

VisDynamics Holdings

Recommendation: **HOLD**

Stock Code: 0120

Bloomberg: VHB MK

Price: MYR0.12

12-Month Target Price: MYR0.16

Date: September 16, 2009

Board: ACE

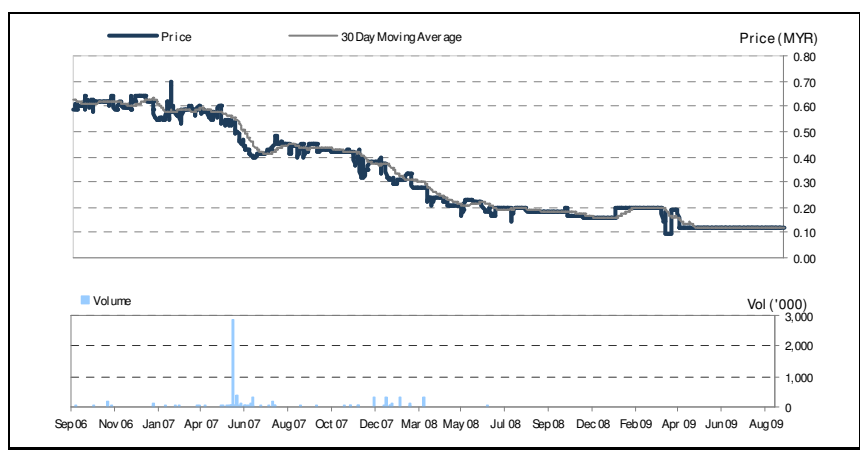
Sector: Technology

GICS: Information Technology/Semiconductor Equipment

Market Value - Total: MYR7.7 mln

Summary: VisDynamics Holdings (VHB) is engaged in the research & development (R&D), design, assembly and final set-up / tuning of test / backend equipment for the Automated Test Equipment (ATE) industry for semiconductors. The group was listed on the Ace market of Bursa Malaysia in April 2006.

Analyst: Desmond Ch'ng, ACA



Results Review & Earnings Outlook

- VHB's 3QFY09 (Oct) results were below expectations, with cumulative nine-month net loss of MYR622,000 against our previous full-year net loss estimate of MYR222,000. 3QFY09 revenue disappointed, as it was hit by lower-than-expected selling prices for VHB's gravity products as well as an unfavorable impact from billing timing.
- 9MFY09 revenue declined 64% YoY to MYR2.1 mln as customer orders fell to a minimum on the back of the economic slowdown. At the operating level, however, losses reduced 11.5% YoY to MYR563,000 (from MYR636,000 a year earlier) due to the benefits from the various cost-cutting measures put in place over the past year.
- Based on its current order book and the timing of its billings, we expect VHB to see a strong 4QFY09 as sales of both gravity and tray based products pick up. We expect volume in 4QFY09 to exceed that for 9MFY09 (where VHB sold two gravity based products and one tray based product).
- While we do expect a pick-up in 4QFY09 volume, we nevertheless increase our FY09 net loss forecast to MYR446,000 to account for the poorer 3Q performance. As part of cost-down efforts, some VHB customers are also opting to lease VHB's products initially (vs. an outright purchase), which could negatively impact VHB's medium-term revenue, in our view.

Recommendation & Investment Risks

- We maintain our Hold recommendation on VHB but lower our 12-month target price to MYR0.16 (from MYR0.17 previously) due to the downgrade in our earnings forecast. While the upside to our target price warrants a more aggressive call on the stock, earnings visibility remains low amid challenging prospects for the industry, in our opinion.
- Our target price of MYR0.16 is based on an FY09 P/BV valuation of 0.7x (unchanged), which is derived by applying the average P/BV valuation of its peers. The 0.7x P/B valuation is also in line with the lower end of VHB's historical P/B valuation range.
- To help it combat falling revenues, VHB has put in place various cost-cutting measures, such as a salary cut for top management and shorter work weeks. Given its low debt levels (net cash balance of MYR1 mln as at end-3QFY09), we believe VHB is well-placed to ride out the ongoing downturn despite its current negative cashflow levels.
- Risks to our recommendation and target price include: (i) a slower-than-expected global economic growth, (ii) a further decline in the semiconductor sector, which would mar earnings and (iii) a strengthening MYR, which would hurt VHB's revenue.

Key Stock Statistics

FY Oct.	2008	2009E
Reported EPS (sen)	-2.2	-0.7
PER (x)	NM	NM
Dividend/Share (sen)	0.0	0.0
NTA/Share (MYR)	0.24	0.24
Book Value/Share (MYR)	0.24	0.24
No. of Outstanding Shares (mln)	67.1	
52-week Share Price Range (MYR)	0.10 - 0.20	
Major Shareholders:	%	
Choy Ngee Hoe	30.3	
Tan Kian Beng	5.0	
Lembaga Tabung Haji	5.0	

* Stock deemed Shariah compliant by the Securities Commission

Per Share Data

FY Oct.	2006	2007	2008	2009E
Book Value (MYR)	0.26	0.26	0.24	0.24
Cash Flow (sen)	0.8	1.1	-1.4	0.9
Reported Earnings (sen)	0.5	0.4	-2.2	-0.7
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	22.6	26.1	NM	NM
P/Cash Flow (x)	14.3	10.3	NM	13.5
P/Book Value (x)	0.4	0.4	0.5	0.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	2.8	1.7	-2.4	-2.8
Net Gearing (%)	0.0	0.0	0.0	0.0

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VisDynamics Holdings

Recommendation: **HOLD**Stock Code: **0120** Bloomberg: **VHB MK** Price: **MYR0.12** 12-Month Target Price: **MYR0.16** Date: **September 16, 2009****Quarterly Performance**

FY Oct. / MYR mln	3Q09	3Q08	% Change
Reported Revenue	0.6	2.4	-73.2
Reported Operating Profit	-0.3	-0.2	NM
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.0	0.0	>100
Reported Pre-tax Profit	-0.3	-0.4	NM
Reported Net Profit	-0.3	-0.4	NM
Reported Operating Margin (%)	-43.4	-8.1	-
Reported Pre-tax Margin (%)	-46.6	-18.2	-
Reported Net Margin (%)	-47.8	-18.2	-

Source: Company data

Profit & Loss

FY Oct. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	9.6	9.3	5.3	6.9
Reported Operating Profit	0.3	-1.4	-0.4	0.3
Depreciation & Amortization	2.6	3.5	4.0	5.0
Net Interest Income / (Expense)	0.0	0.0	0.0	0.0
Reported Pre-tax Profit	0.3	-1.5	-0.4	0.2
Effective Tax Rate (%)	NM	NM	0.0	0.0
Reported Net Profit	0.3	-1.5	-0.4	0.2
Reported Operating Margin (%)	3.0	-15.3	-7.7	3.9
Reported Pre-tax Margin (%)	2.6	-15.7	-8.4	3.4
Reported Net Margin (%)	3.1	-15.7	-8.4	3.4

Source: Company data, S&P Equity Research

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Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	0.16
20-Mar-09	Hold	0.17
5-Jan-09	Sell	0.17
24-Sep-08	Strong Sell	0.13
18-Jun-08	Sell	0.16
26-Mar-08	Hold	0.25
4-Jan-08	Strong Buy	0.42

