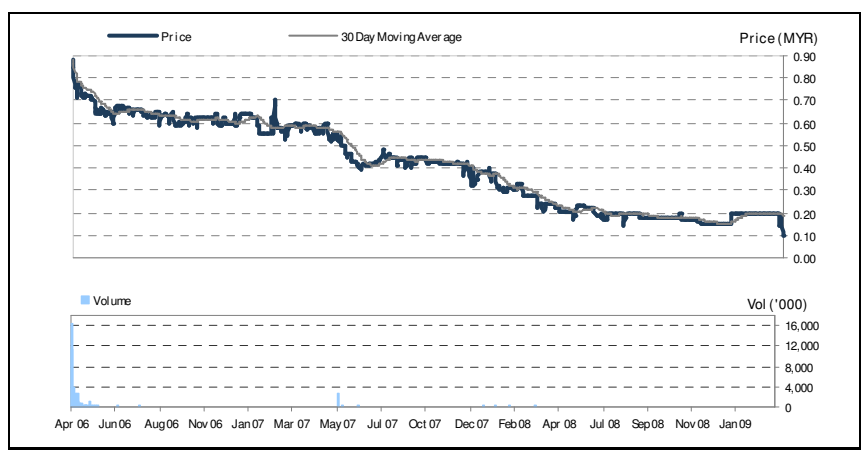


VisDynamics Holdings

Recommendation: **HOLD**Stock Code: **0120**Bloomberg: **VHB MK**Price: **MYR0.10**12-Month Target Price: **MYR0.17**Date: **March 20, 2009****Board:** Mesdaq**Sector:** Technology**GICS:** Information Technology/Semiconductor Equipment**Market Value - Total:** MYR6.4 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 Mesdaq market of Bursa Malaysia in April 2006.

Analyst: Desmond Ch'ng, ACA

Results Review & Earnings Outlook

- VHB's 1QFY09 (Oct) results were within expectations (net loss of MYR0.1 mln against our full-year net loss estimate of MYR0.2 mln). We are expecting a better 2HFY09 from both seasonal factors and slight pick-up in VHB's customers' capital expenditure over the next few quarters.
- 1QFY09 revenue of MYR0.5 mln declined 73.9% YoY as customer orders fell to a minimum on the back of the economic slowdown. At the operating level, VHB recorded a loss of MYR0.1 mln compared to the MYR0.1 mln operating profit recorded in 1QFY08 due to the slump in revenue. Profitability in 1QFY09 was also affected by higher depreciation and finance charges following the move into VHB's own factory premises in FY08.
- On a quarterly basis, 1QFY09 revenue fell 85% QoQ. However at the operating level losses narrowed, compared with losses of MYR0.8 mln in 4QFY08 in the absence of an MYR0.6-mln exceptional item and also in the absence of the expenditure on tray machinery upgrades, which was incurred in FY08.
- Demand from VHB's customers is expected to remain sluggish in the near term on the back of the economic slowdown and we maintain our earnings forecast for VHB (net loss of MYR0.2 mln in FY09).

Recommendation & Investment Risks

- With VHB's share price having corrected, we raise our recommendation on VHB to a Hold (from a Sell previously). We maintain our 12-month target price of MYR0.17. 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 MYR0.17 is based on an FY09 P/B valuation of 0.7x (unchanged) which is derived by applying the average P/B valuation of its peers. The 0.7x P/B valuation is also in line with the lower end range of VHB's historical P/B valuation.
- 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 MYR1.6 mln as at end-1QFY09), we believe VHB is well placed to ride out the ongoing downturn despite its current negative cashflow levels (negative interest cover of 4.6x in 1QFY09).
- 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 have a negative impact on earnings and (iii) a strengthening MYR, which would negatively impact VHB's revenue.

Key Stock Statistics

FY Oct.	2008	2009E
Reported EPS (sen)	-2.2	-0.3
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 - 0.24	
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	1.4
Reported Earnings (sen)	0.5	0.4	-2.2	-0.3
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	18.7	21.6	NM	NM
P/Cash Flow (x)	11.8	8.5	NM	6.9
P/Book Value (x)	0.4	0.4	0.4	0.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	2.8	1.7	-2.4	-1.4
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: **MYR0.10**12-Month Target Price: **MYR0.17**Date: **March 20, 2009****Quarterly Performance**

FY Oct. / MYR mln	1Q09	1Q08	% Change
Reported Revenue	0.5	2.1	-73.9
Reported Operating Profit	-0.1	0.1	NM
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.0	0.0	33.3
Reported Pre-tax Profit	-0.1	0.1	NM
Reported Net Profit	-0.1	0.1	NM
Reported Operating Margin (%)	-13.6	3.7	-
Reported Pre-tax Margin (%)	-16.6	3.1	-
Reported Net Margin (%)	-16.6	3.1	-

Source: Company data

Profit & Loss

FY Oct. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	9.6	9.3	8.8	9.5
Reported Operating Profit	0.3	-1.4	-0.2	0.5
Depreciation & Amortization	2.6	3.5	3.9	4.8
Net Interest Income / (Expense)	0.0	0.0	0.0	0.0
Reported Pre-tax Profit	0.3	-1.5	-0.2	0.4
Effective Tax Rate (%)	NM	NM	0.0	0.0
Reported Net Profit	0.3	-1.5	-0.2	0.4
Reported Operating Margin (%)	3.0	-15.3	-2.1	4.8
Reported Pre-tax Margin (%)	2.6	-15.7	-2.5	4.4
Reported Net Margin (%)	3.1	-15.7	-2.5	4.4

Source: Company data, S&P Equity Research

Required Disclosures

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

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.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	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

