

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

16 Feb 2022

BUY

Last Traded Price (15 Feb 2022): S\$0.920 (STI : 3,421.38)
Price Target 12-mth: S\$1.54 (67% upside) (Prev S\$1.67)

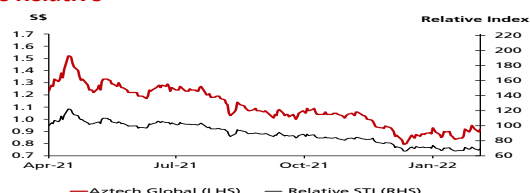
Analyst

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What's New

- Expecting a good set of FY21 results, net margins >10%
- Strong orderbook momentum; manageable supply chain disruption
- Strong earnings growth with attractive valuations; PEG of only 0.23x, vs. 0.8x for peers
- No change in earnings forecast; TP reduced to S\$1.54 on lower peer average peg

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021F	2022F	2023F
Revenue	484	604	830	990
EBITDA	76.3	96.2	128	151
Pre-tax Profit	66.5	83.5	118	141
Net Profit	55.7	72.3	99.3	119
Net Pft (Pre Ex.)	55.7	75.3	99.3	119
Net Pft Gth (Pre-ex) (%)	18.1	35.1	31.9	19.6
EPS (S cts)	7.20	9.34	12.8	15.3
EPS Pre Ex. (S cts)	7.20	9.73	12.8	15.3
EPS Gth Pre Ex (%)	nm	35	32	20
Diluted EPS (S cts)	7.20	9.34	12.8	15.3
Net DPS (S cts)	5.30	2.80	3.85	4.60
BV Per Share (S cts)	5.38	48.6	57.6	68.3
PE (X)	12.8	9.8	7.2	6.0
PE Pre Ex. (X)	12.8	9.5	7.2	6.0
P/Cash Flow (X)	24.9	7.5	8.8	6.7
EV/EBITDA (X)	9.6	4.6	3.5	2.8
Net Div Yield (%)	5.8	3.0	4.2	5.0
P/Book Value (X)	17.1	1.9	1.6	1.3
Net Debt/Equity (X)	0.5	CASH	CASH	CASH
ROAE (%)	173.3	34.6	24.2	24.4
Earnings Rev (%):		-	-	-
Consensus EPS (S cts):		9.40	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.

Strong earnings momentum with attractive valuations

Investment Thesis:

Expecting a good set of results, on a strong orderbook. We expect Aztech to report net earnings of S\$72.3m for FY21, in line with the market consensus of S\$72.4m. Its nine-month net earnings already accounted for 66% of our FY21F projections, vs. 55% in FY20, implying a flat y-o-y for 4Q21, as 4Q20 was exceptionally strong. Net margin for the full year is expected at 12%, after a strong 12.1% for nine-month FY21. Current valuation of 7.2x FY22F PE is a steal, with strong earnings momentum, translating to a PEG of only 0.23x, compared to 0.8x for its peers.

Strong orderbook riding on the fast-expanding IoT market with >90% revenue exposure. The outstanding orderbook of S\$636m as at mid-October is an improvement from the S\$604m as at 2Q21. We expect order momentum to remain strong, translating to a revenue growth of 25% in FY21F and another 37% in FY22F.

Valuation:

TP of S\$1.54 pegged to peers' average. Our new TP of S\$1.54 (S\$1.67 previously) is pegged to a lower FY22F peer average of 12x (vs. 13x previously) due to the de-rating of tech stocks globally, 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 more cautious as we expect the component shortage issue to likely be resolved only in 2H23, when the bulk of the new production capacity is in full operation.

Key Risks to Our View:

Customer concentration risk, operation risk for Dongguan land, and worsening of supply chain disruption.

At A Glance

Issued Capital (m shrs)	772
Mkt. Cap (S\$m/US\$m)	710 / 527
Major Shareholders (%)	
Aztech Group Ltd	70.2
Free Float (%)	29.8
3m Avg. Daily Val (US\$m)	1.0
GIC Industry : Information Technology / Semiconductors & Semiconductor Equipment	



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WHAT'S NEW

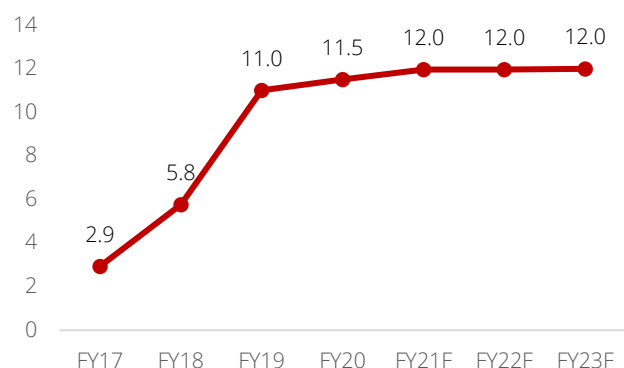
Expecting a good set of results, on a strong orderbook

FY21 Results Preview

Expecting a good set of results, in line with ours and the consensus. Aztech is slated to report its FY21 results on 22 February, after market close. We expect the group to report net earnings of S\$72.3m for FY21, in line with the market consensus of S\$72.4m. Nine-month net earnings already accounted for 66% of our FY21F projections vs. 55% in FY20, implying a flat y-o-y for 4Q21, as 4Q20 was exceptionally strong.

Expect group to maintain above industry average net margin of more than 10%. In terms of its net margin, Aztech was still able to achieve an impressive net margin of 12.1% for 9M 2021, despite the supply chain disruptions. This was achieved on the back of productivity gains and effective tax management. We expect the trend to continue and have penciled in a net margin assumption of 12% for FY21F.

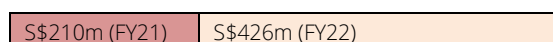
Net margin trend (%)



Source: Company, DBS Bank

Strong orderbook; manageable supply chain disruption. The orderbook, as at mid-October, stands at S\$636m. Out of this, S\$210m is expected to be completed in FY21 and the balance S\$426m in FY22.

Outstanding orderbook



Source: Company, DBS Bank

Despite the supply chain disruption, the situation is still manageable. Aztech has already secured the bulk of the components to fulfil the S\$210m orders for FY21, leveraging on its close collaborative efforts with suppliers, customers, and relevant business partners to achieve smooth production and timely delivery of customers' orders. The group is also expanding its resourceful base of alternative suppliers or suppliers that are more readily available.

Outlook

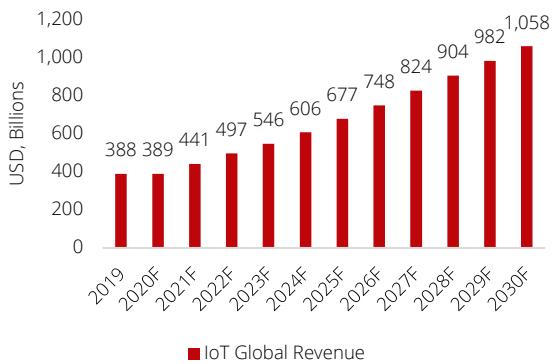
Easing of supply chain disruption. The chip shortage could begin to ease in 2022, with the increase in capacity from chip manufacturers gradually coming online. Chip vendors continue to spend, and 2022 capex is expected to grow another 10% y-o-y, after a c.30% increase in 2021, according to Gartner Inc. That said, given the strong demand for semiconductor chips driven by new technologies as well as the new requirements for better IT infrastructure to support the increased telecommuting, we believe the chip shortage is likely to be resolved only in 2H23, when the bulk of the new production capacity is in full operation.

Building on strong relationship with key customer for growing orders. Aztech's relationship with its key customer in the IoT space started in 2015. In 2018, this customer was acquired by a major international e-commerce retailer. Since then, contribution from this customer has surged from 28.4% of total revenue in FY18 to 49% in FY19 and >50% currently. We continue to expect Aztech to have a strong working relationship with this key customer, with product range moving beyond the smart security cameras to other products in the IoT space.

Growing demand for IoT and data communication products. According to Transforma Insights, a research firm focused on digital transformation, the global IoT market is expected to grow at a CAGR of 10.2% from US\$441bn in 2021 to US\$1.06tn in 2030. The main demand drivers for the industry are the rise of smart cities globally, Industry 4.0, and the increasing adoption of IoT by consumers. Enablers of this trend include the advancements in wireless networking technologies, data analytics, and a reduction in the cost of connected devices.

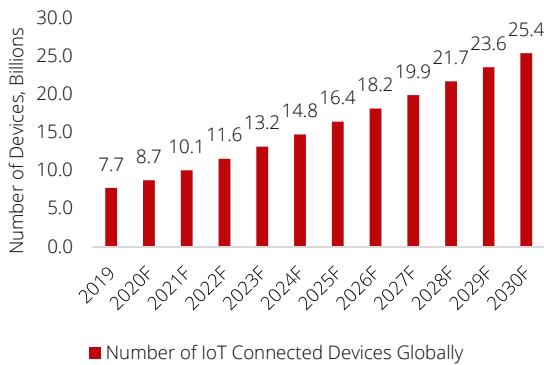
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Global IoT Revenue



Source: Transforma Insights, Statista, DBS Bank

Global IoT Connected Devices



Source: Transforma Insights, Statista, DBS Bank

Aztech in a sweet spot to ride on the IoT uptrend. Aztech's DNA is in networking since their founding days. The group has extensive knowledge and expertise in radio frequency (RF) and data communication products. It started off as a sound card company in the 1980s and moved on to modems and network products in the 1990s. Hence, Aztech has a natural advantage in the IoT space, involved in both R&D and production, compared to other competitors that are mainly focusing on the manufacturing of products.

Earnings & Recommendation

Strong earnings growth with attractive valuations. We expect FY21F/22F/23F to deliver strong earnings growth of 35%/32%/20%, respectively, riding on the buoyant IoT market. Current valuation of 7.2x FY22F is very attractive, at c.-1SD of its average PE since listing in March 2021. This translates to a PEG of only 0.23x for FY22F, compared to 0.8x for its peers.

Our new TP of S\$1.54 (S\$1.67 previously) is pegged to a lower FY22F peer average of 12x (vs. 13x previously) due to the de-rating of tech stocks globally, on FY22F earnings. BUY for its strong earnings momentum with attractive valuations.

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.

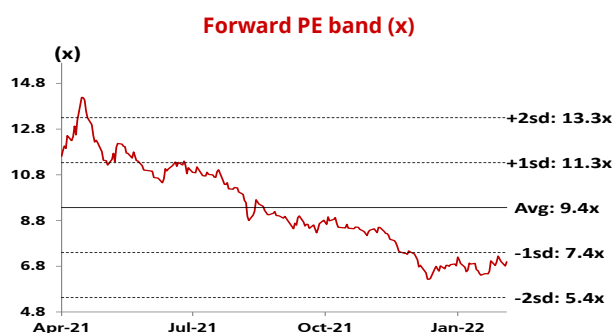
Aztech Global

Peer comparison table

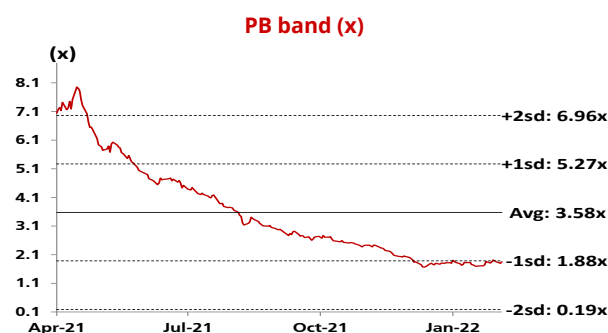
Bloomberg Ticker	Company Name	Market Cap (US\$m)	Sales (US\$m)	Net Profit (US\$m)	Net Profit Margin	Gross Margin	Net Debt/ (Cash)US\$m	P/E		EPS Growth		PEG FY22F
								FY21F	FY22F	FY21F	FY22F	
CMS												
2317 TT Equity	Hon Hai Precision	51,710.9	181,982.8	138,632.6	1.9%	5.7%	(16,593.9)	10.5x	9.7x	36%	8%	1.3x
FLEX US Equity	Flex Ltd	8,130.8	24,124.0	910.4	2.5%	7.0%	1,835.6	9.0x	8.5x	53%	6%	1.5x
4938 TT Equity	Pegatron Corp	6,615.1	47,527.7	18,235.6	1.4%	3.5%	371.4	10.1x	10.7x	-12%	-5%	nm
VMS SP Equity	Venture Corp Ltd	3,937.4	2,185.0	308.8	9.9%	26.3%	(687.0)	17.1x	15.8x	3%	9%	1.8x
AIB MK Equity	ATA IMS Bhd	136.0	1,011.8	15.7	3.6%	7.2%	50.4	36.2x	12.1x	-90%	200%	0.1x
FRKN SP Equity	Frencken Group	552.6	450.2	60.7	6.9%	17.0%	(70.0)	12.0x	10.2x	42%	17%	0.6x
VALUE SP Equity	Valuetronics	168.5	294.3	106.3	8.2%	16.9%	(145.3)	15.6x	14.2x	-55%	10%	1.4x
FUYU SP Equity	Fu Yu Corp Ltd	151.2	111.3	15.3	11.0%	24.0%	(75.2)	13.5x	12.3x	-11%	10%	1.2x
Average		10,178.7	36,796.5	19,785.7	5.7%	13.5%	(468.9)	15.5x	11.7x	-4%	32%	0.4x
ODM / JDM												
4938 TT Equity	Pegatron Corp	6,615.1	47,527.7	18,235.6	1.4%	3.5%	371.4	10.1x	10.7x	-12%	-5%	-2.1x
2354 TT Equity	Foxconn Tech	3,145.4	3,559.1	7,025.0	4.5%	6.2%	(2,130.1)	12.5x	10.9x	49%	15%	0.7x
2356 TT Equity	Inventec Corp	3,242.5	17,264.0	6,656.3	1.5%	4.2%	259.4	13.6x	13.3x	-11%	2%	6.5x
PLXS US Equity	Plexus Corp	2,318.0	3,368.9	110.2	4.1%	9.6%	31.0	19.7x	13.7x	-16%	44%	0.3x
BHE US Equity	Benchmark	890.5	2,255.3	52.4	1.6%	9.1%	(50.6)	15.5x	13.6x	58%	14%	1.0x
2485 TT Equity	Zinwell Corp	215.4	269.6	na	-1.9%	3.4%	(78.6)	na	na	-	-	-
Average		2,737.8	12,374.1	6,415.9	1.9%	6.0%	(266.2)	14.3x	12.4x	14%	14%	0.9x
IoT Devices and Data-communication products												
005930 KS Equity	Samsung Elec.	367,563.1	244,312.1	45,572,114.2	14.0%	40.5%	(95,917.9)	10.7x	8.8x	19%	21%	0.4x
CSCO US Equity	Cisco Systems	228,889.5	49,818.0	14,484.6	21.3%	64.0%	(11,824.0)	15.6x	14.4x	36%	8%	1.8x
1810 HK Equity	Xiaomi Corp	52,180.3	35,670.4	21,345.3	8.3%	14.9%	(11,779.2)	15.4x	13.4x	2%	15%	0.9x
ADI US Equity	Analog Devices Inc	85,195.2	7,318.3	3,966.6	19.0%	61.8%	5,140.3	20.4x	18.3x	116%	12%	1.5x
6088 HK Equity	FIT Hon Teng Ltd	1,316.7	4,314.7	97.8	1.0%	13.4%	309.0	12.1x	9.1x	134%	33%	0.3x
NTGR US Equity	NETGEAR Inc	793.7	1,168.1	48.8	4.2%	31.3%	(252.9)	17.7x	12.9x	-9%	37%	0.3x
2332 TT Equity	D-Link Corp	357.1	515.6	na	8.2%	31.5%	(211.3)	na	na	-	-	-
Average		105,185.1	49,016.7	7,602,009.6	10.9%	36.8%	(16,362.3)	15.3x	12.8x	50%	21%	0.6x
LED lighting / smart lighting products												
LIGHT NA Equity	Signify NV	6,802.6	8,113.8	510.5	5.8%	38.9%	1,317.4	11.0x	10.2x	28%	9%	1.2x
AYI US Equity	Acuity Brands Inc	6,499.7	3,461.0	415.9	8.9%	42.6%	65.6	15.6x	14.4x	39%	8%	1.8x
603515 CH Equity	Oppl Lighting	2,394.9	1,156.3	905.1	10.0%	37.7%	(734.0)	16.6x	14.2x	13%	17%	0.8x
Average		5,232.4	4,243.7	610.5	8.2%	39.8%	216.3	14.4x	12.9x	27%	11%	1.2x
Overall Average								14.9x	12.5x			0.8x

Source: Bloomberg Finance L.P., DBS Bank

Historical PE and PB band



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



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

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Key Assumptions

FY Dec	2019A	2020A	2021F	2022F	2023F
IoT devices and datacom	64.5	46.4	33.0	40.0	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	2021F	2022F	2023F
Revenues (\$m)					
IoT devices and datacom	293	428	569	797	957
LED products	136	55.4	33.2	29.9	26.9
Others	0.32	0.80	1.60	3.20	6.40
Total	429	484	604	830	990
Gross profit (\$m)					
IoT devices and datacom	87.7	127	188	262	315
LED products	34.0	11.3	6.65	5.98	5.38
Others	0.13	0.32	0.64	1.28	2.56
Total	122	138	195	270	323
Gross profit Margins					
IoT devices and datacom	30.0	29.6	33.0	32.9	32.9
LED products	25.0	20.4	20.0	20.0	20.0
Others	41.9	40.5	40.0	40.0	40.0
Total	28.4	28.5	32.3	32.5	32.6

Income Statement (\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	429	484	604	830	990
Cost of Goods Sold	(307)	(346)	(409)	(561)	(667)
Gross Profit	122	138	195	270	323
Other Opng (Exp)/Inc	(66.2)	(70.5)	(108)	(150)	(180)
Operating Profit	55.7	67.7	87.5	119	142
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)	(1.0)	(1.1)	(1.2)
Exceptional Gain/(Loss)	0.0	0.0	(3.0)	0.0	0.0
Pre-tax Profit	54.8	66.5	83.5	118	141
Tax	(7.6)	(10.8)	(11.3)	(18.9)	(22.6)
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	72.3	99.3	119
Net Profit before Except.	47.2	55.7	75.3	99.3	119
EBITDA	64.3	76.3	96.2	128	151
Growth					
Revenue Gth (%)	23.6	12.9	24.8	37.4	19.2
EBITDA Gth (%)	111.9	18.7	26.0	33.0	18.2
Opg Profit Gth (%)	137.8	21.6	29.3	36.3	19.5
Net Profit Gth (Pre-ex) (%)	135.7	18.1	35.1	31.9	19.6
Margins & Ratio					
Gross Margins (%)	28.4	28.5	32.3	32.5	32.6
Opg Profit Margin (%)	13.0	14.0	14.5	14.4	14.4
Net Profit Margin (%)	11.0	11.5	12.0	12.0	12.0
ROAE (%)	119.7	173.3	34.6	24.2	24.4
ROA (%)	26.3	24.2	15.6	14.4	14.6
ROCE (%)	87.4	96.6	30.4	22.0	22.5
Div Payout Ratio (%)	55.7	73.6	30.0	30.0	30.0
Net Interest Cover (x)	60.9	58.3	88.3	112.8	123.2

Source: Company, DBS Bank

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Interim Income Statement (\$m)

FY Dec	1H2020	2H2020	1H2021
Revenue	129	355	250
Cost of Goods Sold	(90.3)	(256)	(182)
Gross Profit	38.8	99.4	67.4
Other Oper. (Exp)/Inc	(22.8)	(47.7)	(33.4)
Operating Profit	16.0	51.7	34.0
Other Non Opp (Exp)/Inc	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.7)	(0.4)	(0.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0
Pre-tax Profit	15.3	51.3	33.6
Tax	(2.3)	(8.5)	(4.2)
Minority Interest	0.0	0.0	0.0
Net Profit	13.0	42.7	29.4
Net profit bef Except.	13.0	42.7	29.4
EBITDA	16.0	51.7	34.0

Growth

Revenue Gth (%)	nm	175.1	(29.7)
EBITDA Gth (%)	nm	223.3	(34.3)
Opp Profit Gth (%)	nm	223.3	(34.3)
Net Profit Gth (%)	nm	228.1	(31.1)

Margins

Gross Margins (%)	30.1	28.0	27.0
Opp Profit Margins (%)	12.4	14.6	13.6
Net Profit Margins (%)	10.1	12.0	11.8

Balance Sheet (\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	22.2	28.9	92.1	135	178
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	2.62	1.07	(0.8)	(2.6)	(4.4)
Cash & ST Invts	14.3	11.5	298	299	320
Inventory	19.1	53.7	43.0	58.9	70.1
Debtors	96.7	197	183	252	300
Other Current Assets	5.87	8.15	8.15	8.15	8.15
Total Assets	161	300	623	751	873
ST Debt	10.4	29.2	29.2	29.2	29.2
Creditor	87.2	141	135	185	220
Other Current Liab	37.7	82.1	77.2	84.8	88.5
LT Debt	0.0	3.82	3.82	3.82	3.82
Other LT Liabilities	2.74	2.49	2.49	2.49	2.49
Shareholder's Equity	22.7	41.6	376	445	529
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	161	300	623	751	873
Non-Cash Wkg. Capital	(3.2)	35.7	22.3	49.1	69.9
Net Cash/(Debt)	3.88	(21.6)	265	266	287
Debtors Turn (avg days)	72.2	110.7	114.8	95.6	101.8
Creditors Turn (avg days)	112.3	123.4	125.8	105.7	112.2
Inventory Turn (avg days)	39.1	39.3	44.1	33.7	35.8
Asset Turnover (x)	2.4	2.1	1.3	1.2	1.2
Current Ratio (x)	1.0	1.1	2.2	2.1	2.1
Quick Ratio (x)	0.8	0.8	2.0	1.8	1.8
Net Debt/Equity (X)	CASH	0.5	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	0.5	CASH	CASH	CASH
Capex to Debt (%)	75.0	32.7	211.9	151.4	151.4

Source: Company, DBS Bank

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Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	54.8	66.5	83.5	118	141
Dep. & Amort.	8.60	8.64	8.64	8.64	8.64
Tax Paid	(1.3)	(3.0)	(16.2)	(11.3)	(18.9)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg. Cap.	(26.6)	(46.1)	18.3	(34.5)	(24.5)
Other Operating CF	6.18	2.51	0.0	0.0	0.0
Net Operating CF	41.7	28.6	94.3	81.1	107
Capital Exp. (net)	(7.8)	(10.8)	(70.0)	(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)	(70.0)	(50.0)	(50.0)
Div Paid	(26.3)	(41.0)	(21.7)	(29.8)	(35.6)
Chg in Gross Debt	(1.7)	23.1	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(3.1)	(2.8)	284	0.0	0.0
Net Financing CF	(31.1)	(20.7)	262	(29.8)	(35.6)
Currency Adjustments	0.24	0.0	0.0	0.0	0.0
Chg in Cash	3.03	(2.8)	286	1.33	21.0
Opg CFPS (S cts)	N/A	9.65	9.82	14.9	16.9
Free CFPS (S cts)	N/A	2.30	3.14	4.02	7.31

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

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

Completed Date: 16 Feb 2022 06:24:30 (SGT)

Dissemination Date: 16 Feb 2022 09:09:03 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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