STANDARD &POOR'S

VisDynamics Holdings

Recommendation: **SELL**

Stock Code: **0120** Bloomberg: **VHB MK** Price: **MYR0.20** 12-Month Target Price: **MYR0.17** Date: **January 5, 2009**

Board: Mesdaq

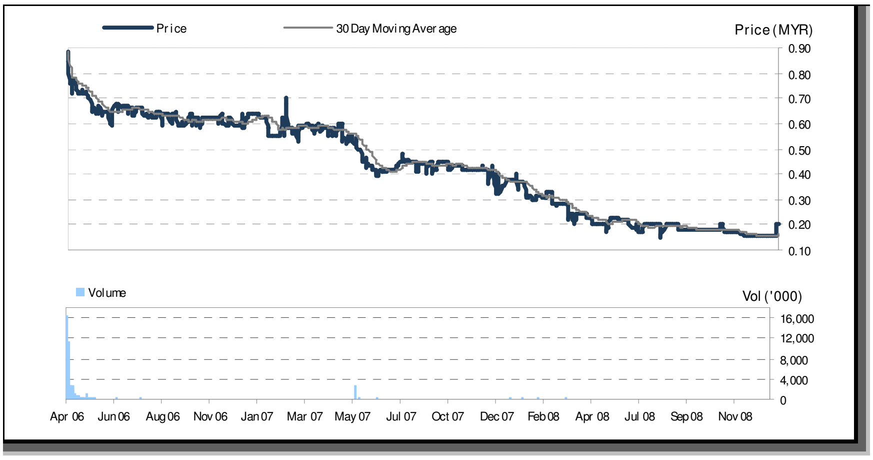
Sector: Technology

GICS: Information Technology/Semiconductor Equipment

Market Value - Total: MYR13.4 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 the Mesdaq market of Bursa Malaysia in April 2006.

Analyst: Desmond Ch'ng, ACA



Results Review & Earnings Outlook

- VHB's FY08 (Oct) results were better than expected, with recurring net loss of MYR0.4 mln coming in smaller than our full-year net loss estimate of MYR0.9 mln. Revenue came in better than expected but VHB's overall bottom line performance was affected by a MYR1.1-mln write-down of inventories and equipment, which dragged total net loss to MYR1.5 mln.

- FY08 revenue declined 3.1% YoY to MY9.3 mln, causing an operating loss of MYR0.4 mln (before exceptional item) compared to the MYR0.3 mln in operating profit recorded in FY07. Profitability in FY08 was also affected by the additional expenditure from the upgrading of machines used for VHB's tray products.

- 4QFY08 revenue fell 6.6% YoY to MYR3.6 mln as VHB's customers tightened capital expenditure. At the operating level, a loss of MYR0.2 mln (before exceptional item) was recorded in 4QFY08 compared to profit of MYR0.4 mln in 4Q07. On a QoQ comparison, 4QFY08 revenue rose 48.5% QoQ mainly due to seasonal factors. However, due to higher cost of production, VHB recorded the operating loss in 4QFY08 compared with 3QFY08's operating profit of MYR0.3 mln.

- Given the gloomier global economic outlook, demand from VHB's customers is expected to remain sluggish in the near term. Premised on this assumption, we reduce our FY09 net estimate to a loss of MYR0.2 mln (from net profit of MYR0.1 mln previously).

Recommendation & Investment Risks

- With VHB's share price having corrected, we raise our recommendation on VHB to a Sell (from a Strong Sell previously). Our 12-month target price is raised to MYR0.17 (from MYR0.13 previously).

- Since we expect the company to remain loss-making in FY09, our valuation methodology is revised to a P/B basis, as opposed to a blend of PER and P/B previously. Our target price is based on an FY09 P/B valuation of 0.7x (from our previous blend of 7x FY09 PER and 1x P/B valuation methodologies), 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.

- Given the current global economic slowdown, the near-term outlook for the ATE industry remains murky. As such, we continue to hold the view that VHB's share price will likely underperform the market.

- Risks to our recommendation and target price include: (i) faster-than-expected global economic growth, (ii) a sudden pickup in the semiconductor sector which would have a positive impact on earnings and (iii) a depreciating MYR, which would positively 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)	0.15 - 0.37	
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)	39.3	45.4	NM	NM
P/Cash Flow (x)	24.8	18.0	NM	14.5
P/Book Value (x)	0.8	0.8	0.8	0.8
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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Quarterly Performance

FY Oct. / MYR mln	4Q08	4Q07	% Change
Reported Revenue	3.6	3.8	-6.6
Reported Operating Profit	-0.8	0.4	NM
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.0	0.0	0.0
Reported Pre-tax Profit	-0.8	0.4	NM
Reported Net Profit	-0.8	0.5	NM
Reported Operating Margin (%)	-22.0	11.6	-
Reported Pre-tax Margin (%)	-22.3	11.4	-
Reported Net Margin (%)	-22.3	12.9	-

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

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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.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	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