

05-09-2007: Silicon microphone biz set to be key earnings driver for MEMS Tech

MEMS Technology Bhd (MEMS Tech), which derived 90% of its earnings in the 2006 financial year ended July 31 (FY06) from sales of various sensors to the automotive, industrial, consumer and medical sector, is set to gain from the silicon microphone business after its qualification as a supplier for two of the world's largest mobile phone manufacturers.

OSK Research, in its report, said MEMS Tech has garnered interests from both local and foreign institutions mainly on the potential of its silicon microphone business.

"We reiterate our 'buy' recommendation on MEMS Tech with a fair value of 95 sen by pegging FY08 price earnings ratio (PER) of 18 times or a price over earnings to growth ratio (FY05-FY08) of 0.3 times," it said yesterday.

OSK Research said the volume from one of these mobile phone manufacturers could be sizeable as MEMS Tech was one of only two suppliers for the customer, besides Knowles Acoustics, which was currently the world leader with an estimated 90% market share.

The mobile phone manufacturer shipped over 100 million phones in 2006.

"Silicon microphone is one of the fastest-growing applications for the micro-electro-mechanical systems (MEMS) markets.

"Unit of shipment is expected to increase from 95 million in 2005 to 950 million in 2010 as cellular phone makers continue to migrate from ECMN microphones to silicon microphones mainly due to lower manufacturing costs and time, better performance as well as much smaller size.," it said.

"For instance, many of the newest phones by Motorola and Sony Ericsson are using silicon microphones. It is believed that all future new phones or even other small electronic gadgets will be using the silicon microphone technology," said the research house.

OSK Research said MEMS Tech, which posted a net profit of RM14 million FY06 and an estimated RM19.3 million in FY07, has already filed for 12 international patents for silicon phones and various types of sensors.

MEMS Tech is setting up a new plant in Penang, which will double its production capacity for silicon microphones to 10 million units per month. The plant is expected to be ready by end-2007.

"The management (MEMS Tech) believes that once the market for silicon microphone matures, MEMS Tech will be able to sell the silicon microphones together with the silicon speakers and receivers, as a 'MEMS cluster' set to the mobile phone manufacturers.

"Silicon speakers and receivers are being developed and scheduled for release at the end of the year. According to the management, in the global market such a set can be sold up to US\$2 each (RM7)," said OSK Research.

The research house said apart from the mobile communication sector, MEMS Tech was also targeting other sectors such as personal digital assistant (PDA), video cameras and computers.

"Assuming that the existing sensor business will continue its organic earnings growth of 37%, and if MEMS Tech could meet our earnings projection of the silicon microphone business, FY08 earnings per share is expected to increase by 85%.

“The stock is now trading at FY08 PER of 10 times. Over the years, we have seen Mesdaq companies with forward earnings growth of close to 100% trading at PER of more than 15 times,” OSK Research said.

It added that MEMS Tech could be an acquisition target by giant semiconductor companies without MEMS technology.