

# Singapore Technology

# Expect positive 2H22 earnings; FY23E headwinds

### Uncertain FY23E outlook - downgrade to NEUTRAL

We downgrade the Singapore technology sector to NEUTRAL from POSITIVE due to macro headwinds and the uncertain FY23E outlook despite expecting positive 3Q22E earnings. Our Top Pick and only BUY in the Singapore tech space is Venture (VMS SP, CP SGD16.20, BUY, TP SGD19.55) due to its diversification and resilience.

### Key positives/negatives to look out for

The outlook given by the companies will be crucial pointers to take note of as the market is pricing in a slowdown. While most of our coverage, especially for the semiconductor sector, still has a positive outlook, a change in tone or management being less bullish could signal that the outlook may be potentially changing for the worse. Conversely, margin expansion, continued revenue growth and new customer acquisitions would be positives. But as the majority of the tech companies are undergoing expansion due to the robust outlook of their key clients, if there are any delays or change of plans it could result in downside surprise. Margin contraction could also signal tougher times ahead for these players.

### Semi-con-related stocks should fare well short term

We believe in the near term, especially for the rest of FY22E, semi-conrelated stocks like AEM and UMS should report strong 3Q22E earnings, especially UMS. However, we think share price performance will still be mainly determined by global market sentiment on macro events, capex targets and orders by the major chip players globally in coming months.

## Certainty on FY23/24E outlook will be more crucial

As investors are now focusing on FY23E/24E, further upside may only be possible if there's more certainty about the outlook due to fears of a sudden slowdown or cut in orders. Global chipmaker outlooks and their capex plans will also be key indicators for Singapore tech stocks.

#### Analyst

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NEUTRAL [Downgrade]

Stock	Bloomberg	Mkt cap	Rating	Price	ТР	Upside	P/E	(x)	P/B	(x)	Div y	ld (%)
	code	(USD'm)		(LC)	(LC)	(%)	22E	23E	22E	23E	22E	23E
Venture	VMS SP	3,315	Buy	16.20	19.55	25	13.2	12.1	1.6	1.6	4.6	4.6
AEM Holdings	AEM SP	733	Hold	3.33	2.98	(8)	8.3	6.8	2.1	1.7	3.0	3.7
UMS Holdings	UMSH SP	441	Hold	0.93	1.20	34	6.6	6.3	1.9	1.6	6.5	6.5
Aztech Global	AZTECH SP	437	Hold	0.80	0.83	7	6.7	5.8	1.7	1.4	4.4	5.2
Frencken Group	FRKN SP	263	Hold	0.88	1.05	24	7.0	6.8	0.9	0.8	4.3	4.4

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### Fig 1: Our 3Q22 results estimates

Company	Ticker	3Q22F Revenue (SGDm)	3Q22F PATMI (SGDm)	Reporting Date
AEM	AEM SP	146.8	20.4	4-Nov-22
Aztech Global	AZTECH SP	224.7	24.6	3-Nov-22
Frencken Group	FRKN SP	221.7	13.7	9-12 Nov 22
UMS	UMSH SP	88.3	33.0	9-12 Nov 22
Venture Corp	VMS SP	890.0	89.0	4-Nov-22

Source: Maybank IBG Research

# Venture (VMS SP)

# Likely a positive 3Q22E

### One of the few bright spots in the sector

Venture's 3Q22E results announcement on 4 November 2022 should be positive as demand from customers remained strong and it has a robust order book. We expect 3Q22E revenue of SGD890m (+15.6%), PATMI of SGD89m (+15.6%) and resilient margins. Venture remains one of the few bright spots in the Singapore tech sector amid a challenging climate and is our top sector pick. Maintain BUY. TP of SGD19.55 is based on 16x FY22F P/E.

### The market is looking beyond FY22E

Venture's FY23 outlook and order book, as well as margins should be investors' focus. We believe Venture's near-term positive results are likely already priced in and the uncertain macro outlook that has caused a derating in the tech sector globally will need some assurance in terms of FY23E earnings before any meaningful positive re-rating will come.

### Attractive yield is a good hedge

Management declared a 1H22 dividend of SGD0.25 per share and we expect a final dividend of SGD0.50 per share, same as previous years. This would represent an attractive 4.7% yield for FY22E, which would make it worthwhile for investors to hold Venture for a positive re-rating while fundamentals remain strong.

#### Resilient and well-diversified

Despite rising costs, Venture has shown that it has managed these challenges well, which also highlights its strong customer ties as it is able to pass on the higher costs to clients. It is also well diversified away from the semi-con sector and Venture remains one of the few bright spots in the Singapore tech sector.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,013	3,107	3,480	3,724	3,985
EBITDA	379	390	448	487	527
Core net profit	296	311	356	389	422
Core FDEPS (cts)	101.9	106.7	122.1	133.5	144.6
Core FDEPS growth(%)	(18.5)	4.7	14.4	9.4	8.3
Net DPS (cts)	75.0	75.0	75.0	75.0	75.0
Core FD P/E (x)	19.1	17.2	13.3	12.1	11.2
P/BV (x)	2.2	2.0	1.6	1.6	1.5
Net dividend yield (%)	3.9	4.1	4.6	4.6	4.6
ROAE (%)	11.7	11.7	12.8	13.2	13.5
ROAA (%)	9.1	9.0	9.9	10.4	10.5
EV/EBITDA (x)	12.4	11.6	8.7	7.5	7.0
Net gearing (%) (incl perps)	net cash				
Consensus net profit	-	-	356	383	413
MKE vs. Consensus (%)	-	-	(0.0)	1.6	2.1

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# BUY

Share Price	SGD 16.20
12m Price Target	SGD 19.55 (+25%)
Previous Price Target	SGD 19.55

#### **Company Description**

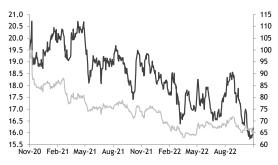
Venture is an electronics manufacturing services and ODM provider with production facilities in Singapore, Malaysia, and China.

#### Statistics

52w high/low (SGD)	19.35/15.74
3m avg turnover (USDm)	8.7
Free float (%)	91.0
Issued shares (m)	290
Market capitalisation	SGD4.7B
	USD3.3B
Major shareholders:	
WONG NGIT LIONG	7.1%
Columbia Management Investment Advisers	3.7%
Schroder Investment Management (Singapor	3.3%

#### Price Performance

-Venture - (LHS, SGD)



	-1M	-3M	-12M
Absolute (%)	(1)	(8)	(15)
Relative to index (%)	(0)	(4)	(11)
Source: FactSet			

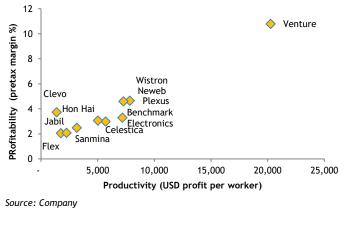
Venture / Straits Times Index - (RHS, %)



# Value Proposition

- VMS is an EMS company that has been consistently creating value for its customers. Able to design complex industrial products and reduce time-to-market.
- Facing pricing pressure and increased competition. However, margins are still industry leading.
- Good diversification with >100 active customers, many of them are blue chips.
- Good exposure to test & measurement, and life-science customers, still largely underpenetrated due to regulatory requirements and high specs

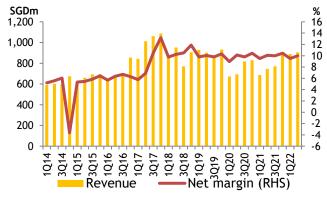
### Industry-leading profitability and productivity



# **Financial Metrics**

- We are expecting earnings to grow 14.4% YoY in FY22 as multiple end-markets recover from Covid-19 effects.
- Operating margins should be steady from more products with higher R&D content and cost control.
- Net cash since 2008. Healthy FCF levels in FY20-22E could provide dividend support.

### Revenue and net margin



Source: Company

# Price Drivers

### Historical share price trend



#### Source: Company, Maybank IBG Research

- Strong 2Q17. Increasing market familiarity with the potential of VMS emanating from Illumina and cloud / 5G network spending.
- 2. CEO Wong Ngit Liong bought 400,000 shares at SGD15.26.
- 3. Strong 3Q17; management raised net-margin guidance.
- 4. Short-seller report alleging weaker-than-expected Philip Morris IQOS device growth would have knock-on effects on VMS.
- 5. VMS rallied from Apr-Oct 2020 due to its relative earnings resilience as compared to many other industries that are affected by Covid-19; VMS underperformed subsequently as lockdowns and components shortages curtailed 2021 earnings recovery.

# Swing Factors

# Upside

- Better-than-expected reception for high-growth products.
- Stronger US / global economy.
- Moderate USD strength as the revenue of VMS is entirely in USD.

## Downside

- M&A among customers, and acquisitions of customers by competitors could disrupt orders.
- Excessive USD strength may erode customers' competitiveness. Excessive USD weakness may weaken its SGD earnings.
- Holding more inventories at its major hubs due to higher customer demand. This would tie up working capital.

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Risk Rating & Score <sup>1</sup>	10(Low)
Score Momentum <sup>2</sup>	-0.7
Last Updated	19 May 2021
Controversy Score <sup>3</sup>	0 - No Reported Incident

## **Business Model & Industry Issues**

- Venture's business in electronics manufacturing exposes it to risks including labour (fair employment, labour exploitation),
- Conflict of interest, and environmental within the organisation and along the supply chain. Venture has not faced any significant fines, non-monetary sanctions or reports regarding these key exposures in 2021.
- Venture sees economic performance as a key material factor of sustainability. This is in turn driven by constant empowering of employees, pursuit for excellence with customers, and commitment towards environmental and social responsibility.
  Venture is consistently recognised by suppliers for its solid execution, e.g. through awards. Venture also has policies in place such as ban on conflict minerals, anti-bribery and corruption, and whistle-blower protection.

# Material E issues

- Venture's environmental exposure is mainly through power, water and materials. Venture has had zero significant fines or non-monetary sanctions related to environmental laws in 2021.
- All of its operational sites are also certified to ISO14001 for Environmental Management Systems.
- Carbon emissions intensity decreased 0.4% in 2021.
- To manage and mitigate emissions of harmful substances, Venture complies with the Restriction of Hazardous Substances (RoHS) directive, and only uses RoHS-certified equipment.

All operational sites have management systems to prevent pollution from hazardous effluents, air impurities wastewater discharge and noise.

# Material S issues

- As at 31 Dec-21, Venture employed over 12,000 employees. 42% of the workforce is male, and 58% are female.
- Venture is an equal-opportunities employer. There remain high risks for worker exploitation by third-party suppliers. Venture bans all forms of labour exploitation, and has put in place safeguards against this.
- In 2021, male/female employees had an average of 51.1/45.2 hours of training (target: 40 hours). Topics span across technical and non-technical skills.

 Zero reported incidents of significant non-compliance with health or safety laws and regulations in 2021. Venture has revised their Conflict Minerals Policy to the current Responsible Minerals Policy, as aligned to the OECD.
Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas, and the Responsible Business Alliance standards on responsible minerals.

## Key G metrics and issues

- The board consists of nine directors, including founder Mr Wong Ngit Liong as chairman (Mr Wong relinquished CEO position at end FY21. All other directors are non-executive, and 7 out of 9 of the directors are independent.
- The audit, nominating and remuneration committees are chaired by independent directors.
- Professional background of independent directors includes accounting, engineering and technology.
- Key management (incl. directors) compensation accounted for 6.1% of total employee compensation in 2020. (2019: 5.7%).
- Auditors are Deloitte & Touche LLP, appointed in 2015.
- Venture has zero-tolerance towards fraud and corruption, and has policies on anti-bribery and corruption and whistle-blower protection. There are no public legal cases regarding corruption/ termination of contracts, business partners or suppliers relating to corruption in 2021.
- Venture's IT department regularly improves infrastructure and systems to safeguard confidential information. In 2019, there was a data compartmentalisation project to segregate confidential data and a test was done to find potential vulnerabilities. In 2020-21, there were no substantiated complaints concerning breaches of customer privacy or loss of customer data.
- In recognition of its execution excellence, Venture frequently won awards from customers. In 2021, Venture won a Ramp Performance Award for outstanding support of customer needs. At the Securities Investors Association Singapore Diversity Awards, Venture was recognised for board diversity.

Implemented ISO27001 Information Security Management at the corporate level (received in Jan '21), and aiming to achieve this for key global sites.

<u>Risk Rating & Score</u> - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <u>2Score Momentum</u> - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. <u>3Controversy Score</u> - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	17.1	17.9	13.2	12.1	11.2
Core P/E (x)	19.0	17.1	13.2	12.1	11.2
Core FD P/E (x)	19.1	17.2	13.3	12.1	11.2
P/BV (x)	2.2	2.0	1.6	1.6	1.5
P/NTA (x)	2.2	2.0	1.6	1.6	1.5
Net dividend yield (%)	3.9	4.1	4.6	4.6	4.6
FCF yield (%)	7.5	1.1	5.2	9.2	4.8
EV/EBITDA (x)	12.4	11.6	8.7	7.5	7.0
EV/EBIT (x)	14.0	12.8	9.7	8.3	7.7
INCOME STATEMENT (SGD m)	2 042 0	2 407 5	2 400 4	2 72 4 0	2 00 4 7
Revenue	3,012.9	3,107.5	3,480.4	3,724.0	3,984.7
EBITDA	378.7	389.9	447.5	487.0	526.7
Depreciation	(41.6)	(36.9)	(45.2)	(46.3)	(47.4)
Amortisation	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
EBIT	336.1	352.0	401.3	439.8	478.2
Net interest income /(exp)	5.8	6.3	9.0	9.0	9.0
Associates & JV	(0.0)	0.2	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	341.8	358.6	410.3	448.8	487.2
Income tax	(45.4)	(47.3)	(54.2)	(59.2)	(64.3)
Minorities	(0.1)	(0.3)	(0.2)	(0.2)	(1.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	296.3	311.1	356.0	389.3	421.7
Core net profit	296.3	311.1	356.0	389.3	421.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	928.7	807.9	831.1	1,043.5	1,048.3
Accounts receivable	702.7	829.2	887.1	949.4	1,124.8
Inventory	656.5	1,049.4	942.3	1,034.0	999.3
Property, Plant & Equip (net)	226.7	215.2	206.6	199.2	193.1
Intangible assets	660.1	652.8	652.8	652.8	652.8
Investment in Associates & JVs	0.7	0.6	0.6	0.6	0.6
Other assets	64.1	80.1	60.0	60.0	60.0
Total assets	3,239.6	3,635.3	3,580.5	3,939.5	4,079.0
ST interest bearing debt	0.0	0.0	0.0	0.0	4,077.0 0.0
Accounts payable	397.5	643.6	537.2	724.6	658.1
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	253.0	272.0	186.0	186.0	187.0
Total Liabilities	650.4	915.8	722.8	910.2	844.7
Shareholders Equity		2,716.4	2,854.4	3,025.8	3,229.6
Minority Interest	2,586.5 2.7	2,710.4	2,004.4	3,025.8	3,229.0
Total shareholder equity		2,719.5			
Total liabilities and equity	2,589.1 3,239.6	3,635.3	2,857.7 3,580.5	3,029.3 3,939.5	3,234.3 4,079.0
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CASH FLOW (SGD m)					
Pretax profit	341.8	358.6	410.3	448.8	487.2
Depreciation & amortisation	42.6	37.9	46.2	47.3	48.4
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	118.4	(255.3)	(118.8)	33.4	(206.2)
Cash taxes paid	(45.1)	(55.6)	(54.2)	(59.2)	(64.3)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	457.7	85.3	283.5	470.2	265.1
Capex	(36.6)	(25.3)	(36.6)	(38.9)	(41.4)
Free cash flow	421.2	60.0	246.9	431.3	223.8
Dividends paid	(216.9)	(217.9)	(217.9)	(217.9)	(217.9)
Equity raised / (purchased)	15.9	5.8	0.0	0.0	0.0
Change in Debt	(1.1)	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(5.8)	30.3	(5.8)	(1.0)	(1.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	213.3	(121.8)	23.2	212.3	4.8

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(17.1)	3.1	12.0	7.0	7.0
EBITDA growth	(15.5)	3.0	14.8	8.8	8.1
EBIT growth	(17.7)	4.7	14.0	9.6	8.7
Pretax growth	(18.4)	4.9	14.4	9.4	8.6
Reported net profit growth	(18.2)	5.0	14.4	9.4	8.3
Core net profit growth	(18.2)	5.0	14.4	9.4	8.3
Profitability ratios (%)					
EBITDA margin	12.6	12.5	12.9	13.1	13.2
EBIT margin	11.2	11.3	11.5	11.8	12.0
Pretax profit margin	11.3	11.5	11.8	12.1	12.2
Payout ratio	73.2	70.0	61.2	56.0	51.7
DuPont analysis					
Net profit margin (%)	9.8	10.0	10.2	10.5	10.6
Revenue/Assets (x)	0.9	0.9	1.0	0.9	1.(
Assets/Equity (x)	1.3	1.3	1.3	1.3	1.3
ROAE (%)	11.7	11.7	12.8	13.2	13.5
ROAA (%)	9.1	9.0	9.9	10.4	10.5
Liquidity & Efficiency					
Cash conversion cycle	134.2	140.8	145.0	135.1	133.2
Days receivable outstanding	95.7	88.7	88.8	88.8	93.7
Days inventory outstanding	110.5	133.6	138.1	128.2	123.3
Days payables outstanding	72.0	81.6	81.9	81.9	83.8
Dividend cover (x)	1.4	1.4	1.6	1.8	1.9
Current ratio (x)	3.7	3.0	3.7	3.4	3.8
Leverage & Expense Analysis					
Asset/Liability (x)	5.0	4.0	5.0	4.3	4.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	1.2	0.8	1.1	1.0	1.0
Net debt/ (net cash)	(928.7)	(807.9)	(831.1)	(1,043.5)	(1,048.3

Source: Company; Maybank IBG Research

# AEM Holdings (AEM SP)

# Fairly valued

### Expecting positive results but likely priced in

AEM recently revised up its revenue guidance but the market has likely already priced this in. We estimate SGD146.8m revenue and PATMI of SGD20.4m for 3Q22E, up 0.1% and -12% YoY. With the semi-con sector being de-rated due to macro factors, we believe good results would not lead to much of a positive re-rating but a bad result could trigger a huge sell-off. AEM looks fairly valued and our TP of SGD2.98 is based on 7.5x FY22E P/E. We have a HOLD on AEM and prefer Venture (VMS SP, CP SGD16.20, BUY, TP SGD19.55) in the Singapore tech space for its diversification and resilience.

### Existing and new customers likely to boost revenue

AEM said it secured three new customers in the high-performance computing/artificial intelligence application processors for mobility and the memory integrated device space. We believe increased demand from its key client and three new customers should boost AEM's earnings significantly in the next few years.

### Risk : demand might suddenly taper off

While the outlook and demand remains robust for the semi-con sector, there is likely more negative news in the near term as the US and its allies are likely to limit chip exports to China. Along with expectation of a recession, demand for semi-con might suddenly drop, adding to the doubts of the market for FY23E. As AEM has secured three new customers, it should be better cushioned in the event demand from its key customer tapers off.

### 3Q22E should be positive

AEM had a good 1H22 and we had already expected 2H to be weaker this year. However, we expect 3Q22E to be in line or above consensus and our expectation. We also expect management to maintain a bullish outlook.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	519	565	834	991	1,099
EBITDA	122	126	166	200	222
Core net profit	98	92	124	152	169
Core FDEPS (cts)	35.1	29.5	39.6	48.6	54.1
Core FDEPS growth(%)	80.9	(16.0)	34.4	22.7	11.3
Net DPS (cts)	9.0	7.6	10.0	12.2	13.6
Core FD P/E (x)	9.8	17.8	8.4	6.9	6.2
P/BV (x)	4.5	4.0	2.1	1.7	1.4
Net dividend yield (%)	2.6	1.4	3.0	3.7	4.1
ROAE (%)	56.4	30.0	27.5	27.5	25.1
ROAA (%)	34.6	17.6	15.8	16.8	16.1
EV/EBITDA (x)	6.7	11.0	5.3	3.4	2.6
Net gearing (%) (incl perps)	net cash				
Consensus net profit	-	-	123	136	162
MKE vs. Consensus (%)	-	-	0.5	11.4	4.4

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# HOLD

Share Price	SGD 3.33
12m Price Target	SGD 2.98 (-8%)
Previous Price Target	SGD 2.98

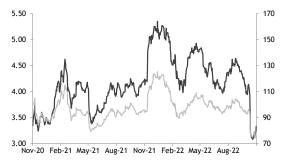
#### **Company Description**

AEM manufactures equipment used in the semiconductor back-end process

#### Statistics

52w high/low (SGD)	5.35/3.08
3m avg turnover (USDm)	4.6
Free float (%)	86.4
Issued shares (m)	312
Market capitalisation	SGD1.0B
	USD733M
Major shareholders:	
Temasek Holdings Pte Ltd. (Investment Ma	12.0%
Aberdeen Standard Investments (Asia) Ltd	6.0%
Employees Provident Fund	4.8%

#### Price Performance



AEM Holdings - (LHS, SGD)	

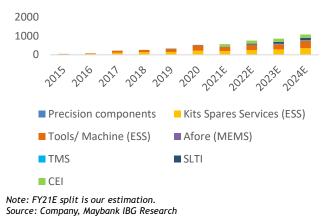
	-1M	-3M	-12M
Absolute (%)	(17)	(24)	(21)
Relative to index (%)	(16)	(20)	(18)
Source: FactSet			



# Value Proposition

- Back-end test-equipment manufacturer that has codeveloped the HDMT handler for Intel.
- Leading-edge HDMT technology has helped its core customer achieve 2x savings in chip-testing costs.
- AEM provides strong synergies like field-service capabilities and manufacturing scale for the high-tech companies that it acquires.
- High single-customer and product risks.

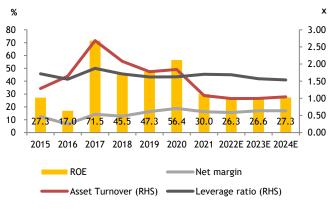
### Share of new revenue sources progressively growing



# **Financial Metrics**

- Over time, we expect increasing contributions from non-Intel revenue sources.
- AEM is not a capex-intensive company. Improved cash-flow from 2016 levels has allowed AEM to pursue highly synergistic acquisitions.
- Training a batch of engineers during pre-production ramp up could take 5-6 months. During such time, staff costs could be elevated and profitability could temporarily decline.
- Adopted 25% dividend pay-out ratio policy in 2017

### DuPont ROE



Source: Company, Maybank IBG Research

# **Price Drivers**

### Historical share price trend



Source: Company, Maybank IBG Research

- 1. Novo Tellus distributes AEM shares in-specie to investors; Core customer announces 10nm delay.
- 2. AEM's core customer denies rumours from tech-blog SemiAccurate that its 10nm process was cancelled.
- 3. Through 2020, AEM announced several positive guidance revisions, catalysing rallies
- 4. Announced FY21 revenue guidance of SGD460-520m, which the market perceived as a disappointment.
- 5. Announced placement to Temasek.

# Swing Factors

## Upside

- Revenue expansion from securing new customers or wallet expansion/increased orders from existing customers.
- Synergistic and accretive acquisitions.
- Positive customer-related news flow that could catalyse improved orders for AEM, such as capacity expansion or launch of new chips.

## Downside

- Order cancellation, delays and earnings misses.
- Emerging technology from rivals that could erode AEM's competitive position with customer(s).
- Erosion in competitive advantages of core customer as a result of company specific or industry related developments.

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Risk Rating & Score <sup>1</sup>	23.1 (Medium)
Score Momentum <sup>2</sup>	na
Last Updated	11 November 2020
Controversy Score <sup>3</sup>	0 - No Reported Incident

## **Business Model & Industry Issues**

- As an equipment maker, AEM is inherently exposed to environmental, workplace safety, and socio-economic risks. AEM has had zero incidences of environmental non-compliance, as well as zero substantiated cases of corruption and legal compliance issues in 2021.
- From an environmental and social perspective, AEM screens all of its suppliers. AEM constantly strives to be more efficient with electricity usage, and ensures employees are well trained and remunerated fairly.
- AEM is recognised for good transparency with shareholders, while still being able to balance business requirements (e.g. respecting non-disclosure agreements).
- AEM has several new products in the pipeline and it is engaging customers for more. In our view, this is the key for economic sustainability, as well as for development of its own employees.

## Material E issues

- AEM's environmental exposure is through energy, water and inputs (fabricated parts and electronics).
- AEM adheres to all National Environment Agency laws and regulations and has not had incidences of environmental non-compliance over the past 10 years.
- Emissions intensity ratio rose to 0.0014318MT/SGD'000 in 2021 (FY19: 0.007588), due to the consolidation of CEI.
- AEM screens suppliers for negative environmental and social impacts, including pollution, biodiversity loss, global warming, incidences of child labour, breaches of customer privacy, and more. All suppliers were found to have no negative environmental or social impacts.

## **Material S issues**

- AEM adheres to minimum wage laws of the countries it operates in. There is no difference in pay between male and female employees at the entry-level across all countries with minimum wage laws.
- Workforce diversity. AEM is an equal-opportunities employer. Management are hired from local communities and consists of various nationalities. >90% of management are local across AEM's footprint globally.
- Workplace safety. AEM trains its employees on health and safety work practices. In 2018, there was 1 minor injury.
- In 2021, average training per employee was 18.4 hours, to equip staff with skills across technical, project management and software domains (FY20: 7.8 hours).
- Females comprise 34% of the total work force in FY21, higher than 24% in FY20, due to the inclusion of CEI.
- Turnover rate rose to 23% vs. 10% in FY20.

## Key G metrics and issues

- The board has seven directors, of which one is the executive chairman, four are independent directors (57%), and three are non-independent, non-executive. All the directors are male.
- The audit & risk management, remuneration, and nominating committees are chaired by independent directors. The strategy committee, which works with management on long-term strategic planning, is chaired by the executive chairman.
- Key management compensation (comprising the Board and senior management) accounted for 7.1% of staff costs in 20211 (2020: 13.6%).
- In 2019, AEM won "Most Transparent Company Award, Technology" and was runner up for the "Singapore Corporate Governance Award" by SIAS. AEM regularly updates on its sales guidance and orders received and it's active in engaging with the investment community.
- Zero substantiated cases of corruption or legal compliance issues in 2021. There was one case of whistleblowing in 2020, but upon investigation, it was concluded to be unsubstantiated.
- AEM was granted two patents in 2019, and the staff involved were rewarded. AEM views its considerable engineering development revenue as a positive sign of customer satisfaction and relationship.

<sup>&</sup>lt;u>*Risk Rating & Score*</u> - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <u>*Score Momentum*</u> - indicates changes to the company's score since the last update - a negative integer indicates a company's intervoing risk score; a positive integer indicates a deterioration. <u>*Controversy Score*</u> - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	8.4	13.0	8.3	6.8	6.1
Core P/E (x)	9.7	16.6	8.3	6.8	6.1
Core FD P/E (x)	9.8	17.8	8.4	6.9	6.2
P/BV (x)	4.5	4.0	2.1	1.7	1.4
P/NTA (x)	4.5	4.0	2.1	1.7	1.4
Net dividend yield (%)	2.6	1.4	3.0	3.7	4.1
FCF yield (%)	8.0	nm	4.7	22.3	15.8
EV/EBITDA (x)	6.7	11.0	5.3	3.4	2.6
EV/EBIT (x)	7.2	12.4	5.8	3.8	2.8
INCOME STATEMENT (SGD m)					
Revenue	519.0	565.5	834.0	991.4	1,099.1
EBITDA	121.6	126.3	166.0	199.5	221.8
Depreciation	(8.4)	(14.5)	(15.5)	(17.1)	(18.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	113.2	111.8	150.5	182.4	203.1
Net interest income /(exp)	0.4	(1.3)	(0.8)	(0.8)	(0.9)
Associates & JV	0.2	0.6	1.0	1.0	1.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	113.8	111.1	150.7	182.6	203.2
Income tax	(16.2)	(19.1)	(27.1)	(31.0)	(34.6)
Minorities	0.0	(0.1)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	97.6	92.0	123.6	151.6	168.7
Core net profit	97.6	92.0	123.6	151.6	168.7
	77.0	72.0	125.0	151.0	100.7
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	134.8	216.2	233.2	425.2	546.6
Accounts receivable	47.6	127.9	192.0	161.1	170.1
Inventory	79.7	204.9	268.1	219.2	279.4
Property, Plant & Equip (net)	8.1	26.1	20.6	11.5	7,2
Intangible assets	56.2	96.9	96.9	96.9	96.9
Investment in Associates & JVs	4.7	15.9	16.9	17.9	18.9
Other assets	4.5	22.6	22.6	22.6	22.6
Total assets	335.5	710.5	850.2	954.4	1,135.2
ST interest bearing debt	0.0	20.5	20.5	20.5	20.5
Accounts payable	83.7	181.0	244.7	235.1	288.4
LT interest bearing debt	0.0	60.8	60.5	60.5	61.5
Other liabilities	40.0	46.0	29.0	29.0	29.0
Total Liabilities	124.1	308.0	355.0	345.5	399.8
Shareholders Equity	211.4	402.5	495.2	608.8	735.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	211.4	402.5	495.2	608.8	735.4
Total liabilities and equity	335.5	710.5	850.2	954.4	1,135.2
CASH FLOW (SGD m)					
Pretax profit	113.8	111.1	150.7	182.6	203.2
Depreciation & amortisation	8.4	14.5	15.5	17.1	18.7
•					
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(27.2)	(98.8)	(79.8)	70.2	(15.9
Cash taxes paid	(8.8)	(14.1)	(27.1)	(31.0)	(34.6
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	86.0	12.1	58.2	237.9	170.5
Capex	(10.2)	(32.5)	(10.0)	(8.0)	(8.0)
Free cash flow	75.9	(20.4)	48.2	229.9	162.5
Dividends paid	(22.2)	(23.5)	(30.9)	(37.9)	(42.2
Equity raised / (purchased)	4.9	136.5	0.0	0.0	0.0
Change in Debt	0.0	81.3	(0.3)	0.0	1.0
Other invest/financing cash flow	(31.5)	(97.5)	0.0	0.0	0.0
Effect of exch rate changes	0.0	5.1	0.0	0.0	0.0
Net cash flow	27.1	81.4	17.1	192.0	121.4

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	60.6	9.0	47.5	18.9	10.9
EBITDA growth	74.9	3.9	31.4	20.2	11.2
EBIT growth	77.9	(1.2)	34.6	21.3	11.3
Pretax growth	78.1	(2.3)	35.6	21.2	11.3
Reported net profit growth	84.3	(5.8)	34.4	22.7	11.3
Core net profit growth	84.3	(5.8)	34.4	22.7	11.3
Profitability ratios (%)					
EBITDA margin	23.4	22.3	19.9	20.1	20.2
EBIT margin	21.8	19.8	18.0	18.4	18.5
Pretax profit margin	21.9	19.7	18.1	18.4	18.5
Payout ratio	25.4	23.9	25.0	25.0	25.0
DuPont analysis					
Net profit margin (%)	18.8	16.3	14.8	15.3	15.3
Revenue/Assets (x)	1.5	0.8	1.0	1.0	1.0
Assets/Equity (x)	1.6	1.8	1.7	1.6	1.5
ROAE (%)	56.4	30.0	27.5	27.5	25.1
ROAA (%)	34.6	17.6	15.8	16.8	16.1
Liquidity & Efficiency					
Cash conversion cycle	16.2	65.3	83.8	66.1	48.3
Days receivable outstanding	26.2	55.9	69.0	64.1	54.2
Days inventory outstanding	70.2	135.2	147.9	128.2	118.4
Days payables outstanding	80.3	125.8	133.2	126.2	124.3
Dividend cover (x)	3.9	4.2	4.0	4.0	4.0
Current ratio (x)	2.4	2.3	2.4	2.9	3.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	2.3	2.4	2.8	2.8
Net gearing (%) (incl perps)	net cash				
Net gearing (%) (excl. perps)	net cash				
Net interest cover (x)	na	84.4	nm	nm	nm
Debt/EBITDA (x)	0.0	0.6	0.5	0.4	0.4
Capex/revenue (%)	2.0	5.7	1.2	0.8	0.7
Net debt/ (net cash)	(134.8)	(134.9)	(152.2)	(344.2)	(464.5)

Source: Company; Maybank IBG Research

# **UMS Holdings** (UMSH SP)

# Expecting a solid 3Q22E but FY23E uncertain

### Cautious outlook for sector; Prefer Venture

3Q22E results likely remained strong and will be topped up with a SGD15m tax provision write-back. We estimate SGD88.3m revenue and PATMI of SGD33m for 3Q22, up 31% and 118% YoY. A dividend of 1 SGD cent should be declared. However, we are cautious on the semi-con sector and maintain a HOLD on UMS due to macro uncertainties and the US's ban on chip exports to China. Our TP of SGD1.20 is based on 8.5x FY22E P/E. We prefer Venture (VMS SP, CP SGD16.20, BUY, TP SGD19.55) in the Singapore tech space for its diversification and resilience.

### Positive results may be priced in

The market appears to have priced in positive FY22E results and its focus has turned to the outlook for FY23E and its new customer potentially ramping up after construction of its 300,000-sqft plant in Penang has been completed. We believe until there is more certainty, UMS's share price is likely to remain lacklustre. It may have further downside even on its current share price if there is more negative news and global chipmakers are de-rated further, in which case share price movement is likely to be mainly directed by market sentiment and key macro news.

### New customer will be key to earnings

Its potential new customer will be crucial to UMS's future earnings. If all goes well, UMSH will have the ability to improve profitability significantly over the next few years due to the size of this new potential customer.

### Waiting for more clarity on outlook

We have seen in many previous cycles downswings in the semiconductor cycle can be swift and deep. We are thus taking a conservative approach and downgrading UMS to HOLD until clearer signals emerge. In the near term, ie, 2H22, fundamentals should remain robust for UMS with strong growth due to its robust orderbook.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	164	271	348	381	419
EBITDA	47	92	131	138	152
Core net profit	46	53	93	98	108
Core EPS (cts)	6.9	8.0	14.0	14.7	16.2
Core EPS growth (%)	37.9	15.4	75.9	5.1	9.9
Net DPS (cts)	4.0	4.4	6.0	6.0	6.0
Core P/E (x)	12.5	19.1	6.6	6.3	5.7
P/BV (x)	2.3	3.7	1.9	1.6	1.4
Net dividend yield (%)	4.6	2.9	6.5	6.5	6.5
ROAE (%)	14.7	20.1	30.8	27.4	25.6
ROAA (%)	15.4	14.2	20.5	18.7	18.0
EV/EBITDA (x)	11.6	11.0	4.5	3.8	3.3
Net gearing (%) (incl perps)	net cash				
Consensus net profit	-	-	94	88	100
MKE vs. Consensus (%)	-	-	(0.2)	11.7	8.0

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# HOLD

Share Price	SGD 0.93
12m Price Target	SGD 1.20 (+34%)
Previous Price Target	SGD 1.20

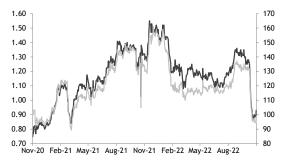
#### **Company Description**

UMS manufactures high precision components and modules found in front-end semiconductor equipment

#### Statistics

52w high/low (SGD)	1.55/0.87
3m avg turnover (USDm)	4.7
Free float (%)	69.2
Issued shares (m)	671
Market capitalisation	SGD623.6M
	USD441M
Major shareholders:	
LUONG ANDY	16.3%
GN JONG YUH	2.6%
Dimensional Fund Advisors LP	1.1%

#### Price Performance



-UMS Holdings - (LHS, SGD) -UMS Holdings / Straits Times Index - (RHS, %)

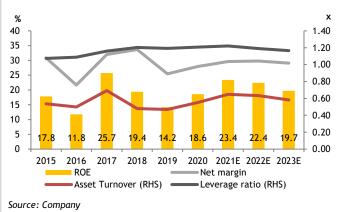
	-1M	-3M	-12M
Absolute (%)	(27)	(22)	(30)
Relative to index (%)	(26)	(18)	(27)
Source: FactSet			



# Value Proposition

- Precision metals engineering firm specialises in assembling modules and precision engineering for components for front-end semiconductor equipment.
- Has entrenched relationship with key customer Applied Materials, a market leader for wafer fab equipment.
- Through subsidiary JEP, UMS is expanding precision metals engineering to non-semiconductor sectors such as aerospace, which sees tailwinds from outsourcing trends.

#### UMS Du Pont ROE



## **Financial Metrics**

- Core EPS growth of 34%/15% in FY21/22E, driven by sustained investments from chipmakers globally.
- UMS has a strong track record of maintaining a net cash balance sheet to tide through cycles.
- FCF and balance sheet are expected to support dividends over forecast period.

#### EPS, FCF per share and DPS



Source: Company, Maybank IBG Research

## **Price Drivers**

#### Historical share price trend



Source: Company, Maybank IBG Research

- 1. Insider purchases from CEO Andy Luong and financial controller Stanley Loh.
- 2. 1Q18 revenue fell 11% YoY following six consecutive quarters of YoY increases.
- 3. AMAT spots optimistic tone for FY20 while UMS affirms it is seeing stable order volumes from AMAT.
- 4. AMAT, alongside peers, reaffirm positive FY20 expectations; UMS highlights semiconductor market has bottomed.
- 5. UMS rallied through much of 2020-21 on the back of strong WFE demand globally

# Swing Factors

## Upside

- Stronger than expected revenue momentum following capacity expansion in FY22E
- Better-than-expected contributions from Kalf Engineering, Starke and JEP.
- Better-than-expected cost control, which in turn supports margins.

## Downside

- Higher than expected labour costs, or if UMS faces difficulties expanding workforce to cope with strong order momentum
- Weaker-than-expected margins due to negative operating leverage if volume falls.
- Lower-than-expected dividends may spook yield investors. UMS has a quarterly dividend policy and a track record of strong cash flow generation.

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Risk Rating & Score <sup>1</sup>	na
Score Momentum <sup>2</sup>	na
Last Updated	na
Controversy Score <sup>3</sup>	na

## **Business Model & Industry Issues**

- Based on stakeholders' feedback, governance, economic performance, product compliance and customer privacy and satisfaction are the most important factors to both UMS and stakeholders. Waste management, water conservation and energy efficiency are among factors that are less material.
- Risks exposure include: i) socioeconomic: employees' wellbeing and equal opportunities; ii) governance: conflicts of interest; and iii) environmental: fines for non-compliance of environmental laws and regulations.
- In 2020, UMS did not incur any significant fines related to environmental laws, and there were no reported incidences of discrimination, whistleblowing, bribery or corruption.
- Human capital is a key input in driving UMS' capabilities vs. competitors. UMS believes in talent management to nurture employees, provide equal opportunities, and recognise and reward achievements to boost retention.

## Material E issues

- UMS' environmental exposure is through energy, water and inputs. In 2021, UMS did not incur any significant fines for non-compliance with environmental laws and regulations.
- For its manufacturing process, UMS' target for energy intensity is ≤0.13 KWH/revenue. In 2020/21, UMS' performance was 0.1558/0.1306 respectively.
- UMS has taken steps to control water flow in its special process lines, and have switched to NEWater from PUB water. It has a water intensity target of ≤0.0012 m3/revenue. In 2020/21, UMS' performance were 0.0014/0.0011 respectively.
- Hazardous waste largely consists of chemicals and oily water removed from production processes. These are disposed of in compliance with regulations. Where possible all retrieved metal chip and scraps, as well as packaging are recycled.
- Most delivery trucks are incompliance with EURO V standard.

## **Material S issues**

- UMS' workforce is 592 strong across Singapore and Malaysia as at end-2021. UMS is an equal-opportunity employer and values talent retention. Outstanding employees are rewarded for achievements.
- UMS adopts a localisation strategy for overseas operations to ensure on-the-ground teams have a good grasp of local socio-political and cultural sensitivities. In 2021, locals accounted for 46% of employees based in Malaysia and 50% of managerial positions. 25% of managerial employees are female.
- In 2021, there were no reports of discrimination or exploitative labour practices.

## Key G metrics and issues

- The board has five directors, of which one is the founder, executive chairman and CEO (Andy Luong), and three are independent, non-executive (60%). One is an executive director who is also UMS' financial controller (Stanley Loh).
- The audit, nominating, and remuneration committees are chaired by independent directors.
- Workshops on business ethics, anti-bribery compliance and enterprise risk management are held to educate employees on good corporate governance. Guidance is also provided for common ethical issues such as conflicts of interest and confidential information.
- In 2021, UMS did not receive any whistleblowing report regarding the company, and there were no cases of bribery or corruption.
- In 2021, key management personnel accounted for 31% (FY20: 21%).
- In 2012, UMS adopted a policy to declare dividends every quarter. The form and frequency depends on UMS' economic performance and financial position, as well as current and future needs.

<sup>&</sup>lt;u>Risk Rating & Score</u> - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <u>Ascore Momentum</u> - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. <u>Acontroversy Score</u> - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	13.7	15.2	6.6	6.3	5.7
Core P/E (x)	12.5	19.1	6.6	6.3	5.7
P/BV (x)	2.3	3.7	1.9	1.6	1.4
P/NTA (x)	2.3	3.7	1.9	1.6	1.4
Net dividend yield (%)	4.6	2.9	6.5	6.5	6.5
FCF yield (%)	7.8	nm	12.1	18.0	12.3
EV/EBITDA (x)	11.6	11.0	4.5	3.8	3.3
EV/EBIT (x)	13.9	12.7	5.2	4.4	3.8
INCOME STATEMENT (SGD m)					
Revenue	164.4	271.2	348.0	381.4	419.5
EBITDA	46.9	92.2	130.7	138.4	151.9
Depreciation	(7.7)	(12.4)	(18.3)	(19.4)	(20.3
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	39.2	79.8	112.4	119.1	131.6
Net interest income / (exp)	(0.4)	(0.8)	(0.7)	(0.7)	(0.7
Associates & JV	0.1	0.4	0.0	0.0	0.0
Exceptionals	9.5	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	48.4	79.4	111.7	118.4	130.9
Income tax	(2.6)	(21.8)	(12.3)	(13.0)	(14.4
Minorities	0.2	(4.5)	(6.0)	(7.2)	(8.6
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	36.5	53.1	93.4	98.2	107.9
Core net profit	46.0	53.1	93.4	98.2	107.9
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	53.8	65.4	100.3	172.0	208.4
Accounts receivable	23.5	67.2	75.9	91.3	115.0
Inventory	53.9	87.1	86.4	98.1	107.2
Property, Plant & Equip (net)	56.3	116.7	113.3	109.0	98.7
Intangible assets	80.1	88.6	88.6	88.6	88.0
Investment in Associates & JVs	35.4	0.0	0.0	0.0	0.0
Other assets	6.6	11.8	11.8	11.8	11.8
Total assets	309.5	436.8	476.4	570.7	630.3
ST interest bearing debt	15.7	11.6	11.6	11.6	11.0
Accounts payable	25.4	56.1	38.9	67.9	50.9
LT interest bearing debt	3.8	22.7	22.7	22.7	22.7
Other liabilities	12.0	42.0	40.0	40.0	40.0
Total Liabilities	56.6	42.0	40.0 112.7	40.0 141.7	40.0
	-	-		-	
Shareholders Equity	251.3	276.3	329.7	387.9	455.8
Minority Interest	1.7	27.9	33.9	41.1	49.8
Total shareholder equity Total liabilities and equity	252.9 309.5	304.3 436.8	363.7 476.4	429.0 570.7	505.5 630.3
CASH FLOW (SGD m)	<i></i>	70 4	444 7	110 1	100
Pretax profit	48.4	79.4	111.7	118.4	130.9
Depreciation & amortisation	7.7	12.4	18.3	19.4	20.3
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	3.0	(45.2)	(27.8)	1.9	(50.4
Cash taxes paid	(2.1)	1.8	(12.3)	(13.0)	(14.4
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	56.9	48.0	89.9	126.7	86.4
Capex	(11.7)	(72.8)	(15.0)	(15.0)	(10.0
Free cash flow	45.2	(24.8)	74.9	111.7	76.4
Dividends paid	(26.7)	(29.3)	(40.0)	(40.0)	(40.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.
Change in Debt	6.6	14.7	0.0	0.0	0.
Other invest/financing cash flow	4.0	52.9	0.3	0.0	0.0
Effect of exch rate changes	(9.7)	(2.2)	0.0	0.0	0.
			0.0	0.0	0.0

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FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	24.7	64.9	28.3	9.6	10.0
EBITDA growth	16.1	96.6	41.7	5.9	9.7
EBIT growth	17.0	103.5	40.8	6.0	10.6
Pretax growth	40.5	64.0	40.6	6.0	10.6
Reported net profit growth	12.0	45.6	75.9	5.1	9.9
Core net profit growth	37.1	15.4	75.9	5.1	9.9
Profitability ratios (%)					
EBITDA margin	28.5	34.0	37.6	36.3	36.2
EBIT margin	23.8	29.4	32.3	31.2	31.4
Pretax profit margin	29.4	29.3	32.1	31.0	31.2
Payout ratio	73.1	55.2	42.8	40.8	37.1
DuPont analysis					
Net profit margin (%)	22.2	19.6	26.8	25.7	25.2
Revenue/Assets (x)	0.5	0.6	0.7	0.7	0.7
Assets/Equity (x)	1.2	1.6	1.4	1.5	1.4
ROAE (%)	14.7	20.1	30.8	27.4	25.0
ROAA (%)	15.4	14.2	20.5	18.7	18.0
Liquidity & Efficiency					
Cash conversion cycle	194.1	143.9	163.7	157.8	167.3
Days receivable outstanding	49.9	60.2	74.0	78.9	88.8
Days inventory outstanding	247.5	198.1	198.2	187.4	187.4
Days payables outstanding	103.3	114.4	108.5	108.5	108.
Dividend cover (x)	1.4	1.8	2.3	2.5	2.7
Current ratio (x)	2.8	2.5	3.8	3.7	5.3
Leverage & Expense Analysis					
Asset/Liability (x)	5.5	3.3	4.2	4.0	5.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cas
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net casl
Net interest cover (x)	98.7	106.4	nm	nm	nn
Debt/EBITDA (x)	0.4	0.4	0.3	0.2	0.
Capex/revenue (%)	7.1	26.8	4.3	3.9	2
Net debt/ (net cash)	(34.2)	(31.1)	(66.1)	(137.7)	(174.1

Source: Company; Maybank IBG Research

# Aztech Global (AZTECH SP)

# Entering a downcycle; D/G to HOLD

### ...but earnings likely to be resilient

Downgrade Aztech to HOLD with a lower TP of SGD0.83, based on 7x FY22E P/E (from 10x) as the sector is entering into a downcycle. However, we expect Aztech's earnings to remain resilient and our channel checks indicate that orders from its key customers remain strong. Rise in electricity cost has been reflected in new orders hence margins should be only marginally impacted. We prefer Venture (VMS SP, CP SGD16.20, BUY, TP SGD19.55) in the Singapore tech space for its diversification and resilience. We transfer coverage to Jarick Seet.

### Orders from customers likely to remain strong

As of 25 Jul 2022, Aztech's order book was SGD827m, of which the company expects SGD450m will be delivered in 2H22. Our channel checks indicate orders from key customers remain strong and Aztech should be on track to reach our forecast numbers despite the poor global climate. However, there is a possibility orders might be delayed or reduced if things worsen and a global recession occurs.

### Component shortage problem easing

Aztech faced component shortages last year and during the first half of this year. But shortages are easing and coupled with the proactive steps management has taken to improve the situation, like redesigning its components to reduce reliance on parts that are harder to procure, searching for alternative suppliers and giving suppliers a longer lead time, we believe 2H22E will be better than 1H22.

### Risk orders are cut in the medium term

Orders from its key customers are highly dependent on the sales of these products. With a recession anticipated, orders may be cut if the situation worsens and demand falls. To be conservative, we downgrade to HOLD with a lower TP of SGD0.83 based on 7x PE while factoring in the current risk climate.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	484	624	814	979	1,062
EBITDA	80	91	116	141	148
Core net profit	56	74	92	107	112
Core EPS (cts)	9.0	10.0	11.9	13.9	14.4
Core EPS growth (%)	44.5	11.0	18.6	17.1	4.0
Net DPS (cts)	6.6	7.0	3.6	4.2	4.4
Core P/E (x)	na	8.8	6.7	5.8	5.5
P/BV (x)	na	2.3	1.7	1.4	1.2
Net dividend yield (%)	na	8.0	4.4	5.2	5.5
ROAE (%)	173.3	44.5	28.2	27.2	23.7
ROAA (%)	24.2	18.2	15.5	15.4	13.9
EV/EBITDA (x)	8.0	5.1	3.5	2.7	1.9
Net gearing (%) (incl perps)	51.8	net cash	net cash	net cash	net cash
Consensus net profit	-	-	89	103	112
MKE vs. Consensus (%)	-	-	3.6	4.3	0.0

Jarick Seet jarick.seet@maybank.com (65) 6321 5848



+7%)

# HOLD

[Prior:BUY]

Share Price	SGD 0.80
12m Price Target	SGD 0.83 (
Previous Price Target	SGD 1.39

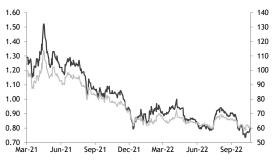
#### **Company Description**

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

#### Statistics

52w high/low (SGD)	1.06/0.74
3m avg turnover (USDm)	0.3
Free float (%)	28.8
Issued shares (m)	774
Market capitalisation	SGD619.1M
	USD437M
Major shareholders:	
AVS Investments Pte Ltd.	70.1%
HSBC Global Asset Management (Hong Kong)	1.2%
KWEK FAMILY	0.6%

#### Price Performance



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

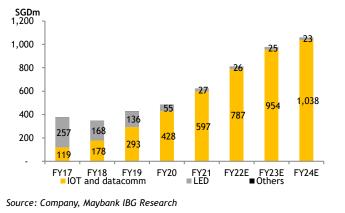
	-1M	-3M	-12M
Absolute (%)	1	(11)	(23)
Relative to index (%)	2	(7)	(20)
Source: FactSet			



# Value Proposition

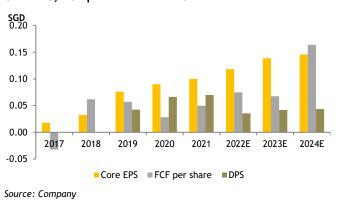
- Technology hardware manufacturer and key enabler for customers in consumer electronics industry.
- Leveraged to strong growth prospects from IoT end-markets through i) new products and customers; and ii) customers' strong position in the market.
- Differentiating factors are strong R&D and design capabilities, 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



# **Financial Metrics**

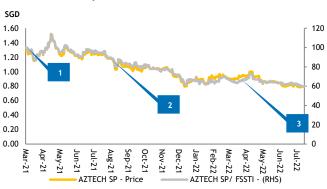
- We expect FY21-24 PATMI CAGR of 15%, driven by Customer A (new products and market penetration) and other new customers.
- FY24E net margin of 10.6% is lower than FY21 of 11.9% as we factor in some cost downs and anticipate commoditisation led margin erosion at some point with Customer A's products.
- FY22-24E dividend pay-out assumption of 30%.



### Core EPS, FCF per share and DPS

# Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

- 1. Listed on SGX Main Board at IPO price of SGD1.28.
- 2. 1H21 results in line with street but management confirmed that Aztech was struggling with components shortages.
- 3. 2H21 results ahead of our expectations and met Street's. Order outlook was resilient.

## **Swing Factors**

## Upside

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

# Downside

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

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## **Business Model & Industry Issues**

- Based on stakeholders' feedback, governance, economic performance, product compliance and customer privacy and satisfaction are the most important factors to both Aztech and stakeholders. Waste management, water conservation and energy efficiency are among factors that are less material.
- Risks exposure include: i) socioeconomic: employees' wellbeing and equal opportunities; ii) governance: conflicts of interest; and iii) environmental: fines for non-compliance of environmental laws and regulations.
- In 2021, Aztech did not incur any significant fines related to environmental laws, and there were no reported incidences of discrimination, whistleblowing, bribery or corruption.
- Human capital is a key input in driving Aztech' capabilities vs. competitors. Aztech believes in talent management to nurture employees, provide equal opportunities, and recognise and reward achievements to boost retention.

## Material E issues

- Aztech' environmental exposure is through energy, water and inputs. In 2021, Aztech did not incur any significant fines for non-compliance with environmental laws and regulations
- Aztech will be focusing on improving energy consumption efficiency through equipment maintenance and use of energy efficient equipment and technology to cut their carbon footprint. In addition, they have been inculcating electricity conservation through the adoption of energy efficient practices including use of natural light and reminder posters to promote electricity conservation.
- At their dormitories in Dongguan, heat energy generated by the air-conditioner system was recycled to power the central hot water systems. They have also completed the conversion of all air-conditioners with energy efficient inverter systems during the year to conserve energy.
- Their centralised rainwater and sewage diversion system collects and treats the sewage before it is discharged to the drainage system. It remains imperative that the conductivity of water must be less than 200 µS/cm and pH scale of between 6 and 9.

### **Material S issues**

- Aztech' workforce is 1178 strong globally as at end-2021. Aztech is an equal-opportunity employer and values talent retention. Outstanding employees are rewarded for achievements.
- Total training hours achieved for FY2021 amounted to 13,855 hours, while average training hours per employee was 12hours, meeting their FY2021 target amidst an increase in business activities.
- In FY2021, there were 3 minor work injury accidents at their Dongguan operation site, down from 7 in FY2020. The rate of injury fell from 0.18 per 100 workers in FY2020 to 0.078 per 100 workers in FY2021. Investigations on the 3 work-related incidents were carried out with each incident evaluated and corrective actions taken to mitigate recurrence of such accidents.
- In 2021, there were no reports of discrimination or exploitative labour practices.

## Key G metrics and issues

- The board has six directors, of which one is the founder, executive chairman and CEO (Michael Mun), and four are independent, non-executive (67%). One is an executive director who is also the COO. (Jeremy Mun).
- The audit, nominating, and remuneration committees are chaired by independent directors.
- Workshops on business ethics, anti-bribery compliance and enterprise risk management are held to educate employees on good corporate governance. Guidance is also provided for common ethical issues such as conflicts of interest and confidential information.
- In 2021, Aztech did not receive any whistleblowing report regarding the company, and there were no cases of bribery or corruption.

<u>Raisk Rating & Score</u> - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <u>Score Momentum</u> - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. <u>3Controversy Score</u> - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24
Key Metrics					
P/E (reported) (x)	na	11.4	6.7	5.8	5.5
Core P/E (x)	na	8.8	6.7	5.8	5.5
P/BV (x)	na	2.3	1.7	1.4	1.2
P/NTA (x)	na	2.3	1.7	1.4	1.3
Net dividend yield (%)	na	8.0	4.4	5.2	5.5
FCF yield (%)	na	5.7	9.4	8.4	20.3
EV/EBITDA (x)	8.0	5.1	3.5	2.7	1.9
EV/EBIT (x)	8.9	5.8	3.8	3.0	2.2
INCOME STATEMENT (SGD m)					
Revenue	484.3	624.4	813.6	979.4	1,061.0
EBITDA	80.3	90.8	115.7	141.1	148.
Depreciation	(8.6)	(10.2)	(11.4)	(15.2)	(16.6
Amortisation	0.0	0.0	0.0	0.0	(10.0
EBIT	71.7	80.6	104.4	125.9	130.9
Net interest income / (exp)	(0.5)	(0.1)	(0.0)	(0.0)	0.
Associates & JV	0.0	0.0	0.0	0.0	0.
Exceptionals	0.0	0.0	0.0	0.0	0.
Other pretax income	(4.7)	4.4	3.0	2.0	2.
Pretax profit	66.5	85.0	107.3	127.9	133.
ncome tax	(10.8)	(10.6)	(15.6)	(20.5)	(21.5
Ainorities	0.0	0.0	0.0	0.0	0.
Discontinued operations	0.0	0.0	0.0	0.0	0.
Reported net profit	55.7	74.4	91.8	107.4	111.
Core net profit	55.7	74.4	91.8	107.4	111.
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	11.5	201.5	232.7	253.4	346.
Accounts receivable	197.0	201.5	236.6	316.1	323.
	53.7	62.4	107.4	77.3	124.
nventory	6.8	3.4	3.4	3.4	3.
Reinsurance assets					
Property, Plant & Equip (net)	28.9	26.6	80.2	80.0	78.
ntangible assets	1.1	0.0	0.0	0.0	0.
nvestment in Associates & JVs	0.0	0.0	0.0	0.0	0.
Other assets	1.3	1.7	1.7	1.7	1.
Total assets	300.2	518.2	662.2	732.0	877.
ST interest bearing debt	29.2	11.9	11.9	11.9	11.
Accounts payable	141.1	138.5	218.2	212.9	279.
nsurance contract liabilities	2.4	1.9	1.9	1.9	1.
T interest bearing debt	3.8	2.8	2.8	2.8	2.
Other liabilities	82.0	70.0	70.0	70.0	70.
Total Liabilities	258.6	225.2	305.0	299.6	366.
hareholders Equity	41.6	293.0	357.2	432.4	511.
Ainority Interest	0.0	0.0	0.0	0.0	0.
•	41.6				
Fotal shareholder equity		293.0	357.2	432.4	511.
Total liabilities and equity	300.2	518.2	662.2	732.0	877.
CASH FLOW (SGD m)		0E 0	407.2	407.0	400
Pretax profit	66.5	85.0	107.3	127.9	133.
Depreciation & amortisation	8.6	10.2	11.4	15.2	17.
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.
Change in working capital	(46.1)	(35.6)	20.6	(54.7)	12.
Cash taxes paid	(3.0)	(15.8)	(15.6)	(20.5)	(21.5
Other operating cash flow	0.0	0.0	0.0	0.0	0.
Cash flow from operations	28.6	41.9	123.1	67.2	140.
Capex	(11.0)	(4.8)	(65.0)	(15.0)	(15.0
Free cash flow	17.5	37.1	58.1	52.2	125.
Dividends paid	(41.0)	(15.3)	(27.5)	(32.2)	(33.8
Equity raised / (purchased)	0.0	190.6	(27.5)	0.0	(55.6
Change in Debt	20.3	(21.5)	0.0	0.0	0.
Other invest/financing cash flow	0.4	(1.2)	0.7	0.7	0.
Effect of exch rate changes	(0.0)	0.3	0.0	0.0	0.
Net cash flow	(2.8)	190.1	31.2	20.6	91.

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FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	12.9	28.9	30.3	20.4	8.4
EBITDA growth	44.2	13.1	27.4	21.9	5.3
EBIT growth	52.2	12.5	29.4	20.7	4.0
Pretax growth	44.0	27.7	26.3	19.2	4.1
Reported net profit growth	44.5	33.5	23.4	17.1	4.0
Core net profit growth	44.5	33.5	23.4	17.1	4.0
Profitability ratios (%)					
EBITDA margin	16.6	14.5	14.2	14.4	14.0
EBIT margin	14.8	12.9	12.8	12.9	12.3
Pretax profit margin	13.7	13.6	13.2	13.1	12.5
Payout ratio	73.6	70.0	30.0	30.0	30.3
DuPont analysis					
•	11.5	11.9	11.3	11.0	10.5
Net profit margin (%) Revenue/Assets (x)	1.6	1.2	1.2	1.3	1.2
Assets/Equity (x)	7.2	1.2	1.2	1.3	1.2
ROAE (%)	173.3	44.5	28.2	27.2	23.7
ROAA (%)	24.2	18.2	15.5	15.4	13.9
	2.1.2	10.2	15.5	13.1	13.7
Liquidity & Efficiency					
Cash conversion cycle	28.3	58.2	47.3	42.4	44.4
Days receivable outstanding	109.2	120.9	101.6	101.6	108.5
Days inventory outstanding	37.8	44.6	49.3	44.4	44.4
Days payables outstanding	118.7	107.3	103.6	103.6	108.5
Dividend cover (x)	1.4	1.4	3.3	3.3	3.3
Current ratio (x)	1.1	2.2	1.9	2.2	2.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.2	2.3	2.2	2.4	2.4
Net gearing (%) (incl perps)	51.8	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	51.8	net cash	net cash	net cash	net cash
Net interest cover (x)	145.4	nm	nm	nm	na
Debt/EBITDA (x)	0.4	0.2	0.1	0.1	0.1
Capex/revenue (%)	2.3	0.8	8.0	1.5	1.4
Net debt/ (net cash)	21.6	(186.8)	(218.0)	(238.6)	(331.6)

Source: Company; Maybank IBG Research

# Frencken Group Ltd (FRKN SP)

# Uncertainty remains; prefer Venture

### 3Q22E is likely muted

Due to surging energy and labour costs in Europe, Frencken's 3Q22E may be impacted despite already passing on higher costs to some of its customers. We expect margins to improve in 3Q22E, but there might be downside surprise either from its 3Q results or its guidance. We estimate 3Q revenue of SGD221.7m and PATMI of SGD13.7m. We have a HOLD on Frencken and prefer Venture (VMS SP, CP SGD16.20, BUY, TP SGD19.55) in the Singapore tech space for its diversification and resilience.

### More negative news likely for the semi-con sector

While the outlook and demand remains robust for the semi-con sector, there is likely more negative news in the near term as the US and its allies are likely to limit chip exports to China. Along with fears of a recession, demand for semi-con might suddenly drop, adding doubts about the market for FY23E. As of 1H22, revenue from semi-con accounted for more than 39% of Frencken's total revenue.

### Expecting gradual recovery of margins

Frencken's margins fell in 1H22 YoY due to higher raw material prices, labour and production costs. It has managed to renegotiate better prices for the new contracts and as a result 2H22E margins should rise. However, the recovery of margins will be gradual as some of its existing contacts are still based on the old prices.

### Risk demand may drop unexpectedly in Europe

We feel that the outlook for Frencken is muted as compared to some of the other tech stocks in Singapore. As Frencken's factories are largely based in Europe, it may suffer an unexpected drop in demand as a recession is looming. As a result, its robust pipeline of orders may suffer a setback, as other competitors did in the past.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	621	767	832	857	882
EBITDA	80	95	90	95	100
Core net profit	49	59	54	55	58
Core FDEPS (cts)	11.5	13.7	12.5	12.8	13.5
Core FDEPS growth(%)	4.8	19.8	(8.8)	2.3	5.5
Net DPS (cts)	3.4	4.1	3.8	3.9	4.1
Core FD P/E (x)	11.5	14.3	7.0	6.8	6.5
P/BV (x)	1.7	2.2	0.9	0.8	0.8
Net dividend yield (%)	2.6	2.1	4.3	4.4	4.6
ROAE (%)	13.6	16.5	13.6	12.7	12.2
ROAA (%)	9.2	9.4	7.7	7.3	7.3
EV/EBITDA (x)	5.7	7.9	2.9	2.5	2.4
Net gearing (%) (incl perps)	net cash				
Consensus net profit	-	-	55	59	64
MKE vs. Consensus (%)	-	-	(2.1)	(7.7)	(9.6)

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# HOLD

Share Price	SGD 0.88
12m Price Target	SGD 1.05 (+24%)
Previous Price Target	SGD 1.05

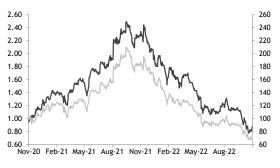
#### **Company Description**

Frencken manufactures components and modules for various industries including semiconductor, life sciences, automotive and industrial automation.

#### Statistics

52w high/low (SGD)	2.44/0.78
3m avg turnover (USDm)	3.1
Free float (%)	59.8
Issued shares (m)	426
Market capitalisation	SGD372.8M
	USD263M
Major shareholders:	
Micro Compact Sdn. Bhd.	6.2%
Precico Holdings Sdn. Bhd.	6.1%
GOOI FAMILY	5.8%

#### Price Performance



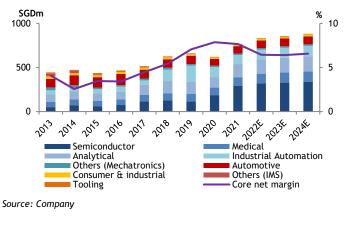
	-1M	-3M	-12M
Absolute (%)	(10)	(28)	(61)
Relative to index (%)	(9)	(25)	(60)
Source: FactSet			



# Value Proposition

- Technology hardware manufacturer that specialises in complex components.
- High-mix, low-volume, high complexity for mechatronics segment.
- Customers are sticky, given: i) decades-long working relationships; ii) complementary competencies; and iii) mutual dependency (sole-source for some critical products). We expect Frencken to leverage its relationships with customers to introduce products with greater valueadd, in turn driving margins further.

### Diverse end markets



# **Financial Metrics**

- Over the medium term, we expect earnings to be driven by revenue growth and margin optimisation through new products and improving efficiencies.
- Net cash balance sheet and strong cash flow should provide resilience amid economic uncertainties.
- Historically pays out 30% of earnings as dividends. We expect this trend to continue.

### EPS, FCF per share and DPS



# **Price Drivers**

### Historical share price trend



Source: Company, Maybank IBG Research

- 1. General derating of the Singapore tech sector amid initial US-China tensions
- 2. Reported FY18 core net profit of SGD34m (+47% YoY) on strength from industrial automation.
- 3. Reported 3Q19 core net profit of SGD31m (+35%) on strength from industrial automation and semiconductor. General tech sector rerating amid initial signs of global semiconductor recovery.
- 4. Frencken's semiconductor segment is beneficiary of chip shortages
- 5. Tech sector derating drove share price lower; 1Q22 net profit fell 12.6% YoY on margin pressures amid inflation and other supply chain challenges

# Swing Factors

# Upside

- Stronger-than-expected semiconductor and industrial automation contributions.
- Robust margin accretion from new products and improving efficiencies.
- Improving institutional interest, which could help the stock re-rate towards peers' valuations.

# Downside

- Drop in demand.
- Supply chain disruptions that impede Frencken's production ability and revenue recognition.
- Lower-than-expected dividend pay-out.

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## **Business Model & Industry Issues**

- The nature of Frencken's business in the electronics and automotive manufacturing supply chains exposes it to risks including environmental, workplace safety, and conflict of interest. Frencken has not faced any fines or non-monetary sanctions pertaining environmental nor socioeconomic laws and regulations in 2021.
- From an environment perspective, Frencken's Eco-PVD offering can be seen as a more environmentally friendly approach for automotive coating. While Frencken does not use recycled materials currently, it may do so in the future subject to customers' requirements.
- From a governance and socioeconomic perspective, Frencken is adopting industry best practices, including those set by customers, as these facilitate smooth business.

## Material E issues

- Environmental risks Frencken's production process involves non-renewable materials and waste generation. Non-compliance of rules and laws may severely impact the environment of local communities.
- In 2021, Frencken had zero fines and non-monetary sanctions for non-compliance with environmental laws and/or regulations.
- Areas for potential improvement include i) increased use of recycled materials, contingent on customer approval; ii) increased efficiency of water and electric usage.
- Opportunities Frencken's proprietary eco-PVD coating technology is more environmentally friendly than traditional PVD methods. Frencken is optimistic of long term prospects for this offering

# Material S issues

- Employee health and safety risks. Frencken benchmarks its occupational safety and health practices against industry best practices. E.g. the Bangi (Malaysia) plant is in compliance with Agilent Supplier Environmental, Health and Safety and Social Responsibility guidelines.
- Employee safety remains of paramount importance for Frencken with proper mitigation measures implemented.
- In 2021, Frencken's injury rate was 0%. (2019: 0.15%). Employees underwent an average of 1.2-17 hours of training in 2021 across technical, occupational health and safety and strategic topics.
- Male employees account for 66% of the workforce.
- Socioeconomic risks. To ensure smooth business operations, Frencken: i) adheres to all applicable laws and regulations; and ii) upholds strong ethical standards. This safeguards trust with stakeholders and avoids liability due to non-compliance.

## Key G metrics and issues

- Board consists of six directors, of whom one is an executive director (CEO), one is a non-executive, nonindependent chairman, and four are independent (67%). All directors are male.
- The nominating, audit and remuneration committees are chaired by independent directors.
- Chairman Mr. Gooi Soon Chai's deemed stake in the company is c.22%.
- Three independent directors have served more than nine years from date of appointments. Frencken states that their independence is not in any way affected by their length of service.
- Professional background of independent directors includes law, accounting, consultancy and electronics engineering.
- Key management/ directors' compensation accounted for 3.4%/1.4% of total employee compensation in 2021. (2019: 3.8%/ 1.3%).
- Auditor is Deloitte & Touche LLP which was appointed in 2014.
- Former non-independent non-executive chairman Mr. Larry Low resigned in 2016 and pared his stake from 8.14% to 4.74% in 2018. Mr. Low is the father of fugitive Jho Low. However, this development has no impact to the governance nor operations of the company as current management and board are independent of Mr. Low

<sup>&</sup>lt;u>Risk Rating & Score</u> - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <u>Score Momentum</u> - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. <u>Controversy Score</u> - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	9.1	13.2	7.0	6.8	6.5
Core P/E (x)	11.4	14.3	7.0	6.8	6.5
Core FD P/E (x)	11.5	14.3	7.0	6.8	6.5
P/BV (x)	1.7	2.2	0.9	0.8	0.8
P/NTA (x)	1.7	2.2	0.9	0.8	0.8
Net dividend yield (%)	2.6	2.1	4.3	4.4	4.6
FCF yield (%)	8.1	1.0	9.7	10.1	5.2
EV/EBITDA (x)	5.7	7.9	2.9	2.5	2.4
EV/EBIT (x)	7.7	10.4	4.0	3.5	3.3
INCOME STATEMENT (SGD m)					
Revenue	620.6	767.1	832.4	856.8	881.9
EBITDA	80.1	94.9	89.9	95.0	100.4
Depreciation	(21.1)	(23.0)	(24.2)	(26.0)	(27.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	58.9	71.9	65.6	68.9	72.5
Net interest income /(exp)	(0.8)	(1.4)	(1.4)	(1.4)	(1.4)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(6.2)	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	51.9	70.5	64.2	67.5	71.1
Income tax	(8.8)	(11.4)	(10.4)	(11.5)	(12.1)
Minorities	(0.2)	(0.4)	(10.4)	(11.3)	(12.1)
	0.0	0.0	0.0	0.0	0.0
Discontinued operations	42.8	58.7	53.6	54.9	57.8
Reported net profit	42.8 49.1	58.7			57.8
Core net profit	49.1	50.7	53.6	54.9	57.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	174.5	192.6	212.7	234.0	236.2
Accounts receivable	98.7	123.3	118.4	163.3	126.7
Inventory	143.2	203.1	201.2	194.7	212.5
Property, Plant & Equip (net)	99.8	110.8	102.6	127.6	152.6
Intangible assets	11.7	19.5	19.5	19.5	19.5
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	36.0	38.9	58.7	40.9	54.0
Total assets	563.8	688.1	713.2	779.9	801.4
ST interest bearing debt	67.3	95.6	95.6	95.6	95.6
Accounts payable	80.1	121.9	109.2	136.3	116.1
LT interest bearing debt	0.0	1.6	1.6	1.6	1.6
Other liabilities	80.0	90.0	90.0	90.0	90.0
Total Liabilities	227.5	309.1	296.4	323.5	303.3
Shareholders Equity	334.0	376.2	413.7	452.1	492.6
Minority Interest	2.3	2.9	3.1	4.3	5.5
Total shareholder equity	336.3	379.0	416.8	456.4	498.1
Total liabilities and equity	563.8	688.1	713.2	779.9	801.4
CASH FLOW (SGD m)	54.0	70 5			<b>-</b>
Pretax profit	51.9	70.5	64.2	67.5	71.1
Depreciation & amortisation	21.1	23.0	24.2	26.0	27.8
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	1.1	(34.7)	(25.8)	6.7	(14.5)
Cash taxes paid	(5.9)	(16.2)	(10.4)	(11.5)	(12.1)
Other operating cash flow	6.2	0.0	0.0	0.0	0.0
Cash flow from operations	74.4	42.6	52.3	88.7	72.3
Capex	(28.9)	(33.9)	(16.1)	(51.0)	(52.8)
Free cash flow	45.5	8.7	36.2	37.7	19.5
Dividends paid	(12.8)	(17.6)	(16.1)	(16.5)	(17.4)
Equity raised / (purchased)	0.8	0.1	0.0	0.0	0.0
Change in Debt	14.1	29.9	0.0	0.0	0.0
Other invest/financing cash flow	5.9	(3.5)	0.0	0.0	0.0
Effect of exch rate changes	(0.3)	0.0	0.0	0.0	0.0
Net cash flow	53.3	17.6	20.1	21.3	2.2

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FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(5.8)	23.6	8.5	2.9	2.9
EBITDA growth	(0.5)	18.5	(5.3)	5.7	5.7
EBIT growth	(0.7)	22.1	(8.7)	5.0	5.2
Pretax growth	(3.8)	36.0	(8.9)	5.1	5.3
Reported net profit growth	1.1	37.1	(8.7)	2.3	5.5
Core net profit growth	5.4	19.7	(8.7)	2.3	5.5
Profitability ratios (%)					
EBITDA margin	12.9	12.4	10.8	11.1	11.4
EBIT margin	9.5	9.4	7.9	8.0	8.2
Pretax profit margin	8.4	9.2	7.7	7.9	8.1
Payout ratio	34.2	30.0	30.0	30.0	30.0
DuPont analysis					
Net profit margin (%)	6.9	7.7	6.4	6.4	6.6
Revenue/Assets (x)	1.1	1.1	1.2	1.1	1.1
Assets/Equity (x)	1.7	1.8	1.7	1.7	1.6
ROAE (%)	13.6	16.5	13.6	12.7	12.2
ROAA (%)	9.2	9.4	7.7	7.3	7.3
Liquidity & Efficiency					
Cash conversion cycle	97.5	92.8	96.7	96.7	96.7
Days receivable outstanding	56.9	52.1	52.3	59.2	59.2
Days inventory outstanding	99.2	97.7	103.6	98.6	98.6
Days payables outstanding	58.7	57.0	59.2	61.2	61.2
Dividend cover (x)	2.9	3.3	3.3	3.3	3.3
Current ratio (x)	2.0	1.9	2.1	2.0	2.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.2	2.4	2.4	2.6
Net gearing (%) (incl perps)	net cash				
Net gearing (%) (excl. perps)	net cash				
Net interest cover (x)	70.3	51.3	46.8	49.1	51.7
Debt/EBITDA (x)	0.8	1.0	1.1	1.0	1.0
Capex/revenue (%)	4.7	4.4	1.9	6.0	6.0
Net debt/ (net cash)	(107.1)	(95.4)	(115.5)	(136.8)	(138.9)

Source: Company; Maybank IBG Research

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