

Singapore

ADD (no change)

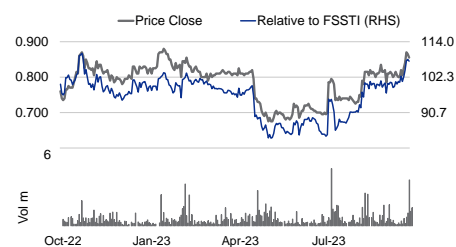
Consensus ratings*: Buy 4 Hold 0 Sell 0

Current price:	S\$0.855
Target price:	S\$1.23
Previous target:	S\$1.23
Up/downside:	43.9%
CGS-CIMB / Consensus:	16.9%
Reuters:	AZTE.SI
Bloomberg:	AZTECH SP
Market cap:	US\$482.5m
	S\$660.0m
Average daily turnover:	US\$0.45m
	S\$0.62m
Current shares o/s:	772.0m
Free float:	29.7%

*Source: Bloomberg

Key changes in this note

- FY23-24F revenue raised by 0.8-1.7%.
- FY23-24F EPS raised by 1.4-2.8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.4	22.1	12.5
Relative (%)	6	24.7	8.4

Major shareholders	% held
Aventure Investments Ltd	70.2
HSBC Holdings	1.2

Analyst(s)

William TNG, CFA

T (65) 6210 8676

E william.tng@cgs-cimb.com

Aztech Global Ltd

Revenue could cross S\$1bn by FY25F

- Aztech reported 3Q23 net profit of S\$30.9 (+48.6% yoy, +4.7% qoq), 5% below our S\$32.5m forecast.
- 3Q23 net profit was reduced by a S\$5.5m withholding tax. Excluding this, 3Q23 net profit would have been S\$36.4m, 12% above our expectation.
- Reiterate Add, with unchanged S\$1.23 TP, as FY23F orderbook remains strong and management remains optimistic of FY24F growth opportunities.

Record net profit in 3Q23

Aztech Global's 3Q23 revenue of S\$283.4m was 6% above our forecast of S\$267.5m; 9M23 revenue formed 73%/75% of our/Bloomberg consensus' full-year estimates. 3Q23 net profit was a record-high S\$30.9m (since 1Q20), but 5% below our S\$32.5m expectation, due to an unexpected S\$5.5m withholding tax provision that Aztech made for its Dongguan subsidiary. Excluding this provision, 3Q23 net profit would have been S\$36.4m, 12% above our expectation. 9M23 net profit formed 76%/82% of our/Bloomberg consensus' full-year estimates. Net cash as at end Sep-23 was S\$215.4m.

Management optimistic on FY24F prospects

Aztech updated that it has an orderbook of S\$322.7m as at 16 Oct 2023 and the company will try to deliver between 80-90% of its orderbook in 4Q23F. Orders secured were for Internet-of-Things (IoT) solutions across varied market segments, including consumer & lifestyle, security, communication, automotive, healthtech, tracking and point of sales. Aztech also highlighted that the order lead time from customers has normalised from 9-12 months during the Covid-19 pandemic period to 2-3 months currently (which is the pre-pandemic norm). On prospects for FY24F, although management did not provide any guidance, based on its interactions with customers, management remains optimistic about opportunities to grow revenue next year. In our view, Aztech's new 300,000-sq-ft Pasir Gudang facility, which commenced production in 3Q23, would be able to drive revenue growth in FY24-25F if the company is able to secure new customers/orders. With the resumption of trade exhibitions, we think Aztech could participate in the Consumer Electronics Show (CES) 2024 (a major consumer electronics trade show in the US) to showcase its product offerings.

Reiterate Add, given still positive outlook for FY24-25F

We reiterate our Add call on Aztech given its EPS growth prospects. Our TP is unchanged at S\$1.23, still based on an FY25F P/E target of 8.7x, its 3-year average. We raise our FY23-24F revenue forecasts by 0.8-1.7%, given the better-than-expected 3Q23 revenue performance, leading to a 1.4-2.8% increase in our FY22-24F EPS forecasts. Key re-rating catalysts: potential new customer wins and more project wins from its main customer. Downside risks: order cancellations due to an economic slowdown affecting demand, and volatile foreign exchange rate movements affecting its financials.

Financial Summary	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (S\$m)	624	820	939	985	1,033
Net Profit (S\$m)	74.4	67.2	100.3	104.5	109.6
Normalised EPS (S\$)	0.10	0.09	0.13	0.14	0.14
Normalised EPS Growth	7.0%	(9.7%)	49.2%	4.3%	4.8%
FD Normalised P/E (x)	7.99	9.82	6.58	6.31	6.02
Price To Sales (x)	1.06	0.80	0.70	0.67	0.64
DPS (S\$)	0.050	0.045	0.065	0.068	0.071
Dividend Yield	5.85%	5.26%	7.60%	7.92%	8.30%
EV/EBITDA (x)	4.94	5.09	3.90	3.37	2.91
P/FCFE (x)	31.4	34.6	423.6	7.2	6.8
Net Gearing	(63.8%)	(74.3%)	(48.6%)	(52.1%)	(55.1%)
P/BV (x)	2.25	2.32	1.98	1.71	1.50
ROE	44.5%	23.3%	32.4%	29.0%	26.5%
EPS/Consensus EPS (x)			1.08	1.04	1.04
% Change In Normalised EPS Estimates			2.78%	1.36%	0.00%
Normalised EPS/consensus EPS (x)			1.08	1.04	1.04

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results summary

FYE Dec (\$\$ m)	3Q23	3Q22	yoy chg	2Q23	qoq chg	Comments
Revenue	283.4	242.4	16.9%	227.0	24.8%	3Q23 revenue was 6.0% above our expectation of S\$267.5m. 9M23 revenue formed 73% of our full year forecast and 75% of Bloomberg consensus full year forecast. Strong demand from IoT and data communication segment led yoy revenue growth of 16.9%/10.7% for 3Q23/9M23.
EBITDA	46.2	29.0	59.3%	38.1	21.3%	
EBITDA margin	16.3%	12.0%	+4.3 %pts	16.8%	-0.5%pts	Margin improved due to higher revenue.
Profit before tax	43.7	26.2	66.8%	35.5	23.1%	
PBT margin	15.4%	10.8%	-4.6 %pts	15.6%	-0.2 % pts	
Tax	(12.9)	(5.4)	138.9%	(6.0)	115.0%	
Tax rate	29.5%	20.6%	+8.9 %pts	16.9%	+12.6 %pts	Aztech made a S\$5.5m provision for withholding tax for its Dongguan subsidiary.
Net profit	30.9	20.8	48.6%	29.5	4.7%	3Q23 net profit was 5.0% below our S\$32.5m expectation. This due to the unexpected S\$5.5m provision for withholding tax for Aztech's Dongguan subsidiary. We deem 3Q23 net profit to be in line with our expectation. Excluding this provision, 3Q23 net profit would have been S\$36.4m, 12% above our expectation. 9M23 net profit was 76% of our full year forecast and 82% of Bloomberg consensus forecast.
Net profit margin	10.9%	8.6%	+2.3 %pts	13.0%	-2.1 %pts	Net profit margin grew 2.3 %pts yoy and but fell 2.1 %pts qoq due to the withholding tax provision. Excluding the withholding tax provision, NPM in 3Q23 would have been 12.8%, better than 3Q22 NPM of 8.6% and in line with 2Q23 NPM of 13.0%.
EPS (Scts)	4.00	2.69	48.7%	3.83	4.4%	

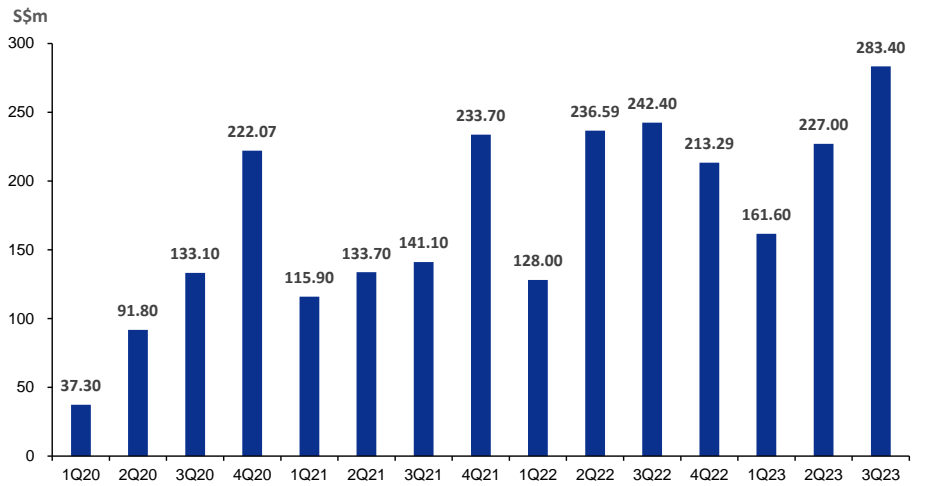
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Earnings revisions

(\$m)	Old			New			% chg		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	923.65	976.59	1,032.86	939.22	984.58	1,032.86	1.69	0.82	0.00
Gross profit	193.97	207.04	218.97	197.24	208.73	218.97	1.69	0.82	0.00
Operating expenses	(79.13)	(83.10)	(87.28)	(79.13)	(83.10)	(87.28)	0.00	0.00	0.00
Net profit	97.56	103.13	109.57	100.27	104.54	109.57	2.78	1.36	0.00
EPS (Scts)	12.638	13.360	14.194	12.989	13.542	14.194	2.78	1.36	0.00
(in %)								% pts	
Tax rate	(17.00)	(17.00)	(17.00)	(17.00)	(17.00)	(17.00)	0.00	0.00	0.00
Gross profit margin	21.00	21.20	21.20	21.00	21.20	21.20	0.00	0.00	0.00
Net profit margin	10.56	10.56	10.61	10.68	10.62	10.61	0.11	0.06	0.00

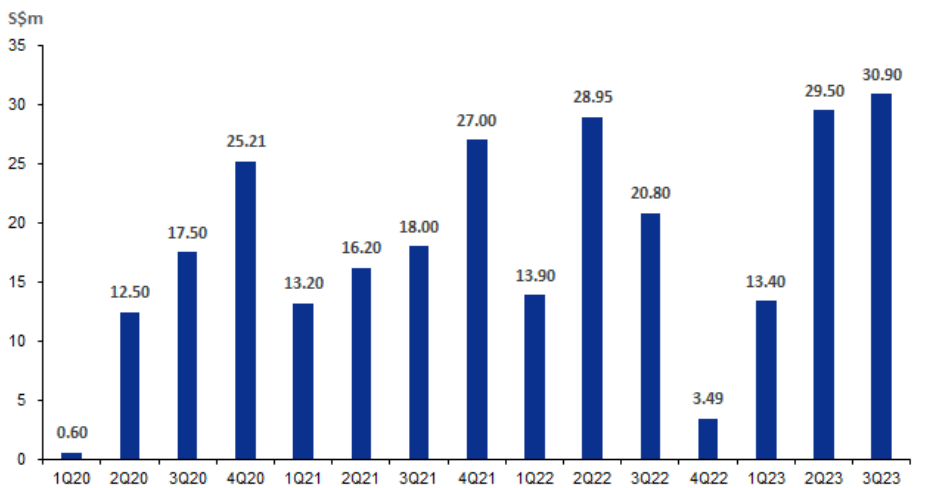
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Record revenue in 3Q23 ...



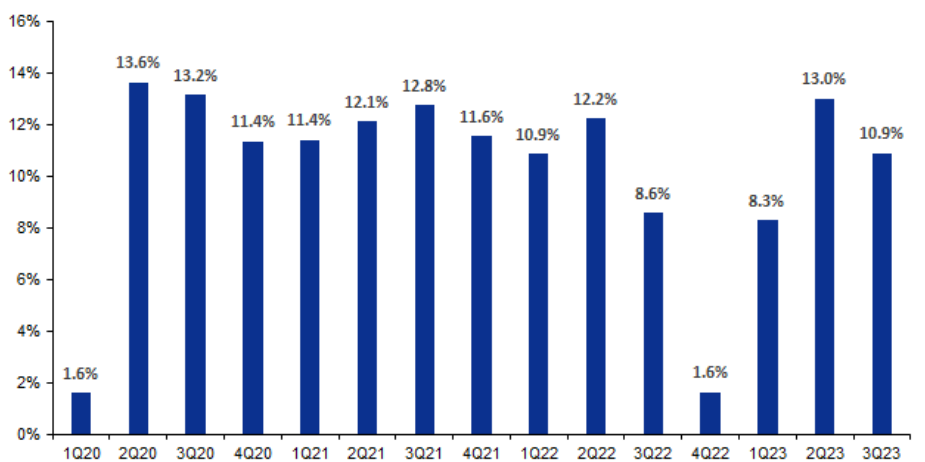
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: ... leading to record net profit

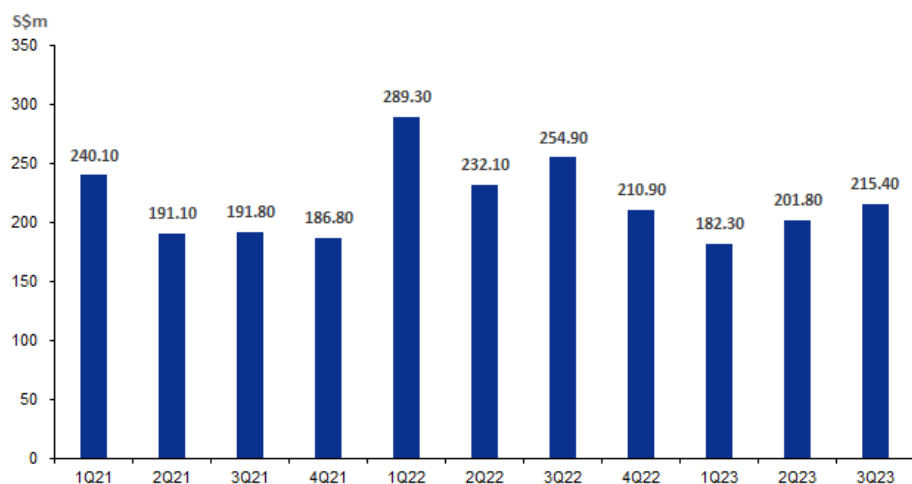


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

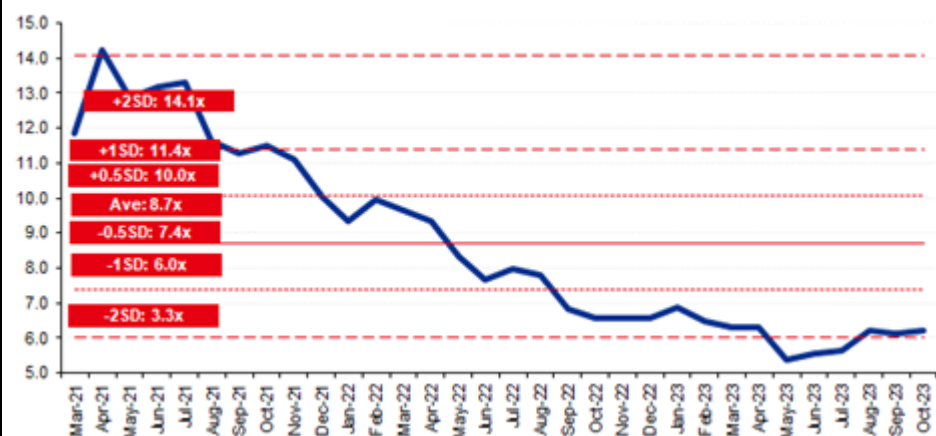
Figure 5: Net profit margin back to above 10% level



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 6: Net cash position grew qoq in 3Q23


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 7: Aztech's 12-mth forward P/E (x)


SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Peer comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY23F	P/E (x) CY24F	3-year EPS CAGR (%)	P/BV (x) CY23F	Recurring ROE (%) CY23F	Dividend Yield (%) CY23F
Aztech Global Ltd	AZTECH SP	Add	0.86	1.23	482	6.6	6.3	18.0%	1.98	32.8%	7.6%
Aurelius Technologies	ATECH M	NR	2.69	NA	220	25.9	17.9	30.1%	3.95	16.7%	2.1%
Benchmark Electronics	BHE US	NR	24.46	NA	847	12.2	10.2	na	0.79	6.9%	2.8%
Cape EMS	CEB MK	NR	1.16	NA	226	18.4	14.0	12.9%	2.76	17.3%	1.6%
Celestica Inc	CLS US	NR	26.70	NA	3,274	11.8	10.5	28.9%	na	na	na
Flextronics International	FLEX US	NR	26.78	NA	11,510	15.3	10.0	15.6%	1.94	18.5%	na
Jabil Circuit	JBL US	NR	139.1	NA	17,797	22.6	14.2	17.0%	6.46	34.3%	0.2%
Nationgate	NATGATE	NR	1.23	NA	543	32.4	18.6	15.0%	7.75	20.4%	0.5%
PIE Industrial	PIE MK	NR	3.11	NA	253	18.3	15.2	9.6%	1.95	10.7%	1.9%
Plexus Corp	PLXS US	NR	94.97	NA	2,576	17.9	14.8	2.7%	2.17	13.5%	na
Sanmina-SCI Corp	SANM US	NR	54.07	NA	3,022	8.8	na	na	na	na	na
SKP Resources Bhd	SKP MK	Add	0.97	1.26	324	12.5	11.6	-1.2%	1.67	14.0%	4.0%
Venture Corporation	VMS SP	Add	12.07	16.61	2,565	12.9	11.2	-3.6%	1.21	9.5%	6.2%
VS Industry Bhd	VSI MK	Hold	0.97	0.92	786	19.4	15.1	na	1.69	8.9%	2.5%
Simple average excluding Aztech						17.6	13.6	13.0%	2.94	15.5%	2.4%

DATA AS AT 16 OCT 2023

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Note: Estimates for Not Rated (NR) companies are based on Bloomberg consensus



ESG in a nutshell

Aztech manufactures products for several global blue-chip customers; this accounts for the bulk of its revenue and requires the company to adhere to its supply chain standards manual that promotes inclusiveness, respecting human rights, safe workplace conditions, protection of the environment, and ethical behaviour.

Keep your eye on

Aztech's China factory is in the Changping sub-district in Dongguan.

Implications

Aztech presently has a production facility in Dongguan City, Changping town that is leased from the Guangdong provincial government in China; however, it has not obtained the necessary certificates and permits from the state government, which may result in the discontinuation and disruption of its buildings currently on the Dongguan land. In the event that Aztech is not able to obtain the necessary certificates and permits, and if the Chinese government requires the company to demolish or terminate its leasing agreement, the company's production will be disrupted. According to Aztech's 2022 annual report, Changping Town Government issued a further certification that for the period ending Mar 2025, the lease for the land in Dongguan on which Aztech's factories are sited will not be withdrawn. Aztech also used to operate a smaller facility in Dongguan. Following the expansion of the group's production capacity in Malaysia, the lease for the smaller facility in Dongguan was not renewed upon its expiry in Dec 22.

ESG highlights

Aztech's manufacturing operations are subject to environmental risks and hazards, and the company is responsible for ensuring product safety, safe workplace conditions, and proper waste disposal.

Implications

Failure to comply with laws and regulations in its market of operations in relation to the environment and/or workplace safety may result in fines, penalties and revocation of permits, licences and rights granted to Aztech, causing downside to earnings. According to Aztech's offer document and FY22 annual report, it did not encounter any environmental hazards with regards to its manufacturing operations in China during FY17-22.

Trends

Aztech's energy and water consumption is mainly for its office, manufacturing operations and motor vehicles. Aztech recognises that the efficient use of resources is essential for sustained economic growth and is committed to integrating environmental values into its value chain.

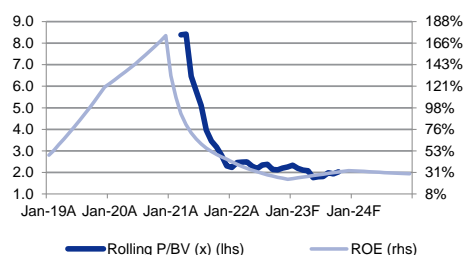
Implications

To improve its energy consumption efficiency, Aztech has converted air conditioners at its dormitories in Dongguan into energy efficient inverter systems. In addition, the company is exploring the deployment of solar energy systems to reduce carbon emissions and move towards renewable energy sources.

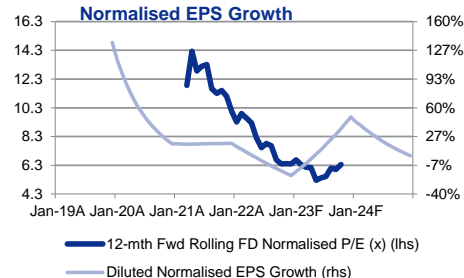
SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth



Profit & Loss

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	626.0	820.2	939.2	984.6	1,032.9
Gross Profit	157.1	204.7	206.8	219.3	230.6
Operating EBITDA	95.8	88.3	127.7	136.2	143.3
Depreciation And Amortisation	(10.2)	(8.6)	(9.6)	(10.6)	(11.6)
Operating EBIT	85.6	79.7	118.1	125.6	131.7
Financial Income/(Expense)	(0.7)	1.1	2.7	0.3	0.3
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	85.0	80.7	120.8	125.9	132.0
Exceptional Items					
Pre-tax Profit	85.0	80.7	120.8	125.9	132.0
Taxation	(10.6)	(13.5)	(20.5)	(21.4)	(22.4)
Exceptional Income - post-tax					
Profit After Tax	74.4	67.2	100.3	104.5	109.6
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	74.4	67.2	100.3	104.5	109.6
Normalised Net Profit	74.4	67.2	100.3	104.5	109.6
Fully Diluted Normalised Profit	74.4	67.2	100.3	104.5	109.6

Cash Flow

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	95.8	88.3	127.7	136.2	143.3
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(36.3)	(40.5)	(93.3)	(8.9)	(9.7)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(1.2)				
Other Operating Cashflow					
Net Interest (Paid)/Received	(0.7)	(0.9)	(1.3)	(1.3)	(1.3)
Tax Paid	(15.8)	(10.7)	(20.5)	(21.4)	(22.4)
Cashflow From Operations	41.9	36.1	12.6	104.7	109.9
Capex	(4.8)	(8.3)	(15.0)	(15.0)	(15.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	0.7	2.2	4.0	1.6	1.6
Cash Flow From Investing	(4.1)	(6.0)	(11.0)	(13.4)	(13.4)
Debt Raised/(repaid)	(18.9)	(11.0)	0.0	0.0	0.0
Proceeds From Issue Of Shares	188.7	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid		(61.8)	(50.1)	(52.3)	(54.8)
Preferred Dividends					
Other Financing Cashflow	(17.9)				
Cash Flow From Financing	151.9	(72.7)	(50.1)	(52.3)	(54.8)
Total Cash Generated	189.7	(42.7)	(48.6)	39.0	41.7
Free Cashflow To Equity	18.9	19.1	1.6	91.3	96.5
Free Cashflow To Firm	38.5	31.0	2.9	92.6	97.8

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	201.5	216.2	167.6	206.6	248.3
Total Debtors	222.5	197.6	295.9	310.2	325.4
Inventories	62.4	85.2	100.3	104.8	109.9
Total Other Current Assets	5.2	16.7	16.7	16.7	16.7
Total Current Assets	491.6	515.6	580.5	638.3	700.3
Fixed Assets	26.6	25.8	31.2	35.5	38.9
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	0.0	0.0	0.0	0.0	0.0
Total Non-current Assets	26.6	25.8	31.2	35.5	38.9
Short-term Debt	11.9	1.3	1.3	1.3	1.3
Current Portion of Long-Term Debt					
Total Creditors	138.5	185.7	205.9	215.8	226.4
Other Current Liabilities	70.0	64.2	64.2	64.2	64.2
Total Current Liabilities	220.4	251.3	271.4	281.4	291.9
Total Long-term Debt	2.8	3.9	3.9	3.9	3.9
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1.7	2.2	2.2	2.2	2.2
Total Non-current Liabilities	4.6	6.1	6.1	6.1	6.1
Total Provisions	0.3	0.0	0.0	0.0	0.0
Total Liabilities	225.2	257.4	277.5	287.5	298.1
Shareholders' Equity	293.0	284.0	334.1	386.4	441.2
Minority Interests					
Total Equity	293.0	284.0	334.1	386.4	441.2

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	28.9%	31.4%	14.5%	4.8%	4.9%
Operating EBITDA Growth	25.6%	(7.9%)	44.7%	6.7%	5.2%
Operating EBITDA Margin	15.4%	10.8%	13.6%	13.8%	13.9%
Net Cash Per Share (S\$)	0.24	0.27	0.21	0.26	0.31
BVPS (S\$)	0.38	0.37	0.43	0.50	0.57
Gross Interest Cover	126.5	85.6	90.9	96.6	101.3
Effective Tax Rate	12.5%	16.8%	17.0%	17.0%	17.0%
Net Dividend Payout Ratio	51.9%	51.7%	50.0%	50.0%	50.0%
Accounts Receivables Days	122.6	93.5	95.9	112.7	112.3
Inventory Days	45.20	43.77	46.23	49.06	48.85
Accounts Payables Days	108.8	96.1	97.6	100.8	100.6
ROIC (%)	130%	74%	157%	72%	70%
ROCE (%)	44.7%	27.3%	38.8%	34.8%	31.8%
Return On Average Assets	18.3%	12.5%	16.9%	16.2%	15.5%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
IoT devices and Datacom products (% yoy)	39.5%	34.2%	15.2%	5.0%	5.1%
LED products (% yoy)	-51.3%	-31.1%	-15.0%	-5.0%	-5.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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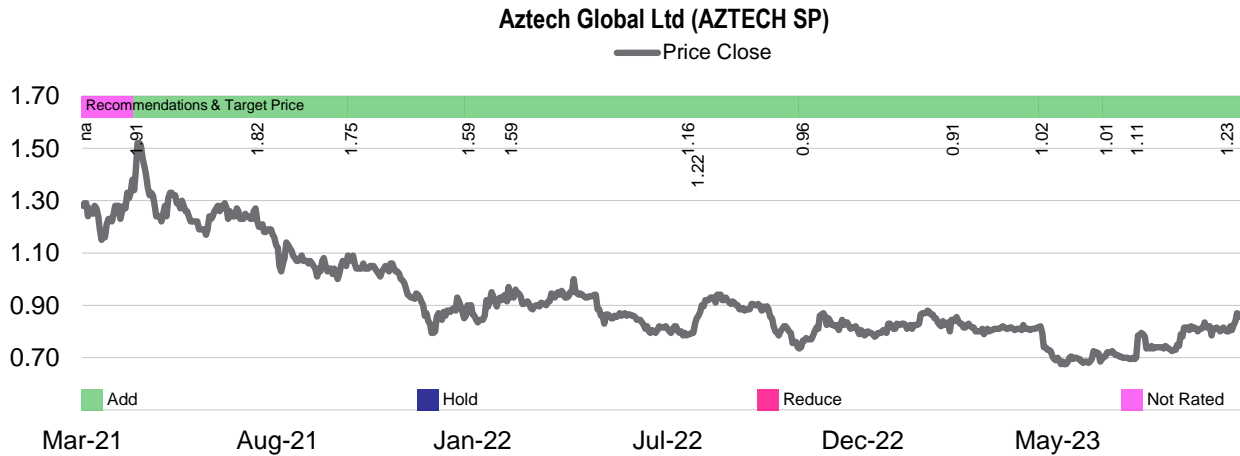
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2023		
634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Spitzer Chart for stock being researched (2 year data)



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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
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