

MITA No. 010/06/2008

13 May 2009

Avi-Tech Electronics Ltd

Soft 3QFY09, but fundamentals remain sound

Maintain

HOLD

Previous Rating: HOLD

S\$0.115

Fair Value: S\$0.11

Stock Code: AVTH.SI
 Reuters: CT1
 ISIN Code: AVIT SP
 Bloomberg:

Event: Results

General Data	
Issued Capital (m)	350
Mkt Cap (S\$m/US\$m)	40/28
Major Shareholder	
Eng Hong Lim	(30.26%)
Free Float (%)	68.0%
NTA per share (S\$)	0.18
Daily Vol 3-mth ('000)	360
52Wk High (S\$)	0.235
52Wk Low (S\$)	0.070

Soft 3QFY09 performance as expected. Avi-Tech Electronics announced its 3QFY09 results last evening. Revenue came in lower than expected at S\$5.4m, down 69.2% YoY (-47.4% QoQ), due to a scale-back in capital spending among its customers in the face of weakening economic climate. Net profit of S\$0.6m, down 78.8% YoY (-70.1% QoQ), was however within our expectation, helped mainly by smaller-than-expected administrative expenses (-61.5% YoY and -38.6% QoQ) arising from forex gains of S\$0.4m, lesser depreciation expenses and effective cost reduction measures. For 9MFY09, revenue had decreased by 59.5% to S\$24.8m, meeting 71.5% of our FY09 revenue forecast, while net profit slid 58.2% to S\$4.3m, or 82.7% of our earnings projection. This downbeat performance (as well as its guidance to remain profitable) is largely in line with management's outlook given during its 2QFY09 results.

Strong financial position to tackle downturn. As the current recessionary economic condition has significantly eroded consumer and business confidence, and slowed down its major customers' business activities, Avi-Tech still expects to face difficult operating environment and downward pressure on its revenue going forward. Notwithstanding that, the group believes that it is in a strong position to weather any prolonged downturn. Over the quarter, we note that Avi-Tech had successfully implemented stringent cost containment measures to stay competitive and kept its bad debt provision at minimal levels. Its net cash position, as of 31 March 2009, also remained strong at S\$45.8m (2QFY09: S\$46.6m), even after an interim dividend payment of S\$1.7m and share buyback of S\$0.3m. With still sound financials, Avi-Tech said that it will remain alert to new growth opportunities and seize them as and when they arise.

Maintain HOLD. Despite the soft quarterly results, we feel that Avi-Tech has outperformed its semicon peers (most of which had dipped into the red in this exceptionally weak 1Q09) by staying profitable and cash flow accretive. Regarding an improvement in orders from March onwards as cited by some industry players, however, we prefer to stay conservative as the global economy has yet to show any real sign of a sustainable recovery. Accordingly, we have again eased our FY09 forecasts by 5.6-12.1% to reflect a protracted slowdown. Due to limited earnings visibility, we now peg our fair value to 0.65x FY10F NTA from 6x FY10F EPS previously, but our fair value remains unchanged at S\$0.11 (still ~15% discount to its net cash/share of S\$0.13). Maintain **HOLD** as strong cash position is likely to provide some support for share price.

Kevin Tan
 (65) 6531 9809
 e-mail: KevinTan@ocbc-research.com

Year to 30 Jun	Turnover (S\$m)	Gross Profit (S\$m)	Net Profit (S\$m)	EV/EBITDA (x)	EPS (S cents)	EPS Growth (%)	PER (x)	Div Yield (%)
FY 07*	70.4	24.7	15.5	1.5	5.9		2.0	24.5
FY 08	74.3	21.9	11.9	-0.2	3.4	-42.4	3.4	21.7
FY 09F	30.5	9.8	4.9	-0.5	1.4	-58.2	8.1	8.7
FY 10F	25.5	6.6	2.7	-1.0	0.8	-44.3	14.5	8.7

* Adjusted for share split to 262,400,096 shares

Please refer to the important disclosures at the back of this document.

Avi-Tech's Key Financial Data

Avi-Tech Results Year Ended 30 Jun (S\$ m)	3Q08 (S\$m)	3Q09 (S\$m)	% Chg (YoY)	2Q09 (S\$m)	% Chg (QoQ)
Revenue	17.5	5.4	-69.2%	10.2	-47.4%
Gross profit	5.2	1.3	-75.2%	3.4	-61.6%
Gross margin	30.0%	24.2%		33.2%	
EBITDA	4.0	1.1	-73.1%	2.7	-59.8%
Depreciation & amortisation	-0.6	-0.4	-38.2%	-0.3	19.3%
Operating profit	3.4	0.7	-79.2%	2.4	-70.2%
Finance costs	-0.1	-0.1	-23.9%	-0.1	-3.8%
Associates	0.0	0.0	nm	0.0	nm
Pre-tax profit	3.3	0.7	-80.4%	2.3	-71.7%
Tax	-0.7	-0.1	-86.2%	-0.4	-78.5%
Minority interests	0.0	0.0	nm	0.0	nm
Net profit	2.6	0.6	-78.8%	1.9	-70.1%
Net Margin	15.1%	10.4%		18.2%	

EARNINGS FORECAST

Year Ended 30 Jun (S\$ m)	FY07	FY08	FY09F	FY10F
Revenue	70.4	74.3	30.5	25.5
Gross profit	24.7	21.9	9.8	6.6
EBITDA	21.2	17.5	7.8	5.2
Depreciation & amortisation	-2.0	-2.3	-1.6	-1.6
Operating Profit	19.1	15.2	6.2	3.6
Finance costs	-0.4	-0.3	-0.2	-0.2
Associates	0.0	0.0	0.0	0.0
Pre-tax profit	18.8	14.9	6.0	3.4
Tax	-3.3	-3.0	-1.1	-0.6
Minority interests	0.0	0.0	0.0	0.0
Net profit	15.5	11.9	4.9	2.7
Earnings per share (cents)	5.9	3.4	1.4	0.8
Fully diluted earnings per share (cents)	5.9	3.4	1.4	0.8

BALANCE SHEET

As at 30 Jun (S\$ m)	FY07	FY08	FY09F	FY10F
Cash	16.6	50.5	50.8	52.0
Other current assets	21.0	14.6	7.6	6.5
Fixed assets	17.1	15.9	14.8	13.9
Other long term assets	0.2	0.1	0.1	0.1
Total assets	54.9	81.1	73.3	72.4
Current liabilities less debt	15.1	10.3	5.1	4.9
Debt	7.5	6.8	6.3	6.3
Other long term liabilities	1.1	1.1	1.1	1.1
Total liabilities	23.6	18.1	12.4	12.3
Shareholders equity	31.2	62.9	60.9	60.1
Minority interests	0.0	0.0	0.0	0.0
Total equity and liabilities	54.9	81.1	73.3	72.4
NTA per share (cents)	11.8	17.9	17.5	17.2

CASH FLOW

Year Ended 30 Jun (S\$ m)	FY07	FY08	FY09F	FY10F
Operating profit before working cap. changes	20.7	17.4	7.3	4.7
Working capital changes	-1.2	2.1	2.8	1.0
Interest and tax	-2.3	-3.0	-2.0	-0.4
Net cash from operations	17.3	16.5	8.1	5.3
Capex	-1.8	-1.7	-0.4	-0.7
Other investing flows	0.0	0.0	0.1	0.0
Investing cash flow	-1.7	-1.7	-0.3	-0.7
Change in equity	0.0	26.8	0.0	0.0
Net change in debt	-0.7	-0.7	-0.5	0.0
Dividends paid	-7.4	-7.0	-7.0	-3.5
Others	-1.0	0.9	0.5	0.0
Financing cash flow	-9.0	20.0	-7.0	-3.5
Forex adjustments	0.0	0.0	0.0	0.0
Net cash flow	6.5	34.7	0.8	1.2
Cash at beginning of year	8.7	15.3	50.0	50.8
Cash at end of year	15.3	50.0	50.8	52.0
Add: Pledged deposits	1.3	0.5	0.0	0.0
Cash and cash equivalents	16.6	50.5	50.8	52.0

Key Ratios

PER (x)	2.0	3.4	8.2	14.6
Price/NTA (x)	1.0	0.6	0.7	0.7
EV/EBITDA (x)	1.5	-0.2	-0.5	-1.0
Dividend yield (%)	24.5	21.7	8.7	8.7
ROIC (%)	21.3	4.5	2.2	-1.1
ROE (%)	56.9	25.3	7.9	4.5
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash
PE to growth (x)	0.0	-0.1	-0.1	-0.3

Source: Company data, OIR estimates

SGX RESEARCH INCENTIVE SCHEME

OCBC Investment Research Pte Ltd (OIR) produced this report under the SGX Research Incentive Scheme. OIR is compensated S\$7,500 per annum for each company covered under the Scheme.

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

RATINGS AND RECOMMENDATIONS:

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/-10% from the current price; Sell = More than 10% downside from the current price.

- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

DISCLAIMER FOR RESEARCH REPORT

This report is solely for information and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. You may wish to seek advice from a financial adviser regarding the suitability of the securities mentioned herein, taking into consideration your investment objectives, financial situation or particular needs, before making a commitment to invest in the securities. OCBC Investment Research Pte Ltd, OCBC Securities Pte Ltd and their respective connected and associated corporations together with their respective directors and officers may have or take positions in the securities mentioned in this report and may also perform or seek to perform broking and other investment or securities related services for the corporations whose securities are mentioned in this report as well as other parties generally.

Privileged/Confidential information may be contained in this message. If you are not the addressee indicated in this message (or responsible for delivery of this message to such person), you may not copy or deliver this message to anyone. Opinions, conclusions and other information in this message that do not relate to the official business of my company shall not be understood as neither given nor endorsed by it.

For OCBC Investment Research Pte Ltd

Co.Reg.no.: 198301152E



Carmen Lee
Head of Research

Published by OCBC Investment Research Pte Ltd