

Aztech Global (AZTECH SP)

Key customer drops orders

Downgrade to HOLD with a lower TP of SGD0.78

Aztech's 3Q24 revenue fell 41% to SGD166.7m and 13.7m, down 41.2% and 55.7% YoY was significantly below ours and consensus estimates mainly due to a drop in order volume received from its key customer in the US. They also expect 4Q24 to likely be slower than 3Q24. This is a key risk which we have previously highlighted and we expected outlook to remain muted in the near term. As a result, we cut our FY 24E and 25E PATMI estimates by 35.8% and 38.9% respectively, resulting in a lower TP of SGD0.78, pegged to a PE of 8x for FY25E. We also downgrade from a BUY to HOLD.

Key risk activated - key customer orders tanked

3Q24's revenue decline of 41.2% YoY was mainly due to lower orders from its key customer in the US which makes up >80% of its revenue. We understand that demand has weakened for its customer which has resulted in the lower orders which Aztech has received. Going forward, orders will also likely to remain low with orderbook only at SGD142m as of 1 Oct 2024. Management also expected 4Q24 to be slower and FY25 to remain flattish.

Dividends likely to be lowered but still attractive

Management declared an interim dividend of SGD0.05 for 1H24, up 66.7% YoY, representing a pay-out ratio of 83% due to its strong cash generation and SGD279m of cash. With profits to decline in FY24E and outlook being muted going forward, we expect dividends to likely decline going forward but still representing an attractive yield of 8.5% for FY24E.

Better to wait for recovery from its key customer

Despite having some new NPIs, we think that it would be more prudent to wait for recovery signs from its key customer which will likely be the main driver of Aztechs profitability going forward. As a result, we downgrade to a HOLD from BUY.

| FYE Dec (SGD m) | FY22A | FY23A | FY24E | FY25E | FY26E |
|------------------------------|----------|----------|----------|----------|----------|
| Revenue | 820 | 896 | 672 | 706 | 741 |
| EBITDA | 143 | 133 | 106 | 111 | 117 |
| Core net profit | 67 | 100 | 71 | 75 | 80 |
| Core EPS (cts) | 8.7 | 12.9 | 9.2 | 9.7 | 10.3 |
| Core EPS growth (%) | (13.2) | 48.9 | (29.1) | 5.9 | 5.9 |
| Net DPS (cts) | 4.5 | 8.0 | 6.4 | 6.8 | 7.2 |
| Core P/E (x) | 9.6 | 7.2 | 8.2 | 7.7 | 7.3 |
| P/BV (x) | 2.3 | 2.1 | 1.6 | 1.5 | 1.4 |
| Net dividend yield (%) | 5.4 | 8.6 | 8.5 | 9.1 | 9.6 |
| ROAE (%) | 23.3 | 31.8 | 19.9 | 19.9 | 19.8 |
| ROAA (%) | 12.7 | 17.6 | 12.0 | 12.1 | 12.2 |
| EV/EBITDA (x) | 3.0 | 3.8 | 3.3 | 2.8 | 2.6 |
| Net gearing (%) (incl perps) | net cash | net cash | net cash | net cash | net cash |
| Consensus net profit | - | - | 71 | 73 | 76 |
| MIBG vs. Consensus (%) | - | - | (0.2) | 3.0 | 4.4 |

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HOLD

[Prior:BUY]

Share Price SGD 0.75
12m Price Target SGD 0.78 (+14%)
Previous Price Target SGD 1.14

Company Description

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

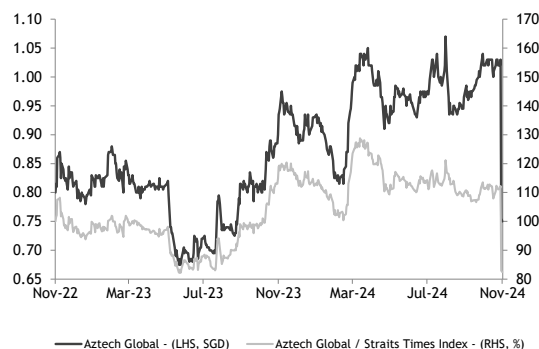
Statistics

52w high/low (SGD) 1.07/0.75
3m avg turnover (USDm) 0.8
Free float (%) 28.8
Issued shares (m) 774
Market capitalisation SGD580.4M
USD439M

Major shareholders:

AVS Investments Pte Ltd. 70.1%
HSBC Global Asset Management (Hong Kong) 1.2%
KWEK FAMILY 0.6%

Price Performance



| | -1M | -3M | -12M |
|-----------------------|------|------|------|
| Absolute (%) | (26) | (28) | (20) |
| Relative to index (%) | (26) | (31) | (31) |

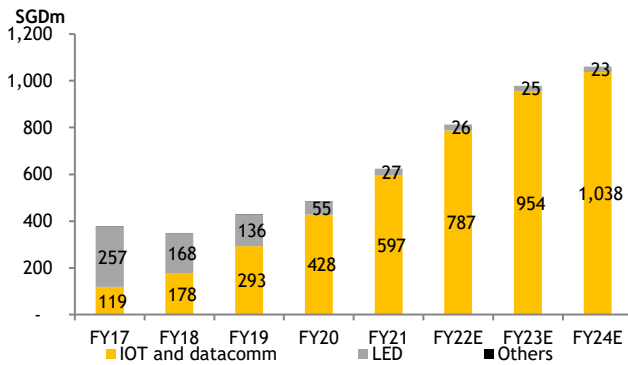
Source: FactSet

ESG@MAYBANK IBG
Tear Sheet Insert

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 medium term.
- We see commoditisation as a key risk to medium to long-term margins, as Aztech's margins are industry leading, and the industry is highly competitive.

IoT, datacomm are the key sales drivers for Aztech's growth

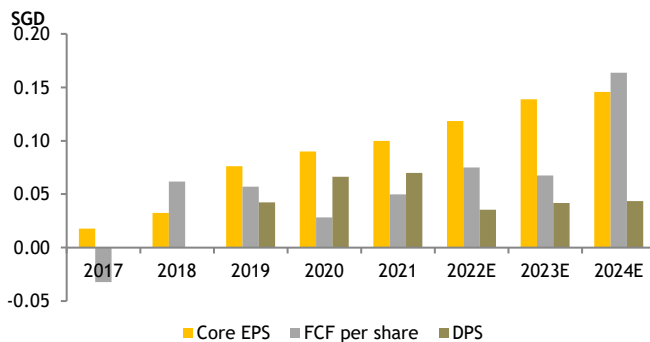


Source: Company, Maybank IBG Research

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 payout assumption of 30%.

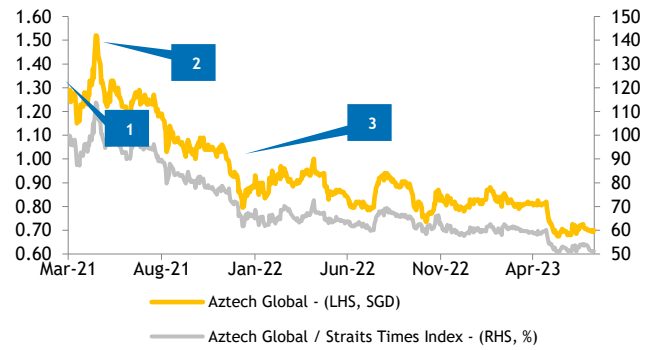
Core EPS, FCF per share and DPS



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

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

| | |
|----------------------------------|----|
| Risk Rating & Score ¹ | na |
| Score Momentum ² | na |
| Last Updated | na |
| Controversy Score ³ | 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 Aztech and stakeholders. Waste management, water conservation and energy efficiency are among factors that are less material.
- Risks exposure include: i) socioeconomic: employees' well-being 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's 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's 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 is focusing on improving energy consumption efficiency through equipment maintenance and use of energy efficient equipment and technology to reduce its carbon footprint. In addition, it has been inculcating electricity conservation through the adoption of energy efficient practices, including the use of natural light and reminder posters to promote electricity conservation.
- In workers' dormitories in Dongguan, heat energy generated by the air-conditioner system is recycled to power the central hot water systems. It also converted all its air-conditioners to energy efficient inverter systems during the year to conserve energy.

Material S issues

- Aztech's workforce is 1,178 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 FY21 amounted to 13,855 hours, while average training hours per employee was 12hours, meeting their FY21 target amid an increase in business activities.
- In FY21, there were 3 minor work injury accidents at its Dongguan operation site, down from 7 in FY20. The rate of injury fell from 0.18 per 100 workers in FY20 to 0.078 per 100 workers in FY21. Investigations of 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.

¹**Risk Rating & Score** - 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. ²**Score Momentum** - 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. ³**Controversy Score** - 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).

| Quantitative Parameters (Score: 44) | | | | | | |
|-------------------------------------|---|-------------------------------|-----------|-----------|-----------|----------------|
| | Particulars | Unit | 2019 | 2020 | 2021 | Venture (2021) |
| E | Scope 1 emissions | tCO2e | NA | NA | NA | 68,061 |
| | Scope 2 emissions | tCO2e | NA | NA | NA | NA |
| | Total | tCO2e | NA | NA | NA | 68,061 |
| | Scope 3 emissions (operational) | tCO2e | NA | NA | NA | NA |
| | Total | tCO2e | NA | NA | NA | 68,061 |
| | GHG intensity (Scope 1 and 2) | kg CO2e/emp | NA | NA | NA | 28.400 |
| | Energy consumption | kWh/unit of sales | NA | 32.21 | 27.08 | 47.70 |
| | Water consumption | m ² /unit of sales | NA | 297.60 | 216.30 | 0.26 |
| | Recycled waste generated | metric tonnes | NA | NA | NA | NA |
| S | % of women in workforce | % | NA | 41.0% | 49.0% | 55.1% |
| | Economic value generated and distributed | SGD'000 | 47 | 56 | 74 | 312,322 |
| | Average training hours per female executive | % | NA | NA | NA | 51.1 |
| | New employees hired by gender (women) | % | NA | 36.0% | 47.0% | 54.0% |
| | Total training hours | % | 0 | 16362 | 13855 | 437922 |
| | Key operations assessed for risks related to corruption | % | 100% | 100% | 100% | 100% |
| G | MD/CEO salary as % of reported net profit | % | NA | 4% | 3.9% | 2.41% |
| | Board salary as % of reported net profit | % | NA | 0.11% | 0.29% | 0.27% |
| | Independent directors on the Board | % | 60% | 60% | 67% | 75% |
| | Female directors on the Board | % | 0% | 0% | 17% | 38% |

| Qualitative Parameters (Score: 67) | |
|---|---|
| a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee? | <i>Yes - as of FY21, it has an established framework and a working sustainability committee that reports quarterly to the board.</i> |
| b) Is the senior management team's salary linked to fulfilling ESG targets? | <i>No</i> |
| c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting? | <i>No</i> |
| e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured? | <i>Yes - purchased goods and services (Cat. I) and use of sold products (Cat. II); calculated using Simplified IPCC Tier 1 method.</i> |
| f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? | <i>At all dormitories in Dongguan, heat energy generated by the air-conditioner system is recycled to power the central hot water systems. To prevent and mitigate impact of waste water discharge at its Malaysian facility in Johor, a centralised septic tank system and sewage control was built to remove impurities and waste substances prior to the discharge of water into the public drainage system.</i> |
| g) Does carbon offset form part of the net zero/carbon neutrality target of the company? | <i>Yes. Aztech has joined a growing list of signatories to achieve net-zero carbon emissions by 2040.</i> |

| Target (Score: 67) | | |
|--|--------|----------|
| Particulars | Target | Achieved |
| Net zero carbon by 2040 | 2040 | NA |
| Improve energy consumption intensity by revenue | 10.00% | 15.90% |
| Hire its management team from local communities | 80% | 96% |
| Impact | | |
| NA | | |
| Overall Score: 55 | | |
| As per our ESG matrix, Aztech Global (Aztech SP) has an overall score of 55. | | |

| ESG score | Weights | Scores | Final Score |
|--------------|---------|--------|-------------|
| Quantitative | 50% | 44 | 22 |
| Qualitative | 25% | 67 | 17 |
| Target | 25% | 67 | 17 |
| Total | | | 55 |

Based on our ESG assessment, Aztech has an established framework, internal policies, and tangible medium/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY, especially for carbon emissions. Aztech's overall ESG score is 55, which makes its ESG rating above average in our view (average ESG rating = 50).

Fig 1: Aztech's 3Q24 results performance

| FYE Dec | 2Q24 SGDm | 1Q24 SGDm | 3Q23 SGDm | QoQ (%) | YoY (%) | FYE SGDm | As a % of FYE (%) |
|---------------|--------------|--------------|--------------|------------|------------|-------------|----------------------|
| Revenue | 166.7 | 244.6 | 283.4 | -31.8 | -41.2 | 985.9 | 16.9 |
| Net Profit | 13.7 | 30.8 | 30.9 | -55.5 | -55.7 | 110.5 | 12.4 |
| EBITDA margin | 23.0% | 8.8% | 13.4% | 162.1 | 71.3 | | |
| Net margin | 8.2% | 12.6% | 10.9% | -34.7 | -24.6 | | |

Source: Company, Maybank IBG Research

Fig 2: Changes to earnings estimates

| | FY24E | | | FY25E | | | FY26E | | |
|------------------------|-------|-------|-----------|-------|--------|-----------|-------|--------|-----------|
| | New | Old | Chg (%) | New | Old | Chg (%) | New | Old | Chg (%) |
| Revenue (SGDm) | 672.2 | 985.9 | -31.8 | 705.8 | 1084.5 | -34.9 | 741.1 | 1193.0 | -37.9 |
| Gross profit (SGDm) | 158.9 | 233.0 | -31.8 | 166.8 | 256.4 | -34.9 | 175.2 | 282.0 | -37.9 |
| EBIT (SGDm) | 95.6 | 144.5 | -33.9 | 100.8 | 159.9 | -37.0 | 106.3 | 176.9 | -39.9 |
| EBITDA (SGDm) | 106.0 | 155.0 | -31.6 | 111.2 | 170.4 | -34.7 | 116.7 | 187.3 | -37.7 |
| Core net profit (SGDm) | 70.9 | 110.5 | -35.8 | 75.1 | 122.9 | -38.9 | 79.5 | 136.6 | -41.8 |
| | | | Chg (ppt) | | | Chg (ppt) | | | Chg (ppt) |
| Gross material margin | 23.6% | 23.6% | 0.0 | 23.6% | 23.6% | 0.0 | 23.6% | 23.6% | 0.0 |
| EBITDA margin | 15.8% | 15.7% | 0.0 | 15.8% | 15.7% | 0.0 | 15.8% | 15.7% | 0.1 |

Source: Company, Maybank IBG Research

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 9.9 | 6.3 | 8.2 | 7.7 | 7.3 |
| Core P/E (x) | 9.6 | 7.2 | 8.2 | 7.7 | 7.3 |
| P/BV (x) | 2.3 | 2.1 | 1.6 | 1.5 | 1.4 |
| P/NTA (x) | 2.3 | 2.1 | 1.6 | 1.5 | 1.4 |
| Net dividend yield (%) | 5.4 | 8.6 | 8.5 | 9.1 | 9.6 |
| FCF yield (%) | 13.6 | 11.0 | 10.1 | 16.0 | 11.7 |
| EV/EBITDA (x) | 3.0 | 3.8 | 3.3 | 2.8 | 2.6 |
| EV/EBIT (x) | 3.2 | 4.1 | 3.7 | 3.1 | 2.8 |
| INCOME STATEMENT (SGD m) | | | | | |
| Revenue | 820.2 | 896.3 | 672.2 | 705.8 | 741.1 |
| EBITDA | 142.9 | 132.8 | 106.0 | 111.2 | 116.7 |
| Depreciation | (8.6) | (8.7) | (10.4) | (10.4) | (10.4) |
| Amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 134.3 | 124.1 | 95.6 | 100.8 | 106.3 |
| Net interest income / (exp) | 1.1 | 6.4 | (1.1) | (1.1) | (1.2) |
| Associates & JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other pretax income | (54.7) | (6.8) | (6.8) | (6.8) | (6.8) |
| Pretax profit | 80.7 | 123.7 | 87.7 | 92.9 | 98.4 |
| Income tax | (13.5) | (23.7) | (16.8) | (17.8) | (18.9) |
| 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 | 67.2 | 100.0 | 70.9 | 75.1 | 79.5 |
| Core net profit | 67.2 | 100.0 | 70.9 | 75.1 | 79.5 |
| BALANCE SHEET (SGD m) | | | | | |
| Cash & Short Term Investments | 216.2 | 231.4 | 242.7 | 284.9 | 298.2 |
| Accounts receivable | 197.6 | 200.7 | 204.4 | 221.0 | 225.7 |
| Inventory | 85.2 | 73.9 | 52.6 | 80.3 | 59.3 |
| Reinsurance assets | 5.8 | 2.6 | 2.6 | 2.6 | 2.6 |
| Property, Plant & Equip (net) | 26.6 | 45.8 | 35.4 | 25.0 | 14.6 |
| 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 | 10.9 | 42.7 | 42.7 | 42.7 | 42.7 |
| Total assets | 542.2 | 597.3 | 580.5 | 656.5 | 643.1 |
| ST interest bearing debt | 1.3 | 3.5 | 3.5 | 3.5 | 3.5 |
| Accounts payable | 185.7 | 173.7 | 135.7 | 189.2 | 151.9 |
| Insurance contract liabilities | 1.6 | 2.2 | 2.2 | 2.2 | 2.2 |
| LT interest bearing debt | 3.9 | 13.8 | 13.8 | 13.8 | 13.8 |
| Other liabilities | 65.0 | 59.0 | 59.0 | 59.0 | 59.0 |
| Total Liabilities | 257.4 | 252.3 | 214.3 | 267.8 | 230.5 |
| Shareholders Equity | 284.0 | 344.9 | 366.2 | 388.7 | 412.6 |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total shareholder equity | 284.0 | 344.9 | 366.2 | 388.7 | 412.6 |
| Total liabilities and equity | 541.4 | 597.3 | 580.5 | 656.5 | 643.1 |
| CASH FLOW (SGD m) | | | | | |
| Pretax profit | 80.7 | 123.7 | 87.7 | 92.9 | 98.4 |
| Depreciation & amortisation | 8.6 | 8.7 | 10.4 | 10.4 | 10.4 |
| Adj net interest (income)/exp | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in working capital | (73.8) | (42.5) | (20.4) | 9.3 | (21.0) |
| Cash taxes paid | (10.7) | (14.2) | (16.8) | (17.8) | (18.9) |
| Other operating cash flow | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Cash flow from operations | 95.6 | 83.5 | 60.9 | 94.8 | 69.9 |
| Capex | (8.0) | (4.1) | (2.0) | (2.0) | (2.0) |
| Free cash flow | 87.5 | 79.4 | 58.9 | 92.8 | 67.9 |
| Dividends paid | (61.8) | (34.7) | (49.6) | (52.6) | (55.7) |
| Equity raised / (purchased) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Debt | (11.0) | (8.7) | 0.0 | 0.0 | 0.0 |
| Other invest/financing cash flow | 2.0 | (2.2) | 0.0 | 0.0 | (1.0) |
| Effect of exch rate changes | (2.2) | 1.7 | 0.0 | 0.0 | 0.0 |
| Net cash flow | 14.7 | 35.5 | 9.2 | 40.3 | 11.3 |

| FYE 31 Dec | FY22A | FY23A | FY24E | FY25E | FY26E |
|--|----------|----------|----------|----------|----------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 31.4 | 9.3 | (25.0) | 5.0 | 5.0 |
| EBITDA growth | 57.4 | (7.1) | (20.2) | 5.0 | 5.0 |
| EBIT growth | 66.6 | (7.6) | (23.0) | 5.5 | 5.5 |
| Pretax growth | (5.0) | 53.3 | (29.1) | 5.9 | 5.9 |
| Reported net profit growth | (9.7) | 48.9 | (29.1) | 5.9 | 5.9 |
| Core net profit growth | (9.7) | 48.9 | (29.1) | 5.9 | 5.9 |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 17.4 | 14.8 | 15.8 | 15.8 | 15.8 |
| EBIT margin | 16.4 | 13.8 | 14.2 | 14.3 | 14.3 |
| Pretax profit margin | 9.8 | 13.8 | 13.0 | 13.2 | 13.3 |
| Payout ratio | 51.8 | 61.9 | 70.0 | 70.0 | 70.0 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 8.2 | 11.2 | 10.5 | 10.6 | 10.7 |
| Revenue/Assets (x) | 1.5 | 1.5 | 1.2 | 1.1 | 1.2 |
| Assets/Equity (x) | 1.9 | 1.7 | 1.6 | 1.7 | 1.6 |
| ROAE (%) | 23.3 | 31.8 | 19.9 | 19.9 | 19.8 |
| ROAA (%) | 12.7 | 17.6 | 12.0 | 12.1 | 12.2 |
| Liquidity & Efficiency | | | | | |
| Cash conversion cycle | 40.6 | 27.3 | 44.4 | 44.4 | 44.4 |
| Days receivable outstanding | 92.2 | 80.0 | 108.5 | 108.5 | 108.5 |
| Days inventory outstanding | 43.2 | 41.9 | 44.4 | 44.4 | 44.4 |
| Days payables outstanding | 94.8 | 94.5 | 108.5 | 108.5 | 108.5 |
| Dividend cover (x) | 1.9 | 1.6 | 1.4 | 1.4 | 1.4 |
| Current ratio (x) | 2.1 | 2.4 | 2.9 | 2.6 | 3.1 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 2.1 | 2.4 | 2.7 | 2.5 | 2.8 |
| 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 | 86.1 | 88.1 | 90.3 |
| Debt/EBITDA (x) | 0.0 | 0.1 | 0.2 | 0.2 | 0.1 |
| Capex/revenue (%) | 1.0 | 0.5 | 0.3 | 0.3 | 0.3 |
| Net debt/ (net cash) | (210.9) | (214.1) | (225.4) | (267.6) | (280.9) |

Source: Company; Maybank IBG Research

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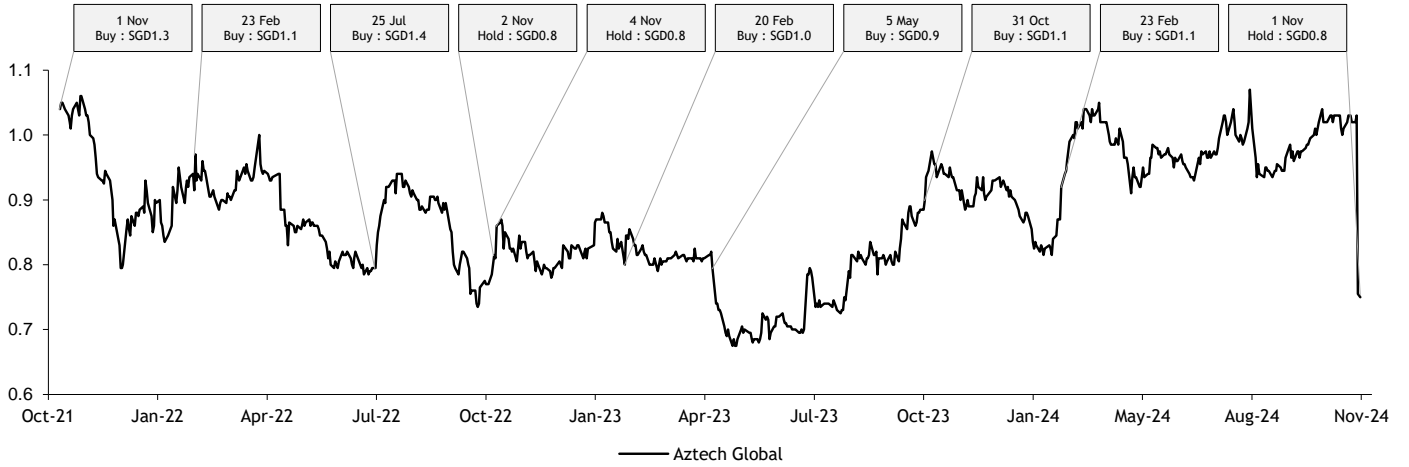
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