

17 September 2020

Technology | Semiconductors

Avi-Tech Electronics (AVIT SP)

Buy (Maintained)

Stability In Uncertainty; Keep BUY

Target Price (Return): SGD0.52 (+24%)
 Price: SGD0.42
 Market Cap: USDm
 Avg Daily Turnover (SGD/USD) 0.20m/0.15m

- **BUY, new DCF-based TP of SGD0.52 from SGD0.50, 24% upside with 6% FY21F (Jun) yield.** Avi-Tech Electronics' FY20 PATMI surged 28.5% YoY. It declared a DPS of 2.5 SG cents (FY19: 2.3 cents), despite being impacted by the COVID-19 pandemic. Management's outlook remains cautious, due to uncertainty over demand. That said, we believe that its margins will continue to increase, on continued growth of the testing segment.
- **Burn-in testing for automotive component still growing strongly.** With the sector slowdown – in effect since 2018 – having bottomed out, its outlook should improve. Avi-Tech's performance should continue to pick up in FY21F, with decent growth from burn-in services, which fetch a much higher GPM. This, coupled with previously-done cost cuts, should help improve margins as well. Its GPM improved significantly to 35.7% in FY20, from 31.4% FY19. We expect it to continue booking robust numbers, moving into FY21F
- **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 over 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 FY21F.** For FY20, management declared a total DPS of 2.5 SG cents, translating to a PATMI payout ratio of 71.6%. We expect management to reward shareholders with the same level of dividends or more, going forward – on top of the special dividend given in FY20.
- **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.

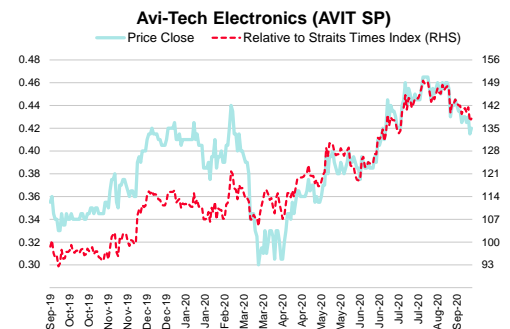
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	(6.7)	9.1	40.0	20.0
Relative	22.3	(3.7)	15.2	39.6	41.8
52-wk Price low/high (SGD)				0.30 – 0.47	



Source: Bloomberg

Forecasts and Valuation	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total turnover (SGDm)	34	29	30	31	32
Recurring net profit (SGDm)	5	6	7	7	7
Recurring net profit growth (%)	(4.5)	28.5	9.4	4.5	4.5
Recurring P/E (x)	15.46	12.03	11.00	10.53	10.07
P/B (x)	1.5	1.4	1.3	1.3	1.2
P/CF (x)	11.79	7.34	9.53	8.82	8.25
Dividend Yield (%)	5.5	6.0	6.0	6.0	6.0
EV/EBITDA (x)	5.34	4.13	3.91	3.67	3.40
Return on average equity (%)	9.5	11.9	12.5	12.5	12.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Singapore	Recurring EPS	0.03	0.03	0.04	0.04	0.04
Technology	DPS	0.02	0.03	0.03	0.03	0.03
Avi-Tech Electronics	BVPS	0.29	0.30	0.31	0.33	0.34
AVIT SP	Return on average equity (%)	9.5	11.9	12.5	12.5	12.4
Buy						
	Valuation metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Valuation basis	Recurring P/E (x)	15.46	12.03	11.00	10.53	10.07
DCF	P/B (x)	1.5	1.4	1.3	1.3	1.2
	FCF Yield (%)	7.4	12.8	4.9	5.8	6.6
Key drivers	Dividend Yield (%)	5.5	6.0	6.0	6.0	6.0
i. Attractive dividend yields;	EV/EBITDA (x)	5.34	4.13	3.91	3.67	3.40
ii. Sector undergoing a correction	EV/EBIT (x)	6.53	4.81	4.50	4.33	4.09
Key risks	Income statement (SGDm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Economic recession	Total turnover	33.6	29.4	30.3	31.2	32.1
	Gross profit	10.5	10.5	11.1	11.5	11.8
	EBITDA	7.0	8.1	8.8	9.4	10.0
	Depreciation and amortisation	(1.3)	(1.1)	(1.1)	(1.4)	(1.7)
	Operating profit	5.7	7.0	7.6	8.0	8.3
	Net interest	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
	Pre-tax profit	5.7	6.9	7.6	7.9	8.3
	Taxation	(1.1)	(1.0)	(1.1)	(1.1)	(1.2)
	Reported net profit	4.6	6.0	6.5	6.8	7.1
	Recurring net profit	4.6	6.0	6.5	6.8	7.1
	Cash flow (SGDm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Change in working capital	(0.6)	1.9	(0.1)	(0.1)	(0.1)
	Cash flow from operations	6.1	9.8	7.5	8.1	8.7
	Capex	(0.8)	(0.6)	(4.0)	(4.0)	(4.0)
	Cash flow from investing activities	(3.8)	(3.7)	(4.0)	(4.0)	(4.0)
	Dividends paid	(3.6)	(4.3)	(4.3)	(4.3)	(4.3)
	Cash flow from financing activities	(3.6)	(4.5)	(4.3)	(4.3)	(4.3)
	Cash at beginning of period	31.2	33.9	38.3	37.5	37.3
	Net change in cash	(1.3)	1.6	(0.7)	(0.1)	0.4
	Ending balance cash	29.8	35.4	37.5	37.4	37.8
	Balance sheet (SGDm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Total cash and equivalents	34.5	38.3	37.5	37.3	37.7
	Tangible fixed assets	12.1	11.5	14.4	17.0	19.4
	Total assets	56.6	59.2	61.5	64.1	67.1
	Total liabilities	7.1	7.9	8.0	8.1	8.2
	Total equity	49.5	51.2	53.5	56.0	58.9
	Total liabilities & equity	56.6	59.2	61.5	64.1	67.1
	Key metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Revenue growth (%)	(5.9)	(12.5)	2.9	2.9	3.0
	Recurrent EPS growth (%)	(4.5)	28.5	9.4	4.5	4.5
	Gross margin (%)	31.4	35.7	36.8	36.8	36.8
	Operating EBITDA margin (%)	20.8	27.6	29.0	30.2	31.3
	Net profit margin (%)	13.8	20.3	21.6	21.9	22.2
	Capex/sales (%)	2.3	1.9	13.2	12.8	12.5
	Interest cover (x)	1,144	184	201	210	219

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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