

SAM Eng & Equipment (SEQB MK)

1QFY25: Below expectations due to external factors

Results below; maintain BUY @ MYR6.15 TP

SAM's 1QFY25 results came in below expectations. We reduce FY25-27E earnings by -15%/-15%/-8% to account for: i) lower aerospace segment's revenues and margins; and ii) lower growth rates for its equipment segment as industry checks have guided to a delay in the recovery of the semiconductor supply chain to 2HCY25E (from 1HCY25E). Hence, our TP is also reduced to MYR6.15 (-70sen) based on unchanged 32.7x PER (5Y mean) on rolled over FY26E EPS. SAM is one of our tech sector's top BUYs.

Temporary blip: aerospace dragged in 1QFY25

1QFY25 core net profit of MYR9.9m (-68% QoQ, -43% YoY) fell short at 8% of ours/consensus FY25E. Key variance against our estimates was: i) its aerospace segment turning into losses (core LBT of MYR5.8m) as there was a delay in new product launch (change in product design) that temporarily halted delivery and quality defects from materials procured by suppliers; ii) higher-than-expected fixed costs from its Thailand plant expansion and iii) a higher effective tax rate of 37.9%. Our industry checks indicate the issue at its aerospace segment to be a blip, and operations should be back to normal within the next 1-2 quarters.

Delay in semiconductor supply chain recovery?

Post-site visit to SG semicon component makers (which also supply to the Tier 1 SPEs) in Aug 2024, we gather that the semiconductor supply chain recovery has been pushed back to 2HCY25E (from 1HCY25E) as global fab utilisation rates may still not be optimal while Tier 1 SPEs may still have inventories to clear before ramping up on order flows to suppliers like SAM and Grand Venture Tech (GVTL SP Equity, Not Rated, CP: SGD0.555).

Structurally a secular growth stock

We expect SAM's earnings blip to continue into 2QFY25E due to hiccups in its aerospace segment and the sharp fluctuation in USD/MYR. This aside, we still like SAM as it is structurally still a secular growth stock with huge potential with Customer X and Y (FE SPEs) as top-paying customers. Our revised earnings imply a 15.3% 3-year FY24-27E CNP CAGR. SAM has guided for a doubling in revenue in 5 years.

FYE Mar (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	1,445	1,497	1,760	2,050	2,320
EBITDA	196	247	245	283	336
Core net profit	83	108	100	127	166
Core EPS (sen)	12.2	16.0	14.8	18.8	24.5
Core EPS growth (%)	18.2	31.3	(7.3)	26.6	30.7
Net DPS (sen)	2.5	3.3	3.7	4.7	6.1
Core P/E (x)	36.5	31.1	36.0	28.5	21.8
P/BV (x)	3.7	2.4	2.4	2.3	2.1
Net dividend yield (%)	0.6	0.7	0.7	0.9	1.1
ROAE (%)	11.8	9.7	6.8	8.2	10.0
ROAA (%)	5.9	5.9	4.7	5.5	6.7
EV/EBITDA (x)	17.7	14.7	15.8	13.5	11.2
Net gearing (%) (incl perps)	56.3	18.2	16.1	13.0	7.8
Consensus net profit	-	-	125	153	182
MIBG vs. Consensus (%)	-	-	(19.3)	(16.6)	(8.6)

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BUY

Share Price	MYR 5.35
12m Price Target	MYR 6.15 (+16%)
Previous Price Target	MYR 6.85

Company Description

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

Statistics

52w high/low (MYR)	6.74/3.49
3m avg turnover (USDm)	1.0
Free float (%)	42.6
Issued shares (m)	677
Market capitalisation	MYR3.6B USD838M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(8)	(12)	16
Relative to index (%)	(11)	(15)	0

Source: FactSet

MAYBANK IBG
OPPORTUNITY+

Fig 1: Results snapshot

FYE March (MYR m)	1Q25	1Q24	YoY	4Q24	QoQ
Revenue	333.4	307.9	8%	373.6	-11%
Cost of Sales	(298.3)	(270.6)	10%	(308.6)	-3%
Gross Profit (GP)	35.1	37.3	-6%	65.0	-46%
Other operating income	5.0	13.4	-63%	6.3	-21%
Distribution and admin expense	(18.0)	(14.3)	26%	(27.4)	-34%
Net gain on impairment	0.3	(0.4)	-169%	0.1	90%
Other operating expenses	(1.9)	(4.6)	-58%	(0.9)	117%
Operating Profit (EBIT)	20.5	31.4	-35%	43.1	-52%
Net finance costs	(4.2)	(6.3)	-34%	(8.4)	-50%
Profit Before Tax (PBT)	16.3	25.1	-35%	34.7	-53%
Taxation	(6.2)	(4.5)	36%	(8.6)	-28%
Profit After Tax (PAT)	10.1	20.5	-51%	26.1	-61%
Exceptionals	(0.2)	(3.3)	-93%	4.8	-105%
Core Net Profit	9.9	17.2	-43%	30.9	-68%

Margins	1Q25	1Q24	YoY	4Q24	QoQ
			+/- ppts		+/- ppts
GP Margin	10.5%	12.1%	(1.6)	17.4%	(6.9)
EBIT Margin	6.1%	10.2%	(4.1)	11.5%	(5.4)
PBT Margin	4.9%	8.1%	(3.3)	9.3%	(4.4)
PAT Margin	3.0%	6.7%	(3.6)	7.0%	(4.0)
Core Net Profit Margin	3.0%	5.6%	(2.6)	8.3%	(5.3)
Effective Tax Rate	37.9%	18.1%	19.8	24.8%	13.2

Segmental Breakdown (MYR m)	1Q25	1Q24	YoY	4Q24	QoQ
Revenue					
Aerospace	130.2	96.0	36%	119.3	9%
Equipment	203.2	211.9	-4%	254.3	-20%
Total	333.4	307.9	8%	373.6	-11%
Core Profit Before Tax					
Aerospace	(5.8)	1.2	-600%	1.3	-552%
Equipment	22.3	17.2	29%	35.7	-38%
Total	16.6	18.4	-10%	37.0	-55%
Core PBT Margins			+/- ppts		+/- ppts
Aerospace	-4.4%	1.2%	(5.6)	1.1%	(5.5)
Equipment	11.0%	8.1%	2.9	14.1%	(3.1)

Source: Company, Maybank IBG Research

1QFY25 exceptionals include: i) MYR0.4m fair value gain on derivatives; ii) MYR0.1m forex gain; iii) MYR0.1m gain on disposal of PPE; iv) MYR0.1m amortisation of govt grants; v) MYR0.3m net gain on impairment; vi) MYR0.7m write down on inventories

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	36.0	28.5	21.8
Core P/E (x)	36.5	31.1	36.0	28.5	21.8
P/BV (x)	3.7	2.4	2.4	2.3	2.1
P/NTA (x)	3.7	2.4	2.4	2.3	2.1
Net dividend yield (%)	0.6	0.7	0.7	0.9	1.1
FCF yield (%)	nm	nm	1.2	1.8	3.2
EV/EBITDA (x)	17.7	14.7	15.8	13.5	11.2
EV/EBIT (x)	26.7	20.8	26.8	21.5	16.7

INCOME STATEMENT (MYR m)

Revenue	1,445.4	1,497.4	1,760.1	2,050.1	2,320.1
EBITDA	196.1	247.4	244.6	283.1	335.6
Depreciation	(66.1)	(72.9)	(100.3)	(105.3)	(110.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	130.0	174.5	144.3	177.8	225.4
Net interest income / (exp)	(15.1)	(30.7)	(12.1)	(10.5)	(6.7)
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	132.2	167.4	218.7
Income tax	(26.1)	(35.2)	(31.7)	(40.2)	(52.5)
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	100.5	127.2	166.2
Core net profit	82.5	108.4	100.5	127.2	166.2

BALANCE SHEET (MYR m)

Cash & Short Term Investments	21.0	36.2	85.2	148.1	253.4
Accounts receivable	342.1	461.0	541.9	631.1	714.2
Inventory	481.1	399.6	469.7	547.1	619.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	514.8	703.8	653.5	598.2	537.9
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	2,216.9	2,391.2	2,591.4
ST interest bearing debt	404.6	278.4	308.4	338.4	368.4
Accounts payable	241.2	252.7	297.0	345.9	391.5
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	708.2	787.1	862.6
Shareholders Equity	814.9	1,433.4	1,508.8	1,604.1	1,728.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	814.9	1,433.4	1,508.8	1,604.1	1,728.8
Total liabilities and equity	1,607.6	2,067.2	2,216.9	2,391.2	2,591.4

CASH FLOW (MYR m)

Pretax profit	115.0	143.8	132.2	167.4	218.7
Depreciation & amortisation	66.1	72.9	100.3	105.3	110.3
Adj net interest (income)/exp	13.7	0.0	0.0	0.0	0.0
Change in working capital	(203.7)	71.1	(106.7)	(117.7)	(109.6)
Cash taxes paid	(29.2)	(40.2)	(31.7)	(40.2)	(52.5)
Other operating cash flow	(4.8)	33.5	0.0	0.0	0.0
Cash flow from operations	(32.4)	238.3	94.1	114.7	166.8
Capex	(219.2)	(287.7)	(50.0)	(50.0)	(50.0)
Free cash flow	(251.6)	(49.4)	44.1	64.7	116.8
Dividends paid	(18.9)	(13.5)	(25.1)	(31.8)	(41.5)
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	49.0	62.9	105.3

FYE 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	25.9	3.6	17.5	16.5	13.2
EBITDA growth	20.3	26.2	(1.1)	15.7	18.6
EBIT growth	26.4	34.2	(17.3)	23.2	26.7
Pretax growth	14.5	25.1	(8.1)	26.6	30.7
Reported net profit growth	17.8	22.2	(7.5)	26.6	30.7
Core net profit growth	18.2	31.3	(7.3)	26.6	30.7
Profitability ratios (%)					
EBITDA margin	13.6	16.5	13.9	13.8	14.5
EBIT margin	9.0	11.7	8.2	8.7	9.7
Pretax profit margin	8.0	9.6	7.5	8.2	9.4
Payout ratio	19.0	20.6	25.0	25.0	25.0
DuPont analysis					
Net profit margin (%)	6.1	7.3	5.7	6.2	7.2
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	6.8	8.2	10.0
ROAA (%)	5.9	5.9	4.7	5.5	6.7
Liquidity & Efficiency					
Cash conversion cycle	130.7	151.5	139.9	140.7	143.1
Days receivable outstanding	82.0	96.5	102.6	103.0	104.4
Days inventory outstanding	115.0	125.2	101.6	102.5	105.2
Days payables outstanding	66.4	70.2	64.2	64.8	66.5
Dividend cover (x)	5.2	4.9	4.0	4.0	4.0
Current ratio (x)	1.5	2.1	2.2	2.2	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	3.3	3.1	3.0	3.0
Net gearing (%) (incl perps)	56.3	18.2	16.1	13.0	7.8
Net gearing (%) (excl. perps)	56.3	18.2	16.1	13.0	7.8
Net interest cover (x)	8.6	5.7	11.9	17.0	33.6
Debt/EBITDA (x)	2.4	1.2	1.3	1.3	1.2
Capex/revenue (%)	15.2	19.2	2.8	2.4	2.2
Net debt/ (net cash)	458.5	261.2	242.3	209.3	134.0

Source: Company; Maybank IBG Research

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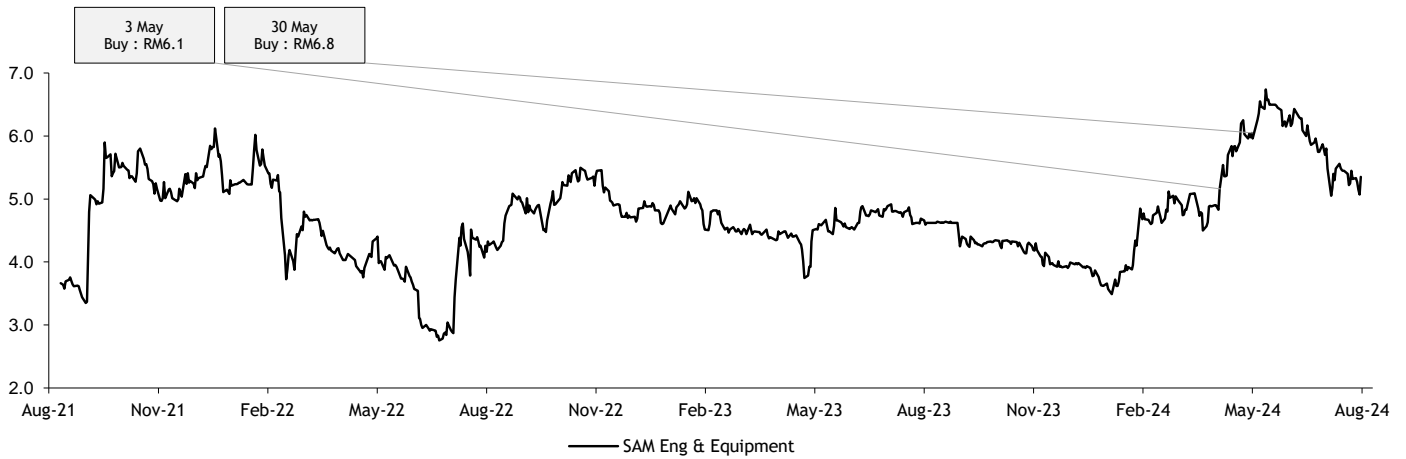
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