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02 JAN, 2023

Aurelius`s revenue growth to continue

The Malaysian Reserve, Malaysia

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The group's communication and IoT segment remains the largest revenue contributor

▶ **Recommendation: Buy**
Target Price: RM2.37
by Apex Securities Bhd
(Dec 29)

AURELIUS TECHNOLOGIES BHD

FYE JAN	FY21	FY22	FY23F	FY24F
REVENUE (RM mil)	362.2	367.4	483.3	499.9
NET PROFIT (RM mil)	16.7	22.0	38.7	47.1
EPS (sen)	4.7	6.2	10.8	13.2
PE (x)	29.2	22.1	18.0	14.8

AURELIUS Technologies Bhd (ATech) posted RM132.5m of revenue in its 3QFY23 results which grew 18.4% QoQ and 55.5% YoY, mainly supported by the new capacity in plant 3 which kicked in this quarter as the company ramped up production for new and existing customers.

3Q profit in line. The group reported RM12.3m of net profit in 3QFY23 and 9MFY23 profit of RM24.4m accounted for 74%/73% of consensus and our in-house's full-year forecast.

Profit margins grew despite higher input cost. The group's 3QFY23 PBT margin increased 2.9 ppts QoQ and 2.7 ppts YoY despite higher input cost in 3QFY23 (utility cost +6.3% QoQ, staff cost +31.6% QoQ, finance cost +28% QoQ). The overall higher margin was mainly due to improvement in global supply chain and logistic, as well as revision of higher product pricing by ATech.

Revenue growth led by Communication and IoT. The group's communication and Internet of Things (IoT) segment remains as the largest revenue contributor after posting RM109.1m (+17% QoQ and +43% YoY) to account for 92.9% of total revenue. This was followed by semiconductor component with RM8.1m revenue (+48% QoQ and +188% YoY) to account for 6.9% of total revenue and electronic devices which posted RM0.2m of revenue (-99% QoQ and -98% YoY) to account for 0.1% of total revenue.

Biggest revenue from local customers. During the quarter, revenue from Malaysia stood at RM38.9m (+12% QoQ and +26% YoY) to account for 29% of total revenue, Americas reported RM62.6m of revenue (+15% QoQ and +60% YoY) to make up 47% of total revenue, while Asia Pacific with RM18.1m revenue (+49% QoQ and +196% YoY) accounted for 14% of total revenue and Europe with RM13m revenue (+24% QoQ and +39% YoY) contributed 10% of total revenue.

Momentum expected to continue in 4Q and FY24. ATech's profit growth momentum is expected to continue in 4Q23 and FY24 on the back of production ramp up for existing and new clients in tandem with healthy orderbook and improved supply chain backed by easing of containment measures in China, as well as normalisation of global economic activity.

Capacity expansion. We are optimistic that ATech can catch up on its accumulated backlog order with the capacity expansion plan. As of 3QFY23, the group has a total six SMT lines. The group has ordered an additional one SMT lines with two back-end testing facilities to further ramp up its capacity which is expected to be rolled out in 1QFY24.

Lower but healthy orderbook. As Dec 12, 2022, ATech's orderbook stood at RM360m (dropped from RM421m in September 2022). However, the reduced orderbook is mainly due to the easing of supply chain disruption which enables the group to deliver its outstanding orders.

Earnings Outlook/Revision. We raise our net earnings forecast for FY23F and FY24F by 15% and 7% respectively as we raise our sales forecast of communication and IoT products segment due to higher than expected contribution from the segment in 3QFY23.

Valuation/Recommendation. We maintain our 'Buy' call with higher target price of RM2.37 (RM 2.21 previously) as earnings were upgraded. The target price is pegged on PE multiple of 17x which in line with EMS industry trading at average 17x-18x of one year-forward PE. Our target price is rendering a 21% potential upside from current share price of RM1.95.

We favour the stock due to: 1) Strong profit growth prospects with massive expansion; 2) expected margin enhancement with higher product mix from semiconductor components; and 3) embracing industry 4.0 to mitigate risks in rising labour cost worldwide.

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SUMMARIES

The group's communication and IoT segment remains the largest revenue contributor • Recommendation: Buy Target Price: RM2.37 by Apex Securities Bhd (Dec 29)

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