

VisDynamics Holdings

Recommendation: **HOLD**

Stock Code: 0120

Bloomberg: VHB MK

Price: MYR0.12

12-Month Target Price: MYR0.17

Date: June 22, 2009

Board: Mesdaq

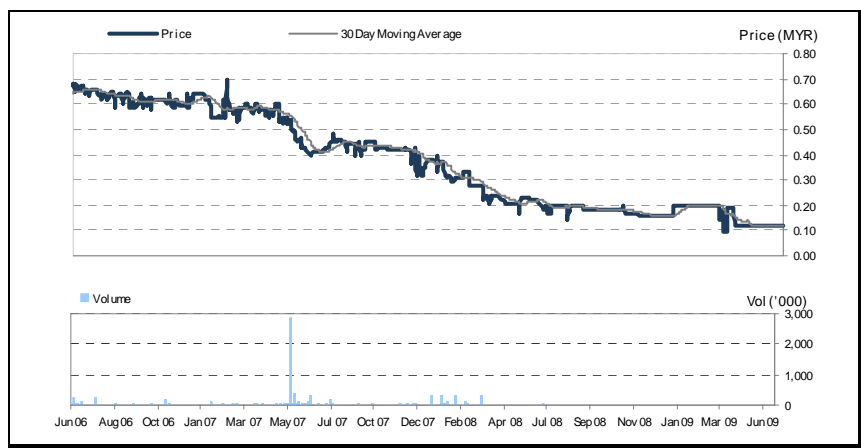
Sector: Technology

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 Mesdaq market of Bursa Malaysia in April 2006.

Analyst: Desmond Ch'ng, ACA



Results Review & Earnings Outlook

- VHB's 1HFY09 (Oct) results were within expectations (net loss of MYR0.3 mln against our full-year net loss estimate of MYR0.2 mln). We are expecting a better 2HFY09 from both seasonal factors and a slight pick-up in VHB's customers' capital expenditure over the next two quarters.
- 1HFY09 revenue declined 57.3% YoY to MYR1.4 mln as customer orders fell to a minimum on the back of the economic slowdown. At the operating level, VHB however recorded lower losses of MYR0.3 mln compared to MYR0.4 mln recorded in 1HFY08 due to the benefits from the various cost-cutting measures put in place over the past year.
- On a quarterly basis, 2QFY09 revenue rose 63.6% QoQ to MYR0.9 mln primarily due to a pick-up in VHB's gravity-based products. 2QFY09's operating level losses, however, widened QoQ to MYR0.2 mln from MYR0.1 mln due to higher installation cost, including higher business travel expenses. On a YoY basis, 2QFY09's operating loss narrowed to MYR0.2 mln from MYR0.5 mln a year ago despite revenue falling 30.2% due to the cost reduction measures.
- We maintain our FY09 net loss forecast of MYR0.2 mln for VHB. Although demand from VHB's customers is expected to remain sluggish in the near term, a slight pick-up is expected in 2HFY09 following expectations that capital equipment spending had bottomed in 2QFY09.

Recommendation & Investment Risks

- We maintain both our Hold recommendation on VHB and 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/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 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 MYR1.1 mln as at end-2QFY09), 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 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 - 0.20	
Major Shareholders:	%	
Choy Ngee Hoe	30.3	
Tan Kian Beng	5.0	
Lembaga Tabung Haji	5.0	

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)	22.6	26.1	NM	NM
P/Cash Flow (x)	14.3	10.3	NM	8.3
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	-1.4
Net Gearing (%)	0.0	0.0	0.0	0.0

* Stock deemed Shariah compliant by the Securities Commission

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Quarterly Performance

FY Oct. / MYR mln	2Q09	2Q08	% Change
Reported Revenue	0.9	1.3	-30.2
Reported Operating Profit	-0.2	-0.5	NM
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.0	0.0	100.0
Reported Pre-tax Profit	-0.2	-0.5	NM
Reported Net Profit	-0.2	-0.5	NM
Reported Operating Margin (%)	-23.8	-41.1	-
Reported Pre-tax Margin (%)	-25.4	-41.7	-
Reported Net Margin (%)	-25.4	-41.7	-

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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Glossary

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
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

