

COMPANY RESULTS

Aztech Global (AZTECH SP)

1Q23: Earnings Largely In Line; Outlook Remains Positive

Aztech's 1Q23 earnings after excluding S\$3.1m forex impact is S\$16.5m (+19% yoy) and this is largely in line with our forecast, forming 16% of our full-year estimate. IoT devices continued to be a key growth driver, driving revenue growth of 26% yoy. Orderbook remains healthy at S\$662m as of 4 May 23, of which majority are planned for completion in 2023. The outlook for 2023 remains positive, with Aztech expecting its revenue to grow by double digits. Maintain BUY with a target price of S\$1.00.

1Q23 RESULTS

Year to 31 Dec (S\$m)	1Q23	1Q22	yoy % chg	1Q23 excluding fx impact	yoy % chg
Revenue	161.6	128.0	+26.3	161.6	+26.3
PBT	15.5	15.9	-2.5	15.5	-2.5
Effective tax rate (%)	13.5	12.6	+0.9ppt	13.5	+0.9ppt
Net profit	13.4	13.9	-3.6	16.5	+18.7
Net margin (%)	8.3	10.8	-2.5ppt	10.2	0.6ppt

Source: Aztech Global, UOB Kay Hian

RESULTS

- 1Q23 earnings largely in line with our expectation; respectable core earnings growth of 19% yoy.** Aztech Global's (Aztech) net profit after adjusting for S\$3.1m negative forex impact is S\$16.5m (+19% yoy); this is largely in line with our forecast, forming 16% of our full-year estimate. 1Q typically forms around 18% of full-year earnings. The negative forex impact was mainly due to stronger local currencies at operating locations. IoT devices and data-communication products continued to be a key growth driver, driving revenue growth of 26% yoy. Excluding the forex impact, Aztech's performance benefitted from revenue growth efficiency gains and higher interest income.
- Orderbook remains strong with multi-pronged component management approach for component tightness.** Orderbook remained strong at S\$662m as at 4 May 23 and the majority of these are scheduled for completion in 2023. Additionally, Aztech is continuing with these approaches to manage component tightness: a) to collaborate with customers on alternative components, and b) to expand its supplier base.
- Aztech is cautiously optimistic on its 2023 business outlook, as it expects a double-digit growth in its major customer's revenue.** However, supply chain challenges and inflationary cost pressures could continue into 2023. The tightening of monetary policies by major central banks to contain inflation is expected to soften consumer demand in major markets. While Aztech works on ramping up its new Malaysia operations, it will continue to manage its orderbook by balancing and co-ordinating customer orders across its manufacturing plants to ensure timely and efficient delivery.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	624	820	847	863	878
EBITDA	91	142	121	126	130
Operating profit	81	134	111	119	122
Net profit (rep./act.)	74	67	90	98	100
Net profit (adj.)	74	67	90	98	100
EPS (S\$ cents)	10.0	8.7	11.7	12.6	12.9
PE (x)	8.2	9.4	7.0	6.5	6.4
P/B (x)	2.1	2.2	1.7	1.5	1.3
EV/EBITDA (x)	4.0	2.6	3.0	2.9	2.8
Dividend yield (%)	6.1	5.5	6.4	6.9	7.1
Net margin (%)	11.9	8.2	10.7	11.3	11.4
Net debt/(cash) to equity (%)	(63.8)	(74.3)	(73.8)	(84.0)	(95.6)
Interest cover (x)	134.2	n.a.	207.4	601.1	993.3
ROE (%)	44.5	23.3	27.8	24.9	22.4
Consensus net profit	-	-	105	117	113
UOBKH/Consensus (x)	-	-	0.86	0.84	0.88

Source: Aztech, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$ 0.82
Target Price	S\$ 1.00
Upside	+22.3%
(Previous TP)	S\$ 1.05

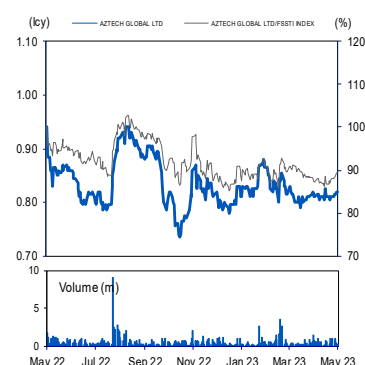
COMPANY DESCRIPTION

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):					633.0
Market cap (S\$m):					476.7
Market cap (US\$m):					633.0
3-mth avg daily t'over (US\$m):					0.4
Price Performance (%)					
52-week high/low					S\$ 0.94/S\$ 0.735
1mth	3mth	6mth	1yr	YTD	
0.0	(5.2)	(4.7)	(12.8)	(1.2)	
Major Shareholders					%
Azventure Investments Ltd.					70.2
-					-
-					-
FY23 NAV/Share (S\$)					0.47
FY23 Net Cash/Share (S\$)					0.33

PRICE CHART



Source: Bloomberg

ANALYST(S)

John Cheong
+65 6590 6623
johncheong@uobkayhian.com

Heidi Mo
+65 6590 6630
heidimo@uobkayhian.com

STOCK IMPACT

- **Focusing on ramping up production at new Pasir Gudang Facility.** After the acquisition of the 300,000sf Pasir Gudang Facility was completed in Apr 23, Aztech is now focusing on ramping up production at the new facility which is expected to commence operations in Jun 23. While continuing to balance and co-ordinate customer orders secured across its manufacturing plants in Dongguan, China and Johor, Malaysia to ensure timely and efficient delivery, Aztech will also continue to engage with customers to grow its portfolio of high quality IoT customers and product offerings to enhance growth resiliency. The establishment of the Pasir Gudang facility in Johor, Malaysia will support Aztech's production diversification strategy for its customers. Being lean and nimble with appropriate cost control measures in place, Aztech remains ready to seize meaningful opportunities amidst the bright prospects of the IoT industry.

EARNINGS REVISION/RISK

- We reduce our earnings forecast for 2023/24/25 by 6%/4%/5% after reducing our gross margin forecasts by 1%/1%/1% to reflect higher operating expenses from inflationary cost pressures and impact of stronger local currencies.

VALUATION/RECOMMENDATION

- **Maintain BUY with a 5% lower target price of S\$1.00**, pegged to an unchanged 8.6x 2023F EPS. This is based on 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 grow in 2023.

SHARE PRICE CATALYST

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

PEER COMPARISON

Company	Ticker	Price @	Market	PE			P/B	EV/EBITDA	ROE	Yield
		4 May 23 (1cy)	Cap (US\$m)	2022 (x)	2023 (x)	2024 (x)	2023 (x)	2023 (x)	2023 (%)	2023 (%)
Singapore Peers										
AEM	AEM SP	3.59	835	8.8	12.9	11.4	2.0	8.0	16.6	1.9
Frencken	FRKN SP	1.02	328	8.4	9.5	9.1	1.0	5.3	11.3	3.2
Fu Yu	FUYU SP	0.21	120	10.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
UMS	UMSH SP	1.04	525	7.1	9.1	7.9	1.8	6.8	20.9	4.8
Valuetronics	VALUE SP	0.505	157	11.0	11.4	9.9	0.8	0.9	7.5	3.5
Venture Corp	VMS SP	17.09	3,743	13.4	13.1	12.5	1.7	8.7	13.0	4.7
Average				9.9	11.2	10.2	1.5	6.0	13.9	3.6
Malaysia Peers										
V.S. Industry	VSI MK	0.815	704	18.6	15.4	12.3	1.4	9.4	9.0	2.8
ATA IMS	AIB MK	0.265	72	n.a.	n.a.	n.a.	0.5	n.a.	(7.4)	0.0
Skp Resources	SKP MK	1.28	449	12.8	12.8	10.3	2.1	8.8	16.9	3.9
Average				15.7	14.1	11.3	1.3	9.1	6.1	2.2
Aztech	AZTECH SP	0.82	476	9.4	7.0	6.5	1.7	3.0	27.8	6.4

Source: Bloomberg, UOB Kay Hian

LONG-TERM FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	820.2	847.2	862.6	878.4
EBITDA	142.3	120.9	126.2	129.9
Deprec. & amort.	8.6	10.3	6.9	8.1
EBIT	133.7	110.6	119.3	121.7
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	110.0	119.1	121.6
Tax	(13.5)	(19.8)	(21.4)	(21.9)
Minorities	0.0	0.0	0.0	0.0
Net profit	67.2	90.2	97.7	99.7
Net profit (adj.)	67.2	90.2	97.7	99.7

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	270.8	353.9	452.9
Other current assets	299.5	377.8	362.5	358.4
Total assets	541.4	676.1	749.0	847.8
ST debt	1.3	1.7	2.0	2.2
Other current liabilities	249.9	291.5	278.2	290.8
LT debt	3.9	0.0	0.0	0.0
Other LT liabilities	2.2	18.3	50.0	83.2
Shareholders' equity	284.0	364.5	418.8	471.7
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	541.4	676.1	749.0	847.8

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	95.6	53.9	106.1	126.6
Pre-tax profit	80.7	110.0	119.1	121.6
Tax	(10.9)	(13.4)	(19.8)	(21.4)
Deprec. & amort.	8.6	10.3	6.9	8.1
Working capital changes	38.8	(53.0)	(0.1)	18.3
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)	(43.3)	(46.8)
Dividend payments	(61.8)	(11.6)	(43.3)	(46.9)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	(9.1)	(3.6)	0.3	0.3
Others/interest paid	(1.9)	(0.6)	(0.2)	(0.1)
Net cash inflow (outflow)	16.8	37.0	50.8	65.8
Beginning cash & cash equivalent	201.5	216.2	270.8	353.9
Changes due to forex impact	(2.2)	17.6	32.3	33.3
Ending cash & cash equivalent	216.2	270.8	353.9	452.9

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	17.3	14.3	14.6	14.8
Pre-tax margin	9.8	13.0	13.8	13.8
Net margin	8.2	10.7	11.3	11.4
ROA	12.7	14.8	13.7	12.5
ROE	23.3	27.8	24.9	22.4
Growth				
Turnover	31.4	3.3	1.8	1.8
EBITDA	56.6	(15.0)	4.3	2.9
Pre-tax profit	(5.0)	36.3	8.2	2.1
Net profit	(9.7)	34.3	8.2	2.1
Net profit (adj.)	(9.7)	34.3	8.2	2.1
EPS	(13.2)	34.3	8.2	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)	(73.8)	(84.0)	(95.6)
Interest cover (x)	n.a.	207.4	601.1	993.3

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W