

Singapore

ADD (previously NOT RATED)

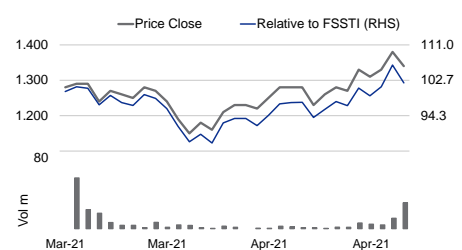
Consensus ratings*: Buy 0 Hold 0 Sell 0

Current price:	S\$1.34
Target price:	S\$1.91
Previous target:	N/A
Up/downside:	42.9%
CIMB / Consensus:	N/A
Reuters:	AZTECH.SI
Bloomberg:	AZTECH.SP
Market cap:	US\$779.4m
	S\$1,037m
Average daily turnover:	US\$5.80m
	S\$8.81m
Current shares o/s:	773.7m
Free float:	30.0%

*Source: Bloomberg

Key changes in this note

➤ N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.7		
Relative (%)	2.8		

Major shareholders	% held
AVS Investments	70.0

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Aztech Global Ltd

Blinking growth

- Johor plant's area expansion by 89% underway by 1H21F to support 30% higher volume production from Customer A, according to management.
- We forecast AZTECH to deliver a 18.4% net profit CAGR between FY21F and FY23F from strong IoT demand and a robust order book.
- Initiate coverage on AZTECH with an Add rating and a P/E-based TP of S\$1.91. The group's order book stands at \$489m as of end 1Q21.

Top 10 best smart security camera in US

Aztech Global Ltd (AZTECH) is an electronics manufacturing service provider to blue chip brand owners, primarily for their Internet-of-Things (IoT) and data communication products. Smart security cameras manufactured by AZTECH was voted among the top ten best smart security cameras for 2021 according to Safewise.com. With the global IoT market set to deliver a 20.8% CAGR to reach US\$425.2bn by 2023F according to Frost & Sullivan, we believe decreasing average prices of IoT sensors will further accelerate adoption rates. IoT-related revenue accounted for c.88% of AZTECH's FY20 revenue and we believe should drive future net profit growth, given its higher margin profile.

Factory expansion by 89% is underway to support volume increase

Key takeaways from our company visit include: 1) a factory expansion of 89% to c.86,000 sq ft, which is underway at AZTECH's Johor Bahru plant in Malaysia, 2) Customer A's (major customer accounting for over 60% FY20 revenue) guidance for an over 30% increase in volume production of its smart security cameras in FY21F, and 3) AZTECH's expectation of a stronger order book and to potentially start manufacturing a new line of products for Customer A in 2H21F. We believe AZTECH's smart security cameras offer a compelling price-performance trade off based on our analysis of current market offerings to remain popular among consumers. We forecast AZTECH to register a 18.4% net profit CAGR to achieve net profit margins of 11.6%-11.9% between FY21-23F.

New contracts win and completing the smart home value chain

As at end-1Q21, AZTECH has secured 11 new customers and projects, of which they are the sole supplier to two new lines of products of Customer A. Management expects to see contributions from new contract wins to come in FY22F. We believe as consumers continue to invest in the smart home ecosystem, this offers an opportunity for AZTECH to further expand its IoT product manufacturing portfolio within the smart home value chain to drive its multi-year earnings runway, in our view.

Initiate with Add and a P/E-based TP of S\$1.91

We initiate coverage on AZTECH with an Add rating and a S\$1.91 target price based on 16x FY22F P/E supported by capacity expansion and robust order book, which provide strong net profit growth potential of c.18% CAGR over FY21F-23F, in our view. Re-rating catalysts are new customer wins and strong order book. Downside risks include customer concentration risk and high competition.

Financial Summary

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (S\$m)	428.8	484.3	625.9	792.3	899.1
Net Profit (S\$m)	47.2	56.5	74.5	92.6	104.4
Normalised EPS (S\$)	0.08	0.09	0.09	0.12	0.13
Normalised EPS Growth	136%	18%	5%	27%	13%
FD Normalised P/E (x)	17.58	14.88	12.80	11.20	9.93
Price To Sales (x)	1.93	1.71	1.66	1.31	1.15
DPS (S\$)	0.017	0.020	0.028	0.036	0.040
Dividend Yield	1.27%	1.49%	2.11%	2.68%	3.02%
EV/EBITDA (x)	12.83	11.15	8.60	6.85	5.71
P/FCFE (x)	25.74	20.24	34.59	31.17	11.55
Net Gearing	(17.1%)	51.8%	(63.2%)	(51.2%)	(54.5%)
P/BV (x)	36.53	19.92	3.65	2.97	2.46
ROE	120%	173%	45%	29%	27%
% Change In Normalised EPS Estimates					
Normalised EPS/consensus EPS (x)					

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Investment thesis











Sole supplier status for smart security cameras ▶

AZTECH is presently the sole supplier to its major customer - Customer A, for the manufacturing of smart security cameras. Customer A accounted over 60% of AZTECH's FY20 revenue (FY19: 49%; 9M20: 57.8%), according to the management in its FY20 earnings call. Key takeaways from our company visit with management include: 1) a factory area expansion of 89% to c.86,000 sq ft, which is underway at AZTECH's Johor Bahru plant in Malaysia, 2) Customer A's guidance for an over 30% increase in volume production of its smart security cameras in FY21F, and 3) AZTECH's expectation of a stronger order book and to potentially start manufacturing a new line of products for Customer A in 2H21F. We believe AZTECH should be able to sustain earnings growth over our forecast period (FY21F-23F), supported by higher demand for its major customer's products driving stronger production guidance.

Top-ten smart security cameras for 2021 ▶

According to Safewise, an independent review site for home security in the US, AZTECH's manufactured smart security camera was voted among the top-ten wireless security cameras for 2021. In our analysis of select current smart security camera offerings in the market, we find that the smart security camera manufactured by AZTECH is far superior in terms of battery life, being able to last up to two years according to Safewise using only standard double A-sized batteries, highlighting its low power consumption capabilities without the need of being plugged into a power source. Despite not being the cheapest, AZTECH's product offers a compelling price-performance trade-off at its current price point below US\$100, in our view. We believe the demand for the company's product should remain strong among consumers given its reliable performance at an attractive price point, high mobility and long battery life.

Figure 1: Comparison and analysis of select smart security camera offerings in the market

Brand	Smart Security Cameras manufactured by AZTECH	Arlo Pro 4	Ring Stick Up Cam Battery	Wyze Cam Pan	Canary Pro	Google Nest Cam IQ Indoor	Reolink Argus 3	Amcrest 4MP UltraHD Indoor	Abode Iota	YI Dome Camera U
										
Price*	US\$79.99 - 99.99	US\$199.99	US\$99.99	US\$37.59	US\$99.00	US\$299.00	US\$109.99	US\$69.99	US\$279.99	US\$39.99
Resolution	1,080p	1,444p	1,080p	1,080p	1,080p	Up to 1,080p	1,444p	1,520p	1,080p	1,080p
Type	Indoor/ Outdoor wire-free	Indoor/ outdoor wire-free	Indoor/ outdoor wire-free	Indoor wired	Indoor wired	Indoor wired	Indoor/ outdoor wire-free	Indoor wired	Indoor wired	Indoor wired
Night Vision	Infrared	Colour/ infrared	Infrared	Infrared	Infrared	Infrared	Colour/ Infrared	Infrared	Infrared	Infrared
Battery Life	Up to 2 years	Up to 6 months	Up to 6 to 12 months	Up to 3 to 6 months	Up to 2 to 3 months	Plugged-in required	Up to 1 month	Up to 6 months	Up to 3 days	No info available
Field of View	110°	160°	130°	110°	147°	130°	120°	120°	157°	107°
Pros	<ul style="list-style-type: none"> Full IFTTT integration Battery powered Indoor/ outdoor 	<ul style="list-style-type: none"> 2K video resolution 100% wire-free design Indoor/ outdoor versatility Smart home integration 	<ul style="list-style-type: none"> No power cables to wrangle Motion-activated sensors Indoor/ outdoor versatility 	<ul style="list-style-type: none"> Affordable price 360° coverage with Pan Scan Smart motion tracking Free rolling 14-day cloud storage 	<ul style="list-style-type: none"> Camera, siren, and climate monitor Learning tech to adjust to your habits Direct connection to emergency services 	<ul style="list-style-type: none"> Great video quality Crystal clear two-way audio Quality design and aesthetic 	<ul style="list-style-type: none"> Rechargeable battery or solar power Starlight night vision gives clear images up to 33 feet without extra ambient light 	<ul style="list-style-type: none"> Remote pan-and-tilt function Various storage functions Two-way talk 	<ul style="list-style-type: none"> Advanced smart home compatibility Optional self-monitoring No cancellation fees or contracts Custom home automation settings 	<ul style="list-style-type: none"> Anti-noise filter Physical privacy shutter Good audio
Cons	<ul style="list-style-type: none"> No pro monitoring Narrow field of view 	<ul style="list-style-type: none"> High price Paid cloud storage 	<ul style="list-style-type: none"> Tedious process to recharge battery Short battery life 	<ul style="list-style-type: none"> Wired power cord Hit-and-miss motion alerts 	<ul style="list-style-type: none"> Only 20-foot range for night vision Subscription required for some features Buggy mobile app 	<ul style="list-style-type: none"> High price point Required Nest Aware subscription for coolest features 	<ul style="list-style-type: none"> Unstable Wi-Fi connection at times Choppy video playback 	<ul style="list-style-type: none"> Lag during live video streaming Mounting on the wall limits camera's rotation options 	<ul style="list-style-type: none"> Up-front equipment costs Muddy sound quality Limited function for larger homes 	<ul style="list-style-type: none"> Several reported issues with Android App

Note:
*Amazon.com list price as of 03/31/2021

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, SAFEWISE, AMAZON.COM, THEVERGE.COM, SECURITY.ORG, BABYGEARLAB.COM, TECHHIVE.COM, MACSTORIES.NET, SEA.PCMAG.COM, SIMLIMSQUARE.COM, KAMIHOME

Deeper penetration into smarthome ecosystems >

As of end-1Q21, AZTECH secured 11 new contracts and projects, of which they are the sole supplier for 2 new lines of products for Customer A. Management expects this to start contributing to revenue from FY22F which should add to further order book growth, in our view (we have not factored the new contract wins into our growth assumptions). With more IoT devices getting increasingly connected to smart home ecosystems such as Google Home and Amazon Alexa, we believe this creates a network effect to drive further spending by consumers on smart products to support strong demand for IoT and other related devices. Given AZTECH's capabilities in IoT manufacturing, we believe the company can achieve deeper penetration within the smart home ecosystems to drive its multi-year earnings runway.

According to F&S, global smart home devices shipment volume is expected to register a 16.9% CAGR to reach c.1.6bn units by 2023F. We think this offers opportunity for AZTECH to secure new manufacturing contracts and expand into other smart devices within the smart home ecosystem. AZTECH also has a longstanding track record of LED lighting manufacturing, and we believe it is able to combine its IoT capabilities to potentially win contracts for smart lighting production in the future. We think potential low-hanging fruits in the consumer IoT market could come from the likes of smart locks, windows, door bells and other consumer electronic appliances.

IoT tailwinds to drive profitability >

We believe AZTECH is well positioned to ride on emerging IoT tailwinds to drive earnings growth from the manufacturing of IoT and data communication products, which command higher margins. Globally, the number of short-ranged/wide-area connected IoT devices has registered CAGRs of 23.9%/48.7% between 2015 and 2019, according to F&S. Going forward, F&S expects the IoT industry to register a 20.8% CAGR between 2019 and 2023F to offer a market opportunity of US\$425.2bn. Presently, AZTECH's core product portfolio is in the consumer IoT segment, which is expected to register the fastest growth (23.4% CAGR) to reach US\$94.8bn by FY23F, according to F&S. We believe declining average prices of IoT sensors could continue to drive greater adoption of IoT products among consumers, supporting demand for IoT and data communication products produced by AZTECH. We forecast AZTECH's IoT and data communication revenue to grow 22.3% CAGR between FY21F-23F to reach US\$864.0m, in line with the growth rate of the consumer IoT segment. We also expect stronger demand for IoT products to drive production volume for AZTECH to achieve good net profit margins of 11.6% - 11.9% over our forecast period.

Initiate with Add and TP of S\$1.91 ▶

In our view, AZTECH's strategic decision to pivot towards the production of IoT and data communication devices and smart lighting products positions the company for a new era of growth with emerging IoT trends globally. We believe that AZTECH is one of the only homegrown listed plays in Singapore that is well positioned to ride the tailwinds from the fast-growing IoT industry globally, which is presently at its nascent stage according to F&S.

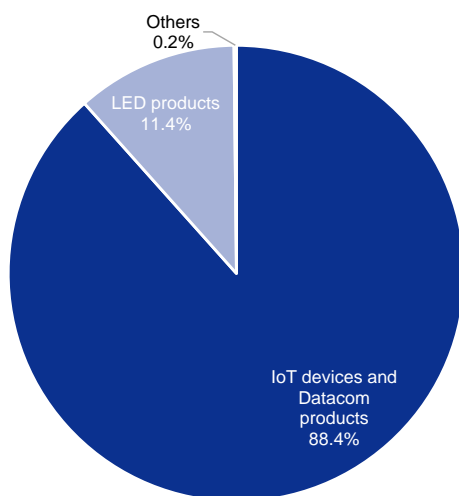
We initiate coverage on AZTECH with an Add rating and a S\$1.91 target price, pegged to 16.0x FY22F EPS of 12.0 Scts, in line with Singapore technology peers average P/E of c.16.0x and further supported by capacity expansion and robust order book to drive potential core net profit growth of c.18% CAGR over FY21F-23F. We believe that AZTECH will be able to drive earnings growth over our forecast period of FY21F-23F, supported by: 1) rising IoT adoption rates globally, which in turn drives demand for complementary data communication devices, 2) increasingly affordable IoT devices, due to declining average sensor prices, according to F&S, which will encourage mass market adoption in our view, and 3) capacity expansion from customer A's guidance for stronger production volume in FY21F, which suggests continued high demand for the smart security cameras manufactured by AZTECH.

Potential re-rating catalysts include new customer wins and stronger order book. Downside risks include customer concentration risks and high competition.

Company background

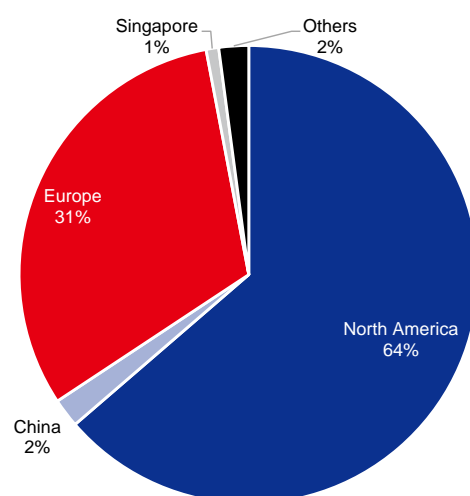
AZTECH was established in 1986 by Mr. Michael Mun to undertake the design, manufacture and distribution of PCs. Today, AZTECH has a core focus on one-stop design and manufacturing solutions for IoT, data communication and LED lighting products. AZTECH has over 290 customers in more than 40 countries, with three manufacturing facilities in Dongguan, People's Republic of China (PRC), and Johor, Malaysia, as at 15 Feb 2021. The company operates three key business segments, namely IoT devices and data communication products, LED lighting products, and other electrical products. AZTECH was listed on the SGX on 12 Mar 2021, at an IPO price of S\$1.28, according to the company's offer document.

Figure 2: Revenue by business segments in FY20



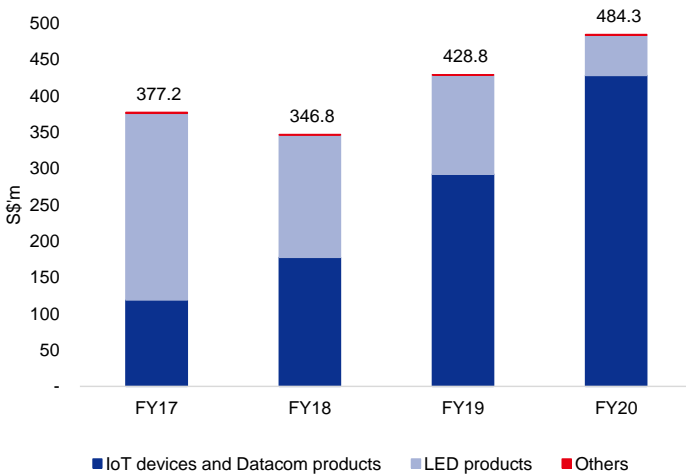
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Revenue by geography in FY20



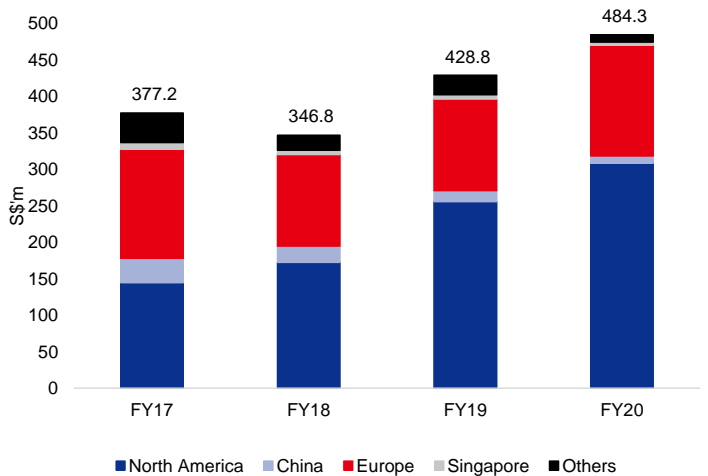
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: AZTECH derives majority of its revenue from the sale of IoT devices and data communication and LED products



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 5: AZTECH derives majority of its revenue in North America and Europe historically

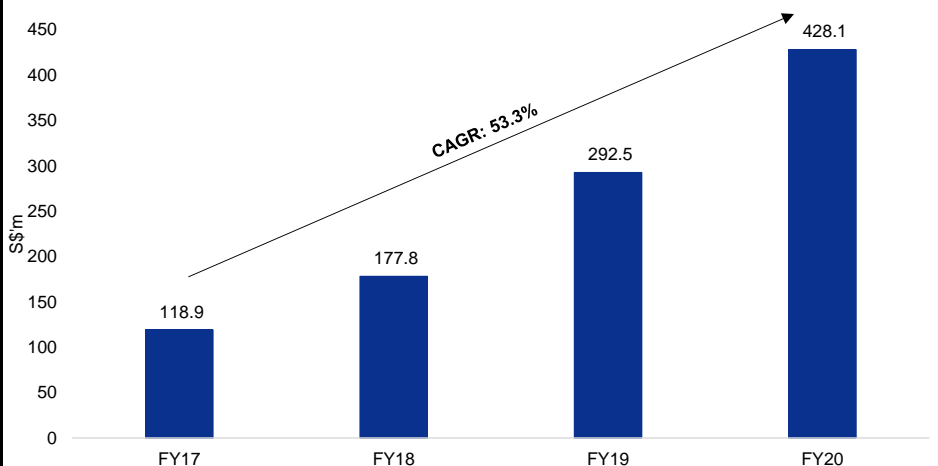


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

IoT devices and data communications ►

The IoT device and data communications product segment is AZTECH's primary driver of revenue, representing 88.4% of its FY20 revenue at S\$428.1m (FY19: 68.2%). This segment registered a strong revenue CAGR of 53.3% between FY17 and FY20, as management shifted its strategic focus to enter the IoT manufacturing space. Under this segment, AZTECH offers customers ODM, OEM, JDM or CMS manufacturing services for their branded products, such as smart security cameras, IoT lighting products and satellite modems. The majority of AZTECH's revenue in this segment is attributable to the sale of smart security cameras to Customer A and HomePlug devices for Customer C, who are both AZTECH's major customers by revenue — accounting for 57.8% and 12.1% of 9M20's total revenue, respectively, according to the company's offer document (see Fig 15). AZTECH also manufactures and distributes its own range of IoT device products within this segment, marketed under its own brands "Aztech" (B2B) and "Kyla" (B2C) through their channel partners and on e-commerce platforms.

Figure 6: Historical revenue performance of IoT devices and data communication segment from FY17-FY20



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 7: Key IoT devices and data communication products in AZTECH's portfolio as at 4 Mar 2021

Product	Details
Smart security cameras	Smart security cameras are cameras equipped with remote live streaming capabilities and motion detection features for surveillance purposes.
HomePlugs	HomePlug devices transform the domestic power line into a networking infrastructure, thus reducing "blind spot" and improving network coverage within the home.
Fibre gateways	Fibre gateways are all-in-one devices used in Active Ethernet deployments based on FTTH (Fibre-To-The-Home) access. A fibre gateway replaces the traditional ADSL gateway by offering true Gigabit full duplex bandwidth capacity. It also adds up telephone lines, a router and a WiFi access point for Dual Band Wi-Fi MESH Controllers are devices that provide an all-in-one solution for wireless connectivity for home networks that enables the user to roam between access points without disconnection. Through the advanced mesh technology, the user can be connected consistently as the technology circumvents coverage issues and can automatically switch connected devices to the strongest Wi-Fi signal available.
Dual Band Wi-Fi MESH Controllers	
IoT Devices	IoT Devices are devices that can be controlled, using Zigbee and WiFi products, via an application, voice control or through pre-defined automation sequence to automate products such as lightings, curtains, air-conditioners and enhance the user's

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 8: Select IoT and data communication products and devices manufactured by AZTECH under its own brands "Aztech" and "Kyla"

IoT Products			Aztech branded security cameras		
Smart Lighting Switch	Smart Station	Smart Plug			
Data Communication			Aztech branded data communication products		
Modems	Wifi Routers	Wifi Repeaters			
Smart-Lighting Projects			Kyla branded smart home products		
Smart Sensors	Smart Luminaries	Smart Management Systems			

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, KYLA CONNECT

LED lighting products ▶

The LED lighting product segment accounted for 11.4% of FY20 revenue at S\$55.4m (FY19: 31.7%). AZTECH has a long track record of manufacturing LED lighting products since 2009. Under this segment, AZTECH manufactures general lighting products, including a variety of luminaires, bulbs and tubes, for residential, commercial, industrial, agriculture, refrigeration and automotive industrial applications. AZTECH also manufactures key components, such as the driver and optics for its LED lighting products. Leveraging on its expertise in LED lighting, AZTECH managed to foray into smart lighting systems for urban cities, where it secured three contracts in 2019 for the supply and installation of smart lighting systems in Singapore's first Smart Town in Punggol Northshore, according to the company's offer document.

Figure 9: AZTECH's LED lighting portfolio

Residential Lights	Commercial Lights
Agriculture Lights	Industrial Lights
Refrigeration Lights	Automotive Industrial Lights

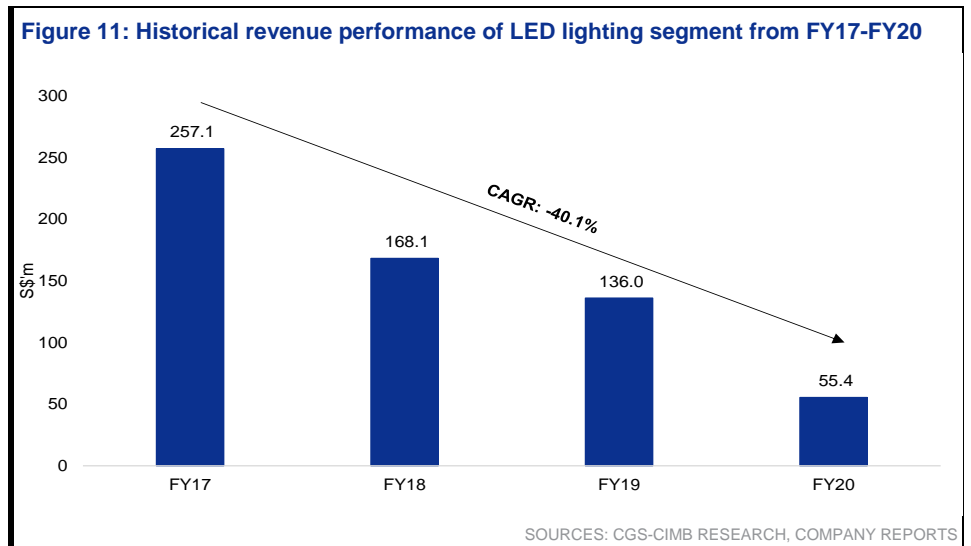
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 10: AZTECH secured three contracts to supply smart lighting systems to Punggol Northshore, Singapore, in 2019



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, TODAY ONLINE, HOUSING DEVELOPMENT BOARD

Since FY18, as a result of AZTECH’s strategic decision to focus on producing smart lighting, IoT devices and data communication products, which command higher profit margins, revenue for the LED lighting segment declined by a CAGR of -40.1% between FY17 and FY20. While AZTECH has exited the conventional LED lighting business, it still manufactures products such as lighting for refrigeration and automotive industrial uses, according to the management. Going forward, we continue to expect lower contribution from this segment as the company focuses on its IoT and data communication business.



Others ▶

The Others segment comprises mainly of sale of electrical products, which accounted for 0.2% of FY20 revenue at S\$0.8m (FY19: 0.1%). As AZTECH’s core focus is in the manufacturing and sale of IoT and data communication products, this segment has declined by a CAGR of -9.5% between FY17 and FY20. Under this business, AZTECH offers for sale kitchen appliances, such as ovens and air fryers, as well as other home and living products, such as cordless vacuum cleaners and air purifiers. As at 15 Feb 2021, AZTECH had over 11 product lines and more than 35 models of electrical products, which are marketed under its “Aztech” brand. Following its rebranding exercise in Dec 2019, AZTECH has been phasing out the sale of products under its “Aztech” brand and will only sell “Kyla” branded products going forward, according to the company’s offer document.

Figure 12: Select products for AZTECH’s kitchen appliances portfolio

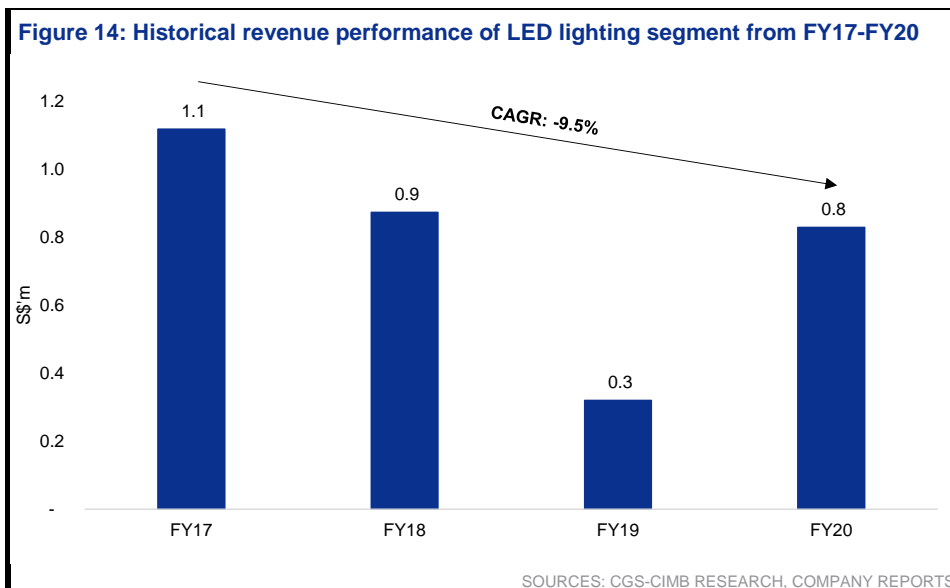


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, KYLA CONNECT

Figure 13: Select products for AZTECH’s home and living portfolio



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS



Key customers >

Three main customers contributed **86.3% of AZTECH's FY19 revenue (9M20: 83.3%)**. AZTECH primarily manufactures IoT and data communication products, such as smart security cameras, smart light bulbs and home plugs for these customers.

Customer A is AZTECH's largest customer, accounting for over 60% of FY20 revenue (9M20: 57.8%, FY19: 49%) according to AZTECH's management in its FY20 earnings call. This compares with 49.0% of FY19 revenue, according to the company's offer document. AZTECH began manufacturing smart security cameras in 2015 for a consumer electronics company that was acquired by Customer A, a major US e-commerce retailer in 2017, according to the company's offer document. Customer A and AZTECH entered into a manufacturing and development services agreement in 2018 to supply smart security cameras, which drove Customer A's revenue contribution from 5.7% in FY17 to 49.0% in FY19, as smart security cameras rose in popularity from active marketing efforts online post-acquisition.

In FY19, Customer B and Customer C accounted for 28.4% (9M20: 13.4%) and 8.9% (9M20: 12.1%) of revenue, respectively. Customer B is a Hong Kong subsidiary of a leading Europe-based multinational lighting group, for which AZTECH is a sole supplier for a line of smart light bulbs, according to management. Customer C is a German company specialising in smart home technology, for which AZTECH manufactures HomePlugs, according to the company's offer document. We also understand from our meeting with the management that AZTECH has also become the sole supplier of powerline adaptors (devices used to enhance Wifi connectivity) for a company in Europe as of FY20.

Figure 15: AZTECH's major customers' revenue contribution from FY17-19 and 9M20

Major Customer	Products Supplied	Year of Relationship	FY17 (% Revenue)	FY18 (% Revenue)	FY19 (% Revenue)	9M20 (% of Revenue)	Remarks
Customer A	Smart Security Camera	2015	5.7	28.4	49.0	57.8	Contributions rose as products were actively marketed online, resulting in increased popularity of the products in the global market.
Customer B	LED lighting products	2012	64.3	45.1	28.4	13.4	Contributions fell as AZTECH shifts its focus from conventional LED lighting products to smart lighting products and IoT Devices and Data communications products which commands higher margins.
Customer C	HomePlug	1998	17.7	14.4	8.9	12.1	Decrease in contributions between FY17-19 was due to a transitional period where the power line market experienced migration to new technologies. 9M20 contributions rose as Customer C successfully implemented new product lines.
Total (%)			87.7	87.9	86.3	83.3	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

AZTECH's order book came in at S\$489m and secured a total of 11 new customers and projects as at end 1Q21. According to management, 2 out of the 11 new customers and projects are from Customer A, namely for the production of solar panel holders for cameras and a new version of sync modules which AZTECH is the sole supplier.

We also understand from management during the earnings call that these new customers and project wins are expected to have a small contribution for FY21F and will begin to contribute more meaningfully as volume ramps up from FY22F. We have not factored this into our revenue and earnings assumptions.

Figure 16: New customers and projects secured in 1Q21

Product	Type	Country of Customer	Target Market
Satellite Modem	ODM	Korea	Global
Smart IoT Hub	CMS	US	US
Smart Bridge Hub	JDM	Singapore	ASEAN, US
Smart/IoT Rat & Mice Reusable Trap	CMS	US	US
Advanced Emergency Weather Warning Receiver	CMS	Sweden	Europe
Wireless POS Terminal	CMS	Australia	Asia Pacific
Air Purifier	ODM	US	US
Selfie Light	ODM	US	US, Korea, Japan, Germany, South Africa
Smart UV Bottle	CMS	US	US
Solar Panel Holder for Camera	ODM	US	US, Europe
Sync Module (New version)	CMS	US	US, Europe

Note:
ODM: Original Design Manufacturing
CMS: Contract Manufacturing Services
JDM: Joint Design Manufacturing

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

SWOT analysis >

Figure 17: SWOT analysis

Strengths	Opportunities
<ul style="list-style-type: none"> Sole supplier status to various customers for the production of their IoT devices and data communication products 	<ul style="list-style-type: none"> Growing demand for IoT applications and devices
<ul style="list-style-type: none"> Strong demand for smart security cameras in the US 	<ul style="list-style-type: none"> Increasing number of connected devices globally
<ul style="list-style-type: none"> Strong track record of over 30 years in the electronics industry and over 25 years in the communication and networking technology 	<ul style="list-style-type: none"> Contract wins for production of other lines of IoT products for other customers
Weaknesses	Threats
<ul style="list-style-type: none"> Customer concentration risk 	<ul style="list-style-type: none"> High competition
<ul style="list-style-type: none"> Product concentration risk 	<ul style="list-style-type: none"> Disruption of operations at the production facilities in the PRC due to lack of operating permits and licenses
<ul style="list-style-type: none"> Limited bargaining power with customers 	<ul style="list-style-type: none"> Component shortages

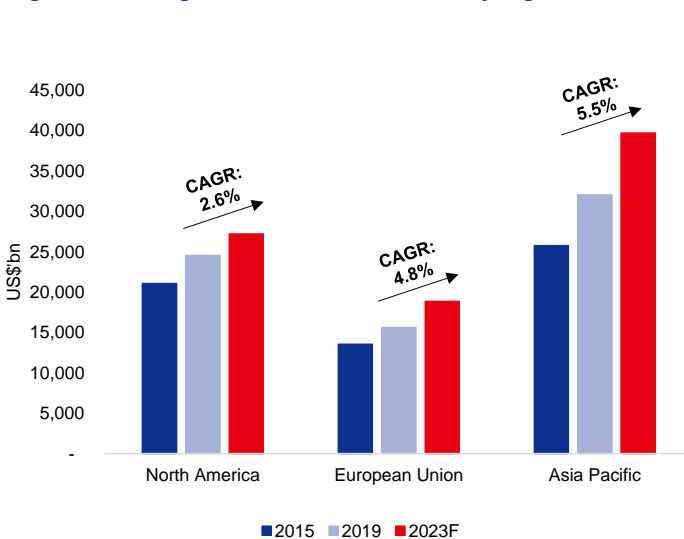
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Industry analysis

Electronics product end-markets >

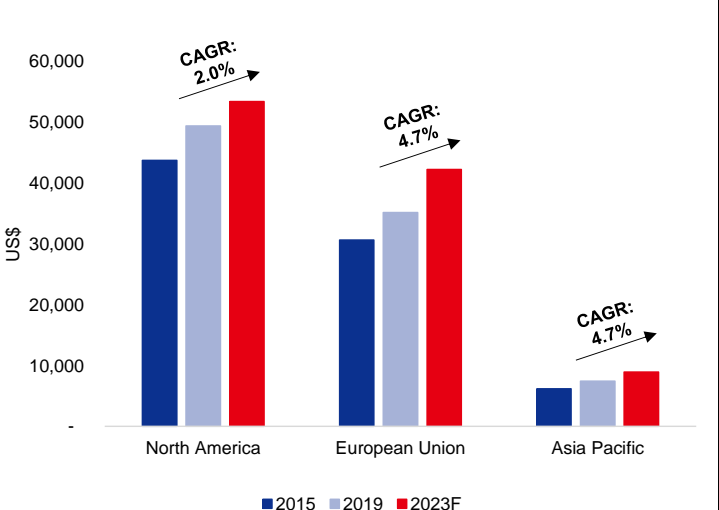
The demand for electronics products is driven by macroeconomic factors such as GDP growth and purchasing power, according to Frost & Sullivan (F&S), a global market research company. AZTECH's key regional markets in North America, European Union (EU) and Asia Pacific (APAC) are expected to post GDP CAGR of 2.6%-5.5% between FY19 and FY23F, according to F&S. Strong GDP growth generally reflects an increase in production activities and disposable income, resulting in higher spending within the population, according to F&S. We expect post-Covid-19 economic recovery to spur the demand for electronics across AZTECH's regional markets, as higher disposal incomes should encourage greater spending on electronics, in our view.

Figure 18: GDP growth across AZTECH's key regional markets



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, FROST & SULLIVAN

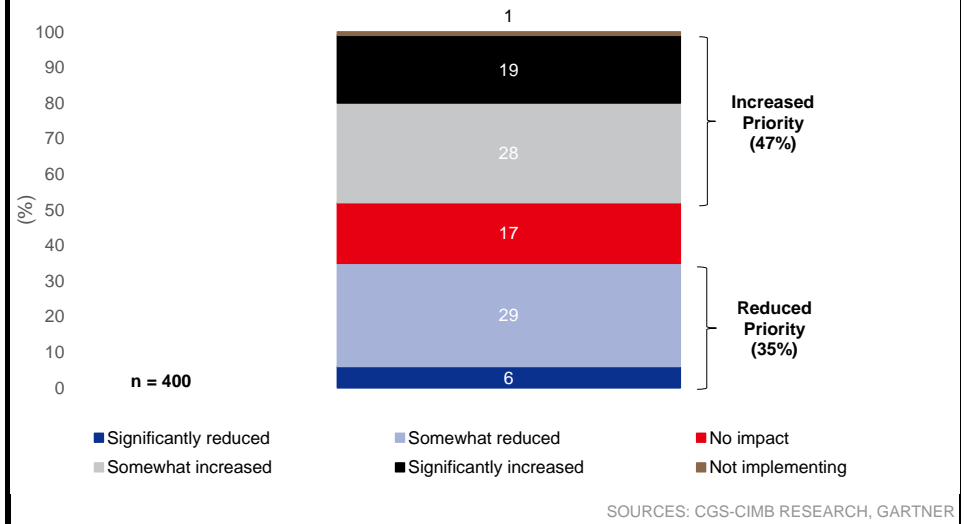
Figure 19: GDP per capita growth across AZTECH's key regional markets



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, FROST & SULLIVAN

The demand for IoT and data communication electronic products is expected to continue rising post-Covid-19, as work-from-home (WFH) processes and home-based learning (HBL) activities are expected to become more popular, according to F&S. The demand for electronic devices and stable and secure networks has been driven by the rising adoption of WFH arrangements by corporates and HBL by education institutions due to lockdown measures to curb the pandemic leading to higher sales of data communication products, according to F&S. A survey of 402 respondents (managerial level and above) globally by Gartner on 18 Sep 2020, a global research and advisory firm, found that 47% of companies globally are increasing IoT investments (vs. 35% of companies reducing their investments as part of their plans to reduce costs). F&S also expects WFH and HBL to continue, as well as rising adoption of new technologies, to drive sustainable growth in the demand for IoT and data communication products post-Covid-19.

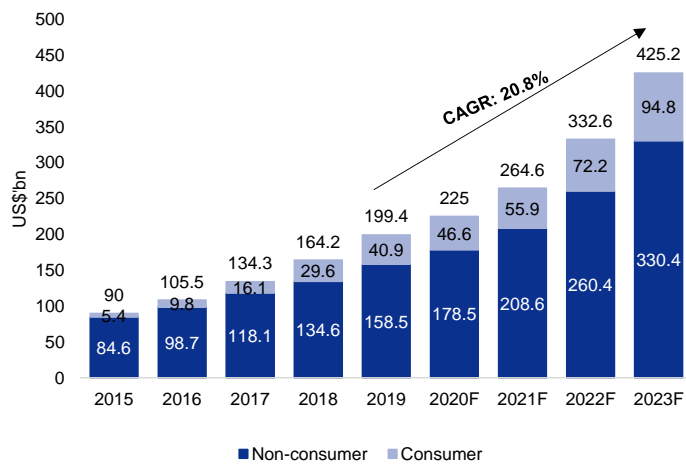
Figure 20: Survey (conducted on 18 Sep 2020 with 402 respondents at managerial level and above) on the impact of Covid-19 on plans to implement IoT to reduce cost



Global IoT and data communication market >

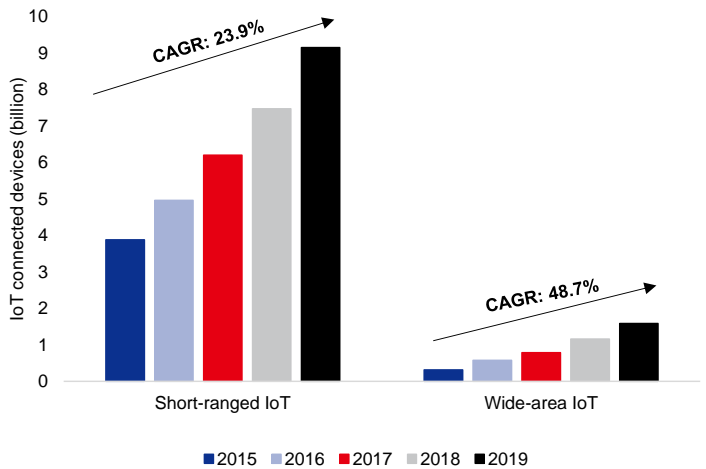
The global IoT market is expected to register a CAGR of 20.8% between 2019 and 2023F to reach US\$425.2bn, according to F&S. The consumer IoT market is expected to be the fastest-growing sub-segment at a 23.4% CAGR over the same period, underpinned by increasing spending on smart appliances, home automation security, and monitoring and personal wearables to offer a market opportunity of US\$94.8bn by 2023F, according to F&S. We believe the strong demand for consumer IoT devices globally will help drive product sales of AZTECH's customers in the end-markets, which would be tailwinds for the company, given that its core capabilities lie in manufacturing IoT products.

Figure 21: Global IoT market value forecasts (2019-2023F)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, FROST & SULLIVAN

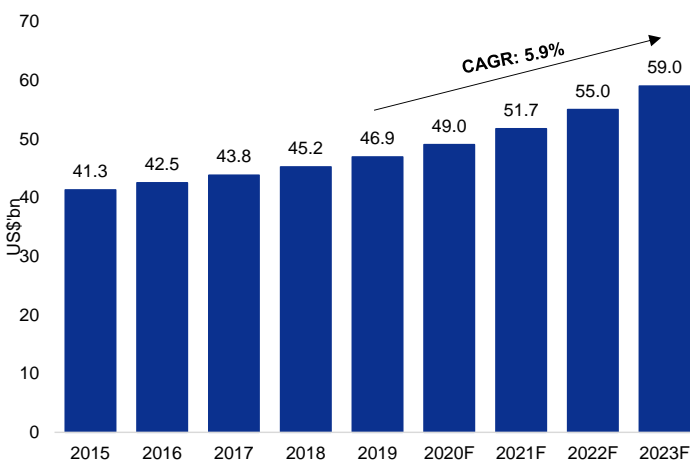
Figure 22: Number of IoT-connected devices globally (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, FROST & SULLIVAN

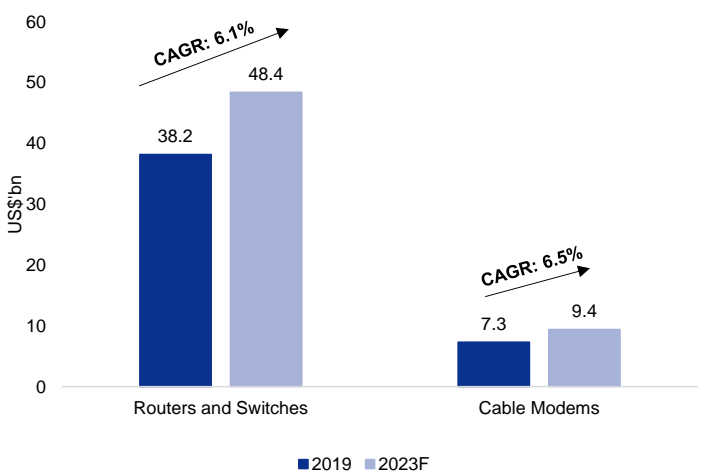
The growing number of devices designed to be connected to the internet is expected to drive a 5.9% CAGR for the global data communication market between 2019 and 2023F to reach US\$59.0bn, according to F&S. For IoT products to work seamlessly, consumers demand for higher bandwidth and faster Internet connectivity, which are supported by data communication equipment such as modems, Wifi mesh routers, fibre gateways, HomePlugs and other accessories, according to F&S. The routers and switches segment is expected to register a 6.1% CAGR between 2019 and 2023F to reach US\$48.4bn, while the cable modem segment is forecasted to grow at a 6.5% CAGR to reach US\$9.4bn, according to F&S. This makes data communication products highly complementary to register growth alongside the global IoT market and drive AZTECH's IoT and data communication business segment, in our view.

Figure 23: Global data communication market value forecasts (2019-2023F)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, FROST & SULLIVAN

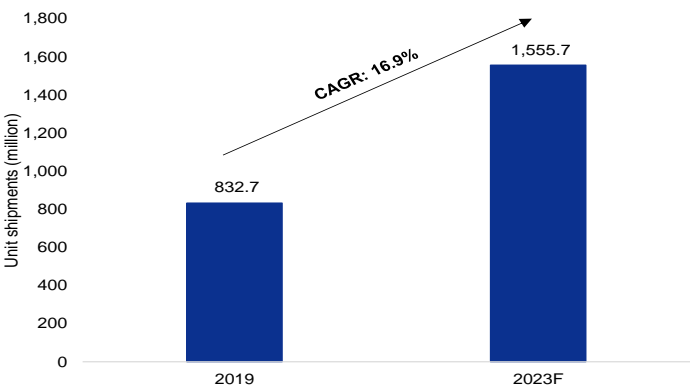
Figure 24: Global routers and switches and cable modems segments forecasts (2019-2023F)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, FROST & SULLIVAN

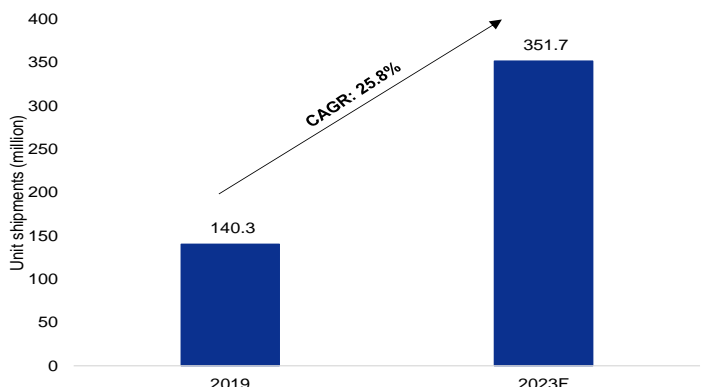
Increased security features of smart security devices will drive adoption by home owners who prioritise domestic safety and security for their homes, according to F&S. The home-monitoring and security systems shipment volume is also expected to grow at a 25.8% CAGR between 2019 and 2023F to reach 351.7m units, primarily driven by higher demand from home owners for smart security products (cameras, doors, alarms, locks etc.). We believe that AZTECH, which derived over 60% of its FY20 revenue from the sale of smart security cameras, should be a beneficiary of strong demand for home monitoring and security systems globally.

Figure 25: Global smart home devices shipment volume (2019-2023F)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, FROST & SULLIVAN

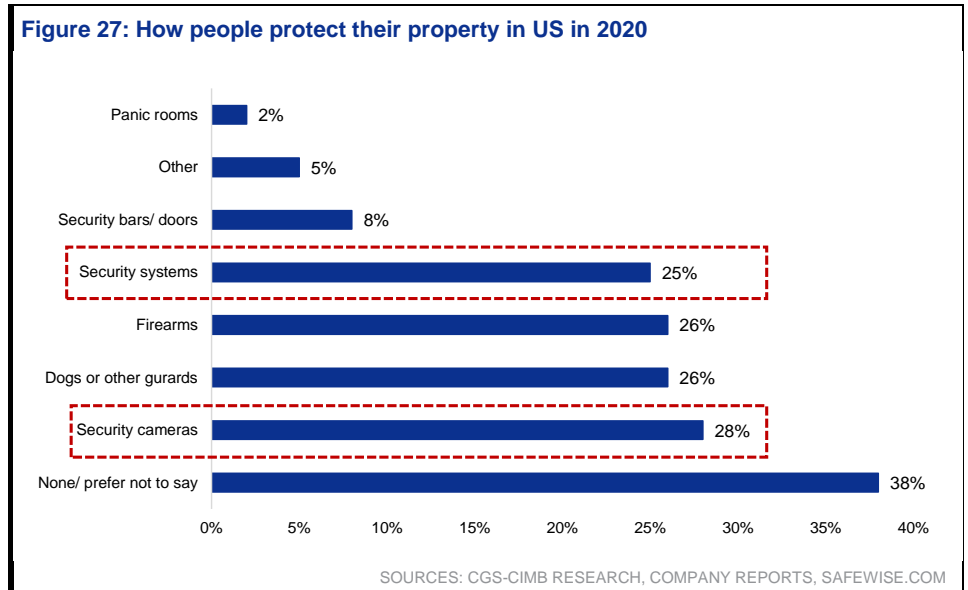
Figure 26: Global smart home monitoring and security systems shipments volume (2019-2023F)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, FROST & SULLIVAN

According to a survey on The State of Safety in America 2021 on 19 Mar 2021 by Safewise, security cameras (28%) and security systems (25%) are among the top few ways people in the US protect their property. Findings by the National Council for Home Safety and Security on 19 Dec 2019 revealed that there are 2.5m burglaries a year on average in the US, 66% of which are home break-ins. A home in the US is burglarised every 13 seconds, and on average, three out of four homes will be a victim of burglary over the next 20 years according to the National Council for Home Safety and Security. The most common ways burglars break into homes in the US include the front door, first floor windows and the back door of homes, according to the Federal Bureau of Investigation (FBI)

Figure 27: How people protect their property in US in 2020



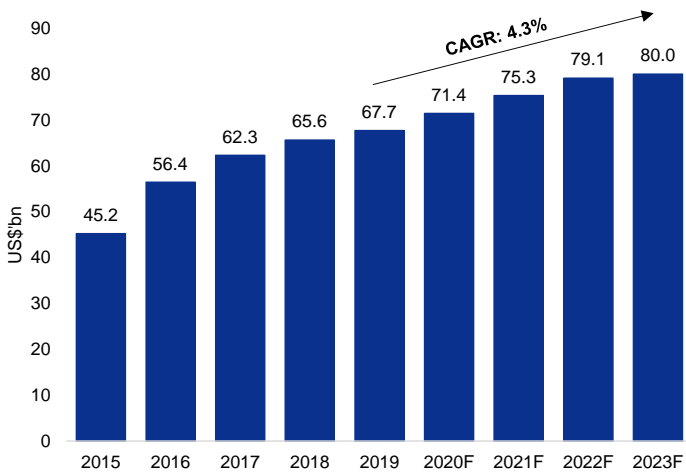
Homes without a security system are 300% more likely to be broken into and burglarised in the US, according to the National Council for Home Safety and Security. The FBI also stated that 83% of burglars check for the presence of an alarm system before attempting to break in. We believe that the likelihood of home burglary occurrences will encourage home owners to install home security systems as a deterrent, and this should help spur the sale of security cameras in the US. According to F&S, smart security products (cameras, locks, doors, etc) have increased security features that should attract higher adoption rates by homeowners. This should drive sales of Customer A’s smart security cameras manufactured by AZTECH, which are predominantly sold in the US, in our view.

Global LED lighting market ▶

The global LED lighting market is forecasted to grow at a 4.3% CAGR between 2019 and 2023F to reach US\$80.0bn, according to F&S. Decreasing average prices of LED lighting (CAGR: -17.9%, from US\$11.2 in 2015 to US\$5.1 in 2019) has driven market penetration and spurred adoption rates, according to F&S. While the declining prices of LED lighting have placed margin pressure on manufacturers, F&S expects the growing demand to offset the negative impact of lower prices and drive growth in the global LED market from 2019-2023F.

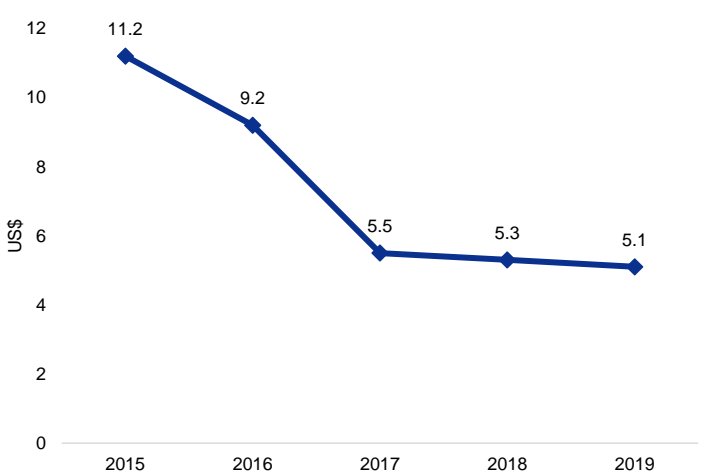
Going forward, increased regulatory support and rising number of smart city projects should provide a favourable backdrop to support demand for energy-efficient lighting, such as LEDs, according to F&S. Globally, major countries such as the US, India and China are adopting a phased-out approach to replace compact fluorescent lamps (CFLs) with LED lighting, and development of smart cities will utilise energy-efficient LED lights to reduce carbon footprints, according to F&S.

Figure 28: Global LED lighting market value forecasts (2019-2023F)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, FROST & SULLIVAN

Figure 29: Decline in average pricing of LED lighting globally (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, FROST & SULLIVAN

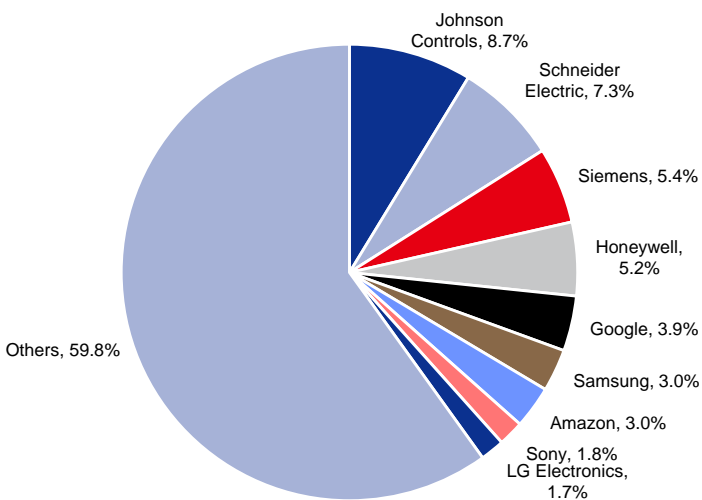
Competitor analysis

IoT and data communication devices landscape ►

The IoT devices market is highly fragmented as it is currently in the nascent stage of growth, with Johnson Controls (JCI US, NR) and Schneider Electric (SU EN, NR) being the market leaders, with 8.7% and 7.3% of the global market share, respectively, in 2019, according to F&S. Global companies, such as Amazon (AMZN US, NR), have also forayed into the IoT market by offering their own suite of IoT products. For example, Amazon acquired Ring, a smart home company in 2018 selling connected doorbells, security cameras and floodlights, which enabled them to integrate smart home security and monitoring systems with its Echo and Alexa devices, leading to market share expansion from less than 1% in 2015 to 3% in 2019, according to F&S. In the IoT market, AZTECH offers smart security cameras and home automation systems, which account for 0.3% of the total market for IoT devices, according to F&S estimates.

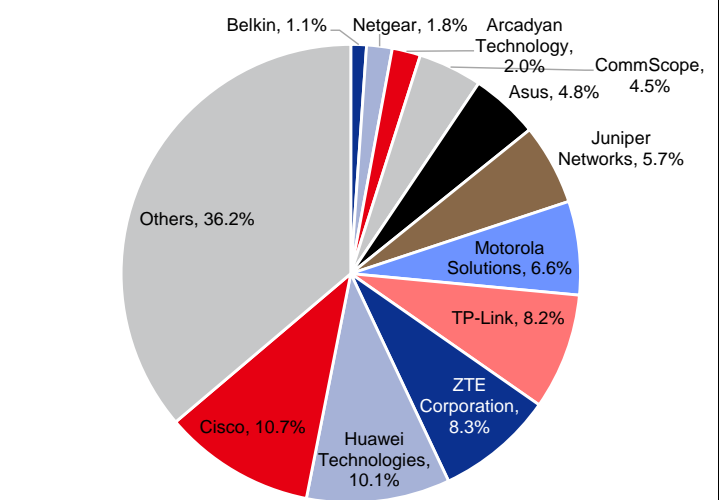
The data communication devices market is highly fragmented, with Cisco Systems, Inc (CSCO US, NR) and Huawei Technologies (Unlisted) being the market leaders, with 10.7% and 10.1% of the global market share, respectively, in 2019, according to F&S. F&S estimates that the data communication devices manufactured by AZTECH accounted for about 0.1% of the total market for data communication devices in 2019.

Figure 30: Market share of key IoT players globally in 2019



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, FROST & SULLIVAN

Figure 31: Market share of key data communication players globally in 2019



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, FROST & SULLIVAN

Figure 32: Profile of key global IoT and data communication players in 2020 (in alphabetical order)

Company (Year of Establishment)	HQ	Company Overview	Listed	Key Product Categories	Global Presence*	Products Manufactured
Amazon (1994)	US	A multinational technology company focusing on e-commerce, cloud computing, digital streaming and artificial intelligence. The company engages in online retailing and sales of computing, storage and database services.	Yes	Smart speakers, Automated Voice Assistant, Smart security cameras and connected doorbells, etc.^	US, Canada, Mexico, Germany, France, Italy, Poland, Spain, UK, China, Japan, India	Own brand products
Aztech (1986)	Singapore	An integrated manufacturer of electronic products with competence in R&D, design, engineering and production services. It also offers OEM, ODM, JDM and CMS services to brand owners.	Yes	Smart Security Cameras, Smart Home Plugs, Smart Switch, Smart Hub, Smart Locks, Smart Sensors, etc.^	China, Malaysia, Hong Kong, Singapore	Own brand products, Third-party products
Cisco (1984)	US	An American multinational technology conglomerate, focused on developing, manufacturing and selling network hardware, software and telecommunications equipment.	Yes	Routers, Switches, Modems, etc.	US, Canada, Australia, New Zealand, China, Indonesia, India, Japan, Philippines, Malaysia, Thailand, Vietnam, Austria, Sweden, Netherlands, Denmark, France, Germany, Greece	Own brand products
Google (1998)	US	A multinational technology company that specialises in internet-related services and products, which include online advertising technologies, search engines, web-based services, cloud computing, software and hardware.	Yes	Smart speakers, smart displays, thermostats, smoke detectors, Smart video doorbells, security systems, etc.^	China, Taiwan, Malaysia, US, Canada, UK, Australia, Germany, Austria, France, Spain	Own brand products
Honeywell (1906)	US	A multinational conglomerate operating in Aerospace, Building Technologies, Performance Materials & Technologies and Safety & Productivity Solutions.	Yes	Smart cameras, smart thermostats and wireless doorbells, Smart sensors and platforms, energy management systems, etc.^	US, Canada, France, Germany, India, Italy, Netherlands, Poland, Norway, Spain, UK, Indonesia, Malaysia, China, Japan, Singapore	Own brand products
Huawei Technologies (1987)	China	A leading global provider of Information and Technology infrastructure. The company focuses on manufacturing communication devices, building telecommunication networks, and operational and consulting services to enterprises.	No	Routers, Switches, Modems, etc.	China, US, Canada, UK, Germany, France, Italy, Spain, Sweden, Belgium, Netherlands, Australia, India, Japan, Indonesia, Malaysia, Singapore	Own brand products
Johnson Controls (1885)	Ireland	A multinational conglomerate focusing on providing systems and digital solutions for enhancing the intelligence of buildings. The company offers building products, technologies, software and services under its smart buildings portfolio.	Yes	IoT-based smart systems for temperature control, HVAC systems, Security, and alarm applications, etc.^	US, Canada, UK, Spain, France, Germany, Norway, Poland, Portugal, Switzerland, Singapore, China, Japan, Australia	Own brand products
LG Electronics (1958)	South Korea	A multinational electronics company providing products and solutions in home entertainment, mobile communications, home appliances, air solutions and vehicle components	Yes	Smart cameras, smart appliances, smart wearables and security systems, etc.^	China, Singapore, Indonesia, Malaysia, India, US, Canada, France, Germany, India, Italy, Netherlands, Poland, Norway, Spain, UK	Own brand products
Samsung (1938)	South Korea	A Korea-based conglomerate focused on producing consumer and industry electronics, including appliances, digital media devices, semiconductors, memory chips and integrated systems.	Yes	Smart cameras, smart appliances, smart wearables, smart sensors and security systems, etc.^	China, India, Singapore, Malaysia, Japan, Philippines, South Korea, Germany, Hungary, Czech, Ireland, Israel, Italy, Poland, Spain, Sweden, Switzerland, UK, Canada, Mexico, US, Australia	Own brand products
Schneider Electric (1836)	France	European-based company providing energy and automation digital solutions for efficiency and sustainability. The company combines energy technologies, real-time automation, software and services to target customers at home, or in buildings like data centres, infrastructure and industries.	Yes	Smart sensors, Smart energy management systems, Automation and control systems, etc.^	US, Canada, France, Germany, Japan, China, Thailand, Singapore, Sweden, Italy, Spain, India, Australia	Own brand products
Siemens (1847)	Germany	A German multinational conglomerate focusing on intelligent infrastructure for buildings and decentralised energy systems, automation and digitalisation in manufacturing industries and for smart mobility solutions.	Yes	IoT-based smart systems for building automation and controls, HVAC systems, IoT sensors and platforms, energy management systems, etc.^	US, Canada, Germany, Spain, France, UK, Norway, Sweden, China, Thailand, Singapore, Malaysia, Australia, Mexico, Brazil, Argentina	Own brand products
Sony (1946)	Japan	A Japanese multinational conglomerate focusing on electronics manufacturing. The company also provides products and solutions in the entertainment, gaming and financial services sectors.	Yes	Smart appliances, smart wearables, smart cameras, etc.^	Japan, US, Canada, Germany, France, Italy, Poland, Spain, UK, China, Singapore, Malaysia, Indonesia, Australia, India	Own brand products
ZTE Corporation (1985)	China	A China-based technology company specialising in telecommunications. ZTE operates carrier networks, terminals and telecommunications. The core business focuses on wireless, exchange, optical transmission, data communications gear, mobile phones and telecommunications software.	Yes	Routers, Switches, Modems, etc.	China, Thailand, Indonesia, Australia, Singapore, Malaysia, India, Sri Lanka, Taiwan, Philippines, US, Mexico, Brazil, UK, Spain, Italy, Belgium, Netherlands	Own brand products

Note:

^ denotes that these companies are not limited to the manufacturing of IoT-enabled products

* Global presence refers to the countries where the companies have manufacturing, R&D, design, service facilities and/or offices.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, FROST & SULLIVAN

LED lighting market landscape ▶

The global LED market is highly fragmented, with major international players, such as Signify and Acuity Brands Lighting, Inc, dominating the industry, with 8.1% and 5.4% market share, respectively, in 2019, according to F&S. The industry also comprises a large number of Chinese manufacturers that are capable of providing products that are innovative at competitive prices. However, the LED lighting market has also experienced some consolidation between 2015 and 2019, according to F&S. AZTECH is estimated by F&S to command a 0.2% market share of the total LED lighting market globally in 2019. Going forward, F&S also expects heightened regulatory requirements across various countries to limit growth opportunities for LED lighting manufacturers that are not able to comply with manufacturing requirements and quality assurance criteria.

Figure 33: Market share of key LED lighting players globally in 2019

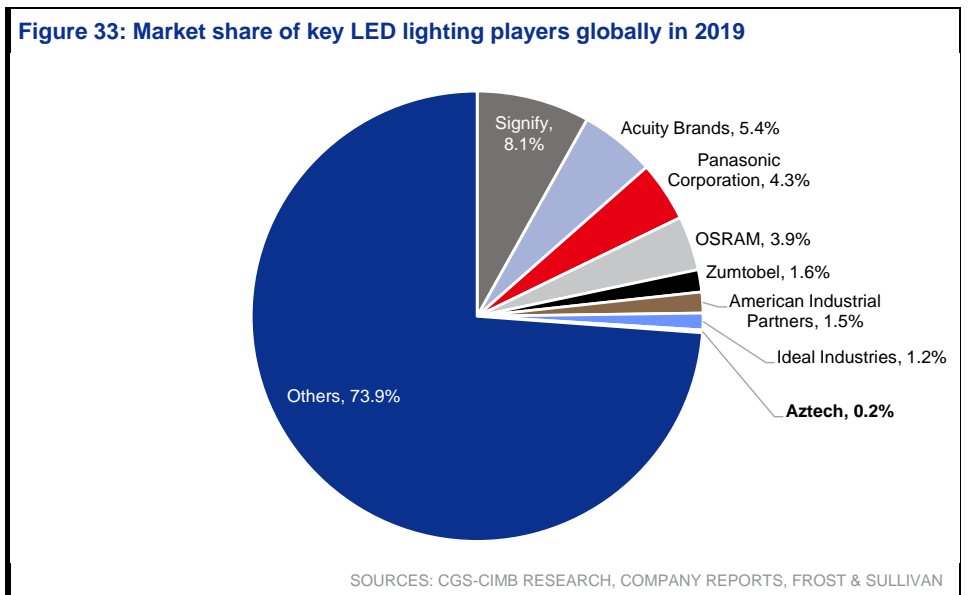


Figure 34: Profile of key global LED lighting players in 2020 (in alphabetical order)

Company (Year of Establishment)	HQ	Company Overview	Listed	Key Brands	Manufacturing Locations	Products Manufactured	Key Customers
Acuity Brands Lighting, Inc. ("Acuity Brands") (2001)	US	Provide conventional and smart LED lighting products ranging from general lighting, emergency lighting, controls and building management, among others.	Yes	Alight, Aculux, American Electric Lighting (AEL), Eureka	US, Mexico, Europe, Canada	Own brand products	Target Corp., US; The Maine Department of Transportation, US; Port of Seattle, US
American Industrial Partners (1989)	US	Following the divestiture in 2019 to American Industrial Partners, GE Current is a company independent from GE. The company offers LED lighting products, including conventional and smart systems, and energy management consulting services	No	GE Current	US	Own brand products	San Diego Municipality, US; Sainsbury, UK
Aztech (1986)	Singapore	Manufactures lighting products, focusing mainly on residential, commercial and industrial lighting. The company provides manufacturing services through OEM, ODM, CMS and JDM.	Yes	AZ e-lite, Kyla	China, Malaysia	Own brand products, third- party products	Town Councils in Singapore; Changi Airport
Ideal Industries Inc. (1916)	US	The company entered the LED lighting business through its acquisition of Cree Lighting in March 2019. Cree Lighting offers a range of products in the indoor, outdoor and intelligent LED lighting segment.	No	Cree Lighting	US, China	Own brand products	American Airlines Center, US; The City of Newburyport, US; The City of Los Angeles, US
OSRAM (1919)	Germany	Among the top lighting players in the global industry, the company is currently focusing on LED chips, smart LED lighting and services, as well as speciality lighting products.	Yes	Osram, Sylvania, Encelium, Traxon, Digital Lumens, Fluence, Claypaky, ADB Stagelight, b,a,g, LED Engin	Malaysia, Germany, China, Bulgaria, Philippines	Own brand products	Beijing Daxing, International Airport China; Siemens, Germany; St. Peter's Basilica, Italy; Dubai Mall, United Arab Emirates
Panasonic Corporation (1918)	Japan	Panasonic offers lighting products across all general lighting applications.	Yes	Panasonic – The company signed a patent licence agreement with Tridonic (part of Zumtobel) in 2016	Indonesia, Japan	Own brand products	The Government of Indonesia, Indonesia; Narita International Airport, Japan; AEON, Malaysia; Government of Prague, Czech Republic
Signify (1891)	Netherlands	One of the world's leading LED lighting players in the industry. The company offers conventional and smart lighting products in three major segments namely "LED", "Professional" and "Home".	Yes	Interact, Phillips, Modular Lighting- Instruments, Ilti Luce	Benelux, Eastern Europe, Canada, Latin America, US, China, India	Own brand products	Shanghai Municipality; Davos Municipality; The Hamdan Bin Mohammed Smart University (HMBSU), Dubai; Accor Group, Singapore
Zumtobel (1950)	Austria	One of the leading professional lighting players in Europe. The company focuses on professional indoor and outdoor lighting, lighting management systems and lighting components, among others.	Yes	Zumtobel, Thorn, Tridonic	Serbia, US, UK, Denmark, Austria, China, Australia, New Zealand	Own brand products	Land Transport Authority, Singapore; St. Martin's Tower, Germany; Elbphilharmonie, Germany; WILKO stores, UK; Allianz Arena, Germany

Note:

The key global LED lighting players were selected based on service offerings comparable to Aztech, with each respective company having their own manufacturing facilities and brands.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, FROST & SULLIVAN

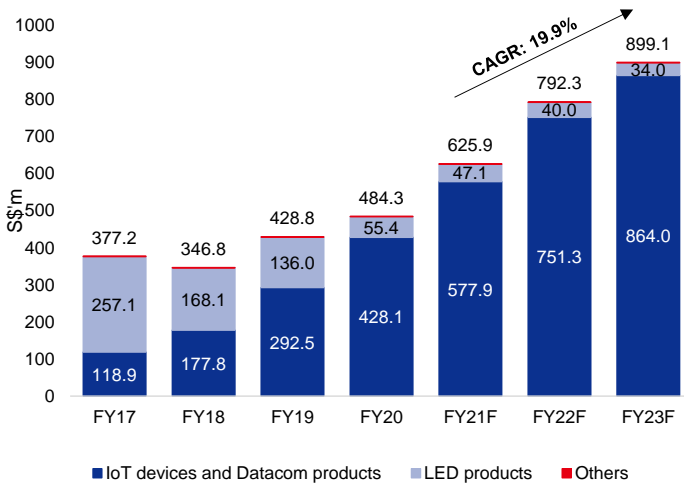
Financials

IoT and data communication to drive revenue

We estimate AZTECH's revenue to register a 19.9% CAGR between FY21F and FY23F to reach S\$899.1m. This will be primarily driven by the IoT and data communication segment, which we forecast to register a 22.3% revenue CAGR over the same period to reach S\$864.0m. Our growth assumptions are backed by a robust order book and strong demand for Customer A's smart security cameras, as well as AZTECH's other IoT and data communication devices, driving capacity expansion at AZTECH's production facilities. We understand from the management that Customer A has guided for stronger production volume of smart security cameras for FY21F. AZTECH's order book totalled S\$489m as of end-1Q21, and we understand from its FY20 earnings call that the management is cautiously optimistic for a stronger order book in 2H21F.

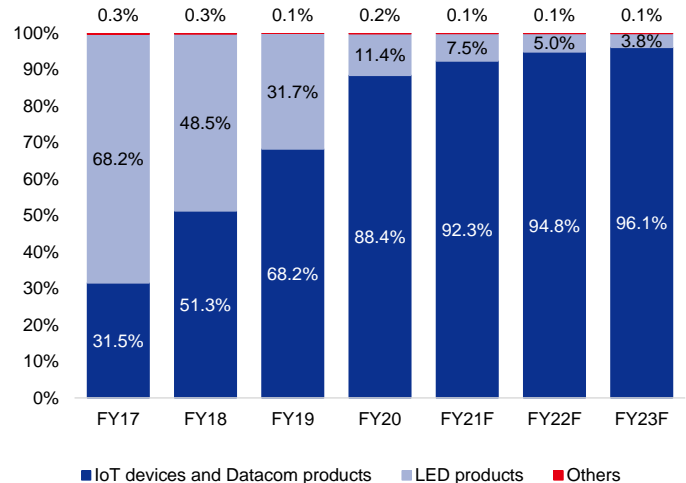
Due to AZTECH's strategic shift to manufacture higher-margin smart lighting, we forecast the LED lighting segment revenue to decline by a 15% CAGR between FY21F and FY23F to S\$34.0m. Going forward, we expect the IoT and data communication segment to account for 92.3%-96.1% of total revenue in FY21F-FY23F (FY20: 88.4%), while the LED lighting segment contributes less to AZTECH's revenue at 3.8%-7.5% (FY20: 11.4%) over the same period, as management concentrates its resources on producing smart devices and data communication products that command better margins.

Figure 35: AZTECH's revenue forecasts (FY21F-23F)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 36: AZTECH's revenue mix breakdown

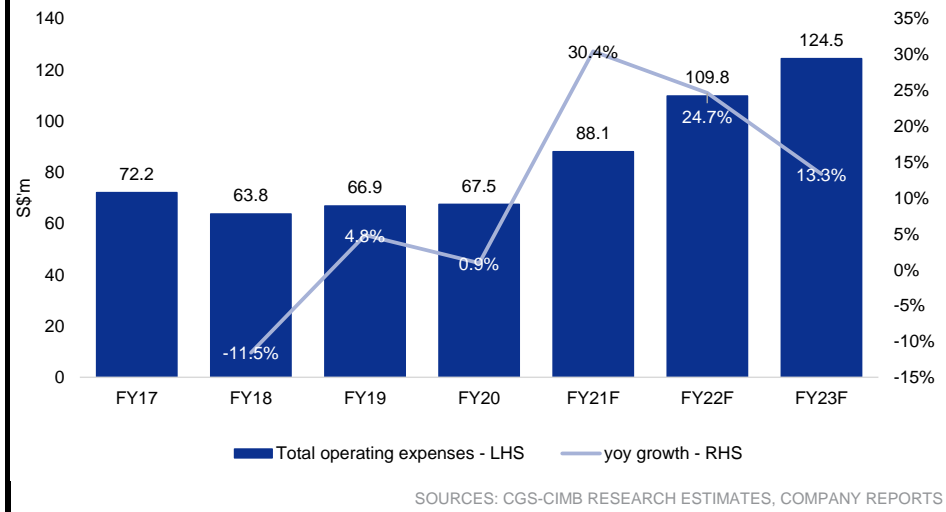


SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Higher opex from capacity ramp-up

We expect a capacity ramp-up to be underway at AZTECH's Johor Bahru production facility in Malaysia and forecast higher total opex growth of 13.3%-30.4% between FY21F and FY23F. We expect AZTECH to incur total opex of S\$88.1m (which includes our assumption of c.S\$1.6m IPO expenses to be recognised) in FY21F and reach S\$124.5m by FY23F, from expectations of a stronger order book driving higher production volume of IoT and data communication products.

Figure 37: AZTECH's operating expenses



Higher margins for IoT and data communication to lift core profits >

We expect AZTECH's strategic decision to focus on IoT and data communication product manufacturing, which commands higher margins, to drive net profit growth of 12.8%-31.7% between FY21F and FY23F. We forecast AZTECH to achieve a core net profit (excluding one-off IPO expenses assumptions of S\$1.6m in FY21F) of S\$74.5m-S\$104.4m from FY21- FY23F, representing a 18.4% CAGR over our forecast period. This translates into an 11.6%-11.9% core net profit margin and 15.6%-15.8% EBITDA margin between FY21F and FY23F.

Figure 38: AZTECH's net profit forecasts (FY21-FY23F)

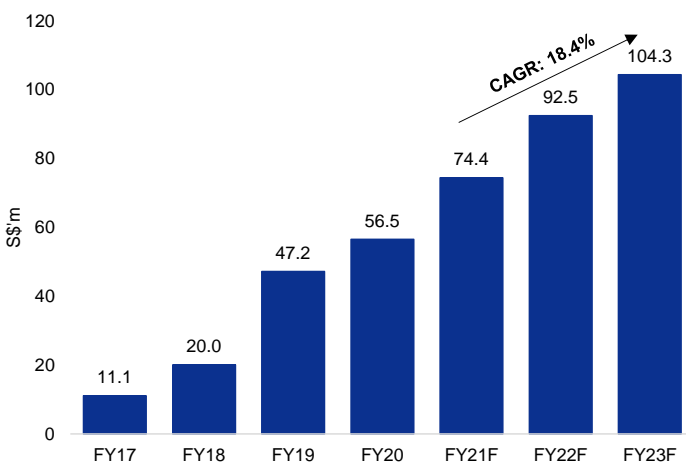
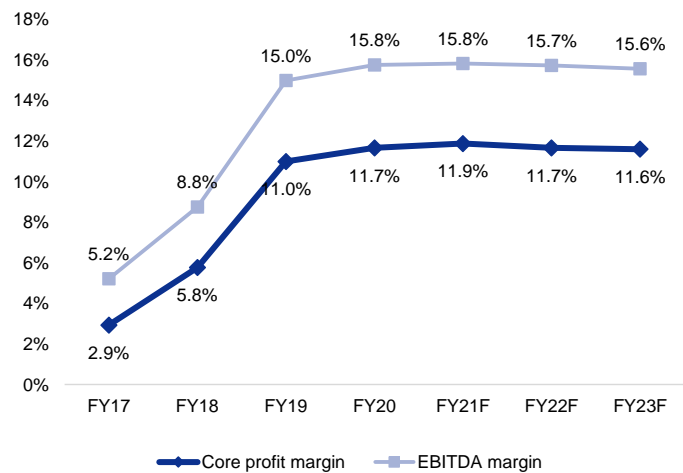


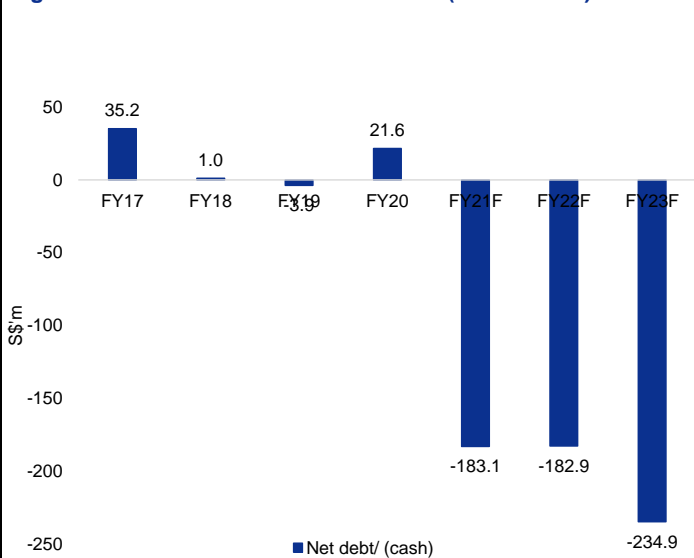
Figure 39: AZTECH's net profit margin forecasts (FY21-FY23F)



Strong balance sheet in net cash position ►

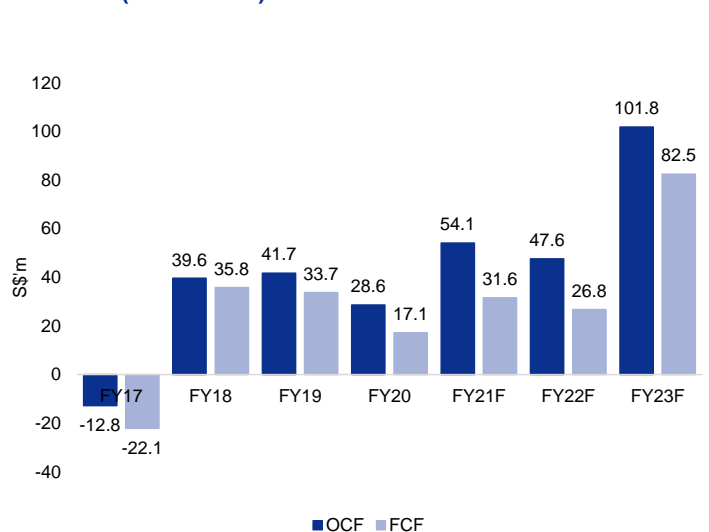
With rising adoption of IoT and data communication devices globally, we expect this to translate into a robust order book for AZTECH and drive its balance sheet strength. We bake in higher capex assumptions for FY21F as we expect the management to invest for capacity expansion in anticipation of stronger orders from Customer A. We forecast AZTECH to generate operating cash flow and free cash flow of S\$54.1m-S\$101.8m and S\$31.6m-S\$82.5m, respectively, between FY21F and FY23F. We also estimate AZTECH's average net cash to be c.S\$200m over the same period, which translates into net cash per share of S\$0.26.

Figure 40: AZTECH's net cash forecasts (FY21-FY23F)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 41: AZTECH's free cash flow and operating cash flow forecasts (FY21-FY23F)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Valuation and recommendation

Initiate with Add rating and TP of S\$1.91 ►

We believe that AZTECH, being one of the only homegrown listed play in Singapore, is well positioned to ride the tailwinds from the fast-growing IoT industry, which is presently at its nascent stage according to F&S. We believe that AZTECH is able to drive growth from its IoT and data communication segment, which is supported by: 1) rising IoT adoption rates globally, which in turn drives the demand for complementary data communication devices, 2) increasingly affordable IoT devices due to declining average sensor prices, according to F&S, which will encourage mass market adoption, in our view, and 3) capacity expansion from customer A's guidance for stronger production volume in FY21F, suggesting continued high demand for the smart security cameras manufactured by AZTECH.

We initiate coverage on AZTECH with an Add rating and S\$1.91 target price, based on 16.0x P/E and FY22F EPS, in line with Singapore technology peers' average P/E of c.16.0x and further supported by c.18% CAGR net profit growth between FY21F-23F. We believe that our valuation methodology allows us to reflect the company's potential earnings growth and risks from its sole supplier status to Customer A over our forecast period.

Potential re-rating catalysts include new customer wins and stronger order book, while downside risks include customer concentration risks and intense competition.

Figure 42: Peer comparison table

Company	Bloomberg Ticker	Recom.	Price (1cl curr)	Target Price (1cl curr)	Market Cap (US\$ m)	P/E (x) CY21F	P/E (x) CY22F	3-year EPS CAGR (%)	P/BV (x) CY21F	Recurring ROE (%) CY21F	Dividend Yield (%) CY21F
Singapore Technology Peers:											
Venture Corporation	VMS SP	Add	20.24	24.84	4,417.6	15.1	14.3	15.4%	2.14	14.5%	3.7%
Nanofilm Technologies Intl Ltd	NANO SP	Add	5.26	5.52	2,616.1	41.0	33.6	22.9%	6.95	18.2%	0.5%
AEM Holdings Ltd	AEM SP	Add	3.98	4.63	839.1	10.4	10.7	1.6%	3.78	42.2%	2.4%
Fu Yu Corp Ltd	FUYU SP	Add	0.32	0.35	181.1	12.5	11.7	10.9%	1.34	11.0%	5.0%
Grand Venture Technology Ltd	GVTL SP	Add	0.53	0.61	121.8	20.0	12.8	29.9%	2.90	17.5%	0.0%
ISDN Holdings Ltd	ISDN SP	Add	0.61	0.72	199.6	10.8	10.2	10.1%	1.41	13.7%	2.4%
Frencken Group Ltd	FRKN SP	Add	1.58	1.61	507.1	14.7	13.6	3.5%	1.82	13.1%	1.9%
Aztech Global Ltd	AZTECH SP	ADD	1.38	1.91	802.6	14.6	11.5	24.7%	3.76	45.0%	2.0%
Simple average excluding AZTECH						18.3	15.8	13.2%	3.1	19.3%	2.3%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG (22 Apr 2021)

Risks

Customer concentration risks ►

AZTECH faces customer concentration risks, as its top three largest customers accounted for 86.3%-87.9% of total revenue between FY17-FY19 (9M20: 83.3%). We understand from management in its earnings call that Customer A, in particular, for which AZTECH manufactures smart security cameras, is its largest customer and contributed over 60% of its FY20 revenue. While AZTECH presently enjoys sole supplier status for Customer A, generally manufacturing contracts signed with customers are non-exclusive; hence, there is a risk that its customer will look for alternative suppliers in the future, which may impact AZTECH's order book negatively. As a contract manufacturer, AZTECH is also dependent on the end-consumer demand for its customers' products. If demand is soft, this will also reduce AZTECH's order book and revenue.

Disruption of operations in manufacturing facilities ►

Any unexpected disruptions to AZTECH's manufacturing facilities and production processes, such as the outbreak of infectious diseases like the Covid-19 pandemic, may materially and adversely affect its business operations. AZTECH presently has a production facility in Dongguan City that is leased from the Guangdong provincial government in China; however, it has not obtained the necessary certificates and permits from the state government, which may result in the discontinuation and disruption of its buildings currently on the Dongguan land. In the event that AZTECH is not able to obtain the necessary certificates and permits, and if the government requires the company to demolish or terminate its leasing agreement, the company may be required to write-off the net book value totalling c.S\$3.0m of their its in Dongguan, according to the company's offer document. Additionally, AZTECH may have to seek an alternative production site in China; the company estimates total costs of relocation at S\$2.0m, according to its offer document.

High competition ►

The business of electronics manufacturing is a highly competitive industry, and AZTECH may face competition from incumbents and new entrants that are able to produce products that are similar or superior to its products, which could effectively reduce the company's market share and revenue. As a result of high competition, AZTECH may also experience downward price pressures, which will erode profit margins.

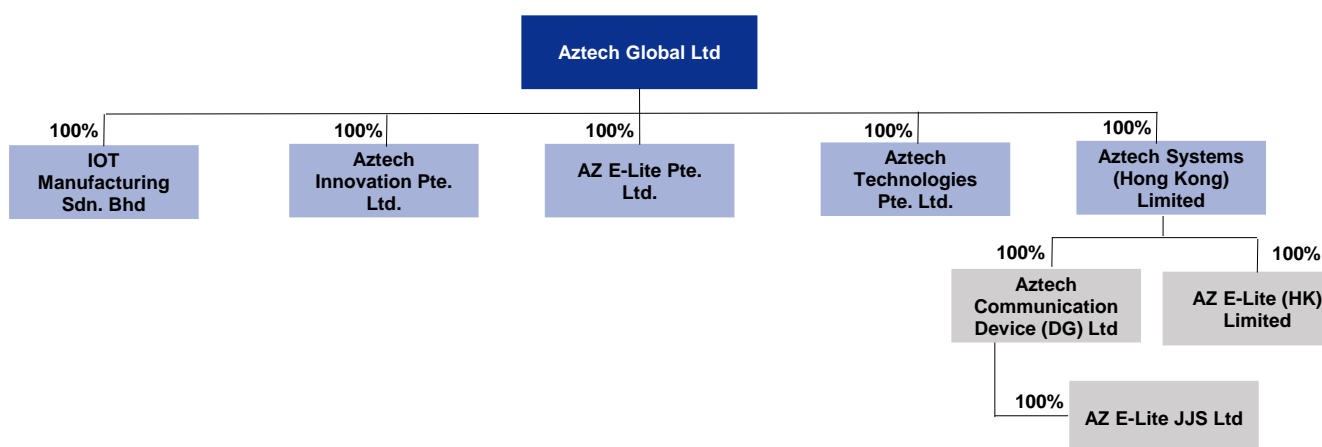
Production capacity limitations ►

In order to achieve a significant increase in revenue, AZTECH will have to increase its production capacity, according to the company's offer document. In the event that AZTECH is unable to increase its capacity through additional investments in working capital, capex or floor space, its ability to grow its revenue will be limited. As AZTECH also plans its production based on its customers' projections of the demand for their products, there is a risk of overcapacity if these projections do not materialise into purchase orders.

Appendix

Company structure ►

Figure 43: Aztech Global Ltd's corporate structure as at 4 Mar 2021



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Management and board of directors ►

Figure 44: AZTECH's board of directors (as at 4 Mar 2021)

Key personnel	Key experience
Michael Mun (Executive Chairman & CEO)	<ul style="list-style-type: none"> Founder of Aztech Global Ltd Over 40 years of experience in the electronics industry Spearheaded transformation efforts to turn Aztech Global Ltd from a PC manufacturer to a multi-disciplinary business manufacturing, designing and selling IoT devices and data communication products, LED lighting products and other electrical products
Jeremy Mun (Executive Director & COO)	<ul style="list-style-type: none"> Joined the Group since 2002 and was previously involved in the product development and sale activities of Aztech Global Ltd's LED lighting business In-charge of Aztech Global Ltd's production facilities in the PRC and Malaysia Bachelor of Science in Management, University of London
TS Tan (Lead Independent Director)	<ul style="list-style-type: none"> Over 30 years of experience in the electronics industry Previously Senior Managing Director of Advanced Micro Devices (Singapore) Pte Ltd Currently non-independent director of NASDAQ-listed 02Micro International Ltd and member of its audit committee Currently serving as Executive Director of Teleios SC Pte. Ltd, a boutique executive search firm Fellow of Singapore Human Resource Institute and member of the Singapore Institute of Directors Master of Science in Industrial Engineering, National University of Singapore Bachelor in Electrical Engineering, National University of Singapore
Larry Tan (Independent Director)	<ul style="list-style-type: none"> Currently a retiree and previously Asia President of Texas Instruments Singapore Private Limited Over c.39 years of experienced in Engineering, starting his career with Texas Instruments Singapore Private Limited Master of Business Administration, Brunel University Bachelor of Science with Honours Class I (Mechanical Engineering), University of Birmingham
Christopher Huang (Independent Director)	<ul style="list-style-type: none"> Currently Managing Director of CHP Law LLC advising on various areas of law, with a focus on the legal and tax aspects of cross border commercial transactions, including transfer pricing. Previously accountant at Hastings Deering Australia Limited Previously Business Manager at Adcomp Technology Pte Ltd Previously Tax Associate in the Transfer Pricing Department of PricewaterhouseCoopers and tax lawyer at VoskampLawyers Dual degree in law (LL.B.) and commerce (B.Com.), University of Queensland

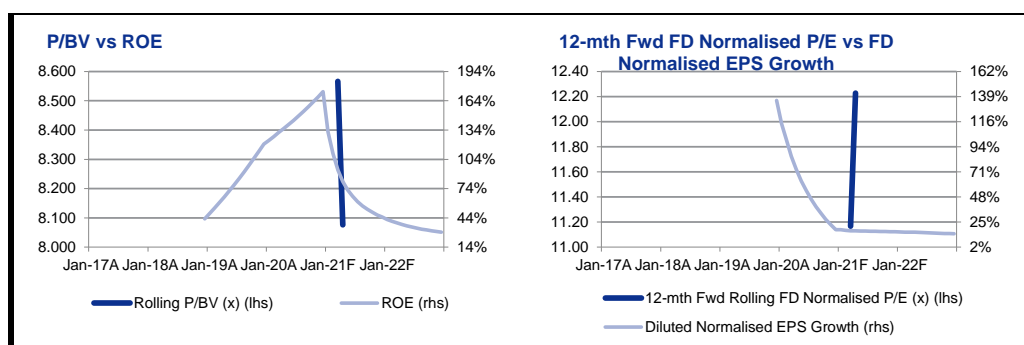
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 45: AZTECH's key management team (as at 4 Mar 2021)

Key personnel	Key experience
Annie Qian <i>(Financial Controller)</i>	<ul style="list-style-type: none"> Previously Finance Manager of Aztech Global Ltd Previously Senior Accountant at Dealguru Holdings Pte. Ltd. Previously accountant at Sheffield Offshore Services Pte Ltd and MindChamps Singapore Pte. Limited Member of the Institute of Singapore Chartered Accountants Bachelor of Science in Applied Accounting, Oxford Brookes University
Pavani Nagarajah <i>(Senior Vice President, Legal Corporate Affairs)</i>	<ul style="list-style-type: none"> Oversees all legal and corporate matters of Aztech Global Ltd and heads the investor relations as well as human resources department Over 22 years with Aztech Global Ltd Previously Senior Manager, Legal at Yamaha Music (Asia) Pte Ltd in Singapore Bachelor of Laws, National University of Singapore
Daniel Oh <i>(Senior Vice President of Sales/ Business Development)</i>	<ul style="list-style-type: none"> Oversees the business development activities of our Group's Data-communication products and OEM/ODM/JDM/CMS products divisions Over 24 years with Aztech Global Ltd Previously sales and production manager at Trio-Tech International Pte Ltd Advanced Diploma in Management Studies, Singapore Institute of Management Diploma in Electrical Engineering, Singapore Polytechnic
Jason Saw <i>(Senior Vice President of Business Development)</i>	<ul style="list-style-type: none"> Oversees business development activities of our Group's JDM/CMS products divisions, with a focus on the lighting / smart lighting sector for the international markets. Over 15 years with Aztech Global Ltd Previously Research and Development Manager at Celestix Network Pte. Ltd. Diploma in Electronic Engineering, Ngee Ann Polytechnic
Terrence Kwong <i>(Vice President of Research and Development)</i>	<ul style="list-style-type: none"> Oversees all research and development activities of Currently Managing Director of CHP Law LLC advising on various areas of law, with a focus on the legal and tax aspects of cross border commercial transactions, including transfer pricing. Previously Senior Hardware Engineer at Guangdong Harvest Int' Ltd and an assistant engineering manager at K-Tech Int' Ltd Bachelor of Engineering in Electronic Engineering, City University of Hong Kong
Ivan Mun <i>(Vice President of Sales and Marketing)</i>	<ul style="list-style-type: none"> Oversees business development activities of our Group's IoT Devices and LED lighting products divisions for the Singapore market Over 15 years with Aztech Global Ltd Currently Director of Aztech Innovation and AVS Investments Master of Business Administration, Murdoch University

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	429.6	485.3	627.1	793.9	900.9
Gross Profit	122.6	139.2	176.5	222.6	250.8
Operating EBITDA	64.3	76.3	99.7	125.3	141.4
Depreciation And Amortisation	(8.6)	(8.6)	(11.7)	(13.5)	(15.2)
Operating EBIT	55.7	67.7	88.0	111.7	126.1
Financial Income/(Expense)	(0.9)	(1.2)	(1.0)	(1.2)	(1.5)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	54.8	66.5	87.0	110.5	124.7
Exceptional Items	0.0	0.8	1.6	0.0	0.0
Pre-tax Profit	54.8	67.3	88.6	110.5	124.7
Taxation	(7.6)	(10.8)	(14.1)	(17.9)	(20.2)
Exceptional Income - post-tax					
Profit After Tax	47.2	56.5	74.5	92.6	104.4
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	47.2	56.5	74.5	92.6	104.4
Normalised Net Profit	47.2	55.7	72.9	92.6	104.4
Fully Diluted Normalised Profit	47.2	55.7	72.9	92.6	104.4

Cash Flow

(\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	64.30	76.31	99.70	125.29	141.36
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(27.49)	(47.27)	(31.47)	(59.75)	(19.35)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	7.09	3.67	0.99	1.22	1.48
Other Operating Cashflow					
Net Interest (Paid)/Received	(0.91)	(1.16)	(0.99)	(1.22)	(1.48)
Tax Paid	(1.33)	(2.98)	(14.11)	(17.93)	(20.22)
Cashflow From Operations	41.66	28.58	54.12	47.61	101.79
Capex	(7.97)	(11.44)	(22.53)	(20.84)	(19.33)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	0.21	0.74	0.00	0.00	0.00
Cash Flow From Investing	(7.76)	(10.70)	(22.53)	(20.84)	(19.33)
Debt Raised/(repaid)	(1.69)	23.08	(4.61)	6.48	7.31
Proceeds From Issue Of Shares	0.00	0.00	191.57	0.00	0.00
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(29.43)	(43.74)	(21.86)	(27.78)	(31.33)
Cash Flow From Financing	(31.12)	(20.66)	165.10	(21.30)	(24.02)
Total Cash Generated	2.78	(2.78)	196.68	5.48	58.44
Free Cashflow To Equity	32.21	40.96	26.97	33.26	89.77
Free Cashflow To Firm	34.82	19.04	32.58	28.00	83.94

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	14.3	11.5	208.1	213.6	272.1
Total Debtors	96.7	197.0	197.4	301.8	289.4
Inventories	19.1	53.7	57.4	99.1	114.6
Total Other Current Assets	5.9	8.2	9.5	12.0	13.6
Total Current Assets	135.9	270.3	472.5	626.5	689.6
Fixed Assets	22.2	28.9	39.1	45.0	47.4
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	2.6	1.1	1.6	3.0	4.8
Total Other Non-Current Assets	0.0	0.0	0.0	0.0	0.0
Total Non-current Assets	24.8	30.0	40.8	48.1	52.2
Short-term Debt	10.4	29.2	25.0	30.7	37.1
Current Portion of Long-Term Debt					
Total Creditors	87.2	141.1	142.9	223.3	200.5
Other Current Liabilities	37.7	82.0	55.2	64.9	74.4
Total Current Liabilities	135.3	252.3	223.2	318.9	312.1
Total Long-term Debt	0.0	3.8	3.4	4.2	5.1
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2.5	2.2	2.2	2.2	2.2
Total Non-current Liabilities	2.5	6.0	5.6	6.4	7.2
Total Provisions	0.3	0.3	0.3	0.3	0.3
Total Liabilities	138.0	258.6	229.1	325.6	319.7
Shareholders' Equity	22.7	41.6	284.2	349.0	422.1
Minority Interests					
Total Equity	22.7	41.6	284.2	349.0	422.1

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	23.6%	12.9%	29.2%	26.6%	13.5%
Operating EBITDA Growth	112%	19%	31%	26%	13%
Operating EBITDA Margin	15.0%	15.8%	15.9%	15.8%	15.7%
Net Cash Per Share (S\$)	0.01	(0.03)	0.23	0.23	0.30
BVPS (S\$)	0.04	0.07	0.37	0.45	0.55
Gross Interest Cover	60.94	58.34	88.43	91.48	85.38
Effective Tax Rate	13.9%	16.0%	15.9%	16.2%	16.2%
Net Dividend Payout Ratio	55.7%	27.8%	30.0%	30.0%	30.0%
Accounts Receivables Days	72.2	111.0	115.0	115.0	120.0
Inventory Days	38.01	38.47	45.00	50.00	60.00
Accounts Payables Days	109.2	120.7	115.0	117.0	119.0
ROIC (%)	95%	314%	134%	104%	73%
ROCE (%)	109%	125%	45%	32%	30%
Return On Average Assets	26.8%	24.7%	18.2%	15.8%	15.0%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
IoT devices and Datacom products (% yoy)	64.5%	46.3%	35.0%	30.0%	15.0%
LED products (% yoy)	-19.1%	-59.3%	-15.0%	-15.0%	-15.0%
Others (% yoy)	-63.4%	159.4%	10.0%	10.0%	10.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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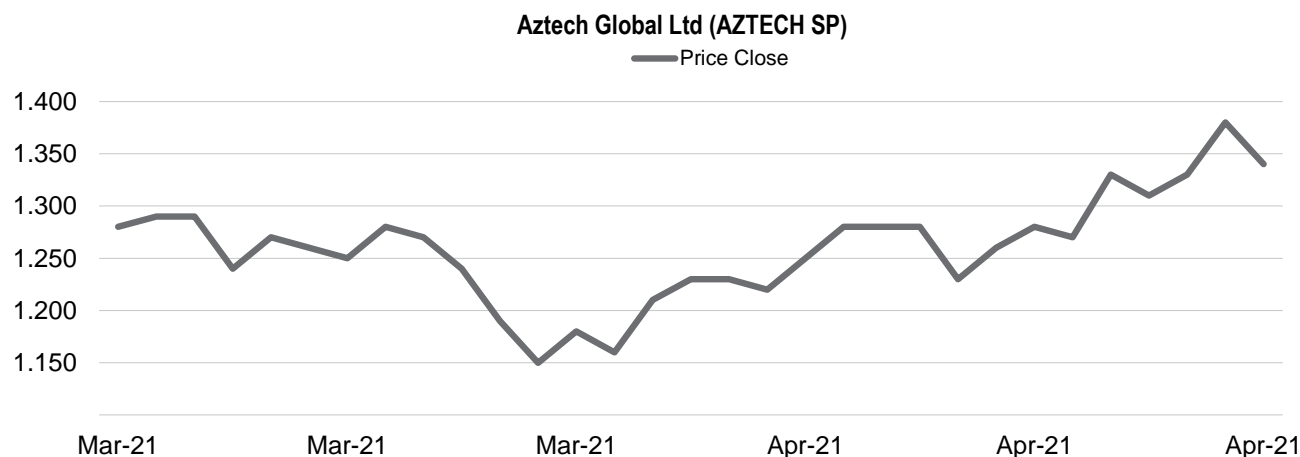
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2021		
613 companies under coverage for quarter ended on 31 March 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	1.1%
Hold	19.6%	0.2%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Excellent, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Very Good, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Very Good, n/a, **DELTA** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, n/a, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – Excellent, Declared, **JMT** – Very Good, Declared, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – n/a, n/a, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – n/a, n/a, **OR** – n/a, n/a, **ORI** – Excellent, Certified, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RBF** – Good, n/a, **RS** – Excellent, n/a, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – n/a, n/a, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – n/a, n/a, **SHR** – Very Good, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Declared, **SPRC** – Excellent, Certified, **SSP** – Good, Declared, **STEC** – n/a, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, n/a, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2020 from Thai Institute of Directors Association (IOD)

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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