RHB Small Cap Asean Research

Singapore Company Update

24 July 2020

Technology | Semiconductors

Avi-Tech Electronics (AVIT SP)

Buy (Maintained)

Upcoming Results Should Be Positive; Keep BUY

Target Price (Return):	SGD0.50 (+9%)
Price:	SGD0.46
Market Cap:	USD56.2m
Avg Daily Turnover (SGD/USD)	0.17m/0.12m

- **Maintain BUY, unchanged DCF-based SGD0.50 TP, 9% upside with c.6% FY20F (Jun) yield.** The semiconductor sector's slowdown has likely bottomed out, and Avi-Tech Electronics' quarterly performance is expected to improve ahead. FY20F should be a much better year, with earnings having likely bottomed in FY19. We expect net profit for 2H20 to be robust. Avi-Tech is scheduled to announce its results in the later part of August.
- **Burn-in testing for automotive component still growing strongly.** With the sector slowdown – in effect since 2018 – has bottomed and the outlook should improve going forward. Avi-Tech's performance should continue to pick up in 2HFY20, with strong growth from burn-in services, which has a much higher GPM. This, coupled with previously-done cost cuts, should help improve margins as well. Its GPM improved significantly to 39.7% in 2QFY20, from 27.9% 1QFY19. We expect it to continue booking robust numbers, moving into 2HFY20.
- **Staying alive with net cash in a critical industry.** With a net cash balance sheet and strong operating FCF, management should continue to reward shareholders with attractive dividends, despite the drop in profits in the previous year. Being in the burn-in and testing segment of the semiconductor industry mainly for the automotive sector, it is also in a crucial part of the supply chain – where demand for its services is still growing, despite the COVID-19 pandemic.
- **Attractive c.6% yield for FY20F.** For FY19, management declared a total DPS of 2.3 SG cents, translating to a PATMI payout ratio of 84.7%. A higher interim DPS of 1 cent was paid in 2QFY20 vs 0.8 cent a year ago, due to its strong performance. We expect management to reward shareholders with the same level of dividends or more going forward – on top of the special dividend given in FY19.
- **M&A opportunities available at such drastic times.** Other than its handsome yield, management is actively exploring M&A opportunities and hopes to close a deal in the near future. 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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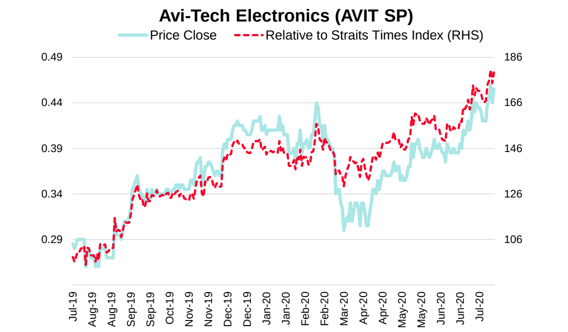
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.3	18.2	26.4	12.3	56.9
Relative	27.3	19.1	23.6	31.5	79.5
52-wk Price low/high (SGD)					0.26 – 0.46



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)	16.00	16.75	13.73	13.06	12.41
P/B (x)	1.6	1.6	1.5	1.5	1.4
P/CF (x)	10.33	12.78	11.54	10.69	9.94
Dividend Yield (%)	5.7	5.1	5.5	5.5	5.5
EV/EBITDA (x)	6.46	6.20	5.24	4.99	4.66
Return on average equity (%)	10.0	9.5	11.2	11.4	11.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:
Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Exhibits

Asia
Singapore
Technology
Avi-Tech Electronics
AVIT SP
Buy

Valuation basis

DCF-backed TP of SGD0.50

Key drivers

i. i. Attractive dividend yield
ii. ii. Sector correction

Key risks

i. Economic recession

Company Profile

Avi-Tech Electronics Limited manufactures semiconductor products. The Company produces and prints circuit board assembling products, as well as provides static burn-in, test during burn-in, and high power burn-in services for semiconductor manufacturers. Avi-Tech Electronics serves customers worldwide.

Financial summary (SGD)	**Jun-18**	**Jun-19**	**Jun-20F**	**Jun-21F**	**Jun-22F**
Recurring EPS	0.03	0.03	0.03	0.03	0.04
DPS	0.03	0.02	0.03	0.03	0.03
BVPS	0.28	0.29	0.30	0.31	0.33
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**
Recurring P/E (x)	16.00	16.75	13.73	13.06	12.41
P/B (x)	1.6	1.6	1.5	1.5	1.4
FCF Yield (%)	9.2	6.8	4.8	4.2	4.9
Dividend Yield (%)	5.7	5.1	5.5	5.5	5.5
EV/EBITDA (x)	6.46	6.20	5.24	4.99	4.66
EV/EBIT (x)	7.83	7.57	6.14	5.92	5.63

Income statement (SGDm)	**Jun-18**	**Jun-19**	**Jun-20F**	**Jun-21F**	**Jun-22F**
Total turnover	35.7	33.6	34.6	35.6	36.8
Gross profit	9.9	10.5	11.9	12.3	12.6
EBITDA	6.9	7.0	8.3	8.8	9.4
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
2020-02-17	Buy	0.50	0.41
2019-11-18	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
2018-05-08	Neutral	0.43	0.45

Source: RHB, Bloomberg

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