

24 October 2023

Industrials | Manufactured Goods

Aztech Global (AZTECH SP)

Not Rated

Capacity, Production Ramp Up In Malaysia Plants

- **Visit to the Pasir Gudang plant.** We recently visited Aztech Global's new plant in Pasir Gudang, Johor, and gained a better understanding of its operations and the group's overall growth strategy. AZTECH operates three manufacturing plants – one in Dongguan (China) and two in Gelang Patah and Pasir Gudang (Malaysia). Its wholly owned subsidiary IOT Manufacturing operates the two factories in Johor, which manufactures data communication, electronic, and electrical products, ie LED lights. AZTECH is not under our coverage at this time.

- **Manufacturing facilities in Malaysia.** IOT Manufacturing was established in 2019 to expand into manufacturing IoT devices, and data communication and LED lighting products. Its first plant is in Gelang Patah (Johor), which grew to SGD216m in internal sales by FY22, and now operates near full capacity. All of IOT Manufacturing's sales are invoiced internally to its Singapore entity (Aztech Technologies) under the Malaysia manufacturing segment as inter-segment revenue. The Malaysia manufacturing operations had a profit before tax of SGD2.6m in FY22. AZTECH's Pasir Gudang facility is close to the Pasir Gudang Port that facilitates exports while the Gelang Patah plant is located near Tanjung Pelepas Port. The Pasir Gudang plant has eight surface mount technology (SMT) production, two wave soldering, 18 products assembly and test, and four packaging lines. We expect its capacity to expand, including the ramp-up of SMT lines in the coming quarters.

- **3Q23 earnings.** AZTECH's recently reported results saw earnings grow by 49% YoY to SGD31m. This was driven by a 17% YoY revenue growth to SGD283m, led by sales of IoT devices and data communication products segment (contributing 98.2% of total sales). AZTECH's 3Q tends to be the seasonally strongest, as its US customers ramp up production ahead of the 4Q Thanksgiving (Black Friday) and Christmas holiday sales seasons. Orderbook is robust at SGD322.7m as of 16 Oct 2023, with most of this to be realised as revenue by the end of FY23.

- **Positive growth outlook.** According to market insights and strategic business intelligence firm IoT Analytics, [there will likely be more than 29bn IoT connections by 2027](#). The number of global IoT connections has already grown by 18% in 2022 to 14.3bn active IoT endpoints. IoT Analytics expects the global number of connected IoT devices to grow by another 16% to 16.7bn active endpoints in 2023. Growth for AZTECH will be driven by new products (including new line of Kyla vision products) and customers, especially in the IoT segment. These include smart LED lighting products for the Singapore Government's Housing & Development Board's (HDB) Build-to-Order public housing projects, and the pre-school and educational segment for its IP CCTV products.

- **Valuation and key risks.** AZTECH currently trades at 5.8x FY22 P/E and has a net cash of SGD0.28 per share. Key risks include high customer concentration from Customer A (85% of 3Q23 sales).

Forecasts and Valuation	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Total turnover (SGDm)	347	429	484	624	820
Recurring net profit (SGDm)	18	47	60	71	113
Recurring net profit growth (%)	59.4	164.5	26.3	18.3	59.8
Recurring P/E (x)	29.80	11.27	8.92	8.31	5.78
P/B (x)	9.5	23.4	12.8	2.2	2.3
P/CF (x)	13.42	12.76	18.20	13.78	6.01
Dividend Yield (%)	na	4.9	10.6	3.6	7.6
EV/EBITDA (x)	19.11	8.21	6.89	4.57	3.25
Return on average equity (%)	43.0	119.7	173.3	44.5	23.3
Net debt to equity (%)	1.8	net cash	51.8	net cash	net cash

Source: Company data, RHB

Target Price (Return): N/A
Price (Market Cap): SGD0.86 (USD484m)
ESG score: N/A
Avg Daily Turnover (SGD/USD) 0.81m/0.59m

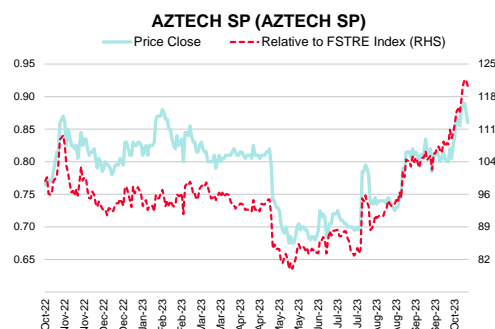
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.6	6.2	22.9	6.2	12.4
Relative	20.3	14.6	37.1	24.6	20.9
52-wk Price low/high (SGD)				0.68	0.89



Source: Bloomberg

Note:
Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Singapore	Recurring EPS	0.03	0.08	0.10	0.10	0.15
Industrials	DPS	-	0.04	0.09	0.03	0.06
Aztech Global	BVPS	0.09	0.04	0.07	0.39	0.37
AZTECH SP	Return on average equity (%)	43.0	119.7	173.3	44.5	23.3
NEUTRAL						
	Valuation metrics	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	Recurring P/E (x)	29.80	11.27	8.92	8.31	5.78
	P/B (x)	9.5	23.4	12.8	2.2	2.3
	FCF Yield (%)	7.2	6.6	3.4	6.5	16.3
	Dividend Yield (%)	-	4.9	10.6	3.6	7.6
	EV/EBITDA (x)	19.11	8.21	6.89	4.57	3.25
	EV/EBIT (x)	25.35	9.48	7.72	5.15	3.46
Valuation basis						
N/A						
Key drivers						
Global demand growth for Internet of Things (IoT) devices, data communication products, and smart lighting solutions.						
Key risks						
High customer concentration risks						
Company Profile						
Aztech Global is a provider of one-stop design and manufacturing services for IoT Devices, Data-communication products and LED lighting that enable technological connectivity, with core strengths in R&D, design, engineering and manufacturing.						
	Income statement (SGDm)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	Total turnover	347	429	484	624	820
	Gross profit	84	122	138	155	205
	EBITDA	28	64	80	91	143
	Depreciation and amortisation	(7)	(9)	(9)	(10)	(9)
	Operating profit	21	56	72	81	134
	Net interest	(1)	(1)	(0)	(0)	1
	Pre-tax profit	22	55	67	85	81
	Taxation	(2)	(8)	(11)	(11)	(14)
	Reported net profit	20	47	56	74	67
	Recurring net profit	18	47	60	71	113
	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	Change in working capital	8.6	(26.6)	(46.1)	6.7	(4.5)
	Cash flow from operations	39.6	41.7	29.2	42.5	108.4
	Capex	(1.4)	(6.4)	(11.0)	(4.7)	(2.2)
	Cash flow from investing activities	(3.7)	(7.8)	(10.7)	(4.1)	(34.4)
	Dividends paid	0.0	(26.3)	(41.0)	(15.3)	(61.8)
	Cash flow from financing activities	(78.3)	(33.0)	2.0	133.6	(84.8)
	Cash at beginning of period	15.3	11.3	14.3	11.5	201.5
	Net change in cash	(42.4)	1.0	20.5	172.0	(10.8)
	Ending balance cash	(26.9)	12.5	34.8	183.8	188.5
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	Total cash and equivalents	11	14	11	202	196
	Tangible fixed assets	17	22	29	27	26
	Total assets	198	161	300	518	541
	Short-term debt	12	10	29	12	1
	Total long-term debt	0	0	4	3	4
	Total liabilities	142	138	259	225	257
	Total equity	56	23	42	293	284
	Total liabilities & equity	198	161	300	518	541
	Key metrics	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
	Revenue growth (%)	(8.0)	23.6	12.9	28.9	31.4
	Recurrent EPS growth (%)	59.4	164.5	26.3	7.4	43.6
	Gross margin (%)	24.3	28.4	28.5	24.9	25.0
	Operating EBITDA margin (%)	8.0	15.0	16.6	14.5	17.4
	Net profit margin (%)	5.8	11.0	11.5	11.9	8.2
	Dividend payout ratio (%)	0.0	55.7	101.1	31.1	74.7
	Capex/sales (%)	0.4	1.5	2.3	0.8	0.3
	Interest cover (x)	15.0	61.0	61.8	119.1	144.3

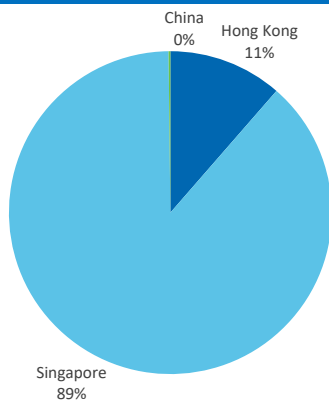
Source: Company data, RHB

Visit to AZTECH's Pasir Gudang plant

AZTECH and its Malaysia entity IOT Manufacturing

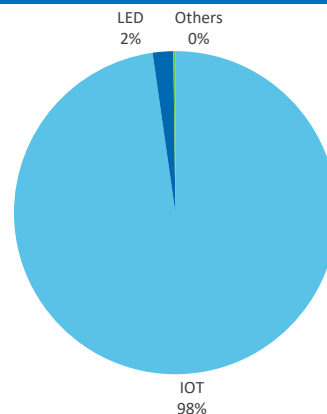
About the group. AZTECH is a key technology enabler for the connected world of tomorrow, with a focus on providing one-stop design and manufacturing services. It has an operating track record of over 30 years with 290 customers globally – in more than 40 countries – with three factories (one in China and two in Malaysia).

Figure 1: Revenue by geography (FY22)



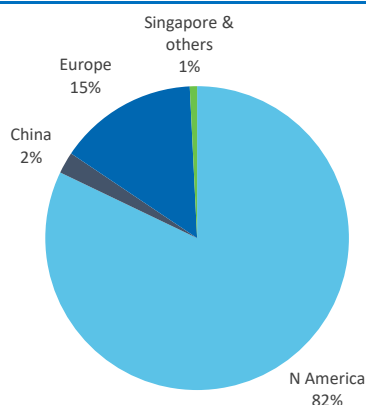
Source: Company data

Figure 2: Revenue by product segment (FY22)



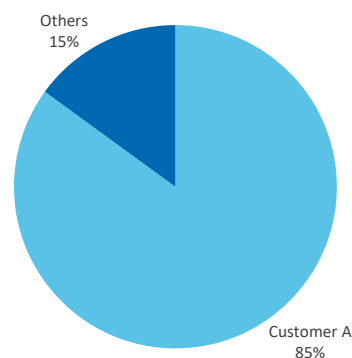
Source: Company data

Figure 3: Revenue by customer location (FY22)



Source: Company data

Figure 4: Revenue by customer (3Q23)



Source: Company data

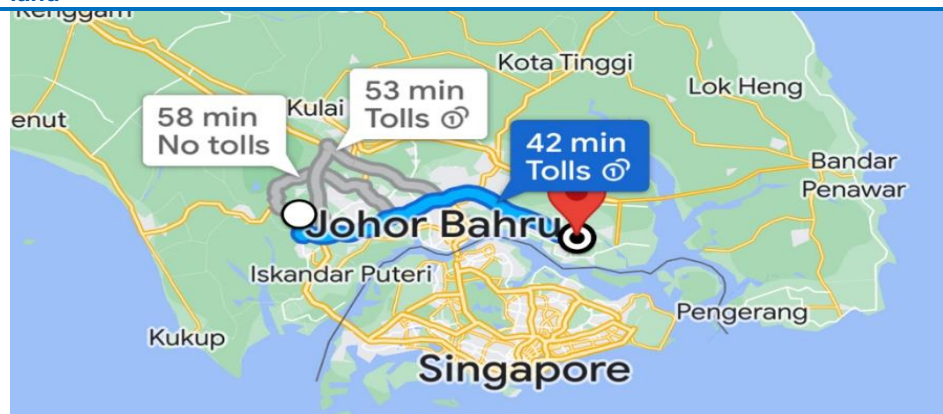
About IOT Manufacturing's Pasir Gudang plant. AZTECH's Pasir Gudang plant is located at PLO 808, Jalan Keluli 11, Kawasan Perindustrian Pasir Gudang in the Malaysian state of Johor, and occupies a total land area of approximately 9.11 acres. It has 300,000sq ft of space and is c.47km away from its Gelang Patah plant at Setia Business Park, Johor. The Pasir Gudang property was acquired last year at MYR66.8m (SGD20m) and commenced production recently in 3Q23.

Figure 5: Aztech manufacturing facilities

Entity	Location	State	Country	Started	Built up area
Aztech Communication Device (DG)	Dongguan	Guangzhou	China	2005 ¹	460,000 sq ft
IOT Manufacturing	Gelang Patah	Johor	Malaysia	2000	86,000 sq ft
IOT Manufacturing	Pasir Gudang	Johor	Malaysia	2023	300,000 sq ft

Note: Aztech first started manufacturing at a leased facility in 1994; the current facility commenced in 2005

Source: Company data

Figure 6: AZTECH's Gelang Patah and Pasir Gudang plants are just 47km apart by land

Source: Google

Pasir Gudang plant operation

Operation at the Pasir Gudang plant. The new plant has a headcount of c.1,800 workers – comprising a majority from Myanmar and the rest from India, Indonesia, and Bangladesh – and operates six days a week. Its built-up area is three to four times larger than the Gelang Patah plant. Production is mainly for Customer A, which contributes c.85% of AZTECH's 3Q23 revenue. We estimate the current utilisation at around 85%.

Figure 7: Manufacturing revenue before group elimination

Manufacturing revenue (pre-elimination) SGDm	FY19	FY20	FY21	FY22	Note
China (external revenue)	7.4	5.0	3.2	1.5	Expect higher production from Malaysia due to customers' de-risking trend away from China
China (inter-segment revenue) ¹	351.3	406.7	551.0	691.1	
Malaysia (inter-segment revenue) ²	0.0	9.2	80.3	215.8	
Total manufacturing revenue³	358.7	420.9	634.5	908.4	
Manufacturing sales split					
China	100%	98%	87%	76%	New products will be manufactured outside China unless they are for the North American market
Malaysia	0%	2%	13%	24%	
Manufacturing split	100%	100%	100%	100%	

Note 1: ¹Aztech Communication Device (DG) mainly invoices internally to Aztech Systems (Hong Kong)Note 2: ²IOT Manufacturing mainly invoices internally to Aztech TechnologiesNote 3: ³Finished goods are delivered directly from factory to customers' specified location

Source: Company data

Sales, invoicing, and delivery mechanics. Products are invoiced to Aztech Technologies in Singapore, which sells it to external customers globally. The internal transfer pricing and margins are based on a fair arms' length basis. Finished goods are shipped directly from the factory facility to the customers' designated location. Due to the global China de-risking trend and being located outside the East Asian nation, the Malaysia plants ship extensively to North America.

Figure 8: Pasir Gudang manufacturing facility

Source: Company data

Figure 9: Product assembly and test process

Source: Company data

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Input and component procurement. AZTECH usually procures components from suppliers designated by principals, with pre-determined costs and margins. Otherwise, other components with no designated suppliers allow AZTECH to negotiate its own supplies and input costs.

Figure 10: Packaging process



Source: Company data

Figure 11: SMT line



Source: Company data

Outlook – expect higher capacity and production going forward

Expect higher utilisation from AZTECH's Malaysia plants. There is an increasing trend of more customers requesting for production outside of China, due to de-risking and overreliance on the Asian country. Hence, increased production and demand will likely come from AZTECH's Malaysia factories. Capacity at the Pasir Gudang plant is also expected to expand in line with this trend, with plans already in place to ramp up its eight SMT lines in the near future. We therefore expect AZTECH's Malaysia plants to be well-utilised going forward. Its China factory will also be used to produce new products that are delivered to markets outside North America.

Figure 12: Soldering process



Source: Company data

Figure 13: Warehousing facility



Source: Company data

Figure 14: Peer comparison

Name	Market cap (USDm)	Price (local currency)	P/E historical	P/E current	P/E forward	ROE	Dividend yield	Operating margin	Net margin
Aztech Global	484	0.86	5.8x	6.9x	6.1x	23%	5.2%	16%	8.2%
Venture Corp	2,425	11.45	9.9x	11.0x	10.2x	12%	6.6%	11%	9.6%
AEM Holdings	757	3.36	16.3x	73.0x	11.5x	13%	1.1%	18%	14.6%
UMS Holdings	601	1.23	9.4x	13.4x	10.0x	27%	4.2%	28%	26.4%
Nanofilm Technologies Int'l	410	0.87	33.1x	33.5x	15.0x	4%	1.6%	19%	18.5%
Frencken Group	336	1.00	12.2x	18.6x	11.3x	10%	3.4%	8%	6.6%
CSE Global	175	0.39	21.3x	11.1x	9.1x	6%	7.1%	1%	0.9%
Valuetronics Holdings	149	0.50	9.7x	9.0x	8.1x	9%	4.9%	5%	6.1%
Grand Venture Technology	121	0.49	17.3x	11.1x	5.2x	12%	0.6%	12%	10.2%
ISDN Holdings	102	0.32	17.0x	11.7x	8.3x	n/a	2.5%	11%	3.9%
Singapore average			16.3x	21.4x	9.8x	12%	3.6%	13%	10.7%

Source: RHB, Bloomberg

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