

# Aurelius Technologies (ATECH MK)

## Rebound in 2Q

### Results in-line; maintain BUY

ATECH's 1HFY24 core net profit (CNP) of MYR21.1m came in within our expectations but below consensus, at 45%/32% of our/consensus full-year forecasts. We maintain our forecasts but upgrade our TP to MYR3.13 based on a higher PER of 20x on CY24E earnings (20% above sector's hist. avg. vs. MYR2.61 TP previously based on 17x PER, sector's avg.) as we believe the outlook has turned more positive on end of customer destocking, indicating the local industrial EMS returning to the growth path. ATECH is well-positioned to benefit from supply chain diversification and local E&E FDIs as it advances up the value chain. BUY.

### 1HFY24 CNP of MYR21.1m improved by 68% YoY

ATECH's 1HFY24 revenue declined by 4% YoY to MYR203.7m, primarily due to customers aggressively downsizing their inventories, resulting in lower production volume. However, gross profit margin improved due to a better product mix and favourable forex (stronger USD). CNP improved by 68% YoY, driven by effective cost control and lower finance costs. QoQ, 2Q revenue grew 15% despite operating on 4 days week on volume recovery (from customers ad hoc orders). CNP more than doubled QoQ, as margins rose on better product mix, favourable forex and improved efficiency.

### 1HFY24 segmental performances

Zooming into segmental performances (Fig 2), only the communication and IoT (C&I) segment experienced a decline in sales YoY, down by 10% YoY (dragging the group sales down), while the electronic devices (ED) revenue grew by 19% YoY and semiconductor revenue (SC) surged by 45% YoY. QoQ, 2Q recovery was observed for C&I (sales grew 23% QoQ), partly cushioned the lower sales in ED (-6% QoQ) and SC (-23% QoQ).

### Well positioned in the value chain

Despite near-term challenges in 1HFY24, we maintain a positive outlook on ATECH's growth, forecasting c.30% CAGR in core earnings over the next three years. Headwinds on customer destocking have seen signs of recovery in 2Q, and earnings growth will be further supported by the group's expansion initiatives and acquisition of new customers. The longer-term outlook remains favourable, with ATECH well-positioned to benefit from supply chain relocation and continuing efforts to diversify its customer portfolio and move up the value chain.

FYE Jan (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	367	482	538	694	1,009
EBITDA	37	56	63	89	133
Core net profit	24	41	47	62	89
Core EPS (sen)	6.1	10.5	12.0	15.8	22.6
Core EPS growth (%)	53.1	71.0	14.8	31.2	43.1
Net DPS (sen)	0.9	2.0	6.0	7.9	11.3
Core P/E (x)	35.0	24.8	22.1	16.8	11.8
P/BV (x)	4.2	4.4	3.1	2.9	2.6
Net dividend yield (%)	0.4	0.8	2.3	3.0	4.3
ROAE (%)	15.6	17.2	16.8	17.8	23.0
ROAA (%)	7.0	9.9	10.3	11.2	12.7
EV/EBITDA (x)	23.7	18.9	16.5	12.5	8.9
Net gearing (%) (incl perps)	18.9	19.4	0.6	19.2	33.3
Consensus net profit	-	-	45	60	89
MIBG vs. Consensus (%)	-	-	4.1	4.0	(0.1)

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## BUY

Share Price	MYR 2.65
12m Price Target	MYR 3.13 (+21%)
Previous Price Target	MYR 2.61

### Company Description

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

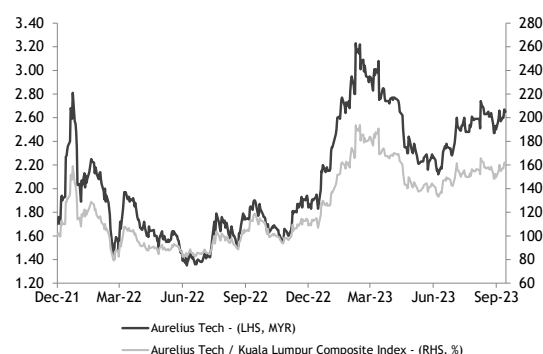
### Statistics

52w high/low (MYR)	3.23/1.55
3m avg turnover (USDm)	0.4
Free float (%)	30.2
Issued shares (m)	394
Market capitalisation	MYR1.0B USD222M

### 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 (%)	1	22	39
Relative to index (%)	3	19	37

Source: FactSet

Figure 1: Aurelius Technologies results summary

FYE Jan (MYR m)	Quarterly					Cumulative		
	2Q24	1Q24	%QoQ	2Q23	%YoY	1H24	1H23	%YoY
Turnover	109.0	94.6	15.2	112.0	(2.6)	203.7	212.7	(4.2)
Gross profit	15.3	7.6	>100	12.3	24.5	22.9	19.8	15.3
EBIT	16.9	6.4	>100	9.3	80.7	23.3	14.5	60.4
Interest expense	(0.4)	(0.4)	6.2	(0.9)	(58.2)	(0.7)	(1.5)	(52.4)
Interest income	1.1	0.9	28.0	0.1	>100	2.0	0.2	>100
Pre-tax profits (ex-Ols)	17.6	6.9	>100	8.5	>100	24.5	13.2	85.9
Pre-tax profits	13.4	8.7	54.8	8.4	60.1	22.1	12.8	73.0
Tax	(2.9)	(0.6)	>100	(1.3)	>100	(3.5)	(0.7)	>100
Net profit	10.6	8.1	30.9	7.1	49.2	18.6	12.1	54.0
Recurring net profit	14.7	6.3	>100	7.2	>100	21.1	12.5	68.2
One-off items (Ols)	4.2	(1.7)	NM	0.1	>100	2.5	0.4	>100
	2Q24	1Q24	+/- ppt	2Q23	+/- ppt	1H24	1H23	+/- ppt
Gross profit margin (%)	14.0	8.0	6.0	11.0	3.1	11.2	9.3	1.9
Net profit (ex-Ols) margin (%)	13.5	6.7	6.8	6.4	7.1	10.3	5.9	4.5
Tax rate (%)	21.3	6.9	14.4	15.6	5.8	15.7	5.2	10.4

Source: Company, Maybank IBG Research

Figure 2: Revenue breakdown

FYE Jan (MYR m)	Quarterly					Cumulative		
	2Q24	1Q24	%QoQ	2Q23	%YoY	1H24	1H23	%YoY
<b>Segmental Revenue</b>	109.0	94.6	15.2	112.0	(2.6)	203.7	212.7	(4.2)
Comm. & IoT Products	90.6	73.6	23.0	93.3	(3.0)	164.2	181.5	(9.6)
Electronics devices	12.6	13.4	(6.3)	13.1	(3.9)	26.0	21.8	19.3
Semiconductor components	5.9	7.6	(22.5)	5.5	6.7	13.5	9.3	44.9
<b>Geographical Revenue</b>								
Malaysia	22.1	16.4	34.7	34.9	(36.5)	38.6	74.2	(48.0)
Americas	61.2	50.7	20.5	54.5	12.2	111.9	97.8	14.4
APAC (ex. Malaysia)	17.9	12.1	48.7	12.1	47.8	30.0	19.0	58.3
Europe	11.1	12.1	(8.0)	10.4	6.4	23.2	21.7	6.8

Source: Company, Maybank IBG Research

## Orderbook resume on the uptrend

As of 18 September 2023, ATECH's orderbook rose to MYR322m (vs. MYR288m as at June 2023). We viewed this positively as it suggests customers are resuming their restocking activities on normalising inventory levels.

Figure 3: EMS peers table

Company	Mkt Cap (MYR'm)	Share Price (LCY)	PER (x)			Hist Avg 5 Yr	P/BV (x) CY23	ROE (%) CY23	CAGR (%) 3Y CNP	PEG (x)
			CY23	CY24	CY25					
V.S. INDUSTRY	3,921	1.02	18.8	15.1	13.1	19.5	1.8	9.3	17%	0.9
ATA IMS	421	0.35	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
SKP RESOURCES	1,555	1.00	12.9	11.5	9.6	15.6	1.7	13.2	5%	2.3
UCHI TECHNOLOGIES	1,580	3.46	16.5	15.7	13.8	14.9	6.9	44.1	-3%	-4.8
PIE INDUSTRIAL	1,144	2.98	16.6	14.9	14.9	17.5	1.9	11.3	3%	4.7
AURELIUS TECHNOLOGIES	1,044	2.65	22.3	17.2	12.1	NA	4.0	16.7	30%	0.5
<b>Simple Average</b>			<b>16.2</b>	<b>14.3</b>	<b>12.9</b>	<b>16.9</b>	<b>3.1</b>	<b>19.5</b>	<b>6%</b>	<b>0.8</b>
<b>Weighted Average</b>			<b>16.1</b>	<b>13.8</b>	<b>12.2</b>	<b>16.7</b>	<b>2.6</b>	<b>16.2</b>	<b>9%</b>	<b>0.5</b>

Source: 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	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
P/E (reported) (x)	38.9	18.5	22.1	16.8	11.8
Core P/E (x)	35.0	24.8	22.1	16.8	11.8
P/BV (x)	4.2	4.4	3.1	2.9	2.6
P/NTA (x)	nm	nm	nm	nm	nm
Net dividend yield (%)	0.4	0.8	2.3	3.0	4.3
FCF yield (%)	nm	0.1	nm	nm	nm
EV/EBITDA (x)	23.7	18.9	16.5	12.5	8.9
EV/EBIT (x)	27.9	22.4	19.6	14.7	10.1
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	367.4	482.4	538.3	694.0	1,008.7
EBITDA	37.2	56.3	63.4	89.0	133.0
Depreciation	(5.6)	(8.7)	(10.0)	(13.0)	(16.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	31.6	47.6	53.4	76.0	116.6
Net interest income / (exp)	(3.6)	(3.3)	(2.3)	(3.0)	(5.5)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(2.1)	(4.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	25.9	40.3	51.2	73.0	111.1
Income tax	(3.9)	(3.0)	(3.9)	(11.0)	(22.2)
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	22.0	37.2	47.3	62.1	88.9
Core net profit	24.1	41.2	47.3	62.1	88.9
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	76.3	48.9	64.3	46.3	80.3
Accounts receivable	90.6	131.8	147.1	189.7	275.7
Inventory	133.5	101.7	112.6	144.0	209.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	84.0	115.4	154.2	198.0	196.6
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	27.0	20.8	22.2	26.2	34.1
<b>Total assets</b>	<b>411.4</b>	<b>418.6</b>	<b>500.4</b>	<b>604.2</b>	<b>795.7</b>
ST interest bearing debt	98.5	72.9	51.5	90.4	168.1
Accounts payable	75.5	73.7	81.6	104.3	151.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	15.9	20.9	14.8	25.9	48.2
Other liabilities	20.0	20.0	20.0	20.0	20.0
<b>Total Liabilities</b>	<b>209.9</b>	<b>187.0</b>	<b>167.4</b>	<b>240.2</b>	<b>387.2</b>
Shareholders Equity	201.4	231.6	333.0	364.0	408.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>201.4</b>	<b>231.6</b>	<b>333.0</b>	<b>364.0</b>	<b>408.4</b>
<b>Total liabilities and equity</b>	<b>411.4</b>	<b>418.6</b>	<b>500.4</b>	<b>604.2</b>	<b>795.7</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	25.9	40.3	51.2	73.0	111.1
Depreciation & amortisation	5.6	8.7	10.0	13.0	16.4
Adj net interest (income)/exp	3.4	3.2	2.3	3.0	5.5
Change in working capital	(18.6)	(9.5)	(19.7)	(55.2)	(111.9)
Cash taxes paid	0.0	0.0	0.0	0.0	0.0
Other operating cash flow	0.7	3.5	0.0	0.0	0.0
Cash flow from operations	11.2	41.0	36.9	19.2	(7.7)
Capex	(33.4)	(39.9)	(48.8)	(56.8)	(15.0)
Free cash flow	(22.2)	1.1	(11.9)	(37.5)	(22.7)
Dividends paid	(0.6)	(7.2)	(23.7)	(31.0)	(44.4)
Equity raised / (purchased)	98.6	0.0	77.7	0.0	0.0
Change in Debt	(19.7)	(14.1)	(27.5)	50.0	100.0
Other invest/financing cash flow	(8.6)	(1.2)	0.7	0.6	1.1
Effect of exch rate changes	(0.0)	(1.3)	0.0	0.0	0.0
Net cash flow	47.5	(22.8)	15.4	(18.0)	34.0

FYE 31 Jan	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	1.5	31.3	11.6	28.9	45.3
EBITDA growth	38.3	51.4	12.6	40.3	49.5
EBIT growth	41.1	50.6	12.3	42.3	53.4
Pretax growth	45.4	55.5	27.0	42.7	52.1
Reported net profit growth	46.0	69.0	27.0	31.2	43.1
Core net profit growth	53.1	71.0	14.8	31.2	43.1
<b>Profitability ratios (%)</b>					
EBITDA margin	10.1	11.7	11.8	12.8	13.2
EBIT margin	8.6	9.9	9.9	11.0	11.6
Pretax profit margin	7.1	8.4	9.5	10.5	11.0
Payout ratio	16.4	21.2	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	6.0	7.7	8.8	8.9	8.8
Revenue/Assets (x)	0.9	1.2	1.1	1.1	1.3
Assets/Equity (x)	2.0	1.8	1.5	1.7	1.9
ROAE (%)	15.6	17.2	16.8	17.8	23.0
ROAA (%)	7.0	9.9	10.3	11.2	12.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	139.8	119.7	116.0	108.7	103.2
Days receivable outstanding	93.4	83.0	93.3	87.3	83.0
Days inventory outstanding	113.5	100.3	82.6	77.3	73.3
Days payables outstanding	67.1	63.6	59.8	56.0	53.1
Dividend cover (x)	6.1	4.7	2.0	2.0	2.0
Current ratio (x)	1.8	1.9	2.4	2.0	1.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.0	2.2	3.0	2.5	2.1
Net gearing (%) (incl perps)	18.9	19.4	0.6	19.2	33.3
Net gearing (%) (excl. perps)	18.9	19.4	0.6	19.2	33.3
Net interest cover (x)	8.7	14.3	23.6	25.3	21.1
Debt/EBITDA (x)	3.1	1.7	1.0	1.3	1.6
Capex/revenue (%)	9.1	8.3	9.1	8.2	1.5
Net debt/ (net cash)	38.0	44.9	2.0	70.0	136.0

Source: Company; Maybank IBG Research

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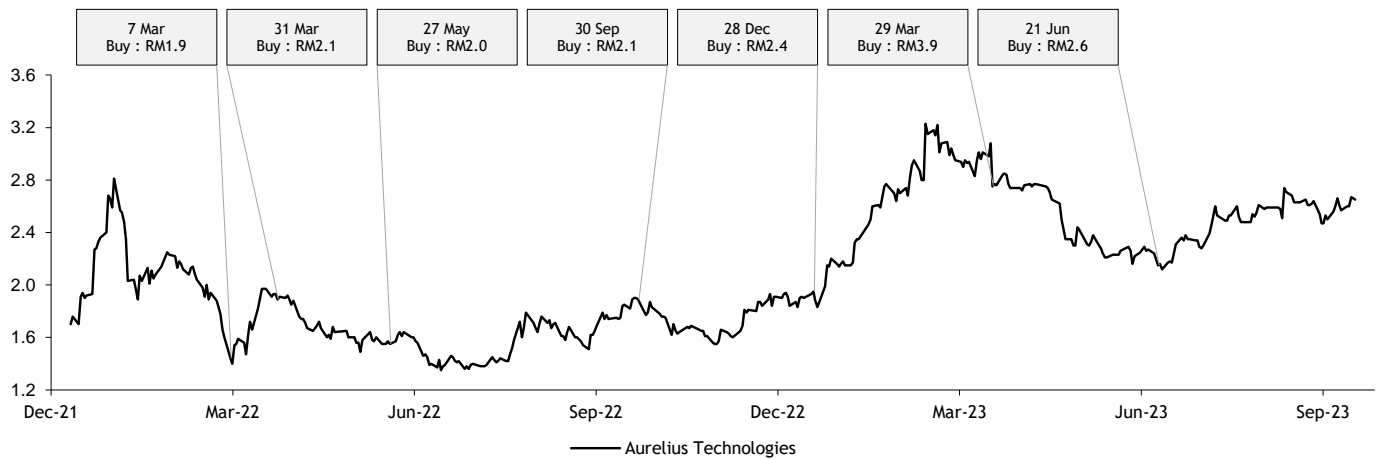
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## Historical recommendations and target price: Aurelius Technologies (ATECH MK)



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