

COMPANY UPDATE

Hana Microelectronics (HANA TB)

Tough Days

Management is still concerned over several headwinds: a) the US-China trade tension; b) weak global car demand; c) softening demand at its China plants; and d) a strong baht. We foresee weak 4Q19 results and a sluggish recovery in 2020. Expect further downside if the baht appreciates further against the US dollar (our base case: Bt31.00/US\$). Maintain SELL on HANA. Target price: Bt23.50.

WHAT'S NEW

- **Expect no improvement in 4Q19.** We do not expect Hana Microelectronics' (HANA) earnings to improve in 4Q19. However, we expect a sluggish recovery in 2020 due to a low base in 2019.
- **Pressured by several headwinds.** Management is still concerned over several headwinds. These include: a) the US-China trade tension; b) falling global car demand on the back of a fragile macro backdrop. Management expects a weak global car market over the next 2-3 years; c) a significant softening in demand at its China plants; and d) a strong baht. Hence, management is still uncertain on its business growth next year.

STOCK IMPACT

- **Expect weak 4Q19 results.** We believe 4Q19 earnings would still be weak due to: a) softer top-line, fragile macro backdrop, a strong baht and closure of China plants by a major customer (17% of HANA's sales in 3Q19) due to the US-China trade war; and b) lower gross margin and higher SG&A-to-sales on the back of the baht appreciation and lower utilisation rate respectively. Note that the baht has appreciated 8% to Bt30.2/US\$ in Nov 19 from Bt32.8 in 4Q18.
- **Sluggish recovery in 2020.** We expect a sluggish earnings recovery in 2020 mainly due to a low base in 2019. We are still cautious on HANA's outlook. The only earnings driver we could expect in 2020 is the recovery in its telecom business (32% of group sales in 3Q19) on the back of its new product, mobile sensor for 3D facial recognition.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	21,551	22,264	21,621	22,163	22,873
EBITDA	3,374	3,420	2,645	2,767	2,913
Operating profit	2,290	2,309	1,458	1,525	1,663
Net profit (rep./act.)	2,888	2,375	1,498	1,561	1,691
Net profit (adj.)	2,357	2,360	1,498	1,561	1,691
EPS (Bt)	2.9	2.9	1.9	1.9	2.1
PE (x)	10.7	10.7	16.8	16.1	14.9
P/B (x)	1.2	1.2	1.2	1.2	1.1
EV/EBITDA (x)	5.5	5.4	7.0	6.7	6.4
Dividend yield (%)	6.4	6.4	4.8	4.8	4.8
Net margin (%)	13.4	10.7	6.9	7.0	7.4
Net debt/(cash) to equity (%)	(23.0)	(19.4)	(30.8)	(33.3)	(35.3)
Interest cover (x)	463.2	506.5	422.5	447.1	456.7
ROE (%)	14.2	11.4	7.1	7.2	7.7
Consensus net profit	-	-	1,455	1,693	1,888
UOBKH/Consensus (x)	-	-	1.03	0.92	0.90

Source: HANA, Bloomberg, UOB Kay Hian

SELL

(Maintained)

Share Price	Bt31.25
Target Price	Bt23.50
Upside	-24.8%

COMPANY DESCRIPTION

Electronics manufacturing service company. The major product groups are PCBA, IC, LED and LCE assembly.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	HANA TB
Shares issued (m):	804.9
Market cap (Btm):	25,152.5
Market cap (US\$m):	833.3
3-mth avg daily t'over (US\$m):	1.5

Price Performance (%)

52-week high/low Bt37.25/Bt24.00

1mth	3mth	6mth	1yr	YTD
8.7	9.6	23.8	(6.0)	(5.3)

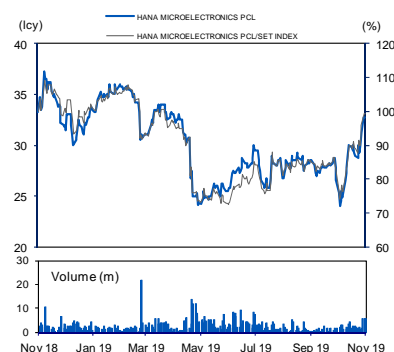
Major Shareholders

	%
OMAC (HK) Limited	21.4
CREDIT SUISSE AG	10.5
-	-

FY19 NAV/Share (Bt) 26.56

FY19 Net Cash/Share (Bt) 8.17

PRICE CHART



Source: Bloomberg

ANALYST(S)

Sarat Ruangtaweep
+662 659 8033
sarat@uobkayhian.co.th

- **The highest earnings sensitivity to the Bt/US\$.** HANA has the highest earnings sensitivity to the Bt/US\$ movements among peers under our coverage, as it has less of a natural hedge. Our sensitivity analysis suggests that if the baht moves by 1% (base case: Bt31.00/US\$), HANA's earnings in 2019 will change by 5.5%. Hence, we expect the recent baht appreciation to nearly Bt30.2/US\$ to affect its 4Q19 performance.

EARNINGS REVISION/RISK

- None.

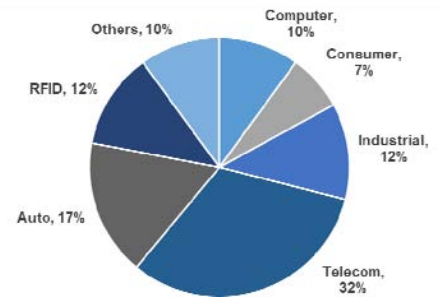
VALUATION/RECOMMENDATION

- **Maintain SELL and target price of Bt23.50**, given the pessimistic industry outlook on the back of the US-China trade war, fragile macro backdrop and the baht appreciation. Our target price is based on 12.1x 2020F PE, or -1SD to the stock's 5-year mean.

SHARE PRICE CATALYST

- None.

SALES BY PRODUCT (3Q19)



Source: HANA, UOB Kay Hian

SALES BY DESTINATION



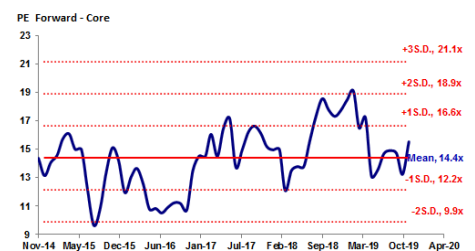
Source: HANA, UOB Kay Hian

WORLDWIDE SMARTPHONE SHIPMENT



Source: IDC

PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	22,264	21,621	22,163	22,873
EBITDA	3,420	2,645	2,767	2,913
Deprec. & amort.	1,111	1,187	1,242	1,250
EBIT	2,309	1,458	1,525	1,663
Total other non-operating income	213	135	135	135
Associate contributions	0	0	0	0
Net interest income/(expense)	(7)	(6)	(6)	(6)
Pre-tax profit	2,516	1,587	1,653	1,791
Tax	(141)	(89)	(92)	(100)
Minorities	0	0	0	0
Net profit	2,375	1,498	1,561	1,691
Net profit (adj.)	2,360	1,498	1,561	1,691

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	3,478	4,712	2,859	2,788
Pre-tax profit	2,235	1,409	1,469	1,591
Tax	141	89	92	100
Deprec. & amort.	1,111	1,187	1,242	1,250
Associates	0	0	0	0
Working capital changes	(8)	2,027	57	(153)
Non-cash items	0	0	0	0
Other operating cashflows	0	0	0	0
Investing	(2,169)	(985)	(985)	(984)
Capex (growth)	(2,302)	(1,000)	(1,000)	(1,000)
Capex (maintenance)	0	0	0	0
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	134	15	15	16
Financing	(1,984)	(1,230)	(1,211)	(1,198)
Dividend payments	(1,610)	(1,207)	(1,207)	(1,207)
Issue of shares	0	0	0	0
Proceeds from borrowings	(2)	(23)	(3)	9
Loan repayment	0	0	0	0
Others/interest paid	(372)	0	0	0
Net cash inflow (outflow)	(675)	2,497	664	606
Beginning cash & cash equivalent	4,757	4,081	6,578	7,242
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	4,081	6,578	7,242	7,848

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	7,179	6,993	6,751	6,501
Other LT assets	433	433	433	433
Cash/ST investment	4,081	6,578	7,242	7,848
Other current assets	13,675	11,067	11,262	11,507
Total assets	25,368	25,070	25,688	26,289
ST debt	0	0	0	0
Other current liabilities	3,914	3,310	3,559	3,660
LT debt	0	0	0	0
Other LT liabilities	372	386	402	418
Shareholders' equity	21,083	21,374	21,727	22,211
Minority interest	0	0	0	0
Total liabilities & equity	25,368	25,070	25,688	26,289

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	15.4	12.2	12.5	12.7
Pre-tax margin	11.3	7.3	7.5	7.8
Net margin	10.7	6.9	7.0	7.4
ROA	9.5	5.9	6.2	6.5
ROE	11.4	7.1	7.2	7.7
Growth				
Turnover	3.3	(2.9)	2.5	3.2
EBITDA	1.4	(22.7)	4.6	5.3
Pre-tax profit	(16.7)	(36.9)	4.2	8.3
Net profit	(17.7)	(36.9)	4.2	8.3
Net profit (adj.)	0.1	(36.5)	4.2	8.3
EPS	0.1	(36.5)	4.2	8.3
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(19.4)	(30.8)	(33.3)	(35.3)
Interest cover (x)	506.5	422.5	447.1	456.7

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2019, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W

Research Talent Development Grant Scheme

Reports indicated as such are prepared under the Research Talent Development Grant Scheme where MAS provides co-funding to groom research talent to initiate research coverage primarily of mid-small cap SGX listed companies.