

SAM Eng & Equipment (SEQB MK)

4QFY24: Transcends expectations

Strong beat in 4QFY24; maintain BUY @ MYR6.85 TP

SAMEE's 4QFY24 results was a strong beat with reference to our initiation report on 3 May ([link](#)). Hence, we lift our FY25/26E earnings forecasts by 14%/5% respectively to account for: i) higher aerospace revenues; and ii) higher PBT margin assumption for both aerospace and equipment segments. We raise our TP to MYR6.85 (from MYR6.05) - based on 32.7x (from 31x) PER on CY25E EPS, which is at +1.5SD to its 5-year mean. SAMEE is a secular growth stock and is one of our tech sector's top picks.

4QFY24 core net profit +14% QoQ, +128% YoY

4QFY24 core net profit of MYR30.9m (+14% QoQ, +128% YoY) brought cumulative FY24 core earnings to MYR108.4m (+31% YoY), which totally transcended expectations, exceeding ours/consensus full-year estimates by 18%/17% respectively. Key variance against our forecasts was due to: i) higher-than-expected aerospace revenues and margins; and ii) stronger-than-expected PBT margins for its equipment division. The QoQ strength stems mainly from: i) increase in demand in aerospace products, in line with the sector's recovery; and ii) full-contribution of Aviatron post-acquisition on 26 Feb 2024, but partially offset by: i) seasonally lower sales contribution from its equipment division; and ii) start-up costs in Thailand.

A secular growth stock with high quality end-clients

SAMEE has exposure to Customer X and Y (FE SPEs) and Z (BE ATE), all of which have fabs like TSMC/Samsung Electronics as top paying customers. Various studies (by SEMI, Gartner) have implied a record-high WFE spending in 2025, implying that we may soon see an inflection point. Meanwhile, past quarters have confirmed that SAMEE's aerospace division is finally out of the woods and is ready for take-off with the recent acquisition of Aviatron, which will continue to boost profitability in FY25E onwards.

We forecast a 3-year FY24-27E CNP CAGR of 18%

We project a conservative 3-year FY24-27E CNP CAGR of 18% for SAMEE, stemming from: i) acquisition of Aviatron in end-Feb 2024; ii) steady improvement in SAMEE's aerospace sales, coupled with gradual ramp-up of its BB2 plant; iii) steady recovery in orders from FE semicon customers in 1HCY25, followed by BE customers in 2HCY25; and iv) commissioning of its RJ2 and BB1 plants for its equipment segment.

FYE Mar (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	1,445	1,497	1,820	2,140	2,440
EBITDA	196	247	246	292	335
Core net profit	83	108	118	149	180
Core EPS (sen)	12.2	16.0	17.4	22.1	26.6
Core EPS growth (%)	18.2	31.3	8.5	27.0	20.5
Net DPS (sen)	2.5	3.3	4.3	5.5	6.6
Core P/E (x)	36.5	31.1	34.4	27.1	22.5
P/BV (x)	3.7	2.4	2.7	2.5	2.3
Net dividend yield (%)	0.6	0.7	0.7	0.9	1.1
ROAE (%)	11.8	9.7	8.0	9.5	10.6
ROAA (%)	5.9	5.9	5.5	6.4	7.1
EV/EBITDA (x)	17.7	14.7	17.6	14.7	12.7
Net gearing (%) (incl perps)	56.3	18.2	18.2	16.0	11.9
Consensus net profit	-	-	128	153	na
MIBG vs. Consensus (%)	-	-	(8.1)	(2.2)	na

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BUY

Share Price	MYR 5.98
12m Price Target	MYR 6.85 (+16%)
Previous Price Target	MYR 6.05

Company Description

Sam Engineering & Equipment (M) Bhd is a contract manufacturer of production equipment and aerospace products

Statistics

52w high/low (MYR)	6.25/3.49
3m avg turnover (USDm)	0.7
Free float (%)	48.6
Issued shares (m)	677
Market capitalisation	MYR4.0B USD861M

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Co)	55.2%
EPF	6.7%
Norges	2.8%

Price Performance



— SAM EGE - (LHS, MYR) — SAM EGE / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	22	25	32
Relative to index (%)	20	20	15

Source: FactSet

Abbreviation

WFE = Wafer Fab Equipment
SPE = Semiconductor Production Equipment
ATE = Automated Test Equipment
BB1 = Ban Bueng Plant 1
BB2 = Ban Bueng Plant 2
RJ1 = Rojana Plant 1
RJ2 = Rojana Plant 2

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Fig 1: Results snapshot

FYE March (MYR m)	4Q24	4Q23	YoY	3Q24	QoQ	FY24	FY23	YTD-YoY
Revenue	373.6	337.7	11%	387.3	-4%	1,497.4	1,445.4	4%
Cost of Sales	(308.6)	(299.2)	3%	(328.9)	-6%	(1,266.0)	(1,277.3)	-1%
Gross Profit (GP)	65.0	38.4	69%	58.4	11%	231.4	168.1	38%
Other operating income	6.3	17.1	-63%	4.7	35%	32.0	34.0	-6%
Distribution and admin expense	(27.4)	(17.2)	60%	(15.1)	82%	(78.6)	(60.8)	29%
Net gain on impairment	0.1	(0.1)	-263%	(0.2)	-173%	(0.9)	0.6	-246%
Other operating expenses	(0.9)	(4.9)	-82%	(1.1)	-17%	(9.5)	(11.9)	-20%
Operating Profit (EBIT)	43.1	33.4	29%	46.7	-8%	174.5	130.0	34%
Net finance costs	(8.4)	(7.6)	10%	(6.9)	21%	(30.7)	(15.1)	104%
Profit Before Tax (PBT)	34.7	25.7	35%	39.8	-13%	143.8	115.0	25%
Taxation	(8.6)	(6.5)	31%	(10.4)	-18%	(35.2)	(26.1)	35%
Profit After Tax (PAT)	26.1	19.2	36%	29.3	-11%	108.6	88.8	22%
Exceptionals	4.8	(5.6)	-185%	(2.2)	-315%	(0.2)	(6.3)	-97%
Core Net Profit	30.9	13.5	128%	27.1	14%	108.4	82.5	31%

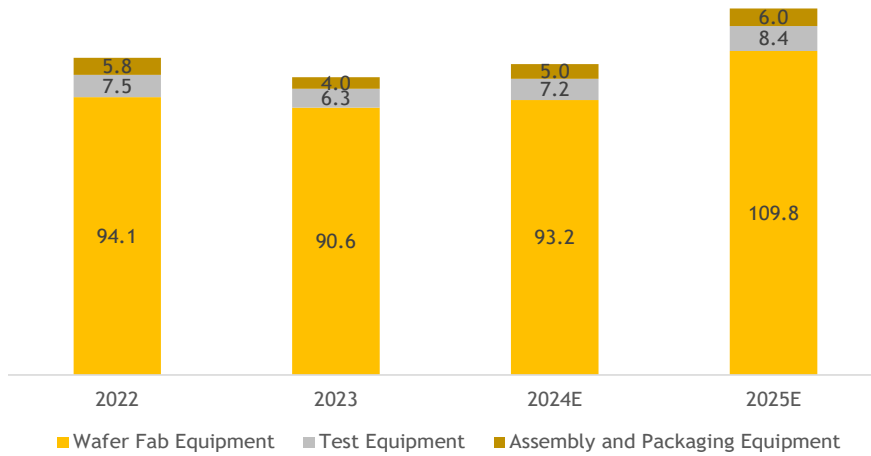
Margins	4Q24	4Q23	YoY	3Q24	QoQ	FY24	FY23	YTD-YoY
			<i>+/- ppts</i>		<i>+/- ppts</i>			<i>+/- ppts</i>
GP Margin	17.4%	11.4%	6.0	15.1%	2.3	15.5%	11.6%	3.8
EBIT Margin	11.5%	9.9%	1.7	12.1%	(0.5)	11.7%	9.0%	2.7
PBT Margin	9.3%	7.6%	1.7	10.3%	(1.0)	9.6%	8.0%	1.6
PAT Margin	7.0%	5.7%	1.3	7.6%	(0.6)	7.3%	6.1%	1.1
Core Net Profit Margin	8.3%	4.0%	4.3	7.0%	1.3	7.2%	5.7%	1.5
Effective Tax Rate	24.8%	25.4%	(0.6)	26.2%	(1.5)	24.5%	22.7%	1.8

Segmental Breakdown (MYR m)	4Q24	4Q23	YoY	3Q24	QoQ	FY24	FY23	YTD-YoY
Revenue								
Aerospace	119.3	94.8	26%	97.6	22%	431.3	329.1	31%
Equipment	254.3	242.8	5%	289.7	-12%	1,066.1	1,116.3	-4%
Total	373.6	337.7	11%	387.3	-4%	1,497.4	1,445.4	4%
Core Profit Before Tax								
Aerospace	1.3	7.8	-84%	0.5	157%	4.5	0.6	592%
Equipment	35.7	22.8	57%	38.4	-7%	133.8	117.4	14%
Total	37.0	30.6	21%	38.9	-5%	138.3	118.0	17%
Core PBT Margins			<i>+/- ppts</i>		<i>+/- ppts</i>			<i>+/- ppts</i>
Aerospace	1.1%	8.2%	(7.2)	0.5%	0.6	1.0%	0.2%	0.8
Equipment	14.1%	9.4%	4.7	13.3%	0.8	12.5%	10.5%	2.0

Source: Company, Maybank IBG Research

FY24 exceptionals include: i) MYR0.4m FV gain on derivatives; ii) MYR5.3m forex loss; iii) MYR9.5m govt grants and subsidies; iv) MYR0.9m net loss on impairment of financial instruments; v) MYR0.2m PPE written off; and vi) MYR3.4m write down of inventories.

Fig 2: SEMI Total Equipment Sales Forecast by Segment (USD b)

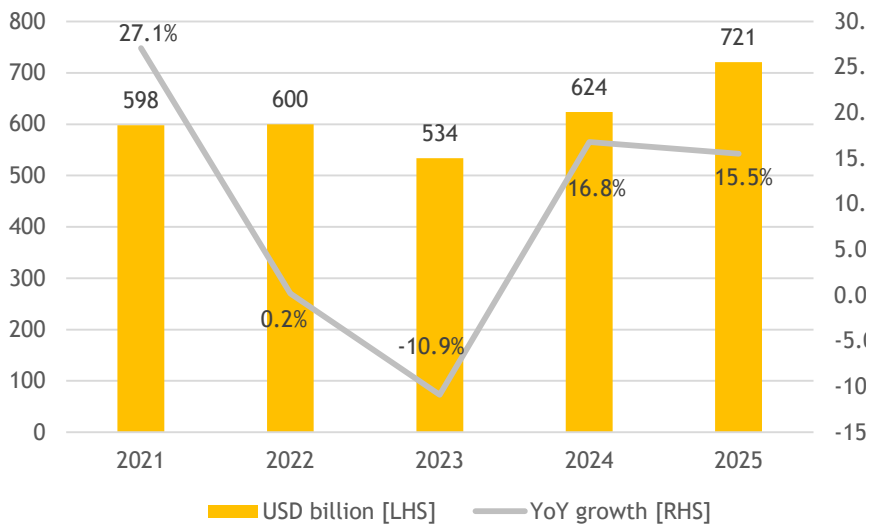


Source: SEMI 2023 Year-End Forecast, Maybank IBG Research

SEMI (a company-neutral and country-neutral global industry association) is expecting total global sales of semiconductor manufacturing equipment by OEMs to rebound in 2024E to USD105.3b (+4% YoY) before reaching a record-high in 2025E at USD124.1b (+18% YoY) - which is forecasted to be supported by both front-end and back-end segments. This comes on the heels of a soft 2023, where total global sales declined to USD100.9b (-6% YoY).

As shown in Figure 2 above, more importantly, the recovery in the semiconductor sector will be spearheaded by spending in Wafer Fab Equipment (WFE), which is expected to see a similar trajectory - a forecasted recovery in 2024E to USD93.2b (+3% YoY) and a record-high in 2025E at USD109.8b (+18% YoY), from having slowed to USD90.6b (-4% YoY) in 2023.

Fig 3: Worldwide Semiconductor Revenue forecast (2023-2033E)

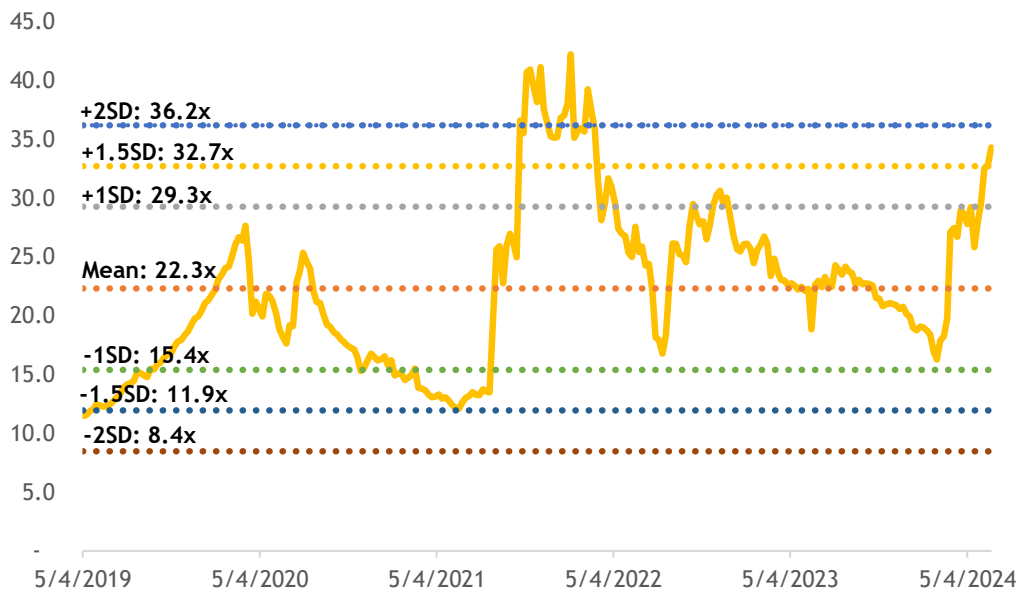


Source: Company, Gartner

Gartner (a technological research and consulting firm which provides actionable and objective insights) is expecting worldwide semiconductor revenue to rebound in 2024E to USD624b (+16.8% YoY) from multi-year lows in 2023 of USD534b (-10.9%).

Projecting into 2025E, Gartner expects total worldwide semiconductor revenue to reach a new high of USD721b (+15.5%) and this will be driven by mega-trends in electrification, connectivity and Artificial Intelligence.

Fig 4: Historical 1-year forward PER for SAMEE



Source: Maybank IBG Research

Risk statement

There are several risk factors that may impact our earnings estimates, target price and BUY rating for SAM Engineering. Key risks include: (i) a delayed recovery in the semiconductor industry; and (ii) another pandemic which will dampen air travel.

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics					
P/E (reported) (x)	33.9	27.4	34.4	27.1	22.5
Core P/E (x)	36.5	31.1	34.4	27.1	22.5
P/BV (x)	3.7	2.4	2.7	2.5	2.3
P/NTA (x)	3.7	2.4	2.7	2.5	2.3
Net dividend yield (%)	0.6	0.7	0.7	0.9	1.1
FCF yield (%)	nm	nm	0.4	1.3	2.4
EV/EBITDA (x)	17.7	14.7	17.6	14.7	12.7
EV/EBIT (x)	26.7	20.8	25.7	20.6	17.2

INCOME STATEMENT (MYR m)

Revenue	1,445.4	1,497.4	1,820.1	2,140.1	2,440.1
EBITDA	196.1	247.4	246.4	292.5	335.1
Depreciation	(66.1)	(72.9)	(77.9)	(82.9)	(87.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	130.0	174.5	168.5	209.6	247.2
Net interest income / (exp)	(15.1)	(30.7)	(13.8)	(13.1)	(10.5)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	115.0	143.8	154.7	196.5	236.7
Income tax	(26.1)	(35.2)	(37.1)	(47.2)	(56.8)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	88.8	108.6	117.5	149.3	179.9
Core net profit	82.5	108.4	117.5	149.3	179.9

BALANCE SHEET (MYR m)

Cash & Short Term Investments	21.0	36.2	51.3	96.3	177.3
Accounts receivable	342.1	461.0	560.3	658.8	751.2
Inventory	481.1	399.6	485.8	571.2	651.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	514.8	703.8	675.9	643.0	605.0
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	248.6	466.6	466.6	466.6	466.6
Total assets	1,607.6	2,067.2	2,239.8	2,435.8	2,651.4
ST interest bearing debt	404.6	278.4	308.4	338.4	368.4
Accounts payable	241.2	252.7	307.1	361.1	411.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	74.9	19.0	19.0	19.0	19.0
Other liabilities	72.0	84.0	84.0	84.0	84.0
Total Liabilities	792.8	633.8	718.3	802.3	882.9
Shareholders Equity	814.9	1,433.4	1,521.5	1,633.5	1,768.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	814.9	1,433.4	1,521.5	1,633.5	1,768.5
Total liabilities and equity	1,607.6	2,067.2	2,239.8	2,435.8	2,651.4

CASH FLOW (MYR m)

Pretax profit	115.0	143.8	154.7	196.5	236.7
Depreciation & amortisation	66.1	72.9	77.9	82.9	87.9
Adj net interest (income)/exp	13.7	0.0	0.0	0.0	0.0
Change in working capital	(203.7)	71.1	(131.0)	(129.9)	(121.8)
Cash taxes paid	(29.2)	(40.2)	(37.1)	(47.2)	(56.8)
Other operating cash flow	(4.8)	33.5	0.0	0.0	0.0
Cash flow from operations	(32.4)	238.3	64.4	102.3	146.0
Capex	(219.2)	(287.7)	(50.0)	(50.0)	(50.0)
Free cash flow	(251.6)	(49.4)	14.4	52.3	96.0
Dividends paid	(18.9)	(13.5)	(29.4)	(37.3)	(45.0)
Equity raised / (purchased)	0.0	487.4	0.0	0.0	0.0
Change in Debt	268.5	(379.9)	30.0	30.0	30.0
Other invest/financing cash flow	(28.3)	(43.0)	0.0	0.0	0.0
Effect of exch rate changes	20.3	13.6	0.0	0.0	0.0
Net cash flow	(10.0)	15.2	15.0	45.0	81.0

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	25.9	3.6	21.6	17.6	14.0
EBITDA growth	20.3	26.2	(0.4)	18.7	14.6
EBIT growth	26.4	34.2	(3.5)	24.4	18.0
Pretax growth	14.5	25.1	7.5	27.0	20.5
Reported net profit growth	17.8	22.2	8.3	27.0	20.5
Core net profit growth	18.2	31.3	8.5	27.0	20.5
Profitability ratios (%)					
EBITDA margin	13.6	16.5	13.5	13.7	13.7
EBIT margin	9.0	11.7	9.3	9.8	10.1
Pretax profit margin	8.0	9.6	8.5	9.2	9.7
Payout ratio	19.0	20.6	25.0	25.0	25.0
DuPont analysis					
Net profit margin (%)	6.1	7.3	6.5	7.0	7.4
Revenue/Assets (x)	0.9	0.7	0.8	0.9	0.9
Assets/Equity (x)	2.0	1.4	1.5	1.5	1.5
ROAE (%)	11.8	9.7	8.0	9.5	10.6
ROAA (%)	5.9	5.9	5.5	6.4	7.1
Liquidity & Efficiency					
Cash conversion cycle	130.7	151.5	137.4	139.7	141.8
Days receivable outstanding	82.0	96.5	101.0	102.5	104.0
Days inventory outstanding	115.0	125.2	98.9	101.0	102.9
Days payables outstanding	66.4	70.2	62.5	63.9	65.0
Dividend cover (x)	5.2	4.9	4.0	4.0	4.0
Current ratio (x)	1.5	2.1	2.1	2.2	2.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	3.3	3.1	3.0	3.0
Net gearing (%) (incl perps)	56.3	18.2	18.2	16.0	11.9
Net gearing (%) (excl. perps)	56.3	18.2	18.2	16.0	11.9
Net interest cover (x)	8.6	5.7	12.2	16.0	23.5
Debt/EBITDA (x)	2.4	1.2	1.3	1.2	1.2
Capex/revenue (%)	15.2	19.2	2.7	2.3	2.0
Net debt/ (net cash)	458.5	261.2	276.2	261.2	210.2

Source: Company; Maybank IBG Research

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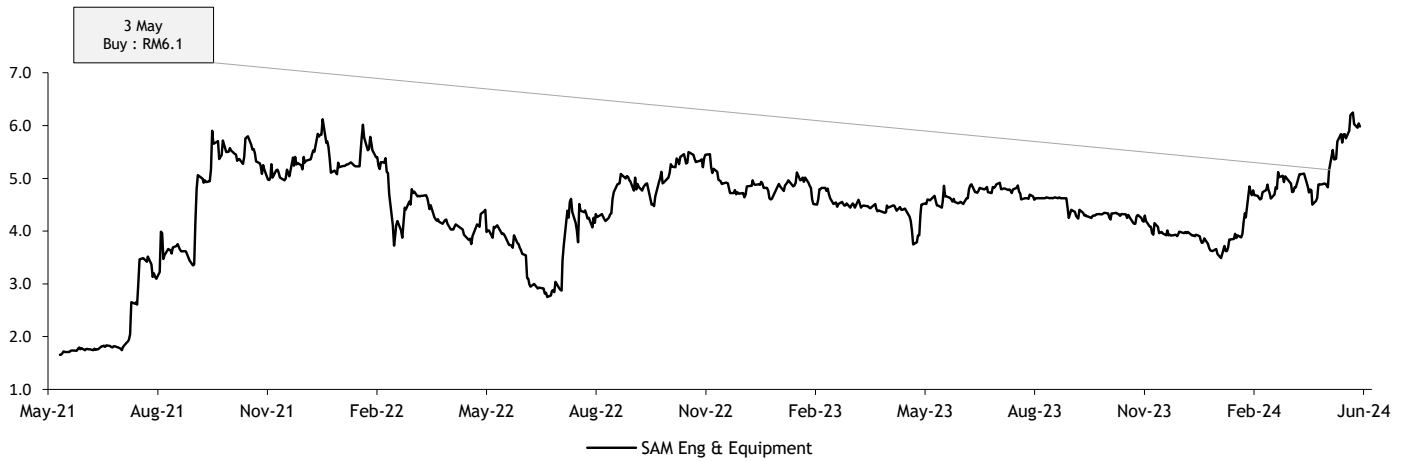
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