

Aztech Global (AZTECH SP)

BUY

Share Price SGD 1.38
12m Price Target SGD 1.86 (+37%)

Beneficiary of IoT tailwinds

Enabler for multiple IoT customers; robust pipeline

Aztech is a key technology enabler and hardware manufacturer for consumer IoT products. We forecast FY20-23E EPS CAGR of 23%, driven by Customer A's existing and new products, as well as from contributions from new customers in the IoT and Datacomm segment. We initiate BUY with TP of SGD1.86, based on 18x core FY21E P/E, which we believe is justified vs. CMS/ ODM peers trading at 13.4x/13.5x due to Aztech's superior growth and margin prospects.

Riding the IoT wave

Frost & Sullivan (F&S) expects the consumer IoT industry to enjoy a CAGR of 23.4% during 2019-23. We see Aztech as a proxy of this through i) the smart security cameras and other new products for Customer A (US-listed e-commerce retailer), ii) wallet share gains from Customer C (German smart-home technologies company) and iii) new IoT & datacomm customers and products.

R&D and diversified footprint are key strengths

We believe Aztech's industry net margins (FY20: 11.5%) are a result of i) strong execution for customers, ii) R&D capabilities and iii) consumer IoT being early in its technology lifecycle. R&D helps Aztech engage customers early in product conceptualisation, and also enables rapid commercialisation of emerging trends. To cope with rising volumes, as well as customers' requests to have production based outside China, Aztech intends to double its manufacturing capacity through a new plant outside of China (est. completion of initial stage: 1QFY22). This diversifies geographic risks from i) diseases, ii) trade tensions, and iii) disasters.

Valuation and risks

On FY22E, Aztech is trading at 10x P/E, and our TP infers 12.9x. This is attractive relative to Valuetronics/ Venture, which are trading at 12.2x/15.5x, for 3-year EPS CAGR of -9%/+10% respectively. Key risks are i) customer concentration (Customer A: c.59-65% of FY21-23E revenue) and ii) competition and commoditisation in the mid-to-long term, and iii) Dongguan facility-related operational risks.

FYE Dec (SGD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	429	484	679	931	1,121
EBITDA	64	80	104	145	174
Core net profit	47	56	80	109	131
Core EPS (cts)	7.6	9.0	10.7	14.1	16.9
Core EPS growth (%)	135.7	18.1	18.8	31.7	19.8
Net DPS (cts)	4.3	6.6	3.0	4.2	5.1
Core P/E (x)	na	na	12.9	9.8	8.2
P/BV (x)	na	na	3.7	2.9	2.4
Net dividend yield (%)	na	na	2.2	3.1	3.7
ROAE (%)	119.7	173.3	47.5	33.6	32.0
ROAA (%)	26.3	24.2	19.1	17.3	17.4
EV/EBITDA (x)	16.5	13.6	8.1	5.9	4.9
Net gearing (%) (incl perps)	net cash	51.8	net cash	net cash	net cash
Consensus net profit	-	-	na	na	na
MKE vs. Consensus (%)	-	-	na	na	na

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Company Description

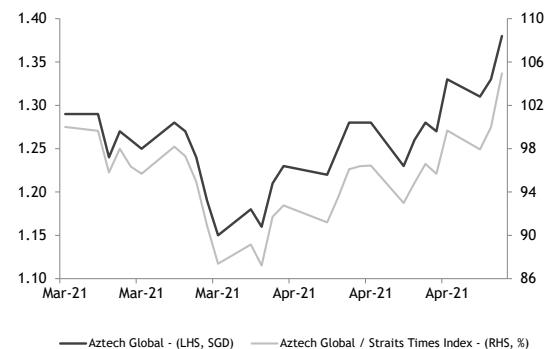
Aztech is a key enabler and technology hardware manufacturer for IoT, datacomm and LED electronics products

Statistics

52w high/low (SGD)	na/na
3m avg turnover (USDm)	5.9
Free float (%)	30.0
Issued shares (m)	774
Market capitalisation	SGD1.1B USD804M

Major shareholders:

AVS Investments Pte Ltd.	70.0%
JPMorgan Asset Management (Singapore) Lt	0.8%



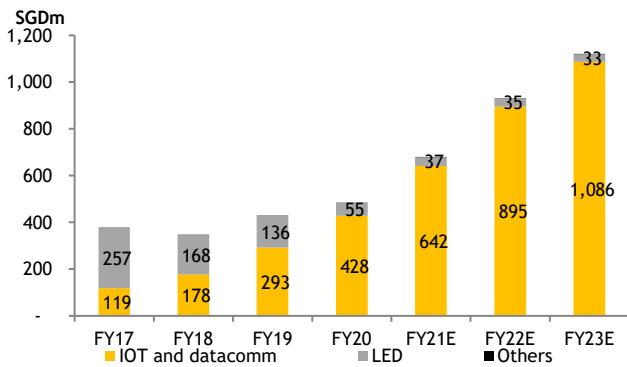
	-1M	-3M	-12M
Absolute (%)	10	na	na
Relative to index (%)	8	na	na

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.

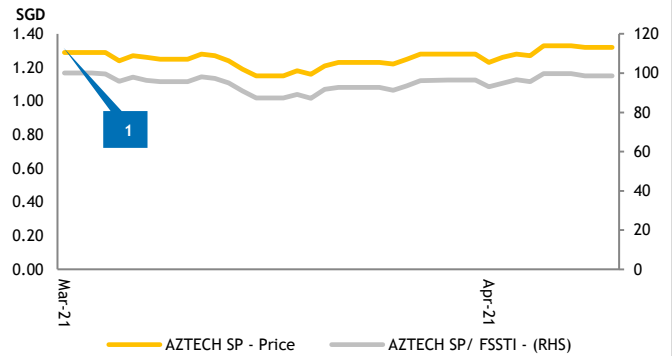
IoT and datacomm are the key drivers for Aztech's growth



Source: Company

Price Drivers

Historical share price trend



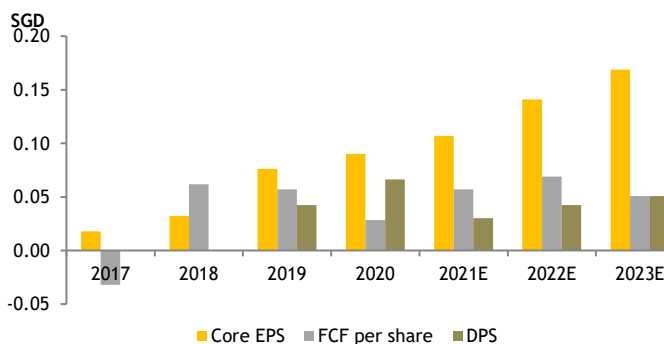
Source: Company, Maybank Kim Eng

1. Listed on SGX Main Board at IPO price of SGD1.28

Financial Metrics

- We expect EPS CAGR of 23%, largely driven by Customer A (new products and market penetration) as well as other new customers.
- FY21-23E margins are stable as we factor operating leverage gains to offset i) reduced concentration from Customer A; and ii) potentially margin dilutive cost-downs.
- We expect capex of SGD40m each in FY21-22E as Aztech builds new capacity to cater for growth.
- FY21-23E dividend pay-out assumption of 30%.

Chart Header



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.
- Adverse FX movements, as products are priced in USD, while costs are in domestic currencies of operating locale.
- Inventory correction due to over-exuberance of supply chain in anticipating end-consumer demand.

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Investment thesis

We see Aztech as a proxy to the fast-growing IoT industry through the success of its customers' products in the marketplace. A key example is Customer A, which is a subsidiary of a major US e-commerce retailer. Following the acquisition of Customer A by the e-commerce retailer in 2017, sales contributions to Aztech grew tremendously from c.SGD22m in FY17 (6% of revenue) to SGD210m in 2019 (49% of revenue), and we anticipate Customer A's contribution to reach SGD664m by FY23E (59% of revenue). This growth was because the enlarged Customer A marketed the smart cameras that Aztech manufacture for them on its platform - resulting in increased popularity of the product. Barring unforeseen circumstances, we expect this customer to continue driving growth for Aztech through increased volumes - driven by: i) increased popularity of existing products; and ii) new products and variants.

The industry outlooks for IoT and datacomm, as well as LED are also favourable. Frost and Sullivan (F&S) forecasts the IoT market to grow at 20.8% CAGR during 2019-23E. This is in turn enabled by inflections like cloud-computing, 5G and increased work from home trends. Drivers for increased adoption of IoT are also favourable - such as increased mobile subscriptions, falling prices of sensors and increased user acceptance of smart products and assistants. Meanwhile, F&S forecasts the LED market to grow at a 4.3% CAGR during 2019-23E, driven by rising demand and supportive regulatory landscape for energy efficient lighting. F&S believes these trends are favourable to Aztech, given its strong value proposition to customers that operate in these markets.

Value proposition:

Aztech is a technology hardware manufacturer with over 30 years of operating track record, offering one-stop solutions from R&D and design to integrated and vertical manufacturing (plastic injection moulding, SMT, and assembly). Its production facilities are in Dongguan (China) and Johor (Malaysia). It has 270 customers worldwide and its products are sold in over 40 countries. We believe the following factors contributed to Aztech's past successes and should continue to drive future growth:

- Aztech is a key technology enabler for customers through its suite of core communication and networking technologies (e.g. LAN/WAN, WiFi, Zigbee, etc.) and its strong manufacturing capabilities (SMT, plastic injection and LED/optics) have helped bring customers' products to market successfully.
- Diversified production footprint and highly integrated facilities that allow for continuity of operations when negative events impact a particular geography - such as disease (Covid-19), geopolitics (US-China trade war) and disasters. Aztech's strong execution has also resulted in customer satisfaction and stickiness. Aztech believes it is the sole source for some of the products for certain of its customers.
- Strong R&D capabilities - which is a key differentiator - as this allows Aztech to innovate and find new growth opportunities. This also allows the company to be involved early and intimately in clients' product conceptualisation and design. In our view, adaptability and flexibility to emerging trends is critical for Aztech's long-term survivability as the IoT, datacomm and LED markets that Aztech participates in are characterised with having short product life cycles.

We forecast FY20-23E PATMI/EPS CAGR of 33%/23% respectively, based on FY21-23E YoY core PATMI growth of 43%/37%/20%. Meanwhile, we forecast revenue CAGR of 32% for the same period, driven by multiple sources, including our assumptions of i) growth from Customer A; ii) wallet share gains from Customer C; iii) and the introduction of new IoT and datacomm customers.

Figure 1: Aztech SWOT snapshot

Strengths	Weaknesses
<ul style="list-style-type: none"> Highly integrated and geographically diversified manufacturing capabilities, with strong executional track-record for customers seeking one-stop solutions to bring new products to market. Strong know-how in bringing products to market from core competencies amassed throughout its operating history - such as design and connectivity technologies that are the key for smart products. In-house R&D capabilities and demonstrated ability to identify and ride on new trends (e.g. IoT). 	<ul style="list-style-type: none"> The technology hardware manufacturing industry is inherently highly competitive, and customers tend to have strong bargaining positions. As products become commoditised and competitive pressures rise, intense pricing pressure is a key risk that often materialises. This is exacerbated as Aztech's exposure in consumer electronics is characterised as having short product life cycles. Relative to other OEMs, Aztech's small size will limit its ability to scale its B2C brand "Kyla" - given the more dominant presence of larger smart products brands such as Xiaomi, Signify, Google etc, as these brands will have larger R&D and marketing budgets. High single-customer risk. We forecast that Customer A could account for 59-65% of FY20-23E revenue. This high level of earnings dependency may weaken Aztech's bargaining position in a highly competitive market.
Opportunities	Threats
<ul style="list-style-type: none"> Strong customer satisfaction and capacity expansion may provide Aztech opportunities to seek out new customers and further grow its businesses. Aztech's OEM experience from datacomm products provides it with market and distribution related know-how, which may be favourable in scaling its "Kyla" brand. Aztech had won tenders for public housing LED lighting projects in the past. We see this as a potential avenue for future growth for both the "Aztech" and "Kyla" brand. If "Kyla" products find their way inside public housing flats, this could boost brand visibility among consumers. 	<ul style="list-style-type: none"> Failure to capitalise on new major emerging trends could result in years of earnings underperformance, as more mature products face pricing competition and eventual decline in volumes. Resurgence of Covid-19 may result in negative effects to production operations as well as supply chain - which in turn may disrupt Aztech's ability to supply to its customers.

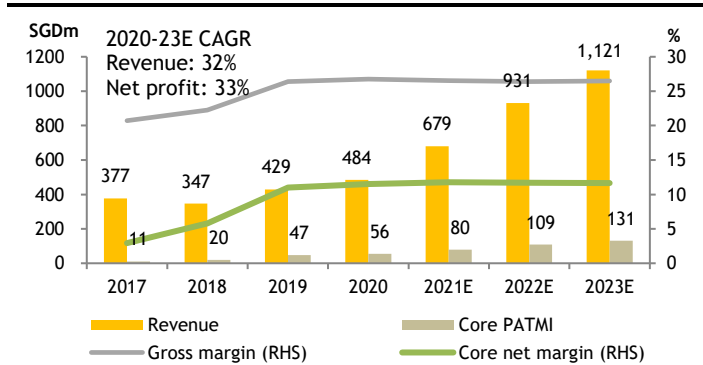
Source: Company, Maybank Kim Eng

Risks

Aztech's business is exposed to a number of possible economic, business and market risks that may affect our views and forecasts for the company. In our view, the biggest risk is customer concentration. We forecast that throughout FY20-23E, Customer A could account for 59-70% of revenue. This dependency could reduce Aztech's bargaining position - especially as Aztech's margins are among the highest in the industry <see Fig 8 and 9>. That said, customer concentration is a common occurrence among MKE's Singapore and Malaysia technology coverage (e.g. AEM & UMS key customer concentration: c.90%, VS Industry FY19: c.60%). Another key risk relates to Aztech securing relevant building certifications and land-use rights for its Dongguan production facility. In the event that Aztech is unable to secure these by the current deadline of Mar-2022, it has contingency plans of relocating to a nearby facility, and/or leverage and increase production capacity at its IoT premise in Johor. Aztech estimates the financial impact to be SGD3m for the write-off of the net book value of the Dongguan premise, and SGD2m for relocation of premises. We expound on these and other risks in the Risks section.

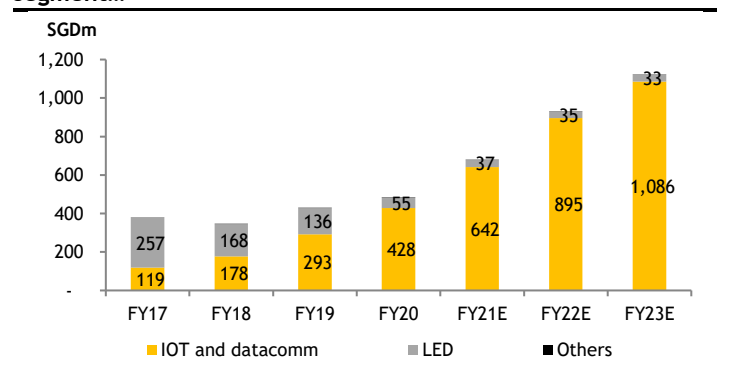
Focus charts

Figure 2: FY20-23E PATMI CAGR of 33%...



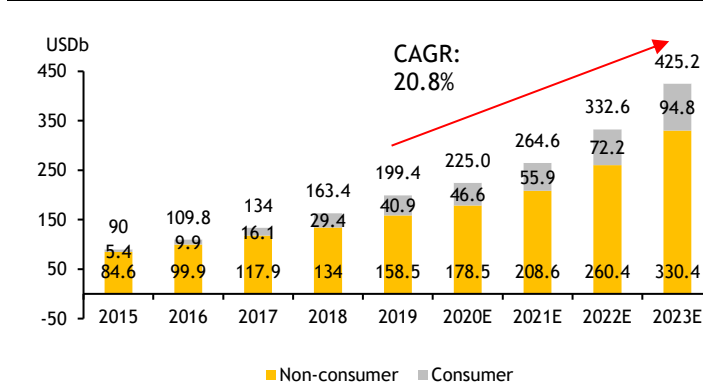
Source: Company, Maybank Kim Eng

Figure 3: ... underpinned by fast growing IoT & datacomm segment...



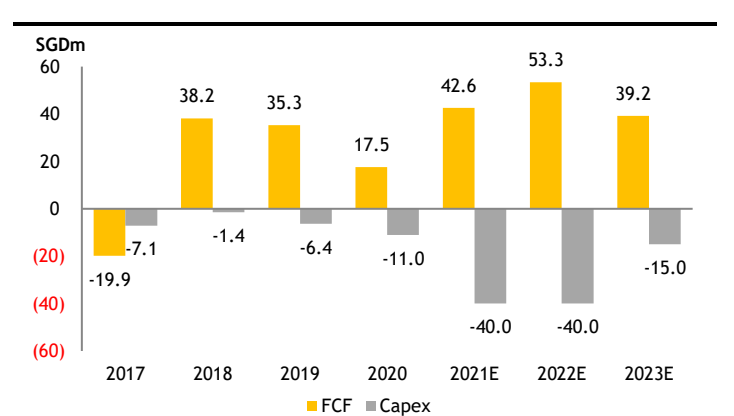
Source: Company, Maybank Kim Eng

Figure 4: ... in turn supported by tailwinds from IoT market (2019-23 CAGR: 20.8%)



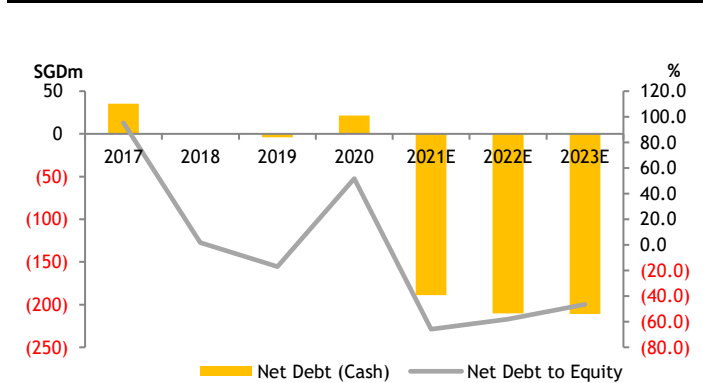
Source: Frost & Sullivan

Figure 5: Capex vs. FCF



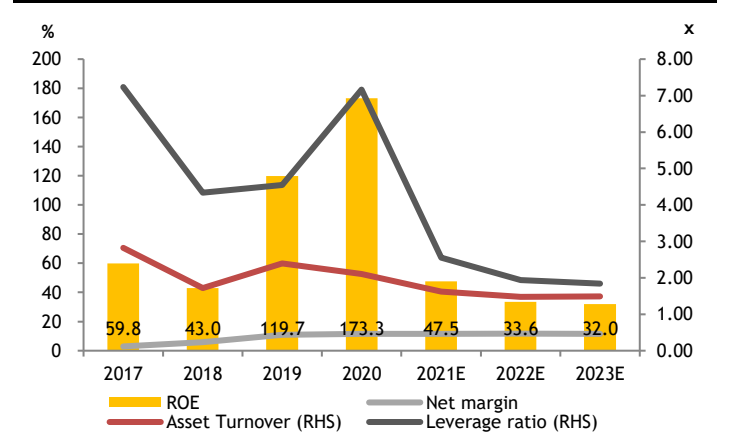
Source: Company, Maybank Kim Eng

Figure 6: Net debt and net gearing



Source: Company, Maybank Kim Eng

Figure 7: DuPont ROE



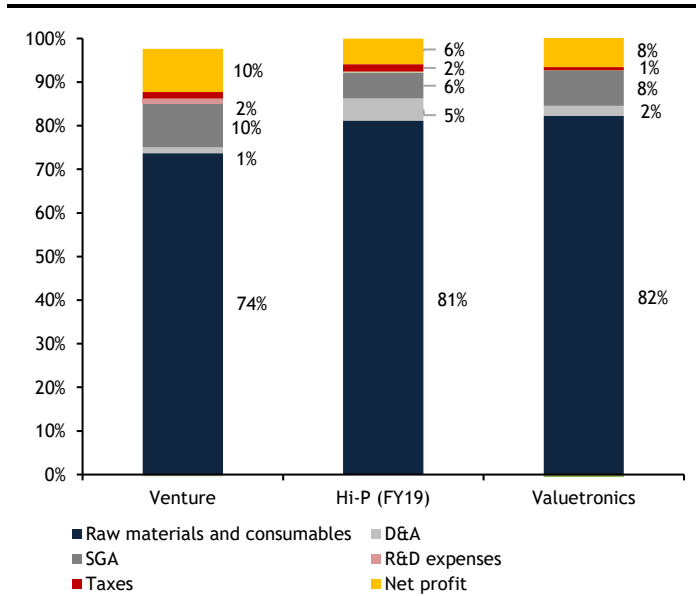
Source: Company, Maybank Kim Eng

Valuation

Our TP is based on 18x core FY21E P/E. This is a premium of 33-34% vis-à-vis global Contract Manufacturing Services (CMS) and Original Design Manufacturer (ODM) peers. In our view, this is warranted given:

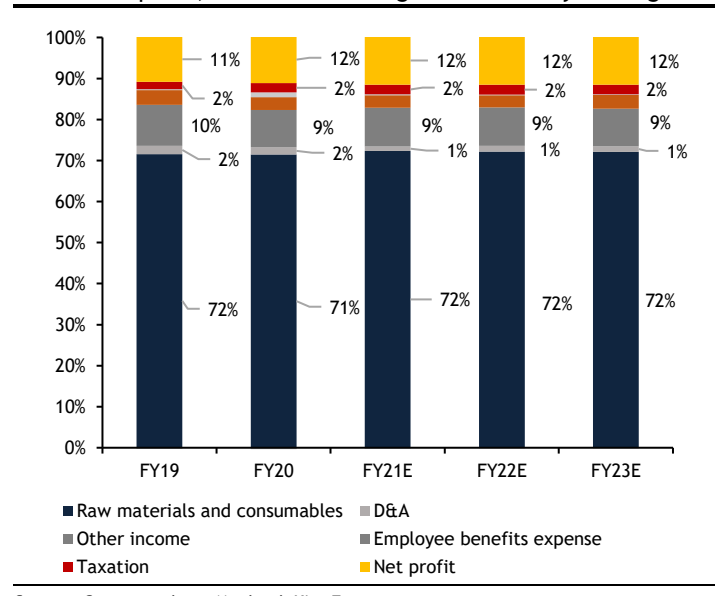
- 1) We forecast Aztech to have faster earnings growth than peers: We project that Aztech could deliver 3-year EPS CAGR of 23%, faster than the average CAGR of 16%/1.6% for global CMS (contract manufacturing services) and ODM peers respectively (Fig 10). This is also faster than the average of 17% for Singapore-listed technology hardware manufacturers respectively (Fig 12).
- 2) Aztech has superior margins vs. SG-listed peers: Aztech’s FY20 net margin of 11.5% is higher than Venture’s (FY20: 10%) and Valuetronics’ (FYMar20: 7.6%). In turn, we believe this is a combination Aztech’s vertical integration (esp. relative to Venture), as well as increased R&D content (esp. relative to Valuetronics). Based on our projections of Aztech, Venture and Valuetronics, we believe Aztech can continue to maintain superior net margins against both peers.
- 3) We have higher conviction of Aztech’s earnings growth momentum in FY22E vis-à-vis Venture and Valuetronics, as Aztech is i) early in the IoT cycle, ii) customers are exhibiting positive momentum, and iii) Aztech is still winning new customers. From FY22E perspective, Aztech is only trading at 10x P/E at the last close, and our TP infers 12.9x. For comparison, Venture and Valuetronics are trading at 15.5x/12.2x respectively.

Figure 8: Cost structure and NPM of SG-listed peers (latest FY)



Source: Company data, Maybank Kim Eng

Figure 9: Aztech’s cost structure and NPM Relative to peers, Aztech’s net margins are industry leading



Source: Company data, Maybank Kim Eng

We referenced global CMS and ODM peers for relative valuation, primarily because the bulk of Aztech’s revenues and resultant earnings are from B2B sources. While we did not use IoT and datacomm OEM peers in arriving at our valuation, as “Kyla” is still in its infancy, we have included these in our comparisons table below.

Figure 10: Peer comparisons

Company	Price LC	Mcap (USD\$b)	3M ADV (USD\$m)	P/E (x)			DY (%)		EV/EBITDA		ND/E (%)	3Y EPS CAGR (%)	ROE (%)		FYE			
				Act	FY1	FY2	FY3	FY1	FY2	FY1			FY2	FY1		FY2		
CMS																		
Valuetronics	0.63	0.21	0.64	8.5	10.2	12.2	11.3	4.8	4.8	0.3	0.4	-0.7	-0.8	-0.7	-9.1	12.0	9.5	Mar
ATA IMS	3.05	0.89	3.13	45.9	27.4	19.5	16.1	1.2	1.2	17.2	12.7	0.2	0.2	0.1	3.4	19.3	23.2	Mar
V.S. Ind	2.71	1.24	6.83	41.4	21.4	16.7	14.3	2.1	2.1	12.5	10.0	-0.1	-0.1	-0.1	16.7	13.4	15.9	Jul
Globetronics	2.49	0.40	3.06	32.7	24.7	21.5	19.9	3.4	3.4	14.9	13.4	-0.5	-0.5	-0.5	7.9	21.5	23.0	Dec
Flex	18.19	9.08	90.50	14.8	12.6	11.7	11.0	0.0	0.0	6.6	7.1	0.3	0.2	0.1	10.2	20.6	19.5	Mar
Jabil	54.05	8.04	47.12	18.6	11.1	10.0	9.3	0.6	0.6	5.3	5.0	0.5	0.3	0.1	25.7	34.7	30.9	Aug
Average				19.7	13.4	11.9	10.9	0.6	0.6	7.0	6.7	0.3	0.2	0.1	16.3	25.7	24.0	
ODM																		
Foxconn	70.8	3.56	45.14	15.6	13.8	13.2	-	3.6	3.6	11.6	11.3	-0.6	-0.5	-	-	6.3	6.5	Dec
Venture	20.24	4.44	15.94	19.8	16.7	15.5	14.7	3.8	3.8	11.2	10.4	-0.4	-0.4	-0.4	10.4	12.9	13.3	Dec
Pegatron	74.3	7.03	58.33	9.6	11.3	10.6	10.7	5.8	5.8	4.8	4.5	-0.1	-0.2	-0.2	-3.8	8.9	9.4	Dec
Wistron	33	3.41	22.87	11.0	11.0	9.5	9.4	7.1	7.1	5.5	4.9	0.3	0.3	0.3	4.6	10.7	11.2	Dec
Inventec	27.45	3.50	21.31	12.8	15.9	14.2	13.7	5.7	5.7	11.5	10.2	0.1	0.2	0.1	-1.6	10.6	11.9	Dec
Average				13.4	13.5	12.4	10.0	5.2	5.2	8.4	7.8	-0.1	-0.1	-0.1	1.6	9.8	10.4	
IoT/ Lighting/ Datacomm OEMs																		
Signify	44.77	6.91	24.59	13.2	13.7	12.2	11.0	3.3	3.3	9.3	8.9	0.5	0.4	0.2	6.5	16.3	17.1	Dec
Xiaomi Class B	26.45	69.89	818.12	26.2	31.4	25.2	19.9	0.0	0.0	23.5	18.7	-0.4	-0.5	-0.6	9.5	13.7	14.7	Dec
NETGEAR	37.83	1.16	16.07	13.1	11.6	10.5	10.4	0.0	0.0	6.4	6.0	-0.4	-0.5	-0.5	7.9	13.5	13.6	Dec
Average				24.9	29.5	23.8	19.0	0.3	0.3	22.0	17.6	-0.3	-0.4	-0.5	9.2	13.9	14.9	
				Dec-20	Dec-21	Dec-22	Dec-23	Dec-20	Dec-21	Dec-22	Dec-23	Dec-21	Dec-22	Dec-23		Dec-21	Dec-22	
CMS																		
Valuetronics	0.63	0.21	0.64	9.8	11.7	11.5		4.8	4.8	0.3	0.4	-0.8	-0.7		-9.1	10.1	9.5	Mar
ATA IMS	3.05	0.89	3.13	32.0	21.5	16.9		1.2	1.2	17.2	12.7	0.2	0.2		3.4	19.3	23.2	Mar
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Globetronics	2.49	0.40	3.06	32.7	24.7	21.5		3.4	3.4	14.9	13.4	-0.5	-0.5		7.9	21.5	23.0	Dec
Flex	18.19	9.08	90.50	13.1	11.9	11.2		0.0	0.0	6.6	7.1	0.2	0.1		10.2	19.8	19.1	Mar
Jabil	54.05	8.04	47.12	16.1	10.7	9.8		0.6	0.6	5.3	5.0	0.4	0.2		25.7	33.4	29.6	Aug
Average				14.5	11.4	10.5		0.4	0.4	5.9	6.0	0.3	0.1			24.8	23.3	
ODM																		
Foxconn	70.8	3.56	45.14	15.6	13.8	13.2		3.5	3.5	13.6	12.3	-0.5	-0.7		-	6.3	6.5	Dec
Venture	20.24	4.44	15.94	19.8	16.7	15.5		3.7	3.7	13.0	11.0	-0.4	-0.3		10.4	12.9	13.3	Dec
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Wistron	33	3.41	22.87	11.0	11.0	9.5		7.4	7.4	5.6	5.0	0.3	0.1		4.6	10.7	11.2	Dec
Inventec	27.45	3.50	21.31	12.8	15.9	14.2		6.8	6.8	9.5	9.0	0.1	0.2		-1.6	10.6	11.9	Dec
Average				13.4	13.5	12.4		5.2	5.2	8.4	7.8	-0.1	-0.1			9.8	10.4	
IoT/ Lighting/ Datacomm OEMs																		
Signify	44.77	6.91	24.59	13.2	13.7	12.2		3.3	3.3	9.3	8.9	0.5	0.4		6.5	16.3	17.1	Dec
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NETGEAR	37.83	1.16	16.07	13.1	11.6	10.5		0.0	0.0	6.4	6.0	-0.4	-0.5		7.9	13.5	13.6	Dec
Average				24.9	29.5	23.8		0.3	0.3	22.0	17.6	-0.3	-0.4			13.9	14.9	

Source: Bloomberg, FactSet, Maybank Kim Eng (accessed 25 Jan 21)

Figure 11: Sensitivity of valuation based on P/E multiples and PATMI changes

TP based on (SGDm) FY21E EPS	P/E						
	15.0	16.0	17.0	18.0	19.0	20.0	21.0
-10%	1.40	1.49	1.58	1.67	1.77	1.86	1.95
-5%	1.47	1.57	1.67	1.77	1.87	1.96	2.06
Base case	1.55	1.65	1.76	1.86	1.96	2.07	2.17
5%	1.63	1.74	1.84	1.95	2.06	2.17	2.28
10%	1.71	1.82	1.93	2.05	2.16	2.27	2.39

Source: Maybank Kim Eng

Figure 12: P/E and PEG comparisons with Singapore-listed tech manufacturers

Company	BBG Code	MKE Rec	MKE TP (LC)	Price (LC)	Mcap USDm	P/E (x)			3Y EPS CAGR (%)	PEG (x) FY1 PE/ 3Y EPS CAGR	
						Act	FY1	FY2			FY3
Aztech	AZTECH SP	Buy	1.86	1.38	804	15.3	13.2	9.8	8.2	23.3	0.6
Venture	VMS SP	Buy	22.00	20.24	4,440	19.8	17.1	15.0	12.4	16.7	1.0
Valuetronics	VALUE SP	Hold	0.58	0.63	207	8.5	10.0	12.1	11.3	-9.1	-1.1
AEM	AEM SP	Buy	5.05	3.98	842	11.3	11.1	10.4	10.3	3.4	3.3
UMS	UMSH SP	Buy	1.57	1.36	549	20.0	13.0	11.2	12.6	16.7	0.8
Frencken	FRKN SP	Buy	1.74	1.58	508	14.4	13.3	11.9	11.4	7.9	1.7
Nanofilm	NANO SP	NR	-	5.26	2,620	57.4	41.1	33.0	28.1	26.9	1.5
Micro-Mechanics	MMH SP	NR	-	3.33	349	31.6	24.9	22.5	24.3	9.1	2.7
Average						28.2	22.1	18.6	16.2	17.5	1.3

Source: Bloomberg, FactSet, Maybank Kim Eng

Business overview

Proven adaptability to market trends

Aztech is a technology hardware manufacturer and key enabler for its customers with over 30 years of operating track record. Its manufacturing facilities are in Dongguan (China) and Johor (Malaysia). Over its operating history, Aztech has demonstrated its ability to identify and ride on evolving market trends in the fast-changing electronics industry. For instance, Aztech first started with the design, manufacturing and distribution of PCs and later expanded to include other electronics products ranging from sound cards and cordless phones to its current focus areas of IoT, data-communications and LED lighting products.

In recent years, Aztech has been successful in diversifying its revenues to fast-growing IoT and data communications, which made up 88% of its FY20 revenue. This segment saw revenue CAGR of 53% through FY17-20.

Aztech believes its key differentiators are its in-house R&D team, one-stop manufacturing capabilities and its suite of core technological capabilities (connectivity technologies include LAN/WAN, 4G/ LTE, WiFi, Bluetooth, Zigbee and LoRa). As at 11 Dec 2020, Aztech's R&D team comprises 131 people spanning across four centres (Singapore, Hong Kong, Shenzhen and Dongguan). Aside from research and development, and product enhancement, the R&D team also provides technical advice on how to improve the manufacturability of products. Aztech also has strong internal controls and procedures to safeguard customers' intellectual property.

The manufacturing process is highly integrated combining plastic tooling, plastic injection and high-speed surface mount technology with automated inspection machines. Coupled with an experienced team of engineers, strong sourcing and manufacturing capabilities, Aztech is able to value-add to the whole design and manufacturing process to improve yield and quality. This helps customers to achieve a quality product design at competitive pricing.

With the completion of its manufacturing plant in Johor, Malaysia, in 2019, Aztech is now able to serve customers that are seeking to transfer production out of China and into Southeast Asia. The manufacturing facility commenced production in 3Q20.

Figure 13: Company milestones

Year	Milestone
1986 to 1994	Aztech was founded to undertake the design, manufacture and distribution of PCs. Its R&D department was established. Aztech had successfully introduced its own brand of sound cards for PCs. AGRP was listed on the Stock Exchange of Singapore Dealing and Automated Quotation System.
1995 to 2005	Ventured into multimedia telecommunication devices such as video conferencing and DECT phones. It also launched its own brand of networking products and expand into a range of data-communication products such as voice communication products, modems, routers and HomePlug devices. Completed the construction of its own manufacturing facility in Dongguan with a total built-up area of approximately 460,000 sf.
2008 to 2011	Secured contracts to supply 6m ADSL modem units to a leading US telecommunications provider and 85Mbps HomePlug devices to a leading US satellite television provider. Won two key LED lighting tenders from Jurong Town Council and Aljunied Town Council in Singapore to deploy LED lighting for public housing in Singapore, marking its first foray into the LED lighting business. Leveraging on this breakthrough, Aztech secured an ODM contract to supply LED lighting products to a leading Europe-based multinational lighting corporation.
2013	Ventured into JDM projects, starting out with LED lighting products and expanding to cover other products for various sectors, including technology start-ups.
2018	Entered into a manufacturing and development services agreement with a major US e-commerce retailer to supply smart security cameras. Expanded into the IoT segment, diversifying its product mix to include home automation products such as smart plugs and blinds and smart light switches.
2019	Named as one of the top five LED exporters in China by the LED Industry Research Institute (GGII). Secured three contracts for the supply and installation of smart lighting systems to Singapore's first Smart Town in Punggol Northshore, offering lighting on demand and remote management capabilities. Established IoT Manufacturing in Malaysia to cater for manufacture of IoT devices and data-communication and LED lighting products.
2020	Undertook a rebranding exercise to (i) position the group as a design and manufacturing expert in the B2B markets under "Aztech" brand and (ii) replace "Aztech" brand with the "Kyla" brand in the B2C markets where its sell products under its own brand name. Malaysia facility commenced production in 3Q20.

Source: Company data, Maybank Kim Eng

Figure 14: Location of manufacturing sites and R&D centres

Location	Purpose
Dongguan, China	Manufacture and sale of multi-communication products, LED products and plastic injection parts with total built-up area of 460,000sf R&D centre
Johor, Malaysia	Manufacture and sale of multi-communication products, LED lights, with total built up area of 86,000sf with the completion of renovation and expansion works expected to be by the first half of FY2021)
Singapore	Headquarter and R&D centre
Shenzhen	R&D centre
Hong Kong	R&D centre

Source: Company data

In Dec 2019, Aztech commenced a rebranding exercise to: i) position its group as a design and manufacturing expert in B2B markets under the "Aztech" brand; and ii) replaced the "Aztech" brand with the "Kyla" in B2C markets.

In 1H20, its China manufacturing facilities faced delays in resumption of production post Chinese New Year holidays as a result of travel restrictions imposed in China due to the Covid-19 pandemic. In addition, there was supply chain disruption as suppliers also faced similar issues during 1H20 but the situation has normalised since.

Over at Malaysia, its original plan to commence operation was delayed by the implementation of movement control order in 18 Mar. However, its facility has commenced operation and production since Aug.

With the resumption of China and Malaysia operations in 2Q20 and 3Q20 respectively, there was no material financial impact on the group's operations and cash flows for FY20.

Business model

Aztech operates across four types of business models, which are: i) ODM; OEM; ii) CMS and iv) JDM.

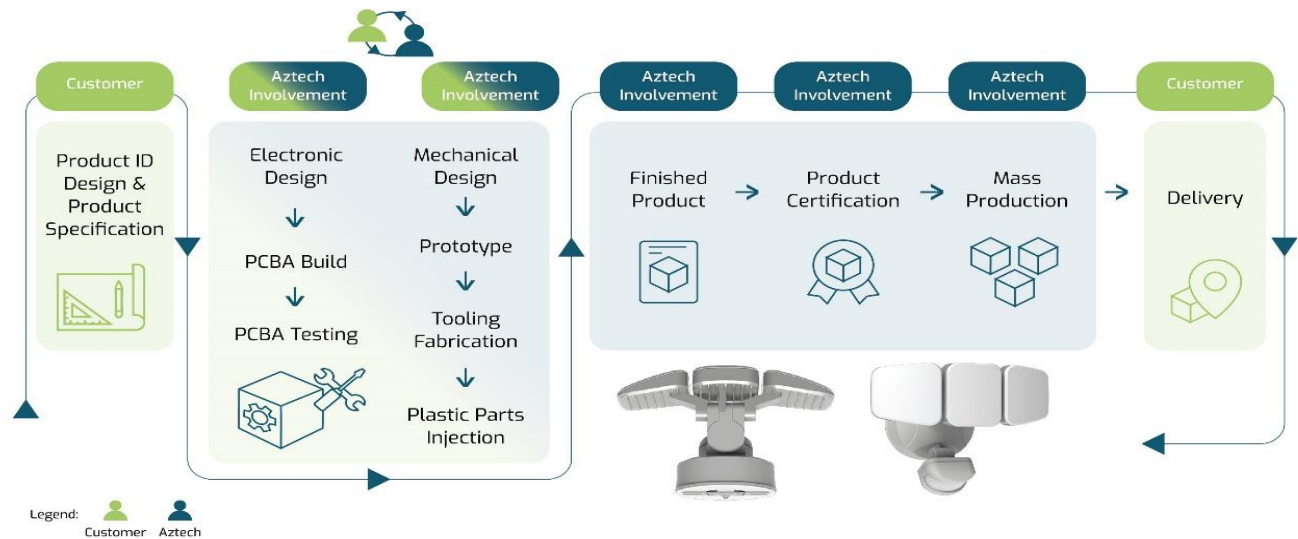
Figure 15: Business models

Business model	Description
ODM (Original Design Manufacturer)	Designs and manufactures a product based on a customer's requirements and specifications. The product is eventually sold under the customer's brand name.
OEM (Original Equipment Manufacturer)	Products and parts of products are manufactured according to Aztech's design and specifications. Final product is marketed and sold under customer's brand name or under Aztech's own brands.
CMS (Contract Manufacturing Service)	One-stop services providing the procurement of raw materials, product manufacture, related logistics and after-sale services.
JDM (Joint Development Manufacturer)	Aztech and customer work together on design and manufacturing of a product, which will eventually be sold under the customer's brand name.

Source: Company data

Aztech's one-stop manufacturing capabilities and service offerings enable it to work closely with customers at every stage of product development, thereby fostering close rapport and long-term relationships. This could potentially ensure future orders from existing customers and new customers through referrals.

Figure 16: Aztech works closely with customers in product development



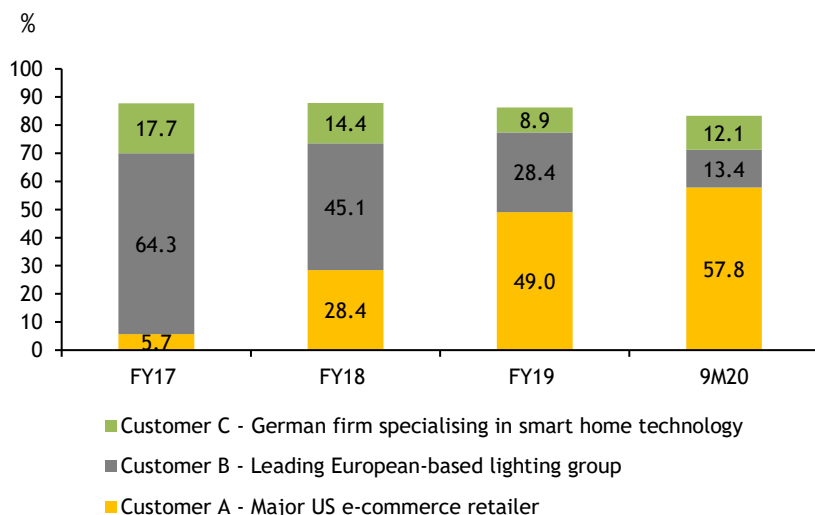
Source: Company

Products

Aztech has 270 customers worldwide with products sold across >40 countries, primarily used in the consumer electronics, healthtech, technology start-ups, LED lighting, telecommunication and automotive industries.

However, its top three customers accounted for 83% of its 9M20 revenue. Aztech did not provide contributions for top 3 customers for 4Q20/ FY20.

Figure 17: Proportion of major customers' contribution to revenue



Source: Company data

Figure 18: Major customers details

Major customer	Description	Products supplied	Years relationship started
Customer A	Major US e-commerce retailer	Smart security cameras	2015
Customer B	HK subsidiary of Leading European-based lighting group	LED lighting products	2012
Customer C	German firm specialising in smart home technology	HomePlug	1998

Source: Company data

1. IoT and Data communications

Devices were sold via ODM, JDM and CMS, as well as under “Aztech” and “Kyla” brands through its channel partners and e-commerce platforms. Some of the innovative products manufactured under ODM, JDM and CMS channels include:

- **Smart security camera:** Cameras equipped with remote live streaming capabilities and motion-activated features for surveillance purposes.
- **IoT lighting:** Lighting units that can be controlled via application or voice control and can be automated through pre-set sequence.
- **HomePlug:** Transforms powerline in the apartment into a networking infrastructure, thereby reducing network “blind spots” and improve network coverage within the home.
- **Climate control mattress:** Mattress with covers embedded with sensory devices to regulate temperature and monitor sleep.
- **Tracking devices:** ability to monitor activities and track movement of pets using GPS, LoRa and other protocols.

- **Healthtech:** wearable sensors that are paired with application that facilitates tele-consultation with healthcare professionals.

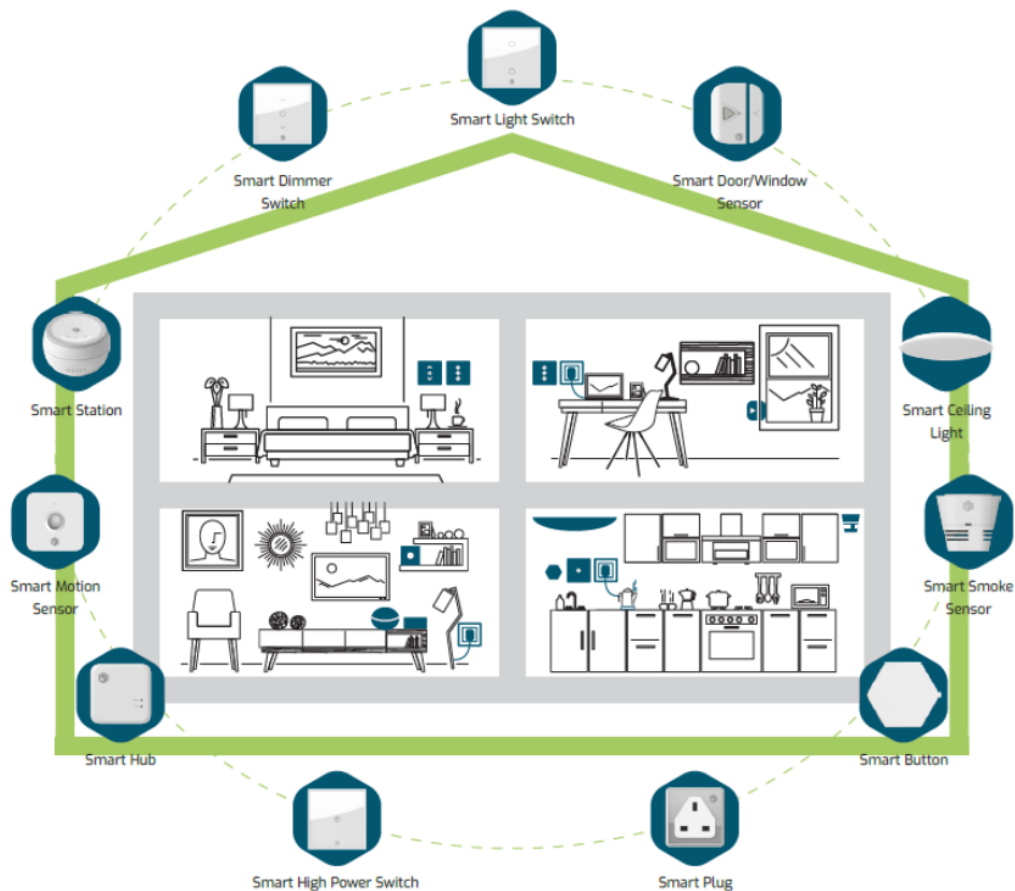
Aztech also distributes a wide range of IoT devices and data communication products under its own “Aztech” and “Kyla” brands. Besides IoT, devices, smart security camera and HomePlug, some of these include:

- **Fibre gateway:** All-in-one devices used in Active Ethernet deployments based on FTTH (Fibre-To-The-Home) access. It also adds up telephone lines, a router and a Wi-Fi access point for local area networking.
- **Dual band Wi-Fi MESH controllers:** Enables the user to roam between access points without disconnection. Through the advanced mesh technology, the user can be connected consistently as the technology circumvents coverage issues and can automatically switch connected devices to the strongest Wi-Fi signal available.

Other IoT devices in the pipeline include smart wearables and smart energy monitoring solutions. It has also developed an IoT home automation system under its “Kyla” brand, which enables users to control devices in their homes wirelessly through an application and personalise their automation needs and preferences.

The system is designed to be modular and can also be synergised with other sensory devices such as motion sensors and door/window sensors, providing users the full home automation experience.

Figure 19: Aztech’s smart home products



Source: Company data, Maybank Kim Eng

2. LED lighting products

Luminaires, bulbs and tubes produced are used in a wide range of applications for general lighting, particularly in residential, commercial and industrial segments. Aztech also produces LED lightings for special applications, such as agriculture, refrigeration and automotive industrial lighting.

Aztech specialise in the design and development of Smart Lighting System, consisting of a network of wireless nodes with in-built smart controller to achieve high energy efficiency and reduce electricity consumption by up to 40%.

3. Other electrical products

Products are categorised under: i) kitchen appliances; and ii) other home and living products under its own brand. Its kitchen appliances include ovens, air fryers, electric kettle and toasters. Meanwhile, other home and living products include cordless vacuum cleaners, fans and air purifiers.

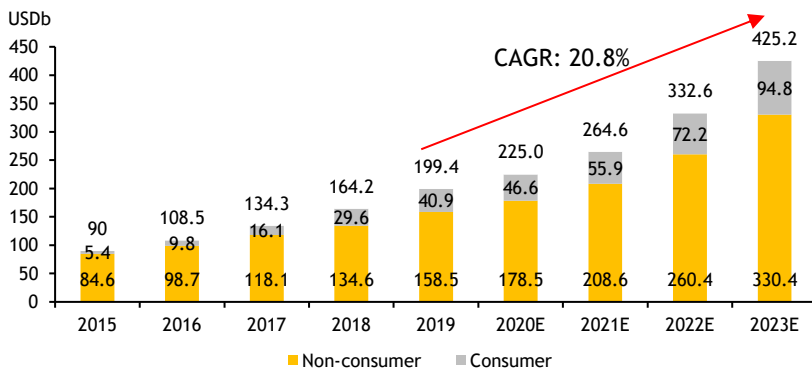
Aztech has >11 product lines and >35 models of electrical products in total. These are marketed in its showroom in Singapore and on its e-commerce platform/ online marketplaces.

Growth outlook

Bright industry outlook and technology inflections

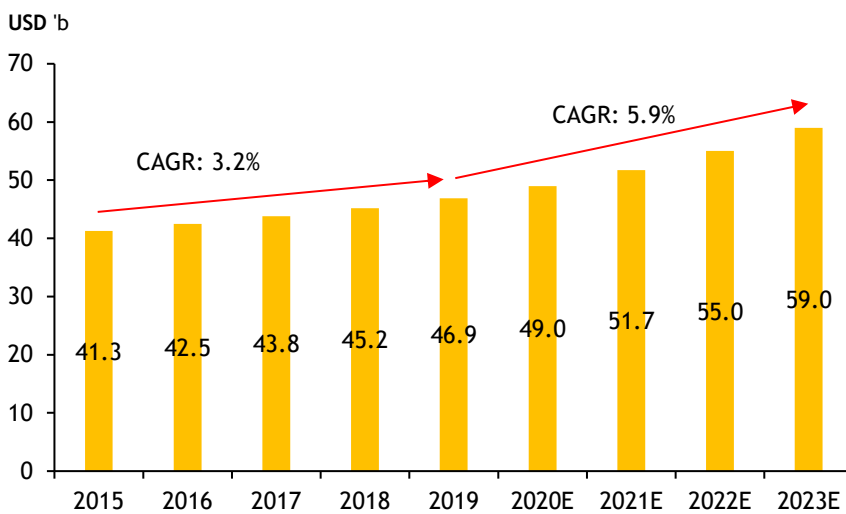
Frost and Sullivan (F&S) forecasts the consumer IoT industry to grow at a CAGR of 23.4% to USD94.8b during 2019-23. Over the same period, the non-consumer IoT industry is expected to grow at a CAGR of 20.2% to USD330.4m (Figure 22).

Figure 20: Market size of global IoT industry, 2015-2023E



Source: Frost & Sullivan

Figure 21: Market size of global data communication industry, 2015-2023E



Source: Frost & Sullivan

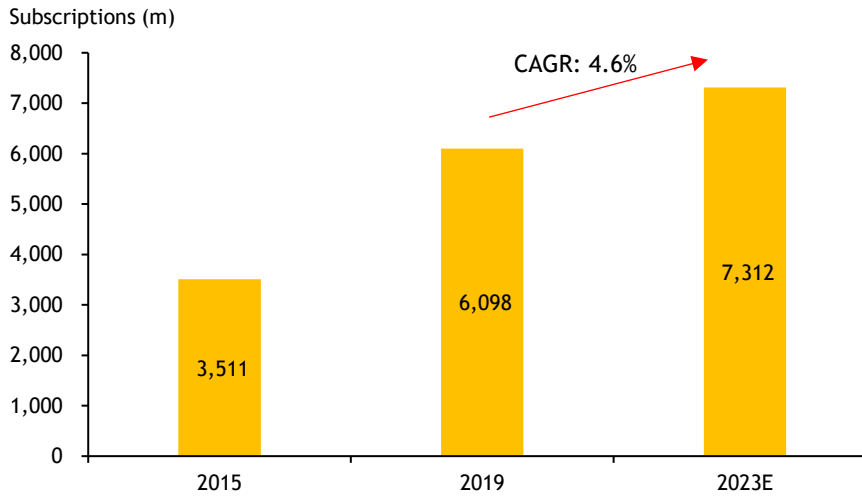
This growth is enabled by technology inflections such as the emergence of cloud computing and 5G. Cloud computing allows for the efficiency of data storage and processing in large quantum simultaneously, while 5G data speeds are expected to be 10x faster than existing LTE networks, which allows for much faster data transfer speeds. Due to Covid-19 pandemic, the work-from-home inflection has also accelerated digitisation initiatives by businesses. F&S estimates that 73% of business that were considering adopting IoT has increased their pace of adoption, while 77% of those that have adopted IoT have accelerated their pace.

Additionally, F&S expects work-from-home, home-learning, and the adoption of new technologies by companies, to continue even after the Covid-19 pandemic. F&S believes this will translate to sustainable demand growth for Aztech’s IoT and data-communication products in the long term.

Several other factors that support the demand growth of IoT products, as identified by Aztech and F&S are:

i) **Increasing mobile and fixed broadband subscriptions** - Mobile devices can be used to connect, control and automate tasks on smart devices. The growth of mobile and fixed broadband subscriptions supports multiple IoT devices within the same premise. F&S forecasts global mobile broadband subscriptions to grow at a 2019-23E CAGR of 4.6% to 7.3b.

Figure 22: Global mobile broadband subscriptions, 2015, 2019 and 2023E

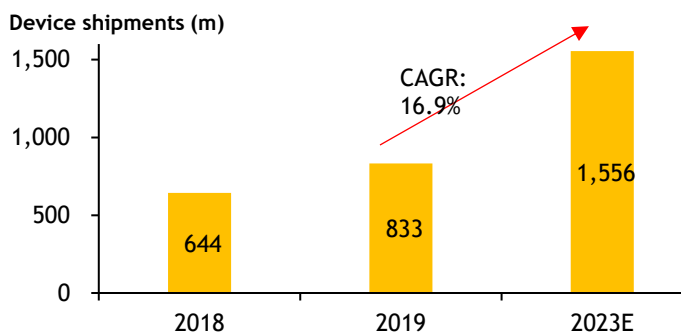


Source: Frost & Sullivan

ii) **Increasing acceptance of new innovative IoT products and solutions** - Smart assistants using AI (e.g. Amazon Alexa and Google Assistant) are gaining popularity in developed countries. These smart assistants can be integrated with home devices to fully control room temperature, humidity, light colour and intensity and automate blinds, shutters and doors. User experience for smart assistants and devices are also expected to improve with successive generations and rising user acceptance.

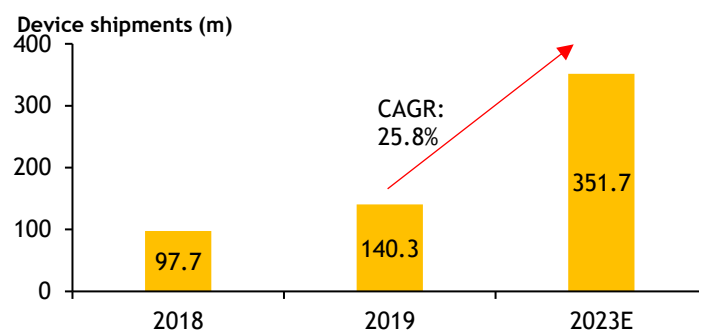
Increasing adoption of smart home devices is also driven by the installation of smart security systems. Home monitoring and security systems (including cameras) shipments grew 43.6% YoY in 2019 to 140.3m units globally and is expected to grow at a CAGR of 25.8% during 2019-23E to 351.7m units. Zooming out, the broader smart home devices market is expected to grow at a 16.9% CAGR during the same period to reach 1.6b unit shipments.

Figure 23: Global smart home devices shipments, 2018, 2019 and 2023E



Source: Frost & Sullivan

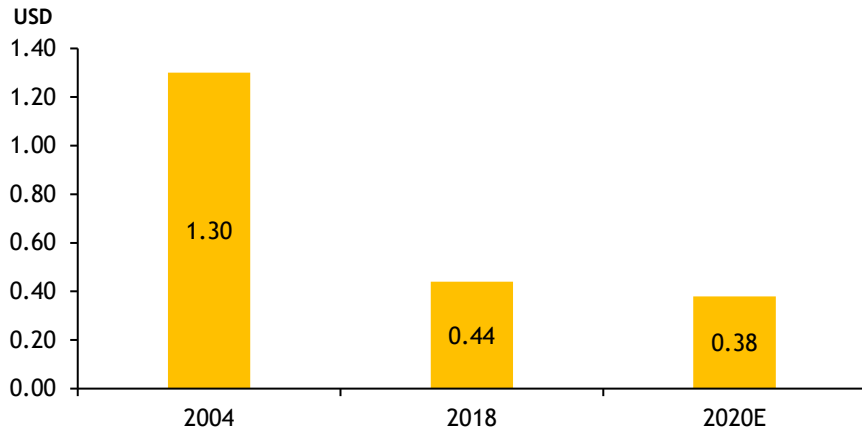
Figure 24: Global home monitoring and security systems shipments, 2018, 2019 and 2023E



Source: Frost & Sullivan

iii) **Decreasing cost of sensors** - as smart sensors are integral components in IoT devices, the decrease in sensor prices would enable users to collect more data and make informed decisions at a lower cost. Lower prices of sensors will also influence the pricing of IoT devices - which in turn would generate increased adoption. The average price of an IoT sensor is expected to decrease from USD1.30 in 2004 to USD0.38 in 2020E.

Figure 25: Average price of IoT sensors, 2004, 2019 and 2020E

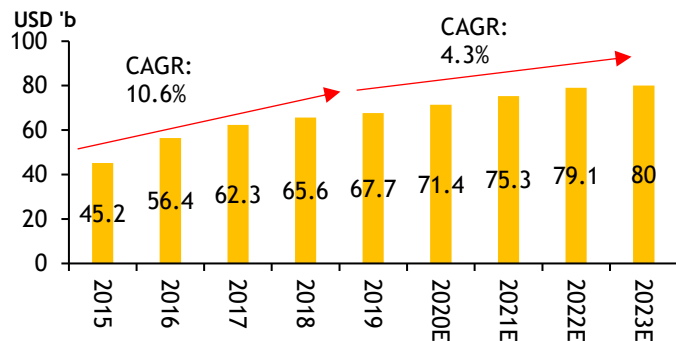


Source: Frost & Sullivan

iv) **Rising affluence** - The purchase of electronics is also dependent on income growth. In key markets of North America, European Union and Asia Pacific, F&S is forecasting GDP per capita CAGR of 2.6%/4.6%/5.5% during 2019-23E. This compares to 3.9%/3.6%/5.6% respectively during 2015-19. Other demographic-related factors that aid in demand for electronics include rising urbanisation and population growth.

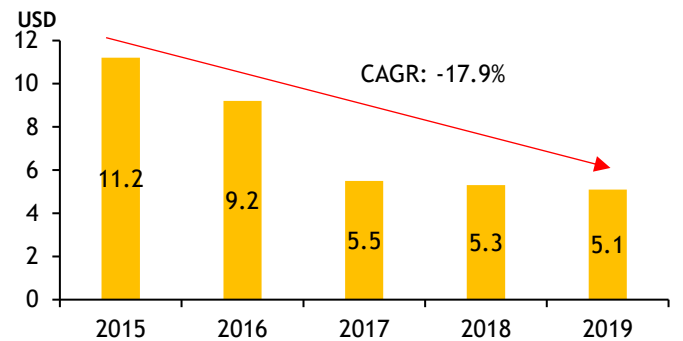
As for the LED market, F&S continues to be positive about market growth, underpinned by rising demand and regulatory support for energy efficient lighting, as well as initiatives by countries' (e.g. Singapore, the US, the UK, China, and India) green and sustainable buildings. This is notwithstanding rapidly falling prices of LED prices over the years. F&S forecasts the LED market to grow at a 4.3% CAGR during 2019-23E, as compared to 10.6% during 2015-19. Meanwhile, F&S has also observed a decline of 17.9% CAGR in LED lighting price to USD5.10 during 2015-19.

Figure 26: Market size of global LED lighting, 2015-2023E



Source: Frost & Sullivan

Figure 27: Average price of global LED lightings, 2015-2019



Source: Frost & Sullivan

Proxy to fast-growing IoT and datacomm products

We believe Aztech is a proxy to the aforementioned trends, driven by the following strengths:

i) **Key technology enabler for customers** - Through more than 30 years of operations, Aztech has amassed a strong suite of core technologies and capabilities that enable customers to bring their products to market. These connectivity technologies include LAN/WAN, 4G/ LTE, WiFi, Bluetooth, Zigbee and LoRa, as well as one-stop design and manufacturing capabilities. Aztech typically engages customers at the early product development stage and is able to meet customers' highly rigorous qualification processes. This has resulted in it building strong customers' trust, as well as improving development capabilities, understanding of market trends, and ability to win new customers

ii) **Diversified production and highly integrated facilities** - Aztech's production facilities are diversified across China and Malaysia. This allows for continuity of operations even under challenging situation such as geopolitical uncertainties, disasters, trade tension (e.g. US-China trade war), disease outbreak (e.g. Covid-19), and other site-specific disruptions occur. Furthermore, Aztech's production facilities are highly integrated from design, to components manufacturing (e.g. in-house plastic injection moulding and SMT), to final assembly. The combination of these factors help Aztech improves yield and quality, while also ensuring prompt delivery.

iii) **Globally diversified sales strategy to attract customers** - Aztech pursues a global diversified sales strategy with a team of 41 sales and marketing employees. The sales and marketing employees are based in countries where major customers are located, for prompt customer response and also to quickly identify new market trends and customer requirements. As for Aztech's retail channels, its products are sold in over 40 countries through distributors and direct sales.

iv) **Strong in-house R&D capabilities** - Aztech believes its R&D capabilities are a key differentiator against other competitors. According to F&S, Aztech's strong core capabilities in design and manufacturing allow it to add value to the whole production process and differentiate it from other pure-play contract manufacturers. R&D also allows Aztech to quickly adapt to rapid technological advancements. Aztech's R&D work is cross functional where the team carries out market and technical research and designs new products from initial concepts or works on concepts given by customers. Aztech's R&D team has to ensure product innovativeness, reliability, user-friendliness, and is designed for effective and efficient manufacture (i.e. designed-for-manufacture). During FY17-19, R&D expenses amounted to SGD1.7-2.8m, or 0.4-0.8% of revenue.

Capacity expansion amid improved volumes

In light of favourable business prospects on the back of IoT and datacomm, as well as LED tailwinds, Aztech intends to double its current manufacturing capacity by constructing a new manufacturing facility outside of China, which will add 500,000 sf of production floor space and double the group's existing manufacturing capacity. Together with the acquisition of SMT (surface mount technology) lines and plastic injection moulding machines, the initial stage of this new facility is expected to be ready by 1QFY22.

Aztech also intends to upgrade and purchase equipment, which will increase automation and reduce labour costs. Aztech also plans to enhance its enterprise resource planning (ERP) system to automate and improve its production process. The company believes these will improve efficiency, yield and boost manufacturing competitiveness.

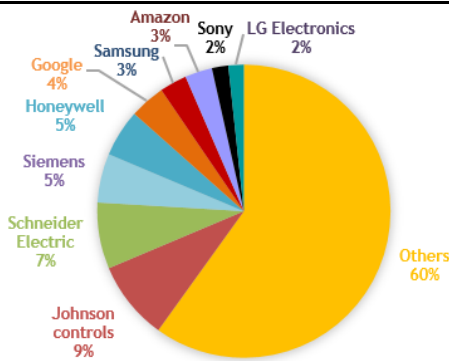
Aztech is operating at near or full capacity and as such is limited in its ability to respond to increasing demand for its products, unless production capacity is expanded. Notwithstanding the capacity expansion from the new facility, Aztech is also expanding capacity at the current Malaysian site, also to be completed by first half of FY21. This will bring total built-up area of its current plant to 86,000 sf from 45,500 sf.

Other growth initiatives

Beyond current customers and products, Aztech has plans to grow its business further through the following initiatives:

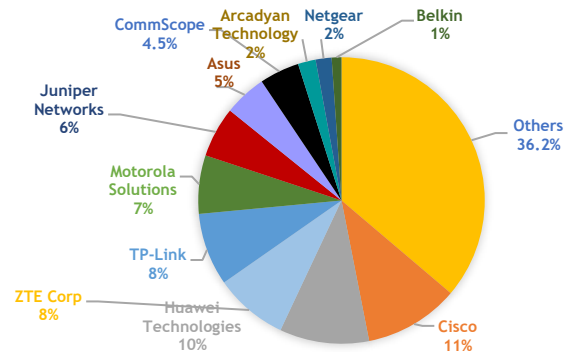
- i) **Expansion of ODM/ JDM business to capitalise on growing IoT market** - Aztech intends to develop innovative products and build an ecosystem of inter-connected smart devices for home and office applications to capture market share.

Figure 28: IoT market share of key players, global, 2019

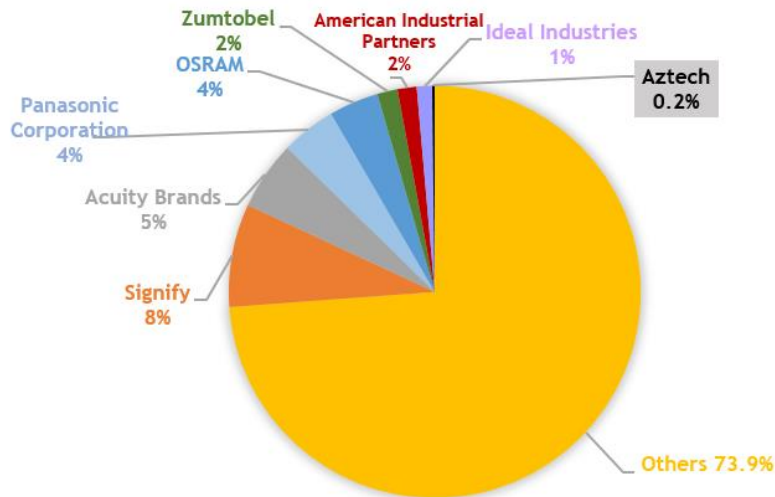


Source: Frost & Sullivan

Figure 29: Datacomms market share of key players, global, 2019



Source: Frost & Sullivan

Figure 30: Market share of LED lighting players, global, 2019


Source: Frost & Sullivan

ii) Developing “Kyla” B2C brand

Aztech has developed an IoT home automation system that enables users to control their homes through an app to personalise automation needs under its “Kyla” brand. Products currently sold under the “Kyla” brand include smart switches, smart sensors, smart security kits and smart curtain motor, etc.

As “Kyla” is a fairly new brand, Aztech plans to engage public relations agencies with experience in fast moving consumer goods to help it strategise and focus on European and US markets. Aztech will primarily focus on online marketplaces and its own e-commerce website to reach target customers before moving to offline distribution channels. Aztech also intends to increase media coverage and advertisements to boost awareness for the products.

iii) **Strategic investments** - Aztech also intends to expand and diversify its offerings through investments, potential M&A, or other strategic collaborations. This is to strengthen its market position and/ or to enter into new areas complementary to existing businesses. Aztech believes one such area would be companies that have strong end-to-end capabilities in design and fabrication of precision engineering parts for health-tech and IoT products. Aztech will also consider acquiring companies that have complementary technologies. At this juncture, Aztech has not entered into any definitive agreements with regards to acquiring/ forming joint ventures/ entering into strategic alliances. We have also not factored in any contributions from such strategic investments into our forecasts.

Financial analysis

We forecast revenue growth of 40%/37%/20% YoY in FY21-23E, while our PATMI forecasts for the same period are 43%/36%/20% YoY. We anticipate Aztech to achieve a FY20-23E PATMI CAGR of 33%.

Throughout our forecast horizon of FY20-23E, we expect revenue and earnings growth to be primarily driven by increasing contributions from Customer A, on the back of increased volumes for both current and new products. We expect net margins to be within the range of 11.5-11.8% over the same period, as we do not anticipate material economies of scale gains as we assume that Aztech will increase costs incrementally as it introduces new capacity and beefs up marketing and R&D capabilities to strengthen the proposition of its proprietary brands.

Aztech reported 1Q21 net profit of SGD13.2m (+2100% YoY) on the back of revenue of SGD115.9m (+211% YoY) - driven by strength in the IOT and datacomm business. This represents around 17% of our FY21E core PATMI, which is in line, based on expected seasonality trends. Aztech expects that in any given year, 1H:2H seasonality is 40:60, with 1Q being the seasonally weakest, and 4Q being the seasonally strongest.

FY21-23E forecast assumptions

1. Revenue

Due to the popularity of Customer A's smart security cameras and Aztech's solid execution track record with the customer, it has been the primary driver of revenue growth (FY18: 28.4% of revenue; 9M20: 57.8%).

As the products for Customer A continue to gain traction in the marketplace, we expect Customer A to continue being a key driver of revenue growth for Aztech. We project Customer A's contributions to grow from c.SGD210m to SGD664m in FY19-23E (FY19: 49% of revenue, FY23E: 59%) from generational product refreshes, as well as from new IoT products. We are also projecting growth from other customers, such as: i) Customer C, on our assumption that it wins wallet share from the customer; ii) two new customers (our own independent assumptions) in the IoT and datacomm segment, which we expect to contribute around 4-6% of revenue each by FY22E; and iii) growth from other customers in the IoT and datacomm segment. As for new customers 1 and 2, we assume high growth rates in FY21E/FY22E respectively as we expect these to be production ramp-up years. Following these, we are factoring relatively organic growth rates of around 5% p.a. For "Other" customers within IoT and datacomm, we believe our assumptions of high growth rates are not onerous, due to low-base effects, and also there are multiple levers of growth - either stemming from the present base of Aztech's 270 customers, or from potentially new customers. Our revenue assumptions are reflected in the following table:

Figure 31: Revenue by customers

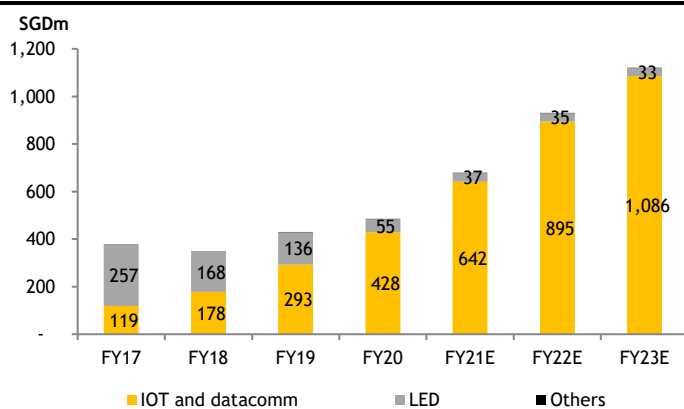
(SGDm)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	Comments
Revenue	377.1	346.8	428.8	484.3	679.3	930.9	1120.8	
Growth		-8%	24%	13%	40%	37%	20%	
IoT and datacomm	118.9	177.8	292.5	428.1	641.7	895.1	1086.2	
Growth		50%	65%	46%	50%	39%	21%	
Customer A	21.6	98.4	210.2	336.4	444.0	577.2	663.8	Our assumption of Cust. A product pipeline: • New generation of smart security cameras in FY20 • New IoT product in FY21 • New generations of smart security cameras in 2022
Growth		355%	114%	60%	32%	30%	15%	
Customer C	66.6	50.0	37.9	37.9	56.2	59.0	61.9	Our assumption of Aztech gaining wallet share from Cust. C in FY21E
Growth		-25%	-24%	0%	48%	5%	5%	
New customer 1	0.0	0.0	0.0	0.0	43.8	46.1	48.4	Our assumption of Aztech winning a new cust.
Growth						5%	5%	
New customer 2	0.0	0.0	0.0	0.0	17.1	51.6	54.2	Our assumption of Aztech winning a new cust.
Growth						201%	5%	
Others	30.7	29.5	44.3	53.7	80.6	161.2	258.0	Our assumption of Aztech growing contributions from other customers
Growth		-4%	50%	21%	50%	100%	60%	
LED	257.1	168.1	136.0	55.4	36.6	34.8	33.4	
Growth		-35%	-19%	-59%	-34%	-5%	-4%	
Customer B	242.5	156.4	121.9	42.7	27.7	27.7	27.7	
Growth		-35%	-22%	-65%	-35%	0%	0%	
Others	14.6	11.7	14.1	12.7	8.9	7.1	5.7	
Growth		-20%	21%	-10%	-30%	-20%	-20%	
Others	1.1	0.9	0.3	0.8	0.9	1.0	1.1	
Growth		-18%	-67%	177%	10%	10%	10%	

Note: Customers' FY20 contributions in blue font are estimates by MKE as Aztech has only provided 9M20 contributions and not 4Q20/ FY20 contributions.

Source: Company data, Maybank Kim Eng

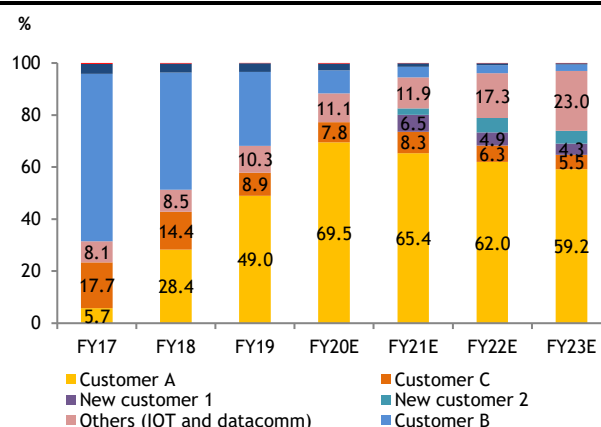
As at 21 Apr, outstanding order book was SGD489m, and we expect much of this to be fulfilled in 3Q21 and early 4Q21. We also anticipate new orders to come in in the coming weeks and months for fulfilment in the latter part of 4Q21. If these are stronger than expected, it may present upside to our FY21E forecasts.

Figure 32: Revenue forecasts



Source: Company data, Maybank Kim Eng

Figure 33: Customer mix



Note: FY20E customer contributions are MKE estimates as Aztech did not provide FY20/ 4Q20 break down.

Source: Company data, Maybank Kim Eng

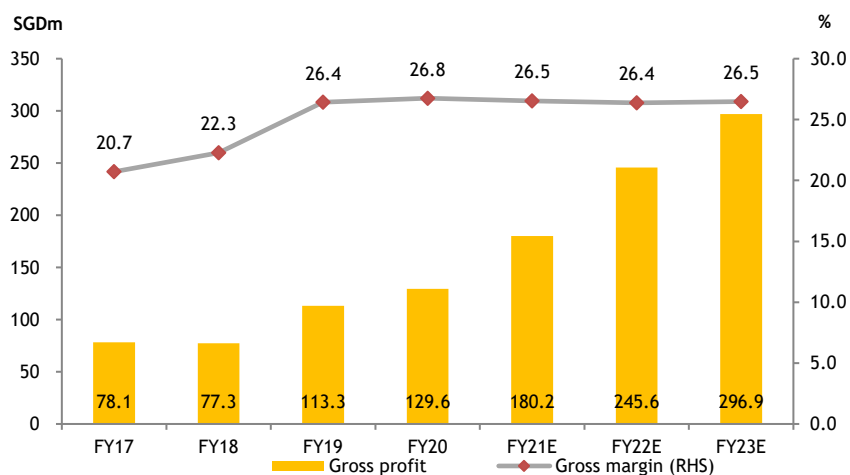
2. Gross margin

Aztech's gross margin has improved from 20.7% to 26.8% from FY17-20, largely from the increase in IoT and datacomm contributions - which tend to yield higher margins due to greater design value-add. We emphasize that as Aztech does not report gross margins, it is calculated by MKE as revenue less cost of goods sold. In turn, MKE calculates cost of goods sold as changes in inventories of finished goods and WIP, and raw materials used, plus depreciation and amortisation.

However, as IoT and datacomm contributions are expected to comprise 94% of revenue by FY21E, we see limited room for gross margin upside as a result of a shift in product mix. Our gross margin assumption ranges from 26.4-26.5% throughout FY21-23E.

Our margin assumptions reflect our expectation of cost-downs (particularly in LED segment) being cushioned by Aztech's efficiency gains from: i) increasing product familiarity; ii) ability to be more efficient with materials with successive generations of products; and iii) economies of scale with greater volumes; and iv) increased production automation - resulting in cost savings and efficiency gains.

Figure 34: Gross profit and margins



Source: Company data, Maybank Kim Eng

3. Employee benefits expense

Employee benefits expense is the next largest line item after materials, accounting for 9.1-12% of revenue during FY17-20. For FY21-23E, we are assuming employee benefits expense to be 9.4%, gradually tapering off to 9.1%, as we factor in efficiency gains. This range is lower than 2017-19, primarily because Aztech's IoT and datacomm segment, which we forecast to significantly outgrow the LED segment, generally have higher revenues and are less labour intensive in its production process.

4. Other operating expenses

Over FY17-20, other expenses were around SGD15-21m (3.1-5.5% of revenue) comprising items such as general and administrative expenses, write-down for inventory obsolescence, utilities costs, other factory costs, and distribution costs. We are factoring in other expenses to be 3.1% of revenue throughout FY21-23E. While we are cognizant there are certain elements of other operating expenses that are relatively fixed, our assumption is that other operating expenses are fully variable. This is to: i) factor in additional expenses associated with business expansion, e.g. material step up in marketing and R&D; and ii) to provide for any potential underestimation of other expense items.

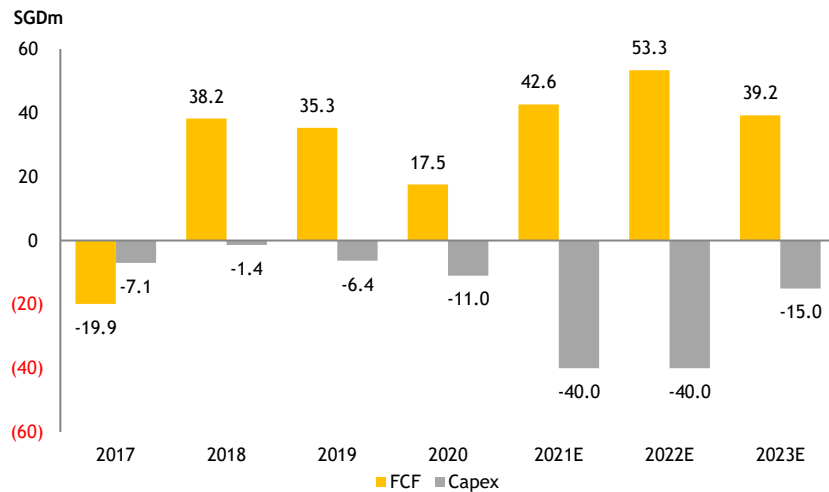
5. Capex

During FY17-20, annual capex ranged from SGD1-11m, representing 0.4-2.3% of revenue respectively. This compares to depreciation of SGD6.2-8.6m over the same timeframe.

We are forecasting capex to be significantly higher during our forecast years. In particular, we are forecasting SGD40/40/15m in FY21-23E. Of these, we factor in

SGD50m (split between SGD25/25m) in FY21-22E for a new plant outside of China that is expected to double group production capacity. Beyond this, we are assuming steady state capex requirements to be higher in FY22-23E, at around SGD15m, as we consider potentially increased requirements as Aztech expands its ODM/JDM businesses, as well as increases automation.

Figure 35: FCF and capex



Source: Company data, Maybank Kim Eng

5. Forex

We believe fluctuations in the USD against the CNY are important, as we estimate that around 90% or more of revenue are denominated in USD, while around 75% of expenses are denominated in CNY. As Aztech is also growing its production footprint in Malaysia, we expect an increased proportion of MYR-based expenses too. Depending on where Aztech sets up its new manufacturing facility outside China, we believe fluctuations of the USD against the domestic currency of which the facility is located in will also be a factor to consider. This is because we expect a sizeable part of expenses (e.g. labour and certain fixed costs) to be denominated in the domestic currency.

Aztech does not have a formal hedging policy. However, if Aztech does enter into hedging transactions in the future, this would be reviewed and approved by the board before implementation.

Figure 36: Key assumptions

Assumption/ variable	Unit	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Revenue growth	%		-8.0	23.6	12.9	40.3	37.0	20.4
IoT and datacomm	%		49.5	64.5	46.4	49.9	39.5	21.4
LED	%		-34.6	-19.1	-59.3	-33.9	-4.9	-4.1
Others	%		-18.2	-66.7	176.7	10.0	10.0	10.0
Gross margin	%	20.7	22.3	26.4	26.8	26.5	26.4	26.5
Employee benefits as a % of revenue	%	12.0	11.8	10.0	9.1	9.4	9.3	9.1
Other operating exp as a % of revenue	%		5.5	4.6	3.6	3.1	3.1	3.1
Tax rate	%	9.3	9.4	13.9	16.2	17.0	17.0	17.0
Capex	SGDm	7.1	1.4	6.4	11.0	40.0	40.0	15.0

Source: Company data, Maybank Kim Eng

Figure 37: P&L

FYE 31 Dec (SGDm)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	Comments
Sales	377.2	346.8	428.8	484.3	679.3	930.9	1,120.8	
Cost of goods sold*	(299.0)	(269.6)	(315.6)	(354.7)	(499.1)	(685.4)	(823.9)	
Gross profit[^]	78.1	77.3	113.3	129.6	180.2	245.6	296.9	
Other income	1.4	0.7	0.8	1.0	1.0	1.0	1.0	
Employee benefits expense	(45.1)	(40.9)	(42.7)	(44.0)	(63.9)	(86.6)	(102.0)	Assuming 9.1-9.4% of sales in FY21-23E
Other op. expenses	(20.8)	(16.1)	(15.6)	(14.9)	(20.9)	(28.2)	(38.0)	Assuming 3.1% of sales in FY21-23E
Operating Profit	13.5	23.5	55.7	71.7	96.4	131.8	157.8	
Net finance income/ (cost)	0.1	0.1	0.0	0.7	0.7	0.7	0.8	
Net other non-op. JV+Assc.	(1.3)	(1.4)	(0.9)	(1.2)	(1.2)	(1.2)	(1.3)	
Net extraordinaries	0.0	0.0	0.0	0.0	(2.0)	0.0	0.0	Factoring in IPO expenses in FY21E
Pretax profit	12.2	22.1	54.8	66.5	93.9	131.3	157.3	
Income taxes	(1.1)	(2.1)	(7.6)	(10.8)	(16.0)	(22.3)	(26.7)	
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PATMI	11.1	20.0	47.2	55.7	78.0	109.0	130.6	
Core PATMI	11.1	20.0	47.2	55.7	80.0	109.0	130.6	
EBITDA (SGDm)	19.7	30.4	64.3	80.3	104.4	145.0	173.7	
Gross margin (%)	20.7	22.3	26.4	26.8	26.5	26.4	26.5	
Core net margin (%)	2.9	5.8	11.0	11.5	11.8	11.7	11.7	
Growth (YoY)								
Revenue	na	-8.0%	23.6%	12.9%	40.3%	37.0%	20.4%	
Core PATMI	na	81.0%	135.7%	18.1%	43.5%	36.3%	19.8%	

*Cost of goods sold is calculated as "changes in inventories of finished goods and WIP, and raw materials used" plus "depreciation and amortization"

[^]Gross profit is calculated as "sales" less "cost of goods sold"

Source: Company data, Maybank Kim Eng

Figure 38: Balance sheet

As at 31 Dec FYE (SGDm)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	Comments
Cash & cash equivalents	15.3	11.3	14.3	11.5	221.8	243.2	244.0	
Trade receivables	99.8	73.0	96.7	197.0	175.2	283.9	268.9	
Other receivables	13.9	45.9	5.4	6.8	6.8	6.8	6.8	
Prepayments	0.4	0.8	0.4	1.2	1.2	1.2	1.2	
Inventories	50.7	44.9	19.1	53.7	69.4	99.6	171.2	
Others	0.1	0.0	0.0	0.1	0.1	0.1	0.1	
Current assets	180.1	175.9	135.9	270.3	474.5	634.8	692.2	
Fixed assets (net)	20.7	16.9	22.2	28.9	61.0	87.7	86.9	
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other investments/financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Intangible Assets	3.7	4.1	2.6	1.1	1.1	1.1	1.1	
Non-current assets	25.5	22.0	24.8	30.0	62.0	88.8	88.0	
Total Assets	205.6	197.9	160.7	300.2	536.6	723.6	780.2	
Short-term borrowings	50.5	12.3	10.4	29.2	29.2	29.2	29.2	
Lease liabilities	1.8	2.0	3.0	2.4	2.4	2.4	2.4	
Trade payables	102.5	96.4	87.2	141.1	132.4	243.1	208.3	
Other payables	10.3	27.5	25.7	62.9	62.9	62.9	62.9	
Income tax payable	0.3	2.1	8.4	16.1	16.1	16.1	16.1	
Others (provision for retirement benefit etc)	0.0	0.0	0.6	0.6	0.6	0.6	0.6	
Current Liabilities	165.5	140.2	135.3	252.3	243.7	354.4	319.6	
Term Loans	0.0	0.0	0.0	3.8	3.8	3.8	3.8	
Deferred tax liabilities	0.3	0.3	0.3	0.3	0.3	0.3	0.3	
Other liabilities	0.0	0.0	0.3	0.3	0.3	0.3	0.3	
Long Term Liabilities	3.2	1.6	2.7	6.3	6.3	6.3	6.3	
Total Liabilities	168.7	141.8	138.0	258.6	250.0	360.7	325.9	
Share Capital	68.5	68.5	15.5	15.5	203.9	203.9	203.9	
Other Reserves	-31.5	-12.4	7.2	26.2	82.7	159.0	250.4	
Shareholders' Funds	37.0	56.1	22.7	41.6	286.6	362.9	454.3	
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Liability + Equity	205.6	197.9	160.7	300.2	536.6	723.6	780.2	

Source: Company data, Maybank Kim Eng

Figure 39: Cashflow statement

FYE 31 Dec (SGDm)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	Comments
Pretax Profit	12.2	22.1	54.8	66.5	93.9	131.3	157.3	
D&A	6.2	6.9	8.6	8.6	7.9	13.2	15.8	
Interest received	(0.1)	(0.1)	(0.0)	(0.6)	(0.7)	(0.7)	(0.8)	
Other adjustments	1.3	2.2	6.2	3.1	0.0	0.0	0.0	
(Profit)/loss on sale of invts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Tax paid	(0.7)	(0.2)	(1.3)	(3.0)	(16.0)	(22.3)	(26.7)	
Chg in working capital	(31.8)	8.6	(26.6)	(46.1)	(2.6)	(28.2)	(91.4)	
Cash Flow from Operations	(12.8)	39.6	41.7	28.6	82.6	93.3	54.2	
Disposal/ (Addition) to fixed assets	(7.1)	(1.4)	(6.4)	(11.0)	(40.0)	(40.0)	(15.0)	FY21-22E: construction of new facility outside of China
Disposal/ (Addition) to associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Disposal/ (Addition) to investments	0.1	0.0	0.0	0.0	0.0	0.0	0.0	
Disposal/ (Addition) to intangibles	(2.3)	(2.4)	(1.4)	(0.2)	0.0	0.0	0.0	
Disposal/ (Addition) to other NCA	(1.3)	0.0	0.0	0.0	0.0	0.0	0.0	
Interest received	0.1	0.1	0.0	0.6	0.7	0.7	0.8	
Cash Flow from Investing	(10.5)	(3.7)	(7.8)	(10.7)	(39.3)	(39.3)	(14.2)	
Increase/ (Decrease) in borrowings	34.0	(38.8)	(1.7)	23.1	0.0	0.0	0.0	
Repayment of lease liabilities	(1.0)	(1.3)	(3.1)	(2.8)	0.0	0.0	0.0	
Proceeds from share issue	0.0	0.0	0.0	0.0	188.4	0.0	0.0	
Proceeds from minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Capital Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Dividends Paid	0.0	0.0	(26.3)	(41.0)	(23.4)	(32.7)	(39.2)	Assuming 30% pay-out ratio in FY21-23E
Cash Flow from Financing	33.0	(40.1)	(31.1)	(20.7)	165.0	(32.7)	(39.2)	
Change in Cash Position	9.7	(4.3)	2.8	(2.8)	208.3	21.4	0.8	
Adjustment	0.5	0.2	0.2	(0.0)	0.0	0.0	0.0	
Cash Position at Beg of Year	5.2	15.3	11.3	14.3	11.5	221.8	243.2	
Cash Position at End of Year	15.3	11.3	14.3	11.5	219.8	243.2	244.0	
Operating Cash Flow	(12.8)	39.6	41.7	28.6	82.6	93.3	54.2	
Free Cash Flow	(19.9)	38.2	35.3	17.5	42.6	53.3	39.2	

Source: Company data, Maybank Kim Eng

Investment Risk Factors

Aztech is exposed to a number of possible economic, market and business risks that could affect our views and forecasts for the company. The most material amongst these various risks are as follows:

Operational risks

Its main production and ancillary facilities located at Dongguan are leased from Jiujiangshui Economic Union Limited by Shares (JJSEUS). Neither JJSEUS nor Aztech has obtained i) the Certificate of State-owned Land Use Rights / Certificate of Collective-owned Land Use Right for the Dongguan Land; or (ii) the Certificate of Property Right, construction work planning permits or construction work commencement permits for all the buildings erected on it. Based on the due diligence report issued by Aztech's PRC Legal Adviser, Fangda Partners, the lease may not be legally valid, binding and enforceable, its use of land and the buildings erected on it may be disturbed or discontinued.

Aztech has commissioned Guanghe Law to advise on land-use and building rights regarding the issue. Based on the legal opinion issued by Guanghe Law, if Aztech Dongguan fails to obtain the Certificate of State-owned Land Use Right and complete the Title Registration by March 2022, and if any government agency makes any penalty decision to demolish the buildings or terminate the leasing arrangement, Aztech Dongguan will have at least six months to seek alternative ways to solve the issue.

The net book value of the Dongguan land and its buildings including the main production facility is -SGD3m as at 30 Sep 2020. The group also estimates the total cost of relocation to a new manufacturing facility would be -SGD2m.

Customer concentration risks

Aztech generated a significant portion of its revenue from its top three customers. Its major customers accounted for 87.7%, 87.9%, 86.3% and 83.3% of its revenue for FY17/18/19/9M2020 respectively. While Aztech is the sole supplier for some of the customers' products, its business is not based on long-term exclusive contracts. Further, its agreements do not always oblige customers to place certain minimum orders, nor are they necessarily exclusive. There is also no guarantee that its customers will renew contracts or maintain their order volume.

In addition, the selling price of its products may be pressured by price competition from other approved suppliers, rapid technology changes and short product life cycle, which may also cause a drop in selling prices of existing products.

Fluctuations of raw material costs

Aztech is susceptible to fluctuations in raw material prices and availability. The raw materials used in its products are electronics, plastics, metal and packaging materials. Therefore, significant increase in cost of raw materials may affect its profitability. Additionally, Aztech does not enter into any long-term supply agreements with its suppliers for any of its raw materials. Further, a disruption in supply of raw materials will delay production, and also result in Aztech's inability to fulfil customers' orders.

Reputational risks

Aztech's business relies heavily on the value and secrecy of its experience and expertise, knowledge of confidential information and trade secrets, as well as ownership of intellectual property. Its business also involves the storage and transmission of confidential consumer information and confidential information obtained from its customers and suppliers. Security breaches could expose Aztech

to unauthorized disclosure of this information, litigation and damage to the relationships with its customers and suppliers.

Expansion execution risks

Aztech's current production capacity in China and Malaysia limits its ability to increase its revenue. Its ability to respond to increasing demand is capped by its current production capacity, which in turn caps its future growth. Any delays in its expansion plans would limit its ability to increase sales volume, thereby affecting operating results.

Currency risks

Aztech's sales are predominantly denominated in USD and CNY, while its purchases, operating expenses and payments are predominantly denominated in USD, CNY and MYR (after scaling up its operations in Malaysia). Therefore, the group is susceptible to currency and translation risks. The exchange rates of different currencies are subject to fluctuations, affected by political and economic conditions.

Aztech do not currently have a formal foreign currency hedging policy to manage its foreign-exchange risks. This may result in substantial exchange losses or gains, which may adversely affect its bottom line.

Political risks/ Regulatory risks

Aztech's business and financials may be affected by political and legal developments in China and Malaysia. Changes in government policies and regulations could adversely affect its operations and value proposition in the market.

Also, any policies aimed at foreign-exchange control may affect the company's ability to receive dividends and other payments from its subsidiaries.

Appendix

Appendix 1: Senior Management and Board; Reasons for de-listing

Senior management

Mr Michael Mun: Executive Chairman and CEO

Mr Michael Mun is the founder of Aztech and is responsible for identifying and implementing group-wide business growth strategies, as well as overseeing all aspects of the group's growth and operating functions. Mr Michael Mun has more than 40 years of experience in the electronics industry. He began his career in 1975 at the Singapore office of Rank O'Connors - a British consumer electronics distributor - before founding Aztech. He spearheaded efforts to transform the group from a PC manufacturer to a multi-disciplinary business manufacturing, designing and selling of IoT and data-communication products, LED lighting products and other electrical products.

Mr Michael Mun is the father of Mr Jeremy Mun, the executive director and COO, and Mr Ivan Mun, the Vice President of Sales and Marketing.

Mr Jeremy Mun: Executive Director and COO

Mr. Jeremy Mun joined the group in 2002 and was previously involved in the product development and sale activities of the group's LED lighting business, before taking on the position of COO. He is responsible for the day-to-day operation and management of the business. In particular, he oversees the group's manufacturing facilities in China and Malaysia.

Mr. Jeremy Mun obtained a Bachelor of Science in Management from the University of London in 2000.

Ms Annie Qian: Financial Controller

Ms. Annie Qian joined the group in July 2016 as a finance manager and was subsequently promoted to Financial Controller in November 2017. She is responsible for overseeing all financial matters of the group. She previously worked in Dealguru Holdings Pte Ltd, Sheffield Offshore Services Pte Ltd and MindChamps Singapore Pte Ltd.

Ms. Annie Qian obtained a Bachelor of Science in Applied Accounting from Oxford Brookes University in 2008 and is a member of the Institute of Singapore Chartered Accountants.

Ms. Pavani d/o Nagarajah: Senior Vice President of Legal and Corporate Affairs

Ms. Pavani d/o Nagarajah has been with the group for over 22 years. She is responsible for overseeing all legal and corporate matters of the group and heads the investor relations and human resource departments. Prior to joining Aztech in 1998, she was a Senior Manager, Legal at Yamaha Music (Asia) Pte Ltd in Singapore.

Ms. Pavani d/o Nagarajah obtained a Bachelor of Laws from the National University of Singapore in 1987.

Mr. Daniel Oh: Senior Vice President of Sales/Business Development

Mr. Daniel Oh has been with the group for more than 24 years. He oversees the business development activities of the group's data-communication products and OEM/ODM/JDM/CMS products divisions. Prior to joining Aztech in 1996, he was a sales and production manager at Trio-Tech International Pte Ltd.

Mr. Daniel Oh obtained a Diploma in Electrical Engineering from Singapore Polytechnic in 1989 and an Advance Diploma in Management Studies from the Singapore Institute of Management in 1999.

Mr. Jason Saw: Senior Vice President of Business Development.

Mr. Jason Saw has been with the group for more than 15 years. He worked as a research and development manager for AGRP from 1991 to 1999. He is responsible for the business development activities of the group’s JDM/CMS products divisions, with a focus on the lighting / smart lighting sector for the international markets.

Subsequently, he joined Celestix Network Pte. Ltd. as a research and development manager, before joining Aztech in 2005 where he was involved in the group’s research and development activities and was promoted to Senior Vice President of Research and Development in 2011 before he was subsequently re-designated as Senior Vice President of Business Development in 2019.

Mr. Jason Saw obtained a Diploma in Electronic Engineering from Ngee Ann Polytechnic in 1988.

Mr. Terence Kwong: Vice President of Research and Development

Mr. Terence Kwong has been with the group for more than 15 years. He oversees all research and development activities of the Group. He previously worked as a senior hardware engineer at Guangdong Harvest Int’l Ltd and an assistant engineering manager at K-Tech Int’l Ltd.

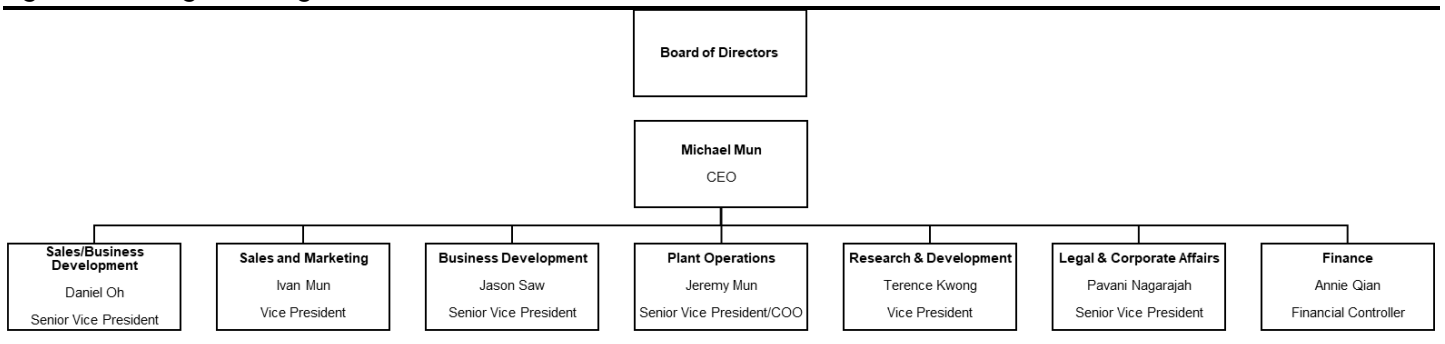
Mr. Terence Kwong obtained a Bachelor of Engineering in Electronic Engineering from the City University of Hong Kong in 2004.

Mr. Ivan Mun: Vice President of Sales and Marketing

Mr. Ivan Mun has been with the group for 15 years and was previously involved in Aztech’s sales activities in Hong Kong and China in relation to electronic products. He oversees the business development activities of the Aztech’s IoT Devices and LED lighting products divisions for the Singapore market. He is also responsible for the marketing activities of the company.

Mr. Ivan Mun obtained a Master of Business Administration from Murdoch University in 2016.

Figure 40: Management organisation chart



Source: Company data

Board of Directors

The board comprises five directors, of which three are independent directors. Aside from Mr Michael Mn and Mr Jeremy Mun who are executive Chairman and director, the audit, remuneration and nominating committees are chaired by independent directors who are:

Mr. TS Tan: Lead Independent Director

Mr. TS Tan currently serves as an independent non-executive director of NASDAQ-listed O2Micro International Ltd and was a member of its audit committee from June 2008 to November 2010 (and chairman of the committee since November 2010). In addition, he serves as an executive director of Teleios SC Pte. Ltd., a boutique executive search firm.

Mr. TS Tan is a veteran in the electronics industry with over 30 years of experience. His previous appointments included senior managing director of Advanced Micro Devices (Singapore) Pte Ltd, where he managed the business in Singapore and regional operations.

Mr. Larry Tan: Independent Director

Mr. Larry Tan is currently a retiree and was previously the Asia President of Texas Instruments Singapore Private Limited, a position he held from July 2007 up to his retirement in July 2018. Mr. Larry Tan started his career in 1979 in Texas Instruments Singapore Private Limited as a process engineer in its memory product division, and held a few other positions later as engineering manager, manufacturing manager and site quality and reliability manager. He subsequently assumed the role of vice president of marketing in the Asia Pacific sales and marketing division in 1991 and held the position of vice president of sales from 1993.

Mr. Christopher Huang: Independent Director

Mr. Christopher Huang is currently the managing director of CHP Law LLC and advises on various areas of law, with a focus on the legal and tax aspects of cross border commercial transactions, including transfer pricing.

Mr. Christopher Huang started his career as a part-time assistant accountant at Hastings Deering Australia Limited. He has also worked as a business manager at Adcomp Technology Pte Ltd, as a tax associate in the transfer pricing department of PricewaterhouseCoopers and as a tax lawyer at VoskampLawyers.

Mr. Christopher Huang joined Colin Ng & Partners LLP (now known as CNPLAW) in April 2015 and was made a partner within 3 years. At Colin Ng & Partners LLP, he headed its tax practice group, and CNP Tax and Advisory Pte Ltd prior to founding CHP Law LLC in April 2019.

De-listing and restructuring

The controlling shareholder of Aztech Global, AGRP, and formerly listed as Aztech Group, was delisted with effect from 21 Feb-17. The reasons which were cited were i) giving AGRP shareholders opportunity to realise investments with upfront premium; ii) low trading liquidity and iii) greater management flexibility, iv) greater management flexibility and v) no present need for access to Singapore markets.

Post delisting, AGRP has rationalised its businesses and have exited most of its non-electronics businesses, including the marine and shipping businesses, as well as the F&D business. AGRP has also focused on expanding the electronics business, which is consolidated under Aztech. As Aztech expects the electronics business expected to grow in coming years, it believes it is imperative to grow to a good size to develop economies of scale and attract new customers. To achieve this, Aztech may tap various sources of capital markets to fund such expansion.

Appendix 2: Land-use rights in Dongguan and contingency plan

Aztech's main production and ancillary facilities are located on a plot of land in Dongguan, China (~350,544.7 sf of floor area) where it has a lease agreement with the lessor Jiujiangshui Economic Union Ltd (JJSEUS) to use the land for a term of 50 years from 1 Oct-02 to 30 Sep-52. However, as neither Aztech nor JJSEUS has obtained the relevant land use right certificates, property right certificate and construction related permits for all the buildings erected on it, Aztech's PRC legal adviser is of the view that the lease agreement between Aztech and JJSEUS may not be legally valid, binding or enforceable. As such, it is a potential risk that Aztech may be required to vacate the Dongguan land and the buildings erected on it.

When Aztech commenced construction of the buildings on the Dongguan land in 2002, Aztech was not familiar with the practice and requirements in China, and assumed that either the contractor or the architect would have ensured that all construction permits were in place. In 2007, Aztech became aware that relevant certificates and permits had not been obtained, and have been seeking to resolve these issues since then. There was a delay in resolving these issues due to the construction of the Cong-Guan highway adjacent to the Dongguan land. However, Aztech has resumed efforts to resolve these issues in 2018 following the completion of the Cong-Guan highway.

In 2015, Aztech was imposed with a fine of CNY347,299 pursuant to a penalty decision by the Dongguan Land Resources Bureau indicating that Aztech had constructed industrial buildings on collective-owned land without regulatory approval, although the Dongguan land is classified as construction land and is compliant with the current land utilisation plan. The penalty decision also required the return of the Dongguan land to Jiujiangshui village (as a collective entity). Nonetheless, JJSEUS has at its own discretion continued to allow Aztech to use the Dongguan land. On 18 Mar-20, DNRB (Dongguan Natural Resources Bureau) Changping confirmed that Aztech Dongguan had fulfilled its obligations under the penalty decision within the applicable statutory time period and the file was closed.

Aztech Dongguan and JJSEUS are still obtaining the necessary documents and resolving the outstanding issues pertaining to the relevant applications to obtain the relevant land use right certificate and to complete the title registration for the building erected on the Dongguan land (including the issues, if any, arising from the Dongguan City Implementing Rules of Approval Procedures for the Land Use Right and Land Planning Examination of Buildings with Historical Outstanding Issues and Public Facilities Illegally Constructed ("No 120 Document") and the implementing rules and approval procedure for Dongguan City Title Registration Implementation Plan for Buildings with Historical Outstanding Issues and Public Facilities Illegally Constructed ("No 14 Document")). Aztech Dongguan estimates that the process to obtain the aforementioned land use right certificate and title registration will be completed by Mar-22. The Changping Town Government has confirmed that until Mar-22, the factory buildings and the land in Jiujiangshui, Dongguan occupied by Aztech Dongguan will not be subject to any risk of demolition or being withdrawn from leasing. This was provided to allow Aztech Dongguan sufficient time to progress with the relevant applications to obtain the aforementioned land use right certificate and title registration. Aztech Dongguan has also commissioned Guanghe Law to opine on these issues. Guanghe Law is of the view that Aztech Dongguan has the right to continue using the Dongguan land and the buildings on it without any risk of demolition by governmental authorities or repossession by the JJSEUS or the Jiujiangshui Village Committee until Mar-22. Guanghe law also opines that Aztech Dongguan will have to pay a fine of 5 or 7%

of construction costs in order to complete the title registration, which is estimated by Aztech to be approximately CNY1.9-2.7m (~SGD0.4-0.6m).

Presently, Aztech Dongguan has not obtained the relevant land use right certificate and has not completed the title registration. However, for the application to continue, Aztech Dongguan and the Jiujiangshui Village Committee will need to confirm the type of land use (collective land or state-owned land) that the relevant application will be based on. As the documents required and the issues to be resolved differ depending on the type of land use which the rectification application is based on, the parties are still exploring the most efficient way to obtain the outstanding documents and resolve the outstanding issues before making a decision on the type of land use which the rectification application will be based on. It is to be noted that Aztech has continued to operate at the site since 2005.

The worst-case scenario is an administrative penalty requiring Aztech Dongguan to demolish the buildings or terminate the leasing agreement. This will require Aztech to write-off the net book value of the land, amounting to around SGD3m as at 30 Sep-20.

Contingency measures for this include relocation to another site in Dongguan. The estimated cost of relocating the production equipment and fitting out the new facility is around SGD2m. Should relocation be required, Aztech believes full production can commence within three months after the lease of the new site is secured. Aztech also expects duration of downtime affecting its operations to be minimal as the relocation would be done in phases and production will run concurrently. Furthermore, Aztech may increase its production ahead of delivery schedule to cater for potential downtime.

In addition, the IoT premises in Malaysia commenced production in Aug-20. This premise currently has 7 assembly lines, with 9 more to be installed by 1Q21 to reach planned production capacity. If the need arises, the premise has space to install another 19 lines.

In the unlikely event that Aztech is unable to relocate its facilities in China within the six-month grace period, and the tenancy to the secondary factory is terminated at the same time, it is expected that the IoT premises will be able to handle up to 60% of the value of Aztech's production requirements.

Appendix 3: Overview of competitive landscape for IoT OEMs

Figure 41: Profile of key IoT players

Company	HQ	Company overview (focus)	Listed/ Non-listed	Key product categories	Products manufactured
Amazon	US	E-commerce, cloud computing, digital streaming and AI. Engages in online retailing and sales of compute, storage and database services	Listed	Smart speakers, Automated Voice Assistant, Smart security cameras and connected doorbells	Own-branded products
Aztech	SG	Integrated manufacturer of electronic products with competence in R&D, design, engineering, and production services. It also offers OEM, ODM, JDM and CMS services to brand owners	Non-Listed	Smart Security Cameras, Smart Home Plugs, Smart Switch, Smart Hub, Smart Locks, Smart Sensors	Own-branded products Third-party products
Cisco	US	Developing, manufacturing and selling network hardware, software, telecommunication equipment	Listed	Routers, Switches, Modems	Own-branded products
Google	US	Internet-related services and products, that include online advertising technologies, search engine, web-based services, cloud computing, software and hardware	Listed	Smart speakers, smart displays, thermostats, smoke detectors, Smart video doorbells, security systems	Own-branded products
Honeywell	US	MNC operating in Aerospace, Building Technologies, Performance Materials & Technologies and Productivity Solutions	Listed	Smart cameras, smart thermostats and wireless doorbells, Smart sensors and platforms, energy management systems	Own-branded products
Huawei Technologies	China	Leading global provider of Information and Technology infrastructure. The company focuses on manufacturing communication devices, building telecommunication networks, operational and consulting services to enterprises.	Non-Listed	Routers, Switches, Modems	Own-branded products
Johnson Controls	Ireland	Systems and digital solutions for enhancing the intelligence of buildings. The company also offers building products, technologies, software and services under its smart buildings portfolio	Listed	IoT based smart systems for temperature control, HVAC systems, Security, and alarm applications	Own-branded products
LG Electronics	South Korea	Products and solutions in home entertainment, mobile communications, home appliances & air solutions and vehicle component	Listed	Smart cameras, smart appliances, smart wearables and security systems	Own-branded products
Samsung	South Korea	Consumer and industry electronics, including appliances, digital media devices, semiconductors, memory chips and integrated systems	Listed	Smart cameras, smart appliances, smart wearables, smart sensors and security systems	Own-branded products
Schneider Electric	France	Energy and automation digital solutions for efficiency and sustainability. The company combines energy technologies, real time automation, software and services to target customers at home, buildings, data centers, infrastructure and industries.	Listed	Smart sensors, Smart energy management systems, Automation and control systems	Own-branded products
Siemens	Germany	Intelligent infrastructure for buildings and decentralised energy systems, automation and digitalization in manufacturing industries and on smart mobility solutions	Listed	IoT based smart systems for building automation and controls, HVAC systems, IoT sensors and platforms, energy management systems	Own-branded products
Sony	Japan	Electronics manufacturing. The company also provides products and solutions in entertainment, game and financial service sectors	Listed	Smart appliances, smart wearables, smart cameras	Own-branded products
ZTE Corporation	China	Telecommunications. ZTE operates carrier networks, terminals and telecommunication. The core business focuses on wireless, exchange, optical transmission, data communications gear, mobile phones and telecommunication software.	Listed	Routers, Switches, Modems	Own-branded products

Source: Frost & Sullivan

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	na	na	13.2	9.8	8.2
Core P/E (x)	na	na	12.9	9.8	8.2
P/BV (x)	na	na	3.7	2.9	2.4
P/NTA (x)	na	na	3.7	2.9	2.4
Net dividend yield (%)	na	na	2.2	3.1	3.7
FCF yield (%)	na	na	4.1	5.0	3.7
EV/EBITDA (x)	16.5	13.6	8.1	5.9	4.9
EV/EBIT (x)	19.1	15.2	8.7	6.5	5.4
INCOME STATEMENT (SGD m)					
Revenue	428.8	484.3	679.3	930.9	1,120.8
EBITDA	64.3	80.3	104.4	145.0	173.7
Depreciation	(8.6)	(8.6)	(7.9)	(13.2)	(15.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	55.7	71.7	96.4	131.8	157.8
Net interest income / (exp)	(0.9)	(0.5)	(0.5)	(0.5)	(0.5)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	(2.0)	0.0	0.0
Other pretax income	(0.1)	(4.7)	0.0	0.0	0.0
Pretax profit	54.8	66.5	93.9	131.3	157.3
Income tax	(7.6)	(10.8)	(16.0)	(22.3)	(26.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	47.2	55.7	78.0	109.0	130.6
Core net profit	47.2	55.7	80.0	109.0	130.6
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	14.3	11.5	221.8	243.2	244.0
Accounts receivable	96.7	197.0	175.2	283.9	268.9
Inventory	19.1	53.7	69.4	99.6	171.2
Reinsurance assets	5.4	6.8	6.8	6.8	6.8
Property, Plant & Equip (net)	22.2	28.9	61.0	87.7	86.9
Intangible assets	2.6	1.1	1.1	1.1	1.1
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	0.4	1.3	1.3	1.3	1.3
Total assets	160.7	300.2	536.6	723.6	780.2
ST interest bearing debt	10.4	29.2	29.2	29.2	29.2
Accounts payable	87.2	141.1	132.4	243.1	208.3
Insurance contract liabilities	3.0	2.4	2.4	2.4	2.4
LT interest bearing debt	0.0	3.8	3.8	3.8	3.8
Other liabilities	37.0	82.0	82.0	82.0	82.0
Total Liabilities	138.0	258.6	250.0	360.7	325.9
Shareholders Equity	22.7	41.6	286.6	362.9	454.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	22.7	41.6	286.6	362.9	454.3
Total liabilities and equity	160.7	300.2	536.6	723.6	780.2
CASH FLOW (SGD m)					
Pretax profit	54.8	66.5	93.9	131.3	157.3
Depreciation & amortisation	8.6	8.6	7.9	13.2	15.8
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(26.6)	(46.1)	(2.6)	(28.2)	(91.4)
Cash taxes paid	(1.3)	(3.0)	(16.0)	(22.3)	(26.7)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	41.7	28.6	82.6	93.3	54.2
Capex	(6.4)	(11.0)	(40.0)	(40.0)	(15.0)
Free cash flow	35.3	17.5	42.6	53.3	39.2
Dividends paid	(26.3)	(41.0)	(23.4)	(32.7)	(39.2)
Equity raised / (purchased)	0.0	0.0	188.4	0.0	0.0
Change in Debt	(4.8)	20.3	0.0	0.0	0.0
Other invest/financing cash flow	(1.4)	0.4	0.7	0.7	0.8
Effect of exch rate changes	0.2	(0.0)	0.0	0.0	0.0
Net cash flow	3.0	(2.8)	208.3	21.4	0.8

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	23.6	12.9	40.3	37.0	20.4
EBITDA growth	130.5	24.9	29.9	39.0	19.7
EBIT growth	165.0	28.7	34.5	36.7	19.7
Pretax growth	148.2	21.4	41.2	39.8	19.8
Reported net profit growth	135.7	18.1	39.9	39.8	19.8
Core net profit growth	135.7	18.1	43.5	36.3	19.8
Profitability ratios (%)					
EBITDA margin	15.0	16.6	15.4	15.6	15.5
EBIT margin	13.0	14.8	14.2	14.2	14.1
Pretax profit margin	12.8	13.7	13.8	14.1	14.0
Payout ratio	55.7	73.6	29.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	11.0	11.5	11.5	11.7	11.7
Revenue/Assets (x)	2.7	1.6	1.3	1.3	1.4
Assets/Equity (x)	7.1	7.2	1.9	2.0	1.7
ROAE (%)	119.7	173.3	47.5	33.6	32.0
ROAA (%)	26.3	24.2	19.1	17.3	17.4
Liquidity & Efficiency					
Cash conversion cycle	3.0	30.3	44.4	34.5	49.3
Days receivable outstanding	71.2	109.2	98.6	88.8	88.8
Days inventory outstanding	36.5	36.9	44.4	44.4	59.2
Days payables outstanding	104.7	115.8	98.6	98.6	98.6
Dividend cover (x)	1.8	1.4	3.5	3.3	3.3
Current ratio (x)	1.0	1.1	1.9	1.8	2.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.2	1.2	2.1	2.0	2.4
Net gearing (%) (incl perps)	net cash	51.8	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	51.8	net cash	net cash	net cash
Net interest cover (x)	64.0	145.4	nm	nm	nm
Debt/EBITDA (x)	0.2	0.4	0.3	0.2	0.2
Capex/revenue (%)	1.5	2.3	5.9	4.3	1.3
Net debt/ (net cash)	(3.9)	21.6	(188.8)	(210.1)	(211.0)

Source: Company; Maybank

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