

Singapore

ADD (no change)

Consensus ratings*: Buy 4 Hold 0 Sell 0

Current price:	S\$0.87
Target price:	S\$1.23
Previous target:	S\$1.23
Up/downside:	41.4%
CGSI / Consensus:	9.3%
Reuters:	AZTE.SI
Bloomberg:	AZTECH SP
Market cap:	US\$500.5m
	S\$671.6m
Average daily turnover:	US\$0.46m
	S\$0.62m
Current shares o/s:	772.0m
Free float:	29.7%

*Source: Bloomberg

Key changes in this note

➤ FY26 forecasts introduced.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.6	-7.5	3
Relative (%)	-1.7	-11	5.3

Major shareholders

	% held
Aventure Investments Ltd	70.2
HSBC Holdings	1.2

Analyst(s)



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Aztech Global Ltd

Final dividend a surprise

- FY23 revenue was 4.6%/1.9% below our/consensus expectations but net profit was in line with our expectation as margin was better-than expected.
- Aztech's new 300,000 sq ft facility is fully operational. Order book for FY24F was S\$33.9m as at 17 Feb 2023.
- Reiterate Add with unchanged TP of S\$1.23, based on 8.7x (3-year average) FY25F EPS. Final dividend of 5.0Scts was a surprise.

FY23 revenue missed but net profit in line

FY23 revenue of S\$896.3m (+9.3% yoy) was 4.6%/1.9% below our/Bloomberg consensus expectations. However, FY23 net profit of S\$100.0m (+48.9% yoy) was in line with our expectation though 2.0% below Bloomberg consensus'. FY23 net profit met our expectation despite the revenue miss as Aztech achieved a better product mix in FY23 resulting in pre-tax profit margin of 13.8% vs. 9.8% in FY22. The key surprise in FY23 results was a stronger final DPS of 5.0Scts, more than triple the final DPS of 1.5 Scts for FY22. Including the interim DPS of 3.0Scts, Aztech's full-year DPS is 8.0Scts; this translates to a payout ratio of 61.7%.

S\$333.9m order book for FY24F

Aztech announced an order book worth S\$333.9m (as at 22 Feb 2024) scheduled for completion in FY24F. Its new 300,000 sq ft facility in Johor is already fully operational. Aztech's customer diversification efforts include securing new US-based companies providing smart baby monitoring, health tech wearable and kitchen scrap management solutions as well as a Singapore-based health tech company involved in respiratory monitoring devices. The company has also launched IP (Internet Protocol) cameras under its own "Kyla" brand and guided that this range of products is gaining traction in the Singapore Pre School Educational segment. Aztech also plans to further integrate artificial intelligence (AI) in its video camera products to widen its customer base. Its major customer likely accounted for 70-80% of FY23 revenue, in our estimate.

Add for dividend support

We reiterate our Add call on Aztech as we think the company could maintain a 8Scts DPS over FY24-26F, rewarding investors with prospective 9.20% dividend yield in an environment where macroeconomic growth outlook is weak. Our TP is unchanged at S\$1.23, still based on an FY25F P/E target of 8.7x, its 3-year average. We marginally tweak our FY24-25F EPS forecasts by 0.001-0.003% as we fine-tune our revenue, operating expenses and gross profit margin assumptions. Key re-rating catalysts: potential new customer wins and winning more projects 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-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (S\$m)	820	896	965	1,012	1,061
Net Profit (S\$m)	67.2	100.0	104.5	109.6	117.1
Normalised EPS (S\$)	0.09	0.13	0.14	0.14	0.15
Normalised EPS Growth	(9.7%)	48.9%	4.5%	4.8%	6.9%
FD Normalised P/E (x)	10.00	6.72	6.42	6.13	5.74
Price To Sales (x)	0.82	0.75	0.70	0.66	0.63
DPS (S\$)	0.045	0.080	0.080	0.080	0.080
Dividend Yield	5.17%	9.20%	9.20%	9.20%	9.20%
EV/EBITDA (x)	5.22	3.63	3.49	3.06	2.73
P/FCFE (x)	35.20	12.59	10.34	6.78	6.30
Net Gearing	(74.3%)	(62.1%)	(56.3%)	(58.1%)	(59.9%)
P/BV (x)	2.36	1.95	1.73	1.56	1.42
ROE	23.3%	31.8%	28.5%	26.8%	25.9%
% Change In Normalised EPS Estimates			0.003%	0.001%	
Normalised EPS/consensus EPS (x)			0.97	0.96	

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 1: Results summary

FYE Dec (\$ m)	2H23	2H22	yoy chg (%)	1H23	hoh chg (%)	FY23	FY22	yoy chg (%)	Prev FY23F	Comments
Revenue	507.7	455.7	11.4	388.6	30.7	896.3	820.2	9.3	939.2	FY23 revenue was 4.6% below our forecast. FY23 revenue was 1.9% below Bloomberg consensus forecast.
Cost of sales	(383.8)	(333.6)	15.1	(300.6)	27.7	(684.4)	(615.6)	11.2	(732.4)	
Gross material (GM) profit	123.9	122.1	1.5	88.0	40.8	211.9	204.7	3.5	206.8	
GM profit margin (%)	24.4	26.8	-2.39%	22.6	+1.75%	23.6	25.0	-1.31%	22.0	
Exceptionals	0.0	0.0	n.m.	0.0	n.m.	na	na	na	0.0	
Pretax profit	72.7	30.3	139.8	51.0	42.4	123.7	80.7	53.3	120.8	
Tax	(15.6)	(6.0)	161.1	(8.1)	92.0	(23.7)	(13.5)	75.2	(20.5)	
Tax rate (%)	21.5	19.7	+1.75%	15.9	+5.54%	19.2	16.8	.40%	17.0	Higher tax rate due to fully utilised tax incentives from its operations in China.
Minority interests	0.0	0.0	n.m.	0.0	n.m.	na	na	na	0.0	
Net profit	57.1	24.3	134.6	42.9	33.0	100.0	67.2	48.9	100.3	FY23 net profit revenue was in line with our forecast. FY23 net profit was 2.0% below Bloomberg consensus forecast.
Core net profit	57.1	24.3	134.6	42.9	33.0	100.0	67.2	48.9	100.3	
EPS (cts)	7.4	3.2	134.9	5.6	33.1	13.0	8.7	48.9	13.0	
Core EPS (cts)	7.4	3.2	134.9	5.6	33.1	13.0	8.7	48.9	13.0	

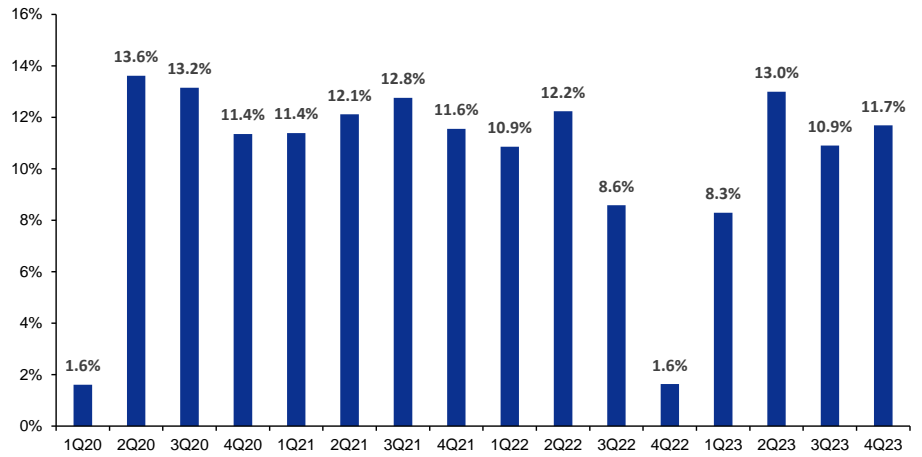
SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 2: Earnings revisions

(\$m)	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	984.58	1,032.86	965.47	1,011.86	(1.94)	(2.03)
Gross profit	208.73	218.97	203.94	214.92	(2.30)	(1.85)
Operating expenses	(83.10)	(87.28)	(83.78)	(87.99)	0.82	0.82
Net profit	104.54	109.57	104.54	109.57	0.00	0.00
EPS (Scts)	13.542	14.194	13.542	14.194	0.00	0.00
(in %)						
Tax rate	(17.00)	(17.00)	(17.00)	(17.00)	0.00	0.00
Gross profit margin	21.20	21.20	21.12	21.24	(0.08)	0.04
Net profit margin	10.62	10.61	10.83	10.83	0.21	0.22

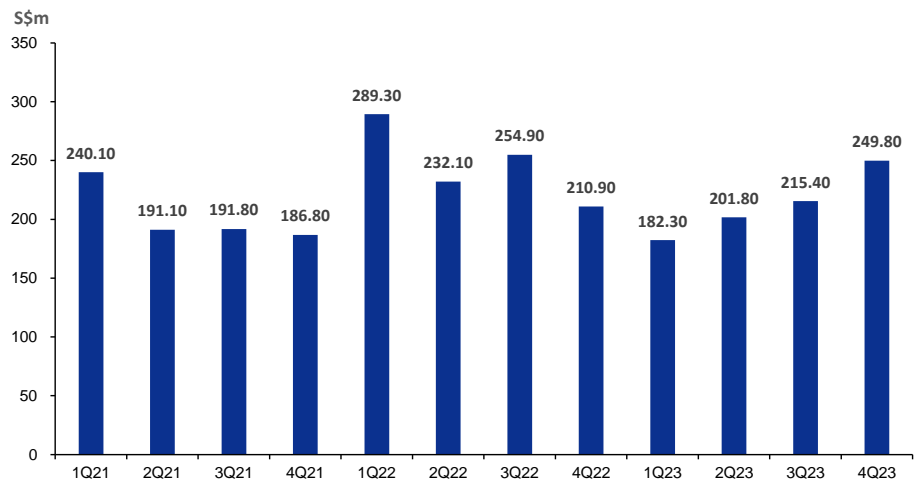
SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Net profit margin back to above 10% level



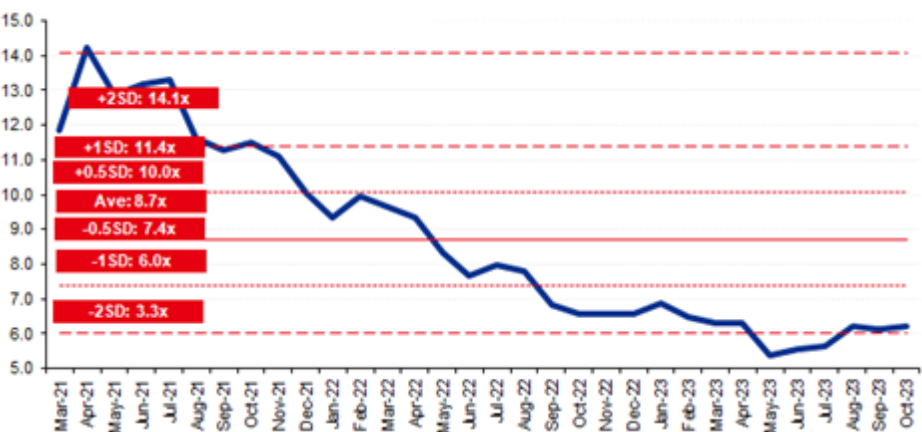
SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 4: Net cash position grew qoq in 4Q23



SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 5: Aztech's 12-mth forward P/E (x)



SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

Figure 6: IP product offering under own brand “Kyla”



SOURCES: COMPANY REPORTS

Figure 7: 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	0.87	1.23	500	6.7	6.4	18.8%	1.95	31.3%	9.2%
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	0.77	0.92	252	12.0	11.7	-9.1%	1.33	11.7%	4.1%
Venture Corporation	VMS SP	Add	14.10	15.93	3,050	15.1	14.1	-4.4%	1.44	9.4%	5.3%
VS Industry Bhd	VSI MK	Hold	0.77	0.82	612	17.4	15.2	na	1.35	7.9%	2.8%
Simple average excluding Aztech						17.5	13.9	12.1%	2.90	15.2%	2.4%

DATA AS AT 23 FEB 2024

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
Note: Estimates for Not Rated (NR) companies are based on Bloomberg consensus



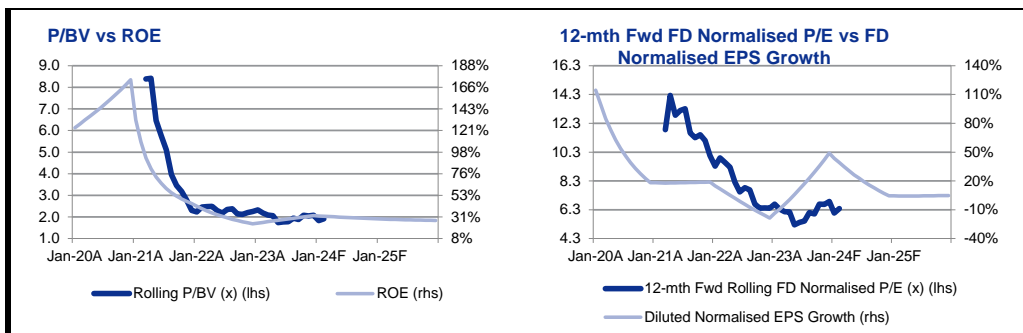
ESG in a nutshell

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	Implications
<p>Aztech's China factory is in the Changping sub-district in Dongguan.</p>	<p>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.</p>
ESG highlights	Implications
<p>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.</p>	<p>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.</p>
Trends	Implications
<p>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.</p>	<p>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.</p>

SOURCES: CGSI RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	820.2	896.3	965.5	1,011.9	1,060.8
Gross Profit	204.7	211.9	213.7	225.7	233.4
Operating EBITDA	88.3	126.1	129.9	137.7	141.8
Depreciation And Amortisation	(8.6)	(8.7)	(9.7)	(10.7)	(11.7)
Operating EBIT	79.7	117.3	120.2	126.9	130.0
Financial Income/(Expense)	1.1	6.4	5.8	5.1	3.8
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)	80.7	123.7	126.0	132.0	133.8
Exceptional Items					
Pre-tax Profit	80.7	123.7	126.0	132.0	133.8
Taxation	(13.5)	(23.7)	(21.4)	(22.4)	(16.7)
Exceptional Income - post-tax					
Profit After Tax	67.2	100.0	104.5	109.6	117.1
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	67.2	100.0	104.5	109.6	117.1
Normalised Net Profit	67.2	100.0	104.5	109.6	117.1
Fully Diluted Normalised Profit	67.2	100.0	104.5	109.6	117.1

Cash Flow

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	88.27	126.09	129.90	137.67	141.75
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(40.55)	(42.52)	(34.34)	(6.31)	(7.18)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(0.93)	(1.08)	(1.30)	(1.30)	(1.30)
Tax Paid	(10.72)	(14.18)	(21.41)	(22.44)	(16.73)
Cashflow From Operations	36.07	68.31	72.86	107.62	116.54
Capex	(8.28)	(4.26)	(15.00)	(15.00)	(15.00)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	2.24	(1.97)	7.09	6.39	5.11
Cash Flow From Investing	(6.04)	(6.23)	(7.91)	(8.61)	(9.89)
Debt Raised/(repaid)	(10.95)	(8.74)	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00	0.00
Shares Repurchased					
Dividends Paid	(61.76)	(34.74)	(61.76)	(67.66)	(72.30)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(72.71)	(43.48)	(61.76)	(67.66)	(72.30)
Total Cash Generated	(42.68)	18.61	3.19	31.35	34.35
Free Cashflow To Equity	19.08	53.34	64.95	99.00	106.65
Free Cashflow To Firm	30.97	63.16	66.25	100.30	107.95

SOURCES: CGSI RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	216.2	231.4	235.6	267.0	301.3
Total Debtors	197.6	200.7	238.1	249.5	261.6
Inventories	85.2	73.9	82.4	86.2	90.7
Total Other Current Assets	16.7	45.4	45.4	45.4	45.4
Total Current Assets	515.6	551.5	601.4	648.0	698.9
Fixed Assets	25.8	44.8	50.1	54.3	57.6
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	25.8	44.8	50.1	54.3	57.6
Short-term Debt	1.3	3.5	3.5	3.5	3.5
Current Portion of Long-Term Debt					
Total Creditors	185.7	173.7	185.2	194.1	203.4
Other Current Liabilities	64.2	49.9	49.9	49.9	49.9
Total Current Liabilities	251.3	227.2	238.6	247.5	256.9
Total Long-term Debt	3.9	13.8	13.8	13.8	13.8
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2.2	11.4	11.4	11.4	11.4
Total Non-current Liabilities	6.1	25.1	25.1	25.1	25.1
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	257.4	252.3	263.8	272.7	282.0
Shareholders' Equity	284.0	344.9	387.7	429.6	474.4
Minority Interests					
Total Equity	284.0	344.9	387.7	429.6	474.4

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	31.4%	9.3%	7.7%	4.8%	4.8%
Operating EBITDA Growth	(7.9%)	42.9%	3.0%	6.0%	3.0%
Operating EBITDA Margin	10.8%	14.1%	13.5%	13.6%	13.4%
Net Cash Per Share (S\$)	0.27	0.28	0.28	0.32	0.37
BVPS (S\$)	0.37	0.45	0.50	0.56	0.61
Gross Interest Cover	85.6	108.9	92.4	97.6	100.0
Effective Tax Rate	16.8%	19.2%	17.0%	17.0%	12.5%
Net Dividend Payout Ratio	51.7%	61.7%	59.1%	61.7%	61.7%
Accounts Receivables Days	93.47	81.10	83.17	87.94	87.93
Inventory Days	43.77	42.44	38.05	39.12	39.01
Accounts Payables Days	96.11	95.84	87.36	88.03	87.68
ROIC (%)	74%	156%	85%	70%	68%
ROCE (%)	27.3%	38.3%	33.2%	31.3%	28.8%
Return On Average Assets	12.5%	16.5%	15.8%	15.4%	15.5%

Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
IoT devices and Datacom products (% yoy)	34.2%	10.1%	8.0%	5.0%	5.0%
LED products (% yoy)	-31.1%	-25.9%	-10.0%	-10.0%	-10.0%

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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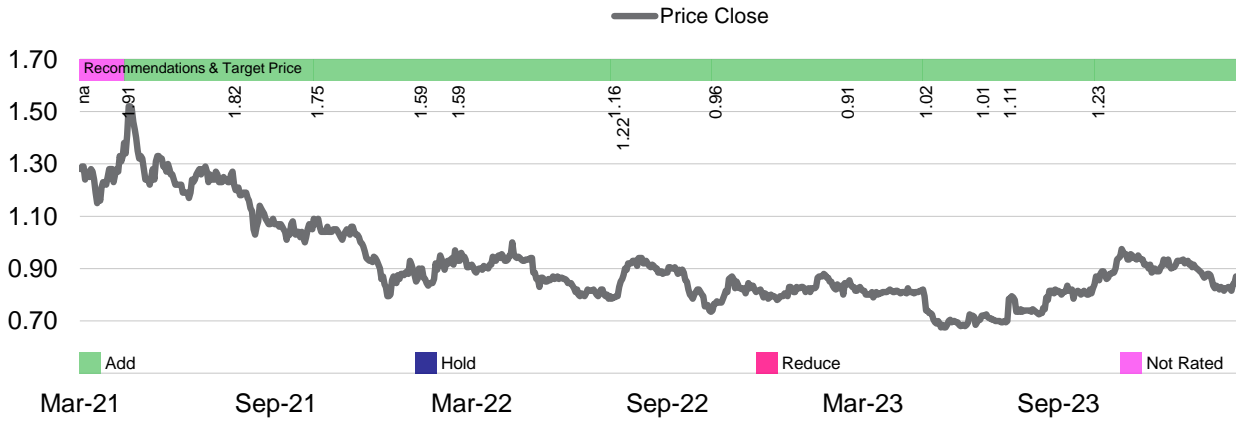
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2023		
636 companies under coverage for quarter ended on 31 December 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)

Aztech Global Ltd (AZTECH SP)



Recommendation Framework

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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