

COMPANY RESULTS

Aztech Global (AZTECH SP)

2Q24: Results In Line; Higher Dividend A Positive Signal

Aztech's 2Q24 earnings of S\$31m (+4% yoy; +94% qoq) is in line with our expectation. IoT devices continued to be the main growth driver, leading to an 8% yoy revenue growth. Orderbook remained healthy at S\$304m as at 30 Jul 24, of which the majority is planned for completion in 2024. Aztech remains focused on growing its competencies, with improved R&D and production capabilities and new products in the pipeline. Maintain BUY with an unchanged target price of S\$1.25.

2Q24 RESULTS

Year to 31 Dec (S\$m)	2024	2023	yoy % chg	1Q24	qoq % chg
Revenue	244.6	227.0	+7.8	128.6	+90.4
PBT	35.7	35.5	+0.6	18.9	+88.9
Effective tax rate (%)	13.7	16.9	(3.2ppt)	15.9	(2.2ppt)
Net profit	30.8	29.5	+4.4	15.9	+93.7
Net margin (%)	12.6	13.0	(0.4ppt)	12.4	+0.2ppt

Source: Aztech Global, UOB Kay Hian

RESULTS

- 2Q24 earnings within expectations.** Aztech Global's (Aztech) 2Q24 net profit of S\$31m (+4% yoy; +94% qoq) is largely in line, bringing 1H24 to form 42% of our full-year estimate. 1H typically forms around 40% of full-year earnings. The better performance was driven by productivity gains from the fulfilment of orders at its manufacturing facilities in Dongguan, China and Johor, Malaysia. While heavy snowstorms in China impacted 1Q24 production, 2Q24 revenue rose 8% yoy and 90% qoq to form 66% of 1H24 revenue of S\$373m (-4% yoy).
- Orderbook remains healthy.** Orderbook fell 33% to S\$304m as at 30 Jul 24 vs S\$456m as at 23 Apr 24. Order lead time has normalised to around three months after the COVID-19 pandemic, and majority of the orderbook is scheduled for completion in 2024. We remain optimistic on its healthy orderbook as it indicates revenue growth.
- Higher interim dividend of 5.0 S cents proposed.** Aztech also declared a dividend of 5.0 S cents per share, a 67% increase from 3.0 S cents per share in 1H23. This amounts to S\$39m or about 83% payout ratio (vs 54% in 1H23). To recap, Aztech targets at least 30% dividend payout ratio.
- Cautiously optimistic on 2024 business outlook.** As the macroenvironment remains uncertain with trade wars, heightened international tensions and increased competition, Aztech remains cautious on its outlook. It continues to leverage its strong balance sheet and healthy net cash position of S\$274m as at 30 Jun 24 (around 35% of market cap) to strengthen its competencies.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	820	896	964	1,014	1,069
EBITDA	142	126	136	146	144
Operating profit	134	118	125	134	144
Net profit (rep./act.)	67	100	108	115	123
Net profit (adj.)	67	100	108	115	123
EPS (S\$ cents)	8.7	13.0	13.9	14.9	16.0
PE (x)	11.7	7.9	7.3	6.8	6.4
P/B (x)	2.8	2.3	2.0	1.8	1.6
EV/EBITDA (x)	3.4	3.9	3.6	3.4	3.4
Dividend yield (%)	4.4	7.8	8.3	8.8	9.3
Net margin (%)	8.2	11.2	11.2	11.4	11.5
Net debt/(cash) to equity (%)	(67.1)	(62.1)	(76.1)	(92.1)	(100.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	23.3	31.8	29.2	27.6	26.3
Consensus net profit	-	-	109	116	126
UOBKH/Consensus (x)	-	-	0.99	0.99	0.98

Source: Aztech, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.02
Target Price	S\$1.25
Upside	+23.0%

COMPANY DESCRIPTION

Aztech Global is an electronics manufacturer with 34 years of proven track record in adapting to evolving trends and transforming from an OEM into a full-fledged manufacturer.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	AZTECH SP
Shares issued (m):	772.0
Market cap (S\$m):	787.4
Market cap (US\$m):	585.8
3-mth avg daily t'over (US\$m):	0.6

Price Performance (%)

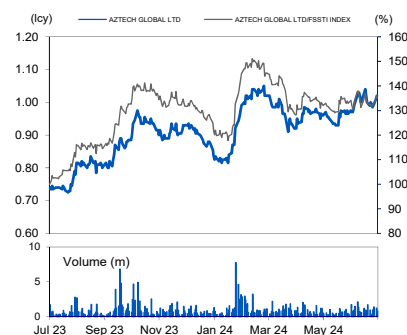
52-week high/low	S\$ 1.05/S\$ 0.725			
1mth	3mth	6mth	1yr	YTD
5.7	10.9	22.2	30.8	9.7

Major Shareholders

Mun Hong Yew	70.3%
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FY24 NAV/Share (S\$)	0.51
FY24 Net Cash/Share (S\$)	0.39

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Strengthening R&D, technologies and manufacturing capabilities.** During the quarter, Aztech grew its R&D headcount by 11% to improve its R&D capabilities. It has also implemented the Manufacturing Execution System. This is a comprehensive, dynamic software system that will streamline the workflow of its surface mount technology electronics assembly lines to increase operational efficiency, production yield and quality, and is expected to be completed in 3Q24. On top of this, Aztech has further integrated its IoT and AI capabilities across market segments like security, consumer and communication to tap on growth opportunities.
- Expanding offerings at Pasir Gudang facility.** Aztech has commenced the setting up of plastic injection machines at its Johor plant, with completion expected in 3Q24 and production to commence in 4Q24. The new plastic production capabilities are expected to better position Aztech as an integrated manufacturing solutions provider, and further grow and diversify its customer base.
- New products in tow.** Aztech has successfully onboarded new customers and increased its customer engagement with new products upcoming. Eight new products from the communication, consumer and health-tech segments are in the pipeline, of which three have commenced commercial production. The remaining five are scheduled to commence production by end-24. Aztech remains committed to effectively engaging new and existing customers to drive new product activities.

EARNINGS REVISION/RISK

- We maintain our earnings forecasts.

VALUATION/RECOMMENDATION

- Maintain BUY with a target price of S\$1.25**, pegged to an unchanged 9x 2024F EPS. This is based on 0.5SD above Aztech's long-term mean PE, in recognition of Aztech's resilient growth track record and decent dividend payout ratio of 62% in 2024. We also continue to like Aztech as it is a proxy to high-growth IoT products, for which we believe orders will continue to grow this year.

SHARE PRICE CATALYST

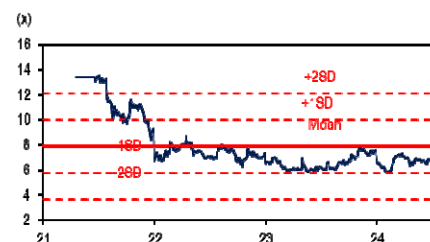
- Steady order wins.
- Better-than-expected forex gain and cost management.
- Dividend surprise.

PEER COMPARISON

Company	Ticker	Price @ 30 Jul 24 (1cy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA 2024 (x)	ROE 2024 (%)	Yield 2024 (%)
				2024 (x)	2025 (x)	2024 (x)	2025 (x)			
Singapore Peers										
AEM	AEM SP	1.68	391	25.5	12.1	1.1	1.0	12.5	4.3	1.0
Frencken	FRKN SP	1.28	407	12.5	11.4	1.3	1.2	7.0	10.4	2.4
Fu Yu	FUYU SP	0.124	70	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
UMS	UMSH SP	1.11	587	17.5	15.8	1.9	1.9	9.8	11.6	5.2
Valuetronics	VALUE SP	0.635	193	9.0	8.4	1.0	1.0	1.4	11.9	7.0
Venture Corp	VMS SP	14.96	3,230	15.6	15.0	1.5	1.5	9.8	9.8	5.0
Average				16.0	12.5	1.4	1.3	8.1	9.6	4.1
Malaysia Peers										
V.S. Industry	VSI MK	1.19	997	28.3	18.6	1.9	1.8	13.0	7.8	1.6
ATA IMS	AIB MK	0.47	122	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Skp Resources	SKP MK	1.16	393	15.1	12.3	1.8	1.7	8.3	12.9	3.5
Average				21.7	15.5	1.9	1.8	10.7	10.3	2.6
Aztech	AZTECH SP	1.02	586	7.3	6.8	2.0	1.8	4.2	29.2	8.3

Source: Bloomberg, UOB Kay Hian

LONG-TERM FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	896.3	964.2	1,014.4	1,069.4
EBITDA	126.3	136.1	145.8	143.9
Deprec. & amort.	8.7	11.2	11.4	0.0
EBIT	117.6	124.9	134.4	143.9
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	6.4	8.2	8.1	8.6
Pre-tax profit	123.7	133.1	142.5	152.5
Tax	(23.7)	(25.5)	(27.3)	(29.2)
Minorities	0.0	0.0	0.0	0.0
Net profit	100.0	107.6	115.2	123.3
Net profit (adj.)	100.0	107.6	115.2	123.3

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	83.5	75.4	146.4	131.9
Pre-tax profit	123.7	133.1	142.5	152.5
Tax	(22.3)	(23.2)	(26.1)	(27.9)
Deprec. & amort.	8.7	11.2	11.4	11.6
Working capital changes	(8.2)	(45.7)	18.6	(4.2)
Non-cash items	(18.5)	0.0	0.0	0.0
Investing	(6.2)	39.7	(5.0)	(3.0)
Capex (growth)	(4.3)	(12.0)	(12.0)	(12.0)
Proceeds from sale of assets	0.2	0.0	0.0	0.0
Others	(2.2)	51.7	7.0	9.0
Financing	(43.5)	(75.9)	(66.0)	(69.3)
Dividend payments	(34.7)	(61.8)	(65.6)	(69.5)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	(9.1)	(13.3)	0.5	0.6
Others/interest paid	0.4	(0.8)	(0.9)	(0.4)
Net cash inflow (outflow)	33.8	39.2	75.4	59.6
Beginning cash & cash equivalent	196.0	231.4	302.9	411.5
Changes due to forex impact	1.7	32.3	33.3	33.3
Ending cash & cash equivalent	231.4	302.9	411.5	504.4

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	44.8	45.6	46.2	46.7
Other LT assets	1.0	0.0	0.0	0.0
Cash/ST investment	231.4	302.9	411.5	504.4
Other current assets	320.0	360.8	351.1	368.9
Total assets	597.3	709.4	808.8	920.0
ST debt	3.5	4.0	4.5	5.1
Other current liabilities	223.7	268.2	274.9	287.8
LT debt	13.8	0.0	0.0	0.0
Other LT liabilities	11.4	44.6	87.2	131.1
Shareholders' equity	344.9	392.6	442.2	496.0
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	597.3	709.4	808.8	920.0

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	14.1	14.1	14.4	13.5
Pre-tax margin	13.8	13.8	14.0	14.3
Net margin	11.2	11.2	11.4	11.5
ROA	17.6	16.5	15.2	14.3
ROE	31.8	29.2	27.6	26.3
Growth				
Turnover	9.3	7.6	5.2	5.4
EBITDA	(11.2)	7.8	7.1	(1.3)
Pre-tax profit	53.3	7.6	7.1	7.1
Net profit	48.9	7.6	7.1	7.1
Net profit (adj.)	48.9	7.6	7.1	7.1
EPS	48.9	7.6	7.1	7.1
Leverage				
Debt to total capital	4.8	1.0	1.0	1.0
Debt to equity	5.0	1.0	1.0	1.0
Net debt/(cash) to equity	(62.1)	(76.1)	(92.1)	(100.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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