

## Aztech Global (AZTECH SP)

# Positive outlook despite speed bump

### Upgrade to BUY; lift our TP to SGD1.02

Aztech reported a dismal FY22, mainly due to a FX contract loss of SGD56.6m which caused NPAT to drop 9.7% YoY to SGD67.2m, way below our and consensus estimates. On the bright side, core business remains strong with its main customer (<80% of orderbook) expected to place 15-20% more orders in FY23E as it continues to benefit from the diversification trend away from China. As a result, we think the worst is over and raise our FY23E and 24E NPAT by 10.4% and 12.4% due to stronger orders despite the current macro environment. We lift our TP to SGD1.02 from SGD0.79 based on a higher 7x FY23E P/E from 6x and upgrade to BUY from HOLD due to the positive outlook.

### All FX losses accounted for in FY22

As 30%+ of its costs are in RMB, Aztech entered a FX contract to hedge against the USD weakening against the RMB. With the strengthening of the USD, it incurred a fair value loss on derivative financial instruments of SGD56.6m. Going forward, management will rely on natural hedging and we should not see such FX derivative losses.

### Orders still strong, especially from key customers

Management expects orders to remain robust, especially from its key customer who is still likely to make 15-20% more orders in FY23E. Its order book stood at SGD718.6m at 17 Feb 2023 with a shorter lead time. We believe that Aztech is benefiting from the on-going trend of diversification away from China. Its utilisation rates at its Dong Guan factory in China and Malaysia is close to 100%, signalling positive quarters ahead.

### Hiccup represents opportunity

Without the FX loss, core NPAT would have been SGD123m, a record year for Aztech. We believe that management will likely engender a strong earnings rebound in FY23E and valuations look to be bottoming at 3.7 ex cash FY23E P/E.

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	624	820	902	964	1,034
EBITDA	91	143	142	151	162
Core net profit	74	67	112	119	127
Core EPS (cts)	10.0	8.7	14.5	15.4	16.4
Core EPS growth (%)	11.0	(13.2)	66.8	6.1	6.6
Net DPS (cts)	7.0	4.5	4.3	4.6	4.9
Core P/E (x)	8.8	9.6	5.5	5.2	4.9
P/BV (x)	2.3	2.3	1.7	1.4	1.2
Net dividend yield (%)	8.0	5.4	5.4	5.8	6.1
ROAE (%)	44.5	23.3	34.7	29.4	25.9
ROAA (%)	18.2	12.7	18.9	17.0	15.8
EV/EBITDA (x)	5.1	3.0	3.0	1.9	1.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	97	108	na
MIBG vs. Consensus (%)	-	-	15.3	10.0	na

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# BUY

[Prior:HOLD]

Share Price SGD 0.80  
12m Price Target SGD 1.02 (+28%)  
Previous Price Target SGD 0.79

### Company Description

Aztech is a key enabler and technology hardware manufacturer for IoT, datacomm and LED electronics products

### Statistics

52w high/low (SGD) 1.00/0.74  
3m avg turnover (USDm) 0.3  
Free float (%) 28.8  
Issued shares (m) 774  
Market capitalisation SGD619.1M  
USD463M

### Major shareholders:

AVS Investments Pte Ltd. 70.1%  
HSBC Global Asset Management (Hong Kong) 1.2%  
KWEK FAMILY 0.6%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(3)	(14)
Relative to index (%)	(4)	(5)	(12)

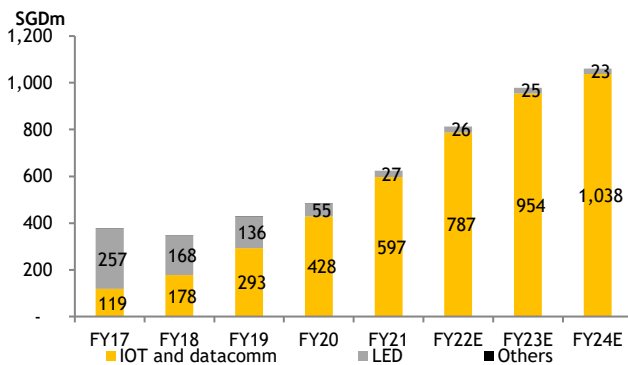
Source: FactSet

ESG@MAYBANK IBG  
Tear Sheet Insert

## Value Proposition

- Technology hardware manufacturer and key enabler for customers in consumer electronics industry.
- Leveraged to strong growth prospects from IoT end-markets through i) new products and customers; and ii) customers' strong position in the market.
- Differentiating factors are strong R&D and design capabilities, on top of strong execution. We believe this can help sustain margins in near-to-mid-term.
- We see commoditisation as a key risk to mid-to-long term margins, as Aztech's margins are industry leading, and the industry is highly competitive.

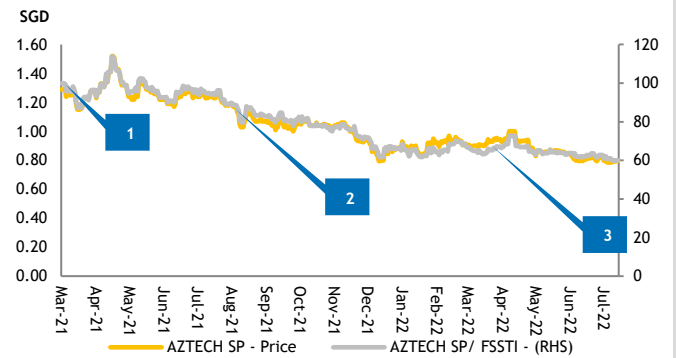
### IoT and datacomm are the key drivers for Aztech's growth



Source: Company, Maybank IBG Research

## Price Drivers

### Historical share price trend



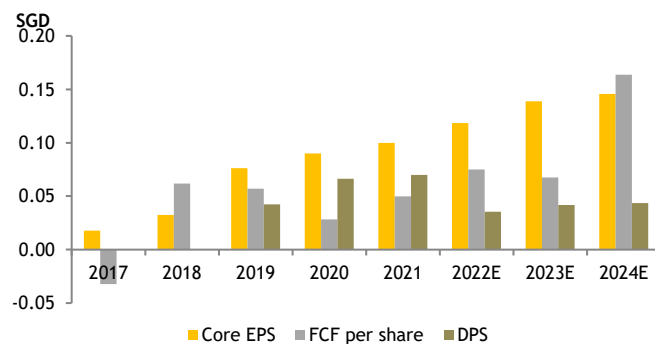
Source: Company, Maybank IBG Research

1. Listed on SGX Main Board at IPO price of SGD1.28.
2. 1H21 results in line with street but management confirmed that Aztech was struggling with components shortages.
3. 2H21 results ahead of our expectations and met Street's. Order outlook was resilient.

## Financial Metrics

- We expect FY21-24 PATMI CAGR of 15%, driven by Customer A (new products and market penetration) and other new customers.
- FY24E net margin of 10.6% is lower than FY21 of 11.9% as we factor in some cost downs and anticipate commoditisation led margin erosion at some point with Customer A's products.
- FY22-24E dividend pay-out assumption of 30%.

### Core EPS, FCF per share and DPS



Source: Company

## Swing Factors

### Upside

- Better than expected order momentum of existing products during current IoT upcycle.
- New customer/ allocation wins.
- Better than expected margins from operating leverage.

### Downside

- Commoditisation of consumer IoT products that lead to pricing erosion.
- Worsening in components shortage situation.
- Inventory correction due to over-exuberance of supply chain in anticipating end-consumer demand.

Risk Rating & Score <sup>1</sup>	na
Score Momentum <sup>2</sup>	na
Last Updated	na
Controversy Score <sup>3</sup>	na

## Business Model & Industry Issues

- Based on stakeholders' feedback, governance, economic performance, product compliance and customer privacy and satisfaction are the most important factors to both Aztech and stakeholders. Waste management, water conservation and energy efficiency are among factors that are less material.
- Risks exposure include: i) socioeconomic: employees' wellbeing and equal opportunities; ii) governance: conflicts of interest; and iii) environmental: fines for non-compliance of environmental laws and regulations.
- In 2021, Aztech did not incur any significant fines related to environmental laws, and there were no reported incidences of discrimination, whistleblowing, bribery or corruption.
- Human capital is a key input in driving Aztech' capabilities vs. competitors. Aztech believes in talent management to nurture employees, provide equal opportunities, and recognise and reward achievements to boost retention.

## Material E issues

- Aztech' environmental exposure is through energy, water and inputs. In 2021, Aztech did not incur any significant fines for non-compliance with environmental laws and regulations
- Aztech will be focusing on improving energy consumption efficiency through equipment maintenance and use of energy efficient equipment and technology to cut their carbon footprint. In addition, they have been inculcating electricity conservation through the adoption of energy efficient practices including use of natural light and reminder posters to promote electricity conservation.
- At their dormitories in Dongguan, heat energy generated by the air-conditioner system was recycled to power the central hot water systems. They have also completed the conversion of all air-conditioners with energy efficient inverter systems during the year to conserve energy.

## Material S issues

- Aztech' workforce is 1178 strong globally as at end-2021. Aztech is an equal-opportunity employer and values talent retention. Outstanding employees are rewarded for achievements.
- Total training hours achieved for FY2021 amounted to 13,855 hours, while average training hours per employee was 12hours, meeting their FY2021 target amidst an increase in business activities.
- In FY2021, there were 3 minor work injury accidents at their Dongguan operation site, down from 7 in FY2020. The rate of injury fell from 0.18 per 100 workers in FY2020 to 0.078 per 100 workers in FY2021. Investigations on the 3 work-related incidents were carried out with each incident evaluated and corrective actions taken to mitigate recurrence of such accidents.
- In 2021, there were no reports of discrimination or exploitative labour practices.

## Key G metrics and issues

- The board has six directors, of which one is the founder, executive chairman and CEO (Michael Mun), and four are independent, non-executive (67%). One is an executive director who is also the COO. (Jeremy Mun).
- The audit, nominating, and remuneration committees are chaired by independent directors.
- Workshops on business ethics, anti-bribery compliance and enterprise risk management are held to educate employees on good corporate governance. Guidance is also provided for common ethical issues such as conflicts of interest and confidential information.
- In 2021, Aztech did not receive any whistleblowing report regarding the company, and there were no cases of bribery or corruption.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 44)						
	Particulars	Unit	2019	2020	2021	Venture (2021)
E	Scope 1 emissions	tCO2e	NA	NA	NA	68,061
	Scope 2 emissions	tCO2e	NA	NA	NA	NA
	<b>Total</b>	<b>tCO2e</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>68,061</b>
	Scope 3 emissions (operational)	tCO2e	NA	NA	NA	NA
	<b>Total</b>	<b>tCO2e</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>68,061</b>
	GHG intensity (Scope 1 and 2)	kg CO2e/emp kWh/unit of sales	NA	NA	NA	28.400
E	Energy consumption	m2/unit of sales	NA	32.21	27.08	47.70
	Water consumption	metric tonnes	NA	297.60	216.30	0.26
	Recycled waste generated	tonnes	NA	NA	NA	NA
S	% of women in workforce	%	NA	41.0%	49.0%	55.1%
	Economic value generated and distributed	SGD'000	47	56	74	312,322
	Average training hours per female executive	%	NA	NA	NA	51.1
	New employees hired by gender (women)	%	NA	36.0%	47.0%	54.0%
	Total training hours	%	0	16362	13855	437922
	Key operations assessed for risks related to corruption	%	100%	100%	100%	100%
G	MD/CEO salary as % of reported net profit	%	NA	4%	3.9%	2.41%
	Board salary as % of reported net profit	%	NA	0.11%	0.29%	0.27%
	Independent directors on the Board	%	60%	60%	67%	75%
	Female directors on the Board	%	0%	0%	17%	38%

Qualitative Parameters (Score: 67)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes - as of FY21, it has an established framework and a working sustainability committee that reports quarterly to the board.</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>No</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>No</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes - purchased goods and services (Cat. I) and use of sold products (Cat. II); calculated using Simplified IPCC Tier 1 method.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>At all dormitories in Dongguan, heat energy generated by the air-conditioner system is recycled to power the central hot water systems. To prevent and mitigate impact of waste water discharge at its Malaysian facility in Johor, a centralised septic tank system and sewage control was built to remove impurities and waste substances prior to the discharge of water into the public drainage system.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes. Aztech has joined a growing list of signatories to achieve net-zero carbon emissions by 2040.</i>

Target (Score: 67)		
Particulars	Target	Achieved
Net zero carbon by 2040	2040	NA
Improve energy consumption intensity by revenue	10.00%	15.90%
Hire its management team from local communities	80%	96%
<b>Impact</b>		
NA		
<b>Overall Score: 55</b>		
As per our ESG matrix, Aztech Global (Aztech SP) has an overall score of 55.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	44	22
Qualitative	25%	67	17
Target	25%	67	17
<b>Total</b>			<b>55</b>

As per our ESG assessment, Aztech has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY, especially on the carbon emissions. Their overall ESG score is 55, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Fig 1: 4Q22 results

FYE Dec	4Q22	4Q21	3Q22	YoY Chg	QoQ Chg	FYE	As a % of FYE
	SGDm	SGDm	SGDm	(%)	(%)	SGDm	(%)
Revenue	213.3	141.1	242.4	51.1	-12.0	813.6	26.2
EBITDA	11.8	22.9	29.0	-48.5	-59.3	115.7	10.2
PBT	4.1	20.3	26.2	-79.7	-84.3	101.3	4.1
Net profit	3.5	18.0	20.8	-80.3	-83.0	87.0	4.1
				ppt	ppt		
EBITDA margin	5.5%	16.2%	12.0%	-10.7	-5.5		
Net margin	1.7%	12.8%	8.6%	-11.1	-1.7		

Source: Company, Maybank IBG Research

Fig 2: Changes in estimates

	FY 23E			FY 24E			FY 25E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	902.3	979.4	-7.9	964.0	1,061.6	-9.2	1,033.5	1,033.5	0.0
Gross profit (SGDm)	212.0	230.2	-7.9	226.5	244.2	-7.2	242.9	242.9	0.0
EBIT (SGDm)	132.9	125.9	5.5	141.0	130.9	7.7	150.4	150.4	0.0
EBITDA (SGDm)	141.9	141.1	0.5	151.4	148.0	2.3	162.2	162.2	0.0
Core net profit (SGDm)	112.1	101.5	10.4	118.9	105.8	12.4	126.7	126.7	0.0
			Chg (ppt)			Chg (ppt)			Chg (ppt)
Gross material margin	23.5%	23.5%	0.0	23.5%	23.0%	0.5	23.5%	23.5%	0.0
EBITDA margin	15.7%	14.4%	1.3	15.7%	14.0%	1.7	15.7%	15.7%	0.0

Source: Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Metrics</b>					
P/E (reported) (x)	11.4	9.9	5.5	5.2	4.9
Core P/E (x)	8.8	9.6	5.5	5.2	4.9
P/BV (x)	2.3	2.3	1.7	1.4	1.2
P/NTA (x)	2.3	2.3	1.7	1.4	1.2
Net dividend yield (%)	8.0	5.4	5.4	5.8	6.1
FCF yield (%)	5.7	13.6	2.5	26.5	7.5
EV/EBITDA (x)	5.1	3.0	3.0	1.9	1.7
EV/EBIT (x)	5.8	3.2	3.2	2.1	1.9
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	624.4	820.2	902.3	964.0	1,033.5
EBITDA	90.8	142.9	141.9	151.4	162.2
Depreciation	(10.2)	(8.6)	(9.0)	(10.4)	(11.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	80.6	134.3	132.9	141.0	150.4
Net interest income / (exp)	(0.1)	1.1	1.1	1.2	1.3
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	4.4	(54.7)	1.0	1.0	1.0
Pretax profit	85.0	80.7	135.0	143.2	152.7
Income tax	(10.6)	(13.5)	(23.0)	(24.3)	(26.0)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	74.4	67.2	112.1	118.9	126.7
Core net profit	74.4	67.2	112.1	118.9	126.7
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	201.5	216.2	200.4	331.2	341.6
Accounts receivable	222.5	197.6	311.7	269.4	353.6
Inventory	62.4	85.2	85.0	96.8	98.1
Reinsurance assets	3.4	5.8	5.8	5.8	5.8
Property, Plant & Equip (net)	26.6	25.8	31.8	36.4	39.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1.7	10.9	10.9	10.9	10.9
<b>Total assets</b>	<b>518.2</b>	<b>541.4</b>	<b>645.5</b>	<b>750.4</b>	<b>849.5</b>
ST interest bearing debt	11.9	1.3	1.3	1.3	1.3
Accounts payable	138.5	185.7	211.4	233.1	243.5
Insurance contract liabilities	1.9	1.6	1.6	1.6	1.6
LT interest bearing debt	2.8	3.9	3.9	3.9	3.9
Other liabilities	70.0	65.0	65.0	65.0	65.0
<b>Total Liabilities</b>	<b>225.2</b>	<b>257.4</b>	<b>283.1</b>	<b>304.7</b>	<b>315.2</b>
Shareholders Equity	293.0	284.0	362.4	445.7	534.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>293.0</b>	<b>284.0</b>	<b>362.4</b>	<b>445.7</b>	<b>534.4</b>
<b>Total liabilities and equity</b>	<b>518.2</b>	<b>541.4</b>	<b>645.5</b>	<b>750.4</b>	<b>849.5</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	85.0	80.7	135.0	143.2	152.7
Depreciation & amortisation	10.2	8.6	9.0	10.4	11.8
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(35.6)	(73.8)	(88.2)	52.1	(75.1)
Cash taxes paid	(16.0)	(10.7)	(23.0)	(24.3)	(26.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	41.9	95.6	30.8	179.2	61.2
Capex	(4.8)	(8.0)	(15.0)	(15.0)	(15.0)
Free cash flow	37.1	87.5	15.8	164.2	46.2
Dividends paid	(15.3)	(61.8)	(33.6)	(35.7)	(38.0)
Equity raised / (purchased)	190.6	0.0	0.0	0.0	0.0
Change in Debt	(21.5)	(11.0)	0.0	0.0	0.0
Other invest/financing cash flow	(1.2)	2.0	2.1	2.2	2.3
Effect of exch rate changes	0.3	(2.2)	0.0	0.0	0.0
<b>Net cash flow</b>	<b>190.1</b>	<b>14.7</b>	<b>(15.7)</b>	<b>130.7</b>	<b>10.5</b>

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	28.9	31.4	10.0	6.8	7.2
EBITDA growth	13.1	57.4	(0.8)	6.7	7.1
EBIT growth	12.5	66.6	(1.1)	6.1	6.6
Pretax growth	27.7	(5.0)	67.2	6.1	6.6
Reported net profit growth	33.5	(9.7)	66.8	6.1	6.6
Core net profit growth	33.5	(9.7)	66.8	6.1	6.6
<b>Profitability ratios (%)</b>					
EBITDA margin	14.5	17.4	15.7	15.7	15.7
EBIT margin	12.9	16.4	14.7	14.6	14.5
Pretax profit margin	13.6	9.8	15.0	14.9	14.8
Payout ratio	70.0	51.8	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	11.9	8.2	12.4	12.3	12.3
Revenue/Assets (x)	1.2	1.5	1.4	1.3	1.2
Assets/Equity (x)	1.8	1.9	1.8	1.7	1.6
ROAE (%)	44.5	23.3	34.7	29.4	25.9
ROAA (%)	18.2	12.7	18.9	17.0	15.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	58.2	40.6	42.4	44.4	44.4
Days receivable outstanding	120.9	92.2	101.6	108.5	108.5
Days inventory outstanding	44.6	43.2	44.4	44.4	44.4
Days payables outstanding	107.3	94.8	103.6	108.5	108.5
Dividend cover (x)	1.4	1.9	3.3	3.3	3.3
Current ratio (x)	2.2	2.1	2.2	2.4	2.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.3	2.1	2.3	2.5	2.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	na	na	na	na
Debt/EBITDA (x)	0.2	0.0	0.0	0.0	0.0
Capex/revenue (%)	0.8	1.0	1.7	1.6	1.5
Net debt/ (net cash)	(186.8)	(210.9)	(195.2)	(325.9)	(336.3)

Source: Company; Maybank IBG Research

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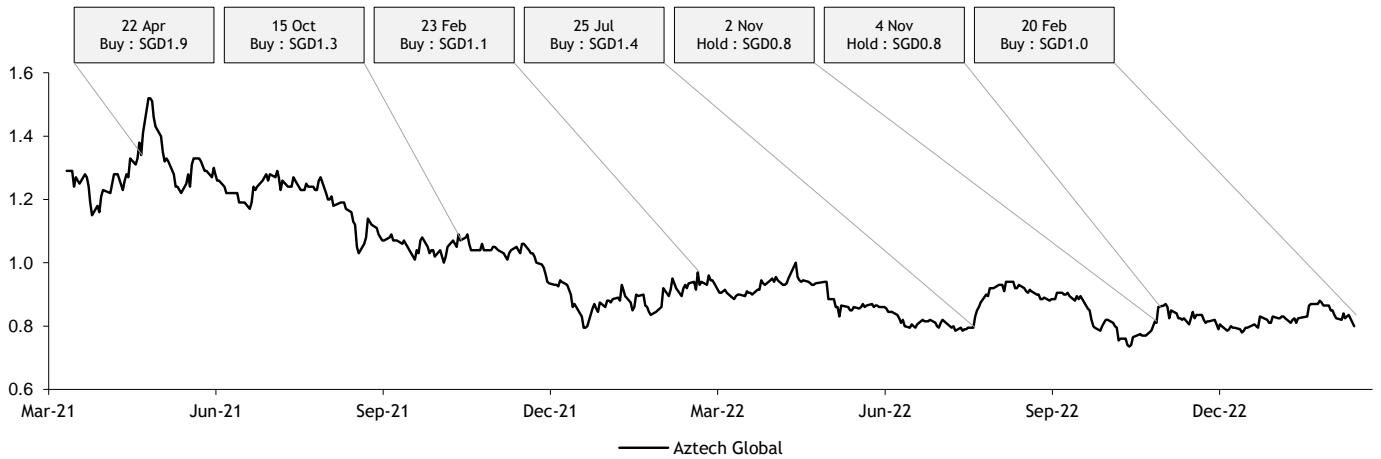
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