7 July 2020

Technology | Semiconductors

Avi-Tech Electronics (AVIT SP)

Buy (Maintained)

Strong 2H20F Expected

Target Price (Return):	SGD0.50 (11.1%)
Price:	SGD0.45
Market Cap:	USD54.6m
Avg Daily Turnover (SGD/USD)	0.14m/0.09m

- **Maintain BUY with an unchanged DCF-based SGD0.50 TP, 11% upside with c.6% FY20F (Jun) yield.** The semiconductor sector's slowdown has likely bottomed out, and the company's quarterly performance should improve ahead. Early this year, Avi-Tech Electronics reported a strong 2Q20, with PATMI surging 46.7% YoY to SGD1.4m. We expect a strong 2H20F and overall estimate FY20 will be a much better year, as earnings likely bottomed out in FY19.
- **Burn-in testing for the automotive component continues to grow strongly.** With the sector slowdown in effect since 2018, we believe the correction has bottomed and from here on 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 have much higher gross margins. This, coupled with previously implemented cost-cutting measures, should help improve margins as well. The company's gross margin improved significantly to 39.7% in 2QFY20 (from 27.9% in 1QFY19). We expect it developed a strong performance in 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. Avi-Tech operates in the burn-in and testing segment of the semiconductor industry and focuses mainly on the automotive sector. The company plays a crucial part in the supply chain, which would see its demand for its services still growing despite a world-wide pandemic still on-going.
- **Attractive yield of 5.6% for FY20F.** For FY19, a total of 2.3 cents in DPS were declared, translating into a PATMI payout ratio of 84.7%. Due to its strong performance, a higher interim DPS of 1 cent was paid in 2QFY20 vs 0.8 cents a year ago. We expect management to reward shareholders with at least the same amount going forward, despite a 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. Investors have been well rewarded with dividends 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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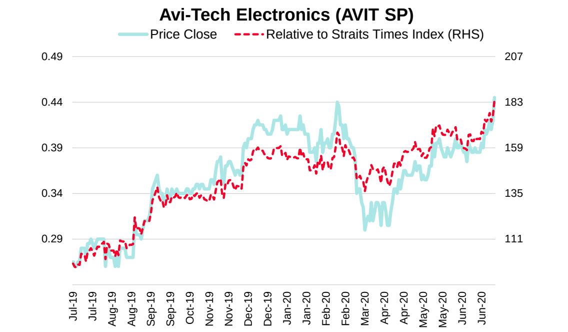
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.0	12.7	45.9	8.5	67.9
Relative	22.6	15.0	37.0	25.0	88.0
52-wk Price low/high (SGD)					0.26 – 0.45



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)	15.65	16.38	13.43	12.77	12.14
P/B (x)	1.6	1.5	1.5	1.4	1.4
P/CF (x)	10.10	12.50	11.29	10.45	9.72
Dividend Yield (%)	5.8	5.2	5.6	5.6	5.6
EV/EBITDA (x)	6.21	5.95	5.04	4.80	4.48
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. Attractive dividend yield
ii. Sector correction

Key risks

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)	15.65	16.38	13.43	12.77	12.14
P/B (x)	1.6	1.5	1.5	1.4	1.4
FCF Yield (%)	9.4	7.0	4.9	4.3	5.0
Dividend Yield (%)	5.8	5.2	5.6	5.6	5.6
EV/EBITDA (x)	6.21	5.95	5.04	4.80	4.48
EV/EBIT (x)	7.53	7.28	5.90	5.69	5.41

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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