

AT&S

Strong for tomorrow

AT&S is the largest provider of high-density interconnect (HDI) printed circuit boards (PCBs) globally. While Q420 performance was affected by the COVID-19 lockdown in China, AT&S is well placed to benefit from rising demand in the medium term for interconnected devices, data servers and autonomous vehicles. Management is investing <€1bn over the next five years in expanding its integrated circuit (IC) substrate capacity fivefold, with the aim of doubling revenues to €2bn with a 25–30% EBITDA margin.

FY19/20 performance in line with revised guidance

Revenue declined by 2.7% y-o-y during FY19/20 to €1,000.6m, beating revised guidance of €960m. The decline was attributable to lower volumes in the mobile devices segment and continued reduction in demand in the industrials segment, although IC substrate demand was strong. The catch-up effects expected for Q419/20 failed to occur because of the temporary disruption to the group's facilities in China caused by COVID-19. EBITDA reduced by 22.2% to €194.5m with a 4.9pp fall in EBITDA margin to 19.4%. The reduction was in line with revised guidance of 18–20% and relates inter alia to the unfavourable product mix and capacity underutilisation in mobile devices and higher R&D costs. Investment in capex doubled to €218.5m, resulting in a €96.4m increase in net debt to €246.7m.

Demand for data strengthening

All of the group's production sites are operational at present and there is no sign of supply chain shortages. Management expects revenue and EBITDA in Q120/21 to be at Q119/20 levels but has not provided full year guidance. It is possible that the pandemic will cause some mobile phone launches to be delayed. Visibility in the automotive sector is limited and demand from the industrial segment is expected to continue to be weak. However, current forecasts indicate that demand for IC substrates will remain strong. The programme for expanding IC substrate capacity remains broadly on track despite the pandemic. This capability puts 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.

Valuation: 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 eight listed PCB manufacturers, which includes Unimicron Technology and Zhen Ding Technology (year 1: 4.6x vs 6.4x, year 2: 2.8x vs 5.8x). Given that AT&S generates better than average EBITDA margins (year 1: 17.6% vs 15.2%), this discount does not appear justified.

Consensus estimates**

Year end	Revenue (€m)	EBIT (€m)	EPS (€)	DPS (c)	P/E (x)	Yield (%)
03/19	1,028.0	117.2	2.08	0.60	7.6	3.8
03/20*	1,000.6	47.4	0.34	0.25	46.6	1.6
03/21e	1,053.4	32.0	0.17	0.15	93.3	0.9
03/22e	1,331.5	123.0	1.71	0.53	9.3	3.3

Source: Refinitiv. Note: *Preliminary data. **Revised since 26 March 2020 trading update.

Technology

18 May 2020

Price €15.86
Market cap €616m

Share price graph



Share details

Code: ATS
 Listing: ATX, WBI, VÖNIX
 Shares in issue: 38.85m

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, which is 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.
- Demand from automotive sector affected short term by transition to electric power trains.
- High levels of customer concentration.

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