

Micro-Mechanics (Holdings) Ltd.

**High Precision Manufacturer of Consumable Tools,
Parts & Modules to High-Tech Industries**



SGX Main Board MMH SP / MMEC.SI

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Core semiconductor tooling business riding on chip usage and technological advances

- Recurring revenue from precision consumable tools
- Strong competitive position in tooling segment
- CMA an avenue for greater diversification
- Worldwide presence to serve global customer base
- Manufacturing bases mainly in Asia
- Cash generative model and sound financial position

Regular and recurring income streams from precision consumable products

Started in 1983, Micro-Mechanics designs and manufactures an extensive range of market-leading precision tools and consumable parts used in the assembly and testing of semiconductors (*semiconductor tooling*). The steady, recurring income streams from its consumable products for use in die attach, wire-bonding and other processes, make Micro-Mechanics less susceptible to the cyclical swings that are typical of the semiconductor sector.

Diversifying sector and geographical exposure

The Group also has a Custom Machining and Assembly (*CMA*) Division that leverages its expertise in precision manufacturing to generate revenue streams from other high-tech capital equipment industries. The CMA division has shown steady development over the past few years. Besides sector diversification, the CMA Division's focus on customers in the USA also provides a balance to its semiconductor tooling business, which is increasingly centered on customers in Asia. In FY2011, the contribution of CMA sales to Group revenue was about 18%.

Strong competitive position with high barriers to entry

Micro-Mechanics' semiconductor tooling business operates in a highly fragmented segment of the chip industry. The Group does not have a single direct rival with a comparable product range, manufacturing scale and geographical coverage. Its proprietary designs, materials and manufacturing know-how also create significant barriers for new entrants to its segment of the industry.

Global customer base

With five plants in Asia, a plant in the USA and its global sales presence, Micro-Mechanics is able to provide fast and effective local support to its broad customer base worldwide.

Its semiconductor tooling business has hundreds of customers, including almost all the leading industry players such as Amkor Technology Inc, Freescale Semiconductor Inc, Fairchild Semiconductor and STATSChipPac Ltd. The CMA Division mainly serves capital equipment suppliers to the medical, aerospace, laser and semiconductor-wafer fabrication industries. The Group estimates that its top 10 CMA customers have a combined annual demand for machined components exceeding S\$500 million.

STOCK INFORMATION

Price (30/1/12)	S\$0.43
Shares Issued	138.8 m
Market Cap	S\$59.8 m
52-wk high	S\$0.51
52-wk low	S\$0.40
Free Float	~ 38%
Major Shareholders	Sarcadia LLC (27.20%) Christopher R Borch (25.56%) Low Ming Wah (5.13%)

BUSINESS SNAPSHOT

Core business activities	Semiconductor tooling segment (high precision semiconductor tools and consumable parts) CMA segment (custom machining & assembly of parts and modules for capital equipment makers)
Market presence	Worldwide
Customer segments	Semiconductor, medical, instrumentation, aerospace, wafer fabrication
Manufacturing facilities	Singapore, Malaysia, Thailand, Philippines, China, USA

KEY STATISTICS

FY2011 (Jul 10 to June 11)

Price to Sales	1.3x
Price to Earnings	8.7x
Price to NAV	1.6x
Dividend Yield	7.0%

PER SHARE DATA (CENTS)

	FY2009	FY2010	FY2011	1H12
Earnings	0.39	3.44	4.92	1.43
Cash	5.4	7.2	5.4	4.4
NAV	23.8	25.5	26.5	26.3
Op Cashflow	3.0	6.2	6.3	2.5
Dividend	2.0	3.0	3.0	1.0
Shares in issue (million)	138.65	138.65	138.80	138.80

Cash generative model and sound financial position

Micro-Mechanics' business model is underscored by the healthy cash flows it consistently generates from its operations. The health of the Group's balance sheet is exemplified by its well-managed accounts receivables, lean inventory levels, zero debt and healthy cash balances. Micro-Mechanics' continuous efforts to maintain a sound financial position have enabled it to weather the cyclicality of the semiconductor industry and reward shareholders with attractive dividend payments since its listing in 2003.

Sensible cost and global personnel structure

Micro-Mechanics continually focuses on ensuring it has a sensible cost structure to better withstand business volatility. The Group also has a continuous emphasis on improving the cost, quality and cycle-time of its operations. Micro-Mechanics' goal is to build a global team structure that keeps it competitive around the world.

Benefiting from underlying trends in the semiconductor industry

The Group benefits from the semiconductor industry's underlying trends towards continual miniaturization and densification as well as the proliferation of chip package sizes, which is being driven by the increasing demand for more sophisticated and compact consumer products.

Clear, practical and attainable growth strategies

Micro-Mechanics is investing in several initiatives to enhance its growth profile and build value for shareholders in the long term.

To capitalize on the long-term prospects of the global semiconductor industry, the Group intends to continue expanding its technology and product range to offer its global semiconductor customers with a 'One-Stop' solution for consumable tools and parts. The Group has developed several new micro-manufacturing processes that give it the ability to produce tools with feature sizes previously out of reach or too costly to bring to market. As chip manufacturing continues to concentrate in China, the Group has also doubled the size of its factory in Suzhou.

With the CMA Division on a more stable footing, the Group is taking steps to further strengthen its competitive position by upgrading and improving the division's manufacturing capability. The investment in a new state-of-the-art system in its CMA facility in the USA will enable the division to manufacture complex parts in a fully-automated 24x7 environment.

P&L SNAPSHOT (\$ million)				
	FY2009	FY2010	FY2011	1H12
Revenue	33.1	41.0	45.3	19.1
Gross Profit	12.9	19.5	20.8	8.6
PBT	1.6	6.7	8.6	2.7
Net Profit	0.5	4.8	6.8	2.0

BALANCE SHEET (\$ million)				
	FY2009	FY2010	FY2011	1H12
Current Assets	16.1	20.6	19.0	17.1
LT Assets	22.1	22.5	24.7	25.5
Current Liabilities	4.1	6.3	5.4	4.5
LT Liabilities	1.1	1.4	1.5	1.5
Equity	33.0	35.3	36.8	36.6

BUSINESS SEGMENTS (\$ million)			
1H12	Sales	% contribution	GPM
Semiconductor tooling	16.2	85	52.3
CMA	2.92	15	1.1

KEY FINANCIAL RATIOS (%)				
	FY2009	FY2010	FY2011	1H12
Sales Growth	(13.3)	23.6	10.6	(17.3)
NP Growth	(93.9)	784	43.0	(47.5)
EPS Growth	(93.9)	784	43.0	(47.5)
GP Margin	38.8	47.5	45.9	44.8
NP Margin	1.6	11.7	15.1	10.4
Gearing (times)	Zero Borrowings			
Inventory / Sales *	4.7	5.1	4.6	5.8
Trade receivables > 90 days / Total TR	1.2	1.7	1.1	0.1
* Annualised				
<i>Financial year-end 30 June</i>				

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