

# Aurelius Technologies (ATECH MK)

## 1QFY23 results within expectations

### Results in-line; Maintain BUY

We maintain our BUY call and TP of RM2.03 for ATECH, based on its CY23 EPS of 13.7sen pegging to a PER of 14.8x, in-line with its EMS peers' historical 5-years weighted average PER. 1QFY23 results came in at 16% of both ours and consensus full-year estimates. We consider that to be in-line with expectations as we anticipate a stronger 2H, underpinned by (i) the ramp-up in production of higher-margin multicomponent integrated circuits (MCICs) for Customer F; (ii) recovery from operational disruptions stemming from component shortages; and (iii) seasonal impact, as bulk orders are usually placed after end of festive season (ie. Chinese New Year), coupled with fewer working days in 1H.

### Lower-margin product mix dragged 1QFY23 CNP

ATECH's 1QFY23 revenue of MYR101m eased by -5.6% QoQ, mainly due to seasonal weakness and component shortages, which affected production for some customers in its Communication and IoT products segment. Meanwhile, core net profit (CNP) plunged by a larger -29% QoQ to MYR5.4m (after excluding one-off items such as unrealised foreign exchange loss and fair value gain on revaluation of short-term investment), weighed down by lower-margin product mix during the quarter. As of May 2022, ATech has an orderbook of MYR504m (vs. MYR523m in January).

### More capacity to come online in 2HFY23

ATECH is expecting to install the 5<sup>th</sup> and 6<sup>th</sup> SMT production lines for customer F by end-July and September 2022, respectively. This will help to further boost sales volume for customer F from 2HFY23E onwards. We are projecting ATECH to produce at least 30% more semiconductor components (MCICs) pieces for customer F in 3QFY23 vs. 1QFY23.

### Potential earnings upside from new clients

ATECH's longer-term prospect remains intact, underpinned by the group's continuous expansion to cater for its customers demand, as well as further earnings upside from potential new customers (already in an advanced stage of discussion re securing new orders). We like ATECH for its robust earnings growth prospects, growing exposure to higher value-added MCICs, as well as its low dependence on foreign labour (unlike its domestic peers).

FYE Jan (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	362	367	446	533	593
EBITDA	27	37	47	69	81
Core net profit	16	24	33	51	57
Core EPS (sen)	4.4	6.7	9.2	14.1	16.0
Core EPS growth (%)	(33.3)	53.1	37.2	53.0	13.4
Net DPS (sen)	0.0	0.0	1.8	2.8	3.2
Core P/E (x)	na	31.8	15.4	10.1	8.9
P/BV (x)	na	3.8	2.2	1.8	1.6
Net dividend yield (%)	na	0.0	1.3	2.0	2.3
ROAA (%)	5.9	7.0	8.1	11.8	12.1
EV/EBITDA (x)	23.2	21.6	12.2	8.4	7.2
Net gearing (%) (incl perps)	141.1	18.9	25.6	27.6	22.5
Consensus net profit	-	-	33	47	57
MKE vs. Consensus (%)	-	-	(0.8)	7.0	0.1

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## BUY

Share Price	MYR 1.42
12m Price Target	MYR 2.03 (+45%)
Previous Price Target	MYR 2.03

### Company Description

Aurelius Technologies Bhd. provides manufacturing solutions for industrial electronic products.

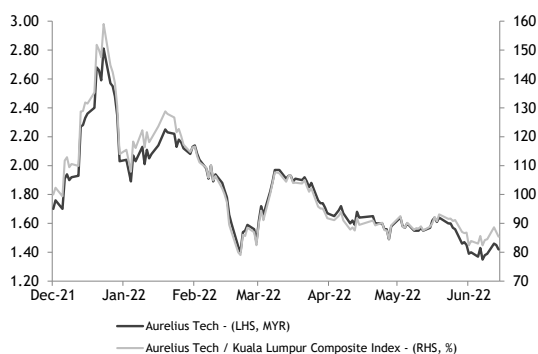
### Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	0.3
Free float (%)	29.0
Issued shares (m)	358
Market capitalisation	MYR508.6M USD116M

### Major shareholders:

Main Stream Ltd	21.3%
Loh Hock Chiang	19.7%
Lee Chong Yeow (Deceased)	19.7%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(8)	(26)	na
Relative to index (%)	(3)	(20)	na

Source: FactSet

Figure 1: Aurelius Technologies results summary

FY Jan (MYR m)	Quarterly results			Cumulative		
	1Q23	4Q22	%QoQ	12M22	12M21	%YoY
Turnover	100.7	106.6	(5.5)	367.4	362.2	1.5
EBIT	5.3	8.0	(34.6)	31.7	22.4	41.7
Interest expense	(0.6)	(1.1)	(39.5)	(3.9)	(4.1)	(5.8)
Interest income	0.2	0.0	>100	0.1	0.2	(29.7)
Pre-tax profits (ex-Els)	4.8	7.0	(32.0)	28.0	18.5	51.5
Pre-tax profits	4.4	4.5	(2.8)	25.9	17.8	45.4
Tax	0.6	0.6	3.9	(3.9)	(2.7)	42.2
Net profit	5.0	5.1	(2.0)	22.0	15.1	46.0
Recurring net profit	5.4	7.6	(29.2)	24.1	15.7	53.1
Exceptional items	0.4	2.5	(84.5)	2.1	0.6	>100
Net profit (ex-Els) margin (%)	5.4	7.2	+/- ppt (1.8)	6.6	4.3	+/- ppt 2.2
Tax rate (%)	(14.5)	(13.5)	(0.9)	14.9	15.3	(0.3)

Source: Company, Maybank IBG Research

Figure 2: Revenue breakdown

FY Jan (MYR m)	Quarterly results			Cumulative		
	1Q23	4Q22	%QoQ	12M22	12M21	%YoY
<b>Segmental Revenue</b>	<b>100.7</b>	<b>106.6</b>	<b>(5.5)</b>	<b>367.4</b>	<b>362.2</b>	<b>1.5</b>
Comm. & IoT Products	88.2	95.6	(7.7)	317.4	324.1	(2.1)
Electronics devices	8.7	7.0	25.0	38.9	34.1	14.0
Semiconductor components	3.8	4.1	(6.9)	11.1	4.0	178.4
<b>Geographical Revenue</b>	<b>100.7</b>	<b>106.6</b>	<b>(5.5)</b>	<b>367.4</b>	<b>362.2</b>	<b>1.5</b>
Malaysia	39.4	39.4	(0.0)	128.0	142.7	(10.3)
Americas	43.3	52.2	(17.1)	170.9	155.9	9.7
APAC (ex. Malaysia)	6.8	6.8	0.7	38.3	33.6	14.0
Europe	11.2	8.3	36.1	30.1	30.0	0.5

Source: Company, Maybank IBG Research

Figure 3: Sector peers' comparison

Company	Currency	Mkt Cap (MYR'm)	Share Price (LCY)	PER (x)			P/BV (x)	ROE (%)	PEG (x)	
				CY22	CY23	CY24				
V.S. Industry Bhd	MYR	3,808	1.00	17.1	16.2	11.8	1.8	8.6	0.8	
ATA IMS Bhd	MYR	379	0.32	n.m.	n.m.	n.m.	0.5	-4.0	n.m.	
SKP Resources Bhd	MYR	2,437	1.56	13.6	12.0	10.8	2.8	21.6	1.1	
Uchi Technologies Bhd	MYR	1,336	2.95	13.6	12.4	12.0	6.9	48.8	2.1	
PIE Industrial Bhd	MYR	1,214	3.16	16.0	14.2	12.6	2.1	13.7	1.3	
<b>Simple Average</b>				<b>15.1</b>	<b>13.7</b>	<b>11.8</b>	<b>2.8</b>	<b>17.7</b>	<b>1.3</b>	
<b>Weighted Average</b>				<b>14.8</b>	<b>13.6</b>	<b>11.2</b>	<b>2.8</b>	<b>18.1</b>	<b>1.1</b>	
<b>Regional peers</b>		<b>(USD'm)</b>	<b>(LCY)</b>							
Venture Ccorp Ltd	SGD	3,514	16.78	14.0	13.1	12.1	1.7	12.6	2.0	
Aztech Global Ltd	SGD	453	0.82	7.1	5.9	5.4	1.8	27.6	0.5	
Fu Yu Corp Ltd	SGD	141	0.26	11.3	9.3	9.0	1.2	13.8	2.8	
Valuetronics Hldgs Ltd	SGD	162	0.53	11.1	12.1	10.1	1.2	8.4	1.3	
<b>Simple Average</b>				<b>10.9</b>	<b>10.1</b>	<b>9.1</b>	<b>1.5</b>	<b>15.6</b>	<b>1.6</b>	
<b>Weighted Average</b>				<b>13.0</b>	<b>12.1</b>	<b>11.2</b>	<b>1.7</b>	<b>14.1</b>	<b>1.8</b>	
				<b>Simple Blended</b>	<b>13.0</b>	<b>11.9</b>	<b>10.5</b>	<b>2.1</b>	<b>16.7</b>	<b>1.5</b>
				<b>Weighted Blended</b>	<b>13.9</b>	<b>12.9</b>	<b>11.2</b>	<b>2.2</b>	<b>16.1</b>	<b>1.5</b>

Source: Company, Maybank IBG Research

## Risk statement

There are several risk factors for our earnings estimates, target price and rating for ATECH. Key risks are: (i) weaker-than-expected demand from customers in view of rising inflation and geopolitical risks; (ii) lower-than-expected costs pass through (as the mechanism depends on the group's negotiation with its clients); and (iii) operational disruptions from persistent labour issues and component shortages.

FYE 31 Jan	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	na	35.4	15.4	10.1	8.9
Core P/E (x)	na	31.8	15.4	10.1	8.9
P/BV (x)	na	3.8	2.2	1.8	1.6
P/NTA (x)	na	nm	nm	nm	nm
Net dividend yield (%)	na	0.0	1.3	2.0	2.3
FCF yield (%)	na	nm	nm	nm	2.6
EV/EBITDA (x)	23.2	21.6	12.2	8.4	7.2
EV/EBIT (x)	27.8	25.4	13.4	9.0	7.7
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	362.2	367.4	446.0	532.6	592.5
EBITDA	26.9	37.3	46.8	69.5	80.7
Depreciation	(4.5)	(5.6)	(4.5)	(4.7)	(5.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	22.4	31.7	42.3	64.7	75.1
Net interest income / (exp)	(3.9)	(3.8)	(3.4)	(3.5)	(3.4)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(0.6)	(2.1)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	17.8	25.9	38.9	61.3	71.7
Income tax	(2.7)	(3.9)	(5.8)	(10.7)	(14.3)
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	15.1	22.0	33.0	50.6	57.3
Core net profit	15.7	24.1	33.0	50.6	57.3
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	22.3	76.3	44.1	21.9	17.2
Accounts receivable	100.2	90.6	122.2	145.9	162.3
Inventory	72.5	133.5	96.0	111.4	122.9
Property, Plant & Equip (net)	56.2	84.0	109.3	133.4	151.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	30.4	27.0	33.0	39.0	43.1
<b>Total assets</b>	<b>281.6</b>	<b>411.3</b>	<b>404.7</b>	<b>451.6</b>	<b>497.1</b>
ST interest bearing debt	110.2	96.9	78.1	72.5	64.4
Accounts payable	46.3	82.3	53.4	61.9	68.3
LT interest bearing debt	26.1	17.5	26.1	26.1	26.1
Other liabilities	18.0	13.0	13.0	13.0	13.0
<b>Total Liabilities</b>	<b>200.8</b>	<b>209.9</b>	<b>170.2</b>	<b>173.2</b>	<b>171.4</b>
Shareholders Equity	80.8	201.4	234.5	278.4	325.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>80.8</b>	<b>201.4</b>	<b>234.5</b>	<b>278.4</b>	<b>325.6</b>
<b>Total liabilities and equity</b>	<b>281.6</b>	<b>411.3</b>	<b>404.7</b>	<b>451.6</b>	<b>497.1</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	17.8	25.9	38.9	61.3	71.7
Depreciation & amortisation	4.5	5.6	4.5	4.7	5.6
Adj net interest (income)/exp	3.9	3.8	3.4	3.5	3.4
Change in working capital	(18.4)	(18.6)	(30.1)	(36.5)	(25.6)
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	0.5	0.5	0.0	0.0	0.0
Cash flow from operations	0.1	11.1	7.2	18.6	37.1
Capex	(11.4)	(35.7)	(25.8)	(28.9)	(23.7)
Free cash flow	(11.3)	(24.6)	(18.6)	(10.3)	13.4
Dividends paid	(4.9)	(3.3)	0.0	(6.6)	(10.1)
Equity raised / (purchased)	0.0	104.5	0.0	0.0	0.0
Change in Debt	9.8	(25.0)	(7.1)	(5.6)	(8.2)
Other invest/financing cash flow	(3.9)	0.9	0.2	0.2	0.2
Effect of exch rate changes	0.1	(0.0)	0.0	0.0	0.0
Net cash flow	(10.3)	52.5	(25.5)	(22.2)	(4.7)

FYE 31 Jan	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(7.0)	1.5	21.4	19.4	11.3
EBITDA growth	(31.5)	38.8	25.3	48.5	16.2
EBIT growth	(38.2)	41.7	33.3	53.1	16.0
Pretax growth	(45.0)	45.4	50.1	57.6	17.0
Reported net profit growth	(36.0)	46.0	50.0	53.0	13.4
Core net profit growth	(33.3)	53.1	37.2	53.0	13.4
<b>Profitability ratios (%)</b>					
EBITDA margin	7.4	10.2	10.5	13.0	13.6
EBIT margin	6.2	8.6	9.5	12.2	12.7
Pretax profit margin	4.9	7.1	8.7	11.5	12.1
Payout ratio	0.0	0.0	20.0	20.0	20.0
<b>DuPont analysis</b>					
Net profit margin (%)	4.2	6.0	7.4	9.5	9.7
Revenue/Assets (x)	1.3	0.9	1.1	1.2	1.2
Assets/Equity (x)	3.5	2.0	1.7	1.6	1.5
ROAE (%)	na	na	na	na	na
ROAA (%)	5.9	7.0	8.1	11.8	12.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	125.8	136.1	129.3	127.3	131.2
Days receivable outstanding	96.0	93.4	85.9	90.6	93.6
Days inventory outstanding	74.2	113.5	106.1	82.6	84.6
Days payables outstanding	44.4	70.8	62.7	45.9	47.0
Dividend cover (x)	nm	nm	5.0	5.0	5.0
Current ratio (x)	1.3	1.8	2.0	2.1	2.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	2.0	2.4	2.6	2.9
Net gearing (%) (incl perps)	141.1	18.9	25.6	27.6	22.5
Net gearing (%) (excl. perps)	141.1	18.9	25.6	27.6	22.5
Net interest cover (x)	5.7	8.4	12.4	18.8	21.8
Debt/EBITDA (x)	5.1	3.1	2.2	1.4	1.1
Capex/revenue (%)	3.2	9.7	5.8	5.4	4.0
Net debt/ (net cash)	114.0	38.0	60.1	76.8	73.3

Source: Company; Maybank IBG Research

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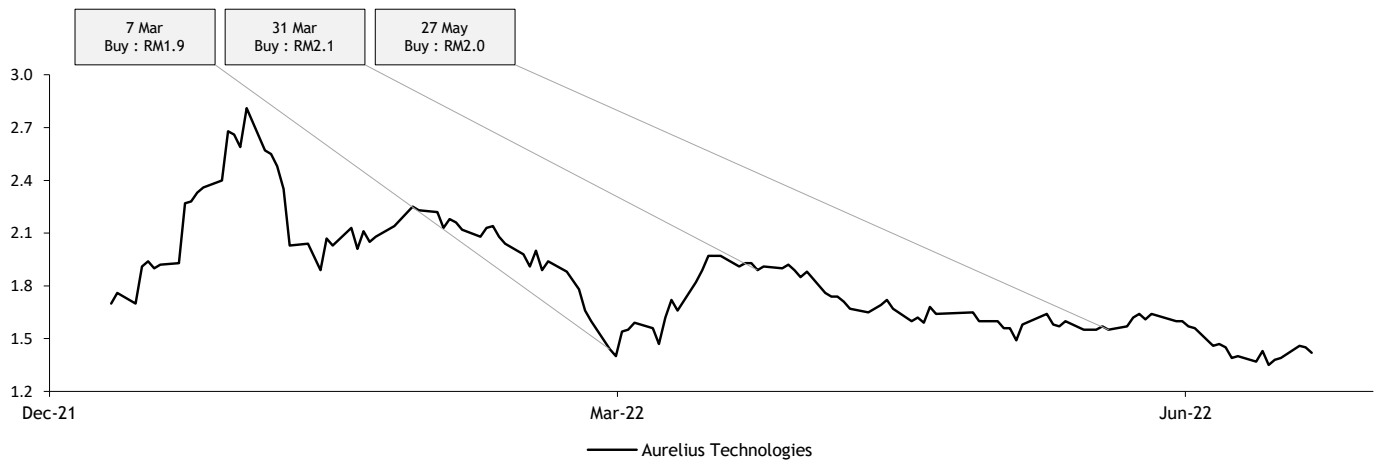
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## Historical recommendations and target price: Aurelius Technologies (ATECH MK)



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