

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

17 Oct 2023

BUY

Last Traded Price (16 Oct 2023): S\$0.855 (STI : 3,163.89)
Price Target 12-mth: S\$1.25 (47% upside) (Prev S\$1.05)

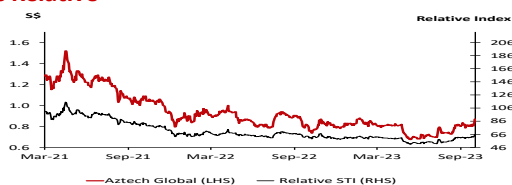
Analyst

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What's New

- A strong set of 3Q23 results, despite challenging environment; above expectations
- Stable margins despite one-off tax provision
- Raised FY23F/24F earnings by 16%/12%, mainly on higher margin assumption
- Maintain BUY with higher TP of S\$1.25

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2022A	2023F	2024F	2025F
Revenue	820	921	1,053	1,155
EBITDA	90.3	137	148	161
Pre-tax Profit	80.7	128	139	152
Net Profit	67.2	101	116	127
Net Pft (Pre Ex.)	67.2	101	116	127
Net Pft Gth (Pre-ex) (%)	(9.7)	50.6	14.2	9.8
EPS (S cts)	8.68	13.1	14.9	16.4
EPS Pre Ex. (S cts)	8.68	13.1	14.9	16.4
EPS Gth Pre Ex (%)	(10)	51	14	10
Diluted EPS (S cts)	8.68	13.1	14.9	16.4
Net DPS (S cts)	4.50	6.54	7.46	8.20
BV Per Share (S cts)	36.7	43.2	50.7	58.9
PE (X)	9.8	6.5	5.7	5.2
PE Pre Ex. (X)	9.8	6.5	5.7	5.2
P/Cash Flow (X)	6.9	8.1	6.6	5.4
EV/EBITDA (X)	5.0	3.1	2.7	2.1
Net Div Yield (%)	5.3	7.6	8.7	9.6
P/Book Value (X)	2.3	2.0	1.7	1.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	23.3	32.7	31.8	29.9
Earnings Rev (%)		16	12	-
Consensus EPS (S cts)		12.0	13.3	13.7
Other Broker Recs:		B: 4	S: 0	H: 0

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

Stable orderbook and margins

Investment Thesis:

Maintain BUY; stable orderbook riding on fast-expanding IoT market with >90% revenue exposure. The outstanding orderbook as of 16 October 2023 was \$322.7m, with the bulk to be completed by the end of the year. We expect the order momentum to remain decent, translating to revenue growth of 14% in FY24F and 10% in FY25F. Maintain BUY, given that the current valuation of 6.5x forward PE is attractive, at below the average level.

Revenue supported by orderbook while margins remain healthy.

The revenue for FY23F is well supported by the strong orderbook. Net margins of 11% for the nine-month period is still higher than the 10.5% seen in the corresponding nine-month period in 2022, despite the one-off tax provision. Going forward, we expect net margins to remain above the 10% level, much higher than the average of low single-digit net margin of its peers in the downstream space. This achievement is mainly due to Aztech's core strengths in the R&D, design, engineering, and manufacturing of IoT-related products. We have pencilled in a net margin assumption of about 11% for FY23F-FY25F.

Higher TP of S\$1.25. We have raised our TP to S\$1.25 (previously: S\$1.05) on the back of the upward earnings revision. Our TP is still pegged to 8.5x, slightly below the average since listing in 2021, on FY24F earnings.

Key Risks

Customer concentration risk and operation risk for Dongguan land.

At A Glance

Issued Capital (m shrs)	772
Mkt. Cap (S\$m/US\$m)	660 / 482
Major Shareholders (%)	
Mun Hong Yew	70.3
Free Float (%)	29.7
3m Avg. Daily Val (US\$m)	0.47
GIC Industry : Information Technology / Technology Hardware & Equipment	



[Watchlist the stock on Insights Direct to receive prompt updates](#)

WHAT'S NEW

Strong 3Q23 with stable margins, above expectations

A strong set of 3Q23 results, despite challenging environment. Aztech reported a 16.9% y-o-y (+24.9% q-o-q) increase in revenue to S\$283.4m, mainly driven by sales of IoT devices and data communication products, which accounted for 98.2% of total sales. Its key customer accounts for about 85% of the total sales.

Stable margins despite one-off tax provision. Net profit surged 48.6% y-o-y (+4.7% q-o-q) to S\$30.9m, on the back of the growth in revenue and greater economies of scale. The net profit margin of 10.9% remains healthy, despite a one-time deferred tax provision of S\$5.5m relating to retained earnings from an overseas subsidiary, partly offset by a forex gain of about S\$0.8m. Excluding these two items, the net margin would be 12.6%, comparable to the 13.0% in 2Q23.

3Q23/9-mth results above expectations. Overall, 3Q23 revenue/net profit account for 32%/35% of our FY23F forecasts. For the nine-month period, revenue gained 10.7% y-o-y while net profit was up 15.9%, accounting for 75% and 85% of our estimates for FY23F, respectively, above expectations. The net margin of 11% is a tad better than the 10.5% recorded during the corresponding nine-month period in 2022.

New plant to service existing customers and target new ones looking to expand out of China. The 300,000sqft Pasir Gudang facility commenced production in 3Q23 and is currently equipped with 8 SMT production lines, 2 Wave

Soldering lines, 18 product assembly & testing lines, and 4 packaging lines.

Still healthy orderbook. The orderbook, secured as at 16 October 2023, was \$322.7m. The majority of the orderbook secured is scheduled for completion in FY23. This is much lower than the S\$820.5m secured as at 3 November last year, as the order lead time has normalised from 9-12 months during the pandemic to 2-3 months post-pandemic.

Raised FY23F/24F earnings by 16%/12%, mainly on higher margin assumption. We have revised up revenue by 3% each for FY23F and FY24F, while net earnings were raised by 12% to 16%, as we have pencilled in a higher net margin assumption of 11% for FY23F and FY24F from 9.7% and 10%, previously, respectively. Maintain BUY with TP of S\$1.25 (previously: S\$1.05), still pegged to 8.5x PE on FY24F earnings.

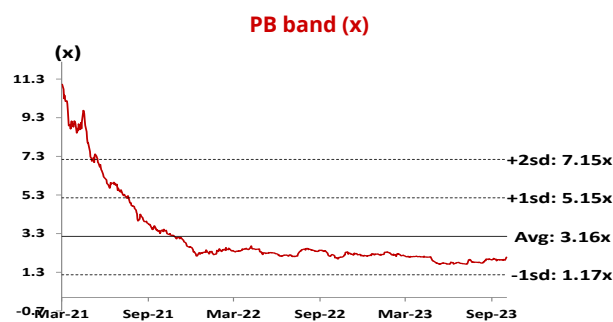
Company Background

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.

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	2021A	2022A
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Aztech Global

Revenue Growth (%)

IoT devices and datacom products	3,943	3,426	13.0	15.0	10.0
LED products	(5,041)	(3,133)	(20.0)	(20.0)	(20.0)

Segmental Breakdown

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (\$m)					
IoT devices and datacom products	597	801	906	1,041	1,146
LED products	27.5	18.9	15.1	12.1	9.66
Total	624	820	921	1,053	1,155

Income Statement

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	624	820	921	1,053	1,155
Cost of Goods Sold	(469)	(616)	(681)	(778)	(853)
Gross Profit	155	205	240	275	302
Other Opng (Exp)/Inc	(69.8)	(123)	(111)	(136)	(150)
Operating Profit	85.6	81.7	128	139	153
Other Non Opng (Exp)/Inc	0.0	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	(0.7)	(0.9)	(0.2)	(0.4)	(0.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	85.0	80.7	128	139	152
Tax	(10.6)	(13.5)	(26.9)	(23.3)	(25.6)
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	74.4	67.2	101	116	127
Net Profit before Except.	74.4	67.2	101	116	127
EBITDA	95.9	90.3	137	148	161
Growth					
Revenue Gth (%)	28.9	31.4	12.2	14.4	9.7
EBITDA Gth (%)	25.6	(5.8)	51.6	8.0	9.1
Opg Profit Gth (%)	26.5	(4.6)	57.1	8.5	9.7
Net Profit Gth (Pre-ex) (%)	33.5	(9.7)	50.6	14.2	9.8
Margins & Ratio					
Gross Margins (%)	24.9	25.0	26.0	26.1	26.2
Opg Profit Margin (%)	13.7	10.0	13.9	13.2	13.2
Net Profit Margin (%)	11.9	8.2	11.0	11.0	11.0
ROAE (%)	44.5	23.3	32.7	31.8	29.9
ROA (%)	18.2	12.7	17.7	18.1	17.6
ROCE (%)	39.9	22.0	31.9	31.0	29.4
Div Payout Ratio (%)	51.9	51.8	50.0	50.0	50.0
Net Interest Cover (x)	126.5	87.7	693.7	385.6	825.5

Source: Company, DBS Bank

Aztech Global

Interim Income Statement (\$\$m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	250	375	365	456	389
Cost of Goods Sold	(182)	(287)	(282)	(334)	(301)
Gross Profit	67.4	88.1	82.6	122	88.0
Other Oper. (Exp)/Inc	(33.4)	(36.4)	(32.0)	(91.0)	(36.4)
Operating Profit	34.0	51.7	50.6	31.0	51.6
Other Non Opg (Exp)/Inc	0.0	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	(0.4)	(0.3)	(0.2)	(0.7)	(0.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	33.6	51.3	50.4	30.3	51.0
Tax	(4.2)	(6.4)	(7.6)	(6.0)	(8.1)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	29.4	45.0	42.9	24.3	42.9
Net profit bef Except.	29.4	45.0	42.9	24.3	42.9
EBITDA	34.0	56.9	55.1	35.2	55.7

Growth

Revenue Gth (%)	(29.7)	50.0	(2.7)	25.0	(14.7)
EBITDA Gth (%)	(34.3)	67.3	(3.2)	(36.0)	58.2
Opg Profit Gth (%)	(34.3)	52.0	(2.0)	(38.7)	66.2
Net Profit Gth (%)	(31.1)	52.9	(4.7)	(43.2)	76.4

Margins

Gross Margins (%)	27.0	23.5	22.7	26.8	22.6
Opg Profit Margins (%)	13.6	13.8	13.9	6.8	13.3
Net Profit Margins (%)	11.8	12.0	11.8	5.3	11.0

Balance Sheet (\$\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	26.6	25.8	26.2	27.5	28.9
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	0.0	0.0	0.0	0.0	0.0
Cash & ST Invts	202	216	239	271	320
Inventory	62.4	85.2	81.7	93.3	102
Debtors	223	198	236	270	296
Other Current Assets	5.15	16.7	16.7	16.7	16.7
Total Assets	518	541	599	679	764
ST Debt	11.9	1.35	1.35	1.35	1.35
Creditor	138	186	179	205	225
Other Current Liab	70.0	64.2	77.6	74.0	76.3
LT Debt	2.84	3.94	3.94	3.94	3.94
Other LT Liabilities	2.03	2.18	2.18	2.18	2.18
Shareholder's Equity	293	284	335	392	456
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	518	541	599	679	764
Non-Cash Wkg. Capital	81.7	49.5	77.2	101	114
Net Cash/(Debt)	187	211	233	266	315
Debtors Turn (avg days)	122.6	93.5	85.9	87.6	89.4
Creditors Turn (avg days)	111.2	97.5	99.1	91.1	92.8
Inventory Turn (avg days)	46.2	44.4	45.3	41.5	42.3
Asset Turnover (x)	1.5	1.5	1.6	1.6	1.6
Current Ratio (x)	2.2	2.1	2.2	2.3	2.4
Quick Ratio (x)	1.9	1.6	1.8	1.9	2.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	32.1	152.2	170.4	189.3	189.3

Source: Company, DBS Bank

Aztech Global

Cash Flow Statement (S\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	85.0	80.7	128	139	152
Dep. & Amort.	10.2	8.61	8.61	8.61	8.61
Tax Paid	(15.8)	(10.7)	(13.6)	(26.9)	(23.3)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(35.6)	(40.6)	(41.1)	(20.1)	(15.4)
Other Operating CF	(1.9)	57.5	0.0	0.0	0.0
Net Operating CF	41.9	95.6	82.1	101	122
Capital Exp.(net)	(4.7)	(8.0)	(9.0)	(10.0)	(10.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts 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	0.63	2.00	0.0	0.0	0.0
Net Investing CF	(4.1)	(6.0)	(9.0)	(10.0)	(10.0)
Div Paid	(15.3)	(61.8)	(50.6)	(57.8)	(63.4)
Chg in Gross Debt	(21.5)	(11.0)	0.0	0.0	0.0
Capital Issues	189	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	152	(72.7)	(50.6)	(57.8)	(63.4)
Currency Adjustments	0.33	(2.2)	0.0	0.0	0.0
Chg in Cash	190	14.7	22.5	32.8	49.0
Opg CFPS (S cts)	10.0	17.6	15.9	15.6	17.8
Free CFPS (S cts)	4.80	11.3	9.45	11.7	14.5

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:	21 Feb 23	0.85	1.15	BUY
2:	05 May 23	0.80	1.05	BUY

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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