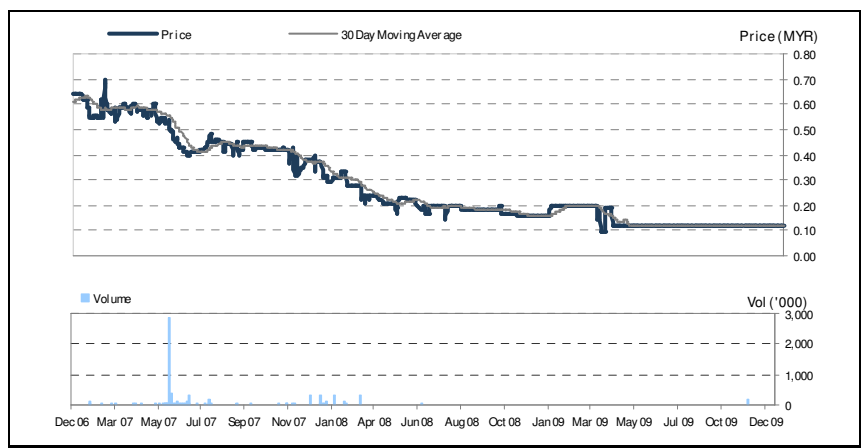


VisDynamics Holdings

Recommendation: **HOLD**Stock Code: **0120**Bloomberg: **VHB MK**Price: **MYR0.12**12-Month Target Price: **MYR0.16**Date: **December 28, 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 ACE in April 2006.

Analyst: Desmond Ch'ng, ACA**Results Review & Earnings Outlook**

- VHB's 4QFY09 (Oct) results were below expectations, with twelve-month net loss of MYR1 mln against our net loss estimate of MYR446,000. Although revenue improved strongly in 4QFY09 as expected (up 77.3% QoQ to MYR1.1 mln), profitability was hit by depressed selling prices.
- FY09 revenue declined 65.5% YoY to MYR3.2 mln as customer orders fell to a minimum in response to the softer economic conditions. VHB's North Asian market segment was the most affected in FY09 (with sales from these customers falling 93.1% YoY). On the back of the lower revenue, operating losses more than doubled YoY to MYR892,000 in FY09 (after excluding FY08's MYR1.1 mln write-down of inventory and machinery).
- Based on its current order book and the timing of its billings, we expect VHB to see a recovery in FY10 as sales of both gravity and tray-based products pick up (expectations are for sales of at least nine gravity-based products and nine tray-based products in FY10 compared to the four gravity-based products and one tray-based product sold in FY09). We continue to expect VHB to return to the back in FY10 (with a net profit of MYR232,000).

Recommendation & Investment Risks

- We maintain our Hold recommendation on VHB and our 12-month target price of MYR0.16. 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 FY10 P/BV valuation (rolled over from FY09) of 0.7x (unchanged), which is derived by applying the average P/BV valuation of its peers. The 0.7x P/BV valuation is also in line with the lower end of VHB's historical P/BV valuation range.
- As part of cost-down efforts, some VHB customers are also opting to lease VHB's products initially (vs. an outright purchase), which could hurt VHB's medium-term revenue, in our view. Nonetheless, to help it combat these challenges, 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 MYR494,000 as at end-FY09), 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) 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.	2009	2010E
Reported EPS (sen)	-1.5	0.3
PER (x)	NM	33.3
Dividend/Share (sen)	0.0	0.0
NTA/Share (MYR)	0.23	0.23
Book Value/Share (MYR)	0.23	0.23
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.	2007	2008	2009	2010E
Book Value (MYR)	0.26	0.24	0.23	0.23
Cash Flow (sen)	1.1	-1.5	-0.1	1.8
Reported Earnings (sen)	0.4	-2.2	-1.5	0.3
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	26.1	NM	NM	33.3
P/Cash Flow (x)	10.3	NM	NM	6.5
P/Book Value (x)	0.4	0.5	0.5	0.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	1.7	-2.6	-6.2	1.5
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: **December 28, 2009****Quarterly Performance**

FY Oct. / MYR mln	4Q09	4Q08	% Change
Reported Revenue	1.1	3.6	-67.9
Reported Operating Profit	-0.3	-0.8	NM
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	0.0	0.0	90.0
Reported Pre-tax Profit	-0.3	-0.8	NM
Reported Net Profit	-0.4	-0.8	NM
Reported Operating Margin (%)	-28.6	-22.0	-
Reported Pre-tax Margin (%)	-30.3	-22.3	-
Reported Net Margin (%)	-31.0	-23.5	-

Source: Company data

Profit & Loss

FY Oct. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	9.3	3.2	4.7	5.7
Reported Operating Profit	-1.4	-0.9	0.3	0.5
Depreciation & Amortization	3.5	4.1	5.0	6.0
Net Interest Income / (Expense)	0.0	-0.1	-0.1	-0.1
Reported Pre-tax Profit	-1.5	-1.0	0.2	0.4
Effective Tax Rate (%)	NM	NM	0.0	0.0
Reported Net Profit	-1.5	-1.0	0.2	0.4
Reported Operating Margin (%)	-15.3	-27.8	6.5	8.0
Reported Pre-tax Margin (%)	-15.7	-30.0	5.0	6.5
Reported Net Margin (%)	-16.1	-30.5	5.0	6.5

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.

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.

Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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Recommendation and Target Price History

Date	Recommendation	Target Price
16-Sep-09	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

