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Oct 10, 2018

## SAM ENGINEERING & EQUIPMENT (M) BERHAD

Industrial Products

### INITIATING COVERAGE - BUY

#### Growth momentum set to continue

Strictly for internal circulation and not for publication

##### Aerospace division long-term growth driver

SAMEE's aerospace business gathers steam; registered steady revenue growth since 2012 with PBT margin improving from 4.7% in 2012 to 10.1% in 2018. The outlook for aerospace industry is positive underpinned by encouraging air traffic growth forecasted of 4.5% p.a. from 2018 to 2037. We expect the aerospace division's growth remain and continue to be the key growth driver for the Group.

##### Equipment business expected to remain strong

The equipment business is relatively volatile and cyclical as it derives majority of its revenue from customer in semiconductor industry. Although there is a concern in the semiconductor peak nears, the immediate outlook for semiconductor remains strong with worldwide semiconductor revenue forecast to grow 7.5% in 2018, hard disk segment is weak but seems to recovering from recent slump.

##### Healthy balance sheet, minimal gearing and consistent dividend

SAMEE's balance sheet is healthy, with stable free cash flows and minimal gearing. SAMEE paid consistent dividends to reward shareholders and this makes the stock attractive to institutional investors.

##### Initiate coverage with Target Price of RM11.30 and BUY call

With revenue and profit growth momentum set to continue, we initiate coverage on SAMEE with a target price of RM11.30 based on our SOP valuation and a BUY recommendation.

#### EARNINGS SUMMARY

FY 31 Mar (RM m)	FY17A	FY18A	FY19F	FY20F	FY21F
Revenue	537.4	598.2	717.8	753.7	791.4
EBITDA	72.5	95.9	118.5	134.5	144.7
Core Net Profit	43.6	63.1	74.0	82.9	86.3
Core EPS (sen)	36.3	48.3	54.7	61.4	63.9
Core EPS Growth (%)	-50.6	32.8	13.4	12.2	4.1
Net DPS (Sen)	17.2	23.4	27.4	30.7	31.9
Core PE	17.8	13.5	14.4	12.9	12.4
Dividend Yield (%)	2.7	3.6	3.5	3.9	4.0
Debt/Equity (%)	0.1	4.0	13.1	12.1	11.2
ROA (%)	7.5	9.5	11.0	12.0	11.9
ROE (%)	9.6	13.7	14.8	15.4	14.8
NTA per share (RM)	3.59	3.30	3.58	3.88	4.20
Price to NTA (x)	1.7	1.9	2.2	2.0	1.9
no. of shares	120.0	130.8	135.2	135.2	135.2

##### Company Description

SAMEE principally involved in manufacturing of aerospace product and customized factory automation equipment.

##### Stock Return Information

KLCI	1,735.2
Expected Share Return (%)	41.6
Expected Dividend Yield (%)	3.5
Expected Total Return (%)	45.1

##### Share Information

Bloomberg Code	SEQB MK
Stock Code	9822
Listing	MAIN
Issued Shares (m)	135.2
Market Cap (RM m)	1,078.6
52W High	8.38
52W Low	5.83
Estimated Free Float (%)	24.1
Beta (X)	0.8
3-month Average Vol	45,832

##### Top 3 Shareholders (%)

Temasek Hlds Pte Ltd	71.7
PB Smallcap Growth Fund	1.5
Manulife Financial Corp	1.4



##### Price Performance

	1M	3M	12M
Absolute (%)	7.9	16.8	12.4
Relative to Index (%)	8.5	9.4	8.1
KLCI (%)	-0.6	7.3	4.3

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See Pages 22 & 23 for disclaimer and disclosures and analyst certification

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## HISTORY & MAJOR SHAREHOLDERS

SAME Engineering & Equipment (M) Berhad (SAMEE) formerly known as LKT Industrial Bhd (LKT), started as a family-run firm, which later diversified into precision and automation equipment, industrial storage, plastic parts and injection moulds mainly for the semiconductor and microelectronic sectors. It was listed on the Second Board of Bursa Malaysia in 1995 and subsequently transferred to Main Board of Bursa Securities in 1999.

### Parent Company: Singapore Aerospace Manufacturing Pte Ltd

In 2007, Singapore Aerospace Manufacturing Pte Ltd (SAM Singapore) via wholly-owned subsidiary Singapore Precision Engineering Ltd (SPE) emerged as the controlling shareholder of LKT via the acquisition of 27.2m shares from two major shareholders.

SAM Singapore, a Temasek Holdings (Pte) Ltd-linked company, is a market leader in manufacture of technology-based components for the international aerospace market. Its key customers include Boeing, GE Aircraft Engines, GKN Aerospace Services, Goodrich and major aerospace original equipment manufacturers.

After becoming part of the SAM group, LKT went through several restructuring and streamlining exercises, including the change in name to SAM Engineering & Equipment (M) Bhd, further expansion of its aerospace division, disposal of non-core asset (plastic business), restructuring and consolidation of the equipment business.

### Key Management

Fig 1: Key Management

	Name	Position	Background
1.	Goh Wee Keng, Jeffrey	CEO & Executive Director	<p>Age: 59</p> <p>Gender: Male</p> <p>Nationality: Singaporean</p> <p>Date Joined: 4 Mar 2008.</p> <p>Graduated with a Bachelor of Science (First Class Honours) in Aeronautical Engineering Science, Salford University, UK; and a Masters of Science (Turbine Technology), Cranfield University, UK.</p> <p>Present Directorships and Appointments:</p> <ul style="list-style-type: none"> <li>• Director, Accuron Industrial Technologies Ltd</li> <li>• President &amp; CEO/Director of Singapore Aerospace Manufacturing Pte Ltd</li> <li>• Chairman, SAM (Suzhou) Co, Ltd</li> <li>• Chairman, Aviatron (M) Sdn Bhd</li> </ul>
2.	Tan Guan Thong	Chief Operating Officer, SAM Singapore Group	<p>Age: 57</p> <p>Gender: Male</p> <p>Nationality: Singaporean</p> <p>Date Joined: 15 Aug 2011.</p> <p>Graduated with a Bachelor of Engineering from Nanyang Technology University of Singapore, Singapore.</p>
3.	Teo Siew Geok, Helen	Chief Financial Officer, SAMEE Group	<p>Age: 59</p> <p>Gender: Female</p> <p>Nationality: Singaporean</p> <p>Date Joined: 15 Aug 2011.</p> <p>Graduated with a Bachelor of Accounting from National University of</p>

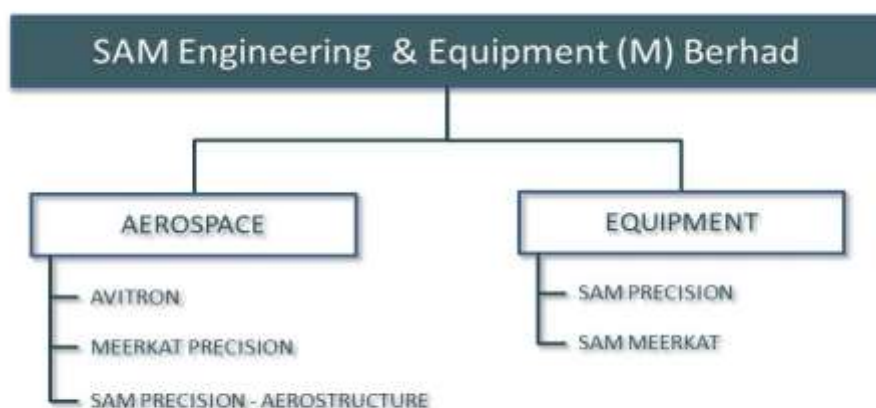
Singapore, Singapore.

4.	Yap Han Lin	Senior Operations Director, Meerkat Precision	<p>Age: 43</p> <p>Gender: Male</p> <p>Nationality: Malaysian</p> <p>Date Joined: 16 Feb 2011.</p> <p>Graduated with a Bachelor of Aerospace Engineering (Honours), Royal Melbourne Institute of Technology, Victoria, Australia.</p>
5.	Lim Kean Thye	General Manager, SAM Meerkat	<p>Age: 51</p> <p>Gender: Male</p> <p>Nationality: Malaysian</p> <p>Date Joined: 28 Jun 2010.</p> <p>Graduated with a Bachelor of Electrical &amp; Electronics Engineering from Imperial College of Science &amp; Technology, University of London, England, UK.</p>
6.	Ng Boon Keat	Chief Operating Officer, SAMEE Group	<p>Age: 50</p> <p>Gender: Male</p> <p>Nationality: Malaysian</p> <p>Date Joined: 17 Apr 2006.</p> <p>Graduated with a Masters of Science (Mechatronics Engineering) from De Montfort University of Leicester, UK.</p>
7.	Lim Hee Seng, Peter	General Manager, Avitron	<p>Age: 56</p> <p>Gender: Male</p> <p>Nationality: Singaporean</p> <p>Date Joined: 1 Jan 2017.</p> <p>Graduated with a Bachelor of Mechanical Engineering (First Class Honours) from The Queens' University of Belfast, UK; and a Masters of Business Administration from University of Leicester, UK.</p>
8.	Teh Mun Ling	Vice President - Finance, SAMEE Group	<p>Age: 47</p> <p>Gender: Female</p> <p>Nationality: Malaysian</p> <p>Date Joined: 21 Aug 2017.</p> <p>Graduated with a Bachelor of Accountancy (Honours) from Northern University of Malaysia; also a Chartered Accountant from the Malaysian Institute of Accountants.</p>
9.	See Jorn Jorn, Jeffrey	Senior Operations Director, SAM Precision & SAM Tooling	<p>Age: 41</p> <p>Gender: Male</p> <p>Nationality: Malaysian</p> <p>Date Joined: 29 Dec 2005.</p> <p>Graduated with a Diploma in Civil Engineering from University Technology Malaysia.</p>

Source: Company

# GROUP STRUCTURE & BUSINESS SEGMENTS

Fig 2: Business Segments



Source: Company

SAMEE is principally involved in two major businesses; aerospace division and equipment division.

The aerospace division provides dedicated end-to-end manufacturing solutions on critical engine parts and other related equipment parts while the equipment division provides an array of equipment engineering and solutions for commercial, semiconductor and other industries.

## Business Segments

### A. Aerospace Division

SAMEE's aerospace division is involved in the manufacturing of aircraft components, its business activities carried out via the following wholly-owned subsidiaries:

1. Meerkat Precision Sdn Bhd;
2. Avitron Private Limited; and
3. Sam Precision (M) Sdn Bhd (aerostructures)

#### 1. Meerkat Precision Sdn Bhd

Fig 3: Meerkat Precision S/B - aero fan cases @ Bayan Lepas, Penang

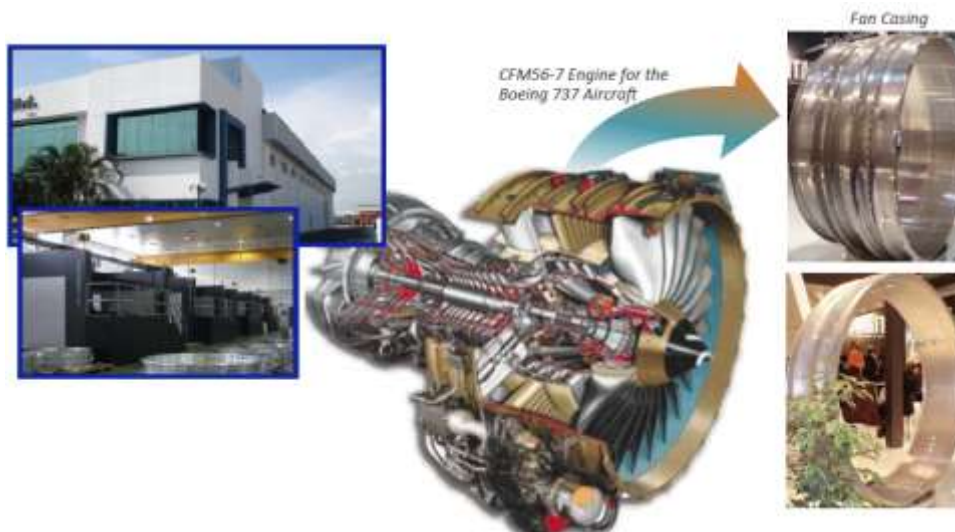


Land area	: 131,406
(sq.ft.)	
Build-up	: 92,000
(sq.ft.)	
Location	: Plot 17 Hilir Sungai Keluang 3, Bayan Lepas Free Industrial Zone Phase 4, 11900 Penang, Malaysia

Source: Company

Meerkat Precision Sdn Bhd is a pioneer manufacturer of fan engine casings in Malaysia for commercial aircraft. Its forte lies in Large Format CNC machining for aerospace, land & marine and semiconductor industries with precision accuracy of 20-30 micron. Meerkat Precision Sdn Bhd also offers sub-component assembly, and special processes such as surface treatment and non-destructive testing (NDT).

Fig 4: first aero-engine fan case in Malaysia



Source: Company

## 2. Avitron Private Limited (Avitron)

Fig 5: Avitron - aero-engine casing @ Jurong, Singapore

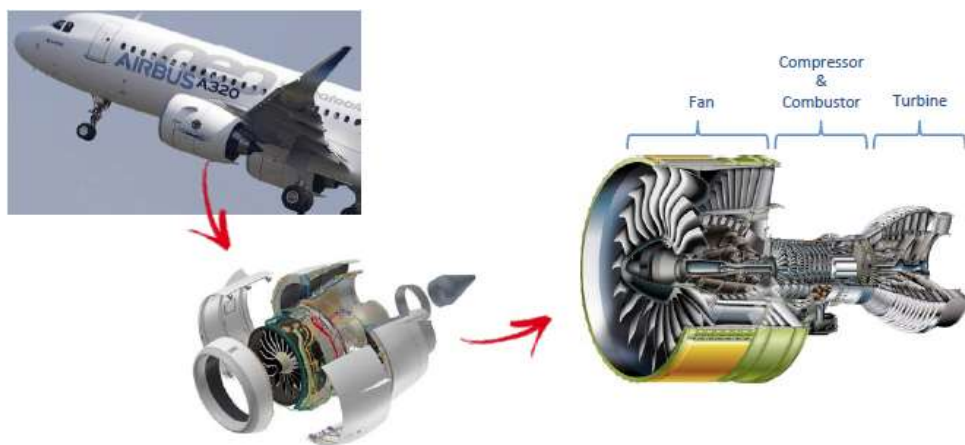


Area (sq.ft.)	: 198,379
Build-up (sq.ft.)	: 161,539
Location	: 51 Corporation Road, 649806, Singapore

Source: Company

In 2012, SAMEE further strengthened its aerospace business via the acquisition of Avitron from its parent company SAM Singapore. Avitron specializes in the manufacturing of complex engine cases (fan cases, compressor cases and combustor cases) that are made of hard and tough materials such as stainless steels, titanium and nickel-based alloys for both aircraft and marine applications.

Fig 6: engine case



Source: Company

The acquisition increased the range of engine casing products of SAMEE, from aluminium only casings to machining stainless steel, titanium as well as more complex alloys as the base metal for the casings. Besides that, it also enhances SAMEE's precision engineering capabilities in terms of technology, product complexity, technical knowledge and expertise.

It serves numerous aircraft applications for major aircraft maker such as Airbus, Boeing, Embraer, Bombardier, Dassault, Cessna, Gulfstream and AVIC.

Fig 7: aircraft applications

Airbus	: A320ceo, A320neo, A330, A340, A380
Boeing	: B737, B737Max, B747-8, B767, B777, B787
Embraer	: 170/175, 190/195
Bombardier	: CRJ 700/900, Learjet 60
Dassault	: Falcon 200EX
Cessna	: Citation Jet, Envoy
Gulfstream	: G200
AVIC	: ARJ21, Comac 919

Source: Company

### 3. Sam Precision (M) Sdn Bhd - aerostructures

**Fig 8: Sam Precision (M) S/B - aerostructures @ Bayan Lepas, Penang**



Area (sq.ft.)	: 131,104
Build-up (sq.ft.)	: 67,500
Location	: Plot 77, Lintang Bayan lepas Bayan Lepas Non-Free Industrial Zone Phase 4 11900 Penang

Source: Company

Sam Precision (M) Sdn Bhd fabricates precision tools and machinery parts and manufacture aircraft and other equipment parts, spares, components and precision engineering parts.

In 2015, SAMEE won long term-contracts to supply Airbus A320neo nacelle beams and prismatic parts for A350, Boeing 787 and Bombardier C-Series aircraft.

**Fig 9: Prismatic parts**

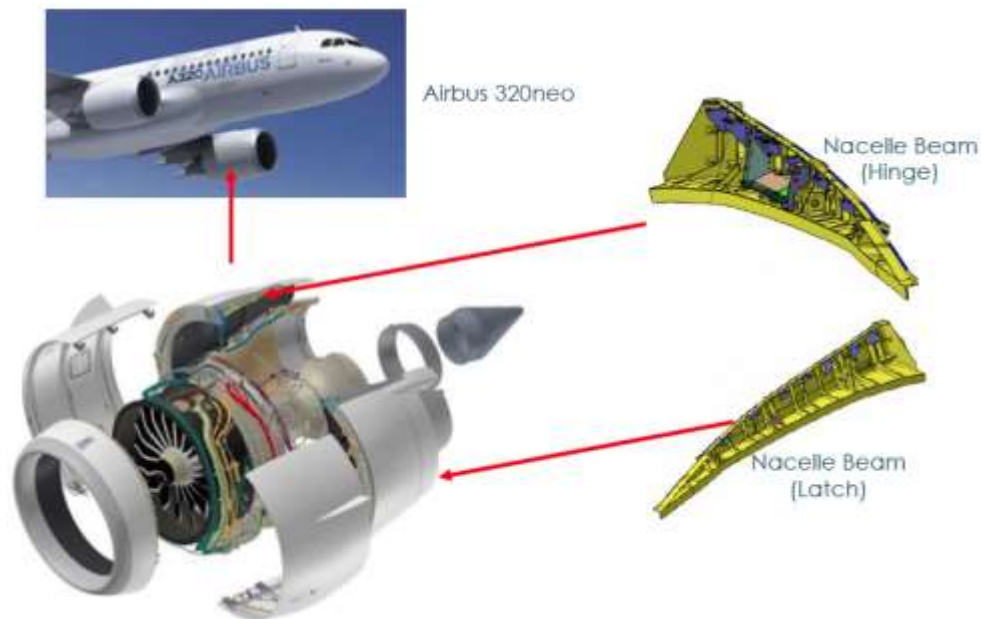


Source: Company

The A320 is one aircraft in four sizes (A318, A319, A320 and A321). It is longest-range single-aisle aircraft with seating from 100 to 240 passengers and is one of the most successful and versatile jetliner families.

The A320neo (new engine option) is one of many upgrades introduced by Airbus; it increases fuel-efficient of the aircraft with a choice of two new-generation engines (the PurePower PW1100G-JM from Pratt and Whitney and the LEAP-1A from CFM International).

Fig 10: Nacelle Beam



Source: Company

The nacelle is the interface between the engine and the airplane, a complex system that performs multiple functions in harsh environment such as channels air-flows and protects the engine, helps the aircraft brake during landing (thrust reversers), reduces noise emissions and ensure easy access to the engine for maintenance.

Fig 11: Sam Precision (M) S/B - aerostructures @ Bukit Minyak, Penang



Build-up : 110,000  
(sq.ft.)

Location : Plot 309, Jalan Perindustrian  
Bukit Minyak 18  
Penang Science Park  
14100 Penang

Source: Company

Sam Precision (M) Sdn Bhd rented facility from sister company Aviatron (M) S/B and invested RM100mil for the new plant at Bukit Minyak to produce nacelle beams for the new Airbus A320neo and A350 aircraft.

Fig 12: FMS lines @ Bukit Minyak, Penang



Source: Company

The FMS-8 machine line is for A320 neo program while the FMS-4 machines line is for A350/1000 program. These machine lines produce twenty-eight (28) nacelles for A320 neo and eight (8) nacelles for A350/1000 per month.

Fig 13: LEAP-X engine casing @ Tuas, Singapore



Source: Company

As part of its expansion plans, SAMEE added facility for LEAP-X engine casing manufacturing in Singapore, starting with 14 machines and 2 FMS lines.

## B. Equipment Division

SAMEE's equipment division provides unique engineering solutions to global multinational companies in the Hard Disk Drive, Solar, Semiconductor and LED industries, from collaborative design and development to finished equipment assembly of customized factory automation and material handling equipment integrated with vision inspection systems.

Fig 14: Equipment Division Customers

- |                         |              |
|-------------------------|--------------|
| 1. Agilent Technologies | 6. Teradyne  |
| 2. 3M                   | 7. P&G       |
| 3. Ebara                | 8. Bosch     |
| 4. Braun                | 9. Ultratech |
| 5. KLA Tencor           |              |

Source: Company

Solutions provided by the Equipment Division range from original design manufacturer (ODM) services, to build to print (BTP) services, ODM services include the design, development, manufacture of material handling equipment for customers while BTP services entails the manufacturing, assembly and testing of equipment according to customers' designs and specifications.

SAMEE utilises collaborative approach with customers and jointly develop solutions based around customer values. The primary focus is to enhance customer value by making its customers' manufacturing processes more efficient, reliable and cost-effective.

**Fig 15: Examples of products under Equipment Division**

- 
- |  |   |  |
|--|---|--|
| 1. Hard-disk testing machines                            | : | Machines assembled based on specifications and blueprint provided by customers, use for testing HDDs before shipment   |
| 2. Wire-bonding testing machines                         | : | Machines assembled based on specifications and blueprint provided by customers, use to provide connectivity between IC and PCBA during semiconductor device fabrication                              |
| 3. High speed material handling system                   | : | Machines designed based on specifications provided by customers, typically to handle and test various consumer products  |
| 4. Laser mark handlers                                   | : | Machine utilise a laser for various manufacture and specifications and integrates the laser into material handling equipment for purpose of laser engraving and etching                              |
| 5. Vision inspection, sorting and final packaging system | : | Machine used for QA process, utilise vision technology to detect defective units   |
| 6. Precision stage for HBLED photolithography            | : | HBLED photolithography equipment used in the front end wafer fabrication process, where circuitries are printed onto the wafer, a highly technological mechatronic system with micron level accuracy |
| 7. Semiconductor front end integrated system             | : | Wafer Fab Chamber assembly, wafer processing equipment   |
| 8. Testing equipment for Semiconductor application       | : | Automated test equipment (ATE), test a wide range of electronic devices and systems  |
- 

Source: Company

SAMEE's equipment division business is carried out via two wholly-owned subsidiaries as follows:

1. Sam Meerkat (M) Sdn Bhd; and
2. Sam Precision (M) Sdn Bhd - equipment

#### 1. SAM Meerkat (M) Sdn Bhd (Sam Meerkat)

**Fig 16: Sam Meerkat (M) Sdn Bhd - equipment manufacturing, integration & testing @ Bayan Lepas, Penang**



Area (sq.ft.)	: Plot 103: 176,629 Plot 104: 92,500
Build-up (sq.ft.)	: Plot 103: 148,218 Plot 104: 134,000
Location	: Plot 103 & 104 Hilir Sungai Keluang 5 Bayan Lepas Free Industrial Zone Phase 4, 11900 Penang, Malaysia

Source: Company

Sam Meerkat produce equipment from High mix - Low Volume to High Mix - High Volume requirements.

Sam Meerkat has three areas of specialization:

- a. **Built to print (BTP)** equipment from customer's OEM design and provision of assembly services; supported by a team of highly experienced Electro Mechanical & Electrical Engineers capable of integrating up to 12,000 parts per machine. SAM Meerkat is also equipped with a Class 10K Cleanroom facility.
- b. **Sheet metal fabrication** - built to print enclosures, skins and structures with complex, high precision machining capabilities, complete with In- house secondary processes such as Phosphating pretreatment, wet paint & powder coating facilities.
- c. **Design & development** of customized automation solutions, offering the following services:
  - Consulting & project development;
  - Design & engineering;
  - Production & assembly; and
  - Integration & service

## 2. SAM Precision (M) Sdn Bhd - equipment division

**Fig 17: Sam Precision (M) Sdn Bhd - machining precision components @ Bayan Lepas, Penang**



Area (sq.ft.)	: 131,104
Build-up (sq.ft.)	: 67,500
Location	: Plot 77, Lintang Bayan lepas Bayan Lepas Non-Free Industrial Zone Phase 4 11900 Penang

Source: Company

In addition to aerostructures, Sam Precision (M) Sdn Bhd is also focused on built to print precision tools, dies, jigs and fixtures; modular and equipment assemblies, primarily for the Disk Drive, connectors, automotive and semiconductor industries.

## Segmental Contributions

**Fig 18: Revenue and PBT Analysis by Business Divisions**

		FY15A		FY16A		FY17A		FY18A	
Revenue		RM'm	%	RM'm	%	RM'm	%	RM'm	%
1	Aerospace Division	311.8	69.1%	333.2	53.7%	310.2	57.7%	353.5	59.1%
2	Equipment Division	139.7	30.9%	286.8	46.3%	227.2	42.3%	244.7	40.9%
Total		451.5	100.0%	620.0	100.0%	537.4	100.0%	598.2	100.0%

PBT		RM'm	%	RM'm	%	RM'm	%	RM'm	%
1	Aerospace Division	26.1	66.1%	36.9	53.8%	23.8	43.0%	35.6	48.6%
2	Equipment Division	13.4	33.9%	31.7	46.2%	31.5	57.0%	37.6	51.4%
Total		39.5	100.0%	68.6	100.0%	55.3	100.0%	73.2	100.0%

Source: Company, Mercury Securities

Both core divisions contributed significantly to the Group's revenue and profit - the aerospace division contributed 59.1% and 57.7% of group revenue and 48.6% and 43.0% of group PBT in FY18A and FY17A respectively while the equipment division contributed 40.9% and 42.3% of group revenue and 51.4% and 57.0% of group PBT in FY18A and FY17A.

## BUSINESS OUTLOOK

With the aerospace and equipment divisions as core profit centers, the growth prospects of SAMEE hinge on the business outlook of the aerospace and semiconductor sectors - in our view, excellent for the former and stable for the latter.

### Aerospace Market Outlook

Fig 19: Aerospace Market Outlook and Forecast

Entity	Airbus	BOEING	
Report	Global Market Forecast 2018	Commercial Market Outlook 2018	Simple Average
Forecast period	2018-2037	2018-2037	
Average GDP growth	2.8%	2.8%	2.8%
Passenger traffic growth (RPK), CAGR	4.4%	4.7%	4.6%
Fleet growth	4.1%	3.5%	3.8%
Current aircraft	21,450	24,400	22,925
Aircraft required over the next 20 years	37,400	42,730	40,065
Total aircraft end of period	47,990	48,540	48,265
New airplane value (USD' trillion)	5.8	6.3	6.1

Source: Airbus, Boeing, FlightGlobal, Japan Aircraft Development Corporation, Mercury Securities

Accordingly to forecast by Airbus and Boeing, the two biggest companies in the aerospace industry, global GDP being the key driver for demand for airplanes is projected to grow at 2.8% per year for the next 20 years and worldwide passenger traffic revenue passenger per kilometers (RPK) expected to grow by 4.6% per annum over 20 years.

The projected traffic growth requires the global commercial aircraft fleet to increase by approximately 25,000 units, which equates to average of 3.8% annual growth rate, taking the total fleet to approximately 48,000 airplanes in 2037. Total approximately 40,000 aircraft, worth approximately USD6.1trillion are expected to be delivered over the next 20 years, between 2018 and 2037. About two-thirds of this demand will be to support traffic growth while the rest is for replacing older aircraft with newer and more fuel-efficient aircraft models.

The combined order backlog for both Airbus and Boeing commercial aircraft remains at more than 13,000 units. This translates to about 9 years of backlog based on current yearly production rates.

Based on the market forecast and strong order book provided by both Airbus and Boeing, the outlook for aerospace industry is expected to remains positive and SAMEE is well positioned to ride on the upswing of the aerospace industry.

## Equipment Industry Outlook

The majority of the revenues and profits of the Equipment Division of SAMEE are derived from customers in the semiconductor industry. SEMI, the global industry association representing the electronics manufacturing supply chain, reported that worldwide sales of new semiconductor manufacturing equipment are projected to increase 10.8% to USD62.7bil in 2018, exceeding the historic high of USD56.6bil set last year. Another record-breaking year for the equipment market is expected in 2019, with 7.7% forecast growth to USD67.6bi.

SEMI forecast wafer processing equipment will rise 11.7% in 2018 to USD50.8bil. The other front-end segment, consisting of fab facilities equipment, wafer manufacturing, and mask/reticle equipment, is expected to jump 12.3% to USD2.8bil this year. The assembly and packaging equipment segment is projected to grow 8.0% to USD4.2bil in 2018, while semiconductor test equipment is forecast to increase 3.5% to USD4.9bil this year

Source: [www.semi.org](http://www.semi.org)

**Fig 20: Worldwide Sales of New Semiconductor Manufacturing Equipment**



Source: [www.semi.org](http://www.semi.org)

Being building block side of technology, the positive long-term semiconductor industry outlook will be underpinned by the proliferation of the internet and growing digitalization of our lives in the foreseeable future. Medium term growth drivers for semiconductor industry are cloud computing, big data, IoT, auto and other mass market adoptions.

Fig 21: SWOT analysis for SAMEE

Strength	Opportunities
<ul style="list-style-type: none"> <li>Experienced management team</li> <li>Proven track record</li> <li>Established relationships with major aerospace customers</li> <li>Long term contracts for aerospace division</li> <li>High entry barrier <ul style="list-style-type: none"> <li>Long gestation period</li> <li>Heavy capital investment</li> <li>Stringent quality requirements</li> <li>Strong cash flow requirements</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Growing market in aerospace segment</li> </ul>
Weakness	Threats
<ul style="list-style-type: none"> <li>Volatile demand for equipment division</li> </ul>	<ul style="list-style-type: none"> <li>Deteriorating prospects in HDD market</li> <li>Semiconductor cycle potentially peak</li> </ul>

Source: Mercury Securities

## KEY RISKS

Some of the key risks relating to SAMEE's prospects are highlighted as follows:

### 1. Industry Risk

The group operates within an intensely competitive industry with robust and mature players that are in direct competition with it. It is also subject to various demand and supply factors which concern the sector.

### 2. Technology Obsolescence Risk

The group inhabits a high-tech environment where the application of cutting-edge technology is commonplace and technology obsolescence occurs rapidly. For example, the HDD market in which the company operates and sells to is being encroached by the burgeoning SSD market, and total industry sales are declining. Technology obsolescence remains an ever present threat to the company and its operations.

### 3. Customer Concentration Risk

The group conducts business with 3 major customers, which cumulatively make up 62.5% of its total revenues. Deteriorating relationships or poor business performance of its customers serves as a risk to the going concern of the company.

### 4. Currency Exchange Risk

As the group deals in various currencies, the weakening of the US Dollar represents an unavoidable and insubstantial risk upon the financial health of the company.

## FINANCIALS AND FORECASTS

### FY15A: Revenue - 0.3%, core net profit + 22.3%

In FY15A, SAMEE recorded a 0.3% decrease in revenue and 22.3.6% yoy increase in core net profit.

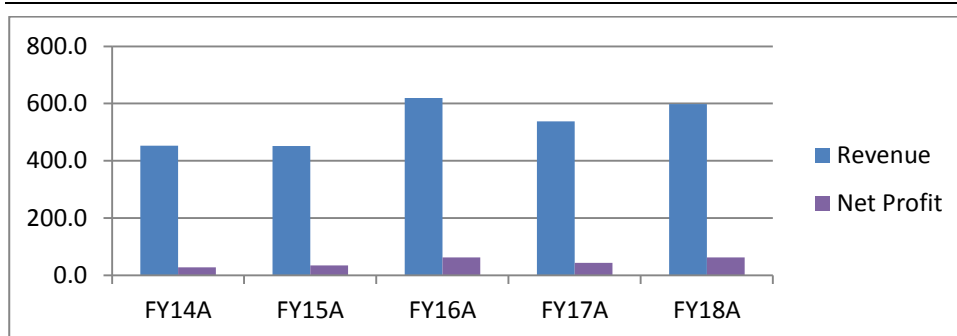
Aerospace Division revenue increase by 9.1% yoy compensated has make up for the lower revenue in Equipment Division, which decrease by 16.4% yoy, mainly due to weakness in the data storage technology business. Nonetheless SAMEE achieved a 22.3% yoy increase in core net profit, increase by 22.3% yoy attributed to new projects, better utilisation of resources and strength of the US dollar.

### FY16A: Revenue + 37.3%, core net profit + 82.2%

In FY16A, SAMEE recorded a 37.3% and 82.2% yoy increase in revenue and core net profit respectively. The increase in revenue was mainly due to strong demand in the Equipment Division, steady revenue flow from Aerospace Division and strengthening of US dollar.

Aerospace Division registered 6.9% and 41.4% yoy increase in revenue and PBT respectively while Equipment Division registered 105.3% and 136.6% yoy increase in revenue and PBT respectively.

Fig 22: SAMEE Revenue and Net Profit



Source: Company, Mercury Securities

### FY17A: Revenue - 13.3%, core net profit - 30.9%

In FY17A, SAMEE recorded a 13.7% and 30.9% yoy decrease in revenue and core net profit due to lower contribution from both business divisions.

The Aerospace Division registered 6.9% and 35.2% decrease in revenue and PBT respectively due to reduction in the production rate for Airbus A380 aircraft program and weak demand for business jets and industrial gas turbines. The lower deliveries of casing products from older aircraft platforms was partly offset by strong demand of new Airbus A320neo and Boeing 737max platform which was manufacture launch in FY2017.

The PBT was aggravated by higher cost incurred for new manufacturing start-up for aerospace machined parts and progressive migration of new aerostructures manufacturing to new facility in Penang for the supply of Airbus 320neo nacelle beams and prismatic parts for the Airbus 350, Boeing 787 and the Bombardier C-Series aircraft. The long term supply contract was won in 2015 and expected to contribute to SAMEE performance in 2018.

The Equipment Division registered 20.8% and 0.6% decrease in revenue and PBT respectively due to weak Hard Disk Drive (HDD) market.

## FY18A: Revenue + 11.3%, core net profit + 44.8%

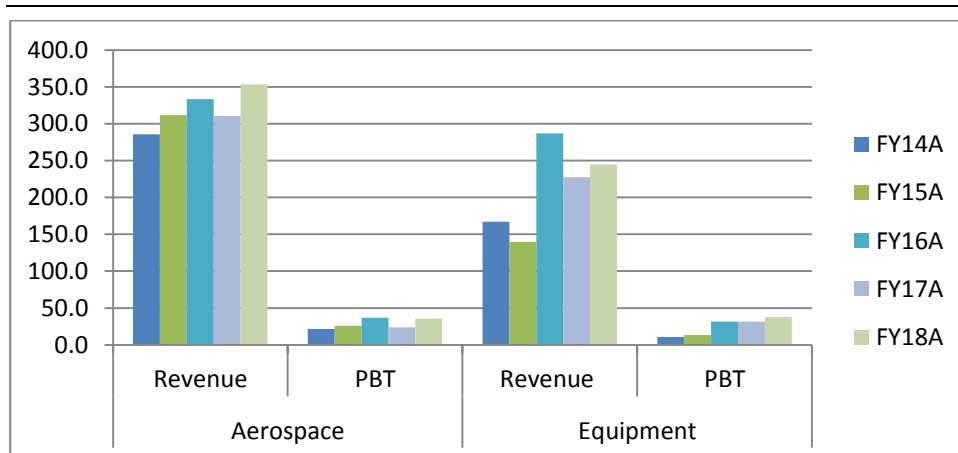
In FY18A, SAMEE recorded 11.3% and 44.8% yoy increase in revenue and core net profit respectively due to positive growth from both Aerospace and Equipment Division as a result of strong market demand in both business sectors.

The Aerospace Division registered 14.0% and 49.0% yoy increase in revenue and PBT. The higher revenue was owing to production and delivery ramp up of aero-engine casing products as well as precision machined products for new programs. PBT improved with higher revenue.

The Equipment Division registered 7.7% and 19.4% yoy increase in revenue and core net profit respectively. The higher revenue was due to increase in product deliveries for the semiconductor market segment.

SAMEE invested RM134.5m in FY18A, of which RM113.7 was for the Aerospace Division.

**Fig 23: Revenue and PBT by Segment**



Source: Company, Mercury Securities

## Revenue and net profit expected to increase yoy in FY19F

SAMEE registered revenue of RM178.8m and net profit of RM17.6m in 1QFY19 compared to revenue of RM141.3m and net profit of RM9.4m in 1QFY18A, up 26.5% and 87.4% yoy respectively. Both the Aerospace and Equipment Divisions recorded higher revenue and profit margin.

In 1QFY19A, the Aerospace Division recorded 22.7% and 163.3% yoy increase in revenue and PBT respectively. The higher revenue was due to an increase in deliveries for the casing and beam products.

The beam products are from the new aerostructures manufacturing in Penang which are fully installed and operational with machining automation through the use of Flexible Manufacturing System (FMS). There are two sets of machines line to produce parts for Airbus A320neo and A350 platform, namely Airbus A320neo 8-machines FMS line and Airbus A350 4-machines FMS line. The machine lines has move into steady state volume production and are expected to contribute significantly to the Group's performance.

In 1QFY19A, the Equipment Division recorded 52.7% and 29.5% increase for revenue and PBT respectively. The higher revenue from the equipment segment was attributed to increase in the sales to customers from the HDD and semiconductor industry.

In combination with the positive outlook for both business sectors, we expect SAMEE to maintain the growth momentum and forecast a 13.4% yoy increase in net profit from RM63.1m in FY18A to RM74.0m in FY19F.

## Moderate growth expected to continue in FY20F and FY21F

As part of its long term strategy to grow its business, SAMEE continue to seek growth organically such as bidding for new supply contracts, invest in new production line as well as via acquisition of synergistic assets or businesses.

SAMEE continue to deliver parts that are used in the still-popular Boeing B737 and B787 aircraft where demand is stable, and is ramping up production on parts used in the new Airbus A320neo and Boeing 737max aircraft which are in high growth programs. The new increase is expected to make up for the decrease in demand for parts used in matured platforms like the Boeing B777 and Airbus A380. Besides that, SAMEE is in the midst of expanding its new facility in Singapore with 14 machines and 2 FMS lines for LEAP-X engine. The new automation systems for its aero-engine casing production is expected to be completed within the next 2 years and is expected to contribute to the group profits from FY20F or FY21F.

Under the Equipment Division, SAMEE expanded its competence with the industrialisation of new product from one of its core customers and move into equipment testing market for semiconductor application.

With the above, we expect moderate growth for the Group to continue in FY20F and FY21F and forecast a 12.2% yoy increase in net profit from RM74.0m in FY19F to RM83.1 in FY20F and increase moderately 4.1% yoy to RM86.7m in FY21F.

**Fig 24: Key Financials and Ratios**

FY 31 Mar (RM m)	FY17A	FY18A	FY19F	FY20F	FY21F
Cash, Cash Equivalents & STI (RM m)	99.0	21.6	33.2	54.3	83.0
Net Debt/(Net Cash)(RM m)	-98.6	-3.1	32.2	11.1	-17.6
Shareholder equity (RM m)	455.0	461.1	498.1	539.5	582.7
enterprise value (RM m)	679.4	848.4	1,110.8	1,089.7	1,061.0
No. of shares	125.9	135.2	135.2	135.2	135.2
Cash per share (sen)	78.6	15.9	24.6	40.2	61.4
Total debt / Equity (%)	0.1	4.0	13.1	12.1	11.2
Net Debt (Net Cash)/equity	-0.22	-0.01	0.06	0.02	-0.03
NTA per share (RM)	3.59	3.30	3.58	3.88	4.20
Price / NTA (x)	1.7	1.9	2.2	2.1	1.9
Revenue (RM m)	537.4	598.2	717.8	753.7	791.4
EBITDA (RM m)	72.5	95.9	118.5	134.5	144.7
EBIT (RM m)	55.4	73.3	93.8	104.9	109.1
Profit before tax (RM m)	55.4	73.1	92.6	103.7	107.9
Net profit (RM m)	43.6	63.1	74.0	82.9	86.3
Core Net profit (RM m)	43.6	63.1	74.0	82.9	86.3
EBITDA margin (%)	13.5	16.0	16.5	17.8	18.3
EBIT Margin (%)	10.3	12.2	13.1	13.9	13.8
Pre-tax margin (%)	10.3	12.2	12.9	13.8	13.6
Net profit margin (%)	8.1	10.6	10.3	11.0	10.9
Times interest earned (x)	659.5	1,046.5	79.2	87.4	90.9
Earnings per share (sen)	36.3	48.3	54.7	61.4	63.9
EV/EBITDA (x)	9.4	8.8	9.4	8.1	7.3
Free cash flows per share (sen)	-36.3	-28.1	36.0	46.3	53.2

Source: Company, Mercury Securities

# VALUATION AND RECOMMENDATION

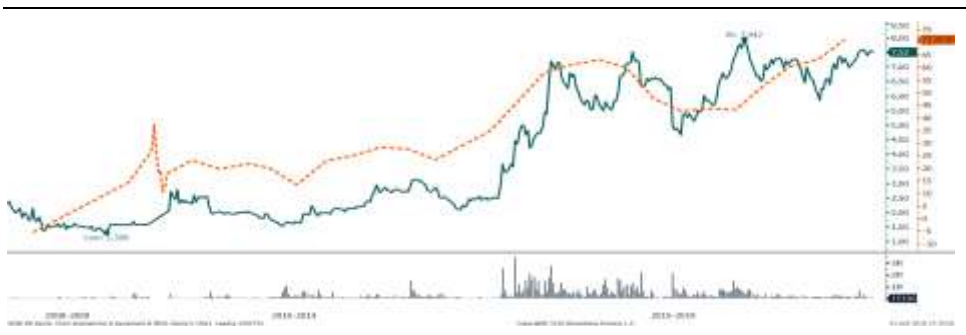
## Healthy balance sheet with low net gearing

Total debt of the group surged from RM18.4m as at 31 March 2018 or Q4FY18A to RM65.7m as at 30 Jun 2018 while debt to equity ratio increase from 0.04x to 0.13x. The increase in gearing is for working capital and expansion expenditure purposes. We expect the debt to equity ratio, which is low and manageable, to decline over time as the group ramp up deliveries and profitability rise.

## Consistent dividend payout can be maintained

SAMEE has paid consistent dividends since FY13A with dividend payout ratios at 0.76, 0.55, 0.47 and 0.48 in the last four financial years. We forecast dividend payout ratio of 0.50 in FY18A to be maintained in FY19F, FY20F and FY21F - implying dividend yields of 3.3%, 3.7% and 3.9% respectively.

Fig 23: SAMEE 10 Years Weekly Chart



Source: Company, Mercury Securities

## SAMEE trades near all-time high lifted by earnings growth

Since breaking break major resistance level of RM3.00 in 2015 and trading at a higher band of RM4.50 and RM8.28. SAMEE's share price is now hovering near its all-time high of RM8.28, lifted by earnings growth. Based on our estimate, the stock at RM7.98 is now trading at an implied FY19E PE of 14.6x, 2.2x FY19E BV/share of RM3.58 and FY19F EV/EBITDA of 9.4x.

## Initiate coverage with a BUY rating

We like SAMEE for its consistent earnings reported over the years and its technology moat, particularly the aerospace business which is recognised by the global aviation industry and endorsed by major companies in the aerospace industry. The entry barriers to the aerospace business are high as large and intensive capital outlay and long gestation periods required which form an entry barrier that protects them from competition.

We initiate coverage on SAMEE with a **BUY** rating with price target of RM11.30 which gives a potential price upside of 41.6%.

We price SAMEE to RM11.30 based on peers' market cap weighted average P/E of 17.8x and 24.5x for aerospace business and equipment business based on our estimate FY19F earnings respectively. The target price implies P/E of 20.7x of our estimate FY19F EPS of 54.7 Sen, P/B of 3.2x of our estimate FY19F NTA per share of RM3.58 and EV/EBITDA of 13.2x.

Company	Bloomberg	Exchange	Year	Sh Price	Issued Cap	Mkt Cap	PER (X)			P/BV (X)			EV/EBITDA		
	Ticker		End	RM	m	RM m	CY 18F	CY 19F	CY 20F	CY 18F	CY 19F	CY 20F	CY 18F	CY 19F	CY 20F
Aerospace Division Comparable Companies															
AeroSpace Technology of Korea	067390 KS	KOSDAQ	Dec	45.29	15.7	711.7	30.1	19.2	13.7	1.8	1.7	1.5	27.5	16.9	13.3
Ducommun Inc	DCO US	New York	Dec	167.91	11.4	1,914.4	28.2	17.3	15.7	2.1	2.0	1.8	10.4	9.3	6.6
Market Cap Weighted Average							28.7	17.8	15.2	2.0	1.9	1.7	15.1	11.4	8.5
Equipment Division Comparable Companies															
Inari Amertron Bhd	INRIM K	Bursa Malays	Jun	2.29	3,165.4	7,248.7	29.1	26.1	21.2	6.5	6.0	5.4	17.5	14.6	12.2
Unisem M Bhd	UNIM K	Bursa Malays	Dec	3.01	727.1	2,188.5	22.0	17.3	15.7	1.5	1.5	1.4	6.9	6.2	5.9
ViTrox Corp Bhd	VITROM K	Bursa Malays	Dec	7.79	470.4	3,664.6	35.5	25.8	21.0	9.0	7.0	5.5	30.8	22.4	18.6
Market Cap Weighted Average							29.7	24.5	20.2	6.4	5.5	4.8	19.4	15.4	13.0

**Fig 26: SOP Valuation**

		Market Cap Weighted Average	PAT	Value
Description		P/E	FY19E	RM m
1.	Equipment division	24.5	37.7	923.2
2.	Aerospace division	17.8	36.4	647.9
	subtotal			1,571.1
	Less:			
	- Net debt/(net cash)			46.9
	Total value			1,524.2
	Number of shares (m)			135.2
	<b>Fair Value per share (RM)</b>			<b>11.28</b>

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# APPENDICES

## Appendix 1: Profit & Loss Statement

FY 31 Mar (RM m)	FY17A	FY18A	FY19F	FY20F	FY21F
Revenue	537.4	598.2	717.8	753.7	791.4
Cost of sales	458.1	494.9	574.3	603.0	633.1
Gross profit	79.3	103.3	129.2	143.2	150.4
Other operating income	8.9	12.2	9.9	10.2	10.6
Depreciation	16.4	20.6	24.7	29.6	35.5
Finance Costs	0.1	0.1	1.2	1.2	1.2
Other Expenses	33.2	42.3	45.3	48.5	51.9
PBT	55.4	73.2	92.6	103.7	107.9
Taxation	11.7	10.0	18.7	20.7	21.6
Profit after tax	43.6	63.1	74.0	82.9	86.3
Minority interests	0.0	0.0	0.0	0.0	0.0
Net profit after MI	43.6	63.1	74.0	82.9	86.3
Extraordinary losses/(gains)	0.0	0.0	0.0	0.0	0.0
Core Net profit (RM m)	43.6	63.1	74.0	82.9	86.3

Source: Company, Mercury Securities

## Appendix 2: Balance Sheet

FY 31 Mar (RM m)	FY17A	FY18A	FY19F	FY20F	FY21F
Cash & Cash Equivalent	99.0	21.6	33.2	54.3	83.0
Acc Receivable	133.3	135.9	135.9	135.9	135.9
Inventories	141.9	179.0	179.0	179.0	179.0
Other current assets	51.5	66.7	66.7	66.7	66.7
Total current assets	425.7	403.1	414.8	435.9	464.6
Fixed assets	148.7	240.7	240.7	240.7	240.7
LT investments	0.0	0.0	0.0	0.0	0.0
Intangible assets	3.7	14.6	14.6	14.6	14.6
Other non-current assets	6.6	17.4	17.4	17.4	17.4
Total non-current assets	155.3	258.1	258.1	258.1	258.1
Total Assets	580.9	661.2	672.9	694.0	722.7
Short Term debt	0.4	6.3	53.3	53.3	53.3
Total current liabilities	122.3	181.3	181.3	181.3	181.3
Long term debt	0.0	12.1	12.1	12.1	12.1
Other non-current liabilities	3.6	6.7	6.7	6.7	6.7
Total non-current liabilities	3.6	18.8	18.8	18.8	18.8
Total Liabilities	125.9	200.1	200.1	200.1	200.1
Total Debt	0.4	18.4	65.4	65.4	65.4
Shareholders' equity	455.0	461.1	498.1	539.5	582.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total Equity	455.0	461.1	498.1	539.5	582.7
Total Liabilities & Equity	580.9	661.2	698.2	739.7	782.8

Source: Company, Mercury Securities

## Appendix 3: Cash Flow Statement

FY 31 Mar (RM m)	FY17A	FY18A	FY19F	FY20F	FY21F
Pre-tax profit	55.4	73.2	92.6	103.7	107.9
Depreciation & amortisation	17.0	22.7	24.7	29.6	35.5
Interest expenses	0.1	0.1	1.2	1.2	1.2
Changes in working capital	-25.1	-16.7	11.7	21.1	28.7
Cash tax paid	13.0	12.5	18.7	20.7	21.6
Cash from operations	34.0	97.5	98.6	112.6	121.9
Change in Fixed and Intangible Assets	-78.1	-134.5	-50.0	-50.0	-50.0
Net Change in long term investments	0.0	0.0	0.0	0.0	0.0
Acquisition / Divestiture	0.0	0.0	0.0	0.0	0.0
Others	0.5	0.2	0.0	0.0	0.0
Cash flow from investing	-77.6	-134.3	-50.0	-50.0	-50.0
Increase/(Decrease) in Borrowing	0.0	18.4	0.0	0.0	0.0
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0
Dividend paid to ordinary	-50.7	-21.7	-37.0	-41.5	-43.2
Cash flow from financing	-51.5	-3.7	-37.0	-41.5	-43.2
Effect of Foreign Exchange Rates	20.5	-37.0	0.0	0.0	0.0
Net cash flow	-95.1	-40.4	11.7	21.1	28.7
Cash at beginning	173.6	99.0	21.6	33.2	54.3
Cash at end	99.0	21.6	33.2	54.3	83.0
Free cash flow to firm	-44.0	-36.9	49.6	63.5	72.8

Source: Company, Mercury Securities

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