

10 September 2019

Technology | Semiconductors

## Avi-Tech Electronics (AVIT SP)

## Neutral (Maintained)

### Improving Outlook Ahead; Stay NEUTRAL

Target Price (Return) SGD0.31 (+0%)  
 Price: SGD0.31  
 Market Cap: USD36.4m  
 Avg Daily Turnover (SGD/USD) 0.02m/0.01m

- NEUTRAL, new DCF-based TP of SGD0.31** from SGD0.27, 7.4% FY20F (Jun) yield. The deceleration in the semiconductor sector will likely slowly improve in subsequent quarters. Avi-Tech Electronics' engineering segment will remain weak in subsequent quarters, but an improvement in the trade war situation should be a key positive catalyst. As such, we expect FY20 to be better than FY19, and lift our TP after increasing FY20-21F earnings by 5%.
- 7.4% dividend yield with improving fundamentals.** With a net cash balance sheet and a strong operating FCF, we believe management will continue to reward shareholders with attractive dividends despite the drop in profits. For FY19, it declared a total DPS of 2.3 cents – which implies a PATMI payout ratio of 84.7%. We expect the ratio to be the same or even higher going forward, and estimate a FY20F yield of 7.4%.
- Long-term growth prospects still intact.** We believe Avi-Tech's long-term growth prospects are still intact, in line with the digitalisation and macro-economic trends, as well as the increase in usage of electronics in the automotive sector. This, is on top of Smart City initiatives commencing around the region. As it mainly provides burn-in services for chipmakers in the automotive sector, where there has been gradual and steady growth, we expect the burn-in segment to continue to grow at 5-10% pa and not be impacted by the slowdown in the semiconductor sector. This is partially also due to the fact that the majority of its burn-in customers are from the automotive sector.
- Sector correction seems to have bottomed.** With a slowdown in the sector happening since 2018, we expect the sector correction to have hit a bottom. The industry's outlook should improve, especially if there is a positive outcome from talks to be held between China and the US in October. We expect Avi-Tech's earnings to improve in the subsequent quarters, especially in 1Q20F. The stock is also backed by an attractive FY20F dividend yield of 7.4%, and management is actively exploring M&A opportunities – on which they hope to be able to close one by 1H20. Any potential earnings-accretive M&As should be a positive. With a net cash balance sheet and good dividends, we remain NEUTRAL on the stock, as we think investors can be rewarded by attractive dividends while awaiting a turnaround. Valuations have also come down significantly, and the downside is likely limited from here onwards.
- The key downside risk** is a slowdown in the economy. The opposite situation would present an upside risk.

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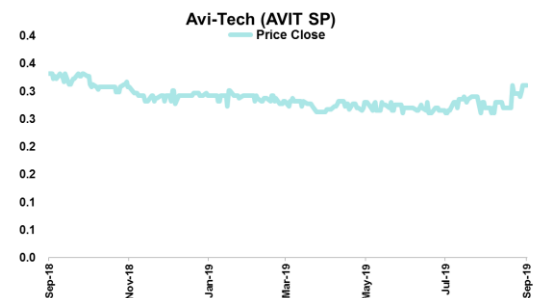


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.6	14.8	14.8	6.9	(13.0)
Relative	(0.9)	15.5	15.4	8.4	(13.4)
52-wk Price low/high (SGD)					0.26 - 0.36



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (SGDm)	35.7	33.6	34.1	34.7	35.3
Recurring net profit (SGDm)	4.9	4.6	4.8	4.9	5.0
Recurring net profit growth	(30.8)	(4.5)	3.4	2.3	2.3
Recurring P/E (x)	10.9	11.4	11.0	10.8	10.5
P/BV (x)	1.1	1.1	1.1	1.0	1.0
P/CF (x)	7.0	8.0	7.4	7.1	6.8
Dividend Yield (%)	8.4	7.4	7.4	7.5	7.5
EV/EBITDA (x)	6.9	6.7	6.7	6.6	6.5
ROE (%)	10.0	9.4	9.5	9.6	9.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	814.7	1144.2	1183.2	1210.2	1238.0

Source: Company data, RHB

## Financial Exhibits

Asia	<b>Financial summary</b>	<b>Jun-18</b>	<b>Jun-19</b>	<b>Jun-20F</b>	<b>Jun-21F</b>	<b>Jun-22F</b>
Singapore	Core EPS (SGD)	0.03	0.03	0.03	0.03	0.03
Technology	EPS (SGD)	0.03	0.03	0.03	0.03	0.03
<b>Avi-Tech Electronics</b>	DPS (SGD)	0.03	0.02	0.02	0.02	0.02
Bloomberg AVIT SP	BVPS (SGD)	0.28	0.29	0.29	0.30	0.31
<b>Neutral</b>	ROE (%)	10.0	9.4	9.5	9.6	9.6
	ROA (%)	8.9	8.2	8.3	8.4	8.4
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Jun-18</b>	<b>Jun-19</b>	<b>Jun-20F</b>	<b>Jun-21F</b>	<b>Jun-22F</b>
DCF-derived TP of SGD0.31 with WACC of 13%	Core P/E (x)	10.9	11.4	11.0	10.8	10.5
	P/B (x)	1.1	1.1	1.1	1.0	1.0
<b>Key drivers</b>	Dividend yield (%)	8.4	7.4	7.4	7.5	7.5
i. Attractive dividend yield;	EV/EBITDA (x)	6.9	6.7	6.7	6.6	6.5
ii. Correction affecting the sector.	<b>Income statement (SGDm)</b>	<b>Jun-18</b>	<b>Jun-19</b>	<b>Jun-20F</b>	<b>Jun-21F</b>	<b>Jun-22F</b>
<b>Key risks</b>	Total turnover	36	34	34	35	35
Economic recession	Gross profit	10	11	10	10	11
	EBITDA	7	7	7	7	8
	Operating profit	6	6	6	6	6
	Net interest	0	0	0	0	0
	Exceptional items	0	0	0	0	0
	Pre-tax profit	6	6	6	6	6
	Taxation	-1	-1	-1	-1	-1
	Net profit	5	5	5	5	5
	Core net profit	5	5	5	5	5
<b>Company Profile</b>	<b>Cash flow (SGDm)</b>	<b>Jun-18</b>	<b>Jun-19</b>	<b>Jun-20F</b>	<b>Jun-21F</b>	<b>Jun-22F</b>
Avi-Tech Electronics 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.	Cash flow from operations	7	7	7	8	8
	Capex	0	-1	-3	-4	-4
	Cash flow from investing activities	2	-4	-3	-4	-4
	Cash flow from financing activities	-6	-4	-4	-4	-4
	Cash at beginning of period	8	11	10	9	7
	Net change in cash	4	-1	-1	-2	-1
	Ending balance cash	11	10	9	7	6
	<b>Balance sheet (SGDm)</b>	<b>Jun-18</b>	<b>Jun-19</b>	<b>Jun-20F</b>	<b>Jun-21F</b>	<b>Jun-22F</b>
	Total cash and equivalents	31	34	33	31	30
	Tangible fixed assets	13	12	14	16	19
	Intangible assets	0	0	0	0	0
	Total investments	2	1	1	1	1
	Total other assets	9	10	10	10	11
	Total assets	55	57	58	59	60
	Short-term debt	0	0	0	0	0
	Total long-term debt	0	0	0	0	0
	Total liabilities	6	7	7	7	7
	Shareholders' equity	48	50	50	51	52
	Minority interests	0	0	0	0	0
	Total equity	48	50	50	51	52
	Total liabilities & equity	55	57	58	59	60
	<b>Key metrics</b>	<b>Jun-18</b>	<b>Jun-19</b>	<b>Jun-20F</b>	<b>Jun-21F</b>	<b>Jun-22F</b>
	Revenue growth (%)	-10.7	-5.9	1.6	1.6	1.6
	Core net profit growth (%)	-30.8	-4.5	3.4	2.3	2.3
	Core EPS growth (%)	-30.8	-4.5	3.4	2.3	2.3
	Gross margin (%)	27.9	31.4	30.2	30.1	30.0
	Core net profit margin (%)	13.6	13.8	14.1	14.2	14.3
	Dividend payout ratio (%)	91.4	84.7	81.9	81.4	79.6

Source: Company data, RHB

Figure 1: Avi-Tech's FY19 results summary

SGDm	4QFY19	4QFY18	YoY	FY19	FY18	YoY
Revenue	10.7	7.5	43.6%	33.6	35.7	-5.9%
Gross Profit	4.2	1.8	129.2%	10.5	9.9	6.0%
Gross Profit Margin	38.8%	24.3%		31.4%	27.9%	
Probit Before Tax	3.0	1.1	173.9%	5.7	5.7	0.4%
PATMI	2.4	0.8	186.1%	4.6	4.9	-4.5%
PATMI Margin	22.5%	11.3%		13.8%	13.6%	

Source: Company data

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