

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

25 Jul 2022

BUY

Last Traded Price (22 Jul 2022): S\$0.795 (STI : 3,181.34)
Price Target 12-mth: S\$1.18 (48% upside) (Prev S\$1.33)

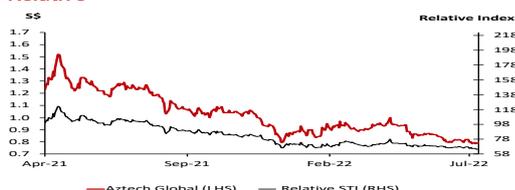
Analyst

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What's New

- Revenue supported by orderbook of S\$713m as of April 2022
- But expect margin compression trend to continue in the near term
- We tone down earnings by 3% to 4% each on margin pressure and weakening consumer outlook
- Current valuation attractive at below 1 S.D. level, maintain BUY with a lower TP of S\$1.18

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	484	624	753	865
EBITDA	76.3	95.9	110	128
Pre-tax Profit	66.5	85.0	98.9	117
Net Profit	55.7	74.4	83.0	98.5
Net Pft (Pre Ex.)	55.7	74.4	83.0	98.5
Net Pft Gth (Pre-ex) (%)	18.1	33.5	11.6	18.7
EPS (S cts)	7.20	9.61	10.7	12.7
EPS Pre Ex. (S cts)	7.20	9.61	10.7	12.7
EPS Gth Pre Ex (%)	nm	33	12	19
Diluted EPS (S cts)	7.20	9.61	10.7	12.7
Net DPS (S cts)	5.30	4.99	3.22	3.82
BV Per Share (S cts)	5.38	37.9	45.4	54.3
PE (X)	11.0	8.3	7.4	6.2
PE Pre Ex. (X)	11.0	8.3	7.4	6.2
P/Cash Flow (X)	21.5	14.7	6.8	7.0
EV/EBITDA (X)	8.1	4.5	3.8	3.2
Net Div Yield (%)	6.7	6.3	4.0	4.8
P/Book Value (X)	14.8	2.1	1.8	1.5
Net Debt/Equity (X)	0.1	CASH	CASH	CASH
ROAE (%)	173.3	44.5	25.8	25.6
Earnings Rev (%)			(3)	(4)
Consensus EPS (S cts):			11.3	13.8
Other Broker Recs:		B: 4	S: 0	H: 0

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

Attractive despite margin pressure

Investment Thesis:

Maintain BUY; strong orderbook riding on fast-expanding IoT market with >90% revenue exposure. The outstanding orderbook as of 18 April 2022 stood at S\$713m, an improvement from S\$496m as of 31 December 2021. We expect the order momentum to remain strong, translating to a revenue growth of 21% in FY22F and another 15% in FY23F. Maintain BUY, despite margin pressures, given current valuation of 7.4x forward PE is attractive at below -1SD level.

Revenue supported by orderbook but margin pressure to persist in near term. While revenue for FY22F is supported by the strong orderbook, Aztech reported a lower net margin of 10.8% in 1Q22, down from 11.4% in 1Q21 and 11.9% in FY21, mainly due to inflationary cost pressures and supply chain bottlenecks. With rising inflation, the still challenging supply chain environment, and the lockdowns in China in 2Q22, we expect further margin pressure for Aztech in 2Q22. On the back of this persistent margin pressure and risk of weakening demand, we have trimmed earnings for FY22F and FY23F by 3% to 4% each.

Valuation:

TP of S\$1.18 pegged to peers' average valuations. We lower our TP to S\$1.18 (previously S\$1.33) on the back of the cut in earnings, pegged to FY22F peer average of 11x (from 12x previously on further de-rating of tech stocks).

Where we differ:

We are optimistic that the group can continue to ride on the fast-expanding IoT market and generate an 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)	614 / 442
Major Shareholders (%)	
Aztech Group Ltd.	70.2
Free Float (%)	29.8
3m Avg. Daily Val (US\$m)	0.42
GIC Industry :	Information Technology / Technology Hardware &



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WHAT'S NEW

Margin pressure a near term concern

Expect margin compression trend to continue. In 1Q22, Aztech reported a lower net margin of 10.8%, down from 11.4% in 1Q21 and 11.9% in FY21, mainly due to inflationary cost pressures and supply chain bottlenecks. With rising inflation, still challenging supply chain environment, and lockdowns in China in 2Q22, we expect further margin pressure for Aztech in 2Q22.

1H22 results will be released on 25th July after market close. The bulk of Aztech's manufacturing facilities are in Dongguan, China. Though not directly impacted, it could be affected by suppliers from other parts of China.

Revenue supported by orderbook of S\$713m as at April.

On the revenue front, the orderbook as at 31 March 2022 was S\$677.4m, and the group has since received additional orders of \$35.6m as at 18 April 2022. The majority of the S\$713m orders secured to date is scheduled for completion in FY2022.

Aztech's products are mainly in the IoT space. The IoT industry is still at its nascent stage of growth now. According to Gartner, the global IoT market opportunity across endpoint electronics, communications services, edge device security, application software, infrastructure software, and IT services is expected to grow at a 2020-2025 CAGR of 15.8%, driven by improvements in technology and the higher usage of connected devices. Aztech, with c.90% revenue exposure to the IoT segment, is poised to ride on this rising trend.

Lingering concern on weak consumer sentiment.

However, demand for electronic devices has been relatively weak in recent months. This trend could continue, mainly on the back of the increasing rate of inflation around the world and also the rising risk of recession.

Toned down earnings by 3% to 4% each year. On the back of the persistent margin pressure and risk of weakening demand, we have trimmed earnings for FY22F and FY23F by 3% to 4% each. There is no change in revenue projections for FY22F as this is supported by the current orderbook. Revenue for FY23F is reduced by 3.5% on anticipated weaker demand. We have also reduced the net margin assumption for FY22F to 11.0% from 11.4%, and 11.4% from 11.5% for FY23F, on the expectation of a further margin compression.

Maintain BUY with lower TP of S\$1.18. Our TP is lowered to S\$1.18 (previously S\$1.33). This is on the back of the lower earnings and is also pegged to 11x peer average (from 12x previously on further de-rating of tech stocks), on FY22F earnings. Maintain BUY.

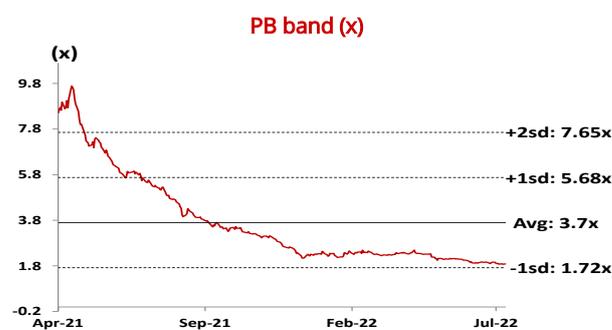
Company Background

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.

Historical PE and PB band



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



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

Aztech Global

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues Growth (%)					
IoT devices and datacom	64.5	46.4	33.0	22.0	16.0
LED products	(19.1)	(59.3)	(40.0)	(10.0)	(20.0)
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	728	845
LED products	136	55.4	27.5	24.7	19.8
Others	0.32	0.80	0.0	0.0	0.0
Total	429	484	624	753	865
Gross profit (\$m)					
IoT devices and datacom	87.7	127	153	186	222
LED products	34.0	11.3	2.75	2.47	1.98
Others	0.13	0.32	0.0	0.0	0.0
Total	122	138	156	188	224
Gross profit Margins (%)					
IoT devices and datacom	30.0	29.6	25.6	25.5	26.3
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	25.0	25.9

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	429	484	624	753	865
Cost of Goods Sold	(307)	(346)	(469)	(565)	(640)
Gross Profit	122	138	155	188	224
Other Opng (Exp)/Inc	(66.2)	(70.5)	(69.8)	(88.9)	(106)
Operating Profit	55.7	67.7	85.6	99.3	118
Other Non Opng (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	98.9	117
Tax	(7.6)	(10.8)	(10.6)	(15.8)	(18.8)
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	83.0	98.5
Net Profit before Except.	47.2	55.7	74.4	83.0	98.5
EBITDA	64.3	76.3	95.9	110	128
Growth					
Revenue Gth (%)	23.6	12.9	28.9	20.6	14.8
EBITDA Gth (%)	111.9	18.7	25.6	14.3	16.9
Opg Profit Gth (%)	137.8	21.6	26.5	16.0	18.6
Net Profit Gth (Pre-ex) (%)	135.7	18.1	33.5	11.6	18.7
Margins & Ratio					
Gross Margins (%)	28.4	28.5	24.9	25.0	25.9
Opg Profit Margin (%)	13.0	14.0	13.7	13.2	13.6
Net Profit Margin (%)	11.0	11.5	11.9	11.0	11.4
ROAE (%)	119.7	173.3	44.5	25.8	25.6
ROA (%)	26.3	24.2	18.2	14.7	15.0
ROCE (%)	87.4	114.1	39.9	24.4	24.4
Div Payout Ratio (%)	55.7	73.6	51.9	30.0	30.0
Net Interest Cover (x)	60.9	58.3	126.5	210.6	228.4

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
Invts 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 Invts	14.3	11.5	202	217	225
Inventory	19.1	53.7	62.4	69.9	79.3
Debtors	96.7	197	223	253	290
Other Current Assets	5.87	8.15	5.15	5.15	5.15
Total Assets	161	300	518	611	706
ST Debt	10.4	11.9	11.9	11.9	11.9
Creditor	87.2	141	138	168	191
Other Current Liab	37.7	99.4	70.0	75.2	78.2
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	351	420
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	161	300	518	611	706
Non-Cash Wkg. Capital	(3.2)	18.4	81.7	84.5	106
Net Cash/(Debt)	3.88	(4.3)	187	202	210
Debtors Turn (avg days)	72.2	110.7	122.6	115.2	114.7
Creditors Turn (avg days)	112.3	123.4	111.2	101.0	104.0
Inventory Turn (avg days)	39.1	39.3	46.2	43.6	43.2
Asset Turnover (x)	2.4	2.1	1.5	1.3	1.3
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	98.9	117
Dep. & Amort.	8.60	8.64	10.2	10.2	10.2
Tax Paid	(1.3)	(3.0)	(15.8)	(10.6)	(15.8)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(26.6)	(46.1)	(35.6)	(8.1)	(24.3)
Other Operating CF	6.18	2.51	(1.9)	0.0	0.0
Net Operating CF	41.7	28.6	41.9	90.4	87.4
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)	(24.9)	(29.6)
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	(24.9)	(29.6)
Currency Adjustments	0.24	0.0	0.33	0.0	0.0
Chg in Cash	3.03	(2.8)	189	15.5	7.82
Opg CFPS (S cts)	N/A	9.65	10.0	12.7	14.4
Free CFPS (S cts)	N/A	2.30	4.80	5.22	4.83

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	02 Aug 21	1.22	1.74	BUY
2:	15 Oct 21	1.07	1.67	BUY
3:	16 Feb 22	0.93	1.54	BUY
4:	23 Feb 22	0.97	1.48	BUY
5:	19 Apr 22	0.96	1.33	BUY

Source: DBS Bank

Analyst: Lee Keng LING

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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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