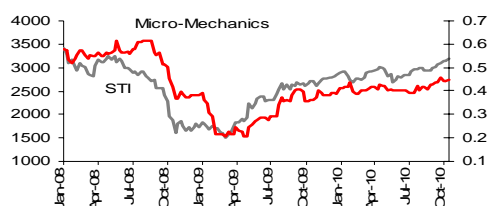


1 February 2011

Maintain

BUY

Previous Rating: BUY

Current Price: S\$0.495
Fair Value: S\$0.67


Micro-Mechanics Holdings

Benefiting from improved global technology conditions

2Q11 growth driven by both core segments. Micro-Mechanics (MML) reported its 2Q11 results with revenue increasing 17.0% YoY to S\$11.4m; gross profit increasing 23.4% to S\$5.3m; and net profit surging 149.4% to S\$1.8m. The growth was driven by increased sales for both its semiconductor tooling (SET) business and Custom Machining and Assembly (CMA) division as a result of improved conditions in the global technology industry. Sequentially, revenue declined 2.2%; gross profit fell 7.1% and net profit decreased 9.5% due to seasonal factors towards the end of the calendar year. For 1H11, revenue increased 21.2% YoY to S\$23.1m, forming 48.2% of our full-year revenue forecast. Net profit jumped 81.9% YoY to S\$3.8m, meeting 56.7% of our earnings estimate. An interim dividend of 1 S cent per share has been recommended, payable on 28 Feb 11.

Improved EBIT margin. MMH's EBIT margin stands at 20.3% in 2Q11, which represented a 8.3 percentage point (ppt) increase from 2Q10, although this was slightly lower than the 21.5% achieved in 1Q11. We believe that the improved operating margin can be attributed to higher capacity utilisation and increased operational efficiency from cost control measures undertaken. Management has highlighted that they will continue their emphasis on keeping costs low, with an operating expenses-to-sales ratio target of 20% (26.1% as at 2Q11).

Outlook. MMH has stated that it is applying the finishing touches to its new factory in China, which will allow the group to further leverage on the growth opportunities of the semiconductor industry there. With regards to its CMA business, we believe that future growth will depend largely on the success of the integration of its new S\$3m automated manufacturing system (to be installed in 2H11). This machine would be used to manufacture complex products in an efficient manner, which management opines will give them an additional competitive advantage. Looking into the future, MMH also plans to extend this platform to Asia as it sees good growth potential for the CMA segment in Asia.

Maintain BUY. We continue to like MMH for its healthy balance sheet (net cash position), committed management and attractive prospective dividend yield of 6.1% (our FY11F forecast). Taking into account the latest set of results and better-than-expected improvement in operating margins, we bump up our FY11F earnings forecast by 10.6% to S\$7.4m, but retain our FY12F estimates. We also rollover our valuation to 12x blended FY11/FY12F EPS; which in turn raises our fair value estimate from S\$0.58 to S\$0.67. Maintain **BUY**. Key risks include a larger-than-expected slowdown in the semiconductor industry.

Reuters Code	MMEC.SI
ISIN Code	5DD
Bloomberg Code	MMHSP
Issued Capital (m)	139
Mkt Cap (S\$m / US\$m)	69 / 50
Major Shareholders	
Sarcadia LLC	27.2%,
Borch Christopher	25.6%,
Ming Wah Low	5.1%
Free Float (%)	38.4%
Daily Vol 3-mth ('000)	12
52 Wk Range	0.365 - 0.495

(S\$m)	FY 09	FY 10	FY 11F	FY 12F
Revenue	33.1	41.0	46.7	51.5
EBIT	1.6	6.7	9.5	10.4
P/NTA (x)	2.1	1.9	1.8	1.6
EPS (cts)	0.4	3.4	5.3	5.8
PER (x)	127.1	14.4	9.3	8.6

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Micro-Mechanics Holdings Ltd's Key Financial Data

Micro-Mechanics Holdings Results Year Ended 30 Jun (S\$ m)	2Q10 (S\$ m)	2Q11 (S\$ m)	% Chg (YoY)	1Q11 (S\$ m)	% Chg (QoQ)
Revenue	9.8	11.4	17.0%	11.7	-2.2%
Gross profit	4.3	5.3	23.4%	5.7	-7.1%
Gross margin	44.0%	46.4%		48.9%	
EBITDA	2.0	3.2	61.9%	3.3	-4.3%
Depreciation & amortisation	-0.8	-0.9	10.0%	-0.8	5.8%
Operating profit	1.2	2.3	97.5%	2.5	-7.7%
Net interest	0.0	0.0	nm	0.0	nm
Pre-tax profit	1.2	2.3	97.5%	2.5	-7.7%
Tax	-0.5	-0.5	14.4%	-0.5	-0.9%
Minority interests	0.0	0.0	nm	0.0	nm
Net profit	0.7	1.8	149.4%	2.0	-9.5%
Net Margin	7.4%	15.8%		17.0%	

Micro-Mechanics' Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 30 Jun (S\$m)	FY09	FY10	FY11F	FY12F	As at 30 Jun (S\$m)	FY09	FY10	FY11F	FY12F
Revenue	33.1	41.0	46.7	51.5	Bank and cash balances	7.5	10.0	7.9	11.6
EBITDA	4.7	9.9	13.1	14.4	Other current assets	8.7	10.6	11.2	12.4
Depreciation & amortization	-3.1	-3.2	-3.5	-4.0	Property, plant, and equipment	22.1	22.5	27.3	26.8
EBIT	1.6	6.7	9.5	10.4	Total assets	38.2	43.1	46.5	50.9
Finance costs	0.0	0.0	0.0	0.0	Debt	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	Current liabilities excluding debt	4.1	6.3	6.4	7.0
Profit before tax	1.6	6.7	9.5	10.4	Total liabilities	5.2	7.7	7.9	8.4
Income tax expense	-1.0	-1.9	-2.1	-2.4	Shareholders equity	33.0	35.4	38.6	42.4
Minority interests	0.0	0.0	0.0	0.0	Minority interests	0.0	0.0	0.0	0.0
PATMI	0.5	4.8	7.4	8.0	Total equity and liabilities	38.2	43.1	46.5	50.9

CASH FLOW					KEY RATES & RATIOS				
Year Ended 30 Jun (S\$m)	FY09	FY10	FY11F	FY12F		FY09	FY10	FY11F	FY12F
Op profit before working cap. chg.	4.5	10.1	13.0	14.3	EPS (SG cents)	0.4	3.4	5.3	5.8
Working cap, taxes and int	-0.4	-1.4	-2.5	-2.9	NTA per share (SG cents)	23.8	25.5	27.8	30.6
Net cash from operations	4.1	8.7	10.5	11.4	EBIT margin (%)	4.7%	16.3%	20.3%	20.2%
Purchase of PP&E	-3.0	-3.6	-8.3	-3.5	Net profit margin (%)	1.6%	11.7%	15.8%	15.6%
Other investing flows	0.1	0.1	0.0	0.0	PER (x)	127.1	14.4	9.3	8.6
Investing cash flow	-2.9	-3.5	-8.3	-3.5	Price/NTA (x)	2.1	1.9	1.8	1.6
Financing cash flow	-5.5	-2.6	-4.2	-4.2	EV/EBITDA (x)	13.1	5.9	4.6	4.0
Net cash flow	-4.3	2.5	-2.0	3.7	Dividend yield (%)	4.0%	6.1%	6.1%	7.1%
Cash at beginning of year	11.5	7.3	10.0	7.9	ROE (%)	1.5%	14.0%	20.0%	19.8%
Cash at end of year	7.5	10.0	7.9	11.6	Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, OIR estimates

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The analyst/analysts who wrote this report holds NIL shares in the above security.

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- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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Carmen Lee
Head of Research

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