

12 September 2018

Technology | Semiconductors

## Avi-Tech Electronics

**Neutral** (from Buy)

### Sector Headwinds To Continue

**Maintain NEUTRAL, new DCF-derived TP of SGD0.38 from SGD0.43, 5% downside.** After attending Avi-tech's briefing, we understand that its engineering division will likely take about six months to ramp up again. The semiconductor sector slowdown has impacted its engineering segment. Going forward, its burn-in service business should continue to grow steadily, but profitability will likely be muted due to the engineering unit's weak performance. Management expressed interest in rewarding shareholders with good dividends – since its cash flow and balance sheet are still healthy – with an attractive FY19F yield of 7.7%.

**Burn-in services still growing.** As Avi-Tech mainly provides burn-in services for chipmakers in the automotive sector, where there has been gradual and steady growth. We expect the burn-in business to continue to grow by 10-15% pa, and not be impacted by the slowdown in the semiconductor sector. This is partly due to the fact that the majority of their burn-in customers are from the automotive sector, which is enjoying steady growth.

**Engineering segment to pick up slowly.** In 2HFY18, its engineering segment took a hit due to delays in customer projects as well as a slowdown in orders from clients. This led to the unit booking a loss, which dragged down Avi-Tech's overall profitability. However, management believes that the segment has likely hit a low already, and business will likely pick up from here, with new customers being secured at the same time. However, it will likely take about 6-9 months to ramp up. As such, the engineering business will likely continue to be a drag on profitability in FY19 – albeit to a smaller extent.

**Supported by attractive yield of 7.7%.** Management has shown in the past that it is willing to reward shareholders with attractive dividends. We think it will likely keep the dividend payout ratio at 90% and above as they did in FY18, as Avi-Tech has a net cash balance and strong operating FCF. With the anticipated recovery in earnings, we like that the stock has an attractive 7.7% yield for FY19F.

**Maintain NEUTRAL, due to sector slowdown.** With a slowdown in the sector, as seen in results released by its peers, we maintain NEUTRAL on the counter. We also cut our TP to SGD0.38 from SGD0.43, as we reduce FY19-20F earnings by 7% and 6%.

The stock is, however, backed by an attractive FY19F yield of 7.7%, and management is actively exploring M&A opportunities. Any potential earnings-accretive M&As (given its war chest of SGD32m) would be a positive for shareholders.

Key downside risks to our call include a slowdown in the economy and the semiconductor sector, while the opposite conditions present upside risks.

Target Price: SGD0.38  
Price: SGD0.36  
Market Cap: USD44.1m  
Bloomberg Ticker: AVIT SP

#### Share Data

Avg Daily Turnover (SGD/USD) 0.1m/0.1m  
52-wk Price low/high (SGD) 0.35 - 0.56  
Free Float (%) 57.6  
Shares outstanding (m) 171  
Estimated Return -5%

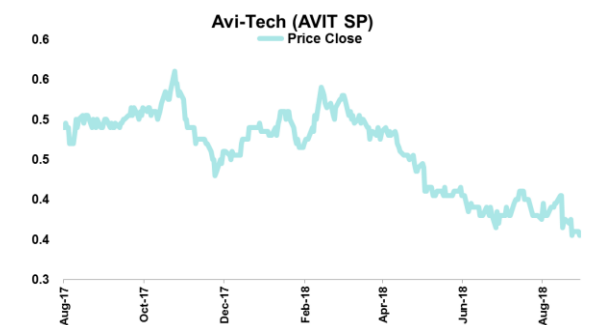
#### Shareholders (%)

Lim Eng Hong 35.7  
Nancy Loh Zee Lan 6.0  
Michael Grenville Gray 0.5

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(25.3)	(6.6)	(13.4)	(31.1)	(26.5)
Relative	(16.5)	(1.1)	(3.7)	(20.2)	(22.7)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Jun-17	Jun 18	Jun 19 F	Jun 20 F	Jun 21 F
Total turnover (SGDm)	40.0	35.7	39.0	40.9	43.0
Reported net profit (SGDm)	7.0	4.9	5.2	5.5	5.8
Recurring net profit (SGDm)	7.0	4.9	5.2	5.5	5.8
Recurring net profit growth (%)	12.1	(30.8)	7.4	5.0	5.0
Recurring EPS (SGD)	0.04	0.03	0.03	0.03	0.03
DPS (SGD)	0.03	0.03	0.03	0.03	0.03
Recurring P/E (x)	10.8	12.5	11.6	11.1	10.5
P/B (x)	1.5	1.3	1.2	1.2	1.2
P/CF (x)	8.0	8.1	10.0	9.2	8.7
Dividend Yield (%)	5.7	7.3	7.7	8.1	8.5
EV/EBITDA (x)	6.3	8.0	7.7	7.4	7.1
Return on average equity (%)	14.5	10.0	10.7	11.1	11.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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## Valuation

Figure 1: DCF valuation (WACC 12%, TG 0%)

SGD(m)	Total (SGDm)	FY17	FY18	FY19F	FY20F	FY21F	Terminal Value
EBIT		8.0	5.7	6.1	6.4	6.8	
EBIT(1-T)		7.0	4.9	5.2	5.5	5.8	
Less: Capex		(1.7)	(0.4)	(2.5)	(2.5)	(3.0)	
Add: Depreciation & Amortisation		1.1	1.2	1.3	1.4	1.5	
Less: Change in Non-cash WC		(0.1)	0.8	(0.4)	(0.3)	(0.3)	
FCFF		6.3	6.4	3.6	4.1	4.0	33.3
Present value of FCFF		-	-	3.2	3.3	2.8	23.7
Total FCFF	33						
Add : Cash (with IPO proceeds)	31						
Less: Value of Debt	0						
Target Equity Value	<b>64</b>						
No.of shares ( adjusted for acquisiton )	171.05						
Intrinsic Share Price SGD	<b>0.38</b>						

Source: RHB

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