

Singapore Company Update

Aztech Global

Bloomberg: AZTECH SP | Reuters: AZTE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 Feb 2022

BUY

Last Traded Price (22 Feb 2022): S\$0.915 (STI : 3,400.58)
Price Target 12-mth: S\$1.48 (62% upside) (Prev S\$1.54)

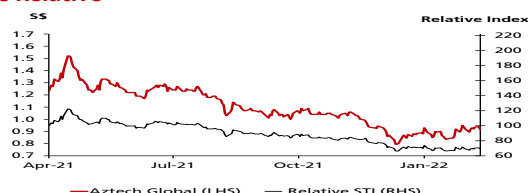
Analyst

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What's New

- FY21 results inline; net profit surged 33.5% y-o-y despite supply chain challenges
- Weaker GP margin, but net margin remains strong at 11.9% for FY21
- Strong orderbook; expect 10% revenue in FY22 from new customers
- Maintain BUY, TP lowered to S\$1.48 on 4% cut in earnings on lower margin assumptions

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	484	624	831	989
EBITDA	76.3	95.9	124	147
Pre-tax Profit	66.5	85.0	114	136
Net Profit	55.7	74.4	95.4	115
Net Pft (Pre Ex.)	55.7	74.4	95.4	115
Net Pft Gth (Pre-ex) (%)	18.1	33.5	28.3	20.0
EPS (S cts)	7.20	9.61	12.3	14.8
EPS Pre Ex. (S cts)	7.20	9.61	12.3	14.8
EPS Gth Pre Ex (%)	nm	33	28	20
Diluted EPS (S cts)	7.20	9.61	12.3	14.8
Net DPS (S cts)	5.30	4.99	3.70	4.44
BV Per Share (S cts)	5.38	37.9	46.5	56.9
PE (X)	12.7	9.5	7.4	6.2
PE Pre Ex. (X)	12.7	9.5	7.4	6.2
P/Cash Flow (X)	24.8	16.9	8.0	7.5
EV/EBITDA (X)	9.3	5.4	4.1	3.4
Net Div Yield (%)	5.8	5.5	4.0	4.9
P/Book Value (X)	17.0	2.4	2.0	1.6
Net Debt/Equity (X)	0.1	CASH	CASH	CASH
ROAE (%)	173.3	44.5	29.2	28.6
Earnings Rev (%):			(4)	(4)
Consensus EPS (S cts):			12.5	14.5
Other Broker Recs:		B: 4	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Remarkable results with strong orderbook

Investment Thesis

Remarkable results with above-industry average net margins of more than 10%. Amidst a tough operating environment posed by the global logistical and component challenges, Aztech reported a remarkable set of results with a 33.5% y-o-y jump in net profit. Net profit margin remains strong at 11.9%. We continue to project an above industry average net margin of 11.5% for FY22F and 11.6% for FY23F, driven by the strong growth in the IoT market and the group's continuing efforts to improve productivity and efficiency. This should lead to a robust earnings growth of 28%/20% in FY22F/FY23F.

Strong orderbook riding on the fast-expanding IoT market with >90% revenue exposure. The outstanding orderbook as of 22 February 2022 stood at S\$762m, an improvement from S\$496m as at 31 December 2021. As we are still in the early part of the year, we expect the group to secure more orders for fulfilment in 2022. We expect order momentum to remain strong, translating to a revenue growth of 33% in FY22F and another 19% in FY23F.

Valuation:

TP of S\$1.48 pegged to peers' average valuations. We lower TP to S\$1.48 (previously S\$1.54) on the back of a 4% cut in earnings (tweak in gross margins), pegged to FY22F peer average of 12x on FY22F earnings. BUY for its strong earnings momentum with attractive valuations. Aztech is trading at an attractive PEG of only 0.23x, vs. 0.8x for peers.

Where we differ:

We are optimistic that the group can continue to ride on the fast-expanding IoT market and to generate above industry net margin of >10%.

Key Risks to Our View:

Customer concentration risk and operation risk for Dongguan land.

At A Glance

Issued Capital (m shrs)	772
Mkt. Cap (S\$m/US\$m)	707 / 525
Major Shareholders (%)	
Aztech Group Ltd.	70.2
Free Float (%)	29.8
3m Avg. Daily Val (US\$m)	1.1
GIC Industry: Information Technology / Semiconductors & Semiconductor Equipment	



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WHAT'S NEW**A remarkable set of FY21 results, amidst the supply chain challenges**

FY21 results inline. Amidst a tough operating environment posed by the global logistical and component challenges, Aztech reported a 33.5% y-o-y jump in net profit to S\$74.4m, on the back of a 28.9% surge in revenue to S\$624.4m, inline with our forecast. For 2H21, revenue grew 5.5% y-o-y to S\$374.7m, while net profit gained 5.3% to S\$45m.

Weaker GP margin but net margin remains strong. Gross margin of 24.9% for FY21 (1H21: 27.0%; 2H21: 23.5%) was weaker than the 28.5% in FY20, mainly due to the challenges in getting the materials and components for production. Despite this, the group is still able to achieve an overall net margin of 11.9% (1H: 11.8%; 2H: 12.0%) for FY21, an improvement from the 11.5% in FY20, leveraging on the group's continuing efforts to improve productivity and efficiency.

Higher dividend payout. Aztech has proposed a final DPS of 5Scts, which works out to a dividend payout ratio of 51.9%, higher than our estimate of 30% payout.

Robust balance sheet to support growth. As at end 2021, the group has net cash of S\$186.8m to further grow the business.

New customers, new products. Aztech targets to add about two to three customers a year. For FY22, about 10% of total revenue is expected to be derived from new customers. Some of the new products include mobile device accessories and smart home products, including smart switches.

Strong orderbook, riding on the fast-expanding IoT market with >90% revenue exposure. The outstanding orderbook as at 22 February 2022 stood at S\$762m, an improvement from the S\$495.8m as at 31 December 2021. These orders are expected to be completed in FY2022, barring any further disruptions to the already tight supply chain. Though the situation has improved from last year, the group still faces component shortages and logistics challenges due to factors like port congestion and shortage of workers. As we are still in the early part of the year, we expect the group to secure more orders for fulfilment in 2022.

Customers undergoing insolvency proceedings but chances of recovering amount owed high. One of the group's customers is currently undergoing a preliminary judicial proceeding in Germany, which could result in the opening of insolvency proceedings. As of 21 February 2022, the net amount owing from the customer was S\$11.5m. Aztech stands as a secured creditor and is entitled to the customer's inventory. The inventory stored is more than sufficient to pay for the outstanding amount owed.

Update on Dongguan land: Safe to stay till March 2023 while waiting for confirmation. Aztech has yet to obtain the Certificate of Land Use Right for the land in Dongguan occupied by the group and that the rectification (including the outcome of discussion with the local authority) is still pending. In view of the pending application, the Changping Town Government had, on 11 February 2022, issued a certification to further confirm that until March 2023, the factory buildings and the Dongguan Land will not be subject to any risk of demolition or being withdrawn from leasing.

Maintain BUY with lower TP of S\$1.48. We have tweaked our earnings down by 4% each for FY22F/FY23F to account for lower gross margin. Net margin also reduced slightly to 11.5% and 11.6% respectively for FY22F and FY23F, from 12% previously. Our new TP of S\$1.48 (S\$1.54 previously) is pegged to peer average of 12x on FY22F earnings.

Company Background

Aztech Global focuses on providing one-stop design and manufacturing services. Supported by its core strengths in R&D, design, engineering, and manufacturing, its key products are IoT devices, data-communication products, and LED lighting products.

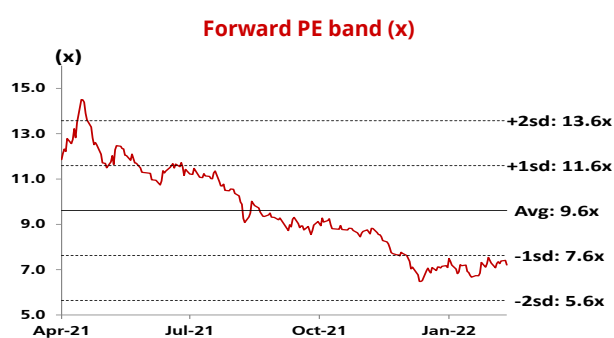
Aztech Global

Interim Income Statement (\$m)

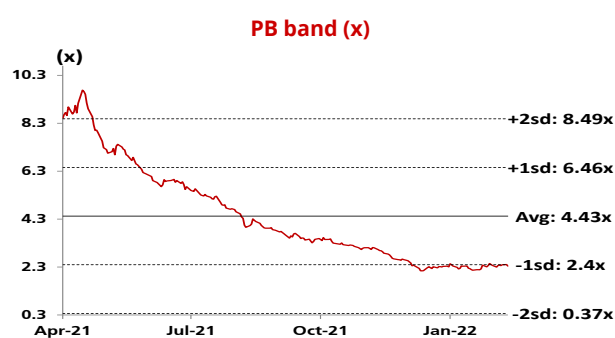
FY Dec	2H2020	1H2021	2H2021	% chg y-o-y	% chg h-o-h
Revenue	355	250	375	5.5	50.0
Cost of Goods Sold	(256)	(182)	(287)	12.0	57.2
Gross Profit	99	67	88	(11.4)	30.7
Other Oper. (Exp)/Inc	(48)	(33)	(36)	(23.6)	9.0
Operating Profit	52	34	52	(0.1)	52.0
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	0	-	-
Net Interest (Exp)/Inc	0	0	0	28.5	12.5
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	51	34	51	0.2	52.7
Tax	(9)	(4)	(6)	(25.4)	51.3
Minority Interest	0	0	0	-	-
Net Profit	43	29	45	5.3	52.9
Net profit bef Except.	43	29	45	5.3	52.9
EBITDA	52	34	57	10.0	67.3
Margins (%)					
Gross Margins	28.0	27.0	23.5		
Opg Profit Margins	14.6	13.6	13.8		
Net Profit Margins	12.0	11.8	12.0		

Source of all data: Company, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
IoT devices and datacom	64.5	46.4	33.0	35.0	20.0
LED products	(19.1)	(59.3)	(40.0)	(10.0)	(10.0)
Others	(63.4)	150	100	100	100

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (\$m)					
IoT devices and datacom	293	428	597	806	967
LED products	136	55.4	27.5	24.7	22.3
Others	0.32	0.80	0.0	0.0	0.0
Total	429	484	624	831	989
Gross profit (\$m)					
IoT devices and datacom	87.7	127	153	206	255
LED products	34.0	11.3	2.75	2.47	2.23
Others	0.13	0.32	0.0	0.0	0.0
Total	122	138	156	209	258
Gross profit Margins					
IoT devices and datacom	30.0	29.6	25.6	25.6	26.4
LED products	25.0	20.4	10.0	10.0	10.0
Others	41.9	40.5	N/A	N/A	N/A
Total	28.4	28.5	24.9	25.1	26.0

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	429	484	624	831	989
Cost of Goods Sold	(307)	(346)	(469)	(622)	(732)
Gross Profit	122	138	155	209	258
Other Opng (Exp)/Inc	(66.2)	(70.5)	(69.8)	(94.7)	(121)
Operating Profit	55.7	67.7	85.6	114	137
Other Non Opg (Exp)/Inc	0.04	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.9)	(1.2)	(0.7)	(0.5)	(0.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	54.8	66.5	85.0	114	136
Tax	(7.6)	(10.8)	(10.6)	(18.2)	(21.8)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	47.2	55.7	74.4	95.4	115
Net Profit before Except.	47.2	55.7	74.4	95.4	115
EBITDA	64.3	76.3	95.9	124	147
Growth					
Revenue Gth (%)	23.6	12.9	28.9	33.0	19.1
EBITDA Gth (%)	111.9	18.7	25.6	29.7	18.3
Opg Profit Gth (%)	137.8	21.6	26.5	33.2	19.9
Net Profit Gth (Pre-ex) (%)	135.7	18.1	33.5	28.3	20.0
Margins & Ratio					
Gross Margins (%)	28.4	28.5	24.9	25.1	26.0
Opg Profit Margin (%)	13.0	14.0	13.7	13.7	13.8
Net Profit Margin (%)	11.0	11.5	11.9	11.5	11.6
ROAE (%)	119.7	173.3	44.5	29.2	28.6
ROA (%)	26.3	24.2	18.2	16.5	16.4
ROCE (%)	87.4	114.1	39.9	27.7	27.4
Div Payout Ratio (%)	55.7	73.6	51.9	30.0	30.0
Net Interest Cover (x)	60.9	58.3	126.5	241.9	265.3

Source: Company, DBS Bank

Interim Income Statement (\$\$m)

FY Dec	1H2020	2H2020	1H2021	2H2021
Revenue	129	355	250	375
Cost of Goods Sold	(90.3)	(256)	(182)	(287)
Gross Profit	38.8	99.4	67.4	88.1
Other Oper. (Exp)/Inc	(22.8)	(47.7)	(33.4)	(36.4)
Operating Profit	16.0	51.7	34.0	51.7
Other Non Opp (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.7)	(0.4)	(0.4)	(0.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Pre-tax Profit	15.3	51.3	33.6	51.3
Tax	(2.3)	(8.5)	(4.2)	(6.4)
Minority Interest	0.0	0.0	0.0	0.0
Net Profit	13.0	42.7	29.4	45.0
Net profit bef Except.	13.0	42.7	29.4	45.0
EBITDA	16.0	51.7	34.0	56.9
Growth				
Revenue Gth (%)	nm	175.1	(29.7)	50.0
EBITDA Gth (%)	nm	223.3	(34.3)	67.3
Opp Profit Gth (%)	nm	223.3	(34.3)	52.0
Net Profit Gth (%)	nm	228.1	(31.1)	52.9
Margins				
Gross Margins (%)	30.1	28.0	27.0	23.5
Opp Profit Margins (%)	12.4	14.6	13.6	13.8
Net Profit Margins (%)	10.1	12.0	11.8	12.0

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	22.2	28.9	26.6	66.4	106
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	2.62	1.07	0.0	0.0	0.0
Cash & ST Invt	14.3	11.5	202	212	222
Inventory	19.1	53.7	62.4	77.0	90.6
Debtors	96.7	197	223	279	332
Other Current Assets	5.87	8.15	5.15	5.15	5.15
Total Assets	161	300	518	639	756
ST Debt	10.4	11.9	11.9	11.9	11.9
Creditor	87.2	141	138	185	218
Other Current Liab	37.7	99.4	70.0	77.6	81.2
LT Debt	0.0	3.82	2.84	2.84	2.84
Other LT Liabilities	2.74	2.49	2.03	2.03	2.03
Shareholder's Equity	22.7	41.6	293	360	440
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	161	300	518	639	756
Non-Cash Wkg. Capital	(3.2)	18.4	81.7	98.2	129
Net Cash/(Debt)	3.88	(4.3)	187	197	207
Debtors Turn (avg days)	72.2	110.7	122.6	110.2	112.8
Creditors Turn (avg days)	112.3	123.4	111.2	96.6	102.0
Inventory Turn (avg days)	39.1	39.3	46.2	41.6	42.4
Asset Turnover (x)	2.4	2.1	1.5	1.4	1.4
Current Ratio (x)	1.0	1.1	2.2	2.1	2.1
Quick Ratio (x)	0.8	0.8	1.9	1.8	1.8
Net Debt/Equity (X)	CASH	0.1	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	0.1	CASH	CASH	CASH
Capex to Debt (%)	75.0	68.7	32.1	339.3	339.3

Source: Company, DBS Bank

Cash Flow Statement (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	54.8	66.5	85.0	114	136
Dep. & Amort.	8.60	8.64	10.2	10.2	10.2
Tax Paid	(1.3)	(3.0)	(15.8)	(10.6)	(18.2)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(26.6)	(46.1)	(35.6)	(24.2)	(34.2)
Other Operating CF	6.18	2.51	(1.9)	0.0	0.0
Net Operating CF	41.7	28.6	41.9	89.1	94.2
Capital Exp.(net)	(7.8)	(10.8)	(4.7)	(50.0)	(50.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.04	0.10	0.0	0.0	0.0
Net Investing CF	(7.8)	(10.7)	(4.7)	(50.0)	(50.0)
Div Paid	(26.3)	(41.0)	(15.3)	(28.6)	(34.4)
Chg in Gross Debt	(1.7)	23.1	(21.5)	0.0	0.0
Capital Issues	0.0	0.0	189	0.0	0.0
Other Financing CF	(3.1)	(2.8)	0.0	0.0	0.0
Net Financing CF	(31.1)	(20.7)	152	(28.6)	(34.4)
Currency Adjustments	0.24	0.0	0.33	0.0	0.0
Chg in Cash	3.03	(2.8)	189	10.4	9.83
Opg CFPS (S cts)	N/A	9.65	10.0	14.6	16.6
Free CFPS (S cts)	N/A	2.30	4.80	5.05	5.71

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	22 Apr 21	1.34	1.85	BUY
2:	02 Aug 21	1.22	1.74	BUY
3:	15 Oct 21	1.07	1.67	BUY
4:	16 Feb 22	0.93	1.54	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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