

COMPANY UPDATE

Aztech Global (AZTECH SP)

Touring Aztech's Manufacturing Facility In Dongguan

We visited Aztech's manufacturing facility in Dongguan and R&D centre in Shenzhen to better understand its manufacturing flow and R&D capabilities. In the plant, we observed high-volume production and operational efficiencies. Aztech's ability to leverage on its R&D expertise and provision of one-stop design and manufacturing services allows it to attract and build long-lasting relationships with its clients. Maintain BUY. Target price: S\$1.00.

WHAT'S NEW

- **Highly efficient operations in Dongguan facility.** Aztech Global's (Aztech) largest manufacturing facility in Dongguan, China is strategically located near Guangzhou and Shenzhen, and enjoys an extensive expressway network that connects it to other cities in the Greater Bay Area. During our tour of the 500,000sf facility, we observed highly efficient production of goods ranging from IoT devices and security cameras to LED lighting on the factory floor. As a one-stop design and manufacturing service provider, achieving operational efficiency is key to delivering high quality products to its customers. This was seen in its electronics manufacturing flow, where the system testing of printed circuit board assembly (PCBA) is automated. On top of this, facility operations are run 24/7 by a long-serving team, maximising both output and efficiency. From our understanding, many factories in Dongguan were grappled with prolonged shutdowns and leaves of absence during the COVID-19 pandemic, leading to low utilisation rates or worse, closures. The fact that Aztech has successfully weathered the crisis proves its strong manufacturing capabilities and steady orderbook.
- **Working closely with customers for smooth production.** At the facility, we learned that Aztech actively engages both existing and potential customers in its production processes. We witnessed Aztech's transparency towards its customers on its order processes as they were brought on a separate plant tour, demonstrating Aztech's commitment to achieving quality products and customer satisfaction.
- **Strength in R&D capabilities.** Aztech has four R&D centres in Singapore, Hong Kong and China (Shenzhen and Dongguan). The multispecialty R&D team consists of 65 employees across the centres, specialising in hardware design, firmware design, mechanical design and more. These teams are therefore highly competent in providing full turnkey design services solutions. This includes software development, industrial design and rapid prototyping, in-house testing lab facilities for product reliability testing and others. During our visit, we saw the team's plethora of products conceptualised that were brought to fruition, showcasing Aztech's strong R&D capabilities.

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 | 6.3 |
| P/B (x) | 2.1 | 2.2 | 1.7 | 1.5 | 1.3 |
| EV/EBITDA (x) | 4.0 | 2.5 | 3.0 | 2.9 | 2.8 |
| Dividend yield (%) | 6.1 | 5.5 | 6.4 | 7.0 | 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 | - | - | 92 | 100 | 105 |
| UOBKH/Consensus (x) | - | - | 0.98 | 0.98 | 0.95 |

Source: Aztech, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|--------------|-----------|
| Share Price | S\$ 0.815 |
| Target Price | S\$ 1.00 |
| Upside | +23.1% |

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): | 629.1 |
| Market cap (US\$m): | 465.1 |
| 3-mth avg daily t'over (US\$m): | 0.3 |

Price Performance (%)

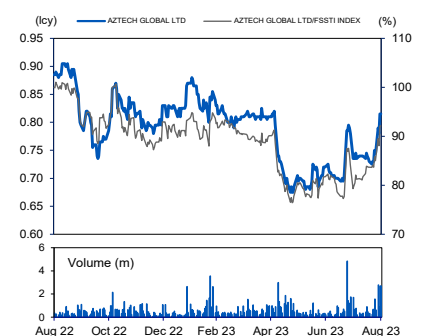
| | | | | |
|------------------|---------------------|-------------|------------|------------|
| 52-week high/low | S\$ 0.905/S\$ 0.675 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| 4.5 | 15.6 | (1.8) | (9.4) | (1.8) |

Major Shareholders

| | |
|----------------------------|------|
| Azventure Investments Ltd. | 70.2 |
|----------------------------|------|

| | |
|---------------------------|------|
| FY23 NAV/Share (S\$) | 0.47 |
| FY23 Net Cash/Share (S\$) | 0.35 |

PRICE CHART



Source: Bloomberg

ANALYST(S)

John Cheong
 +65 6590 6623
 johncheong@uobkayhian.com

Heidi Mo
 +65 6590 6630
 heidimo@uobkayhian.com

STOCK IMPACT

• **New product line to capture market growth.** On 28 Aug 23, management announced the launch of its product line under its “Kyla” brand, comprising internet protocol (IP) camera & surveillance systems, bodywear cameras and digital microscopes. This portfolio allows it to capture market demand for high quality vision technology at an opportune time. Per Verified Market Research, the video surveillance market is projected to reach US\$157.1b by 2030 (seven-year CAGR of 12.9%). Meanwhile, the wearable camera market is projected to reach US\$21.8b by 2030 per Market Research Community. Aztech’s new product line is therefore likely to contribute to earnings growth moving forward.

EARNINGS REVISION/RISK

• We maintain our earnings forecast.

VALUATION/RECOMMENDATION

• **Maintain BUY and 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 forex gain and cost management.
- Interim dividend surprise.

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

PACKED FINISHED GOODS AT DONGGUAN FACILITY



Source: Aztech, UOB Kay Hian

PRODUCTION LINE AT DONGGUAN FACILITY



Source: Aztech, UOB Kay Hian

SHENZHEN R&D OFFICE



Source: Aztech, UOB Kay Hian

SHENZHEN R&D LAB



Source: Aztech, 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