

AT&S

High-end interconnect solutions

AT&S is the second largest manufacturer of high-end printed circuit boards (PCBs) globally. It is well placed to benefit from rising demand in the medium term for interconnected devices, data servers and autonomous vehicles. Management is partway through a five-year programme to invest up to €1bn in expanding its integrated circuit (IC) substrate capacity fivefold, with the aim of doubling revenues to €2bn with a 25–30% EBITDA margin.

Broad product portfolio gives resilience

AT&S is one of the largest IC substrate producers globally. It also specialises in high-density interconnect (HDI) boards, which permit higher circuitry density than traditional circuit boards. This results in electronic products that weigh less, perform faster and more efficiently, and come in smaller packages, which is highly desirable for wearable, mobile and handheld electronics. The technology is also being adopted in the automotive sector, where the amount of electronics per vehicle is growing rapidly, and in industry, where machine-to-machine communication is becoming increasingly prevalent. The breadth of markets served gives resilience. While management does not expect demand from the automotive industry to return to pre-pandemic levels quickly, it expects demand for IC substrates to remain strong.

Expansion programme broadly on track

The programme for expanding IC substrate capacity remains broadly on track despite the COVID-19 pandemic. This capability put AT&S in a good position to benefit from rising demand for advanced IC substrates for high-performance computing modules needed for artificial intelligence (AI) analysis of large data sets and radio frequency modules in 5G smartphones and wearables. The focus on IC substrates strengthens the group's position in a segment that is growing faster than the PCB market and reduces its dependence on the health of the smartphone market. AT&S is also investing to become a module integration services provider, raising the proportion of module value captured from 3% to 20%.

Trading at a discount to peers

The shares trade on prospective EV/EBITDA multiples that are at a discount to the mean of our sample of nine listed PCB manufacturers, which includes Compeq and TTM (year 1: 3.8x vs 9.1x, year 2: 3.0x vs 7.3x). Given that AT&S generates better than average EBITDA margins (year 1: 20.5% vs 16.4%), on that basis the discount does not appear justified.

Consensus estimates

Year end	Revenue (€m)	EBIT (€m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
03/19	1,028.0	117.2	2.08	0.60	7.8	3.7
03/20	1,000.6	47.4	0.34	0.25	47.9	1.5
03/21e	1,120.0	69.0	0.93	0.19	18.1	1.2
03/22e	1,292.8	110.2	1.69	0.27	9.6	1.7

Source: Refinitiv

Technology

23 October 2020

Price €16.28
Market cap €633m

Share price graph



Share details

Code ATS:AV
Shares in issue 38.9m
Net debt at end June 2020 €298.3m

Business description

AT&S manufactures high-end printed circuit boards and IC substrates at sites in Austria, China, India and Korea. It focuses on high-volume, high-density interconnect (HDI) boards used in mobile devices, specialist boards used in the automotive sector, and for healthcare products and industrial applications.

Bull

- Demand for HDI boards driven by connectivity mega-trend.
- Number and complexity of specialist printed circuit boards in automobiles continues to increase.
- Demand from major semiconductor manufacture, a longstanding customer of AT&S, driving investment in IC substrate capacity.

Bear

- Seasonal and cyclical variation in demand for PCBs used in mobile devices.
- High levels of customer concentration.
- Gearing (net debt/equity) 41% at end June 2020.

Analyst

Anne Margaret Crow +44 (0)20 3077 5700
tech@edisongroup.com

EDISON QUICKVIEWS ARE NORMALLY ONE-OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.

General disclaimer and copyright

This report has been prepared and issued by Edison as part of a roadshow package for companies attending the Eigenkapital Forum. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960

Schumannstrasse 34b

60325 Frankfurt

Germany

London +44 (0)20 3077 5700

280 High Holborn

London, WC1V 7EE

United Kingdom

New York +1 646 653 7026

1185 Avenue of the Americas

3rd Floor, New York, NY 10036

United States of America

Sydney +61 (0)2 8249 8342

Level 4, Office 1205

95 Pitt Street, Sydney

NSW 2000, Australia