

17 February 2020

Technology | Semiconductors

Avi-Tech Electronics (AVIT SP)

Buy (Maintained)

Superb 2Q20, Likely Stellar FY20F; Keep BUY

Target Price (Return): SGD0.50 (28%)
 Price: SGD0.39
 Market Cap: USD47.9m
 Avg Daily Turnover (SGD/USD) 0.08m/0.06m

- **Keep BUY with a new DCF-based SGD0.50 TP from SGD0.44, 28% upside with c.6% FY20F (Jun) yield.** Avi-Tech Electronics reported a strong 2Q20, with PATMI surging 46.7% YoY to SGD1.4m. The semiconductor sector's slowdown has likely bottomed out for the company, and its quarterly performance should improve ahead. FY20 ought to be a much better year, with earnings having likely bottomed in FY19. We remain positive on the stock, and lift our TP after adjusting FY20F EPS by +12%.

- **Likely a strong FY20F, led by the burn-in revenue segment.** With the sector slowdown in effect since 2018, we believe the correction has bottomed – so the outlook should improve, especially with China and the US having struck a Phase 1 trade deal. Avi-Tech's performance should continue to pick up in 2HFY20, with strong growth from burn-in services, which has much higher gross margins. This, coupled with previously done cost-cutting measures, should help improve margins as well. The company's gross margin improved significantly to 39.7% in 2QFY20 from 27.9% 1QFY19. We expect it to continue charting strong performances as we move into 2HFY20.

- **6.4% yield with improving fundamentals.** With a net cash balance sheet and strong operating FCF, management should continue to reward shareholders with attractive dividends despite the drop in profits. For FY19, a total of 2.3 cents DPS was declared, translating into a PATMI payout ratio of 84.7%. A higher interim DPS of 1 cent was paid in 2QFY20 vs 0.8 cents a year ago due to its strong performance. We expect management to reward shareholders with the same or more going forward, despite a special dividend given in FY19.

- **We maintain our call.** Other than its handsome yield, management is actively exploring M&A opportunities and hopes to close a deal by end 1H20. Any potential earnings-accretive M&A should be a positive. With a net cash balance sheet and good dividends, we are positive on the stock. This is because investors have been well rewarded – if we look at its dividend trends – even when earnings were at the bottom of the cycle.

- **A key downside risk** is a slowdown in the economy. The opposite situation presents an upside risk.

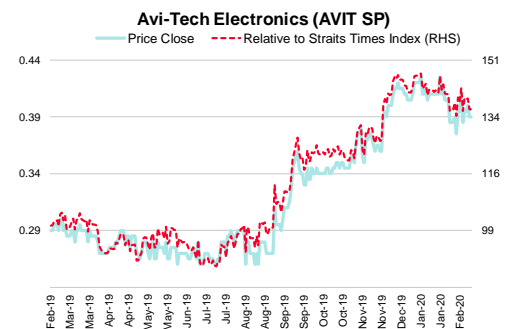
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.2)	(4.9)	11.4	44.4	30.0
Relative	(7.1)	(3.3)	11.8	42.1	31.0
52-wk Price low/high (SGD)	0.26 – 0.43				



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (SGDm)	36	34	35	36	37
Recurring net profit (SGDm)	5	5	6	6	6
Recurring net profit growth (%)	(30.9)	(4.5)	22.0	5.2	5.2
Recurring P/E (x)	13.72	14.36	11.77	11.19	10.64
P/B (x)	1.4	1.3	1.3	1.2	1.2
P/CF (x)	8.85	10.95	9.89	9.16	8.52
Dividend Yield (%)	6.7	5.9	6.4	6.4	6.4
EV/EBITDA (x)	4.85	4.61	3.90	3.73	3.48
Return on average equity (%)	10.0	9.5	11.2	11.4	11.5
Net debt to equity (%)	(67.4)	(69.6)	(66.9)	(63.2)	(60.5)

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (SGD)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Technology	Recurring EPS	0.03	0.03	0.03	0.03	0.04
Avi-Tech Electronics	DPS	0.03	0.02	0.03	0.03	0.03
AVIT SP	BVPS	0.28	0.29	0.30	0.31	0.33
Buy	Return on average equity (%)	10.0	9.5	11.2	11.4	11.5
	Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Valuation basis	Recurring P/E (x)	13.72	14.36	11.77	11.19	10.64
DCF-backed TP of SGD0.50.	P/B (x)	1.4	1.3	1.3	1.2	1.2
	FCF Yield (%)	10.7	8.0	5.6	4.9	5.7
Key drivers	Dividend Yield (%)	6.7	5.9	6.4	6.4	6.4
i. Attractive dividend yield;	EV/EBITDA (x)	4.85	4.61	3.90	3.73	3.48
ii. Sector correction	EV/EBIT (x)	5.88	5.63	4.57	4.42	4.21
Key risks	Income statement (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Economic recession.	Total turnover	35.7	33.6	34.6	35.6	36.8
	Gross profit	9.9	10.5	11.9	12.3	12.6
Company Profile	EBITDA	6.9	7.0	8.3	8.8	9.4
Avi-Tech manufactures semiconductor products. The company produces and prints circuit board assembly products, as well as provides static burn-in, tests during burn-ins, and high power burn-in services for semiconductor manufacturers. It serves customers worldwide.	Depreciation and amortisation	(1.2)	(1.3)	(1.2)	(1.4)	(1.6)
	Operating profit	5.7	5.7	7.1	7.4	7.8
	Net interest	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
	Pre-tax profit	5.7	5.7	7.1	7.4	7.8
	Taxation	(0.8)	(1.1)	(1.4)	(1.5)	(1.5)
	Reported net profit	4.9	4.6	5.7	6.0	6.3
	Recurring net profit	4.9	4.6	5.7	6.0	6.3
	Cash flow (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Change in working capital	0.8	(0.6)	(0.2)	(0.2)	(0.2)
	Cash flow from operations	7.5	6.1	6.7	7.3	7.8
	Capex	(0.4)	(0.8)	(3.0)	(4.0)	(4.0)
	Cash flow from investing activities	1.9	(3.8)	(3.0)	(4.0)	(4.0)
	Dividends paid	(5.3)	(3.6)	(4.3)	(4.3)	(4.3)
	Cash flow from financing activities	(5.7)	(3.6)	(4.3)	(4.3)	(4.3)
	Cash at beginning of period	23.5	31.2	33.9	33.8	33.2
	Net change in cash	3.7	(1.3)	(0.5)	(1.0)	(0.4)
	Ending balance cash	27.2	29.8	33.3	32.8	32.8
	Balance sheet (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Total cash and equivalents	32.7	34.5	34.4	33.8	33.8
	Tangible fixed assets	12.7	12.1	13.8	16.3	18.5
	Total investments	0.5	0.0	0.0	0.0	0.0
	Total assets	54.6	56.6	58.4	60.6	63.2
	Total liabilities	6.1	7.1	7.0	7.2	7.3
	Total equity	48.5	49.5	51.4	53.5	55.9
	Total liabilities & equity	54.6	56.6	58.4	60.6	63.2
	Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Revenue growth (%)	(10.7)	(5.9)	3.0	3.1	3.1
	Recurrent EPS growth (%)	(30.9)	(4.5)	22.0	5.2	5.2
	Gross margin (%)	27.9	31.4	34.4	34.4	34.4
	Operating EBITDA margin (%)	19.4	20.8	23.9	24.7	25.7
	Net profit margin (%)	13.6	13.8	16.4	16.7	17.1
	Capex/sales (%)	1.1	2.3	8.7	11.2	10.9
	Interest cover (x)	815	1,144	1,415	1,487	1,564

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-11-18	Buy	0.41	0.37
2019-11-07	Buy	0.41	0.37
2019-09-10	Neutral	0.31	0.31
2019-07-16	Neutral	0.27	0.28
2019-02-14	Neutral	0.30	0.30
2018-11-13	Neutral	0.34	0.31
2018-09-12	Neutral	0.38	0.35
2018-05-16	Neutral	na	0.41

Source: RHB, Bloomberg

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