

COMPANY RESULTS

Aztech Global (AZTECH SP)

3Q22: Earnings In Line With Expectation; Orderbook Remains Solid

Aztech's 3Q22 net profit of S\$21m (+16% yoy/-28% qoq) is in line with our forecast despite a fair value loss on a derivative financial instrument of S\$15m. IoT devices continued to be a key growth driver, driving revenue growth of 55% yoy. Orderbook fell 0.8% to S\$820.5m as at 3 Nov 22 vs S\$827m as at 25 Jul 22; S\$210m is planned for completion in 4Q22, which indicates stability in its orders and 2023 revenue. Maintain BUY with a 6% higher target price of S\$1.05.

3Q22 RESULTS

Year to 31 Dec (\$m)	3Q22	3Q21	yoy % chg	2Q22	qoq % chg
Revenue	242.4	141.1	+71.8	236.6	+2.5
PBT	26.2	20.3	+29.1	34.5	-24.1
PBT margin (%)	10.8	14.4	-3.6ppt	14.6	-3.8ppt
Net profit	20.8	18.0	+15.6	29.0	-28.3
Net margin (%)	8.6	12.8	-4.2ppt	12.3	-3.7ppt

Source: Aztech Global, UOB Kay Hian

RESULTS

- 3Q22 earnings in line with our expectation.** Aztech Global's (Aztech) 3Q22 net profit of S\$20.8m (+16% yoy, -28.3% qoq) is largely in line with our forecast of S\$22m. 9M22 earnings of S\$63.7m (+34.2% yoy) account for 71% of our 2022 estimate. The steady results were aided by efficient coordination of components availability, execution and delivery of customer orders. The increased earnings can be attributed to: a) gains from improving productivity and operational efficiency achieved in fulfilment of critical mass orders, b) cost control measures, and c) an increase in interest income due to higher fixed deposit rate. However, this was partially offset by the fair value loss on financial derivatives totalling S\$15.4m, due to the weakening of renminbi relative to the US dollar.
- Orderbook remains stable with three-pronged component management approach for component tightness.** Orderbook remains resilient amid global uncertainties, declining 0.8% to S\$820.5m as at 3 Nov 22 vs S\$827m as at 25 Jul 22; S\$210m is planned for completion in 4Q22, which indicates stability in its orders. Additionally, Aztech is continuing with a three-pronged approach to manage component tightness: a) it actively collaborates with customers on design changes to use alternative components, b) it leverages close working relations with suppliers, and c) it is expanding its supplier base.
- Optimistic on 2023 business outlook.** With several mitigation measures and growth focuses in place to tighten its forex risk management and maintain its market position, 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) healthy balance sheet to support growth.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	484	624	766	862	959
EBITDA	80	91	122	133	153
Operating profit	72	81	108	114	129
Net profit (rep./act.)	56	74	90	96	108
Net profit (adj.)	56	74	90	96	108
EPS (S\$ cents)	9.0	10.0	11.7	12.4	14.0
PE (x)	9.0	8.1	6.9	6.5	5.8
P/B (x)	12.0	2.1	1.8	1.6	1.3
EV/EBITDA (x)	4.1	3.6	2.7	2.5	2.2
Dividend yield (%)	2.5	6.2	6.5	6.9	7.8
Net margin (%)	11.5	11.9	11.8	11.1	11.3
Net debt/(cash) to equity (%)	51.8	(63.8)	(85.2)	(82.0)	(93.5)
Interest cover (x)	69.2	134.2	94.4	203.9	235.0
ROE (%)	173.3	44.5	28.2	25.5	24.8
Consensus net profit	-	-	88	104	116
UOBKH/Consensus (x)	-	-	1.03	0.92	0.93

Source: Aztech, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.81
Target Price	S\$1.05
Upside	+22.2%
(Previous TP)	S\$0.99

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

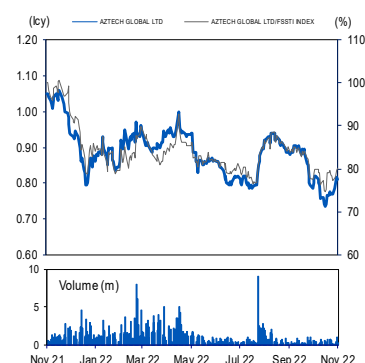
GICS sector	Information Technology
Bloomberg ticker:	AZTECH SP
Shares issued (m):	772.0
Market cap (\$m):	625.3
Market cap (US\$m):	439.9
3-mth avg daily t'over (US\$m):	0.3
Price Performance (%)	

52-week high/low S\$ 1.06/S\$ 0.735

1mth	3mth	6mth	1yr	YTD
3.2	(12.0)	(13.4)	(22.9)	(7.4)

Major Shareholders	%
Aztech Group Ltd.	70.1
-	-
-	-
FY22 NAV/Share (S\$)	0.45
FY22 Net Cash/Share (S\$)	0.38

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Continued focus in 2023.** 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 focuses 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. Despite challenges in the macro environment, Aztech continues to achieve high utilisation rates across its plants in China and Malaysia and maintain its margins.
- **Interim dividend declared.** With its strong balance sheet position, Aztech has distributed a one-tier tax-exempt cash dividend of 3 S cents a share, amounting to S\$23.2m or 36.4% of its 9M22 earnings. This indicates confidence and stability in Aztech's future prospects.

EARNINGS REVISION/RISK

- We reduced our earnings forecast for 2022 by 5% to account for the fair value loss on financial derivatives, due to the weakening of renminbi relative to the US dollar.
- In addition, we have reduced our earnings forecasts for 2023/24 by 15%/15% after reducing our revenue forecasts by 10%/10% to reflect the slower global growth outlook which could affect the future demand for consumer electronic goods.

VALUATION/RECOMMENDATION

- **Maintain BUY with a 6% higher target price of S\$1.05**, pegged to 8.5x 2023F earnings (roll over from 2022). This is based on -1SD of Aztech's long-term mean PE. We continue to like Aztech as it is a proxy to high-growth IoT products, for which we believe orders will continue to ramp up in 2023.

SHARE PRICE CATALYST

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

PEER COMPARISON

Company	Ticker	Price @ 3 Nov 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	3.23	702	10.2	8.3	7.3	2.0	5.6	27.2	3.1
Frencken	FRKN SP	0.85	256	6.2	6.4	5.4	0.9	3.3	14.3	4.7
Fu Yu	FUYU SP	0.205	109	8.8	7.8	7.5	0.8	2.7	11.7	7.8
UMS	UMSH SP	0.905	426	11.4	7.6	7.2	1.8	5.4	26.3	5.5
Valuetronics	VALUE SP	0.47	139	10.0	10.5	9.9	0.8	1.0	7.7	3.8
Venture Corp	VMS SP	16.05	3,289	14.9	13.3	12.5	1.6	9.0	12.6	5.0
Average				10.2	9.0	8.3	1.3	4.5	16.6	5.0
Malaysia Peers										
V.S. Industry	VSI MK	0.825	668	12.5	18.5	12.9	1.4	11.5	8.0	1.5
ATA IMS	AIB MK	0.275	70	n.a.	n.a.	n.a.	0.5	n.a.	(2.6)	0.0
Skp Resources	SKP MK	1.65	544	14.9	13.8	12.1	2.8	8.9	21.7	3.7
Average				13.7	16.1	12.5	1.6	10.2	9.0	1.7
Aztech	AZTECH SP	0.81	440	8.1	6.9	5.5	1.8	2.7	28.2	6.5

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	624.4	766.1	861.7	959.0
EBITDA	90.8	122.0	133.2	152.5
Deprec. & amort.	10.2	13.8	19.5	24.0
EBIT	80.6	108.3	113.7	128.5
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(0.7)	(1.3)	(0.7)	(0.6)
Pre-tax profit	85.0	107.0	113.1	127.9
Tax	(10.6)	(16.7)	(17.4)	(19.8)
Minorities	0.0	0.0	0.0	0.0
Net profit	74.4	90.2	95.7	108.1
Net profit (adj.)	74.4	90.2	95.7	108.1

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	346.8	456.3
Other current assets	290.1	325.2	405.5	434.8
Total assets	518.2	668.5	778.6	906.4
ST debt	11.9	14.1	16.4	19.0
Other current liabilities	208.5	284.7	320.4	348.8
LT debt	2.8	0.0	0.0	0.0
Other LT liabilities	2.0	21.8	38.8	70.7
Shareholders' equity	293.0	347.9	403.0	468.0
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	518.2	668.5	778.6	906.4

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	41.9	145.2	70.7	131.3
Pre-tax profit	85.0	107.0	113.1	127.9
Tax	(15.8)	(10.2)	(16.7)	(17.2)
Deprec. & amort.	10.2	13.8	19.5	24.0
Working capital changes	(40.8)	34.7	(45.2)	(3.3)
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)	(39.0)	(41.1)
Dividend payments	(15.3)	(37.2)	(40.6)	(43.1)
Issue of shares	190.7	0.0	0.0	0.0
Loan repayment	(18.3)	(0.6)	2.2	2.6
Others/interest paid	(5.1)	(1.3)	(0.7)	(0.6)
Net cash inflow (outflow)	189.7	87.8	18.7	77.3
Beginning cash & cash equivalent	11.5	201.5	310.5	346.8
Changes due to forex impact	0.3	21.2	17.6	32.3
Ending cash & cash equivalent	201.5	310.5	346.8	456.3

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	14.5	15.9	15.5	15.9
Pre-tax margin	13.6	14.0	13.1	13.3
Net margin	11.9	11.8	11.1	11.3
ROA	18.2	15.2	13.2	12.8
ROE	44.5	28.2	25.5	24.8
Growth				
Turnover	28.9	22.7	12.5	11.3
EBITDA	13.1	34.3	9.2	14.5
Pre-tax profit	27.7	25.9	5.7	13.1
Net profit	33.5	21.3	6.1	12.9
Net profit (adj.)	33.5	21.3	6.1	12.9
EPS	11.0	16.6	6.1	12.9
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)	(82.0)	(93.5)
Interest cover (x)	134.2	94.4	203.9	235.0

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