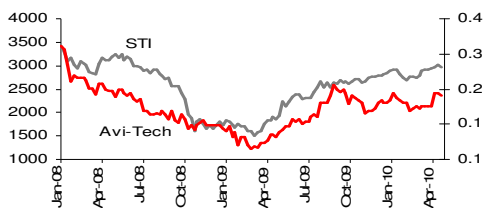


10 May 2010

Maintain

BUY

Previous Rating: BUY

Current Price: S\$0.18
Fair Value: S\$0.24


Reuters Code	AVTH.SI
ISIN Code	CT1
Bloomberg Code	AVIT SP
Issued Capital (m)	350
Mkt Cap (S\$/US\$m)	63 / 45
Major Shareholders	
Eng Hong Lim	30.26%
Free Float (%)	68.2%
Daily Vol 3-mth ('000)	189
52 Wk Range	0.115 - 0.240

(\$ m)	FY08	FY09	FY10F	FY11F
Revenue	74.3	31.3	28.2	36.2
EBIT	15.2	6.8	4.8	7.2
P/NTA (x)	1.0	1.0	0.9	0.9
EPS (cts)	3.4	1.6	1.1	1.7
PER (x)	5.3	11.5	16.1	10.7

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Avi-Tech Electronics Ltd

More affirmative outlook

In line 3QFY10 earnings. Avi-Tech Electronics reported 3QFY10 revenue of S\$7.4m, up 38.2% YoY (+9.4% QoQ), ahead of our expectation of S\$6.7m due to stronger-than-expected recovery in the Board Manufacturing (BM) and Burn-In Services (BS) segments. However, gross margin (despite improving from 24.2% in 3QFY09 to 29.6%) was lower than our projection of 32.0% due to weakness in the Engineering Services (ES) segment. This effectively offset any upside surprise from the higher revenue. As such, net profit came in at S\$1.0m, up 81.2% YoY (+0.4% QoQ), and in line with our earnings estimate. For 9MFY10, revenue came in at S\$21.1m (-14.9%), meeting 78.3% of our full-year sales forecast, while net income tallied S\$3.0m (-31.3%), or 72.0% of our earnings figure.

Two of three segments saw positive growth. The strongest growth came from its BM segment, which had over the past nine months grown 76% to S\$8.1m amid a larger product range and recovery in the semiconductor industry. The BS segment rose by a slower 5% (though on higher base) to S\$8.1m, due also to a return in demand for semiconductor chips. Only the ES segment disappointed during the period with a 60% drop in revenue to S\$4.9m, dragged by substantial reduction in capex spending by customers and a slow pick-up from its life sciences segment.

More affirmative outlook. It is seeing traction in customer orders within the BM and BS segments, and management believes that it is likely that the healthy sales momentum may continue into 4Q. While its ES segment has been weak, Avi-Tech expressly said that it has received more customers' enquiries which are likely to yield results in FY11. On the M&A front, the group revealed that it is still in the preliminary stages of assessing a number of opportunities. Should the investments not materialize, Avi-Tech does not rule out giving back the excess cash to shareholders as dividends. We note that its net cash amounted to a strong S\$44.3m (71.3% of market cap.) as at end-March. As such, we see possibility that the group maintains its final dividend at the FY09 level (0.5 SG cents/share), despite cutting its interim dividend by 50% YoY.

Maintain BUY. We raise FY10 revenue forecast by 4.8% to factor in the better-than-expected sales momentum but ease our earnings by 6.1% as we lower our margins on soft ES performance expected in 4Q. Our fair value remains at S\$0.24, pegged at 1.2x FY11F NTA. We see current market weakness as favourable entry point into Avi-Tech. Maintain **BUY**.

Avi-Tech 's Key Financial Data

Avi-Tech Results Year Ended 30 June (S\$ m)	3Q09 (S\$m)	3Q10 (S\$m)	% Chg (YoY)	2Q10 (S\$m)	% Chg (QoQ)
Revenue	5.4	7.4	38.2%	6.8	9.4%
Gross profit	1.3	2.2	69.1%	2.0	9.1%
Gross margin	24.2%	29.6%		29.7%	
EBITDA	1.1	1.7	55.0%	1.5	10.8%
Depreciation & amortisation	-0.4	-0.4	-2.2%	-0.3	12.7%
Operating profit	0.7	1.3	85.1%	1.2	10.3%
Finance costs	-0.1	0.0	-54.9%	0.0	-14.8%
Associates	0.0	0.0	nm	0.0	nm
Pre-tax profit	0.7	1.3	96.0%	1.2	10.9%
Tax	-0.1	-0.3	182.3%	-0.1	81.9%
Minority interests	0.0	0.0	nm	0.0	nm
Net profit	0.6	1.0	81.2%	1.0	0.4%
Net Margin	10.4%	13.6%		14.8%	

Avi-Tech's Key Financial Data

EARNINGS FORECAST					BALANCE SHEET				
Year Ended 30 Jun (S\$m)	FY08	FY09	FY10F	FY11F	As at 30 Jun (S\$m)	FY08	FY09	FY10F	FY11F
Revenue	74.3	31.3	28.2	36.2	Bank and cash balances	50.5	51.5	50.3	49.9
EBITDA	17.5	8.4	6.2	8.7	Other current assets	14.6	10.5	10.2	12.7
Depreciation & amortization	-2.3	-1.6	-1.4	-1.5	Property, plant, and equipment	15.9	14.7	16.0	16.1
EBIT	15.2	6.8	4.8	7.2	Total assets	81.1	76.7	76.5	78.8
Finance costs	-0.3	-0.2	-0.1	-0.2	Debt	6.8	6.1	5.5	4.9
Associates	0.0	0.0	0.0	0.0	Current liabilities excluding debt	10.3	5.3	4.5	5.0
Profit before tax	14.9	6.6	4.6	7.0	Total liabilities	18.1	12.2	10.8	10.7
Income tax expense	-3.0	-1.1	-0.8	-1.2	Shareholders equity	62.9	64.5	65.7	68.1
Minority interests	0.0	0.0	0.0	0.0	Minority interests	0.0	0.0	0.0	0.0
PATMI	11.9	5.4	3.9	5.8	Total equity and liabilities	81.1	76.7	76.5	78.8

CASH FLOW					KEY RATES & RATIOS				
Year Ended 30 Jun (S\$m)	FY08	FY09	FY10F	FY11F		FY08	FY09	FY10F	FY11F
Op profit before working cap. chg.	17.4	7.8	5.3	7.9	EPS (SG cents)	3.4	1.6	1.1	1.7
Working cap, taxes and int	-1.0	-1.9	-0.8	-2.8	NTA per share (SG cents)	17.9	18.7	19.0	19.7
Net cash from operations	16.5	5.9	4.5	5.1	EBIT margin (%)	20.4%	21.6%	16.9%	19.9%
Purchase of PP&E	-1.7	-0.2	-2.7	-1.5	Net profit margin (%)	16.0%	17.3%	13.7%	16.0%
Other investing flows	0.0	0.0	0.3	0.0	PER (x)	5.3	11.5	16.1	10.7
Investing cash flow	-1.7	-0.2	-2.5	-1.5	Price/NTA (x)	1.0	1.0	0.9	0.9
Financing cash flow	20.0	-4.3	-3.2	-4.1	EV/EBITDA (x)	1.1	2.1	3.0	2.1
Net cash flow	34.7	1.5	-1.2	-0.5	Dividend yield (%)	13.9%	5.6%	4.2%	6.9%
Cash at beginning of year	15.3	50.0	51.5	50.3	ROE (%)	25.3%	8.5%	5.9%	8.7%
Cash at end of year	50.5	51.5	50.3	49.9	Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

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

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- 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.

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For OCBC Investment Research Pte Ltd



Carmen Lee
Head of Research

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