

COMPANY RESULTS

Aztech Global (AZTECH SP)

1Q24: Earnings In Line With Expectations; Robust Orderbook Drives Optimism

In the face of postponed customer orders from snowstorms in China, Aztech's 1Q24 earnings of S\$15.9m (+19% yoy) are still largely in line with our forecast, forming 15% of our 2024 estimate. IoT devices remain the key revenue contributor, making up 99% of revenue. Orderbook continues to be healthy at S\$456m as of 23 Apr 24, with the majority planned for completion in 2Q24. This indicates a strong 2Q24 and healthy revenue growth for 2024. Maintain BUY with a target price of S\$1.25.

1Q24 RESULTS

Year to 31 Dec (S\$m)	1Q24	1Q23	yoy % chg	1Q24 excluding one-offs	yoy % chg
Revenue	128.6	161.6	(20.4)	128.6	(20.4)
PBT	18.9	15.5	+22.2	18.9	+22.2
Effective tax rate (%)	15.9	13.5	+2.4ppt	15.9	+2.4ppt
Net profit	15.9	13.4	+18.7	12.4	(7.5)
Net margin (%)	12.4	8.3	+4.1ppt	9.6	+1.3ppt

Source: Aztech Global, UOB Kay Hian

RESULTS

- 1Q24 earnings largely in line with expectation despite detriment of heavy snowstorms in China.** Aztech Global's (Aztech) 1Q24 net profit of S\$16m (+19% yoy) is mostly in line with our forecast, forming 15% of our full-year estimate. This benefitted from a foreign exchange gain of S\$2.3m and write-back of S\$1.2m bad debt provision, excluding which core profit would have fallen 7.5% yoy. 1Q traditionally accounts for 18% of full-year earnings. This mainly stems from a 20% yoy fall in 1Q24 revenue, as a result of deferred customer orders due to heavy snowstorms in China. IoT devices and data-communication products remain the key revenue contributor, making up 99% of revenue.
- Robust orderbook with new customer acquisitions.** Aztech's current orderbook stands at S\$456m as at 23 Apr 24 vs S\$334m as at 22 Feb 24, with the majority scheduled for completion in 2Q24 as order lead-time has normalised to two to three months post-pandemic. Aztech remains focused on fulfilling the rescheduled 1Q24 orders of about S\$20m, as well as delivering orders for IoT products from its newly secured customers. We remain optimistic on its outlook with its strong orderbook indicating revenue growth.
- Cautiously optimistic on 2024 business outlook.** While Aztech expects healthy growth in its major customer's revenue, it recognises the need for risk mitigation strategies to maintain business resilience in a volatile environment. Backed by its strong financials, efficient R&D and lean manufacturing capabilities and increased adoption of AI technology, Aztech hopes to expand its IoT and electronics manufacturing service business, as well as its vision technology product line.

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)	10.7	7.2	6.7	6.3	5.9
P/B (x)	2.5	2.1	1.8	1.6	1.5
EV/EBITDA (x)	3.0	3.3	3.1	2.9	2.9
Dividend yield (%)	4.8	8.6	9.1	9.6	10.2
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	-	-	110	120	126
UOBKH/Consensus (x)	-	-	0.98	0.96	0.98

Source: Aztech, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$ 0.935
Target Price	S\$ 1.25
Upside	+34.1%

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):	721.8
Market cap (US\$m):	529.6
3-mth avg daily t'over (US\$m):	0.8

Price Performance (%)

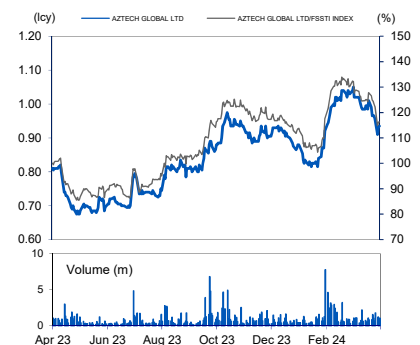
52-week high/low	S\$ 1.05/S\$ 0.675			
1mth	3mth	6mth	1yr	YTD
(9.2)	7.5	8.7	15.4	0.5

Major Shareholders

Azventure Investments Ltd.	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

- **New customers secured with orders coming through in 2Q24.** Aztech has announced two new customer acquisitions: a) a US-based company for sound and light IoT products, and b) a Japanese company for visual IoT display products. Orders from these customers are scheduled to commence production in 2Q24, and Aztech will continue to look for opportunities to grow its customer base.
- **Healthy balance sheet maintained.** Aztech continues to improve its balance sheet, with a healthy operating cash flow of S\$51.1m (+182% yoy) contributing to a strong net cash of S\$302m as at end-Mar 24 (42% of market cap). This is up 21% from S\$249.8m as at end-23.
- **New product line advancing into Singapore's preschool education market.** 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) closed-circuit televisions (CCTV), targeting Singapore's pre-school educational segment, and digital microscopes. With Singapore's CCTV government mandate taking effect from 1 Jul 24, Aztech's IP cameras will likely make further progress into the market. From the latest update, we note that Aztech is currently onboarding preschool chain operators.

EARNINGS REVISION/RISK

- We have kept our forecasts unchanged.

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

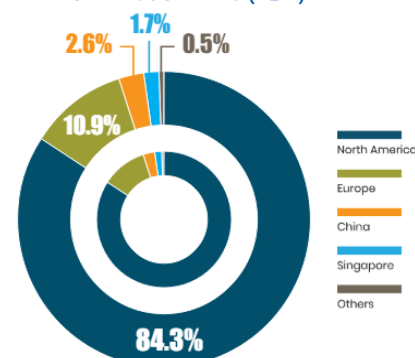
- Steady order wins.
- Better-than-expected forex gain and cost management.
- Interim dividend surprise.

PEER COMPARISON

Company	Ticker	Price @ 23 Apr 24 (1cy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA 2024 (x)	ROE 2024 (%)	Yield 2024 (%)
				2023 (x)	2024 (x)	2023 (x)	2024 (x)			
Singapore Peers										
AEM	AEM SP	2.35	533	n.a.	20.6	1.6	1.5	12.1	7.3	1.2
Frencken	FRKN SP	1.48	464	19.5	14.4	1.6	1.4	8.0	10.4	2.1
Fu Yu	FUYU SP	0.124	69	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.
UMS	UMSH SP	1.3	678	14.5	12.4	2.4	2.1	8.3	18.5	4.5
Valuetronics	VALUE SP	0.575	173	8.5	8.1	1.0	0.9	0.8	11.7	7.8
Venture Corp	VMS SP	14.32	3,048	15.4	14.9	1.5	1.4	9.2	9.8	5.2
Average				14.5	14.1	1.4	1.5	7.7	11.6	4.2
Malaysia Peers										
V.S. Industry	VSI MK	0.88	703	18.9	22.6	1.6	1.4	10.5	6.8	2.2
ATA IMS	AIB MK	0.265	67	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Skp Resources	SKP MK	0.9	294	15.3	12.5	1.5	1.4	6.8	12.2	4.2
Average				17.1	17.5	1.5	1.4	8.7	9.5	3.2
Aztech	AZTECH SP	0.935	530	7.2	6.7	2.1	1.8	3.8	29.2	9.1

Source: Bloomberg, UOB Kay Hian

REVENUE BY COUNTRIES (1Q24)



Source: Aztech Global

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

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

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

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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