

Aztech Global (AZTECH SP)

Resetting expectations

BUY

Share Price SGD 1.09
 12m Price Target SGD 1.26 (+18%)
 Previous Price Target SGD 1.86

3Q21 missed; but most negatives look priced in

3Q21 PATMI of SGD18m (+3% YoY) missed and accounted for 60%/63% of our/street's estimates. This was due to the worsening of components shortage. We cut FY21-23E PATMI by 11% to reflect FY21E order book, and lowered expectations for FY22-23E. Our TP falls to SGD1.26, as we roll forward to 10x FY22E P/E (from 18x FY21E), a discount vs. global CMS/ODM peers at 11x/12x respectively to account for risks of further earnings disappointment. Maintain BUY as we believe most negatives are priced in.

Components shortage stalls momentum

The current order book for FY21E delivery is SGD210m, inferring FY21E revenue of SGD600.7m (+24% YoY) - if there are no further delays in receiving components. This infers a SGD79m shortfall to our prior FY21E expectation. Of order book slated for FY22E (SGD426m), most should be delivered in 1H22, and some in 3Q22. Management will work hard with suppliers to secure components, or even pull in components, where possible.

Strong net margin due to better mix

9M21 net margin was 12.1% (+0.5 ppt YoY) due to a better mix and cost control. Power disruptions in China had a minimal impact on Aztech, according to management. Management continues to expect most costs increases can be passed on to customers, as the demand outlook remains robust. Our FY21-23E net margin assumptions are 11.4-11.8% to factor in some cost downs/ costs that are not fully passed through.

Shortage needs to dissipate for meaningful re-rating

Maintain BUY as we believe most negatives are priced in, and the stock is undervalued. Our lowered target P/E of 10x is to factor in earnings risk from the shortage situation, and as such, a material improvement may pave the way for upside. Aztech may also do share buybacks, which may buoy the share price in the near term. However, we believe the stock won't re-rate meaningfully until supply chain challenges have largely been alleviated. On that front, management expects components shortage to continue into the next 6-12 months. As such, we prefer chip-shortage beneficiaries like AEM (AEM SP, BUY, TP SGD5.77), UMS (UMSH SP, BUY, TP SGD2.10) and Frencken (FRKN, BUY, TP SGD2.63) for Singapore tech exposure.

FYE Dec (SGD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	429	484	601	841	1,027
EBITDA	56	80	90	128	157
Core net profit	39	56	71	98	117
Core EPS (cts)	6.2	9.0	9.5	12.6	15.1
Core EPS growth (%)	193.6	44.5	5.6	32.5	19.7
Net DPS (cts)	4.3	6.6	2.7	3.8	4.5
Core P/E (x)	na	na	11.5	8.6	7.2
P/BV (x)	na	na	3.0	2.4	2.0
Net dividend yield (%)	na	na	2.5	3.5	4.2
ROAE (%)	97.9	173.3	43.7	31.1	30.0
ROAA (%)	21.5	24.2	17.4	17.3	17.5
EV/EBITDA (x)	15.1	10.8	7.2	5.1	3.8
Net gearing (%) (incl perps)	net cash	51.8	net cash	net cash	net cash
Consensus net profit	-	-	76	103	131
MKE vs. Consensus (%)	-	-	(7.2)	(5.3)	(10.6)

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Company Description

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

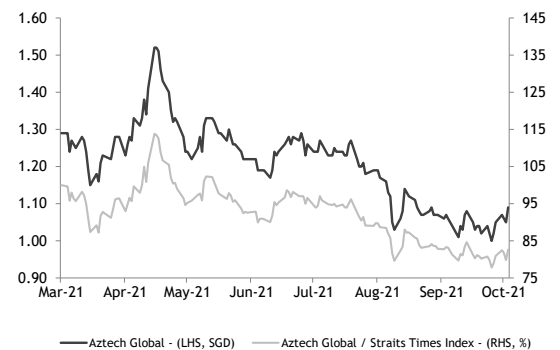
Statistics

52w high/low (SGD)	na/na
3m avg turnover (USDm)	1.4
Free float (%)	30.0
Issued shares (m)	774
Market capitalisation	SGD843.4M USD625M

Major shareholders:

AVS Investments Pte Ltd.	70.1%
HSBC Global Asset Management (Hong Kong)	1.4%
JPMorgan Asset Management (Singapore) Lt	0.8%

Price Performance



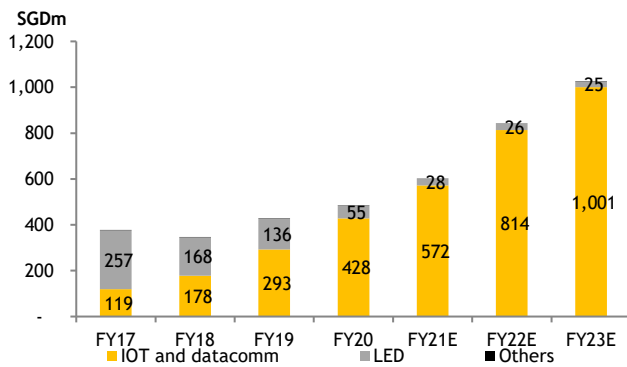
	-1M	-3M	-12M
Absolute (%)	2	(12)	na
Relative to index (%)	(1)	(12)	na

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

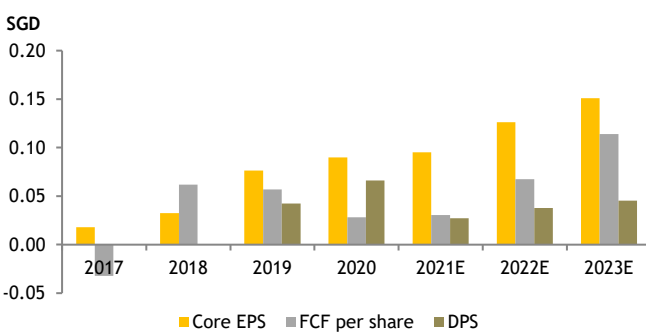


Source: Company

Financial Metrics

- We expect EPS CAGR of 19%, largely driven by Customer A (new products and market penetration) as well as other new customers.
- FY21-23E margins are slightly declining as we factor in some cost downs and inefficiencies in being able to fully pass through rising input costs.
- FY21-23E dividend pay-out assumption of 30%.

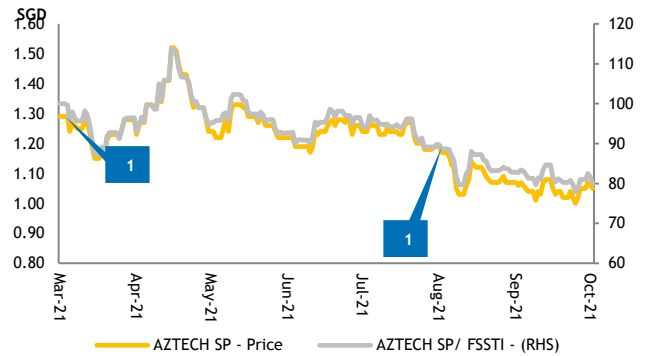
Core EPS, FCF per share and DPS



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.
2. 1H21 results in line with street but management confirmed that Aztech was struggling with components shortages.

Swing Factors

Upside

- Better than expected order momentum of existing products during current IoT upcycle.
- New customer/ allocation wins.
- Better than expected margins from operating leverage.

Downside

- Commoditisation of consumer IoT products that lead to pricing erosion.
- Worsening in components shortage situation.
- Inventory correction due to over-exuberance of supply chain in anticipating end-consumer demand.

Fig 1: Forecast changes

	FY21E			FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	600.7	679.3	-11.6	841.5	930.9	-9.6	1,027.1	1,120.8	-8.4
Gross profit (SGDm)	166.4	188.2	-11.6	233.9	258.8	-9.6	286.6	312.7	-8.4
EBIT (SGDm)	82.1	96.4	-14.8	115.3	132.5	-13.0	141.2	158.5	-10.9
EBITDA (SGDm)	90.1	104.4	-13.7	128.5	145.0	-11.4	157.1	173.7	-9.6
Core net profit (SGDm)	71.1	80.0	-11.1	97.6	109.6	-11.0	116.8	131.2	-11.0
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross material margin	27.7%	27.7%	0.0	27.8%	27.8%	0.0	27.9%	27.9%	0.0
EBITDA margin	15.0%	15.4%	-0.4	15.3%	15.6%	-0.3	15.3%	15.5%	-0.2

Source: Maybank Kim Eng

Fig 2: Peer comps

Company	BBG Code	MKE Rec	MKE TP (LC)	Price LC	Mcap USDb	Act	FY1	FY2	P/E (x) FY3	DY (%) FY1	EV/EBI TDA
											FY1
Aztech Global	AZTECH SP	Buy	1.26	1.09	0.62	12.1	11.5	8.6	7.2	2.5	7.2
CMS											
Valuetronics	VALUE SP	NR	0.60	0.57	0.18	7.8	10.3	9.6	8.8	4.7	0.2
ATA IMS	8176 MK	NR	-	2.57	0.74	21.1	17.8	14.0	11.9	1.7	12.0
V.S. Industry	VSI MK	Hold	1.86	1.63	1.50	25.0	19.2	16.7	15.7	2.6	11.2
Globetronics	GTB MK	Buy	2.80	2.04	0.33	26.8	23.8	19.9	18.4	3.7	13.3
Flex	FLEX US	NR	-	18.28	8.92	11.6	10.1	9.5	9.1	0.0	6.9
Average						14.3	12.2	11.0	10.4	0.6	7.9
ODM											
Foxconn	2354 TT	NR	-	68.5	3.44	19.5	13.0	11.6	10.7	3.5	11.5
Venture	VMS SP	Buy	25.13	18.53	4.00	18.1	16.5	15.1	14.3	4.1	10.7
Pegatron	4938 TT	NR	-	67.4	6.39	8.7	9.3	9.9	9.4	6.8	6.1
Wistron	3231 TT	NR	-	28.4	2.93	9.3	9.2	8.8	7.8	7.8	6.2
Inventec	2356 TT	NR	-	26.5	3.38	12.5	15.1	15.1	13.6	6.0	11.5
Average						13.1	12.3	12.0	11.1	5.7	8.9

Source: Maybank Kim Eng

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	na	na	11.6	8.6	7.2
Core P/E (x)	na	na	11.5	8.6	7.2
P/BV (x)	na	na	3.0	2.4	2.0
P/NTA (x)	na	na	3.0	2.4	2.0
Net dividend yield (%)	na	na	2.5	3.5	4.2
FCF yield (%)	na	na	2.8	6.2	10.5
EV/EBITDA (x)	15.1	10.8	7.2	5.1	3.8
EV/EBIT (x)	17.8	12.1	7.8	5.6	4.2
INCOME STATEMENT (SGD m)					
Revenue	428.8	484.3	600.7	841.5	1,027.1
EBITDA	55.7	80.3	90.1	128.5	157.1
Depreciation	(8.6)	(8.6)	(7.9)	(13.2)	(15.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	47.1	71.7	82.1	115.3	141.2
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	(0.8)	0.0	0.0
Other pretax income	(0.1)	(4.7)	0.0	0.0	0.0
Pretax profit	46.2	66.5	80.8	114.8	140.7
Income tax	(7.6)	(10.8)	(10.5)	(17.2)	(23.9)
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	38.6	55.7	70.3	97.6	116.8
Core net profit	38.6	55.7	71.1	97.6	116.8
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	14.3	11.5	203.1	226.9	280.8
Accounts receivable	96.7	197.0	132.2	167.5	226.4
Inventory	19.1	53.7	112.9	120.2	123.3
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	518.3	611.5	726.7
ST interest bearing debt	10.4	29.2	29.2	29.2	29.2
Accounts payable	87.2	141.1	120.7	145.6	179.0
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	238.3	263.2	296.6
Shareholders Equity	22.7	41.6	280.0	348.3	430.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	22.7	41.6	280.0	348.3	430.1
Total liabilities and equity	160.7	300.2	518.3	611.5	726.7
CASH FLOW (SGD m)					
Pretax profit	46.2	66.5	80.8	114.8	140.7
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)	(14.7)	(17.7)	(28.6)
Cash taxes paid	(1.3)	(3.0)	(10.5)	(17.2)	(23.9)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	33.1	28.6	62.8	92.3	103.2
Capex	(6.4)	(11.0)	(40.0)	(40.0)	(15.0)
Free cash flow	26.7	17.5	22.8	52.3	88.2
Dividends paid	(26.3)	(41.0)	(21.1)	(29.3)	(35.0)
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)	0.8	0.0	0.0
Net cash flow	(5.6)	(2.8)	191.6	23.8	54.0

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	23.6	12.9	24.0	40.1	22.1
EBITDA growth	165.0	44.2	12.1	42.7	22.2
EBIT growth	232.9	52.2	14.5	40.4	22.5
Pretax growth	203.8	44.0	21.5	42.0	22.6
Reported net profit growth	193.6	44.5	26.2	38.8	19.7
Core net profit growth	193.6	44.5	27.6	37.2	19.7
Profitability ratios (%)					
EBITDA margin	13.0	16.6	15.0	15.3	15.3
EBIT margin	11.0	14.8	13.7	13.7	13.7
Pretax profit margin	10.8	13.7	13.5	13.6	13.7
Payout ratio	68.2	73.6	29.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	9.0	11.5	11.7	11.6	11.4
Revenue/Assets (x)	2.7	1.6	1.2	1.4	1.4
Assets/Equity (x)	7.1	7.2	1.9	1.8	1.7
ROAE (%)	97.9	173.3	43.7	31.1	30.0
ROAA (%)	21.5	24.2	17.4	17.3	17.5
Liquidity & Efficiency					
Cash conversion cycle	3.0	28.3	59.2	54.2	49.3
Days receivable outstanding	71.2	109.2	98.6	64.1	69.0
Days inventory outstanding	36.5	37.8	69.0	69.0	59.2
Days payables outstanding	104.7	118.7	108.5	78.9	78.9
Dividend cover (x)	1.5	1.4	3.5	3.3	3.3
Current ratio (x)	1.0	1.1	2.0	2.0	2.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.2	1.2	2.2	2.3	2.5
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)	54.1	145.4	nm	nm	nm
Debt/EBITDA (x)	0.2	0.4	0.4	0.3	0.2
Capex/revenue (%)	1.5	2.3	6.7	4.8	1.5
Net debt/ (net cash)	(3.9)	21.6	(170.1)	(193.8)	(247.8)

Source: Company; Maybank

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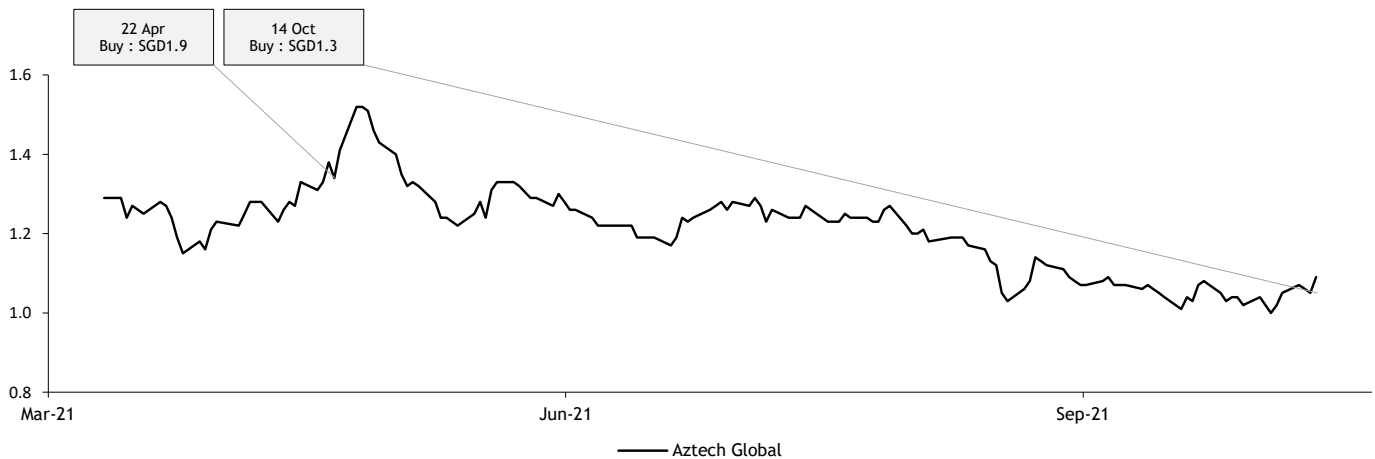
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