacturers will add 25 new 200mm lines over the five-year period to help meet the growing demand for applications, such as 5G, automotive and Internet of Things (IoT) devices, which rely on analog, power management and display drivers ICs, MOSFETs, Microcontroller units (MCUs) and sensors,” said Ajit Manocha, SEMI President and CEO as per SEMI press release on 11 Apr 2022.



Overall, we see that robust semiconductor demand bodes well for SAMEE’s equipment division, which has continued to drive higher sales since FY3/20. We project SAMEE’s equipment division registering a 9% sales CAGR in FY3/22-25F.

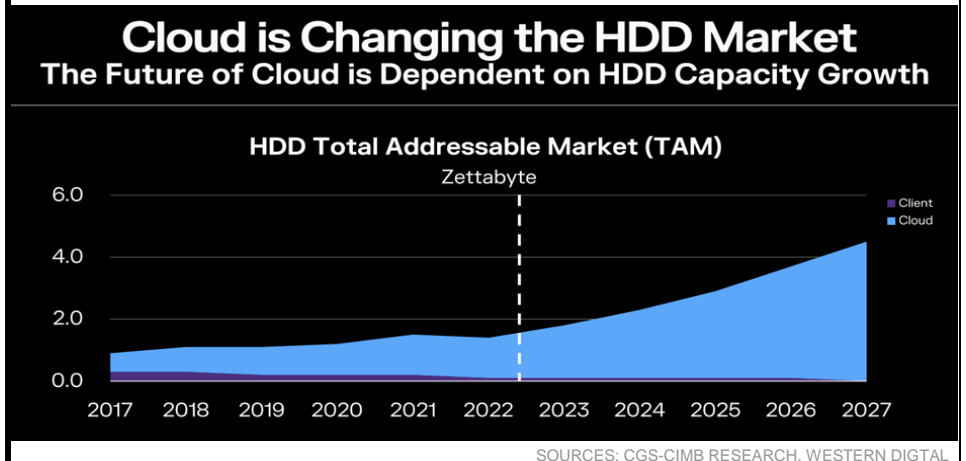
Rising content creation requires more data storage ▶

Apart from the semiconductor market, SAMEE also supplies equipment going into data storage applications, such as solid state drive (SSD) and hard disk drive (HDD). We expect the group to benefit from rising demand for data storage, driven by digital content creation and cloud computing, and the market’s transition from HDD to SSD, given its dual offerings. Although SSDs have replaced HDDs in other applications, such as consumer, HDDs remain key solutions for cloud storage, given its lower total cost of ownership according to leading HDD maker, Western Digital (WDC US, NR).



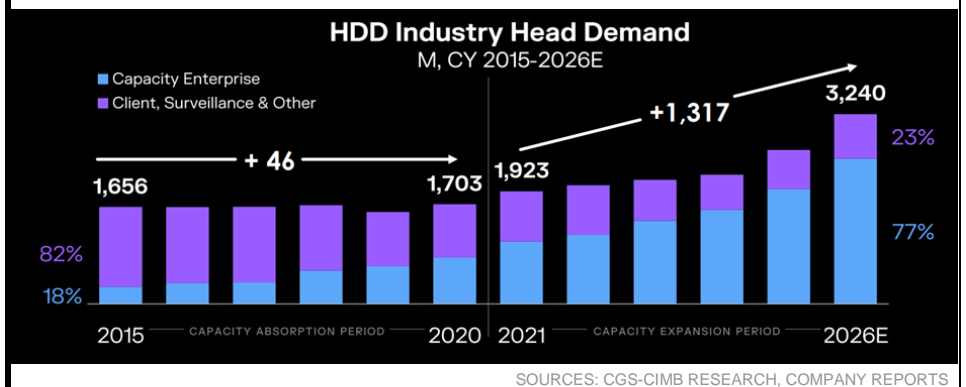
Western Digital estimates that the total addressable market for HDDs would reach 1.5 zettabytes in 2022F and exceed 4 zettabytes by 2027F, driven by cloud computing demand.

Figure 16: Western Digital projects HDD market storage capacity to exceed 4 zettabyte by 2027F



Hence, this could translate into a structural capacity expansion in the data storage market. Western Digital estimates a higher capacity investment in the HDD market over the next five years (2021-2026F) to raise production capacity to meet the cloud storage demand. Overall, this bodes well for SAMEE’s equipment division, in our view.

Figure 17: Western Digital projects the market to raise capacity spending to meet the cloud demand



New capacity in Thailand to fuel expansion and diversification strategy >

SAMEE expanded its Thailand operations with the opening of its second facility in Rojana Industrial Park Ayutthaya in 4QCY21. The group highlighted that the second production facility is mainly catering for the equipment division. In addition, it also serves as a business continuity plan strategy for the group in the event of supply chain disruptions, or temporary disruptions, such as those brought about by the Covid-19 pandemic.

The new Thailand plant has an estimated total production floor area of 186k sq ft. SAMEE commenced operations in the first phase (60k sq ft) since Oct 2021. The plant is equipped with a full suite of manufacturing capabilities, such as precision machining, sheet metal fabrication, special processes, cleanroom and non-cleanroom assembly processes. Although the new facility will be mainly catering for its equipment division, the group indicated that some of the special processes capabilities are also applicable for the aerospace division

Figure 18: Phase 1 expansion at Rojana Industrial Park Ayutthaya Thailand



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Meanwhile, SAMEE aims to start mass production for the second phase of the plant in CY2023F. Once fully operational, we estimate that the new plant would increase the group's production capacity by at least 20%.

Figure 19: Phase 2 expansion plan in Thailand



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Risks

Exposure to semiconductor boom and bust cyclicity ►

SAMEE is exposed to the semiconductor industry boom-bust cycle, given that robust demand tends to lead to a new wave of capital investment in the sector, which could lead to overcapacity in the event of a downturn, resulting in price competition and margin erosion across the semiconductor industry value chain. Moreover, any order cancellations from customers could affect SAMEE's equipment division's production volumes and utilisation. Hence, we could see downside risks to sales and earnings in the event of a demand slowdown.

Customer concentration ►

SAMEE has two major customers for its equipment division. Based on SAMEE's FY3/21 annual report, these two customers cumulatively accounted for 45% and 60% of the group's revenue in FY20 and FY21, respectively. Possible reduction in orders or loss of either customer due to competition or product quality issues would have a negative impact on the group's financial performance, in our view.

Delay in global aviation recovery ➤

Although IATA projects overall traveller numbers to reach 4.0bn in 2024F, exceeding pre-Covid 19 levels (104% of 2019), we could see risk of delayed global aviation recovery in the event of a slowdown in the global economy amid rising inflationary pressures. According to the World Bank’s Global Economic Prospect Report published in June 2022, the damage from the Covid-19 pandemic and the Russian-Ukraine war has magnified the slowdown in the global economy, which could lead to a protracted period of tepid growth and elevated inflation, raising the risk of stagflation. The World Bank is projecting a slower global GDP growth of 2.9% in 2022F (vs. 5.7% in 2021 and the 4.1% growth forecast released in Jan 22). Overall, a slowdown in global economy may not only affect the aviation sector, but could also lead to weaker consumer electronics demand, in our view. Hence, this could also bring a pause to the global semiconductor industry’s capacity expansion.

Foreign currency fluctuations ➤

The majority of SAMEE’s revenue is derived in US\$, as its Malaysian operations mainly support the semiconductor equipment and aircraft engine manufacturers and related parts providers globally. In FY3/21, the group derived approx. 60% of its total revenue from the North America market. Meanwhile Asia-ex Malaysia made up 35% revenue contribution to the group, followed by Malaysia with 4.5%. The group mainly transacts in US\$. The bulk of SAMEE’s revenue (95.5% in FY3/21) is derived from the export markets and is US\$-denominated. As a result, any fluctuation in the US\$/RM rate would result in forex losses/gains to the company.

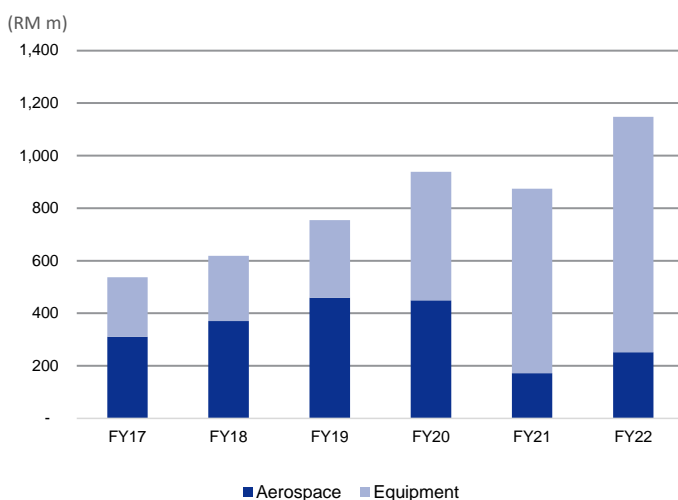
Financials

Interrupted growth due to Covid-19 pandemic in FY3/21 ➤

SAMEE was on track to achieve its RM1bn annual revenue target in FY3/20 before the Covid-19 pandemic hit. The group recorded an average annual revenue CAGR of 20% in FY3/17-FY20, driven by stronger contribution from both the aerospace and equipment divisions.

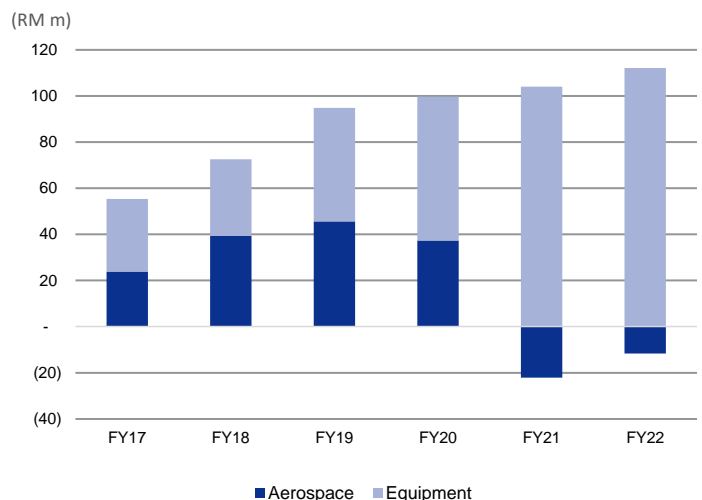
Meanwhile, the group’s revenue fell 6.9% yoy in FY3/21 mainly due to a significant drop in aerospace demand as a result of the Covid-19 pandemic. The aerospace division posted a RM22.2m loss before tax in FY3/21 (against RM37.3m pretax profit in FY3/20).

Figure 20: Historical annual revenue by divisions (FY17-22)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

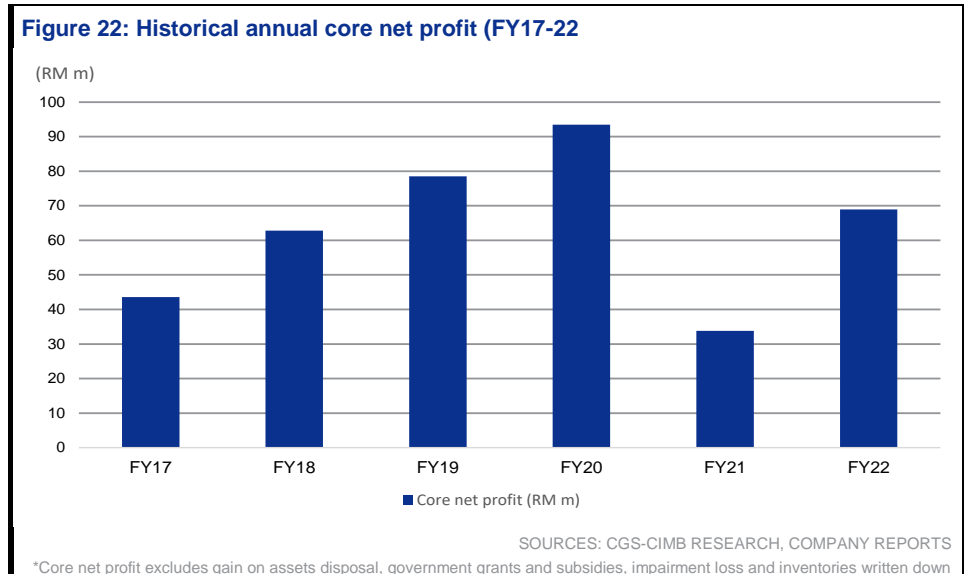
Figure 21: Historical annual pretax profit/loss by divisions (FY17-22)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Nevertheless, the weaker contribution from aerospace segment was partially offset by higher sales and earnings from equipment division driven by stronger demand from semiconductor and data storage segments. Equipment division registered 43.5% and 66.9% yoy growth in revenue and pretax profit in FY3/21. Overall, core net profit in FY3/21 still slid by 64% yoy to RM33.8m.

Figure 22: Historical annual core net profit (FY17-22)



Back on recovery path in FY3/22 >

The group outperformed its RM1bn revenue target after posting RM1.15bn revenue in FY3/22 (+31% yoy), driven by: 1) record sales from its equipment division of RM896m, and 2) recovery in its aerospace division (+46% yoy), albeit still 44% below its FY3/20 annual sales. The group attributed the recovery in its aerospace division sales due to higher shipments of casing and aerostructures products. Despite the stronger sales, pretax profit margin in FY3/22 fell by 0.5% pt yoy to 8.8%, due to: 1) escalation in employment costs, and 2) start-up cost for its new plant in Thailand. Meanwhile, its aerospace division posted a narrowing pretax loss of RM11.7m in FY3/22 (vs. RM22.1m pretax loss in FY3/21). The equipment division also posted a new record-high pretax profit of RM112.1m in FY3/22 (vs RM104m in FY3/21). Overall, SAMEE’s core net profit jumped 2x yoy to RM68.9m in FY3/22, after stripping out the RM13.1m government grants, RM7.3m inventories write-down and RM683k gain on assets disposal.

Figure 23: FY21 vs. FY22 revenue

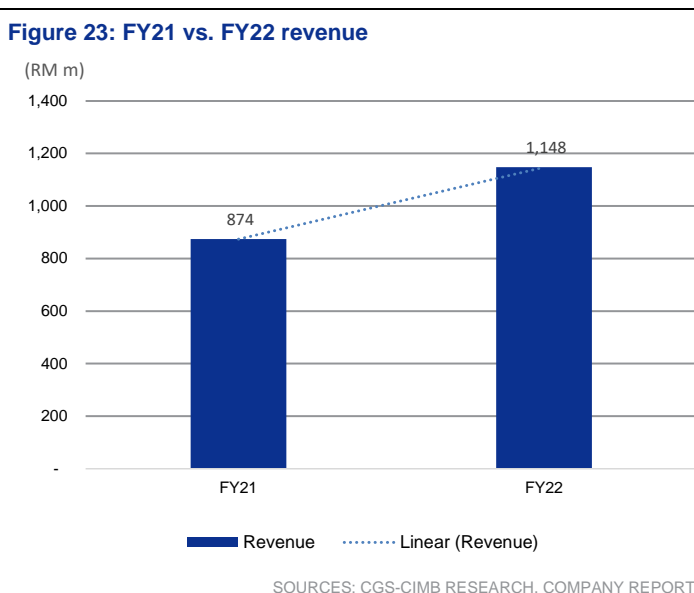
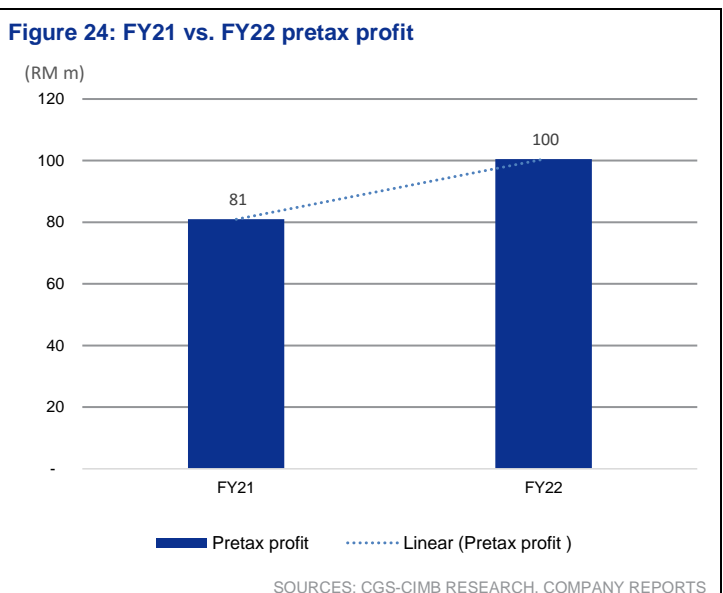


Figure 24: FY21 vs. FY22 pretax profit

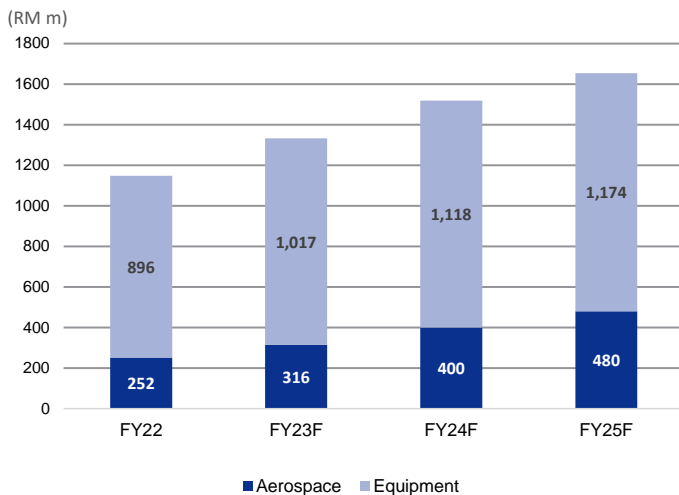


Forecasting higher sales growth percentage from aerospace over equipment divisions ➤

We project a stronger revenue growth from the aerospace division, with a 3-year (FY3/22-25F) revenue CAGR of 24%, mainly driven by a stronger recovery in global aviation demand, in view of easing border restrictions and a pick-up in global economy recovery. Meanwhile, we expect moderating growth from the equipment division, with a projected 3-year (FY3/22-25F) revenue CAGR of 9%, driven by new capacity expansion in its Thailand plant and commercialisation of a new product portfolio for its customers. Nevertheless, we still expect the equipment division to make up between 71% and 76% revenue contribution to the group in FY3/23-25F.

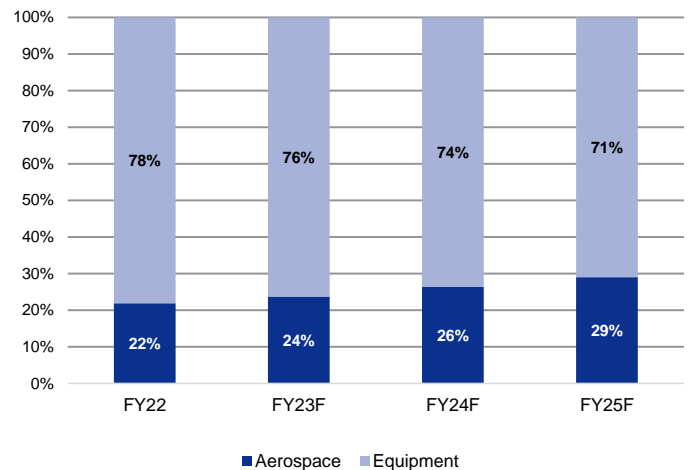
We gathered from management during our last meeting in Mar 22 that the group has over RM3bn worth of order backlog as at-end Dec 2021, out of which a majority are related to the aerospace division. Overall, we are forecasting revenue of RM1.3bn/RM1.5bn/RM1.65bn in FY23F/24F/25F.

Figure 25: CGS-CIMB's FY22-25F revenue forecasts by divisions



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 26: CGS-CIMB's FY22-25F revenue percentage forecasts by divisions



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

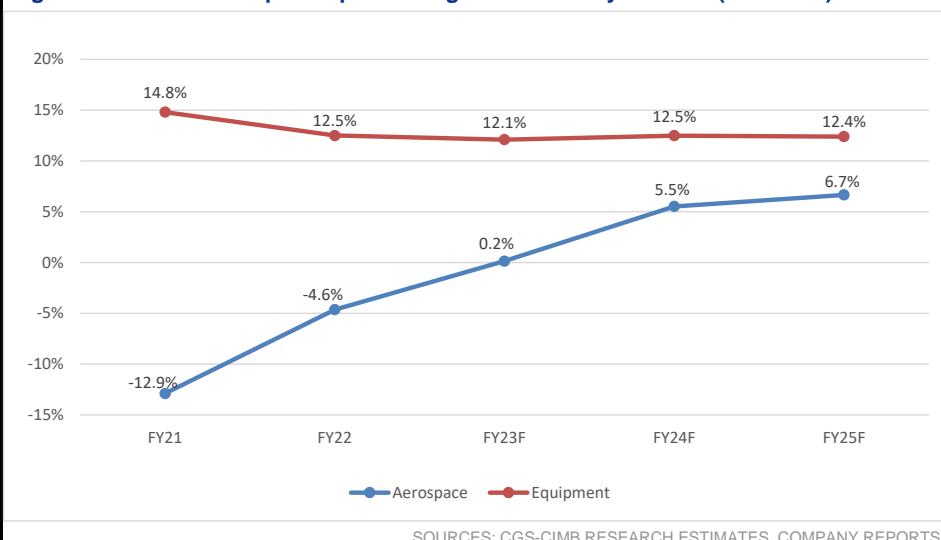
Equipment segment enjoys better margins than aerospace ➤

In our view, the equipment division offers higher pretax profit margin for SAMEE, compared to the aerospace division, due to its vertical integration model, which allows the group to control multiple segments of the manufacturing processes, from small, medium and large machining processes, frame and panel fabrication and system integration, assembly and test services. This allows the group to have bigger dollar content opportunities in the equipment division, compared to mainly specialised products in the aerospace division.

Nevertheless, aerospace offers long order visibility, which could last up to 10 years. Moreover, aerospace division needs to keep higher utilisation levels to enjoy better operating leverage. We only expect the aerospace division to outperform its historical annual pre-Covid-19 pandemic sales in FY3/25F.

For FY23F/24F/25F, we expect pretax profit margins for the equipment division to be 12.1%/12.5%/12.4%; meanwhile, we project the pretax profit margin for the aerospace division to be at 0.2%/5.5%/6.7%.

Figure 27: CGS-CIMB's pretax profit margin forecasts by division (FY21-25F)

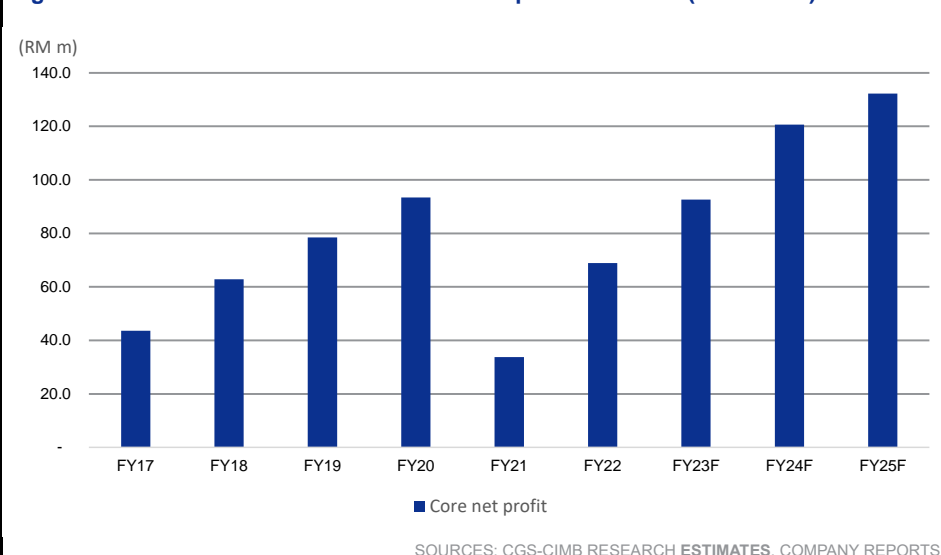


Projecting 3-year core net profit CAGR of 24% ➤

We project SAMEE to post a robust FY22-25F core net profit CAGR of 24%. We expect its core net profit momentum over the next three years to be propelled by:

- Increase in orders from the equipment segment, driven by rising fab spending globally;
- Commercialisation of a newer front-end semiconductor equipment programme from its key client;
- Capacity expansion for equipment manufacturing at its new plant in Thailand. The group added 60k sq ft during Phase 1 (launched in Oct 2021) and plans to add 126k sq ft for Phase 2 (scheduled to commence in CY2023F).
- Higher production volume for aerospace products and related parts; and
- Higher economies of scale.

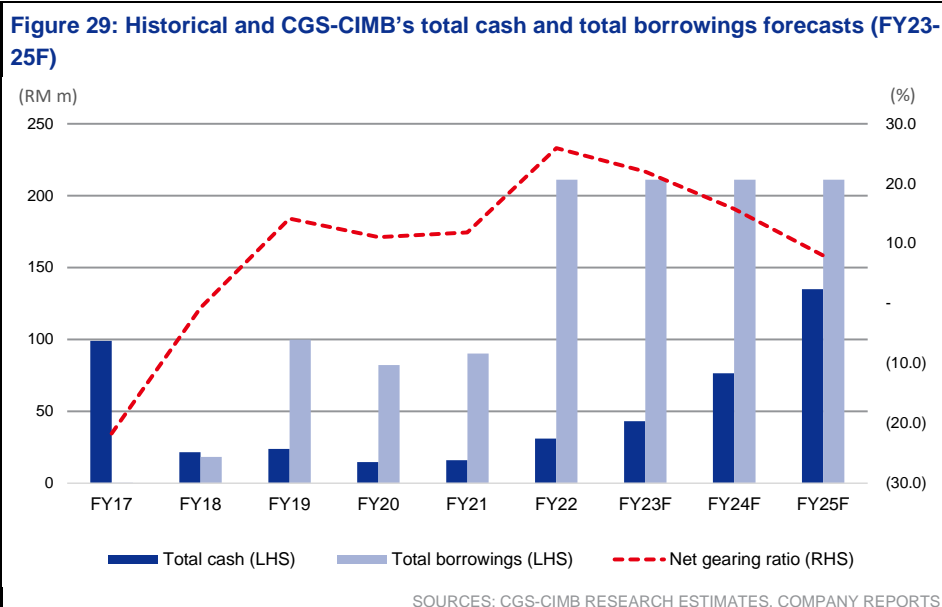
Figure 28: Historical and CGS-CIMB's core net profit forecasts (FY23F-25F)



Raised borrowings in FY3/22 to fund working capital ➤

The group's total borrowings increased from RM90.3m as at end-Mar 2021 to RM211m as at end-Mar 2022, mainly due to the increase in utilisation of short-term banking facilities to finance the increase in its working capital requirement. Hence, the group's net gearing ratio jumped from 12% in FY21 to 26% in FY22.

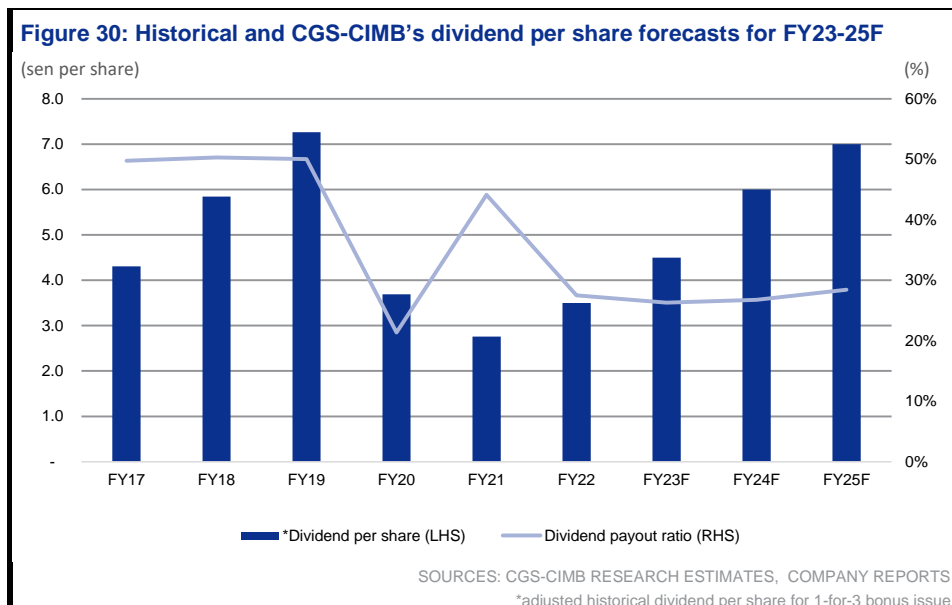
We are not overly concerned on the recent surge in total borrowings, given that 98.5% of the total debt are short-term banking facilities that is scheduled to be repaid within the next 12 months. Therefore, we expect the group's net gearing ratio to improve from FY23F onwards.



Projecting 26-29% dividend payouts in FY23-25F ➤

We expect the group's free cash flow to improve gradually over FY23F-25F, on the back of stronger net profit growth. We assume dividend payout ratios of 26-29% in FY22F-25F, which are within its 21%-44% historical payout ratio range in FY20-22. This translates into CY22-23F dividend yields of 1.4%-1.8%.

Although SAMEE does not have a formal dividend policy, the company has maintained a higher 50% average dividend payout in the past, prior to the Covid-19 pandemic. Hence, we do not rule out the potential for higher-than-expected dividend payouts in view of better earnings visibility beyond FY23F.



DuPont analysis ►

We expect SAMEE's ROE to continue to improve in FY23-25F, driven by net margin expansion, on the back of higher capacity utilisation. As such, we project net profit margins to improve to 7-8% in FY23F-25F (vs. 4-6% in FY21-22). Meanwhile, we expect its leverage to peak in FY23F as the group gradually fills up the capacity of its new Thailand plant, before gradually declining in FY24-25F.

Figure 31: DuPont analysis

	FY18	FY19	FY20	FY21	FY22	FY23F	FY24F	FY25F
Net Margin	10%	10%	10%	4%	6%	7%	8%	8%
Asset Turnover	99%	103%	110%	94%	107%	106%	110%	110%
Leverage	136%	146%	149%	150%	162%	173%	170%	167%
ROE	13.6%	15.6%	16.3%	5.5%	10.4%	12.7%	15.0%	14.8%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Valuation & Recommendation

Under-researched ►

SAMEE is an under-covered stock. Although the stock has been listed since 2010, no research house covers the stock, as at 27 June 2022 (based on Bloomberg). We think this is due to the: 1) lack of comparable domestic companies with dual exposure in aerospace and equipment segments, 2) limited understanding of the group's business model, and 3) low trading liquidity, given that its majority shareholder, SAM Group holds a 71.5% equity stake in the group.

Despite the minimal coverage, we estimate that the group's institutional investors hold between 8-9% equity stakes in the stock. We see potential for higher institutional investor interest in the stock, in view of: 1) stronger earnings prospects, on the back of recovery in aerospace division and new capacity expansion in Thailand, and 2) improving trading liquidity on the stock, following management decision to carry out a 1-for-3 bonus issue exercise (which was completed on 3 Mar 2022).

Initiate coverage, with an Add rating and RM3.80 TP ►

The stock has fallen by 46% YTD, wider than the overall decline in Bursa Malaysia Technology Index, which fell by 35% YTD, mainly due to concerns over inflationary pressures against the rising interest rate environment. We see compelling value given the sharp pullback in share price, as the stock currently trades at 14.5x CY23F P/E, which is near to 1 s.d. below its 3-year mean P/E.

Moreover, we see a healthy growth outlook for SAMEE, driven by a recovery in global aviation industry demand and new capacity expansion in Thailand driving equipment division sales and earnings growth. Hence, we initiate coverage on SAMEE with an Add rating and RM3.80 target price, based on 18x CY23F P/E, 10% discount to its 3-year mean P/E of 20x due to weak sentiment on the tech sector. The stock also offers CY22-23F dividend yields of 1.4-1.8%, (based on a 27% average dividend payout).

We use P/E (x) as our primary valuation method as this is the approach typically used to value Malaysia-based automated test equipment (ATE) manufacturers, outsource semiconductor assembly and test (OSAT) and electronics manufacturing services (EMS) providers. Our target P/E multiple for SAMEE also implies a 20% and 40% discount to the Malaysian OSAT and ATE sectors' historical mean P/E of 22x and 30x, respectively. However, we think the stock still deserves to trade at a premium relative to the Malaysian EMS sector's historical mean P/E of 14-15x.

We think our target P/E multiple vs. the sectors is justified, given that we see SAMEE sitting further downstream within the Malaysian ATE and OSAT space, yet offering relatively higher net profit margins (7-8% in FY22-25) compared to Malaysian EMS players (4-7%). However, SAMEE's net profit margin lags Malaysian ATE's (21-22%) and Malaysian OSAT's (16-18%). Despite the lower

margin, we see SAMEE's exposure to the aerospace market as offering a unique growth driver relative to the Malaysian ATE, OSAT and EMS sectors.

We see stronger earnings from the aerospace division, driven by faster recovery in production volume, expansion in the new aerospace and equipment products portfolio, and favourable forex movement from the depreciation in ringgit against US\$ as potential re-rating catalysts. Meanwhile, a delay in aviation industry demand, a slowdown in the global semiconductor industry and cloud computing spending, and a significant jump in operating costs brought about by inflationary pressures are potential downside risks to our Add call.

Figure 32: SAMEE's 1-year forward P/E (x)

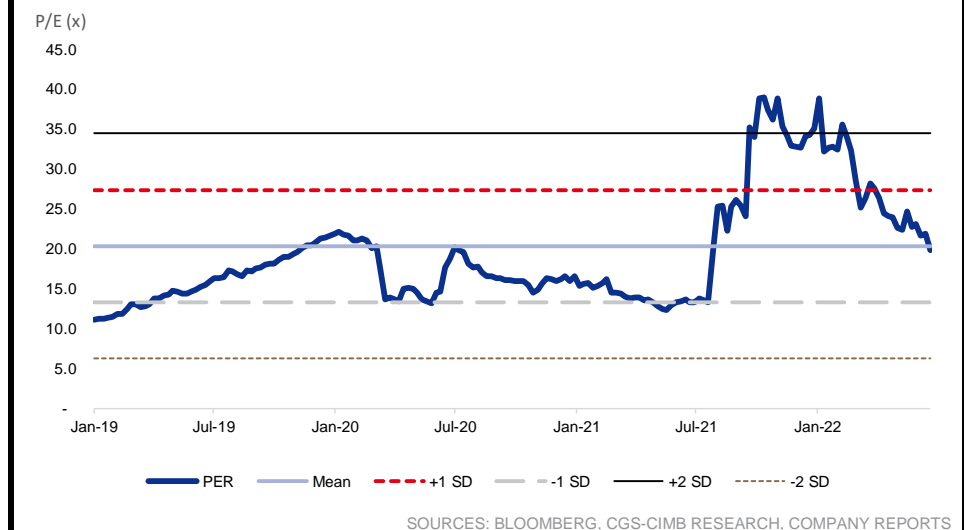


Figure 33: Sector comparison

Company	Bloomberg Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
KESM	KESM MK	Hold	6.36	7.80	62	41.1	23.2	0.8	0.7	1.9	3.2	1.2	1.0	1.6	1.8
Inari-Amertron	INRI MK	Add	2.64	3.40	2,225	23.3	21.0	4.0	3.9	19.6	18.9	14.3	13.0	4.0	4.4
MPI	MPI MK	Add	28.00	48.60	1,266	16.8	15.3	2.8	2.4	18.0	17.0	7.3	6.4	1.2	1.3
Unisem	UNI MK	Add	2.30	3.70	843	15.8	13.7	1.6	1.5	10.8	11.5	6.8	6.1	3.0	3.3
Malaysian OSAT mean						19.4	17.3	2.7	2.5	15.3	15.2	9.2	8.3	2.9	3.1
Aemulus	AMLS MK	Add	0.61	1.20	93	20.1	14.8	3.0	2.5	16.1	18.2	14.7	10.9	-	-
Pentamaster	PENT MK	Add	3.69	4.00	597	27.7	22.9	4.1	3.6	16.1	16.7	14.2	11.9	0.7	0.8
Mi Technovation	MI MK	Add	1.54	2.20	314	17.5	14.0	1.3	1.2	7.7	9.1	9.4	7.9	3.2	3.6
ViTrox	VITRO MK	NR	7.20	NA	1,543	34.0	29.3	7.9	6.7	25.2	23.6	31.0	26.8	0.7	0.8
Malaysian ATE mean						24.8	20.2	4.1	3.5	16.3	16.9	17.3	14.4	1.2	1.3
ATA	AIB MK	Reduce	0.30	0.25	81	na	na	0.5	0.5	(5.4)	(6.2)	33.7	139.1	-	-
SKP Resources	SKP MK	Add	1.57	1.89	558	13.8	11.9	2.8	2.5	21.8	22.2	8.2	7.0	3.6	4.2
VS Industry	VSI MK	Add	1.00	1.33	866	16.7	11.3	1.7	1.6	10.5	14.5	8.5	6.1	2.0	3.0
Malaysian EMS mean						18.0	13.1	1.7	1.6	9.9	12.8	8.8	6.8	2.5	3.3
JHM	JHMC MK	NR	1.19	NA	151	16.1	12.5	2.3	2.0	14.3	16.2	10.2	8.0	0.8	1.0
UWC	UWC MK	NR	3.29	NA	822	30.7	24.7	8.3	6.5	29.3	28.7	21.3	17.2	0.7	0.8
Malaysian metal fabrication mean						23.4	18.6	5.3	4.3	21.8	22.4	15.7	12.6	0.7	0.9
SAM Engineering & Equipment	SEQB MK	Add	3.05	3.80	375	18.9	14.5	2.2	2.0	12.5	14.6	9.8	8.2	1.4	1.8

SOURCES: BLOOMBERG, CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

*Based on last closing price on 30 JUNE 2022

*OSAT-Outsource semiconductor assembly and test

*ATE-automated test equipment

*EMS-electronics manufacturing services

Background

History >

The group was incorporated in Malaysia on 30 Apr 1994 under the name of LKT Industrial Berhad. LKT was then engaged in the business of design, development, manufacture and fabrication of precision engineering parts and automation equipment, industrial storage, plastic parts and injection molding for the semiconductor and microelectronic sectors. LKT was listed on the second board of Bursa Malaysia on 12 Jun 1995 and subsequently transferred to the Main Board (now known as Main Market) of Bursa Malaysia on 20 Dec 1999.

In 2008, Singapore Precision Engineering (SPE) Limited, a wholly owned subsidiary of Singapore Aerospace Manufacturing Pte Ltd (SAM), acquired a majority stake in the group. SAM is a subsidiary of Accuron Technologies, which in turn is a wholly owned subsidiary of Temasek Holdings, a Singapore sovereign wealth fund.

LKT proceeded to change its name to SAM Engineering & Equipment (M) Berhad (SAMEE) on 22 Sep 2010. Amid restructuring activities, which included the disposal of non-core businesses, such as plastic injection moulding, SAMEE ventured into aerospace engine case manufacturing in 2010 through a RM135m acquisition of engine fan case operations from SAM.

SAMEE was aiming to reduce its dependency on the semiconductor and electronics sectors with a new diversification into the aerospace segment. The group also streamlined its operations in equipment manufacturing and precision engineering to improve its efficiencies. Since then, SAMEE has made investments totaling more than RM500mil, and it has more than 1,600 employees today.

Today, SAMEE's core businesses are principally involved in two main sectors:

1. Aerospace division: Provides dedicated end-to-end manufacturing solutions on critical aircraft engine parts and other aerospace-related parts.
2. Equipment division: Provides an array of equipment engineering and solutions for commercial, semiconductor and other industries, with a key focus on the data storage and semiconductor industries.



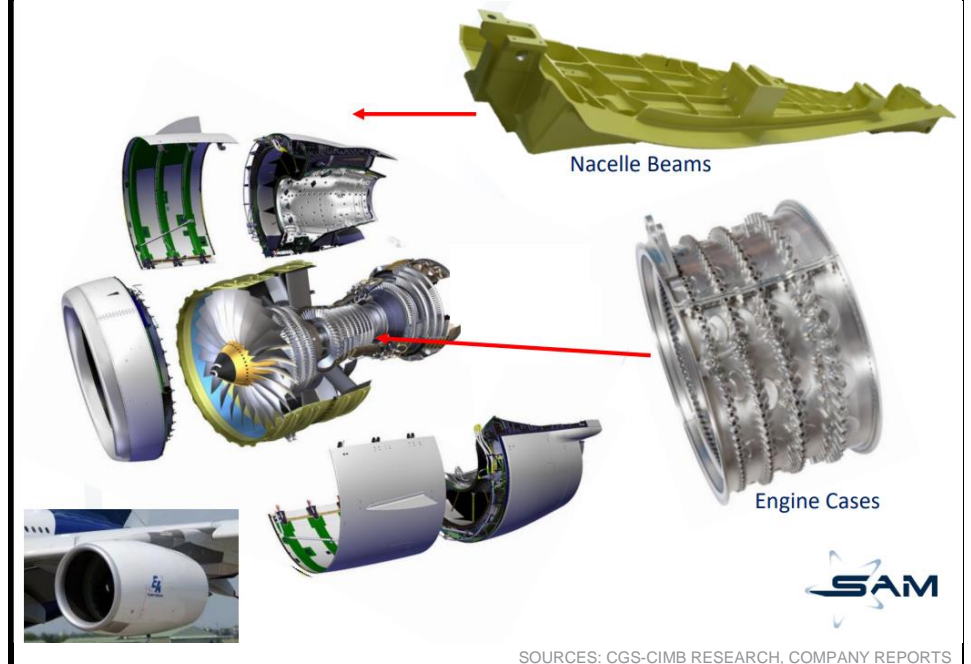
Aerospace division offers long-term stability >

SAMEE's aerospace division specialises in the precision machining and manufacturing of niche aerospace products of complex geometry.

This division's core competencies mainly lie in the manufacturing and assembly of: 1) **aircraft engine cases**, 2) **aircraft nacelle structures**, as well as 3) **prismatic aircraft parts** for tier-1 aircraft and engine suppliers. This is well

supported by a complete range of special processes, as well as non-destructive testing (NDT) capabilities, to provide one-stop manufacturing services. These products are currently being used in wide and narrow regional, as well as business, aircrafts, by major global aircraft manufacturers, such as (but not limited to Airbus, Boeing, Embraer, Bombardier, Gulfstream, Dassault, and Aviation Industry Corporation of China (AVIC)).

Figure 35: SAMEE's aerospace division's core products include engine cases and nacelle beams

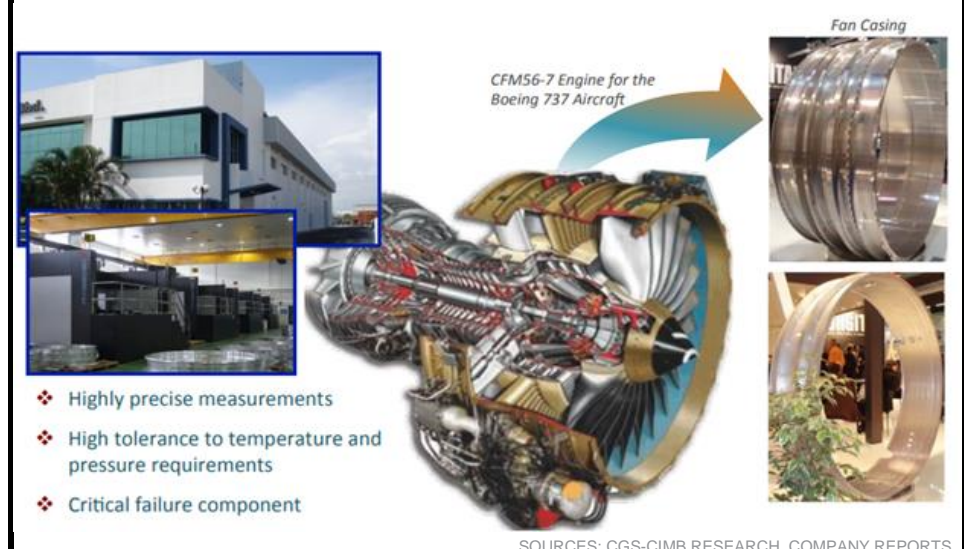


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

For its aircraft engine cases, SAMEE mainly operates out of two key subsidiaries, namely Meerkat Precision Sdn Bhd and Avitron Private Limited.

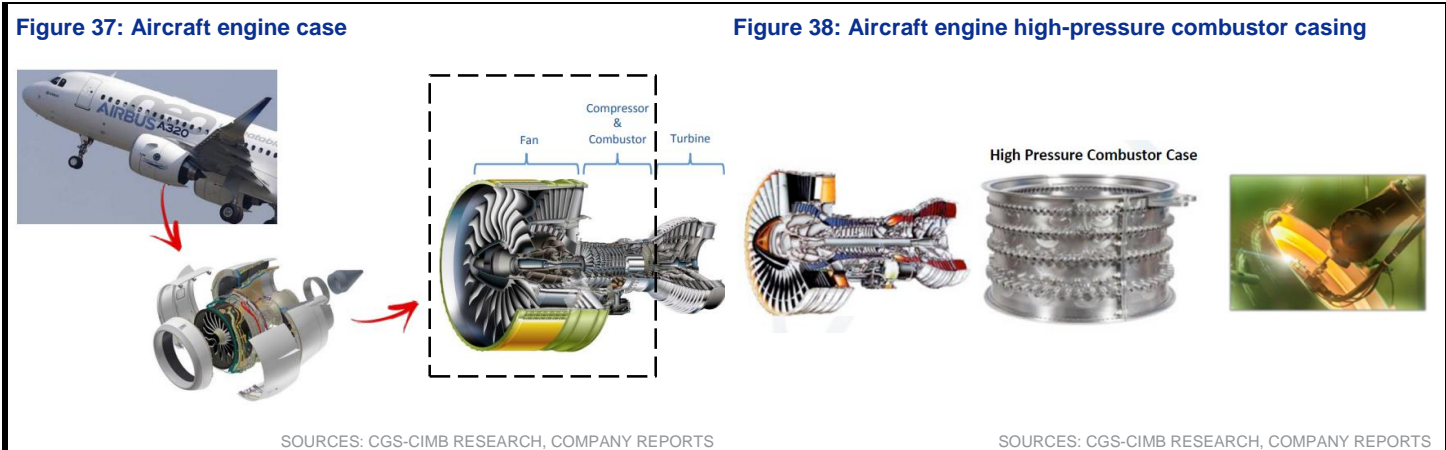
Meerkat Precision is a pioneer in the manufacturing of engine fan casings for commercial aircrafts in Malaysia. It essentially specialises in large format CNC machining for both the aerospace and semiconductor industries.

Figure 36: Aircraft engine fan casing manufactured by Meerkat Precision

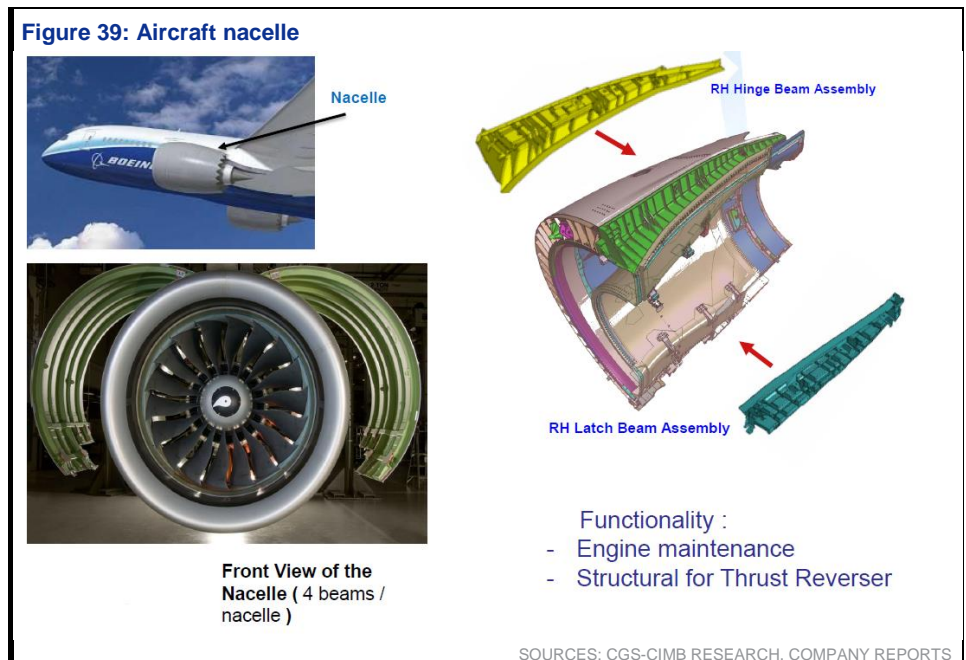


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Through the acquisition of Avitron from SAM in 2012, SAMEE was able to further enhance its aircraft product manufacturing capabilities. Avitron specialises in the manufacturing of complex aircraft engine cases that are made of hard and tough materials, such as stainless steel, titanium and nickel-based alloys, as well as land and marine applications. The acquisition effectively allowed SAMEE to foray into the manufacturing of relatively more complex engine cases, which include compressor cases and combustor cases.



For the aircraft nacelle beams, SAMEE operates out of its key subsidiary Sam Precision (M) Sdn Bhd. SAM Precision is mainly involved in the fabrication of precision tools and machinery parts, as well as the manufacture of aircraft and other equipment parts, spares, components and precision engineering parts. For the aerospace segment, Sam Precision mainly specialises in the manufacturing of large aerostructure parts (as large as 3m) and is supported by its 5-axis milling flexible manufacturing systems (FMS).



Sam Precision mainly produces aircraft nacelle beams for Airbus (more specifically, for its A320neo and A350 aircrafts). Operating out of a rented facility from its sister company, Avitron (M) Sdn Bhd, the group operates two FMS lines: the FMS-8 machine line for the A320neo aircraft programme and the FMS-4 machine line for the A350 aircraft programme.

Figure 40: FMS-8 machine lines dedicated for the A320neo nacelle beams



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

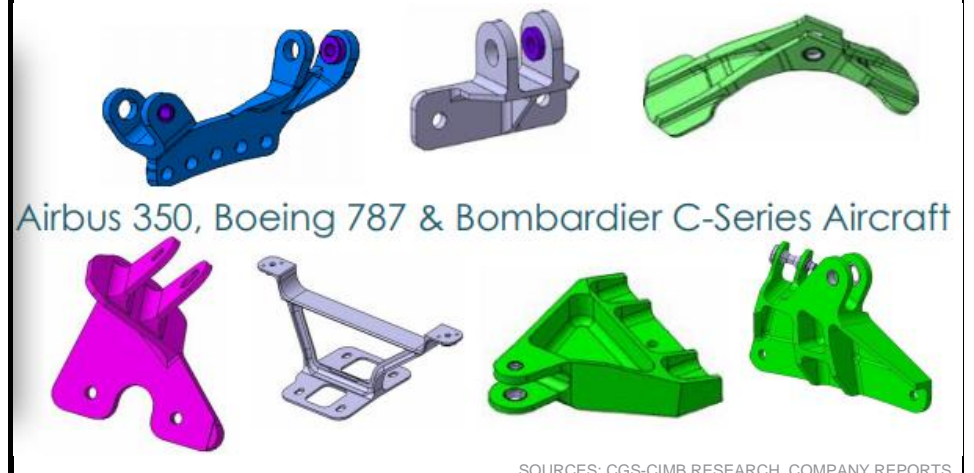
Figure 41: FMS-4 machine lines dedicated for the A350 nacelle beams



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Additionally, SAMEE also manufactures aircraft prismatic parts for the Airbus, Boeing and Bombardier aircrafts. Prismatic parts are usually basic parts, such as slots, steps, holes and bosses, which may intersect with one another in a complete/sub-assembled product.

Figure 42: Prismatic parts manufactured by SAMEE



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

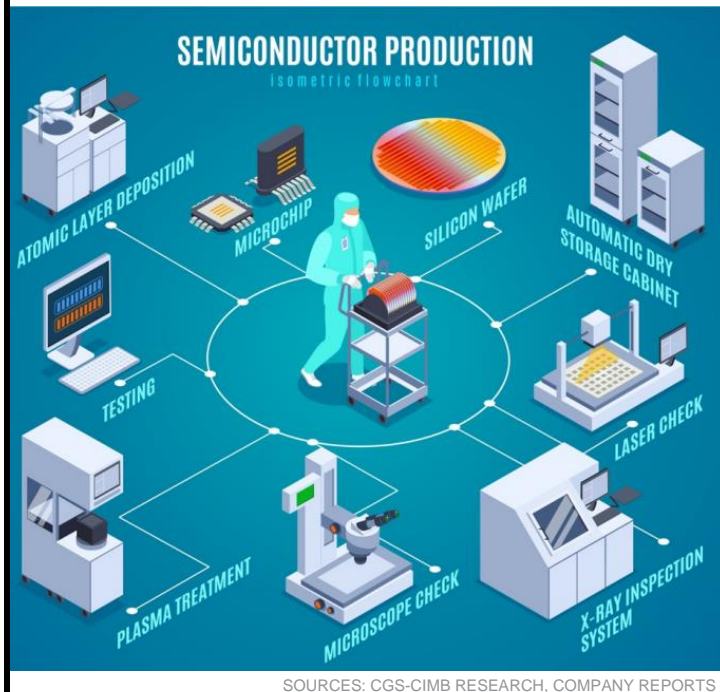
We believe this division's key strength lies in its:

- High barriers to entry, given the heavy capital expenditure needed and relatively long gestation period
- Long-term contracts (up to 10 years)
- Relatively steady demand (notwithstanding the Covid-19 pandemic)

Strong equipment manufacturing and integration capability ►

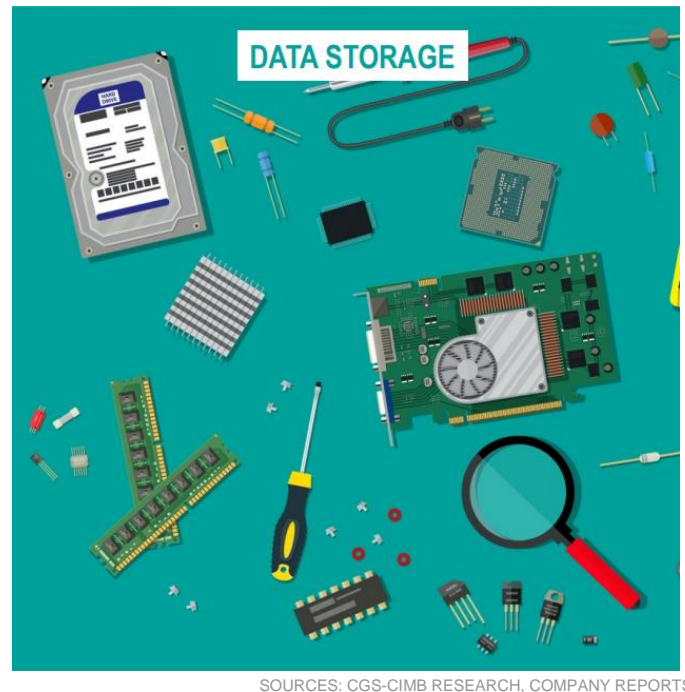
The group equipment division offers system integration services to global multinational companies (MNCs), mainly in the semiconductor and data storage segments. The group provides in-house machining, sheet metal fabrication and surface treatment processes. In addition, SAMEE also provides engineering solutions in the design and development of customised factory automation and material handling equipment, integrated with vision inspection systems.

Figure 43: Key industries for the equipment division are semiconductor (both front-end and back-end) ...



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 44: ... as well as the disk drive industry (SSD and HDD)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

SAMEE mainly operates this division out of four-wholly owned subsidiaries.

- SAM Meerkat Sdn Bhd: SAM Meerkat produces high mix-low volume to high mix-high volume equipment, including built-to-print equipment, based on their customer's OEM design, and provides assembly services capable of integrating up to 12,000 parts per machine. SAM Meerkat is also equipped with a class 10K cleanroom facility. The company also specialises in sheet metal fabrication.
- SAM Precision (M) Sdn Bhd: In addition to aircraft parts, SAM Precision also manufactures high precision milling and turning parts. The company's state-of-the-art CNC machining centres comprise 3 to 5-axis milling and up to 9-axis turning machines, enabling SAM Precision to manufacture and deliver high complexity and quality parts, mainly to the semiconductor (front-end and back-end), telecommunication and disk drive industries.
- SAM Tooling Technology Sdn Bhd: The company focuses on built-to-print precision tools, dies, jigs and fixtures) and modular and equipment assemblies, primarily for the disk drive, connectors, medical, automotive and semiconductor industries. It is also capable of fabricating various types of materials, i.e. hot/cold rolled steel (hardened stainless steel, high carbon steel, high-speed steel), engineering plastics (Delrin, PEEK, ESD), stainless steel, carbide, ceramic, titanium, etc.
- SAM Precision Thailand: The company focuses on built-to-print precision tools, dies, jigs and fixtures, and modular and equipment assemblies for refurbishing or new builds, primarily for the disk drive and semiconductor industries.

In a nutshell, SAMEE's equipment division provides contract manufacturing services, either on a sub-assembly/modular or box-build/full turnkey basis, primarily serving the semiconductor and disk drive industries. This also includes small/med machining, large machining, as well as metal fabrication.

For the semiconductor space, SAMEE is involved in manufacturing equipment and systems for its customers going into: 1) wafer inspection system, 2) deposition equipment support for front end of line processes, and 3) data storage backend test modules.

SAMEE's dual-pronged strategy managed to overcome the cyclicity effects

Prior to the acquisition of a controlling stake by SAM in 2009, SAMEE was still deriving the bulk of its revenue and earnings from the equipment business. In FY09, SAMEE (or LKT at the time) was deriving 75% of its revenue from the back-end semiconductor segment and the remaining 25% from the data storage segment. Post the disposal of the non-core low-value-added products from its business (tool cabinet and plastic injection moulding), the group ventured into aerospace in FY10. The injection of the aerospace business into the group allowed for mitigation of the volatile nature of the group's revenue, given its high dependency on the cyclical back-end semiconductor segment at the time. Since then, the group had invested heavily in: i) manufacturing of new aerospace products, ii) the integration of higher value-added equipment, as well as iii) the front-end semiconductor industry.

Figure 45: Equipment division underwent higher value equipment integration, while ...

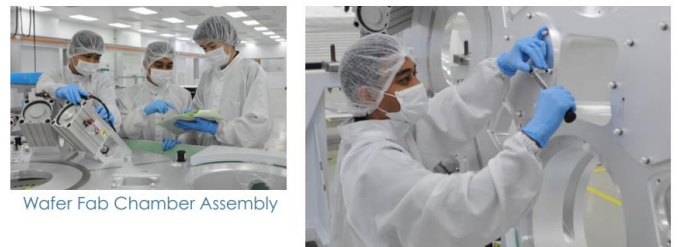
Higher Value Equipment Integration



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 46: ... the group ventured into front-end semiconductor equipment, such as wafer fab chamber assemblies

Front End Semicon Equipment



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

We noted that its dual-pronged strategy to focus and grow both these core segments together was fruitful. Given the stable and long-term nature (long-term contracts) of the aerospace segment, the group was able to achieve a revenue CAGR of 14% in FY3/13-FY20 with muted cyclical effects (except for FY3/17). We believe the group's strategy to continue to focus on both these segments together should remain one of its key strengths going forward.

Figure 47: Historical revenue breakdown

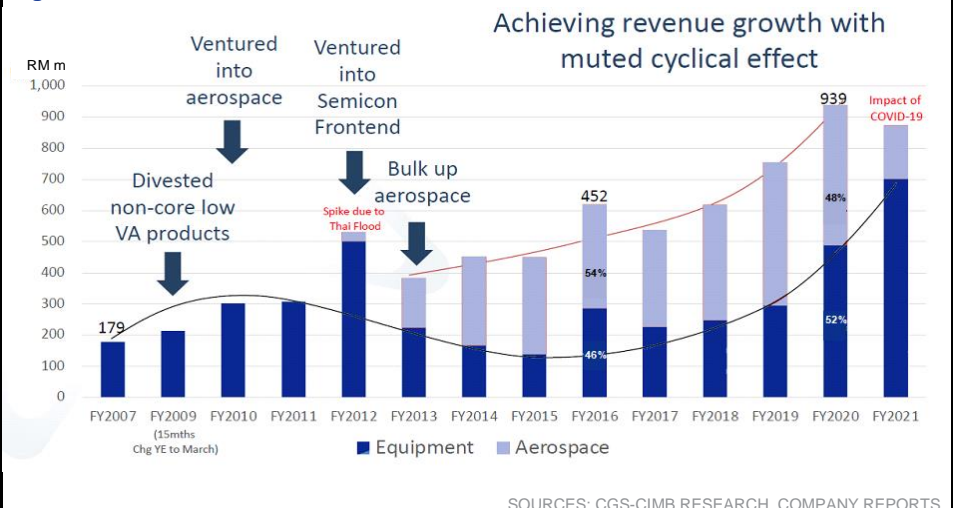
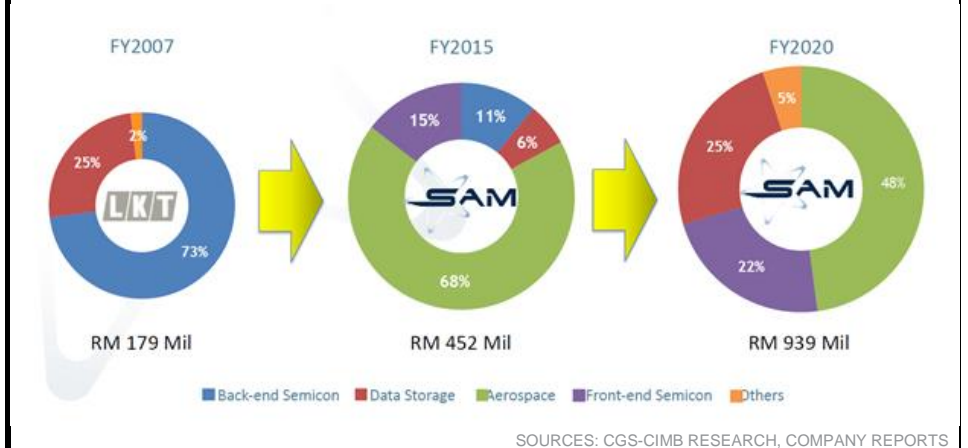


Figure 48: SAMEE's diversified revenue base a key attraction, in our view



9 manufacturing facilities spread across Malaysia, Singapore and Thailand, with another one in the works ➤

SAMEE currently operates out of nine manufacturing facilities, which are located in Malaysia (5), Singapore (2) and Thailand (2). In FY3/21, the group had commenced mass production in the first phase of its Rojana Industrial Park in Thailand (60k sq ft). This effectively increased the group's total operating space to 1,083k sq ft. Additionally, the group targets to commence production for the second phase in FY3/23F (126k sq ft). According to SAMEE, this is mainly to support the company's growth in its equipment division, mainly for assembly, fabrication, machining and special processes.

Figure 49: SAMEE's production facilities are located in Malaysia, Singapore and Thailand



Figure 50: SAMEE's production facilities in Malaysia, Singapore and Thailand

Location	Tenure	Area (sq ft)	Built-up area (sq ft)	Description	Age of building	Expiry date	Date of revaluation	Net book value at 31 Mar 2021 (RM m)
SAM Precision Sdn Bhd Plot 31-34 Lengkok Kampung Jawa 2, Bayan Lepas Non-Free Industrial Zone Phase 3, 11900, Penang, Malaysia	Leasehold 60 years	54,103	33,500	Office & Factory	37 years	22-Nov-41	14-Aug-09	2.31
SAM Precision Sdn Bhd/ SAM Tooling Technology Sdn Bhd Plot 77, Lintang Bayan Lepas, Bayan Lepas Industrial Park, Phase IV, Non-Free Industrial Zone 11900, Penang, Malaysia	Leasehold 60 years	131,104	67,500	Office & Factory	21 years	16-Jun-57	14-Aug-09	6.97
Meerkat Precision Sdn Bhd/ Corporate Office Plot 17, Hilir Sungai Keluang Tiga, Bayan Lepas Free Industrial Zone, Phase IV, 11900, Penang, Malaysia	Leasehold 60 years	131,406	92,000	Office & Factory	25 years	14-May-51	14-Aug-09	11.56
SAM Meerkat Sdn Bhd Plot 103, Hilir Sungai Keluang Lima, Taman Perindustrian Bayan Lepas 4, 11900, Penang, Malaysia	Leasehold 60 years	176,629	92,500	Office & Factory	15 years	18-Dec-74	17-Aug-09	9.12
SAM Meerkat Sdn Bhd Plot 104, Hilir Sungai Keluang Lima, Taman Perindustrian Bayan Lepas 4, 11900, Penang, Malaysia	Leasehold 60 years	148,218	134,000	Office & Factory	14 years	23-Apr-68	17-Aug-09	9.56

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Led by an experienced management team ►

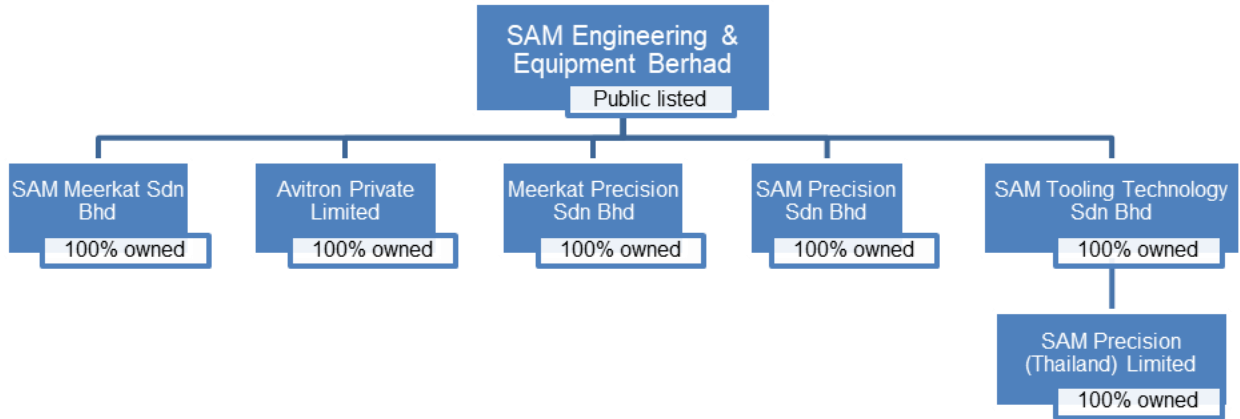
SAMEE's management is led by Peter Lim Hee Seng, the group's Chief Executive Officer (CEO), who was appointed in Jan 2022. He took over the helm from the previous CEO, Jeffrey Goh Wee Keng, who was SAMEE CEO since the acquisition of a majority stake by SAM in 2008. Jeffrey still sits on the board of SAMEE as a non-Independent and non-Executive Director.

Peter Lim is also currently the Vice President, Aerospace, for SAM Group, in charge of all aerospace units in Malaysia and Singapore. He had previously assumed different roles within SAM Group, including Vice President for Business Development and Marketing and General Manager of Avitron Private Limited. He joined SAMEE on 1 Jan 2017.

As at end-FY3/21, the largest shareholder of SAMEE is Temasek Holdings, through the wholly owned SAM. SAM is the single largest substantial shareholder in the group, holding a majority 71.5% equity stake, while the balance are held by institutional investors and the general public. According to SAMEE's announcement on Bursa Malaysia website dated 4 Mar 2022, SAMEE's CEO Peter Lim owns less than 1% stake in the company.

Corporate structure ➤

Figure 51: SAM group of companies' corporate structure



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



ESG in a nutshell

SAMEE's sustainability statement is prepared in line with the Bursa Malaysia's Listing Requirements on Sustainability Reporting, Global Reporting Initiative (GRI) Standards and the United Nations Sustainability Development Goals (SDG). SAMEE's board of directors provide the stewardship and has the ultimate responsibility for the sustainability direction of the group. It is supported in this effort by the Risk & Sustainability Committee, which is tasked to review and recommend sustainability strategies and performance targets for the group, while the Sustainability Committee/Working Group will spearhead the delivery of the initiatives, such as the implementation and monitoring of the daily sustainability initiatives and performance.

Keep your eye on

As at end-FY3/22, SAMEE's board of directors consisted of six independent directors and three non-independent directors. Two out of the six independent directors have served for more than nine years. In addition, among SAMEE's nine board members, only two (or 22%) are women.

Implications

We are negative on these aspects. Based on the latest updates to the Malaysian Code of Corporate Governance (MCCG) in 2021, the tenure of independent directors has been shortened to 9 years, without any extension. In addition, the MCCG has suggested that females make up at least 30% of board members.

ESG highlights

SAMEE is ranked in the bottom 51% to 75% by ESG ratings among public-listed companies in the FBM EMAS index that have been assessed by FTSE Russell. SAMEE plans to conduct a major materiality assessment for the financial year ended 31 Mar 2022 to ensure that material ESG matters that they report in their annual reports stay relevant. The last major materiality assessment was conducted during the financial year ended 31 March 2018.

Implications

While we do not see any clear empirical correlation between high ESG rankings and share price performance, we believe ESG disclosure is becoming an important investment criteria for institutional investors. Nevertheless, we reckon additional disclosures post its materiality assessment could allow for better ESG rankings (e.g. more disclosures on foreign workers and GHG emissions).

Trends

Total energy consumption, energy intensity and wastewater effluent discharged declined by 7.8%, 0.8% and 53%, respectively.

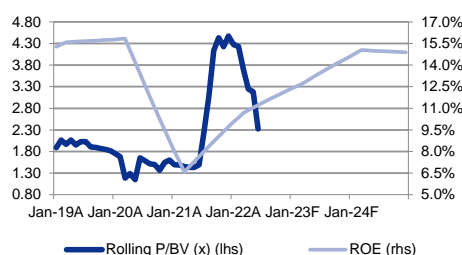
Implications

The decline in energy usage arose mostly from reduced business operations for the year ended FY3/21. As energy consumption is a key component for running manufacturing facilities, we monitor these levels closely. We believe one way SAMEE could attempt to reduce these levels is by exploring the use of renewable energy through solar panels to offset non-renewable energy usage.

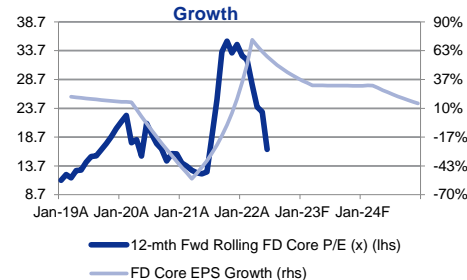
SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(RMm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	873.7	1,147.6	1,332.8	1,518.2	1,654.1
Gross Profit	86.8	128.8	182.2	223.2	240.1
Operating EBITDA	113.3	156.5	188.0	227.4	243.6
Depreciation And Amortisation	(54.6)	(60.2)	(61.8)	(62.6)	(63.1)
Operating EBIT	58.7	96.3	126.2	164.8	180.6
Financial Income/(Expense)	(2.8)	(2.4)	(2.7)	(2.8)	(3.0)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	55.9	93.9	123.5	161.9	177.6
Exceptional Items	25.0	6.5	0.0	0.0	0.0
Pre-tax Profit	81.0	100.5	123.5	161.9	177.6
Taxation	(22.1)	(25.0)	(30.9)	(40.5)	(44.4)
Exceptional Income - post-tax					
Profit After Tax	58.8	75.5	92.6	121.5	133.2
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	58.8	75.5	92.6	121.5	133.2
Recurring Net Profit	40.6	70.5	92.6	121.5	133.2
Fully Diluted Recurring Net Profit	40.6	70.5	92.6	121.5	133.2

Projecting a 24% core net profit CAGR in FY3/22-25F driven by stronger contribution from both aerospace and equipment divisions. We expect earnings levels to return to pre-pandemic levels in FY3/23F onwards

Cash Flow

(RMm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	113.3	156.5	188.0	227.4	243.6
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(30.9)	(162.1)	(68.0)	(68.1)	(49.9)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	7.7	(23.2)	0.0	0.0	0.0
Net Interest (Paid)/Received	(2.8)	(2.4)	(2.7)	(3.0)	(3.2)
Tax Paid	(22.7)	(25.0)	(30.9)	(40.5)	(44.4)
Cashflow From Operations	64.5	(56.3)	86.3	115.8	146.1
Capex	(48.4)	(47.7)	(50.0)	(50.0)	(50.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1.8)	13.1	0.0	0.0	0.0
Cash Flow From Investing	(50.2)	(34.6)	(50.0)	(50.0)	(50.0)
Debt Raised/(repaid)	8.0	120.8	0.0	0.0	0.0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(20.0)	(14.9)	(24.4)	(32.5)	(37.9)
Preferred Dividends					
Other Financing Cashflow	(9.7)	(10.6)	0.0	0.0	0.0
Cash Flow From Financing	(21.6)	95.2	(24.4)	(32.5)	(37.9)
Total Cash Generated	(7.2)	4.3	12.0	33.3	58.2
Free Cashflow To Equity	22.4	29.8	36.3	65.8	96.1
Free Cashflow To Firm	17.2	(88.5)	39.1	68.8	99.3

Expect a minimal capex requirement for second phase expansion of Thailand plant in FY23-24F

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

SAMEE's total borrowings increased from RM90.3m as at end-Mar 2021 to RM211m as at end-Mar 2022 mainly due to the increase in utilization of short-term banking facilities to finance the increase in working capital requirement

Balance Sheet

(RMm)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	16.1	31.1	43.1	76.6	135.0
Total Debtors	234.4	316.6	367.7	418.9	456.4
Inventories	176.5	335.1	389.2	443.3	483.0
Total Other Current Assets	134.6	154.9	154.9	154.9	154.9
Total Current Assets	561.6	837.7	954.9	1,093.7	1,229.3
Fixed Assets	356.7	331.2	319.4	306.8	293.7
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	12.6	10.7	10.7	10.7	10.7
Total Other Non-Current Assets	5.1	27.5	27.5	27.5	27.5
Total Non-current Assets	374.4	369.4	357.6	345.0	332.0
Short-term Debt	77.8	205.2	205.2	205.2	205.2
Current Portion of Long-Term Debt					
Total Creditors	151.3	230.0	267.1	304.3	331.5
Other Current Liabilities	33.2	29.1	29.1	29.1	29.1
Total Current Liabilities	262.3	464.3	501.4	538.6	565.8
Total Long-term Debt	12.4	5.9	5.9	5.9	5.9
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	27.9	28.9	28.9	28.9	28.9
Total Non-current Liabilities	40.3	34.7	34.7	34.7	34.7
Total Provisions	6.9	13.5	13.5	13.5	13.5
Total Liabilities	309.6	512.5	549.6	586.7	614.0
Shareholders' Equity	626.4	694.7	763.0	851.9	947.3
Minority Interests					
Total Equity	626.4	694.7	763.0	851.9	947.3

Expect better margin delivery driven by higher utilization in FY23F onwards

Key Ratios

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	(6.9%)	31.4%	16.1%	13.9%	8.9%
Operating EBITDA Growth	(33.5%)	38.2%	20.1%	21.0%	7.1%
Operating EBITDA Margin	13.0%	13.6%	14.1%	15.0%	14.7%
Net Cash Per Share (RM)	(0.14)	(0.33)	(0.31)	(0.25)	(0.14)
BVPS (RM)	1.16	1.28	1.41	1.57	1.75
Gross Interest Cover	20.85	39.36	45.99	55.77	57.05
Effective Tax Rate	27.4%	24.9%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	44.1%	27.5%	26.3%	26.7%	28.4%
Accounts Receivables Days	95.41	87.62	93.71	94.81	96.57
Inventory Days	74.6	91.6	114.9	117.6	119.6
Accounts Payables Days	67.24	68.30	78.85	80.75	82.06
ROIC (%)	5.9%	9.8%	10.3%	12.7%	13.2%
ROCE (%)	8.2%	11.7%	13.2%	16.0%	16.1%
Return On Average Assets	3.87%	6.60%	7.51%	8.98%	9.03%

Key Drivers

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Aerospace sales growth	(61.8)	46.5	25.5	26.5	20.0
Equipment sales growth	43.5	27.7	13.5	10.0	5.0

Projecting a stronger sales growth recovery from Aerospace segment with a 3-year CAGR of 24% for FY22-25F (vs Equipment sales CAGR FY22-25F of 9%)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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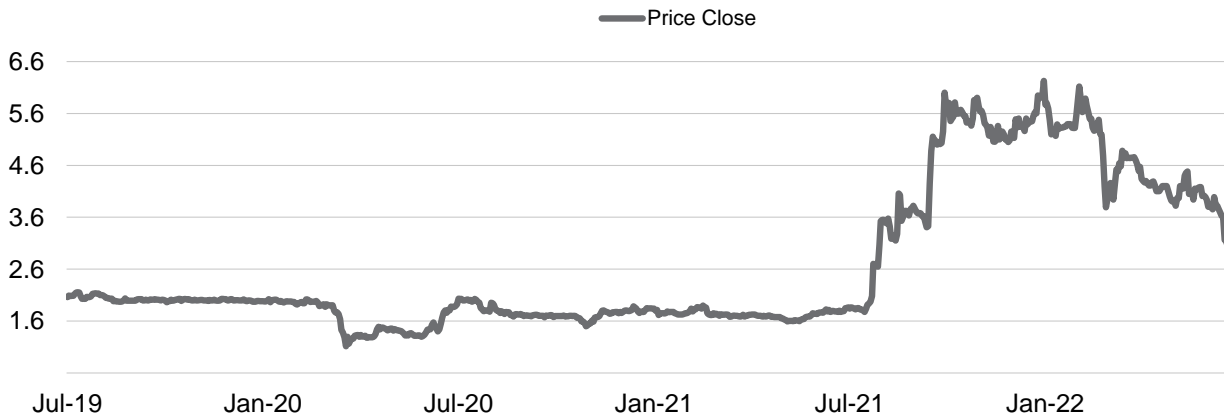
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2022		
632 companies under coverage for quarter ended on 31 March 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

Spitzer Chart for stock being researched (2 year data)

SAM Engineering & Equipment (SEQB MK)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Recommendation Framework

Stock Ratings

Definition:	
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:	
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:	
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.