# Maybank

# Aztech Global (AZTECH SP)

# Slight chip shortage improvement

### 2H21 beat; TP trimmed 10% to factor in earnings risks

Aztech's 2H21 PATMI of SGD45m (+5.3% YoY, +52.9% QoQ) beat our expectation and met the street's. Order book for FY22 delivery rose from SGD426m (Oct-21) to SGD762m (latest). We cut FY22E PATMI by 10.6% as we match our revenue to current order book. Key risk is if Aztech is unable to fulfil current order book amid component shortages. We cut our TP by 10% to SGD1.13 (unchanged 10x FY22E P/E) to factor in this earnings risk. We maintain BUY as most negatives appear priced in. Final DPS of SGD0.05 implies 5.4% 2H21 yield.

### GPM erosion offset by operating efficiency gains

FY21 PATMI of SGD74.4m (+33.5%) made up 105%/101% of our/street estimates. 2H21 revenue grew only 5.5% YoY due to chip shortages. 2H21 gross margin fell 4.5ppt/3.5ppt YoY/HoH to 23.5% primarily due to higher input costs to secure components. However, 2H21 net margin of 12% was comparable YoY and HoH as Aztech gained efficiencies from automation (staff cost as a percentage of revenue fell from 9% in 1H21 to 8% in 2H21). Aztech will strive to maintain net margins at current levels.

### Slight improvement in chip shortage

Order book of SGD762m is 9% shy of our previous FY22E revenue. If not for chip shortages, we would be comfortable that amid a strong demand backdrop, our previous FY22E revenue of SGD841m is achievable. This is because it is likely that Aztech will continue to win new orders as the year progresses. However, as certain components remain tight, we believe earnings risks persists. Management notes that the situation with chip shortages has improved slightly since last year.

### Valuation and swing factors

Our valuation of 10x P/E FY22E is a c.15% discount to global EMS peers trading at 11.7x. A risk we are concerned about over a longer horizon (e.g. FY24E) is commoditization-driven margin erosion with customer A's IoT products (which we expect contributed >70% of 2H21 revenue). If chip shortages dissipate materially and the demand outlook remains strong, we see room for upward revisions in our estimates, and this could also be a material catalyst for the stock.

EVE 2 (662 )	E\/00.4	E)/0//	E\/00E	E)/02E	E)/0.4E
FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	484	624	762	1,006	1,089
EBITDA	80	91	111	150	151
Core net profit	56	74	87	118	117
Core EPS (cts)	9.0	10.0	11.3	15.2	15.1
Core EPS growth (%)	44.5	11.0	12.7	35.2	(0.8)
Net DPS (cts)	6.6	7.0	3.4	4.6	4.6
Core P/E (x)	na	8.8	8.1	6.0	6.1
P/BV (x)	na	2.3	2.0	1.6	1.4
Net dividend yield (%)	na	8.0	3.7	5.0	5.0
ROAE (%)	173.3	44.5	26.9	29.8	24.5
ROAA (%)	24.2	18.2	14.9	16.5	14.3
EV/EBITDA (x)	9.1	5.1	4.8	3.4	2.6
Net gearing (%) (incl perps)	51.8	net cash	net cash	net cash	net cash
Consensus net profit	-	-	90	113	na
MKE vs. Consensus (%)	-	-	(3.5)	4.3	na

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# BUY

Share Price SGD 0.92 12m Price Target SGD 1.13 (+27%)

Previous Price Target SGD 1.26

#### **Company Description**

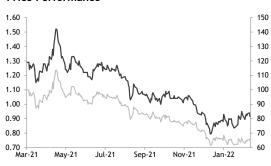
Aztech is a key enabler and technology hardware manufacturer for IoT, datacomm and LED electronics products

#### Statistics

52w high/low (SGD)	na/na
3m avg turnover (USDm)	1.1
Free float (%)	28.8
Issued shares (m)	774
Market capitalisation	SGD708.1M
	LICD526M

Major shareholders:	
AVS Investments Pte Ltd.	70.1%
Fiera Capital (UK) Ltd.	1.0%
JPMorgan Asset Management (Singapore) Lt	0.8%

#### Price Performance



——Aztech Global - (LHS, SGD) ——Aztech Global / Straits Times Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	2	(12)	na
Relative to index (%)	(2)	(17)	na

Co. Reg No: 198700034E MICA (P): 099/03/2012

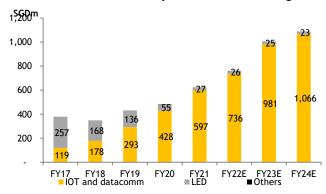
Source: FactSet



### **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.

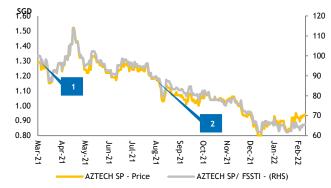
#### IoT and datacomm are the key drivers for Aztech's growth



Source: Company, Maybank IBG Research

### **Price Drivers**

### Historical share price trend

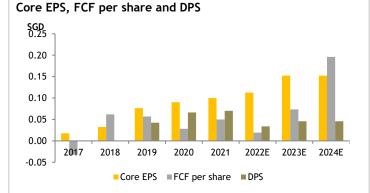


Source: Company, Maybank IBG Research

- 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.

### **Financial Metrics**

- We expect FY21-24 PATMI CAGR of 17%, largely driven by Customer A (new products and market penetration) as well as other new customers.
- FY24E net margins of 10.8% is lower than FY22E of 11.4% as we factor in some cost downs as we anticipate commoditisation led margin erosion at some point with Customer A's products.
- FY22-24E dividend pay-out assumption of 30%.



Source: Company

### **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.

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## Additional updates

Aztech notes that one of its customers (German IoT customer) is undergoing a preliminary judicial proceeding (protective shield proceeding) which could result in insolvency proceedings. The net amount owed to Aztech is SGD11.5m. The customer has informed Aztech that its interests are protected due to i) a protective clause, and ii) the inventory stored in the customer's warehouse is more than enough to pay for what is owed to Aztech. As Aztech is confident of recovering such monies, we have not factored in any write-offs for this in our FY22E. We have also not factored in any revenue contributions for this customer in FY22E, as we believe that as the customer sells-off inventory currently in the warehouse, it will not place new orders with Aztech in the near-term.

As for the status of Dongguan Land (for which Aztech does not have the relevant rights and is in the process of securing), the Changping Town Government had issued a certification to Aztech on 11 Feb-22 to confirm that its factory buildings and the Dongguan land will not be demolished or withdrawn from leasing before Mar-23. Aztech will continue to work on rectification and will also continue on contingency planning, such as searching for alternative sites. The costs for relocation, if required, is estimated at SGD2m, and SGD3m to write-off the current site. These are not factored in our FY22-24E forecasts, as our base case is that Aztech will remain in current premises (see <a href="here">here</a> for more).

Fig 1: Forecast changes

		FY22E			FY23E	
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	762.4	841.5	-9.4	1,005.8	1,027.1	-2.1
Gross profit (SGDm)	183.0	233.9	-21.8	241.4	286.6	-15.8
EBIT (SGDm)	99.7	115.3	-13.5	134.7	141.2	-4.6
EBITDA (SGDm)	111.0	128.5	-13.6	149.9	157.1	-4.6
Core net profit (SGDm)	87.2	97.6	-10.6	117.8	116.8	0.9
			Chg (ppt)			Chg (ppt)
Gross material margin	24.0%	27.8%	-3.8	24.0%	27.9%	-3.9
EBITDA margin	14.6%	15.3%	-0.7	14.9%	15.3%	-0.4

Source: Maybank IBG Research



Fig 2: 2H21 performance summary

FYE Dec	2H21	2H20	1H21	YoY Chg	HoH Chg	FYE	FYA vs. FYE
	(SGD m)	(SGD m)	(SGD m)	(%)	(%)	SGDm	
Revenue	374.7	355.2	249.7	5.5	50.0	600.7	103.9
COGS	(286.6)	(255.8)	(182.3)	12.0	57.2	(434.3)	108.0
Gross profit	88.1	99.4	67.4	-11.4	30.7	166.4	93.4
Other income	1.3	0.6	0.4	107.7	260.8	1.0	164.5
Employee benefits expense	(29.9)	(30.2)	(22.8)	-1.0	31.1	(56.5)	93.3
Other op. expenses	(5.7)	(8.4)	(7.8)	-31.6	-26.7	(20.9)	65.1
EBIT	48.5	57.1	32.1	-15.0	51.2	82.1	98.2
EBITDA	53.7	61.4	37.1	-12.5	44.8	90.1	100.9
Investment revenue and other finance income	0.4	0.1	0.2	nm	75.0	0.7	89.5
Finance costs	(0.3)	(0.4)	(0.4)	-28.5	-12.5	(1.2)	56.7
Other gains and losses	2.7	(5.5)	`1.7 <sup>′</sup>	-149.7	65.1	0.0	nm
Associates Income	0.0	0.0	0.0	nm	nm	0.0	nm
Exceptionals	0.0	0.0	0.0	nm	nm	(0.8)	0.0
Pretax profit	51.3	51.2	33.6	0.2	52.7	80.8	105.1
Taxation	(6.4)	(8.5)	(4.2)	-25.4	51.3	(10.5)	100.7
Net profit	45.0	42.7	29.4	5.3	52.9	70.3	105.8
Minority interest	0.0	0.0	0.0	nm	nm	0.0	nm
PATMI	45.0	42.7	29.4	5.3	52.9	70.3	105.8
Core PATMI	45.0	42.7	29.4	5.3	52.9	71.1	104.6
				V-V Ch - (			
Cross margin	22 E0/	29 00/	27.0%		ppt) HoH chg (	ppt)	
Gross margin	23.5% 13.0%	28.0% 16.1%	27.0% 12.9%	-4.5 -3.1	-3.5		
EBIT margin					0.1		
Core net margin	12.0%	12.0%	11.8%	0.0	0.2		

Source: Company, Maybank IBG Research

Fig 3: Peer comp

Company	BBG	MIBG	MIBG TP	Price	FYE	Мсар		P/E	(x)		EV /EBITD A (x)	PBR (x)
	Code	Rec	(LC)	(LC)	mm	USDm	Act	FY1	FY2	FY3	FY1	FY1
Aztech Global	AZTECH SP	Buy	1.13	0.92	12	538	9.4	8.1	6.0	6.1	4.8	2.0
SG-listed EMS												
VMS SP	VMS SP	Hold	19.18	18.06	12	3,915	17.7	17.5	16.2	-	10.7	2.0
Valuetronics	VALUE SP	Sell	-	0.52	03	168	7.1	12.5	11.0	9.2	1.5	0.9
Average							16.3	16.3	14.8	1.1	9.7	1.9
Global EMS players												
ATA IMS	VMS SP	NR	-	0.48	03	137	3.8	143.1	33.4	16.8	9.0	0.7
Hon Hai	2317 TT	NR	-	105.50	12	52,471	14.4	10.6	9.7	8.6	5.1	1.0
Flex	FLEX US	NR	-	17.06	03	8,029	10.9	9.0	8.6	7.9	5.9	2.2
Jabil	JBL US	NR	-	59.56	80	8,546	10.6	9.0	8.3	7.8	4.1	3.4
Pegatron	4938 TT	NR	-	70.10	12	6,713	9.1	10.3	10.8	10.1	5.6	1.0
SKP Resources	SKP MK	NR	-	1.55	03	579	18.9	15.0	12.1	10.8	9.4	3.1
V.S. Industry	VSI MK	Buy	1.73	1.21	07	1,106	18.6	16.4	14.8	-	7.8	1.9
Sanmina	SANM	NR	-	39.95	10	2,539	10.1	9.3	8.6	-	-	-
FIH Mobile	2038 HK	NR	-	1.20	12	1,230	-	76.9	19.2	14.0	2.5	0.6
Celestica	CLS CN	NR	-	15.74	12	1,311	9.5	7.9	7.0	-	4.7	-
Fabrinet	FN US	NR	-	101.79	06	3,766	21.8	17.0	15.8	13.9	12.7	2.9
Average							13.4	11.7	10.0	9.0	5.5	1.5

Source: FactSet, Bloomberg, Maybank IBG Research



FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics P/E (reported) (x)	na	11.4	8.1	6.0	6.1
Core P/E (x)	na	8.8	8.1	6.0	6.1
P/BV (x)	na	2.3	2.0	1.6	1.4
P/NTA (x)	na	2.3	2.0	1.6	1.4
Net dividend yield (%)	na	8.0	3.7	5.0	5.0
FCF yield (%)	na	5.7	2.1	8.0	21.3
EV/EBITDA (x)	9.1	5.1	4.8	3.4	2.6
EV/EBIT (x)	10.2	5.8	5.3	3.8	2.9
INCOME STATEMENT (SGD m)					
Revenue	484.3	624.4	762.4	1,005.8	1,089.3
EBITDA	80.3	90.8	111.0	149.9	151.3
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	99.7	134.7	133.7
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	99.6	134.7	133.7
Income tax Minorities	(10.8)	(10.6)	(12.5)	(16.8)	(16.8)
Discontinued operations	0.0 0.0	0.0 0.0	0.0 0.0	0.0 0.0	0.0 0.0
Reported net profit	55.7	74.4	87.2	117.8	116.9
Core net profit	55.7	74.4	87.2	117.8	116.9
BALANCE SHEET (SGD m) Cash & Short Term Investments	11.5	201.5	191.0	213.3	329.4
Accounts receivable	197.0	222.5	278.8	382.6	333.7
Inventory	53.7	62.4	96.3	92.2	114.7
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	651.5	773.2	861.3
ST interest bearing debt	29.2	11.9	11.9	11.9	11.9
Accounts payable	141.1	138.5	210.8	250.0	255.6
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 Shareholders Equity	<b>258.6</b> 41.6	<b>225.2</b> 293.0	<b>297.5</b> 354.0	<b>336.7</b> 436.5	<b>342.3</b> 519.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	41.6	293.0	354.0	436.5	519.0
Total liabilities and equity	300.2	518.2	651.5	773.2	861.3
CASH ELOW (SCD)					
CASH FLOW (SGD m) Pretax profit	66.5	85.0	99.6	1247	122 7
Depreciation & amortisation	8.6	10.2	99.6 11.4	134.7 15.2	133.7 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)	(17.9)	(60.4)	32.0
Cash taxes paid	(3.0)	(15.8)	(12.5)	(16.8)	(16.8)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	28.6	41.9	80.0	71.9	165.8
Capex	(11.0)	(4.8)	(65.0)	(15.0)	(15.0)
Free cash flow	17.5	37.1	15.0	56.9	150.8
Dividends paid	(41.0)	(15.3)	(26.2)	(35.4)	(35.4)
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	(10.5)	22.2	115.1



FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	12.9	28.9	22.1	31.9	8.3
EBITDA growth	44.2	13.1	22.2	35.0	1.0
EBIT growth	52.2	12.5	23.6	35.1	(0.7)
Pretax growth	44.0	27.7	17.3	35.2	(0.7)
Reported net profit growth	44.5	33.5	17.2	35.2	(0.8)
Core net profit growth	44.5	33.5	17.2	35.2	(0.8)
Profitability ratios (%)					
EBITDA margin	16.6	14.5	14.6	14.9	13.9
EBIT margin	14.8	12.9	13.1	13.4	12.3
Pretax profit margin	13.7	13.6	13.1	13.4	12.3
Payout ratio	73.6	70.0	30.0	30.0	30.3
DuPont analysis					
Net profit margin (%)	11.5	11.9	11.4	11.7	10.7
Revenue/Assets (x)	1.6	1.2	1.2	1.3	1.3
Assets/Equity (x)	7.2	1.8	1.8	1.8	1.7
ROAE (%)	173.3	44.5	26.9	29.8	24.5
ROAA (%)	24.2	18.2	14.9	16.5	14.3
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	2.0	2.1	2.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.2	2.3	2.2	2.3	2.5
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	8.5	1.5	1.4
Net debt/ (net cash)	21.6	(186.8)	(176.3)	(198.5)	(314.7)

Source: Company; Maybank

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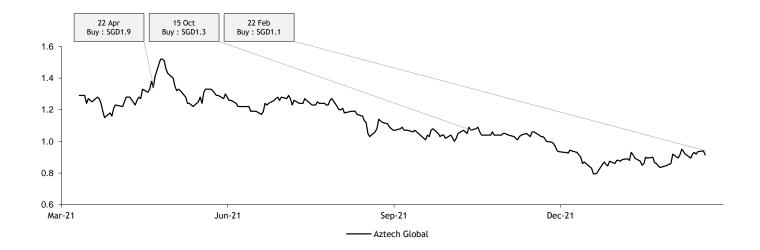
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