

COMPANY RESULTS

Aztech Global (AZTECH SP)

2Q22: Earnings Beat Due To Higher Productivity; Orderbook Remains Healthy

Aztech's 2Q22 net profit of S\$29m (+79% yoy / +109% qoq) is above our forecast due to stronger production volume in the absence of production disruption. IoT devices continued to be a key growth driver, which drove revenue growth of 77% yoy. Orderbook grew 16% to S\$827m as at 25 Jul 22 vs S\$713m as at 18 Apr 22; S\$450m is planned for completion in 2H22, indicating a strong 2H22. Also, Aztech is optimistic on its outlook. Maintain BUY with a 6% lower target price of S\$1.46.

2Q22 RESULTS

Year to 31 Dec (\$m)	2Q22	2Q21	yoy % chg	1Q22	qoq % chg
Revenue	236.6	133.7	+77.0	128.0	+84.8
PBT	34.5	18.4	+87.5	15.9	+117.0
PBT margin (%)	14.6	13.8	+0.8ppt	12.4	+2.2ppt
Net profit	29.0	16.2	+79.0	13.9	+108.6
Net margin (%)	12.3	12.1	+0.2ppt	10.8	+1.5ppt

Source: Aztech Global, UOB Kay Hian

RESULTS

- 2Q22 earnings beat due to stronger productivity in the absence of production disruption.** Aztech Global's (Aztech) 2Q22 net profit of S\$29m (+79% yoy/+109% qoq) is above our forecast of S\$18m due to productivity and operational efficiency gains arising from fulfilment of critical mass orders at its manufacturing facilities in Dongguan, China and Johor, Malaysia. The strong results were also aided by efficient coordination of components availability, execution and delivery of customer orders. To recap, manufacturing operations in Dongguan were suspended from 15-20 Mar 22 to support the testing for COVID-19 and prevention of the further spread of COVID-19 infection.
- Orderbook remains strong with three-pronged component management approach for component tightness.** Orderbook remains strong as it grew 16% to S\$827m as at 25 Jul 22 vs S\$713m as at 18 Apr 22; S\$450m is planned for completion in 2H22, indicating a strong 2H22. Also, Aztech is continuing with a three-pronged approach to manage component tightness: a) actively collaborate with customers on design changes to use alternative components, b) leveraging close working relations with suppliers, and c) expanding base of alternative suppliers.
- Optimistic on 2022 business outlook.** With several mitigation measures and growth focuses in place to fortify its business resiliency, Aztech expects its operations to benefit from: a) a long-term global demand for IoT and data communication products, b) strong orderbook secured, and c) robust balance sheet to support growth.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	484	624	766	954	1,063
EBITDA	80	91	122	154	175
Operating profit	72	81	108	134	151
Net profit (rep./act.)	56	74	90	113	127
Net profit (adj.)	56	74	90	113	127
EPS (\$ cents)	9.0	10.0	11.7	14.6	16.4
PE (x)	8.8	8.0	6.8	5.4	4.8
P/B (x)	11.8	2.0	1.8	1.5	1.2
EV/EBITDA (x)	4.0	3.5	2.6	2.1	1.8
Dividend yield (%)	2.5	6.3	6.6	8.3	9.3
Net margin (%)	11.5	11.9	11.8	11.8	12.0
Net debt/(cash) to equity (%)	51.8	(63.8)	(85.2)	(81.0)	(92.3)
Interest cover (x)	69.2	134.2	94.4	235.1	264.0
ROE (%)	173.3	44.5	28.2	29.4	27.8
Consensus net profit	-	-	86	104	116

Source: Aztech Global, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.795
Target Price	S\$1.46
Upside	+83.4%
(Previous TP)	S\$1.55)

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 (\$m):	613.7
Market cap (US\$m):	443.1
3-mth avg daily t'over (US\$m):	0.4
Price Performance (%)	
52-week high/low	S\$ 1.27/S\$ 0.785

1mth	3mth	6mth	1yr	YTD
(1.2)	(15.4)	(8.1)	(35.9)	(9.1)

Major Shareholders	%
Aztech Group Ltd.	70.2
-	-
-	-
FY22 NAV/Share (\$)	0.45
FY22 Net Cash/Share (\$)	0.38

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Commitment to 2022 focus areas.** Aztech is committed to fortifying its business resiliency through five key focuses to pivot growth and diversification across multiple sectors powered by the IoT trend. The five key focus areas are: a) target to achieve 10% of 2022 revenue from new customers and widen its portfolio of high-quality customers, b) deepen IoT expertise and capabilities in anticipation of new demand, including the expansion of manufacturing capacity with a green facility outside of China, c) optimise factors of production and output through application of data analytics, d) integrate sustainability into its business model and strategic formulation to future-proof business resiliency, and e) maintain healthy gross debt/equity ratio of $\leq 20\%$ and ensure adequacy of financial resources for operational and expansion needs.

EARNINGS REVISION/RISK

- We have kept our financial estimates unchanged.

VALUATION/RECOMMENDATION

- **Maintain BUY and with a 6% lower target price of S\$1.46**, pegged to 12.5x 2022F earnings (reduced from 13.3x previously due to derating in peers' valuation), which is still based on the Singapore and Malaysia peers' average. We continue to like Aztech as the proxy to high-growth IoT products, where we believe orders are starting to ramp up in 2022 and would sustain into 2023.

SHARE PRICE CATALYST

- More order wins.
- Better-than-expected cost management.
- Earnings or dividend surprise.

PEER COMPARISON

Company	Ticker	Price @ 25 Jul 22 (lcy)	Market Cap (US\$m)	PE			P/B 2022 (x)	EV/EBITDA 2022 (x)	ROE 2022 (%)	Yield 2022 (%)
				2021 (x)	2022 (x)	2023 (x)				
Singapore Peers										
AEM	AEM SP	4.17	930	13.1	10.9	9.2	2.6	7.3	26.7	2.3
Frencken	FRKN SP	1.18	363	8.6	7.5	6.2	1.2	4.2	16.7	4.0
Fu Yu	FUYU SP	0.26	141	11.1	9.8	9.5	1.0	3.8	11.7	6.2
UMS	UMSH SP	1.15	553	14.4	12.3	12.3	2.5	8.5	21.3	4.3
Valuetronics	VALUE SP	0.54	167	11.7	12.3	11.7	0.9	2.0	7.5	3.2
Venture Corp	VMS SP	17.45	3,663	16.2	14.9	13.7	1.8	10.2	12.3	4.6
Average				12.5	11.3	10.4	1.7	6.0	16.0	4.1
Malaysia Peers										
V.S. Industry	VSI MK	0.96	825	14.6	20.4	13.3	1.6	11.5	8.8	2.3
ATA IMS	AIB MK	0.29	78	n.a.	n.a.	n.a.	0.5	83.9	(4.8)	0.0
Skp Resources	SKP MK	1.59	558	14.6	13.3	11.8	2.7	8.8	21.5	3.8
Average				14.6	16.8	12.6	1.6	34.7	8.5	2.0
Aztech	AZTECH SP	0.795	443	8.0	6.8	5.4	1.8	2.6	28.2	6.6

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	624.4	766.1	954.5	1,062.6
EBITDA	90.8	122.0	153.7	175.3
Deprec. & amort.	10.2	13.8	19.5	24.0
EBIT	80.6	108.3	134.2	151.3
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(0.7)	(1.3)	(0.7)	(0.7)
Pre-tax profit	85.0	107.0	133.5	150.6
Tax	(10.6)	(16.7)	(20.5)	(23.3)
Minorities	0.0	0.0	0.0	0.0
Net profit	74.4	90.2	113.0	127.3
Net profit (adj.)	74.4	90.2	113.0	127.3

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	26.6	32.8	26.3	15.3
Other LT assets	0.0	0.0	0.0	0.0
Cash/ST investment	201.5	310.5	357.4	478.8
Other current assets	290.1	325.2	449.1	481.8
Total assets	518.2	668.5	832.8	975.9
ST debt	11.9	14.1	17.1	20.2
Other current liabilities	208.5	284.7	356.2	388.0
LT debt	2.8	0.0	0.0	0.0
Other LT liabilities	2.0	21.8	39.3	71.1
Shareholders' equity	293.0	347.9	420.3	496.7
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	518.2	668.5	832.8	975.9

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	41.9	145.2	80.6	150.6
Pre-tax profit	85.0	107.0	133.5	150.6
Tax	(15.8)	(10.2)	(16.5)	(20.4)
Deprec. & amort.	10.2	13.8	19.5	24.0
Working capital changes	(40.8)	34.7	(55.9)	(3.7)
Non-cash items	3.3	0.0	0.0	0.0
Investing	(4.1)	(18.3)	(13.0)	(13.0)
Capex (growth)	(4.8)	(20.0)	(13.0)	(13.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.7	1.7	0.0	0.0
Financing	151.9	(39.1)	(38.3)	(48.4)
Dividend payments	(15.3)	(37.2)	(40.6)	(50.9)
Issue of shares	190.7	0.0	0.0	0.0
Loan repayment	(18.3)	(0.6)	2.9	3.1
Others/interest paid	(5.1)	(1.3)	(0.7)	(0.7)
Net cash inflow (outflow)	189.7	87.8	29.3	89.2
Beginning cash & cash equivalent	11.5	201.5	310.5	357.4
Changes due to forex impact	0.3	21.2	17.6	32.3
Ending cash & cash equivalent	201.5	310.5	357.4	478.8

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	14.5	15.9	16.1	16.5
Pre-tax margin	13.6	14.0	14.0	14.2
Net margin	11.9	11.8	11.8	12.0
ROA	18.2	15.2	15.1	14.1
ROE	44.5	28.2	29.4	27.8
Growth				
Turnover	28.9	22.7	24.6	11.3
EBITDA	13.1	34.3	25.9	14.1
Pre-tax profit	27.7	25.9	24.8	12.8
Net profit	33.5	21.3	25.2	12.6
Net profit (adj.)	33.5	21.3	25.2	12.6
EPS	11.0	16.6	25.2	12.6
Leverage				
Debt to total capital	4.8	3.9	3.9	3.9
Debt to equity	5.0	4.1	4.1	4.1
Net debt/(cash) to equity	(63.8)	(85.2)	(81.0)	(92.3)
Interest cover (x)	134.2	94.4	235.1	264.0

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