



Nov 29, 2019

Industrial Products
BUY

Price: RM 8.00

Target Price: RM 11.30

SAM ENGINEERING & EQUIPMENT (M) BERHAD

2Q20 - within expectation, growth momentum continue

Strictly for internal circulation and not for publication

2Q20 - revenue up 11.3%, core net profit up 12.1%

SAMEE 2Q20 posted higher revenue of RM210.5m (yoy:+11.3%, qoq:+7.8%) with higher PAT of RM20.6m (yoy:+12.1%, qoq:+12.9%). 2Q20 result within expectation, six monthly cumulative result accounted for 47.1% and 45.9% of our FY20 full year revenue and earnings estimates respectively.

Aerospace Segment - revenue up 3.4% and PBT up 13.5% yoy

Aerospace revenue increase by RM4.0m or 3.4% yoy, due to increase sales of casing products for A320neo, B737max and business jets, as well as increase in sales of aerostructures products for A320neo and favorable foreign exchange translation. With the higher revenue, PBT increase by RM1.6m or 13.5% to RM13.5m.

Equipment Segment revenue up 23.8%, PBT up 2.0% yoy

Equipment segment revenue increase by RM17.3m (yoy:+10.2, qoq:+18.4%), however PBT only increase by RM0.2m (yoy:+2.0%,qoq:+13.0%), earnings offsetted by unfavorable sales mix and unfavorable foreign exchange movement.

Maintain BUY with unchanged TP of RM11.30

Management expect revenue for aerospace segment to remain relatively stable while revenue from the equipment segment to increase next quarter backed by orders from both semiconductor and data storage customers.

We maintained our BUY recommendation with unchanged TP of RM11.30 based on 18x on our estimated EPS for FY20F.

Company Description

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

Stock Return Information

KLCI	1,583.8
Expected Share Return (%)	41.3
Expected Dividend Yield (%)	3.9
Expected Total Return (%)	45.2

Share Information

Bloomberg Code	SEQB MK
Stock Code	9822
Listing	MAIN
Issued Shares (m)	135.2
Market Cap (RM m)	1,081.3
52W High	8.64
52W Low	7.10
Estimated Free Float (%)	25.3
Beta (X)	0.7
3-month Average Vol	38,333

Top 3 Shareholders (%)

Temasek Hldgs Pte Ltd	71.7
Icapital Biz	2.0
Capital Dynamics Assets Mgmt	1.9



Price Performance

	1M	3M	12M
Absolute (%)	1.1	1.3	2.4
Relative to Index (%)	0.0	0.4	5.2

EARNINGS SUMMARY

FY 31 Mar (RM m)	FY18A	FY19A	FY20F	FY21F	FY22F
Revenue	619.0	755.0	861.7	987.5	1,136.1
EBITDA	95.0	134.0	147.8	173.0	203.1
Core Net Profit	62.9	70.4	84.4	98.0	114.2
Core EPS (sen)	46.5	52.1	62.5	72.5	84.5
Core EPS Growth (%)	28.1	11.9	19.9	16.1	16.6
Net DPS (Sen)	23.4	29.1	31.2	36.3	42.3
Core PE	13.5	15.0	12.8	11.0	9.4
Dividend Yield (%)	3.7	3.7	3.9	4.5	5.3
Debt/Equity (%)	3.9	18.6	17.3	15.9	14.6
ROA (%)	9.3	8.9	10.2	11.2	12.2
ROE (%)	13.3	13.1	14.6	15.6	16.7
NTA per share (RM)	3.38	3.85	4.16	4.53	4.95
Price to NTA (x)	1.9	2.0	1.9	1.8	1.6

Denny Oh

dennyoh@mersec.com.my

+603 6203 7227

Aerospace segment outlook

The impact of the grounding of Boeing B737 max remains uncertain, so far there is no impact to the Group as there is no change to the delivery schedule of engine case for this aircraft.

According to IATA, annual growth in industry-wide RPKs increased by 3.8% over the year to September, below long-run average rate of 5.5%, the weaker pace observed has come against a backdrop of slowing momentum in the global economy, easing business confidence, declining world trade activity and geopolitical tensions across regions, notably ongoing US-china trade dispute and impending departure of UK from EU.

While we are cautious with the uncertainty and risk above, we expect Group's Aerospace Segment's growth momentum to sustain underpinned by encouraging trends for continued traffic growth.

Fig 1: Quarterly results comparison

FYE 31 Mar (RM m)	Individual Quarters						Cumulative Quarter		
	YoY			QoQ			YoY		
	2Q20	2Q19	yoy %	2Q20	1Q20	qoq%	2Q20	2Q19	yoy %
Revenue	210.5	189.2	11.3	210.5	195.2	7.8	405.6	367.9	10.2
Gross profit	34.8	28.4	22.9	34.8	30.3	14.9	65.2	54.3	20.0
othe operating income	3.3	2.8	18.0	3.3	5.2	(36.5)	8.5	6.7	27.6
other operating expenses	(1.4)	(0.3)	299.1	(1.4)	(3.2)	(57.2)	(4.5)	(2.3)	99.5
Distribution and administrative exp	(10.6)	(7.2)	47.2	(10.6)	(8.5)	24.5	(19.2)	(12.7)	51.6
Finance cost	(1.2)	(0.7)	87.6	(1.2)	(1.2)	1.1	(2.5)	(1.0)	158.1
PBT	24.9	22.9	8.7	24.9	22.6	10.2	47.5	45.1	5.3
Taxation	(4.4)	(4.6)	(5.2)	(4.4)	(4.4)	(0.7)	(8.7)	(9.2)	(4.7)
PAT	20.6	18.3	12.1	20.6	18.2	12.9	38.8	35.9	7.9
Others comprehensive income/(loss)	1.0	18.2	(94.4)	1.0	10.2	(90.0)	11.2	25.6	(56.0)
Total comprehensive income	21.6	36.6	(41.0)	21.6	28.4	(24.1)	50.0	61.5	(18.7)
Weighted average no. of shares ('000)	135.2	135.2	-	135.2	135.2	-	135.2	135.2	-
Diluted	135.2	135.2	-	135.2	135.2	-	135.2	135.2	-
Extraordinary items	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
Core net profit	20.6	18.3	12.1	20.6	18.2	12.9	38.8	35.9	7.9
Basic EPS (sen)	15.2	13.6	12.1	15.2	14.9	2.0	28.7	26.6	7.9
Diluted EPS (sen)	15.2	13.6	12.1	15.2	14.9	2.0	28.7	26.6	7.9
Core EPS (sen)	15.2	13.6	12.1	15.2	14.9	2.0	28.7	26.6	7.9
Revenue by segment									
Aerospace	120.6	116.6	3.4	120.6	110.3	9.4	230.9	218.3	21.5
Equipment	89.8	72.5	23.8	89.8	84.9	5.8	174.7	149.6	28.4
Total	210.5	189.2	11.3	210.5	195.2	7.8	405.6	367.9	24.2
PBT by segment									
Aerospace	13.5	11.9	13.5	13.5	12.9	4.8	26.4	22.5	17.2
Equipment	11.4	11.0	3.8	11.4	9.7	17.4	21.1	22.6	(6.3)
Total	24.9	22.9	8.8	24.9	22.6	10.2	47.5	45.1	5.4
PBT Margin (%)									
Aerospace	11.2	10.2	9.7	11.2	11.0	1.5	11.4	10.3	10.8
Equipment	12.7	15.2	(16.2)	12.7	15.7	(19.2)	12.1	15.1	(19.8)
Total	11.8	12.1	(2.2)	11.8	12.8	(7.8)	11.7	12.2	(4.4)

Source: company and Mercury Securities

DISCLAIMERS AND DISCLOSURES

Disclaimers

This report has been prepared by Mercury Securities Sdn Bhd (“Mercury Securities”) as part of the Mid and Small Cap Research Scheme (“MidS”) administered by Bursa Malaysia Berhad (“Bursa Malaysia”) and has been compensated to undertake this scheme. Mercury Securities Sdn Bhd has produced this report independent of any undue influence from Bursa Malaysia or the subject company. For more information about MidS and other research reports, please visit Bursa Malaysia’s MidS link at: www.bursamids.com.

This report is prepared primarily for the use of Mercury Securities’ clients in Malaysia and not for publication purposes, notwithstanding its public dissemination via MidS, Bursa Market Place and external financial information providers such as Bloomberg LP. This report should not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of Mercury Securities. Mercury Securities, companies and individuals related to it accept no liability whatsoever for the actions of third parties in this respect.

This research report is prepared for general circulation and for information purposes only and under no circumstances should it be considered or intended as an offer to sell or a solicitation of an offer to buy the stocks or securities referred to in the report. Investors should note that the price, values or fundamentals of any securities may fluctuate over time. Past performance of any securities may not be an accurate guide to its future performance.

This report is not intended to provide personal investment advice and does not take into account the investment objectives, financial situation and risk appetite of persons who may receive or read this report. Investors are advised to trade at their own absolute discretion, and to seek financial, legal and other pertinent professional advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

Any information, views, opinions, recommendations and advice in this report are given in good faith but without any legal responsibility or liability to Mercury Securities and connected parties. Information contained in this report has been obtained from public sources believed to be reliable but such sources are not independently verified by Mercury Securities and consequently no representation is made as to the accuracy or completeness of this information and it should not be relied upon as such. The views, recommendations and opinions in this research report are our own as of the date hereof and are subject to change without prior notice.

Mercury Securities expressly disclaims any obligation to update or revise any views, recommendations, forward looking statements and forecasts in a timely manner to reflect new information, events or circumstances after the date of this report publication or to reflect the occurrence of unanticipated events. Our views and recommendations are based on our own analysis of publicly available information. A subject company’s fundamentals and prospects are subject to various risks and uncertainties that could cause its actual performance to differ from our opinion.

As such, Mercury Securities and its directors, officers, associates, connected parties and employees shall not be liable for any direct, indirect or consequential losses or damages that may arise from the use of or reliance on this research report.

Disclosures

Mercury Securities Sdn Bhd (113193-W) is a Participating Organisation of Bursa Malaysia Securities Berhad and a principal holding a Capital Markets Services Licence (“CMSL”) issued by the Securities Commission (“SC”) of Malaysia. Its research analysts hold a Capital Markets Services Representative’s Licence (“CMSRL”). Principals holding a CMSL and representatives holding a CMSRL are regulated by SC in accordance with the Capital Markets and Services Act 2007 (“CMSA”).

Mercury Securities, companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks or securities in the markets mentioned. Some of the subject companies covered by Mercury Securities for research purposes may be a client of Mercury Securities in the past, current or may be a potential client in the future. Possible business dealings may include, but is not limited to share trading, market making, underwriting, corporate finance and corporate advisory services.

RECOMMENDATION RATING

Mercury Securities maintains a list of stock coverage. Stock can be added or dropped subject to needs with or without notice. Hence, the recommendation rating only applicable to stocks under the list. Stocks out of the coverage list will not carry recommendation rating as the analyst may not follow the stocks adequately.

Mercury Securities has the following recommendation rating:

BUY	Stock's total return is expected to be +10% or better over the next 12 months (including dividend yield)
HOLD	Stock's total return is expected to be within +10% or -10% over the next 12 months (including dividend yield)
SELL	Stock's total return is expected to be -10% or worse over the next 12 months (including dividend yield)

This report is written by:

DENNY OH
RESEARCH ANALYST

Published and printed by:

MERCURY SECURITIES SDN BHD (113193-W)

L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur

Telephone: (603) - 6203 7227 Website: www.mercurysecurities.com.my

Email: mercurykl@mersec.com.my

This report is accessible at www.bursamids.com