

Manufacturing Integration Technology (SGX: M11)
Current Share Price : S\$0.32 | Target Price : S\$0.37 | Upside : 16.9%

COMPANY BACKGROUND

Manufacturing Integration Technology (MIT) was established in 1992 in Singapore to support the electronics industry in terms of industrial automation services. Since inception, MIT has evolved and is now engaged in the design, development and manufacturing aspect of the automated equipment in not only the semiconductor industry but also the solar and contract equipment manufacturing (CEM) industries across the globe.

MIT, namely, operates from Singapore and China through its three rented facilities. Of which, two are based in Ang Mo Kio (Singapore) and the other is based in the Jiading District of Shanghai (China). MIT's Research & Development (R&D) centre is cited alongside its corporate headquarters in Singapore. While the Singapore facility focuses on the manufacturing of semiconductor equipment and MIT's China facility concentrates on the solar equipment, both provides built-to-print assembly and customized design/automation equipment, to an international clientele from our Singapore and China facilities.

Headquartered in Singapore, MIT is a public listed company that is listed on the Mainboard of the Singapore Exchange Ltd (SGX) since 1999.

BUSINESS SEGMENTS

MIT engages namely in three business segments: (i) Semiconductor Equipment Manufacturing, (ii) Solar Equipment Manufacturing and (iii) Contract Equipment Manufacturing.

In the Semiconductor Equipment Manufacturing business, MIT primarily designs, develops and distributes a wide range of automated equipment that are used in the front-end and back-end manufacturing process of an integrated circuit (IC) assembly. MIT's equipment range includes wafer level die marking and sorting systems, vision inspection, laser marking and tape and reel systems. In total, MIT has a product range of nine equipment available for use in the semiconductor industry.

In the Solar Equipment business, MIT designs and produces high-end solar equipment such as laser scribes and ablation solutions for the Photovoltaic (PV) Industry. Presently, MIT only manufactures one equipment model that is used in the scribing process. This type of equipment enables the PV industry to unlock high-volume production of next-generation thin-film devices that is viewed as superior to the mechanical method in terms of speed, quality and reliability.

In the Contract Equipment Manufacturing (CEM) business, MIT supports its customers in two aspects: (i) built-to-print and (ii) customized automation. With the former, MIT will source for parts and manufacture the products, modules or sub-modules according to the designs provided by the customer. However, with the latter, it engages the customer at the design stage and follow through to the manufacturing stage thereafter. In this business, MIT counts upon clients operating in the semiconductor, storage media, displays, aerospace, and medical technology equipment and devices industry.

LATEST DEVELOPMENT

On the 8th of January 2018, MIT entered into a non-binding term sheet pertaining to the disposal of its semiconductor business to China Fortune-Tech Capital Co., Ltd (CFC). As part of the deal, MIT's own semiconductor business as well as its subsidiaries, namely, i.PAC Manufacturing Pte Ltd and Generic Power Pte Ltd will be disposed. Following the disposal, MIT will cease to operate in this realm and instead, focus on its CEM business.

In the context of this analysis, we will outline the reasons why we believe that this deal is very likely to occur and the potential upside that is to be gained by investing in MIT through this trading opportunity that has presented itself.

INVESTMENT THESIS

Access to Established Clientele

Firstly, the acquisition of MIT's semiconductor business will enable CFC to gain immediate access to MIT's esteemed client base. The clientele includes established semiconductor players in both the Integrated Device Manufacturer (IDM) and Outsourced Semiconductor Assembly and Testing (OSAT) fields.

In the IDM segment, MIT counts upon clients such as:

- 1) Freescale Semiconductor (now under NXP Semiconductors)
- 2) Infineon Technologies
- 3) Micron Technology
- 4) STMicroelectronics

In the OSAT segment, clients include:

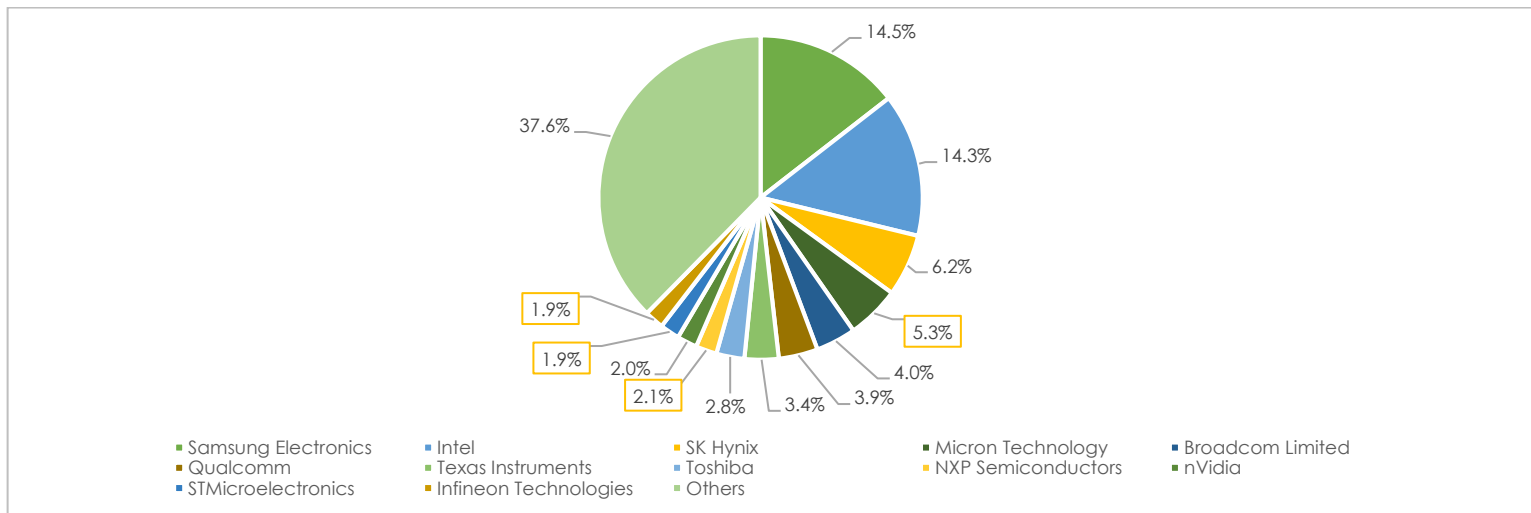
- 1) ASE Group
- 2) Amkor Technology
- 3) UTAC Group

Having known MIT's clients, it is imperative that we understand the dynamics of their segments and study their outlook.

IDM Segment

Micron and Freescale feature in the top 10 of the IDM segment, occupying the 4th and 9th spot while Infineon and STMicroelectronics fall not too far behind at the 11th and 12th spot. Collectively, they account for 11.3% (~US\$48.4 billion) of market share in a segment that is mainly dominated by Intel Corporation and Samsung [Figure 1].

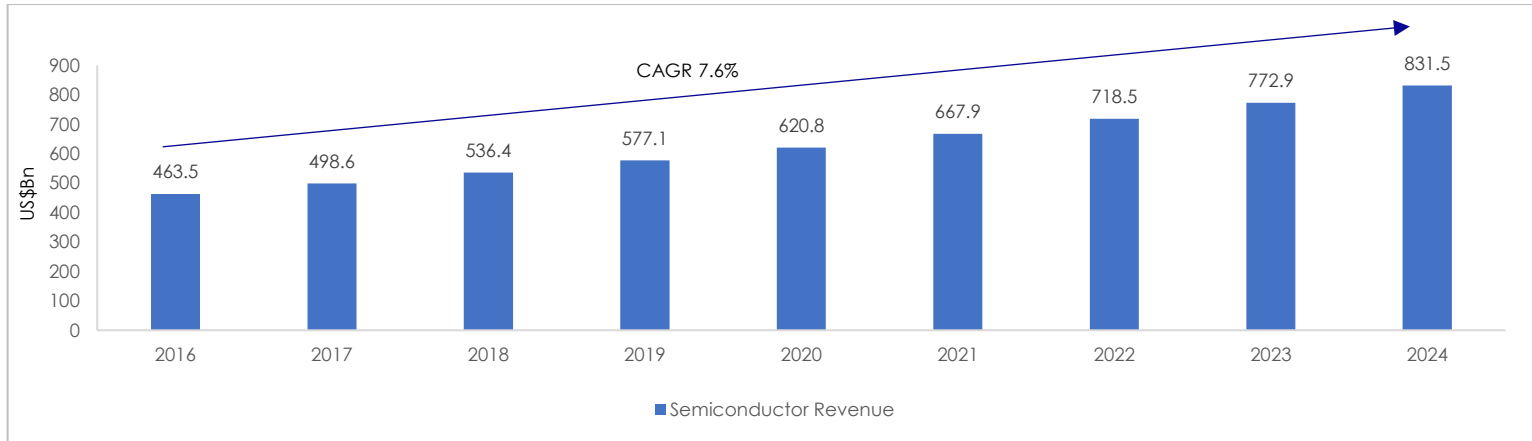
Figure 1: Market Share of the IDM Segment



Source: IHS Markit, Infineon Technologies & STMicroelectronics

Moving forward, it is important to understand the outlook for this segment as it will provide guidance to the performance of MIT. According to forecasts by Inkwood Research, the IDM segment is expected to grow to the tune of a CAGR of 7.6% in the coming years to reach US\$831.5 billion in 2024 [Figure 2]. At prima facie, such statistic coupled with the sizeable market share held by MIT's clients may suggest that its clients are poised to capitalize on this growth as well and that this will ultimately benefit MIT. While this may be true, there is a need to discern further as this figure represents the industry-wide growth consisting of various sub-segments and may not be representative of the real growth attributable to MIT's clients.

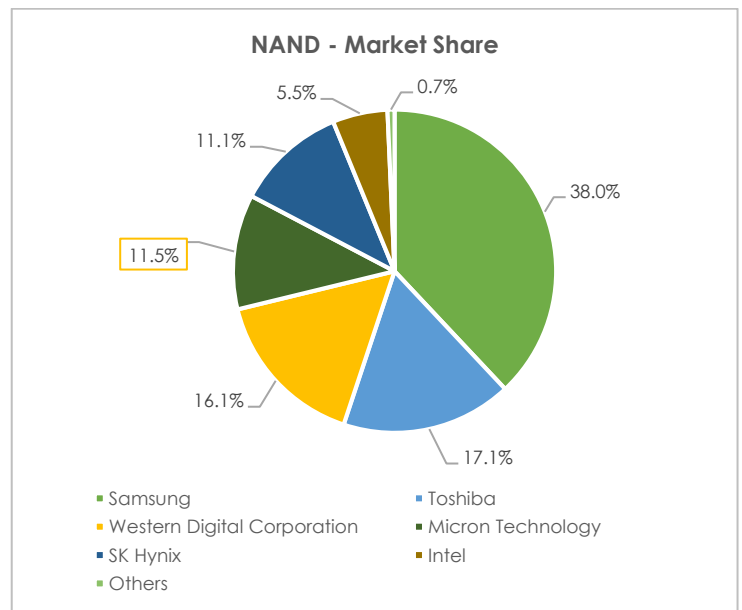
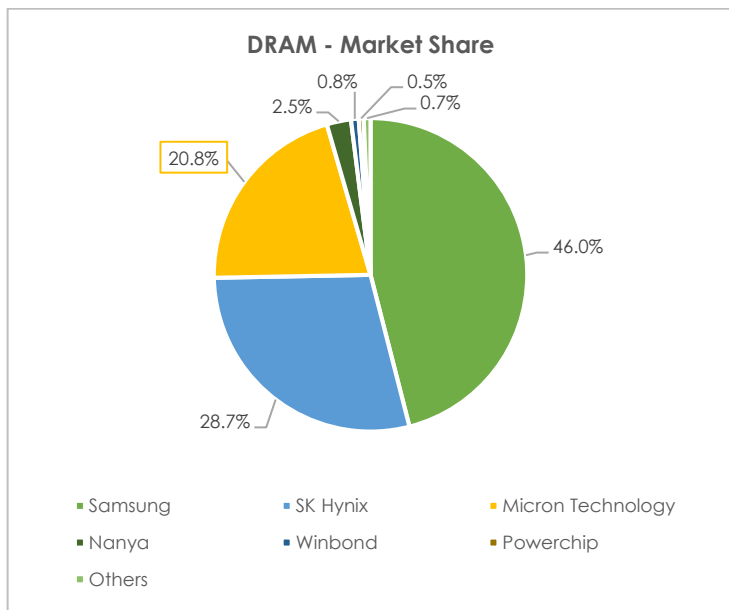
Figure 2: Growth Forecast for IDM Segment



Source: Inkwood Research

Micron, MIT's largest customer by revenue, is a key player in the memory chips business which comprises of the Dynamic random-access memory (DRAM) and NOT-AND (NAND). In the DRAM market, Micron is the 3rd largest player behind Samsung and SK Hynix with a market share of 20.8% while in the NAND market, it takes the 4th spot with a corresponding market share of 11.5% [Figure 3].

Figure 3: DRAM & NAND Market Share

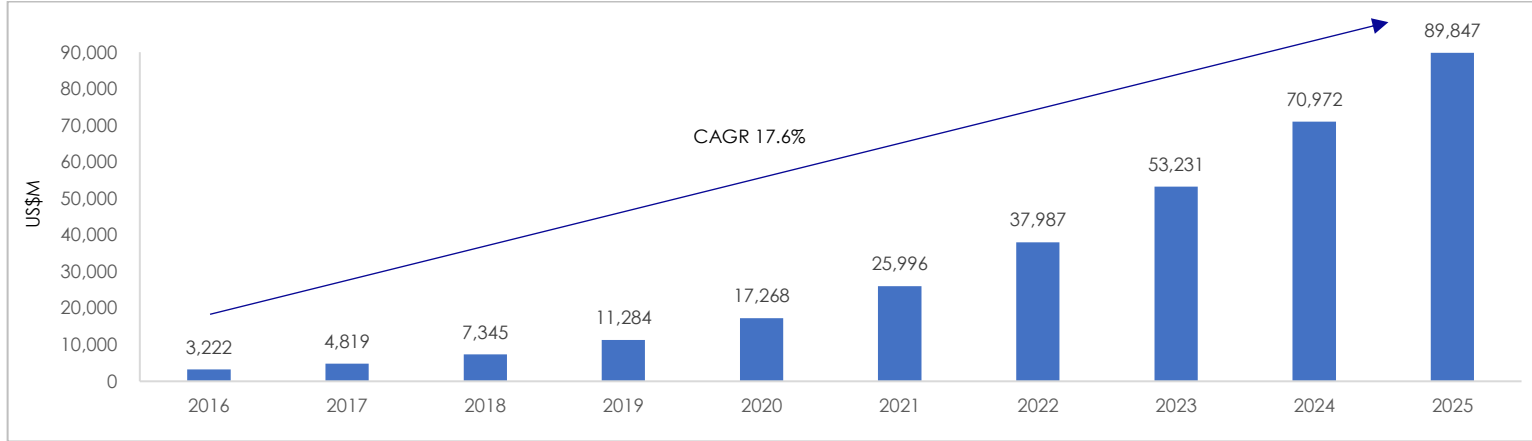


Source: DRAMeXchange

Memory chips, both DRAM and NAND alike, sees a widespread use in our day-to-day devices including computers, tablets and smartphones which have been driving the growth of this segment historically and will continue to do so in the coming years. However, the real growth driver lies in the new age technologies such as Artificial Intelligence (AI), Internet of Things (IoT) and Automotive Applications that is bound to transform our daily lives. For an example, the AI

market alone is forecasted to grow at a remarkable CAGR of 17.6% from US\$4.8 billion in 2017 to an astounding US\$89.9 billion in 2025 by Tratica [Figure 4]. This undermines the huge potential present in this market alone.

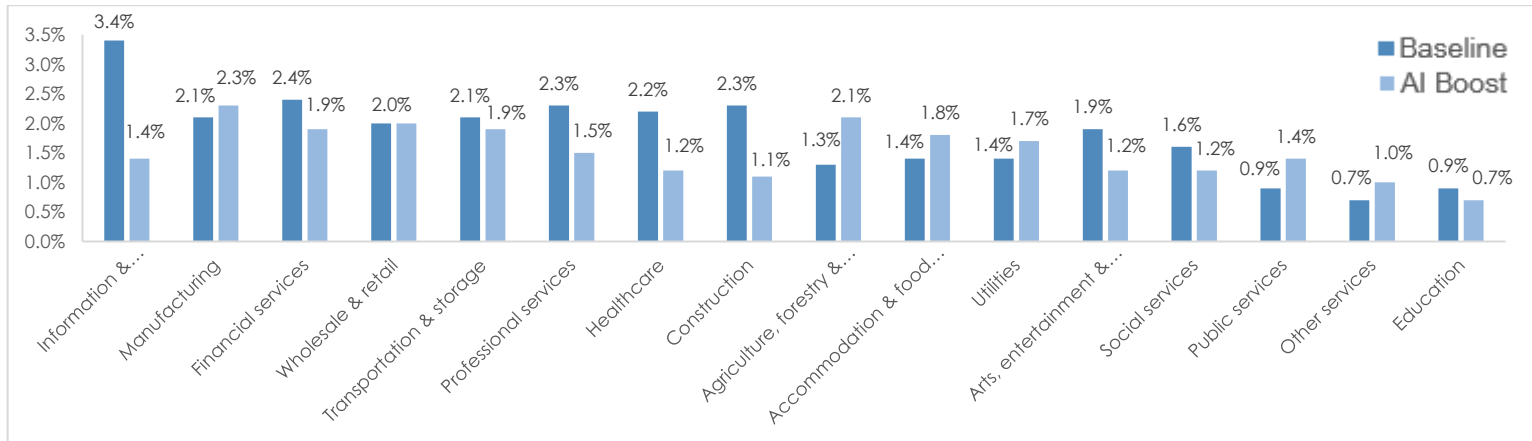
Figure 4: Global Forecasted Revenue for AI



Source: Tratica

This is unsurprising because apart from the demand from the vast consumer market, AI is slated to benefit other industries such as manufacturing, agriculture, hospitality, tourism and utilities given its allure in terms of convenience, efficiency, precision and improving manufacturing processes. At the end of the day, it is expected to boost the capabilities of these industries in terms of output, reduce downtime, labour and costs. Thus, AI can enhance the growth of those industries above and beyond the baseline growth [Figure 5]. And, this is expected to drive the demand for the AI segment.

Figure 5: AI's Impact on Industry's GVA growth rates in 2035



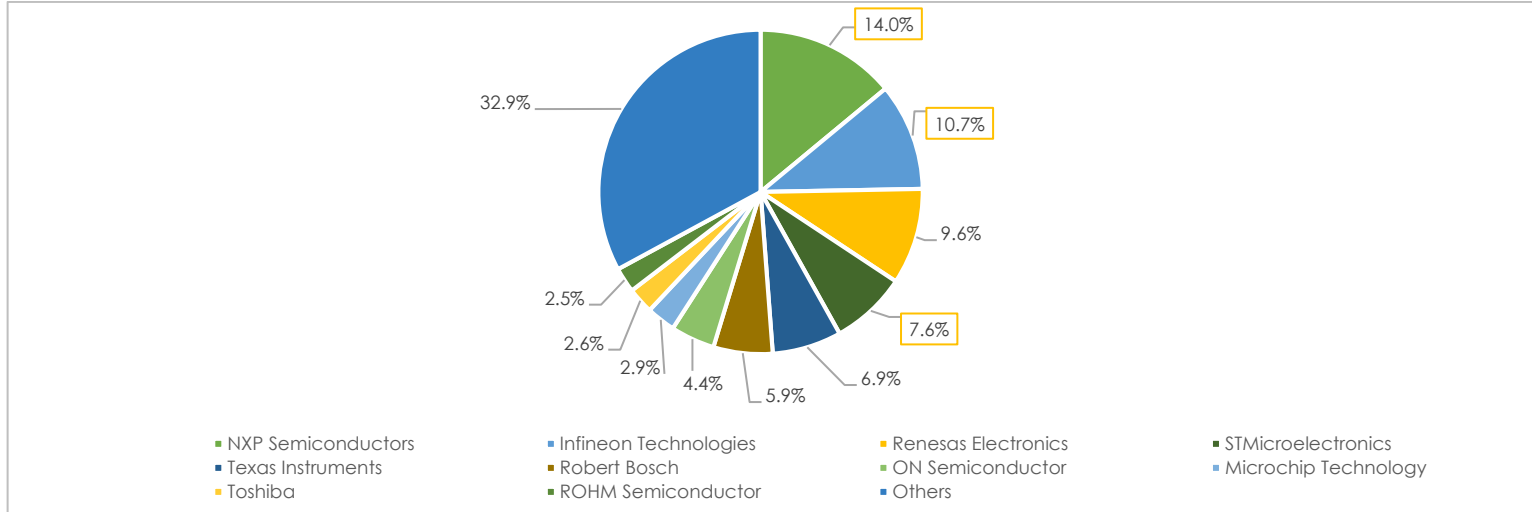
Source: Accenture & Frontier Economics

Having had understood the proliferation and reach of AI, it is important to contextualize all these to Micron and MIT. For that, we first need to understand the fundamentals of AI better. AI is viewed in parallel to a human being that hinges on computer algorithms and machine learning to function. To enable AI to process and carry out these deep learning, it requires immense memory and strong processors for computing power to process these vast quantities of data and information. This is expected to drive the demand for memory chips. Therefore, as a whole, it is only natural that conservative estimates from Technavio have forecasted the memory sub-segment to grow at a CAGR of 8.2% vs. the segment's figure of 7.6% stated earlier.

Given Micron's position in both the DRAM and NAND market, it enables Micron to best capture the potential arising from the increased AI demand. To cater to the increased demand, manufacturing activity will determinately increase and this will benefit MIT for the better given the likelihood of increased equipment orders from Micron.

On the other hand, MIT's other IDM clients are slated to benefit more significantly from the increased development and proliferation of automotive applications apart from the AI swing. Freescale Semiconductor (now under NXP Semiconductors), Infineon Technologies and STMicroelectronics are key players in the Automotive Semiconductor scene accounting for 32.3% of market share [Figure 6].

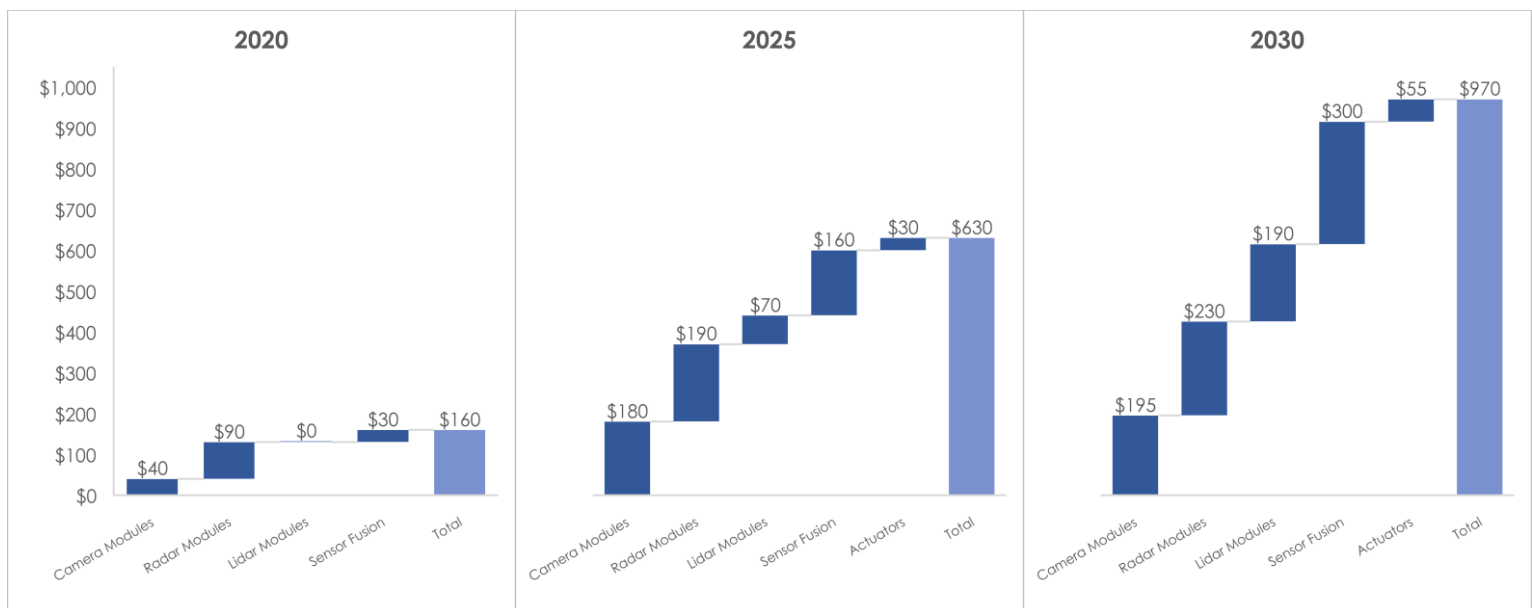
Figure 6: Market Share of the Automotive Semiconductor Segment



Source: Semicast Research

Compared to those days in the 1990s, cars today have changed the way we drive as they are manufactured with numerous features to make driving even more comfortable, efficient and safer. These have been made possible due to the advancement in technology which has allowed the proliferation of a myriad of electronic systems to be integrated in a typical car today. These systems can range from something as rudimentary as a Bluetooth in-car infotainment system to Advanced Driver Assistance Systems (ADAS) and even Autonomous Driving (AD) systems. Hence, it is unsurprising that the amount of semiconductor content has risen over the years for a conventional vehicle. Between 2012 and 2017 alone, estimates from Smartkarma suggests that the average semiconductor value in a conventional vehicle has risen by about ~US\$100 per car so far. By zooming in on the potential value accrued by the ADAS and AD systems alone in the coming years, it signifies a potential of over 6X [Figure 7]. Hence, this clearly lends insight into the very base potential of the overall semiconductor value in a vehicle in the future as well which is encouraging for the semiconductor industry.

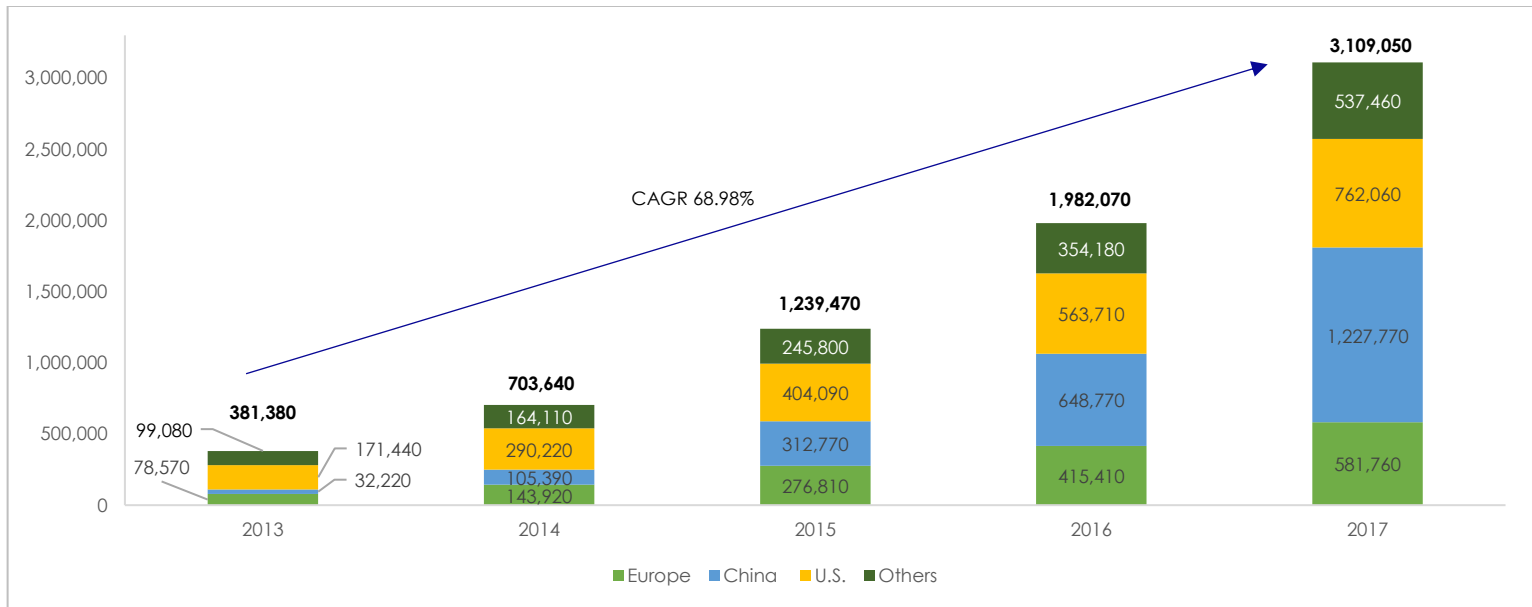
Figure 7: Semiconductor Value in Vehicles by Level of Automation



Source: Infineon

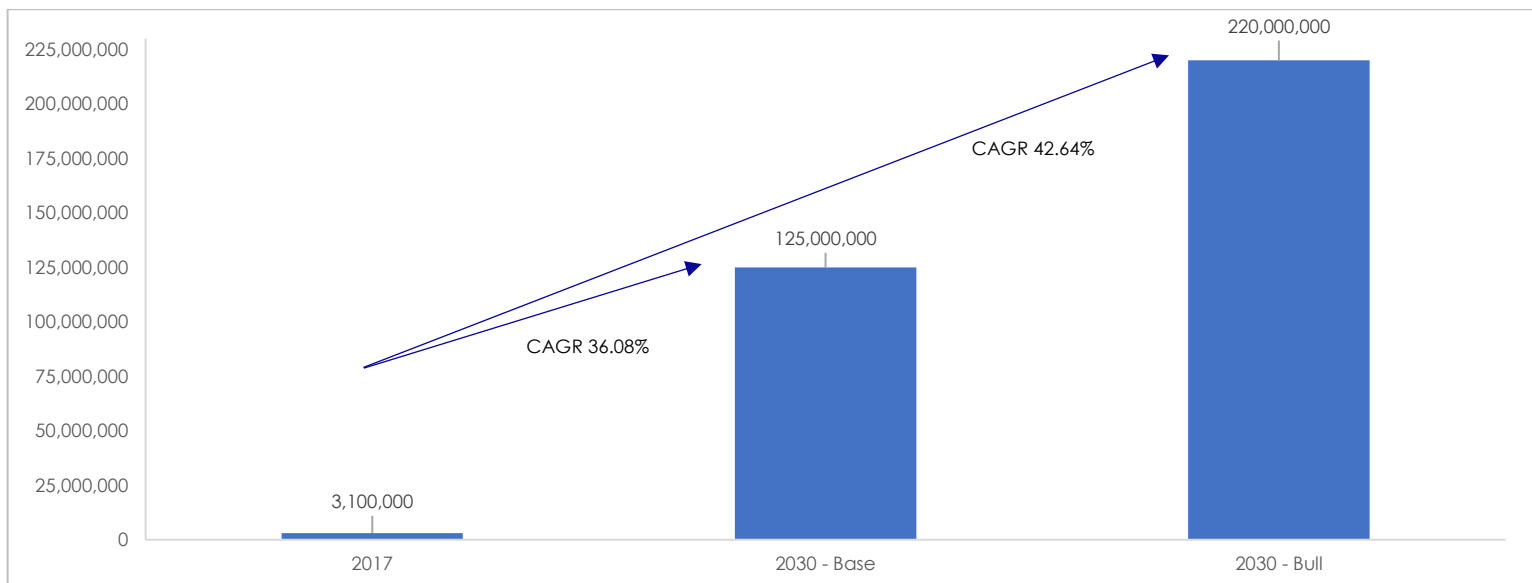
Furthermore, in recent years, strict emission and environmental regulations have surmounted pressure onto automobile manufacturers to curb carbon emissions. To achieve that, manufacturers have been employing various technologies and systems to reduce fuel consumption and carbon emissions which will further drive the amount of semiconductor content in a conventional vehicle. Encouragingly, manufacturers have also been ramping up on the electric vehicles (EV) segment as increasing governmental support in the form of rebates and tax concessions have helped to spur the growth of the EV market. Between 2013 and 2017 alone, the EV car market rose an astounding 68.98% to over 3.1 million vehicles worldwide, mainly driven by phenomenal growth in China followed by Europe which grew at a CAGR of 148.46% and 64.96% respectively [Figure 8]. With the influx of start-ups dedicated towards new energy cars, domestic carmakers' foray into the EV scene, favourable government subsidies and an expanding charging network, China's figure can be expected to rise even further in the coming years as it seeks to increase the EV penetration rate within China and cements its spot as the world's largest EV market. Globally, the International Energy Agency forecasts based on existing and announced government policies that the number of electric light-duty vehicles will hit 125 million by 2030 or 220 million if more encouraging policies are unveiled, corresponding to a CAGR of 36.08% and 42.64% respectively [Figure 9].

Figure 8: Electric Car Stock by Country from 2013 to 2017



Source: International Energy Agency

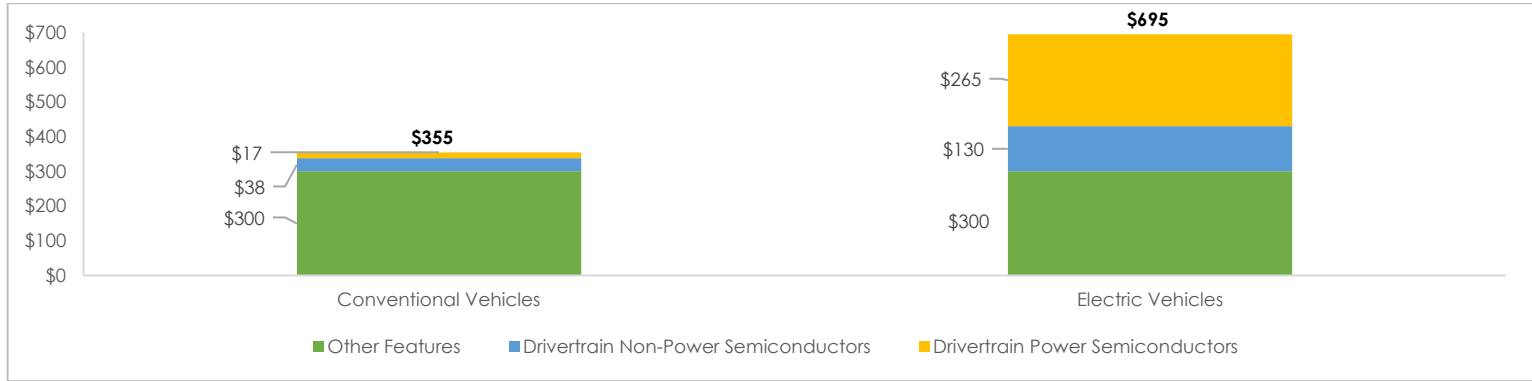
Figure 9: Global Electric Car Stock Outlook



Source: International Energy Agency

Given that an even increasing number of semiconductor inputs such as microcontrollers, sensors and analog devices are needed as part of the electrification of the drivetrain, the positive outlook for EV spells great news for the semiconductor industry as the semiconductor value in an EV is almost double that of a conventional vehicle [Figure 10].

Figure 10: Semiconductor Value in Conventional vs. Electric Vehicles



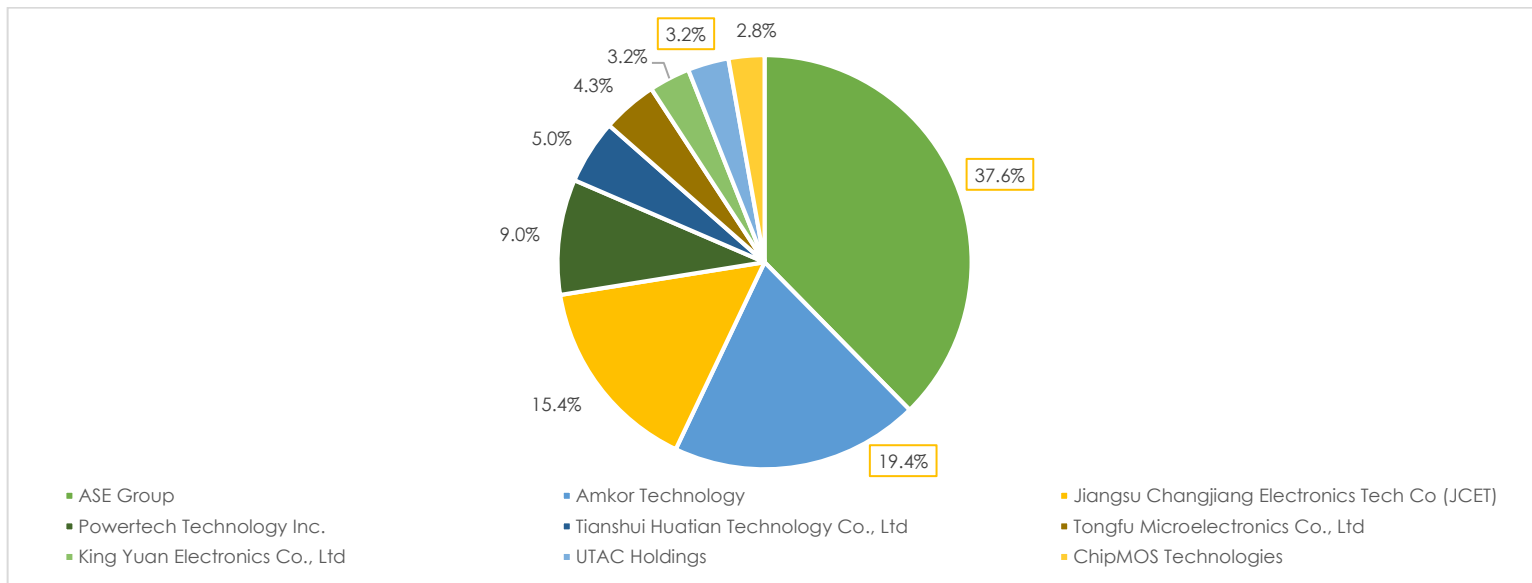
Source: Infineon

Hence, on the outback of increased electrification in automobiles and the rise of electric vehicles, the automotive semiconductor sub-segment is indeed poised for great growth sustained by strong demand. Thus, the forecasted CAGR of 8.9% for this sub-segment based on estimates from Semico Research, which is higher than the segment's figure of 7.6%, makes sense since the automotive sector is widely anticipated to drive the semiconductor's growth. The strong presence of Freescale Semiconductor (now under NXP Semiconductors), Infineon Technologies and STMicroelectronics in the automotive semiconductor domain will certainly allow them to ride on the increased demand that this promising sub-segment has to offer. Consequently, MIT is also bound to benefit from this as a result of increased equipment orders from these clients.

OSAT Segment

MIT's other clients such as ASE Group, Amkor Technology and UTAC Holdings operate in the OSAT market with a collective market share of 60.16%. ASE Group's recent acquisition of Siliconware Precision Industries Limited saw its market share climb 12.79% to 37.59% to retain its position as the market leader while the latter remained at the 2nd spot with 19.38% of market share. With a market share of 3.21%, UTAC Holding takes the 9th spot.

Figure 11: Market Share of the OSAT Segment

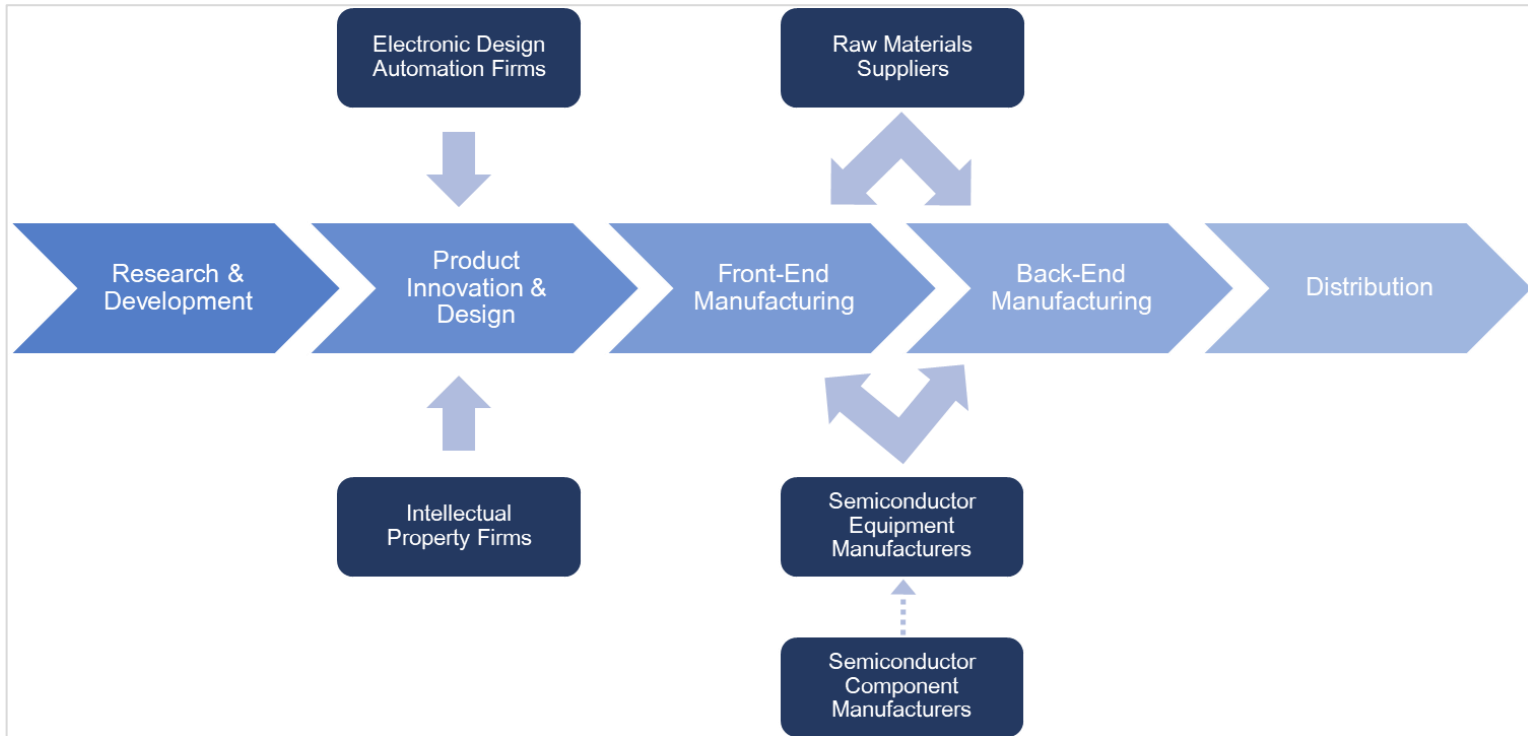


Source: TrendForce

It is to be noted that this segment is highly competitive given the fragmentation of this market and the recent suites of high-profile M&A activities which clearly illustrates the competitiveness of this segment. According to an article from Semiconductor Engineering, further consolidations can be expected in this segment in particular among the bigger players as they strive to increase their competitive edge to cope with the pressure and threat stemming from upstream players venturing into their business and the foray of Chinese companies. ASE Group and Amkor Technology will certainly have more breathing space as they are more likely to be the acquirers as opposed to UTAC Holdings which is likely to become a target for the much biggest OSAT players. Additionally, ASE Group and Amkor Technology can be expected to tide through this turbulence as they are acknowledged to have cutting-edge technology that enables them to price their products competitively which would prove to be a key battle point as upstream and Chinese players enter the OSAT market. Additionally, both ASE Group and Amkor Technology have a diversified strong set of blue-chip customers, some of whom operate under the fabless model. This reduces the likelihood of their clients vertically integrating the OSAT activity and provides sufficient assurance towards recurring revenue from them.

Moving forward, the OSAT segment is poised to benefit from the growth of the IDM segment, catalysed by developments in the AI, IoT and Automotive markets. There exists this correlation of revenue between OSATs and semiconductor companies (includes IDMs and fabless firms) given the intrinsic nature of the semiconductor industry's supply chain [Figure 12]. OSATs engage in the back-end of semiconductor manufacturing and is hence, reliant on the inputs from upstream. Thus, the general climate for OSATs is somewhat tied to that of the semiconductor companies (includes IDMs and fabless firms). In a forecast by Market Research Future, the OSAT segment is expected to rise by a CAGR of about 5% till 2022. While this figure may pale in comparison to that of the IDM's clients, it is nevertheless decent considering the competitiveness of this segment. Owing to this competitive nature, firms compete on leaner margins and rely on efficiency to sustain in this market. Hence, it is ever-important for firms such as MIT to manufacture equipment that are more productive and cost-efficient. In this regard, MIT can be said to be headed in the right track especially with the launch of their Caerus C330 Wafer Die Sorting Equipment which is highly regarded as efficient given its ability to sort 30,000 units/hour [Figure 13]. Additionally, the development of next generation wafer to wafer die sorter is currently underway which the management aims to unveil in late 2018. Success of this is expected to benefit MIT's orderbook and boost revenue.

Figure 12: Semiconductor Industry's Supply Chain



Source: The Little Snowball Research

Figure 13: MIT's Caerus C330 Wafer Die Sorting Equipment

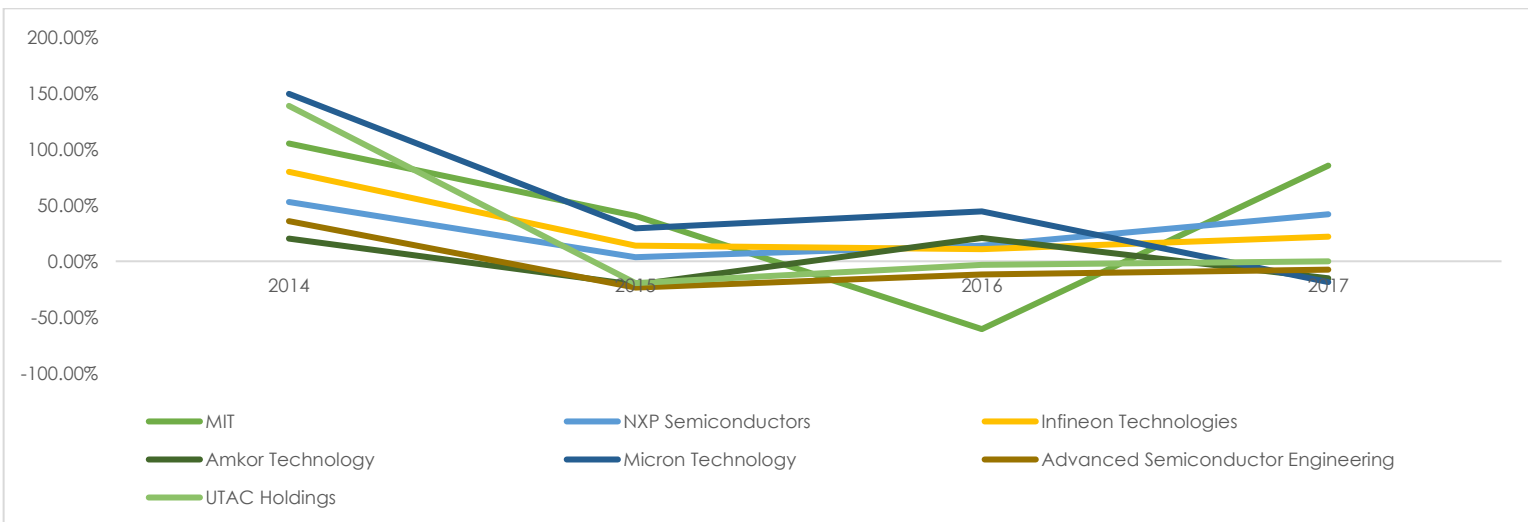


Source: MIT

Conclusion

The future is certainly looking positive for MIT's clients, both in the IDM and OSAT segment. Given that the IDM segment is a key revenue contributor for MIT, upbeat forecasts in that segment is definitely uplifting for MIT as CAPEX can be expected to increase in tandem with increasing revenue which will eventually see MIT's revenue increase as well on the outback of increased orderbooks. While the correlation between the CAPEX spending of MIT's clients and MIT's revenue can be studied to affirm this, it serves little purpose given the cyclical nature of the semiconductor industry and the diversified order pattern; although, at a preliminary level, varying degrees of positive correlation has been observed between MIT's clients and itself [Figure 14]. Nevertheless, future announcements from MIT's clients towards increasing CAPEX can be viewed as a precursor to impact MIT's revenue as well.

Figure 14: MIT's Revenue & Clients' CAPEX Correlation



Source: Respective Companies' Annual Report

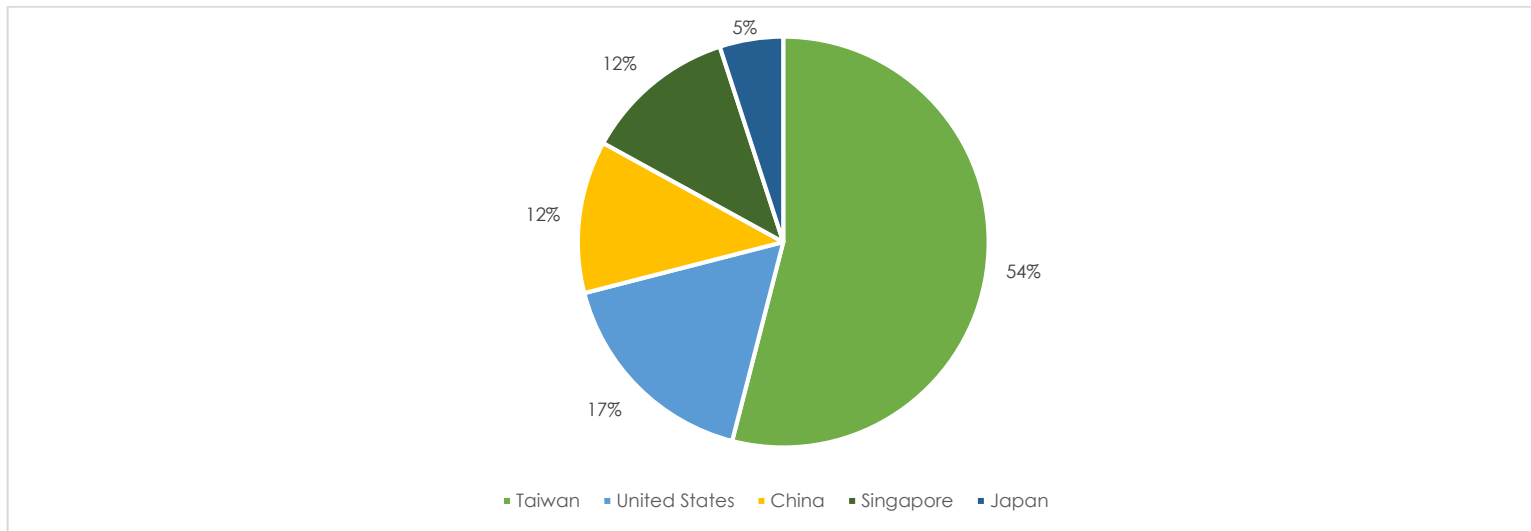
At the end of the day, by acquiring MIT's semiconductor business, CFC will gain immediate access to a well-esteemed client base with a dominant market share and historical contribution towards MIT's revenue. Additionally, these clients are poised for growth owing to a rosy outlook that could essentially reduce the cyclicity of the semiconductor business and provide a steady stream of revenue from these customers. In fact, by investing further into the business, CFC can expand operations to capitalize and ride on this promising growth. It is also worth noting that MIT's client composition protects it well from over-reliance on key client(s) which is seen in the case of locally listed semiconductor stocks such as AEM Holdings and UMS Holdings. Thus, making it a safer acquisition that is less prone to drastic revenue swings.

Strategic Geographical Location

Secondly, MIT has geographical operations in both Singapore and China. Its Singapore operations are consolidated at its Ang Mo Kio facility while its China operations are based in the Jiading District of Shanghai. Presence in both these locations offers a strong moat to MIT's semiconductor business for reasons that will be explained in the coming paragraphs.

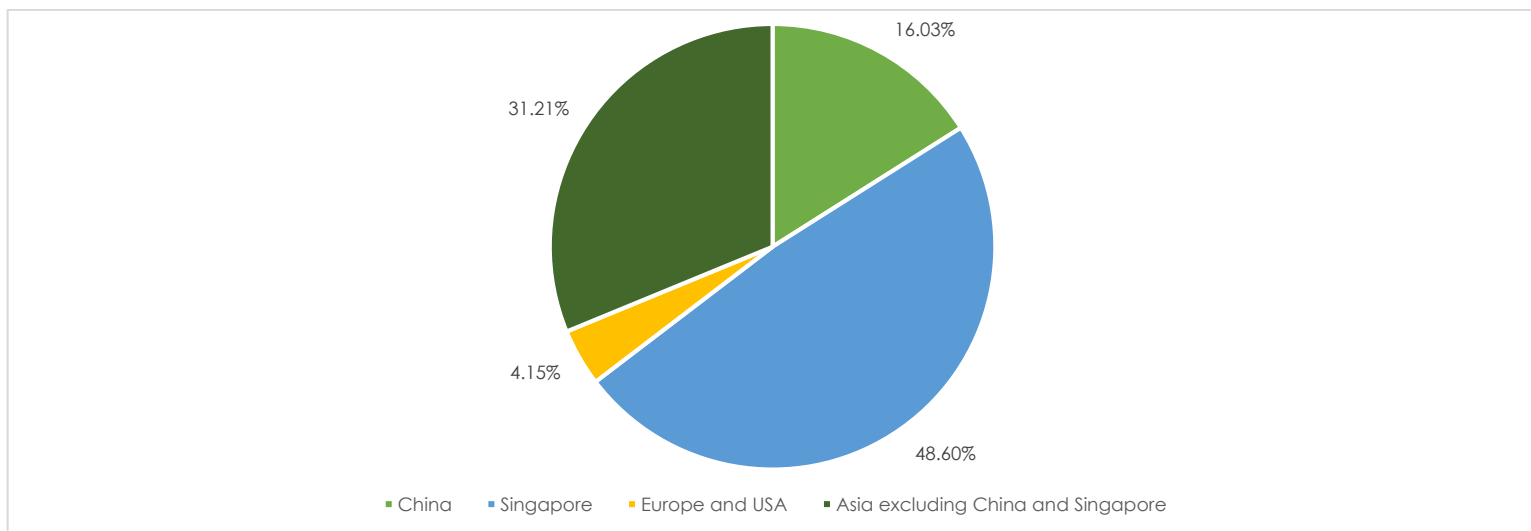
Singapore's position as a premier semiconductor hub has attracted the big names in the semiconductor industry who have cited various functions of their business here in Singapore. Of which, the back-end segment is of key interest to MIT given the product range that it offers. On a global scale, Singapore accounts for 12% of total back-end manufacturing [Figure 15] and this is unsurprising considering the breadth of firms that operates here. Presence of these players' manufacturing facilities, including that of MIT's clients, allows MIT to not only serve and retain its existing client base efficiently and effectively but also provides great potential for new clients especially on the outback of increased investment from CFC to further capture a greater share of the market. Hence, this explains the rationale why Singapore is currently a key revenue contributor to MIT's revenue [Figure 16]. With Singapore's status as a semiconductor hub here to stay, CFC will be acquiring a business that has a strong core for its business' operations, sustenance and growth.

Figure 15: Back-End Manufacturing (% of Top 10 Revenue)



Source: Semiconductor Industry Association

Figure 16: MIT's Revenue by Geographical Segment



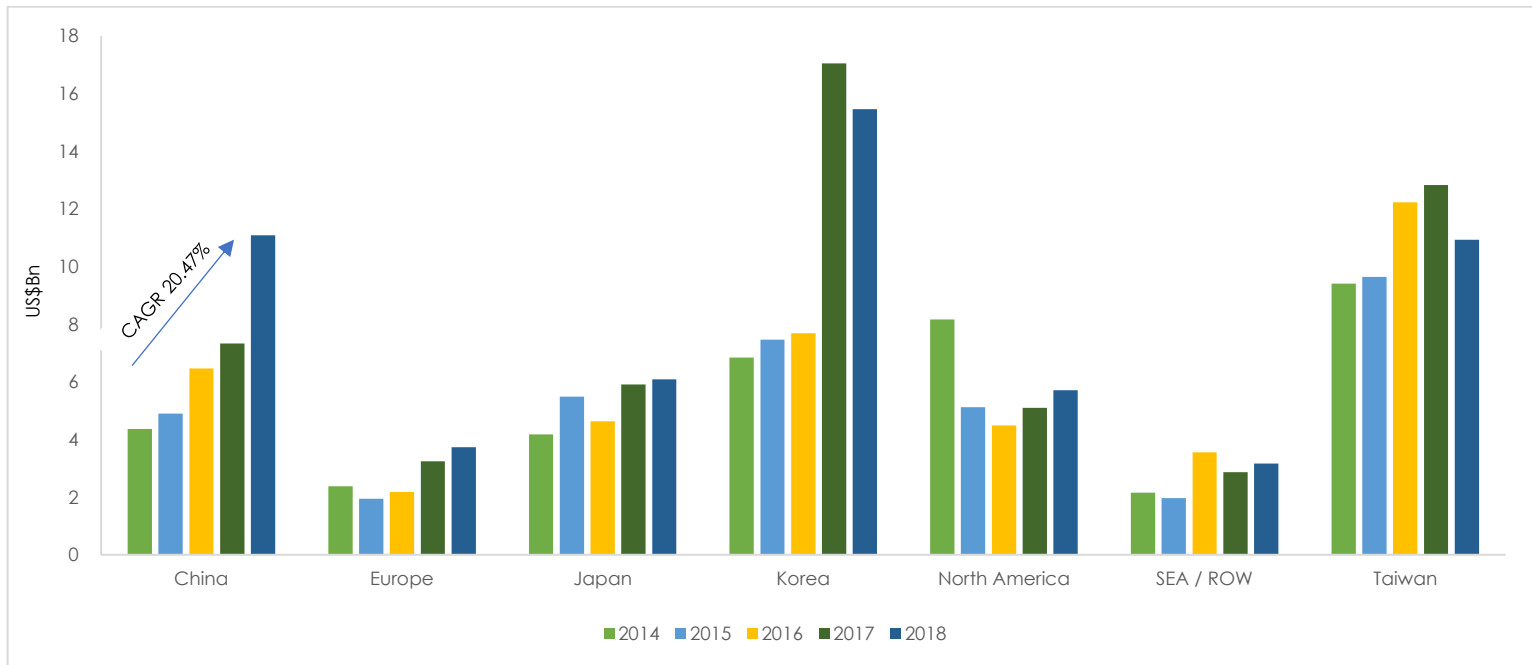
Source: MIT

In China, MIT's geographical operations there is full of potential. As China envisions to become a key semiconductor player, it has stepped up its effort by investing heavily to spearhead the local semiconductor scene. Through the numerous state-backed investment funds (e.g. The China Integrated Circuit Industry Investment Fund), the Chinese government has been creating new players as well as further strengthening the competitive position of the existing Chinese players.

This has led to the creation of memory chipmakers such as Yangtze Memory Technologies Co. (YMTC) and benefitted existing firms such as Semiconductor Manufacturing International Corporation (SMIC), ZTE Microelectronics, Tsinghua Unigroup Limited, Jiangsu Changjiang Electronics Tech Co (JCET) and even smaller players like China Wafer Level CSP Co.

Stemming from this, capital equipment spending is bound to rise as a result of this expansion to support the increased manufacturing activities. In fact, between 2014 and 2018, the new semiconductor equipment spending for China has risen by a CAGR of 20.47%, partly attributable to the inflow of funds provided by the investment funds to spearhead the growth of the Chinese semiconductor market.

Figure 17: New Semiconductor Equipment Spending by Region



Source: SIA; SEMI

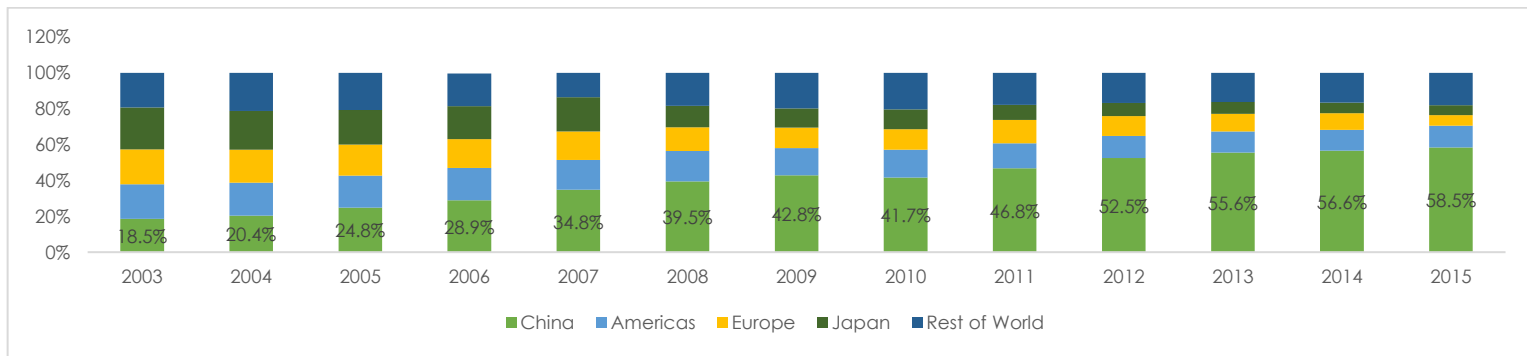
This trend is widely expected to continue at an even accelerated pace in the coming years as the Chinese authorities strive to hit their 2020 and 2025 targets especially in light of the present M&A regulatory environment. As a result, we can expect to see the emergence of newer firms and expansion of existing firms which will result in even higher capital spending that will ultimately, benefit firms such as MIT that engages in the semiconductor equipment and related business and pave way for greater revenue contribution from China.

The acquisition of MIT's semiconductor business could not be more timely as CFC will be able to exploit MIT's presence in China to capitalize on this trend. As China continuously invests to grow its domestic semiconductor scene, some segments of the semiconductor industry such as the equipment manufacturing and equipment component manufacturing are underdeveloped. MIT's breadth of business which includes these segments provides a key advantage for CFC. Hence, post-acquisition investment and integration of MIT's semiconductor business in China will allow CFC to thrive on the Chinese's semiconductor outlook. It could not get any better with the availability of land in adjacent and nearby plots where MIT presently operates in Jiangdu. Thus, further expansion and siting of other core operations can be readily undertaken in China to tap on its growth.

M&A Concerns abroad

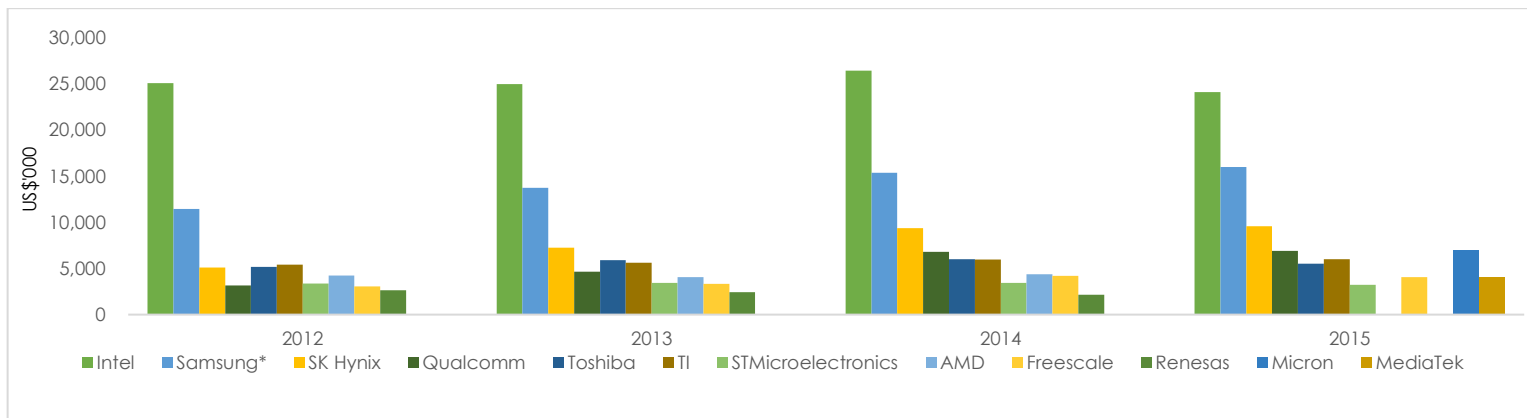
China constantly ranks as the top market for semiconductor consumption, accounting for over half of the global consumption with the latest figure being 58.5% [Figure 18]. In fact, its consumption has grown at a CAGR of 15.78% over the past 13 years, significantly higher than the global average. However, its domestic production constitutes only a meagre 16% of its consumption. Hence, in some aspect, China can be seen to be fuelling the growth of the semiconductor firms in other countries, particularly the dominative United States of America (USA). In terms of the revenue generated by the leading suppliers of the Chinese semiconductor market, majority of the firms hail from the USA followed by South Korea [Figure 19].

Figure 18: Semiconductor Consumption by Region



Source: SIA; IC Insights; Gartner; CCID Consulting

Figure 19: Leading Suppliers to the Chinese Market



Source: PwC; CCID Consulting

Hence, in a quest to boost its drive towards becoming self-sufficient in this arena, China has been ramping up investments to acquire existing foreign firms and to spur the growth of the domestic market through numerous measures among which includes the slashing of taxes and funding. China's M&A drive has tasted notable success before which includes the US\$2.75 billion acquisition of NXP Semiconductors' Standard Products business (now known as Nexperia) to Chinese investment funds in 2017. However, China's M&A spree abroad has been facing roadblocks more recently in light of regulatory interference owing to national security concerns.

These botched deals span the globe including key semiconductor hubs such as the USA, Europe and Taiwan [Figure 20]. While there have been deals that went through, increasing scrutiny in these regions has seen China reduced its M&A pace there.

Figure 20: Botched Deals in USA, Europe and Taiwan

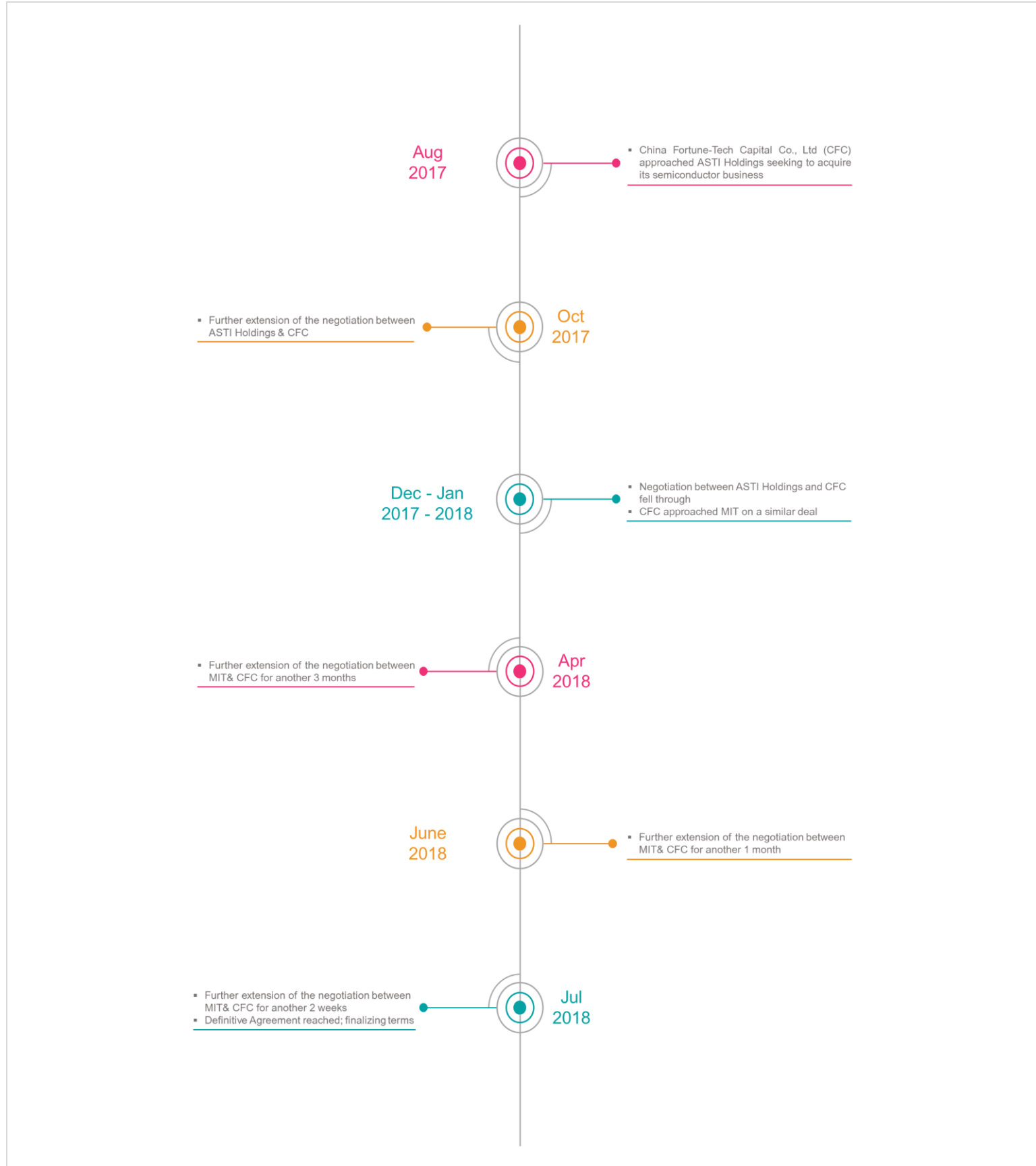


Source: The Financial Times

Hence, apart from relying purely on these regions, China have also explored other key semiconductor hubs such as Japan and Singapore. With its recent M&A success in 2015 through the acquisition of STATS ChipPAC Limited, a notable player in the back-end semiconductor segment, from Temasek Holdings, a state-owned holding company of the Singapore government; it is no wonder that China has stepped ashore looking for new deals in Singapore. With the previous sale concerning a top 10 player in the back-end segment, China has even more reasons for optimism that M&As related to smaller players is less likely to be scrutinized and blocked by regulators. In fact, the most recent M&A success of ASTI Holdings and Shanghai Pudong Science and Technology Investment (PDSTI) which is of similar nature to CFC's and MIT's transaction, further reinforces this belief and serves as an apt precedent. Hence, China's limited M&A success elsewhere especially amidst the recent trade tensions and a promising Singapore landscape further drives CFC to ink this acquisition.

Promising Series of Events


Figure 21: CFC's Negotiation Timeline



Lastly, in the context of CFC, there are even more reasons to believe that this transaction could potentially go through. Prior to approaching MIT, CFC had first sought a similar term sheet with MIT's competitor, ASTI Holdings Limited (ASTI) in August 2017. Subsequently, there was an extension after the initial exclusivity period matured but eventually, the negotiation eventually fell through in December 2017. Following which, CFC had immediately approached MIT in January 2018. To date, there have been three instances of extension to the term sheet. The latest extension was for another two weeks and is slated to expire on the 23th of July 2018 [Figure 21].

The series of extensions, this far, highlights the significant interest and commitment that both parties have in this deal. Furthermore, the fact that the recent extensions have reduced from 3 months to 1 month to now, 2 weeks, underlines the material development that has taken place in this deal process. The recent extension of 2 weeks was because the parties required "additional time to finalise the terms of the Definitive Agreement and for CFC to prepare a suitable corporate structure in the People's Republic of China for the proposed Transaction" as evident from the recent announcement by MIT [Figure 22]. The latter part of the sentence, in particular, provides some form of indicative assurance that this deal is likely since CFC's preparation for a suitable corporate structure could potentially suggest that an agreement has been reached between both parties.

Figure 22: Recent Announcement by MIT on Further Extension of Exclusivity Period



MANUFACTURING INTEGRATION TECHNOLOGY LTD.
 (Company Registration Number 199200075N)
 (Incorporated in the Republic of Singapore)

PROPOSED DISPOSAL OF THE ENTIRE ISSUED AND PAID-UP SHARE CAPITAL OF CERTAIN SUBSIDIARIES OF MANUFACTURING INTEGRATION TECHNOLOGY LTD. – FURTHER EXTENSION OF THE EXCLUSIVITY PERIOD AND THE EXPIRY DATE OF THE TERM SHEET

The board of directors of Manufacturing Integration Technology Ltd. (the "Company" and together with its subsidiaries, the "Group") refers to the announcements released by the Company on 8 January 2018, 4 April 2018 and 7 June 2018 relating to the non-binding term sheet and a supplemental term sheet, both dated 8 January 2018 (collectively, the "Term Sheet"), entered into between the Company and China Fortune-Tech Capital Co., Ltd ("CFTC") in relation to the proposed disposal by the Company of its entire interest in certain of its subsidiaries undertaking the Group's semiconductor equipment business (the "Transaction") and the extension of the exclusivity period and the expiry date of the Term Sheet to 7 July 2018.

The Company wishes to announce that it had today entered into a third deed of undertaking with CFTC pursuant to which the exclusivity period and the expiry date of the Term Sheet were extended further from 7 July 2018 to 23 July 2018.

The Company is pleased to inform its shareholders that much progress towards signing a definitive agreement in relation to the Transaction (the "Definitive Agreement") have been made. However, the parties require additional time to finalise the terms of the Definitive Agreement and for CFTC to prepare a suitable corporate structure in the People's Republic of China for the proposed Transaction. Hence, the exclusivity period and the expiry date of the Term Sheet were further extended to 23 July 2018.

Save for the aforesaid extension of the exclusivity period and the expiry date of the Term Sheet, all other terms of the Term Sheet remain unchanged.

Shareholders are advised to exercise caution in trading their shares as there is no certainty or assurance as at the date of this announcement that the Definitive Agreement will be entered into or the Transaction will be undertaken or completed at all. The Company will make the necessary announcements upon the execution of the Definitive Agreement or as and when there are further developments on the proposed Transaction.

By Order of the Board
 Manufacturing Integration Technology Ltd.

VALUATION

To determine the share price of MIT, I had used the NTA of its legacy business (i.e. non-semiconductor business segments) which has been sensitised to reflect a true indicative salvage value as well as the cash disbursement based on the announced consideration.

Based on the net proceeds obtained from the disposal itself (S\$91.7 mil), the value per share works out to S\$0.35 which already represents a 7.9% upside from the last traded price. This is unsurprising given that the expected acquisition price of S\$91.7 mil is significantly higher than the market capitalization of S\$73.5 million. Although the transaction multiple used (11.5X) is between the base and bullish multiple of 10X and 13X respectively, it can be viewed as fair in light of the rosy outlook of MIT's clients as well as the value that MIT provides to CFC in terms of strategical geographical expansion in China.

My base case calculations give an implied share price value of S\$0.37, representing an upside of 16.9%. At the other end of the spectrum, my bull case share price can reach as high as S\$0.38, representing an appreciation of 19.1% from the current price. As you can see below in the assumptions, existing assets have been heavily discounted as a matter of prudence. Nevertheless, despite the conservativeness, there still exists an upside of 16.9% which in essence, makes it an incredible short-term trading opportunity.

Figure 1: Revenue by Business Segment

1 Revenue by Business Segment					
S\$'000	Semiconductor Business	Non-Semiconductor Business	Unallocated	Total	
2017					
Total Revenue by Segment	80,490	16,172	-	96,662	
Inter-Segment Sales	(26,880)	(3,853)	-	(30,733)	
Total Revenue	53,610	12,319	-	65,929	
Recurring EBITDA	8,976	(1,721)	576	7,831	
Interest income	115	44	-	159	
Finance costs	(5)	-	(66)	(71)	
Depreciation	(740)	(109)	(189)	(1,038)	
Amortisation	(371)	-	-	(371)	
Profit before tax from continuing operations	7,975	(1,786)	321	6,510	
Income tax expense	-	-	-	(504)	
Profit from continuing operations	-	-	-	6,006	

Source: MIT

Figure 2: Assets & Liabilities by Business Segment

2 Assets & Liabilities by Business Segment					
S\$'000	Semiconductor Business	Non-Semiconductor Business	Unallocated	Total	
2017 : Assets					
Unallocated:	46,861	12,567	8,761	68,189	
Deferred Tax Assets	217	1,113	-	1,330	
Total Group Assets	47,078	13,680	8,761	69,519	
2017 : Liabilities					
Unallocated:	10,673	5,886	-	16,559	
Income Tax Payable	1,778	52	-	1,830	
Total Group Liabilities	12,451	5,938	-	18,389	
Net Assets	34,627	7,742	8,761	51,130	
Net Tangible Assets	34,579	7,742	8,761	51,082	

Author:
Includes Intangible Assets amounting to S\$48,000

Source: MIT

Figure 3: Expected Transaction Value

3 Transaction Value		
Earnings of Semiconductor Business (NPBT)	7,975,000	Author: Multiple of 11.5X was chosen to reflect the bullishness of the semicon industry & Chinese outlook + factoring that there are limited similar firms to MIT in SG given the recent sale of ASTI's semicon biz
Transaction Multiple (X)	11.5	
Acquisition Consideration	91,712,500	

Sensitivity Table		
Earnings of Semiconductor Business (NPBT)		
		7,975,000
Transaction Multiple	7X	55,825,000
	8X	63,800,000
	9X	71,775,000
	10X	79,750,000
	11X	87,725,000
	12X	95,700,000
	13X	103,675,000

Author:
Max Multiple based on guidance provided in the Term Sheet dated 8 Jan 18 "of not more than 13 times of the net profit of the Target Companies"

Source: The Little Snowball Research

Figure 4: Share Price Valuation

4 Share Price Valuation				
S\$'000	Before Disposal	Disposed Business	After Disposal	
Net Tangible Assets (NTA)	51,082	34,579	16,503	Author: Based on AR2017 figures
Amount of Shares Outstanding ('000)	229,975	229,975	229,975	
NTA / Share (S\$)	0.2221	0.1504	0.0718	

Acquisition Consideration	91,712,500	Author: Based on Comparable Precedent Transactions
Transaction Cost Margin (%)	13.44%	
Net Acquisition Consideration	79,388,633	

Amount of Shares Outstanding	229,975,470
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S\$	Bearish	Base	Bullish	
Cash Disbursement / Share	0.35	0.35	0.35	Author: Net Acquisition Consideration + Amt. of Shares Outstanding
NTA / Share (After Disposal)	0.0000	0.0287	0.0359	
Total Share Price Valuation	0.35	0.37	0.38	

Last Price	0.32	0.32	0.32
Upside	7.88%	16.85%	19.09%

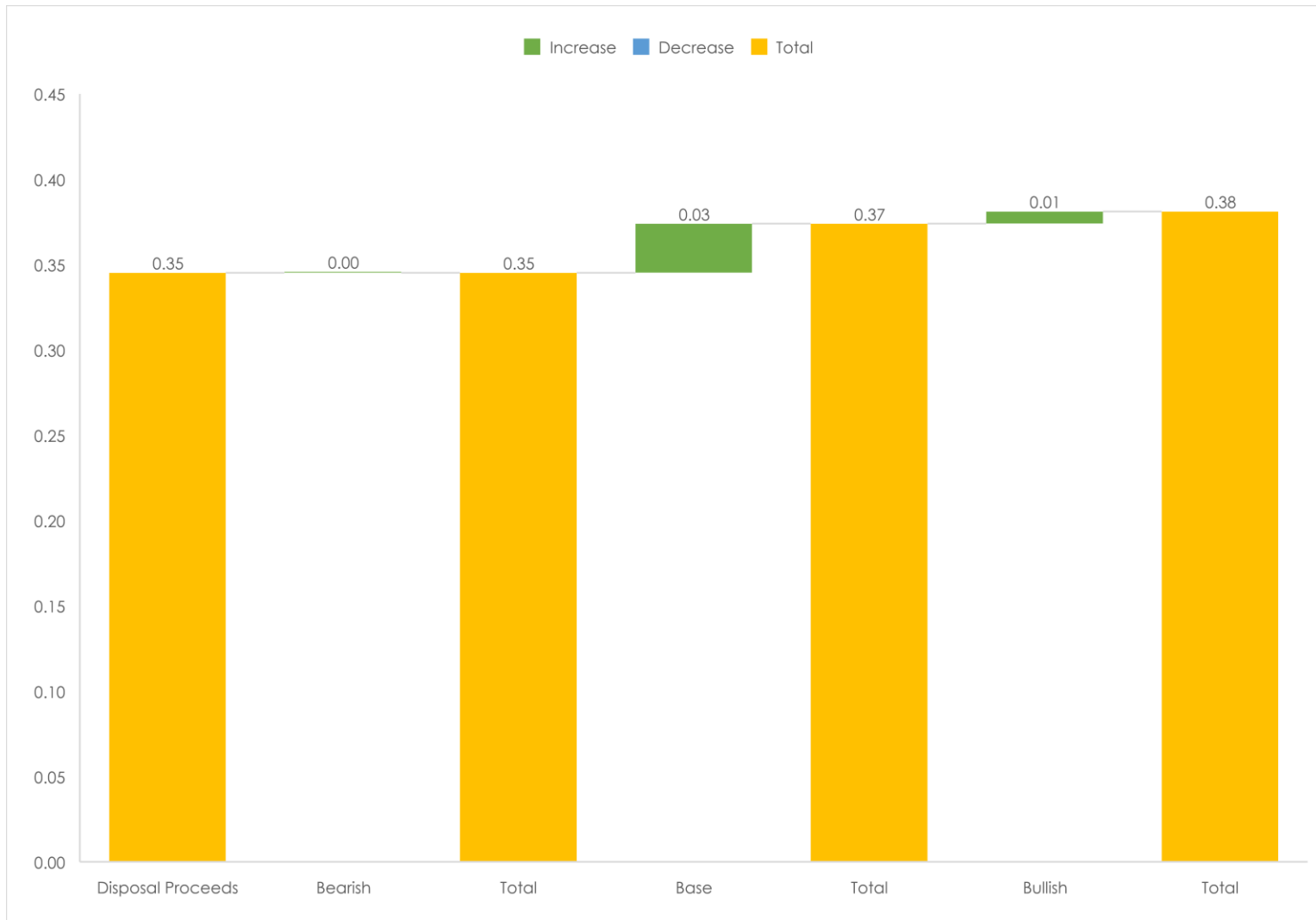
Author:
Assets have been discounted to reflect force-sale circumstances where it is assumed in this case, NTA = 0 to illustrate the floor price

Author:
Assets have been discounted to reflect force-sale circumstances where:
Cash & Cash Equivalent discounted = 40%; Other Assets discounted = 80%

Author:
Cash & Cash Equivalent discounted = 40%; Other Assets discounted = 60%

Source: The Little Snowball Research

Figure 5: Share Price - Waterfall Chart



Source: The Little Snowball Research

INVESTMENT RISKS

- Deal Failure

Naturally, the biggest risk in this deal would be a case if it gets called off. However, the odds of it unfolding are rather slim considering the duration that CFC has invested negotiating with MIT and the shrinking timeline of their extensions. Besides, CFC's previous negotiation with ASTI Holdings Limited had failed too. With ASTI Holdings Limited now sold to another Chinese investment fund named Shanghai Pudong Science and Technology Investment, CFC has no rebound and would probably have to start sourcing for a new target in this increasingly regulated M&A climate which can be increasingly difficult. Furthermore, very few firms are well-positioned as MIT with a diversified clientele that are key market players and whom are poised for growth coupled with a strategical geographic presence.

Even if this deal falls through, it is probably only a matter of time before another one of the numerous investment funds from China pops up with another offer as evident from ASTI Holdings Limited's case.

- Low Transaction Multiple

While there might be concerns of a much lower transaction multiple (e.g. 7X), it is not in the interest of MIT's management and even the shareholders to accept such a deal. This is because in such a case, there is no upside at all. In fact, downside only. In the circular dated 8th of January 2017, it was clearly stated that the management is undertaking this deal to unlock shareholder value that has been accumulated over the years. Hence, it is only in their and our best interests that a multiple of not less than 10X is accepted which provides an upside of at least 8% in the bearish of cases. In fact, the management has the bargaining power to negotiate for an even higher multiple which will greatly benefit the shareholders.

Disclosure: I own shares in MIT.