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Recommendation:	BUY
Current Price:	RM 2.61
Previous Target Price:	RM 3.22
Target Price:	RM 3.22
Upside/Downside:	23.4%

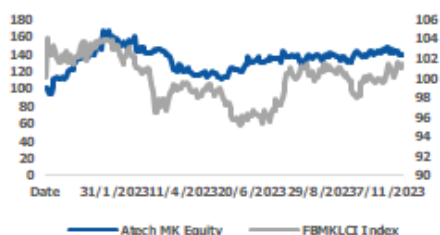
Stock information

Board	MAIN
Sector	EMS
Bursa / Bloomberg Code	5302 / ATECH MK
Syariah Compliant	Yes
FTSE4Good Index	N/A
FTSE ESG Rating	N/A
Bloomberg ESG Rating	N/A
Shares issued (m)	394.1
Market Cap (RM' m)	1,028.5
52-Week Price Range (RM)	3.4-1.83
Beta (x)	0.2
Free float (%)	30.5
3M Average Volume (m)	0.6
3M Average Value (RM' m)	1.6

Top 3 Shareholders (%)

MAIN STREAM HOL SDN BHD	20.0
MAIN STREAM LIMITED	19.4
Loh Hock Chiang	7.8

Share Price Performance



	1M	3M	12M
Absolute (%)	-3.0	-2.2	35.2
Relative (%)	-3.4	-3.2	37.6

Aurelius Technologies Berhad

Expecting better earnings moving forward










Summary

- **9MFY23 core net profit at RM28.3m missed our expectations dragged by continued destocking activities of customers.**
- **Looking ahead, we expecting better earnings from Atech, supported by observance that destocking activities from customers are bottoming out.**
- **We maintain our BUY recommendation with an unchanged target price of RM3.22 by pegging PE multiple of 20x to FY24F EPS of 16.1 sen.**

Results Review

- **Results review.** 3QFY23 net profit declined 21.0% yoy to RM9.7m, dragged down by continued destocking activities of customers following the challenging economic outlook. Revenue for the quarter fell 25.0% YoY to RM327.0m.
- **Below expectations.** For 9MFY23, cumulative net profit at RM28.3m only makes up to 59% and 61% of our and consensus forecasted net profit of RM48m and RM47.3m respectively. The variance was mainly due to slower-than-expected recovery in aggressive downsizing of inventories by selective customers.
- **Operations Highlights.** Improved profit margins on both qoq and yoy basis, mainly driven by a favorable product mix, featuring higher-margin products, and increased foreign exchange gains. Product segment wise, only the Electronics Devices segment showed growth (+11.6% qoq). Geographically, Malaysia and the Asia Pacific region experienced growth (+29% qoq and +4% qoq, respectively), while the Europe and Americas segment declined, aligning with the resilient economic performance in the Asia Pacific region against Western counterparts.
- **Industry Highlights.** We opine the destocking activities by customers are bottoming out based on our observation of industry trend and we expect the situation will gradually recover in FY24. The optimism in EMS sector is fueled by expectations of a global economic recovery, coupled with the tail end of the global interest rate hike cycle. Besides, local EMS players may potentially benefit from global supply chain diversion and relocation.
- **Outlook.** We expect better earnings from Atech moving forward, supported by signs that destocking activities from customers are bottoming out, which is noticable from order book which increase to RM473.0m as 11 Dec 2023, from RM322.0m as 13 Sep 2023. Additionally, efforts in actively seeking opportunities to diversify product portfolios may further contribute to earnings growth expectations.
- **Valuation.** Cut our earnings forecast by 17.3% for FY23F, to adjust for the lower-than-expected utilisation rate, but kept our FY24F net profit forecast of RM63.4m for FY24F. Re-iterate our **BUY** recommendation with unchanged target price of RM3.22.
- **Risk.** Prolonged demand weakness on consumer electronic products. Reversal of strong US dollar against Ringgit dragged bottom line.

Figure 1: Results Comparison

FYE Dec (RM m)	Latest quarter	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY23	9MFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	98.8	132.5	(25.5)	109.0	(9.4)	345.2	302.5	(12.4)		dragged down by continued destocking activities of customers
Gross Profit	12.2	17.9	(31.7)	15.3	(20.2)	37.7	35.1	(7.0)		
Operating Profit	13.6	14.6	(7.2)	12.7	7.0	28.9	34.4	19.0		
Net profit	9.7	12.3	(21.0)	10.6	(8.1)	24.4	28.3	16.2		
Core net profit	9.7	12.3	(21.0)	10.6	(8.1)	24.4	28.3	16.2		
Core EPS (sen)	2.5	3.1	(21.0)	2.7	(8.1)	6.2	7.2	16.2		
EBITDA margin (%)	12.4	13.5		14.0		10.9	11.6			Better margin driven by a favorable product mix, featuring higher-margin products, and increased foreign exchange gains
PBT margin (%)	13.8	11.0		11.6		8.4	11.4			
Core PATMI margin (%)	9.8	9.3		9.7		7.1	9.4			

Source: Company, Apex Securities *change of financial year to realign the Company's financial quarters with the calendar year.

Financial Highlights

Income Statement

FYE Dec (RM m)	FY21	FY22	FY23	FY23F	FY24F
Revenue	362.2	367.4	482.4	425.5	701.3
Gross Profit	30.1	40.7	60.2	67.0	105.2
Other income	1.2	0.3	1.4	2.0	0.5
Administrative expenses	-9.1	-11.0	-17.1	-12.0	-19.0
Selling and Distribution expen	-0.2	-0.2	-0.4	-0.4	-0.4
Operating Profit	22.0	29.8	44.2	56.6	86.3
Finance costs	-4.1	-3.9	-3.9	-5.0	-5.0
Pre-tax Profit	17.8	25.9	40.3	51.6	81.3
Tax	-2.7	-3.9	-3.0	-11.9	-17.9
Profit After Tax	15.1	22.0	37.2	39.7	63.4
Minority Interest	1.6	0.0	0.0	0.0	0.0
Net Profit	16.7	22.0	37.2	39.7	63.4
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	16.7	22.0	37.2	39.7	63.4

Key Ratios

FYE Dec (RM m)	FY21	FY22	FY23	FY23F	FY24F
GP margin	8.3%	11.1%	12.5%	15.7%	15.0%
Operating margin	6.1%	8.1%	9.2%	13.3%	12.3%
PBT margin	4.9%	7.1%	8.4%	12.1%	11.6%
PAT margin	4.2%	6.0%	7.7%	9.3%	9.0%
NP margin	4.6%	6.0%	7.7%	9.3%	9.0%
Core NP margin	4.6%	6.0%	7.7%	9.3%	9.0%
ROE	19.9%	10.9%	16.1%	11.9%	16.9%
ROA	29.7%	26.2%	31.8%	26.1%	35.0%
Net gearing	141.8%	39.6%	22.5%	-0.6%	-2.2%

Key Metric

FYE Dec (RM m)	FY21	FY22	FY23	FY23F	FY24F
P/E (x)	29.2	22.1	25.9	26.7	16.7
Dividend Yield (%)	0.0%	0.3%	0.7%	2.2%	2.9%
SMT line	n/a	11	14	15	17

Valuations

Valuations	FY24f
Core EPS (RM)	0.161
P/E multiple (x)	20.0
Fair Value (RM)	3.22

Balance Sheet

FYE Dec (RM m)	FY21	FY22	FY23	FY23F	FY24F
Cash	17.1	34.6	41.7	90.1	129.6
Receivables	100.2	90.6	131.8	139.3	127.3
Inventories	72.5	133.5	101.7	82.4	137.1
Other current assets	35.6	68.7	26.9	33.4	33.3
Total Current Assets	225.4	327.4	302.2	345.2	427.3
Fixed Assets	56.2	84.0	115.4	152.1	181.0
Intangibles	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.0	1.8	0.0	0.0
Total Non-current assets	56.2	84.0	117.2	152.1	181.0
Short-term Debt	110.2	98.5	72.7	72.2	96.7
Payables	46.3	75.5	69.0	51.9	86.4
Other Current Liabilities	9.8	12.2	15.3	15.5	17.0
Total Current Liabilities	166.3	186.2	157.1	139.6	200.1
Long-term Debt	26.1	15.9	21.1	16.0	24.6
Other non-current liabilities	5.1	7.9	9.6	7.2	7.9
Total Non-current Liabilities	31.2	23.7	30.7	23.2	32.5
Shareholder's equity	84.1	201.4	231.6	334.6	375.7
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity	84.1	201.4	231.6	334.6	375.7

Cash Flow

FYE Dec (RM m)	FY21	FY22	FY23	FY23F	FY24F
Pre-tax profit	17.8	25.9	40.3	51.6	81.3
Depreciation & amortisation	4.5	5.6	8.5	11.5	15.2
Changes in working capital	-3.0	-18.6	-9.5	-13.3	-6.6
Others	-19.2	-1.7	1.7	-11.9	-17.9
Operating cash flow	0.2	11.1	41.0	38.0	72.0
Net capex	-11.4	-33.4	-39.6	-48.2	-44.2
Others	-3.1	-1.2	-1.3	0.0	0.0
Investing cash flow	-14.5	-34.6	-40.9	-48.2	-44.2
Changes in borrowings	0.0	-22.1	-19.3	-5.7	33.2
Issuance of shares	0.0	98.6	0.0	77.1	0.0
Dividends paid	-4.9	-0.6	-7.2	-13.9	-22.2
Others	8.9	0.0	-0.2	0.0	0.0
Financing cash flow	4.0	76.0	-26.7	57.5	11.0
Net cash flow	-10.3	52.5	-26.6	47.3	38.8
Forex	0.1	0.0	-1.3	1.1	0.8
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	27.4	17.1	69.6	41.7	90.1
Ending cash	17.1	69.6	41.7	90.1	129.6

Source: Company, Apex Securities

APEX SECURITIES BERHAD – CONTACT LIST

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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