

COMPANY RESULTS

Aztech Global (AZTECH SP)

3Q23: Record-High Earnings Beat Expectations; Moderately Optimistic About Outlook

Aztech's 3Q23 record-high earnings of S\$30.9m (+48.6% yoy/+0.5% qoq) beat our forecast, with 9M23 forming 82% of our full-year estimate. IoT devices continued to be a key growth driver, driving an 11.1% yoy revenue growth. Orderbook remained healthy at S\$322m as of 16 Oct 23, of which the majority is planned for completion in 2023. Amid the volatile environment, the outlook remains cautiously optimistic. Maintain BUY with an 11% higher target price of S\$1.11 after raising our EPS forecasts.

3Q23 RESULTS

Year to 31 Dec (S\$m)	3Q23	3Q22	yoy % chg	2023	qoq % chg
Revenue	283.4	242.4	+16.9	227.0	+24.8
PBT	43.7	26.2	+66.8	35.5	+23.1
PBT margin (%)	15.4	10.8	+4.6ppt	15.6	-0.2ppt
Net profit	30.9	20.8	+48.6	29.5	+0.5
Net margin (%)	10.9	8.6	+2.3ppt	13.0	-2.1ppt

Source: Aztech Global, UOB Kay Hian

RESULTS

- 3Q23 earnings above expectations.** Aztech Global's (Aztech) 3Q23 net profit of S\$30.9m (+48.6% yoy/+0.5% qoq) is a record high and exceeded our forecast. 9M23 net profit of S\$73.8m (+15.9% yoy) accounts for 82% of our full-year estimate. The strong results came from a 10.7% yoy growth in revenue, driven by sales of IoT devices and data-communication products. Aztech also enjoyed greater economies of scale, higher interest income and lower net fair value loss on its foreign exchange contracts. Despite higher income tax expenses incurred due to a S\$5.5m one-time deferred tax provision from an overseas subsidiary's retained earnings, Aztech recorded an improvement in net margin to 10.9% (+2.3ppt yoy).
- Orderbook remains resilient with normalised lead time.** Aztech has secured a total of \$322.7m orders as at 16 Oct 23 (vs S\$595m as of 21 Jul 23). Majority of these are scheduled for completion in 2023 across Aztech's manufacturing facilities in Dongguan, China and Johor, Malaysia. Post pandemic, order lead time has normalised from 9-12 months to 2-3 months. Aztech continues to actively engage its customers and suppliers to manage forecasts and component requirements.
- Moderately optimistic on business outlook.** As the external environment remains volatile and fraught with geopolitical tensions, Aztech remains cautiously optimistic about its near-term business prospects. The operating environment remains challenging with higher interest rates, inflationary cost pressures and foreign currency fluctuations. Aztech continues to strengthen its balance sheet, with net cash of S\$215.4m as at end-Sep 23 (32.6% of market cap), and stringent cost and foreign exchange management.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	624	820	875	904	921
EBITDA	91	142	127	135	139
Operating profit	81	134	116	128	131
Net profit (rep./act.)	74	67	95	105	107
Net profit (adj.)	74	67	95	105	107
EPS (S\$ cents)	10.0	8.7	12.3	13.5	13.8
PE (x)	8.6	9.8	7.0	6.3	6.2
P/B (x)	2.2	2.3	1.8	1.5	1.4
EV/EBITDA (x)	4.3	2.7	3.1	2.9	2.8
Dividend yield (%)	5.8	5.3	6.5	7.1	7.3
Net margin (%)	11.9	8.2	10.9	11.6	11.6
Net debt/(cash) to equity (%)	(63.8)	(74.3)	(73.5)	(83.6)	(95.2)
Interest cover (x)	134.2	n.a.	217.3	640.6	1,042.4
ROE (%)	44.5	23.3	29.1	26.3	23.4
Consensus net profit	-	-	91	101	105
UOBKH/Consensus (x)	-	-	1.04	1.04	1.02

Source: Aztech Global, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.855
Target Price	S\$1.11
Upside	+29.9%
(Previous TP)	S\$1.00

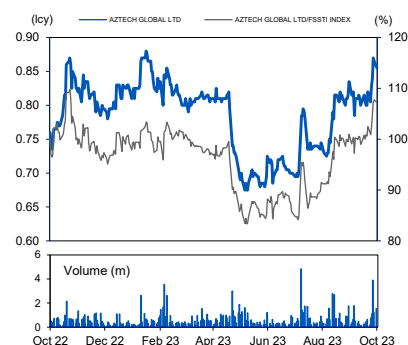
COMPANY DESCRIPTION

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):	660.0			
Market cap (US\$m):	481.8			
3-mth avg daily t'over (US\$m):	0.5			
Price Performance (%)				
52-week high/low	S\$ 0.880/S\$ 0.675			
1mth	3mth	6mth	1yr	YTD
2.4	22.1	5.6	12.5	3.0
Major Shareholders				
Azventure Investments				
-				
-				
FY23 NAV/Share (S\$)				
0.48				
FY23 Net Cash/Share (S\$)				
0.35				

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- New Pasir Gudang Facility commences production.** After the acquisition of the 300,000sf Pasir Gudang Facility was completed in Apr 23, Aztech commenced production in 3Q23. With this and its other facilities in Malaysia and China, Aztech's total production requirements are met. The additional capacity at Pasir Gudang has lifted Aztech's total manufacturing built-up area to 846,000sf for growth and for production diversification to meet the needs of customers.
- New product line to capture market growth.** On 28 Aug 23, management announced its vision technology product line launch under its Kyla brand. The two new products are power-over-Ethernet internet protocol (IP) CCTV, which targets Singapore's pre-school educational segment, and digital microscope. Aztech intends to launch these products overseas by end-23. According to Verified Market Research, the video surveillance market is projected to reach US\$157.1b by 2030 (7-year CAGR of 12.9%). This portfolio allows Aztech to capture market demand for high quality vision technology at an opportune time. Aztech's new product line is therefore likely to contribute to earnings growth moving forward.

EARNINGS REVISION/RISK

- We have raised our 2023/24/25 revenue forecasts by 3%/5%/5%**, on the back of its better-than-expected results and steady orderbook. Accordingly, our net profit estimates are increased by 5%/7%/7% for the same period.

VALUATION/RECOMMENDATION

- Maintain BUY and 11% higher target price of S\$1.11**, pegged to 8.2x 2024F EPS. This is based on Aztech's long-term mean PE. We have rolled over our valuation base year to 2024. We continue to like Aztech as it is a proxy to high-growth IoT products, for which we believe orders will continue to grow in 2024.

SHARE PRICE CATALYST

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

PEER COMPARISON

Company	Ticker	Price @ 16 Oct 23 (lcy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA 2023 (x)	ROE 2023 (%)	Yield 2023 (%)
				2023 (x)	2024 (x)	2023 (x)	2024 (x)			
Singapore Peers										
AEM	AEM SP	3.57	911	805	n.a.	12.5	2.3	2.0	0.2	0.0
Frencken	FRKN SP	1.15	284	359	19.2	11.8	1.2	1.1	6.5	1.6
Fu Yu	FUYU SP	0.129	102	71	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
UMS	UMSH SP	1.31	555	641	14.7	11.3	2.4	2.2	17.0	4.1
Valuetronics	VALUE SP	0.525	170	158	9.5	8.6	0.9	0.8	9.7	4.2
Venture Corp	VMS SP	12.07	3,196	2,562	12.5	12.0	1.2	1.2	9.8	6.2
Average					13.9	11.3	1.6	1.5	8.6	3.2
Malaysia Peers										
V.S. Industry	VSI MK	0.965	732	785	20.1	15.8	1.7	1.6	8.5	2.1
ATA IMS	AIB MK	0.335	66	85	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Skp Resources	SKP MK	0.98	315	323	13.6	10.8	1.6	1.5	12.8	3.8
Average					16.9	13.3	1.7	1.5	10.6	2.9
Aztech	AZTECH SP	0.855	407	482	7.3	6.8	1.8	1.6	27.8	6.1

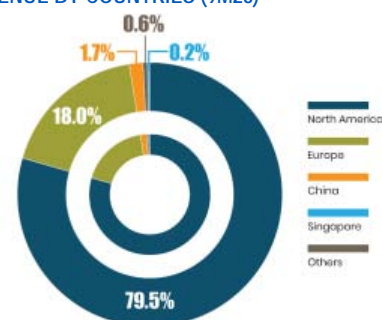
Source: Bloomberg, UOB Kay Hian

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

REVENUE BY COUNTRIES (9M23)



Source: Aztech

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	820.2	875.3	904.1	920.7
EBITDA	142.3	126.7	134.9	138.8
Deprec. & amort.	8.6	10.3	6.9	8.1
EBIT	133.7	116.4	128.0	130.6
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	1.1	(0.6)	(0.2)	(0.1)
Pre-tax profit	80.7	115.8	127.8	130.5
Tax	(13.5)	(20.9)	(23.0)	(23.5)
Minorities	0.0	0.0	0.0	0.0
Net profit	67.2	95.0	104.8	107.0
Net profit (adj.)	67.2	95.0	104.8	107.0

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	95.6	56.3	112.2	134.7
Pre-tax profit	80.7	115.8	127.8	130.5
Tax	(10.9)	(13.4)	(20.9)	(23.0)
Deprec. & amort.	8.6	10.3	6.9	8.1
Working capital changes	38.8	(56.4)	(1.6)	19.1
Non-cash items	(21.7)	0.0	0.0	0.0
Investing	(6.0)	(1.1)	(12.0)	(14.0)
Capex (growth)	(8.3)	(12.0)	(12.0)	(12.0)
Proceeds from sale of assets	0.2	0.0	0.0	0.0
Others	2.0	10.9	0.0	(2.0)
Financing	(72.7)	(15.7)	(45.5)	(50.2)
Dividend payments	(61.8)	(11.6)	(45.6)	(50.3)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	(9.1)	(3.5)	0.3	0.3
Others/interest paid	(1.9)	(0.6)	(0.2)	(0.1)
Net cash inflow (outflow)	16.8	39.4	54.7	70.5
Beginning cash & cash equivalent	201.5	216.2	273.2	360.1
Changes due to forex impact	(2.2)	17.6	32.3	33.3
Ending cash & cash equivalent	216.2	273.2	360.1	464.0

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	25.8	27.5	32.6	36.4
Other LT assets	0.0	0.0	0.0	0.0
Cash/ST investment	216.2	273.2	360.1	464.0
Other current assets	299.5	390.3	380.0	375.6
Total assets	541.4	691.0	772.7	876.0
ST debt	1.3	1.8	2.0	2.3
Other current liabilities	249.9	301.6	292.1	305.3
LT debt	3.9	0.0	0.0	0.0
Other LT liabilities	2.2	18.4	50.1	83.3
Shareholders' equity	284.0	369.2	428.4	485.1
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	541.4	691.0	772.7	876.0

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	17.3	14.5	14.9	15.1
Pre-tax margin	9.8	13.2	14.1	14.2
Net margin	8.2	10.9	11.6	11.6
ROA	12.7	15.4	14.3	13.0
ROE	23.3	29.1	26.3	23.4
Growth				
Turnover	31.4	6.7	3.3	1.8
EBITDA	56.6	(10.9)	6.5	2.9
Pre-tax profit	(5.0)	43.5	10.4	2.1
Net profit	(9.7)	41.4	10.4	2.1
Net profit (adj.)	(9.7)	41.4	10.4	2.1
EPS	(13.2)	41.4	10.4	2.1
Leverage				
Debt to total capital	1.8	0.5	0.5	0.5
Debt to equity	1.9	0.5	0.5	0.5
Net debt/(cash) to equity	(74.3)	(73.5)	(83.6)	(95.2)
Interest cover (x)	n.a.	217.3	640.6	1,042.4

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