


Malaysia

REDUCE (no change)

Consensus ratings*: Buy 1 Hold 1 Sell 1

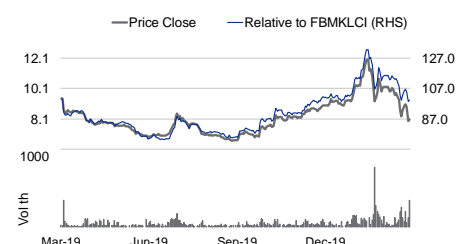
Current price: RM8.06
Target price:  RM6.50
Previous target: RM7.50
Up/downside: -19.4%
CGS-CIMB / Consensus: -29.0%

Reuters: KESM.KL
Bloomberg: KESM MK
Market cap: US\$82.21m
RM346.7m
Average daily turnover: US\$0.21m
RM0.90m
Current shares o/s: 43.68m
Free float: 51.6%

*Source: Bloomberg

Key changes in this note

- FY20F EPS decreased by 13%.
- FY21F EPS decreased by 21%.
- FY22F EPS decreased by 3%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-18.6	-10.5	-16.2
Relative (%)	-11.3	-2.1	-1.3

Major shareholders	% held
Sunright Limited	48.4

Analyst(s)



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KESM Industries

Recovery prospects hampered by Covid-19

- 1HFY20 core net profit missed expectations at 36%/28% of our/consensus' estimates due to weaker-than-expected demand following Covid-19 outbreak.
- We cut our FY20-22F EPS by 3-21% to account for lower utilisation in view of tepid demand and supply disruption from an extended Covid-19 outbreak.
- Maintain Reduce with a lower RM6.50 TP, still based on 12.8x CY21F P/E.

Sequentially weaker demand in 2QFY7/20

Revenue in 2QFY7/20 fell 5.9% qoq to RM68.1m due to lower demand for burn-in, test and electronic manufacturing services (EMS). The group attributed the lower revenue to production disruptions in China following the coronavirus outbreak. Headline net profit in 2QFY20 slid 59% qoq, but after stripping out the RM1.6m gain on PPE disposal in 1QFY20, its core net profit fell 37% qoq to RM2.1m in 2QFY20. As expected, there was no dividend declared in the quarter as the group traditionally declares its dividends in 2H.

Core net profit growth in 1HFY20 fueled by cost-savings initiatives

Despite weaker demand in 1HFY7/20, KESM's core net profit improved 34% yoy from RM4m to RM5.4m, mainly due to reductions in depreciation and staff costs. Depreciation expenses fell 15% yoy from RM39m in 1HFY19 to RM33.1m in 1HFY20 due to a reduction in capital expenditure, and certain machinery and test equipment having been fully depreciated. Staff costs fell by 4% yoy due to headcount reduction. Other expenses also dropped, by 14% yoy, due to lower repair and maintenance and utilities costs, in tandem with the lower production and the reduction in rental and management fees.

Revising down FY20-22F EPS by 3-21%

We cut our FY20-22F EPS by 3-21% to account for lower utilisation in view of the potential supply disruption caused by an extended Covid-19 outbreak. Nevertheless, we still expect earnings to improve on a yoy basis in FY20F driven by ongoing cost-saving initiatives. According to a Dec 2019 report by World Semiconductor Trade Statistics, global semiconductor industry sales are projected to grow by 5.9% yoy in 2020F, however, this positive outlook could be dampened by the Covid-19 outbreak. In the meantime, the group is focusing on improving its operating efficiency through automation and catching up on customers' expanded production backlogs in order to stay profitable. In addition, we are projecting a lower RM20m capex in FY20F (vs. RM29m in FY19F) in view of the excess capacity following the last expansion in 2017.

Maintain Reduce with a lower RM6.50 TP

Maintain Reduce with a lower RM6.50 TP, still based on 12.8x CY21F P/E, a 20% discount to our target sector P/E. We see the recent sell-down in the stock partly as a result of investor concerns over the Covid-19-induced supply chain disruptions in the semiconductor industry. Prolonged demand weakness and further supply chain disruptions from the Covid-19 outbreak are potential de-rating catalysts, while a faster-than-expected recovery in automotive chips demand is a key upside risk.

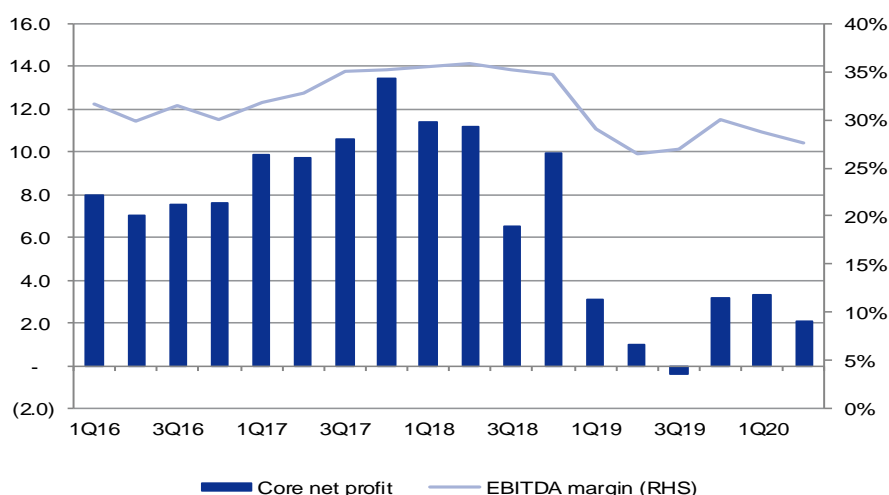
Financial Summary	Jul-18A	Jul-19A	Jul-20F	Jul-21F	Jul-22F
Revenue (RMm)	349.8	307.4	308.0	316.4	330.9
Net Profit (RMm)	39.01	6.99	13.06	18.23	27.27
Core EPS (RM)	0.89	0.16	0.30	0.42	0.62
Core EPS Growth	(11.2%)	(82.1%)	86.9%	39.6%	49.6%
FD Core P/E (x)	9.03	50.36	26.95	19.31	12.91
Price To Sales (x)	1.01	1.15	1.14	1.11	1.06
DPS (RM)	0.19	0.09	0.12	0.14	0.18
Dividend Yield	2.30%	1.12%	1.49%	1.74%	2.23%
EV/EBITDA (x)	2.15	2.51	2.10	1.66	1.12
P/FCFE (x)	586.7	36.4	9.8	11.8	9.1
Net Gearing	(25.0%)	(39.7%)	(48.5%)	(54.5%)	(60.6%)
P/BV (x)	0.99	0.98	0.96	0.93	0.88
ROE	11.4%	2.0%	3.6%	4.9%	7.0%
% Change In Core EPS Estimates			(12.7%)	(20.8%)	(3.4%)
CGS-CIMB/Consensus EPS (x)			0.69	0.68	0.84

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparisons

FYE July (RM m)	2QFY20	2QFY19	yoy % chg	qoq % chg	2QFY20 Cum	2QFY19 Cum	yoy % chg	Prev. FY20F	Comments
Revenue	68.1	81.1	(16.0)	(5.9)	140.5	162.7	(13.6)	322.7	Lower demand for burn-in, testing and EMS
Operating costs	(49.3)	(59.7)	(17.4)	(4.3)	(100.9)	(117.6)	(14.2)	(232.5)	
EBITDA	18.7	21.4	(12.4)	(9.9)	39.6	45.0	(12.2)	90.2	Below expectation
EBITDA margin (%)	27.5	26.4			28.2	27.7		27.9	
Depn & amort.	(16.1)	(19.5)	(17.5)	(5.8)	(33.1)	(39.0)	(15.1)	(72.6)	In line
EBIT	2.7	1.9	38.7	(28.6)	6.4	6.0	6.9	17.5	
Interest expense	(0.6)	(1.1)	(40.4)	(18.3)	(1.4)	(2.3)	(36.4)	(3.2)	Net cash of RM174m as at end Jan 2020
Interest & invt inc	1.5	1.5	4.2	(2.7)	3.1	2.9	5.9	4.8	Cash balances of RM220m as at end Jan 2020
Exceptionals	(0.3)	(0.7)	(52.7)	> 100	1.3	(1.2)	> 100	-	Net forex loss and fair value loss on investment securities
Pretax profit	3.2	1.6	97.0	(47.3)	9.4	5.4	72.5	19.2	
Tax	(1.4)	(1.2)	17.3	(15.1)	(3.0)	(2.3)	28.5	(4.2)	Above expectation
Tax rate (%)	42.4	71.2			31.8	42.7		22.0	
Net profit	1.9	0.5	> 100	(58.8)	6.4	3.1	> 100	15.0	
Core net profit	2.1	1.0	> 100	(36.6)	5.4	4.0	34.2	15.0	Below expectation
EPS (sen)	4.3	1.1	> 100	(58.8)	14.9	7.2	> 100	34.8	1HFY7/20 core net profit made up 36% of our and
Core EPS (sen)	4.9	2.3	>100	(36.6)	12.6	9.4	34.2	34.8	28% of Bloomberg consensus full-year forecast

SOURCE: CGS-CIMB RESEARCH, COMPANY

Figure 2: Quarterly core net profit and EBITDA margin trend


SOURCE: CGS-CIMB RESEARCH, COMPANY

Figure 3: Earnings revision

(RM m)	Previous			Revised			Changes (%)		
	FY20F	FY21F	FY22F	FY20F	FY21F	FY22F	FY20F	FY21F	FY22F
Revenue	322.7	338.9	354.5	308.0	316.4	330.9	(4.6)	(6.6)	(6.7)
EBIT	17.5	25.9	31.4	15.2	20.3	30.5	(13.4)	(21.6)	(3.0)
PBT	19.2	27.7	33.2	16.7	22.0	32.1	(12.7)	(20.8)	(3.4)
Net profit	15.0	23.0	28.2	13.1	18.2	27.3	(12.7)	(20.8)	(3.4)
EPS (sen)	34.8	53.5	65.6	30.4	42.4	63.4	(12.7)	(20.8)	(3.4)

SOURCE: CGS-CIMB RESEARCH, COMPANY

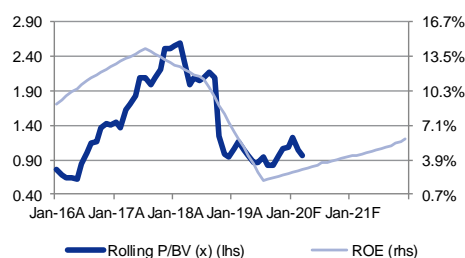
Figure 4: Sector comparisons

Company	Recom.	Price (local currency)	Target Price (local currency)	Mkt Cap (US\$ m)	P/E (x)		P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
					CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F	CY20F	CY21F
KESM Industries	Reduce	8.06	6.50	82	23.1	16.0	0.9	0.9	4.2	5.8	1.9	1.4	1.6	1.9
Inari-Amertron Bhd	Reduce	1.33	1.40	1,022	19.9	16.7	3.5	3.4	17.9	20.7	11.0	9.7	4.4	5.3
MPI	Add	10.00	12.20	472	12.9	11.8	1.5	1.4	12.1	12.2	3.8	3.2	3.5	3.8
Unisem	Reduce	2.05	2.05	353	18.5	14.3	1.1	1.1	6.0	7.5	4.3	3.7	3.9	5.4
Sector average					17.3	14.6	1.9	1.8	11.0	12.4	5.9	5.3	4.0	4.8

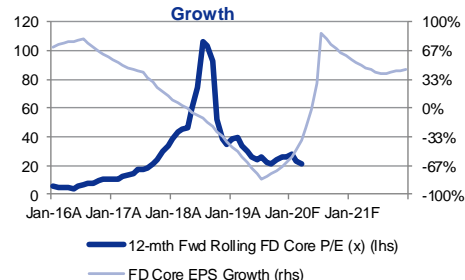
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE



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



Profit & Loss

(RMm)	Jul-18A	Jul-19A	Jul-20F	Jul-21F	Jul-22F
Total Net Revenues	352.9	310.0	310.6	319.0	333.5
Gross Profit	122.1	83.3	82.9	87.9	98.5
Operating EBITDA	122.1	83.3	82.9	87.9	98.5
Depreciation And Amortisation	(78.4)	(74.9)	(67.7)	(67.5)	(68.0)
Operating EBIT	43.7	8.4	15.2	20.3	30.5
Financial Income/(Expense)	(0.4)	1.8	1.6	1.6	1.6
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)	43.4	10.2	16.7	22.0	32.1
Exceptional Items					
Pre-tax Profit	43.4	10.2	16.7	22.0	32.1
Taxation	(4.3)	(3.2)	(3.7)	(3.7)	(4.8)
Exceptional Income - post-tax					
Profit After Tax	39.0	7.0	13.1	18.2	27.3
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	39.0	7.0	13.1	18.2	27.3
Recurring Net Profit	39.0	7.0	13.1	18.2	27.3
Fully Diluted Recurring Net Profit	39.0	7.0	13.1	18.2	27.3

Cash Flow

(RMm)	Jul-18A	Jul-19A	Jul-20F	Jul-21F	Jul-22F
EBITDA	122.1	83.3	82.9	87.9	98.5
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(37.9)	1.1	(0.1)	(1.3)	(2.3)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1.6)	6.1	0.0	0.0	0.0
Net Interest (Paid)/Received	(4.1)	(4.1)	(3.2)	(2.9)	(2.9)
Tax Paid	(4.6)	(3.5)	(3.7)	(3.7)	(4.8)
Cashflow From Operations	73.9	82.9	76.0	80.0	88.5
Capex	(41.5)	(25.8)	(40.0)	(50.0)	(50.0)
Disposals Of FAs/subsidiaries	(0.1)	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	(56.7)	(20.8)	0.0	0.0	0.0
Other Investing Cashflow	(0.2)	4.5	0.0	0.0	0.0
Cash Flow From Investing	(98.6)	(42.1)	(40.0)	(50.0)	(50.0)
Debt Raised/(repaid)	25.3	(31.1)	0.0	0.0	0.0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(8.0)	(3.9)	(5.2)	(6.0)	(7.7)
Preferred Dividends					
Other Financing Cashflow	(2.0)	(9.5)	0.0	0.0	0.0
Cash Flow From Financing	15.3	(44.4)	(5.2)	(6.0)	(7.7)
Total Cash Generated	(9.4)	(3.6)	30.8	23.9	30.8
Free Cashflow To Equity	0.6	9.7	36.0	30.0	38.5
Free Cashflow To Firm	(20.6)	44.9	39.1	32.8	41.4

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Jul-18A	Jul-19A	Jul-20F	Jul-21F	Jul-22F
Total Cash And Equivalents	177.6	200.0	235.5	263.9	299.2
Total Debtors	77.3	65.9	66.1	67.9	71.0
Inventories	9.3	7.4	7.4	7.6	8.0
Total Other Current Assets	16.4	10.7	10.7	10.7	10.7
Total Current Assets	280.6	284.0	319.7	350.1	388.8
Fixed Assets	211.0	164.8	137.2	119.6	101.6
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	3.2	3.7	3.7	3.7	3.7
Total Non-current Assets	214.3	168.5	140.8	123.3	105.3
Short-term Debt	43.4	42.4	42.4	42.4	42.4
Current Portion of Long-Term Debt					
Total Creditors	37.0	24.8	24.9	25.6	26.7
Other Current Liabilities	4.6	3.4	3.4	3.4	3.4
Total Current Liabilities	85.0	70.7	70.7	71.4	72.6
Total Long-term Debt	45.0	14.9	14.9	14.9	14.9
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5.4	4.5	4.5	4.5	4.5
Total Non-current Liabilities	50.4	19.4	19.4	19.4	19.4
Total Provisions	3.0	3.3	3.3	3.3	3.3
Total Liabilities	138.4	93.4	93.4	94.1	95.3
Shareholders' Equity	356.5	359.1	367.0	379.3	398.8
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	356.5	359.1	367.0	379.3	398.8

Key Ratios

	Jul-18A	Jul-19A	Jul-20F	Jul-21F	Jul-22F
Revenue Growth	3.5%	(12.1%)	0.2%	2.7%	4.6%
Operating EBITDA Growth	7.0%	(31.8%)	(0.5%)	6.0%	12.1%
Operating EBITDA Margin	34.9%	27.1%	26.9%	27.8%	29.8%
Net Cash Per Share (RM)	2.04	3.27	4.08	4.73	5.54
BVPS (RM)	8.16	8.22	8.40	8.68	9.13
Gross Interest Cover	10.66	2.05	4.81	7.09	10.62
Effective Tax Rate	10.0%	31.6%	22.0%	17.0%	15.0%
Net Dividend Payout Ratio	20.4%	55.4%	39.5%	33.0%	28.4%
Accounts Receivables Days	83.49	85.06	78.42	77.25	76.57
Inventory Days	12.98	13.42	11.92	11.88	12.11
Accounts Payables Days	88.25	49.80	39.97	39.85	40.63
ROIC (%)	14.6%	2.0%	5.3%	8.6%	14.3%
ROCE (%)	11.3%	3.3%	4.7%	5.7%	7.8%
Return On Average Assets	8.10%	1.22%	2.60%	3.62%	5.35%

Key Drivers

	Jul-18A	Jul-19A	Jul-20F	Jul-21F	Jul-22F
ASP Change (% , Main Product)	N/A	N/A	N/A	N/A	N/A
Unit sales growth (% , main prod)	3.0%	-15.0%	3.0%	5.0%	3.0%
No. Of Lines (main Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, main prod)	N/A	N/A	N/A	N/A	N/A
ASP chg (% , 2ndary prod)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (% , 2ndary prod)	4.0%	-15.0%	3.0%	5.0%	5.0%
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A	N/A
Rev per line (US\$, 2ndary prod)	N/A	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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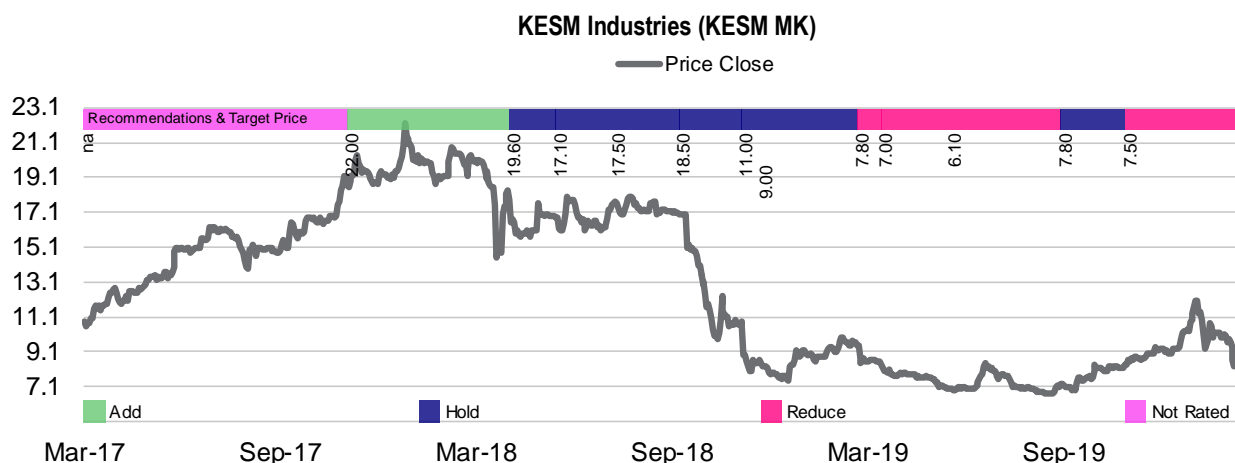
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798 companies under coverage for quarter ended on 31 December 2019		
	Rating Distribution (%)	Investment Banking clients (%)
Add	61.4%	0.0%
Hold	25.2%	0.0%
Reduce	13.4%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

Recommendation Framework

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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.

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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.

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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.

#01c