

## Aurelius Technologies (ATECH MK)

# Next growth trajectory from new customers secured

### Maintain BUY with TP of MYR2.40

We maintain our BUY call, forecasts, and TP of MYR2.40 for ATECH, by pegging our CY23E EPS of 15.9sen to the industry's 5Y historical average PER of 15.1x. We like ATECH for (i) its robust earnings growth prospects (supported by its ongoing expansion for Customer F and continuous new customers acquisition); (ii) growing exposure to higher value-added multicomponent integrated circuits (MCICs); as well as (iii) its business resiliency from recession, having exposure in the fast-growing industry such as IoT related products and the automotive industry, where growth is believed to be relatively sticky despite the recession slowdown fears.

### New ventures, new exposures, more expansions?

ATECH has recently secured four new customers from the high growth industry, namely automotive, data computing, and the IoT communication industry. This development also marks their breakthrough into manufacturing orders of low-mix high-volume - a model that is more appealing to the contract manufacturers as the company can maximize its profits as it reaches economies of scales. Having said that, we recall that the existing capacity for the company is already fully taken up by customers, indicating a potential capacity expansion in the pipeline.

### Positive on the latest developments

While we wait for more clarity on the potential expansion, we are positive on this development at this juncture, as the company continues to prove its capabilities to ride on the supply chain diversification trend to secure new customers as part of its efforts to diversify the customer base. We are also optimistic that any expected capacity expansion will be for targeted customers and secured orders, giving more visibility on the return on investment and alleviate the risks of having capacity overhangs.

### More earnings upside from the new customers

We have yet to factor in any potential earnings upside from the four new customers (which contributions could kick in from as early as FY25E), and could uplift the company's growth trajectory in the medium term. ATECH currently has a healthy financial position, with net gearing of c.0.35x and net debt position of MYR76m, allowing some rooms for the company to gear up further should that be required.

FYE Jan (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	362	367	485	605	681
EBITDA	27	37	52	77	93
Core net profit	16	24	39	59	66
Core EPS (sen)	4.4	6.7	10.9	16.3	18.6
Core EPS growth (%)	(33.3)	53.1	62.8	49.3	13.5
Net DPS (sen)	0.0	0.0	2.2	3.3	3.7
Core P/E (x)	na	31.8	19.7	13.2	11.6
P/BV (x)	na	3.8	3.2	2.7	2.2
Net dividend yield (%)	na	0.0	1.0	1.5	1.7
ROAE (%)	19.7	15.6	17.7	22.0	20.9
ROAA (%)	5.9	7.0	9.5	12.9	12.8
EV/EBITDA (x)	33.0	21.6	16.2	11.2	9.3
Net gearing (%) (incl perps)	141.1	18.9	29.6	32.9	26.5
Consensus net profit	-	-	39	53	67
MKE vs. Consensus (%)	-	-	1.3	9.6	(0.1)

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# BUY

Share Price	MYR 2.16
12m Price Target	MYR 2.40 (+13%)
Previous Price Target	MYR 2.40

### Company Description

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

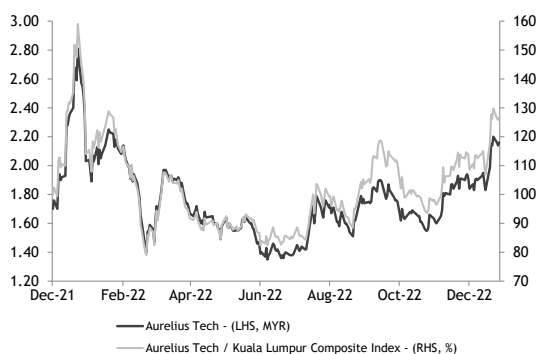
### Statistics

52w high/low (MYR)	2.48/1.35
3m avg turnover (USDm)	0.3
Free float (%)	50.2
Issued shares (m)	358
Market capitalisation	MYR773.7M USD177M

### 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 (%)	13	21	(15)
Relative to index (%)	12	13	(11)

Source: FactSet

## Successfully breakthrough to the high growth industry

Following ATECH's recent announcement on its acquisition of the four new customers (during its latest quarterly results briefing), the company has successfully diversified its products range and exposure to serve customers from the high growth industry, ie. automotive industry, data computing, and further expand its product portfolio in the IoT related products segment. It is also materialising its business strategy to increase its services range, to also now manufacture for low-mix high-volume orders - a model that allows the company to maximize its profits and reduce production costs when it reaches economies of scale.

## New customers contribution could kick in from as early as FY25E

Pilot production for the new customers has commenced since 4QFY23E, and we believe the company will soon have to embark on further capacity expansion in order to ramp up the production for these customers. The whole process typically takes about 6 to 18 months (including passing all the audits and obtaining qualifications from the customers as well as ramping up capacity, until the maiden contributions from the new orders kick in). In view of that, we are optimistic that there will be new revenue stream to the company from as early as FY25E, which we have yet to pencil in our current forecasts.

## Positive if potential capacity expansion is for targeted customers

As we wait for further details on the expansion plan, we are positive on the developments at this juncture, as the company continues to prove its capabilities to ride on the supply chain diversification trend to secure new customers as part of its efforts to diversify its customer base. We are also optimistic that any potential capacity expansion will be for secured customers and orders, which gives some assurance on the return on investment and alleviate the risks of having capacity overhangs.

## ATECH's current built up space is 260,357 sq ft excluding the leased warehouse space

To recap, ATECH currently owns 3 plants, with built up space of 260,357 sq ft, enabling it to house c.16 SMT lines in total. Out of the 16 SMT lines, all lines are already dedicated to specific customers/usage, ie. 8 is allocated for Customer F (currently they have received 6 SMT lines, pending 2 more to be delivered by 2QFY24), while there are 6 lines dedicated for other customers (shared lines). The company is planning to allocate 2 lines for general use (adding an additional line from the existing one to support the company's new product innovation (NPI) initiatives, as part of its efforts to build long-term relationship with its customers as they explore new product developments, which could translate into real orders in the future). In order to cater to the current customers' immediate demand, the company has also leased an additional warehouse for storage and light assembly purposes, commencing 1 Nov 2022 (for a tenure of 2+2 years).

## ATECH's financial position

As of 9MFY23, ATECH has a healthy net gearing of c.0.35x (or net debt position of MYR76m), which still allows some rooms for it to gear up further. We do not rule out any potential equity fund raising as an alternative option, depending on the company's capex requirements.

Figure 1: Sector peers' comparison

Company	Currency	Mkt Cap (MYR'm)	Share Price (MYR)	PER (x)			Hist Avg 5 Yr	P/BV (x) CY23E	ROE (%) CY22E	
				CY22E	CY23E	CY24E				
V.S. Industry Bhd	MYR	3,519	0.92	17.9	14.0	12.0	19.4	1.5	10.9	
ATA IMS Bhd	MYR	259	0.22	n.m.	n.m.	n.m.	n.m.	0.4	-5.9	
SKP Resources Bhd	MYR	2,500	1.65	14.2	12.4	10.8	15.8	2.8	20.7	
Uchi Technologies Bhd	MYR	1,482	3.26	12.6	12.8	12.5	16.6	6.9	57.7	
PIE Industrial Bhd	MYR	1,022	2.70	16.1	14.0	12.7	17.7	1.8	10.6	
<i>Aurelius Technologies</i>	MYR	774	2.16	20.4	13.6	11.8	NA	3.2	17.5	
<b>Simple Average</b>				<b>15.2</b>	<b>13.3</b>	<b>12.0</b>	<b>17.4</b>	<b>2.7</b>	<b>18.8</b>	
<b>Weighted Average</b>				<b>15.7</b>	<b>13.3</b>	<b>11.8</b>	<b>17.7</b>	<b>2.8</b>	<b>21.7</b>	
<b>Regional peers</b>										
Venture Corp Ltd	SGD	3,697	17.59	13.4	13.0	12.3	15.0	1.7	13.2	
Aztech Global Ltd	SGD	480	0.83	7.3	6.6	5.8	n.m.	1.8	27.1	
Fu Yu Corp Ltd	SGD	124	0.22	11.0	11.0	11.0	16.5	1.1	12.0	
Valuetronics Hldgs Ltd	SGD	164	0.53	12.5	11.1	10.4	9.7	1.0	8.4	
<b>Simple Average</b>				<b>11.1</b>	<b>10.4</b>	<b>9.9</b>	<b>13.8</b>	<b>1.4</b>	<b>15.2</b>	
<b>Weighted Average</b>				<b>12.7</b>	<b>12.2</b>	<b>11.5</b>	<b>13.3</b>	<b>1.7</b>	<b>14.5</b>	
				<b>Simple Blended</b>	<b>13.1</b>	<b>11.9</b>	<b>10.9</b>	<b>15.6</b>	<b>2.0</b>	<b>17.0</b>
				<b>Weighted Blended</b>	<b>14.2</b>	<b>12.7</b>	<b>11.7</b>	<b>15.1</b>	<b>2.3</b>	<b>18.1</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 labour issues and/or component shortages.

FYE 31 Jan	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	na	35.4	19.7	13.2	11.6
Core P/E (x)	na	31.8	19.7	13.2	11.6
P/BV (x)	na	3.8	3.2	2.7	2.2
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)	33.0	21.6	16.2	11.2	9.3
EV/EBIT (x)	39.6	25.4	17.7	12.0	9.9
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	362.2	367.4	484.9	604.8	681.1
EBITDA	26.9	37.3	52.2	77.4	92.9
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	47.7	72.7	87.3
Net interest income / (exp)	(3.9)	(3.8)	(3.4)	(3.8)	(4.2)
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	44.3	68.9	83.1
Income tax	(2.7)	(3.9)	(5.1)	(10.3)	(16.6)
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	39.2	58.5	66.5
Core net profit	15.7	24.1	39.2	58.5	66.5
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	22.3	76.3	33.1	22.8	18.6
Accounts receivable	100.2	90.6	132.8	165.7	186.6
Inventory	72.5	133.5	104.8	127.9	142.5
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	35.7	43.9	49.2
<b>Total assets</b>	<b>281.6</b>	<b>411.3</b>	<b>415.7</b>	<b>493.7</b>	<b>548.4</b>
ST interest bearing debt	110.2	96.9	78.1	92.5	84.4
Accounts payable	46.3	82.3	58.2	71.0	79.2
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
<b>Total Liabilities</b>	<b>200.8</b>	<b>209.9</b>	<b>175.1</b>	<b>202.3</b>	<b>202.3</b>
Shareholders Equity	80.8	201.4	240.6	291.3	346.1
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>240.6</b>	<b>291.3</b>	<b>346.1</b>
<b>Total liabilities and equity</b>	<b>281.6</b>	<b>411.3</b>	<b>415.7</b>	<b>493.7</b>	<b>548.4</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	17.8	25.9	44.3	68.9	83.1
Depreciation & amortisation	4.5	5.6	4.5	4.7	5.6
Adj net interest (income)/exp	3.9	3.8	3.4	3.8	4.2
Change in working capital	(18.4)	(18.6)	(47.3)	(51.3)	(32.7)
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	(3.8)	11.7	39.2
Capex	(11.4)	(35.7)	(25.8)	(28.9)	(23.7)
Free cash flow	(11.3)	(24.6)	(29.6)	(17.1)	15.5
Dividends paid	(4.9)	(3.3)	0.0	(7.8)	(11.7)
Equity raised / (purchased)	0.0	104.5	0.0	0.0	0.0
Change in Debt	9.8	(25.0)	(7.1)	14.4	(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
<b>Net cash flow</b>	<b>(10.3)</b>	<b>52.5</b>	<b>(36.5)</b>	<b>(10.3)</b>	<b>(4.1)</b>

FYE 31 Jan	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(7.0)	1.5	32.0	24.7	12.6
EBITDA growth	(31.5)	38.8	39.8	48.3	20.0
EBIT growth	(38.2)	41.7	50.4	52.3	20.1
Pretax growth	(45.0)	45.4	71.0	55.5	20.6
Reported net profit growth	(36.0)	46.0	78.0	49.3	13.5
Core net profit growth	(33.3)	53.1	62.8	49.3	13.5
<b>Profitability ratios (%)</b>					
EBITDA margin	7.4	10.2	10.8	12.8	13.6
EBIT margin	6.2	8.6	9.8	12.0	12.8
Pretax profit margin	4.9	7.1	9.1	11.4	12.2
Payout ratio	0.0	0.0	20.0	20.0	20.0
<b>DuPont analysis</b>					
Net profit margin (%)	4.2	6.0	8.1	9.7	9.8
Revenue/Assets (x)	1.3	0.9	1.2	1.2	1.2
Assets/Equity (x)	3.5	2.0	1.7	1.7	1.6
ROAE (%)	19.7	15.6	17.7	22.0	20.9
ROAA (%)	5.9	7.0	9.5	12.9	12.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	125.8	136.1	124.4	124.7	130.5
Days receivable outstanding	96.0	93.4	82.9	88.9	93.1
Days inventory outstanding	74.2	113.5	100.9	80.8	84.2
Days payables outstanding	44.4	70.8	59.5	44.9	46.8
Dividend cover (x)	nm	nm	5.0	5.0	5.0
Current ratio (x)	1.3	1.8	2.0	2.0	2.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	2.0	2.4	2.4	2.7
Net gearing (%) (incl perps)	141.1	18.9	29.6	32.9	26.5
Net gearing (%) (excl. perps)	141.1	18.9	29.6	32.9	26.5
Net interest cover (x)	5.7	8.4	14.0	19.1	20.7
Debt/EBITDA (x)	5.1	3.1	2.0	1.5	1.2
Capex/revenue (%)	3.2	9.7	5.3	4.8	3.5
Net debt/ (net cash)	114.0	38.0	71.1	95.9	91.9

Source: Company; Maybank IBG Research

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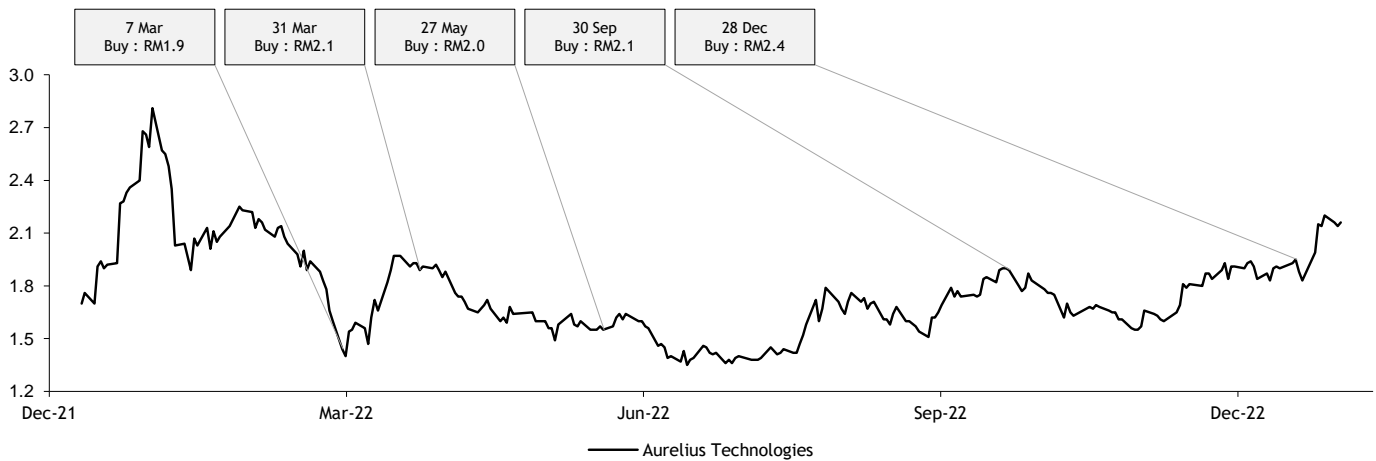
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## Historical recommendations and target price: Aurelius Technologies (ATECH MK)



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