

Aurelius Technologies (ATECH MK)

All things under control

BUY

Share Price MYR 1.89
 12m Price Target MYR 2.07 (+11%)
 Previous Price Target MYR 2.07

Maintain BUY and TP of MYR2.07

We came away from ATECH's recent investors briefing feeling positive. We maintain our BUY call, forecasts, and TP of MYR2.07 from pegging our CY23 EPS of 13.7sen to the industry's historical 5-year weighted average PER of 15.1x. We like ATECH for (i) its robust earnings growth prospects; (ii) growing exposure to higher value-added multicomponent integrated circuits (MCICs); as well as (iii) its operational resilience, underpinned by its strategy to grow its wallet share with regards existing customers.

Capacity expansion in 2QFY23

In 2QFY23, capacity for Customer F has increased to 5 SMT lines + 12 automated-backend (vs. 4 SMT lines + 8 automated-backend in the previous quarter). The current utilisation rate for Customer F is estimated to be at c.75%. We are projecting production for Customer F to double by end-FY23E/early FY24E, vs. 2QFY23 production volume. Meanwhile, the company also added one general SMT line for its other customer in plant 3 during the quarter, with plans to increase by another line by early FY24E.

Tight cost management to mitigate margin pressure

ATECH is in the midst of passing through higher staff and utility costs to its customers, with expectations to complete the process by 4QFY23E. Additionally, it is expecting a potential c.30% increase in administrative expenses in FY24E following the amendments to the Employment Act 1955. This could be partly cushioned by working hours adjustments. After taking into consideration the rising costs impact (which has been largely reflected in our forecasts), we remain confident of our margin growth expectations, supported by the company's vigilant costs management and better product mix, ie. increasing production of the higher-margin MCICs.

A resilient EMS sector pick

ATECH stands out as a resilient EMS pick despite growing fears of global recession, underpinned by its more resilient customer portfolio (exposure to industrial electronic products) and inorganic growth strategy. The easing of global supply chain disruptions and components shortage situation also bode well for the company, relieving some of the systematic pressures and allowing it to focus on improving its operations internally (ie. account management, expansion, customer acquisitions, costs management). Reiterate BUY.

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	20.5	13.4	11.8
P/BV (x)	na	3.8	2.9	2.4	2.1
Net dividend yield (%)	na	0.0	1.0	1.5	1.7
ROAA (%)	5.9	7.0	8.1	11.8	12.1
EV/EBITDA (x)	29.4	21.6	15.8	10.9	9.3
Net gearing (%) (incl perps)	141.1	18.9	25.6	27.6	22.5
Consensus net profit	-	-	33	46	53
MKE vs. Consensus (%)	-	-	(0.8)	10.0	7.9

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Company Description

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

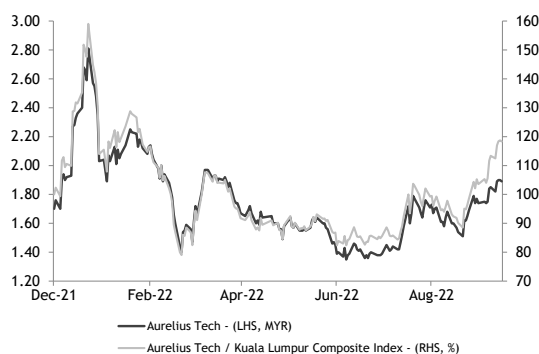
Statistics

52w high/low (MYR)	na/na
3m avg turnover (USDm)	0.4
Free float (%)	50.3
Issued shares (m)	358
Market capitalisation	MYR677.0M USD146M

Major shareholders:

Main Stream Holdings Sdn Bhd	22.1%
Main Stream Ltd	21.3%
Lee Chong Yeow (Deceased)	8.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	18	34	na
Relative to index (%)	28	39	na

Source: FactSet

Capacity ramp-up underway

To date, ATECH has 5 SMT production lines together with 12 automated-backend lines installed and commissioned for Customer F (vs. 1QFY23's 4 SMT production lines with 8 automated-backend lines). The current utilisation rate for Customer F is estimated to be at c.75%. It is expecting Line 6 (order placed) to be delivered by end-September/October, while targeting to take delivery of Line 7 and 8 in early FY24E. Should everything be on track with this timeline, we are projecting Customer F's production to be doubled by end FY23E/early FY24E, from its end-2QFY23 production volume.

Aside from Customer F, ATECH has also added one SMT line for the general customers during 2QFY23 (in July), and is planning to add another line by early FY24E. Based on its current capacity, it has room to add another two to three SMT lines (depending on the size) for new customers/orders secured. Talks with prospective customers remain on the table, with target to conclude some by end-FY23E/early FY24E.

Figure 1: Revenue by segment and growth rates

Revenue (MYR'm) - FYE Jan	FY20	FY21	FY22	FY23E	FY24E	FY25E
Comm & IoT Products	300.2	324.1	317.4	354.8	412.2	458.2
Electronic Devices	89.1	34.1	38.9	59.7	63.8	68.2
Semiconductor Components	0.0	4.0	11.1	31.5	56.7	66.2
Total	389.3	362.2	367.4	446.0	532.6	592.5
Growth Rates (%)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Comm & IoT Products	4.8%	7.9%	(2.1%)	11.8%	16.2%	11.2%
Electronic Devices	24.2%	(61.7%)	14.0%	53.4%	6.9%	6.9%
Semiconductor Components	nm	nm	178.4%	182.7%	80.0%	16.7%
Total	8.7%	(7.0%)	1.5%	21.4%	19.4%	11.3%

Source: Company, Maybank IBG Research

Margin growth expectation remains despite rising costs pressure

ATECH is working on passing through the higher staff costs (due to minimum wage hike this year) and utility costs (from electricity tariff hike since Feb 2022) to its customers by stages, and targeting to complete by 4QFY23E. Among other ongoing efforts to contain costs include installation of roof top solar solution (which is expected to complete by 1QFY24E) and increasing automation on the factory floors.

From 1 January 2023 onwards, the amendments to the Employment Act 1955 could potentially increase the company's administrative expenses by c.30%. The company is already working on new schedules (such as adjustments of working hours) to reduce the impact. Some of the key changes that are expected to affect the company include (i) revising of working hours from 48 hours to 45 hours per week; (ii) claimable overtime hours for employees with no more than MYR4k salary per month (vs. MYR2k per month previously); (iii) Increase of paternity leave to 7 days from 1 day; and (iv) increase of maternity leave to 98 days from 68 days, all of which add up to a c.30% increase to the company's administrative expenses.

Likewise, the interest rate hikes could also impact the company's finance costs by up to c.MYR1m p.a., but to be cushioned by efforts such as reducing inventory level (which is already ongoing) and improving cash flow by negotiating for longer credit terms with vendors and reducing the working capital cycle. ATECH highlighted that it has no immediate plans to hedge against rising interest rates.

We are not overly perturbed by the increasing costs at this juncture, having reflected all the above in our forecasts. In fact, we are projecting margin expansion for ATECH, underpinned by better product mix and pricing mechanism, especially as it ramps up production for Customer F. To recap, the semiconductor components offer a much higher margin as compared to the other customers (thanks to its consignment contracts model, whereby the cost of raw materials is borne by the customer). Our model assumes c.57% gross profit margin for the semiconductor components segment, vis-à-vis other segments' gross profit margin of c.9-20%

Figure 2: Gross profit by segment and gross profit margins

Gross Profit (MYR'm) - FYE Jan	FY20	FY21	FY22	FY23E	FY24E	FY25E
Comm & IoT Products	20.9	24.2	28.9	28.5	37.4	43.9
Electronic Devices	27.8	7.2	5.8	11.9	12.8	13.6
Semiconductor Components	(1.0)	(0.2)	6.0	18.0	32.3	37.7
Total	46.2	30.1	40.7	56.5	80.8	93.9

Gross Profit Margin (%)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Comm & IoT Products	7.0%	7.5%	9.1%	8.0%	9.1%	9.6%
Electronic Devices	31.2%	21.1%	14.9%	20.0%	20.0%	20.0%
Semiconductor Components	0.0%	(5.1%)	53.8%	57.0%	57.0%	57.0%
Total	11.9%	8.3%	11.1%	12.7%	15.2%	15.9%

Source: Company, Maybank IBG Research

Orderbook to maintain within MYR400-MYR500 range

As of 20 September 2022, ATECH's orderbook has moderated to MYR421 vs. MYR504m in the previous quarter. This was mainly due to the company's inventory right-sizing activities, as it aims to return to its normal production schedule and steer away from "Just-In-Case" strategy as supply chain disruptions ease. The company is expecting to maintain its orderbook within the range of MYR400-MYR500m. To recap, the current orderbook excludes orders from Customer F, which remains the key growth driver to the group's earnings in the near-to-medium term, providing further upside to the group's earnings outlook.

Figure 3: Sector peers' comparison

Company	Currency	Mkt Cap (MYR'm)	Share Price (LCY)	CY22	PER (x) CY23	CY24	Hist. Avg. 5 Yr	P/BV (x) CY22	ROE (%) CY22	
V.S. Industry Bhd	MYR	3,722	0.97	17.4	12.4	10.8	19.3	1.6	9.6	
ATA IMS Bhd	MYR	343	0.29	n.m.	n.m.	n.m.	n.m.	0.5	-3.6	
SKP Resources Bhd	MYR	2,656	1.70	14.6	12.9	11.4	15.8	3.0	21.8	
Uchi Technologies Bhd	MYR	1,445	3.19	14.2	13.3	12.6	16.6	7.5	52.2	
PIE Industrial Bhd	MYR	1,064	2.77	15.8	15.0	13.5	17.7	1.8	11.3	
Aurelius Technologies	MYR	681	1.90	21.1	13.9	12.0	NA	3.4	15.4	
Simple Average*				15.5	13.4	12.1	17.4	2.9	18.3	
Weighted Average*				15.3	12.5	11.2	17.0	2.9	19.5	
Regional peers		(USD'm)	(LCY)							
Venture Ccorp Ltd	SGD	3,327	16.40	13.5	12.8	12.0	15.0	1.7	12.8	
Aztech Global Ltd	SGD	430	0.80	6.8	5.8	5.3	n.m.	1.8	27.7	
Fu Yu Corp Ltd	SGD	126	0.24	8.0	8.0	8.0	16.5	1.1	13.4	
Valuetronics Hldgs Ltd	SGD	154	0.53	11.7	11.7	9.7	9.7	0.9	8.4	
Simple Average				10.0	9.6	8.8	13.8	1.4	15.6	
Weighted Average				12.5	11.8	11.1	13.3	1.6	14.2	
				Simple Blended	12.7	11.5	10.4	15.6	2.1	16.9
				Weighted Blended	13.9	12.2	11.1	15.1	2.3	16.9

Source: Company, Maybank IBG Research *industry simple avg and weighted avg data are calc. excluding ATECH

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 labour issues and/or component shortages.

FYE 31 Jan	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	na	35.4	20.5	13.4	11.8
Core P/E (x)	na	31.8	20.5	13.4	11.8
P/BV (x)	na	3.8	2.9	2.4	2.1
P/NTA (x)	na	nm	nm	nm	nm
Net dividend yield (%)	na	0.0	1.0	1.5	1.7
FCF yield (%)	na	nm	nm	nm	2.0
EV/EBITDA (x)	29.4	21.6	15.8	10.9	9.3
EV/EBIT (x)	35.3	25.4	17.4	11.6	10.0
INCOME STATEMENT (MYR m)					
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
BALANCE SHEET (MYR m)					
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
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
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
Total assets	281.6	411.3	404.7	451.6	497.1
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
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
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
Total Liabilities	200.8	209.9	170.2	173.2	171.4
Shareholders Equity	80.8	201.4	234.5	278.4	325.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	80.8	201.4	234.5	278.4	325.6
Total liabilities and equity	281.6	411.3	404.7	451.6	497.1
CASH FLOW (MYR m)					
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
Key Ratios					
Growth ratios (%)					
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
Profitability ratios (%)					
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
DuPont analysis					
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
Liquidity & Efficiency					
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
Leverage & Expense Analysis					
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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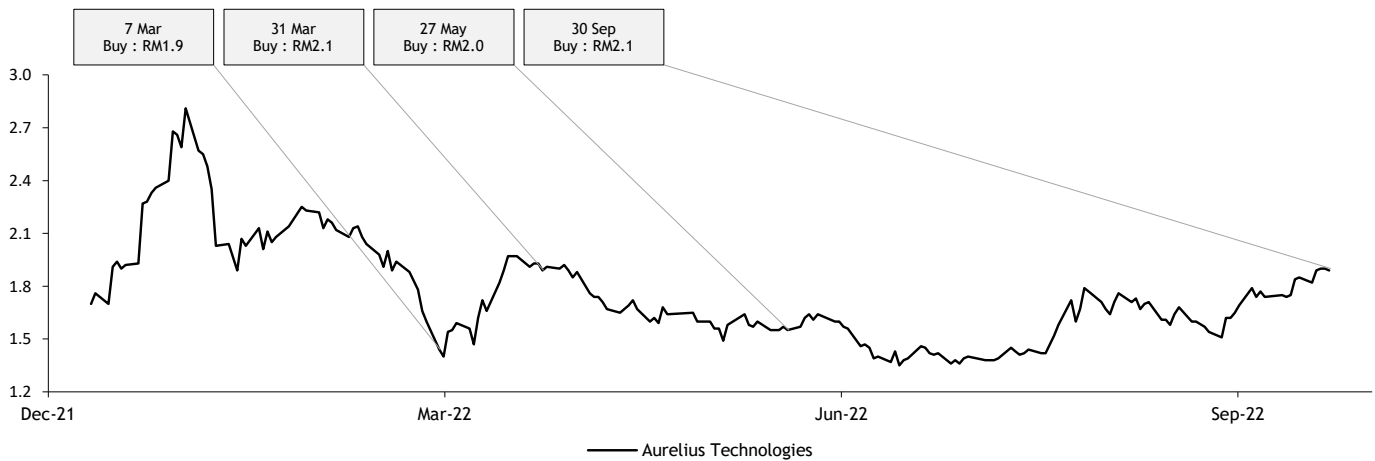
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