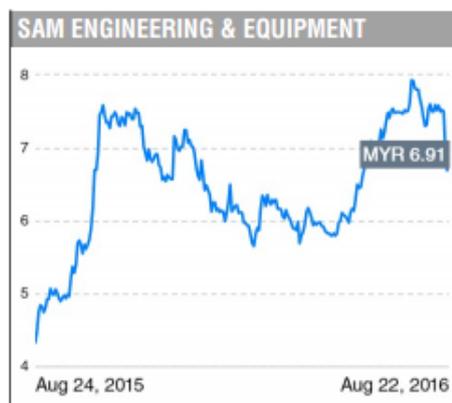


SAM Engineering Berhad

23 August 2016



Valuation score*	2.00
Fundamental score**	2.80
TTM P/E (x)	14.57
TTM PEG (x)	0.50
P/NAV (x)	1.92
TTM Dividend yield (%)	5.83
Market capitalisation (mil)	869.87
Shares outstanding (ex-treasury) mil	125.89
Beta	0.95
12-month price range	4.32-7.93

*Valuation score - Composite measure of historical return & valuation
 **Fundamental score - Composite measure of balance sheet strength & profitability
 Note: A score of 3.0 is the best to have and 0.0 is the worst to have

Share prices for SAM (Fundamental: 2.8/3, Valuation: 2/3) have fall as much as 12.9% from the peak of RM7.93 to close at RM6.91 yesterday, following the release of its 1QFYMarch2017 quarterly results.

The results came in below our expectations. Net profit dropped 25.7% y-y to RM9.8 million due to lower revenue generated from all business segments.

Penang-based SAM is primarily engaged in the manufacturing of aerospace engine casing, which accounts for about 54% of the company's revenue. The company also engages in precision engineering and equipment manufacturing. Products from these 2 segments include automation equipment and semiconductor testing machines for both hard-disk drive (HDD) and solid-state drive (SSD).

The aerospace business is generally more stable and less volatile as compared to the other segments. As such, management intends to grow this segment, targeting revenue contribution of 80% with the balance 20% coming from non-aerospace segment.

Whilst we are upbeat on the prospects for the aerospace industry, underpinned by strong growth for low-cost carriers in Asia, SAM's aerospace engine casing segment is currently running at full capacity.

The company has earmarked around RM100 million for FY2017-2018 to develop a new production line (nacelle beam) and its existing prismatic parts line. However, it is expected to take up to 2 years before it can start generating profits from the new lines. Hence, we foresee muted earnings performance in the short-to-medium term, perhaps even a slight decline due to start-up costs.

SAM's new investments will translate into stronger growth in the longer term. It has already secured a large orderbook, totaling over RM3.5 billion, which will keep it busy for quite a few years. By comparison, revenue totaled about RM620 million in the latest FY2016.

The company is fundamentally sound with fairly decent yields and valuations (relative to its longer-term growth prospect).

SAM has a healthy balance sheet with a net cash of RM161.4 million, or equivalent to 18.6% of its RM869.9 market capitalization. It is currently trading at about 14.6 times PE and 1.9 times book.

The company does not have a dividend policy but has been paying dividends for the past 5 years. For FY2016, dividends totaled 40 sen per share, which translate into 5.8% yield. Nevertheless, in view of the planned CAPEX (RM100million), we may see lower payouts for the next couple of years.

Lastly, we would also like to highlight its capable and experienced management, focus on the niche aerospace business, which carries lower risks than airline stocks, as well as its strong shareholder profile. Singapore's sovereign fund, Temasek, is the ultimate largest shareholder with 70.1% stake, via its holding in Accuron Technologies Limited.

In short, SAM engineering earnings are unlikely to excite in the short-term. However, we believe the long-term prospects remain intact and the stock should fit the profile of a longer-term investor.

NOTE: These reports are intended for Malaysian residents only and are prepared without regard to your specific investment objectives, financial situation or particular needs. The information herein is obtained from various sources and we do not guarantee its accuracy or completeness. All views and advice are given in good faith but without legal responsibility. You should not regard the reports as a substitute for the exercise of your own judgement and you should seek professional advice for your specific investment needs. Our shareholders, directors and employees may have positions in any of the stocks mentioned.