

Aztech Global (AZTECH SP)

Resilient demand backdrop

BUY

Share Price SGD 1.00
 12m Price Target SGD 1.13 (+16%)
 Previous Price Target SGD 1.13

1Q22 PATMI met lower-end of estimates

1Q22 PATMI of SGD13.9m (+5% YoY) formed 16%/15% of our/consensus' full-year estimates. This met the lower-end of our expectation (1H:2H seasonality is typically 40:60), and should have been firmly in line if not for the temporary Dongguan factory closure in March. Our FY22E PATMI is unchanged as we raise revenue forecasts on the back of strong order book, but cut margin assumptions due to the inflationary environment. As such, we maintain BUY and a TP of SGD1.13 (10x FY22E P/E).

Temporary factory closure clips 1Q22 performance

Revenue rose 10.4% YoY to SGD128m, driven by IoT and datacom (+16%; 97% of total). But inflationary costs eroded net margin by 0.5ppt YoY to 10.8%. Dongguan manufacturing operations were disrupted from 15-20 Mar to facilitate Covid-19 testing, and full operations resumed on 21 Mar.

Strong demand outlook

Order book of SGD713m, largely for FY22E delivery, remains strong. Rather than raising our FY22E revenue at c.SGD840m (i.e. 1Q21 revenue + current order book), our estimate is SGD797m to account for potential slippage of delivery times given still vulnerable supply chain conditions in China (c.80% of production capacity), due to the Covid-19 outbreak there.

Taking a more conservative view on FY23E

We cut our FY23E PATMI by 10% as we i) are more cautious on US consumer sentiment (North America accounts for 83% of sales); and ii) assume that margin pressures last into next year. We see upside to our forecast if i) growth from new products/ customers/ geographies can offset effects of slower organic growth, and if ii) components become less costly as supply chain problems dissipate. Conversely, key risks are underestimation of i) supply-chain disruptions, and/or ii) demand destruction from macroeconomic slowdown. We think our 10x P/E target multiple is not demanding due to its average FY22-25E ROE of 26%.

Company Description

Aztech is a key enabler and technology hardware manufacturer for IoT, datacom and LED electronics products

Statistics

52w high/low (SGD)	1.52/0.80
3m avg turnover (USDm)	1.4
Free float (%)	28.8
Issued shares (m)	774
Market capitalisation	SGD773.8M
	USD568M

Major shareholders:

AVS Investments Pte Ltd.	70.1%
HSBC Global Asset Management (Hong Kong)	1.2%
Fiera Capital (UK) Ltd.	1.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	11	18	(25)
Relative to index (%)	11	16	(28)

Source: FactSet

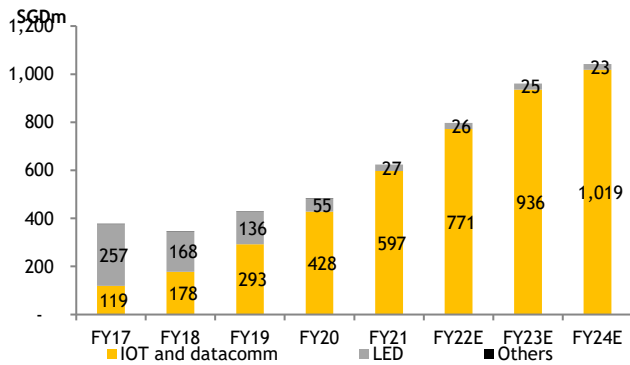
FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	484	624	797	961	1,042
EBITDA	80	91	111	137	145
Core net profit	56	74	87	106	111
Core EPS (cts)	9.0	10.0	11.3	13.7	14.4
Core EPS growth (%)	44.5	11.0	12.5	21.9	4.7
Net DPS (cts)	6.6	7.0	3.4	4.1	4.3
Core P/E (x)	na	8.8	8.9	7.3	7.0
P/BV (x)	na	2.3	2.2	1.8	1.5
Net dividend yield (%)	na	8.0	3.4	4.1	4.3
ROAE (%)	173.3	44.5	26.9	27.1	23.8
ROAA (%)	24.2	18.2	14.7	15.2	14.0
EV/EBITDA (x)	9.9	5.1	5.5	4.0	3.4
Net gearing (%) (incl perps)	51.8	net cash	net cash	net cash	net cash
Consensus net profit	-	-	90	114	117
MKE vs. Consensus (%)	-	-	(3.5)	(6.7)	(4.9)

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Value Proposition

- Technology hardware manufacturer and key enabler for customers in consumer electronics industry.
- Leveraged to strong growth prospects from IoT end-markets through i) new products and customers; and ii) customers' strong position in the market.
- Differentiating factors are strong R&D and design capabilities, on top of strong execution. We believe this can help sustain margins in near-to-mid-term.
- We see commoditisation as a key risk to mid-to-long term margins, as Aztech's margins are industry leading, and the industry is highly competitive.

IoT and datacomm are the key drivers for Aztech's growth

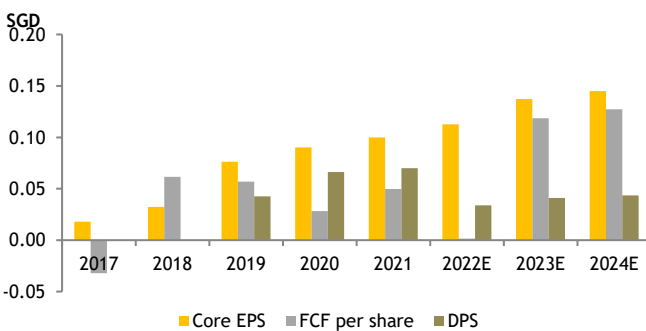


Source: Company, Maybank IBG Research

Financial Metrics

- We expect FY21-24 PATMI CAGR of 15%, driven by Customer A (new products and market penetration) and other new customers.
- FY24E net margin of 10.8% is lower than FY21 of 11.9% as we factor in some cost downs and anticipate commoditisation led margin erosion at some point with Customer A's products.
- FY22-24E dividend pay-out assumption of 30%.

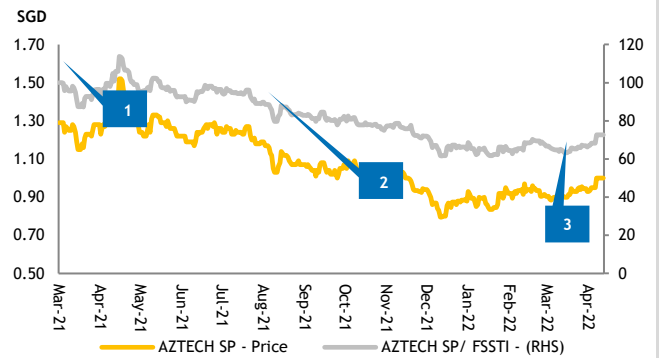
Core EPS, FCF per share and DPS



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Listed on SGX Main Board at IPO price of SGD1.28.
2. 1H21 results in line with street but management confirmed that Aztech was struggling with components shortages.
3. 2H21 results was ahead of our expectations and met street's. Order outlook was resilient.

Swing Factors

Upside

- Better than expected order momentum of existing products during current IoT upcycle.
- New customer/ allocation wins.
- Better than expected margins from operating leverage.

Downside

- Commoditisation of consumer IoT products that lead to pricing erosion.
- Worsening in components shortage situation.
- Inventory correction due to over-exuberance of supply chain in anticipating end-consumer demand.

Fig 1: 1Q22 summary

FYE Dec	1Q22	1Q21	4Q21	YoY Chg	QoQ Chg	FYE	As a % of FYE
	SGDm	SGDm	SGDm	(%)	(%)	SGDm	(%)
Revenue	128.0	115.9	233.6	10.4	-45.2	762.4	16.8
EBITDA	18.3	17.9	30.8	2.2	-40.6	111.0	16.5
PBT	15.9	15.2	31.0	4.6	-48.8	99.6	16.0
Net profit	13.9	13.2	27.0	5.3	-48.5	87.2	15.9
				ppt	ppt		
EBITDA margin	14.3%	15.4%	13.2%	-1.1	1.1		
Net margin	10.9%	11.4%	11.5%	-0.5	-0.7		

Source: Maybank IBG Research, Company

Fig 2: Forecast changes

	FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	797.4	762.4	4.6	960.8	1,005.8	-4.5
Gross profit (SGDm)	189.8	183.0	3.7	225.8	241.4	-6.5
EBIT (SGDm)	99.9	99.7	0.2	121.4	134.7	-9.9
EBITDA (SGDm)	111.2	111.0	0.2	136.5	149.9	-8.9
Core net profit (SGDm)	87.1	87.2	-0.1	106.2	117.8	-9.9
			Chg (ppt)			Chg (ppt)
Gross material margin	23.8%	24.0%	-0.2	23.5%	24.0%	-0.5
EBITDA margin	14.0%	14.6%	-0.6	14.2%	14.9%	-0.7

Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	na	11.4	8.9	7.3	7.0
Core P/E (x)	na	8.8	8.9	7.3	7.0
P/BV (x)	na	2.3	2.2	1.8	1.5
P/NTA (x)	na	2.3	2.2	1.8	1.5
Net dividend yield (%)	na	8.0	3.4	4.1	4.3
FCF yield (%)	na	5.7	0.2	11.9	12.6
EV/EBITDA (x)	9.9	5.1	5.5	4.0	3.4
EV/EBIT (x)	11.1	5.8	6.1	4.5	3.8
INCOME STATEMENT (SGD m)					
Revenue	484.3	624.4	797.4	960.8	1,042.0
EBITDA	80.3	90.8	111.2	136.5	144.8
Depreciation	(8.6)	(10.2)	(11.4)	(15.2)	(16.6)
Amortisation	0.0	0.0	0.0	0.0	(1.0)
EBIT	71.7	80.6	99.9	121.4	127.2
Net interest income / (exp)	(0.5)	(0.1)	(0.0)	(0.0)	(0.0)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(4.7)	4.4	0.0	0.0	0.0
Pretax profit	66.5	85.0	99.8	121.3	127.2
Income tax	(10.8)	(10.6)	(12.8)	(15.2)	(16.0)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	55.7	74.4	87.1	106.2	111.2
Core net profit	55.7	74.4	87.1	106.2	111.2
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	11.5	201.5	177.2	237.9	302.4
Accounts receivable	197.0	222.5	301.8	330.0	355.2
Inventory	53.7	62.4	104.0	77.2	120.6
Reinsurance assets	6.8	3.4	3.4	3.4	3.4
Property, Plant & Equip (net)	28.9	26.6	80.2	80.0	78.5
Intangible assets	1.1	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1.3	1.7	1.7	1.7	1.7
Total assets	300.2	518.2	668.4	730.2	861.9
ST interest bearing debt	29.2	11.9	11.9	11.9	11.9
Accounts payable	141.1	138.5	227.8	215.3	268.4
Insurance contract liabilities	2.4	1.9	1.9	1.9	1.9
LT interest bearing debt	3.8	2.8	2.8	2.8	2.8
Other liabilities	82.0	70.0	70.0	70.0	70.0
Total Liabilities	258.6	225.2	314.5	302.0	355.1
Shareholders Equity	41.6	293.0	353.9	428.2	506.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	41.6	293.0	353.9	428.2	506.7
Total liabilities and equity	300.2	518.2	668.4	730.2	861.9
CASH FLOW (SGD m)					
Pretax profit	66.5	85.0	99.8	121.3	127.2
Depreciation & amortisation	8.6	10.2	11.4	15.2	17.6
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(46.1)	(35.6)	(31.6)	(13.8)	(15.6)
Cash taxes paid	(3.0)	(15.8)	(12.8)	(15.2)	(16.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	28.6	41.9	66.2	106.8	112.5
Capex	(11.0)	(4.8)	(65.0)	(15.0)	(15.0)
Free cash flow	17.5	37.1	1.2	91.8	97.5
Dividends paid	(41.0)	(15.3)	(26.1)	(31.8)	(33.7)
Equity raised / (purchased)	0.0	190.6	0.0	0.0	0.0
Change in Debt	20.3	(21.5)	0.0	0.0	0.0
Other invest/financing cash flow	0.4	(1.2)	0.7	0.7	(0.3)
Effect of exch rate changes	(0.0)	0.3	0.0	0.0	0.0
Net cash flow	(2.8)	190.1	(24.3)	60.6	63.5

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	12.9	28.9	27.7	20.5	8.5
EBITDA growth	44.2	13.1	22.5	22.7	6.1
EBIT growth	52.2	12.5	23.9	21.5	4.8
Pretax growth	44.0	27.7	17.5	21.5	4.8
Reported net profit growth	44.5	33.5	17.1	21.9	4.7
Core net profit growth	44.5	33.5	17.1	21.9	4.7
Profitability ratios (%)					
EBITDA margin	16.6	14.5	14.0	14.2	13.9
EBIT margin	14.8	12.9	12.5	12.6	12.2
Pretax profit margin	13.7	13.6	12.5	12.6	12.2
Payout ratio	73.6	70.0	30.0	30.0	30.3
DuPont analysis					
Net profit margin (%)	11.5	11.9	10.9	11.0	10.7
Revenue/Assets (x)	1.6	1.2	1.2	1.3	1.2
Assets/Equity (x)	7.2	1.8	1.9	1.7	1.7
ROAE (%)	173.3	44.5	26.9	27.1	23.8
ROAA (%)	24.2	18.2	14.7	15.2	14.0
Liquidity & Efficiency					
Cash conversion cycle	28.3	58.2	59.2	54.2	54.2
Days receivable outstanding	109.2	120.9	118.4	118.4	118.4
Days inventory outstanding	37.8	44.6	49.3	44.4	44.4
Days payables outstanding	118.7	107.3	108.5	108.5	108.5
Dividend cover (x)	1.4	1.4	3.3	3.3	3.3
Current ratio (x)	1.1	2.2	1.9	2.2	2.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.2	2.3	2.1	2.4	2.4
Net gearing (%) (incl perps)	51.8	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	51.8	net cash	net cash	net cash	net cash
Net interest cover (x)	145.4	nm	nm	nm	nm
Debt/EBITDA (x)	0.4	0.2	0.1	0.1	0.1
Capex/revenue (%)	2.3	0.8	8.2	1.6	1.4
Net debt/ (net cash)	21.6	(186.8)	(162.5)	(223.1)	(287.7)

Source: Company; Maybank IBG Research

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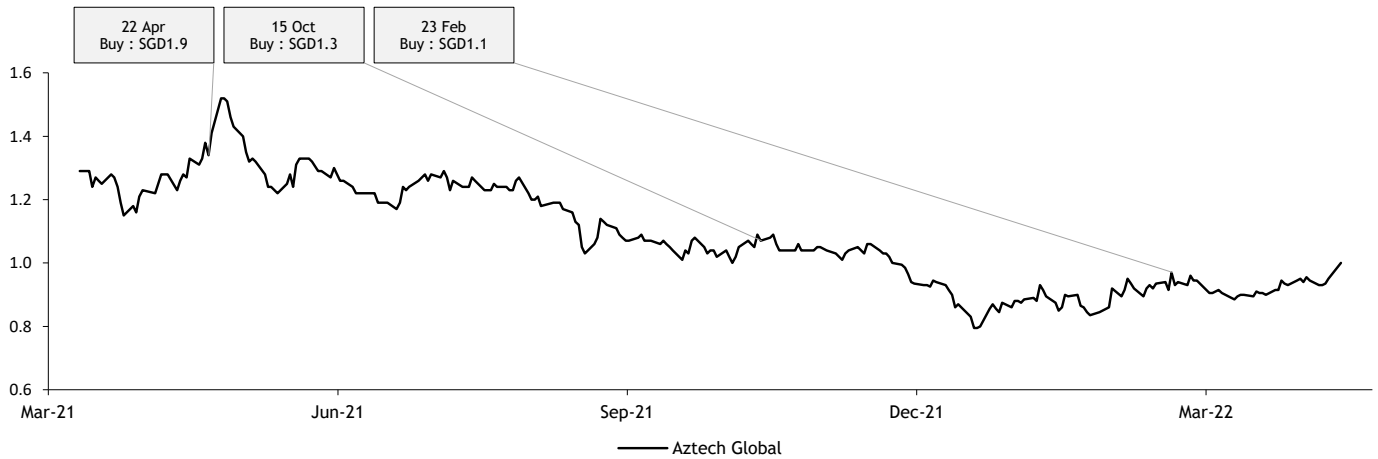
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