

Wah Lee Industrial
3010 TT

■ Not Rated

Target (TWD): **n.a.**

Up/downside: -

18 Apr price (TWD): **43.60**

Leading hi-tech solutions provider

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- Guidance of mid- to single-digit revenue growth for 2013
- Management sees solid non-operating profit in 2013...
- ...and mid- to long-term revenue growth for the semiconductor business

■ **Background**

Wah Lee Industrial (Wah Lee) is an IT materials and components distributor, and an IT solutions provider. It has a wide business scope, namely: communications/computer (C/C) (accounting for 37.8% of 2012 sales), flat panel displays (FPD) (18.9%), semiconductors (16.6%), and green energy segments (13.0%).

■ **Highlights**

Moderate 2013 revenue growth. Management expects 2013 consolidated revenue growth of about a mid- to single-digit percentage year-on-year. It expects revenue for its main business segment (FPD) to rise by about 10-15% YoY, and by a mid- to single-digit percentage YoY for both its C/C and semiconductor businesses. The company expects the revenue-growth momentum to continue due to its ability to develop IT solutions.

Management expects revenue growth for the FPD segment in 2013 to be mainly driven by: 1) a pick-up in the sales of its timing controller IC (T-CON), supported by rising demand for high-end displays, such as ultra-HD and 3D TVs, and 2) an expansion in its touch-display solutions business for smartphone/tablet PC products, mainly targeting the China supply chain.

Management expects 2013 revenue growth for the C/C business to centre upon expanding the applications for its main product, ie, high-performance engineering plastic for hardware mechanical components. New products include a hybrid plastic casing for notebooks (company targets a revenue contribution for this product in 2H13), and plastic for auto components and consumer products.

For its semiconductor business, the company expects to see mid- to long-term revenue growth, on the back of its increased share of the supply of materials for the foundry companies' advanced node process. Wah Lee distributes raw materials for the semiconductor manufacturing process (ie, photoresist, slurry, chemicals). It expects its sole-agent business to qualify as a supplier to Taiwan's leading foundry companies (advanced node process), and sees this as a business driver from the end of 2013.

Benefiting from solid non-operating income. Wah Lee's long-term investments contribute to its non-operating profit (2012 investment income of TWD418m, or 32% of pre-tax profit). Its subsidiary Chang Wah Electromaterials (Not rated, and a semiconductor back-end material provider) targets to see over 20% YoY

revenue growth for 2013 due to its improving product mix, which now includes more in-house-produced, higher gross-profit margin products. Meanwhile, subsidiary Wah Hong Industrial (Not rated, an optoelectronics material supplier) also targets to see over 20% YoY revenue growth for 2013 on the back of an expansion in its optical film and ITO-film businesses.

Should the weaker Yen scenario continue for the rest of this year, management would expect to see FX gains of about TWD60m, as its payables are denominated in Yen. Wah Lee guides for a non-operating income of TWD600m for 2013 (TWD481m in 2012). It expects the 2013 earnings growth to exceed the top-line growth, on top of the higher non-operating income contribution. It also guides for a possible decline in consolidated gross margins (from 9.1% for 2012 to about 8.7% for 2013) on product mix changes.

■ **Valuation**

The stock has been trading in a PER range of 5.2-14.8x over the past four years, and is currently trading at 2013 PER of 9.0x, based on the Bloomberg-consensus forecasts. The average dividend-payout ratio has been about 57% for the past five years.

■ **Share price performance**



12-month range	35.95-44.40
Market cap (USDbn)	0.34
3m avg daily turnover (USDm)	1.21

Source: FactSet, Daiwa

■ Wah Lee: financial summary

(TWD m)	2007	2008	2009	2010	2011	2012
Revenue	23,792	24,265	19,226	27,023	31,225	31,545
Gross profit	3,179	2,993	2,316	3,200	2,822	2,858
Operating profit	1,614	1,056	677	1,172	940	834
Pretax profit	1,974	1,120	1,047	1,812	1,350	1,315
Net profit	1,452	728	810	1,410	952	981
EPS (TWD)	6.66	3.21	3.51	6.09	4.12	4.24
Margin (%)	2007	2008	2009	2010	2011	2012
Gross margin	13.4%	12.3%	12.0%	11.8%	9.0%	9.1%
Operating margin	6.8%	4.4%	3.5%	4.3%	3.0%	2.6%
Net margin	6.1%	3.0%	4.2%	5.2%	3.0%	3.1%
YoY %	2007	2008	2009	2010	2011	2012
Revenue	23.1%	2.0%	-20.8%	40.6%	15.5%	1.0%
Gross profit	18.3%	-5.8%	-22.6%	38.2%	-11.8%	1.3%
Operating profit	21.0%	-34.6%	-35.9%	73.1%	-19.8%	-11.2%
Pretax profit	12.2%	-43.2%	-6.5%	73.0%	-25.5%	-2.6%
Net profit	6.3%	-49.8%	11.2%	74.0%	-32.4%	3.0%
EPS	2.0%	-51.8%	9.3%	73.5%	-32.3%	2.9%

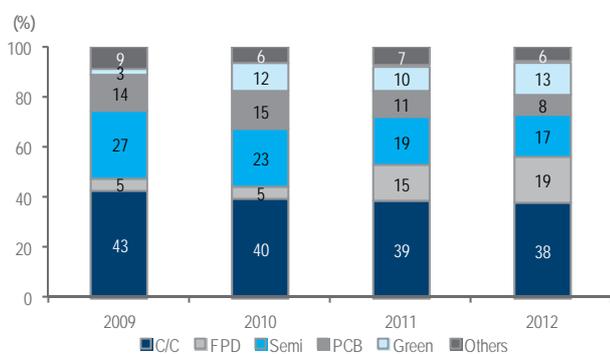
Source: Company

■ Wah Lee: 2012 Long-term investments contributions

Long-term investments	Product lines	Holding %	2012 profit contribution (TWDm)
Chang Wah Electromaterials	Semiconductor packaging and testing materials	28	198.5
Nagase Wah Lee Plastics	SABIC engineering plastics	40	137.8
Wah Hong Industrial	Optical film, high-performance plastic compounds, heat dissipation solution, VCM actuator	24	71.5
ORD Wah Lee Technology	ORC exposure machine and lamps	35	9.7
Total			417.5

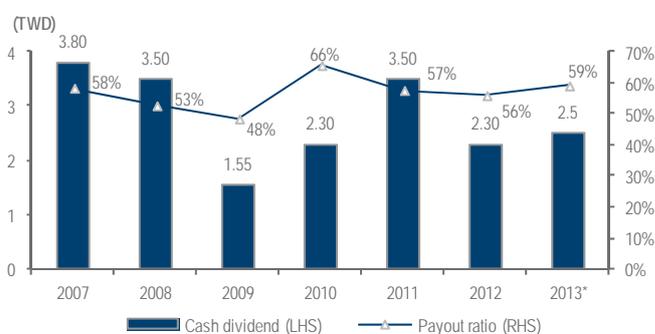
Source: Company

■ Wah Lee: revenue breakdown by product segment



Source: Company

■ Wah Lee: dividend policy or long-term investment



Source: Company

Note: 2013 dividend payment is subject to a resolution at the annual general meeting

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