

Singapore Company Update

AEM Holdings Ltd

Bloomberg: AEM SP | Reuters: AEM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Feb 2022

BUY

Last Traded Price (24 Feb 2022): S\$4.03 (STI : 3,276.06)

Price Target 12-mth: S\$6.04 (50% upside)

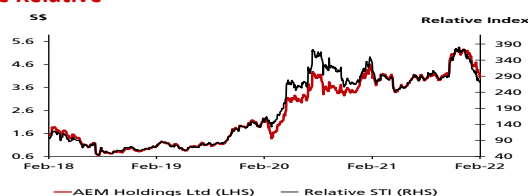
Analyst

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What's New

- FY21 results 8% above our expectations; revenue beat guidance
- Strong 4Q21 on ramp-up of new handlers
- Outlook is bright; leveraging on Intel's growing capex and increasing demand for new handlers
- Maintain BUY and S\$6.04 TP

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Revenue	519	565	777	855
EBITDA	122	128	161	178
Pre-tax Profit	114	111	146	162
Net Profit	97.6	92.1	124	137
Net Pft (Pre Ex.)	97.6	92.1	124	137
Net Pft Gth (Pre-ex) (%)	85.0	(5.6)	34.5	11.0
EPS (S cts)	35.4	29.9	40.2	44.7
EPS Pre Ex. (S cts)	35.4	29.9	40.2	44.7
EPS Gth Pre Ex (%)	81	(16)	35	11
Diluted EPS (S cts)	35.4	29.9	40.2	44.7
Net DPS (S cts)	8.98	7.60	10.2	11.3
BV Per Share (S cts)	76.7	131	161	194
PE (X)	11.4	13.5	10.0	9.0
PE Pre Ex. (X)	11.4	13.5	10.0	9.0
P/Cash Flow (X)	12.9	23.8	5.8	8.1
EV/EBITDA (X)	8.0	8.0	5.3	4.1
Net Div Yield (%)	2.2	1.9	2.5	2.8
P/Book Value (X)	5.3	3.1	2.5	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	56.4	30.0	27.6	25.2
Earnings Rev (%)			0	0
Consensus EPS (S cts)			4.0	4.5
Other Broker Recs:		B: 4	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Strong growth momentum

Investment Thesis:

Strong earnings momentum going forward. AEM's weaker FY21 results as compared to the previous year were in contrast with the semiconductor industry which registered strong growth in 2021. With AEM's next generation handler in mass production, we can look forward to better growth ahead. We expect robust earnings growth of 35% in FY22F, followed by another 11% in FY23F.

Key customer's capex indicates a strong outlook for AEM.

Intel, AEM's key customer, believes that the semiconductor industry could double its market size to US\$1tr by 2030. It is ready to commit significant investments to ensure that it is at the forefront, and we believe that this will translate into higher revenues for AEM in FY22-23F.

Near-term key catalyst – ramp-up of next generation of handlers to its key customer.

In the semiconductor industry, investments in the back-end typically lag the front-end by several quarters. After procuring front-end equipment, AEM's key customer has begun to ramp up its next generation of test handlers and we expect this will be one of the key drivers of AEM's growth in FY22F.

Valuation:

Maintain BUY and TP of S\$6.04. No change in earnings and our TP of S\$6.04, pegged to 15.0x PE (c. +2SD of its 4-year average) on FY22F earnings. Our PE peg is at a c.10% discount to peers.

Where we differ:

We are more optimistic on revenue and earnings growth.

Key Risks to Our View:

Single-customer concentration risk, geopolitical events, protraction of the COVID-19 pandemic, and FX risk.

At A Glance

Issued Capital (m shrs)	310
Mkt. Cap (\$m/US\$m)	1,248 / 927
Major Shareholders (%)	
Venezio Investments Pte Ltd	9.0
Aberdeen PLC	5.1
Employees Provident Fund Board	5.0
Free Float (%)	80.9
3m Avg. Daily Val (US\$m)	9.7
GIC Industry : Information Technology / Technology Hardware & Equipment	



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WHAT'S NEW

FY21 results 8% above our expectations; revenue beat guidance

Results Review

FY21 results 8% above our expectations; revenue beat guidance. Revenue for 2H21 jumped 52.2% y-o-y, following a strong uptake of its new generation equipment and tools, while net profit for 2H21 increased by 47.5% y-o-y to S\$62.4m. For FY21, net profit was down 6% y-o-y to S\$92.1m but still 8% above our expectations. FY21 revenue was also higher than the group's guidance in November 2021 of S\$525m-S\$550m.

Strong 4Q21 on ramp-up of new handlers. 4Q21 was exceptionally strong, pretax profit surged 72% q-o-q on the back of the 55% jump in revenue. This was driven by the volume ramp of its new System Level Testing handlers, Burn-In Test handlers and peripheral tools, and the consolidation of CEI Limited, which the group acquired in 1H21.

A final DPS of 5Scts was proposed, bringing total DPS to 7.6Scts, which works out to a dividend payout ratio of 25%, similar to FY20.

Margins lower with the consolidation of CEI. With the consolidation of the lower-margin business of CEI Limited, overall gross margin softened to 36.5% in FY21, from 39.2% in FY20. Net margin dropped to 16.3%, from 18.8%.

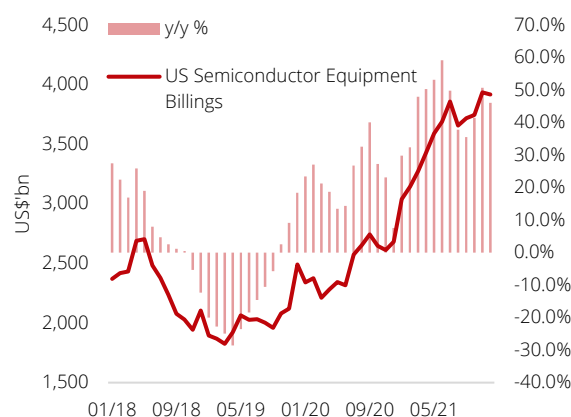
Outlook

Increasing demand for SLT. The continued growth in the demand of semiconductor chips for mission critical applications, along with the increased adoption of advanced heterogenous packaging, is driving the need for System Level Testing (SLT). According to VLSI Research, SLT is expected to grow 4.4x faster than wafer sort and functional test in 2020-2024, largely driven by the need to increase test coverage reliability. This uptrend is expected to drive the growth momentum for AEM, especially with timely launch of the new generation equipment and tools.

The semiconductor industry remains strong; Equipment billings hit a record high double-digit growth y-o-y. The latest data print from Semiconductor Equipment and Materials International (SEMI) showed that the US semiconductor equipment billings increased by 46.1% y-o-y to US\$3.92bn in December 2021. The average monthly y-o-y growth recorded in 2021 was 44.5%, up from 23.0% in 2020. In the past five years, this data series has had a

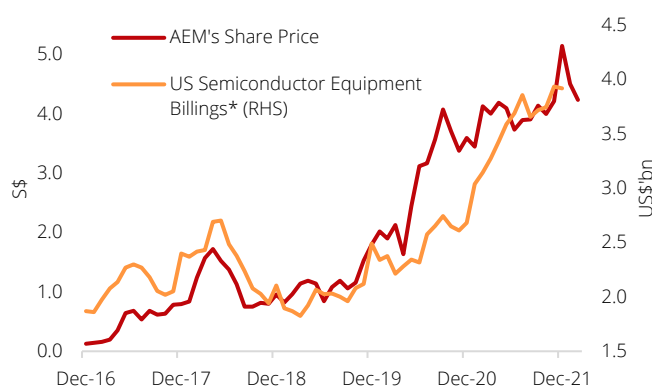
strong correlation with AEM's share price, with an r-squared of 0.76.

US 3-month Semiconductor Equipment Billings



Source: SEMI, CEIC, DBS Bank

US semiconductor equipment billings is a strong driver of AEM's share price (r-sq = 0.76)



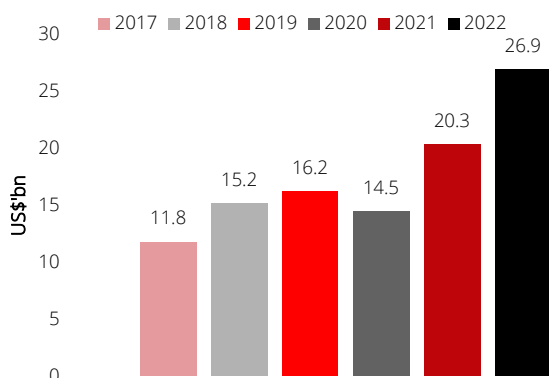
Source: Bloomberg Finance L.P., SEMI, CEIC, DBS Bank
*US-based semiconductor equipment manufacturers

2022 will continue to be a strong year for AEM, leveraging on Intel's growing capex. Despite US semiconductor equipment billings recording strong growth in 2020 and 2021, we have reasons to believe that 2022 will continue to be a strong year for equipment manufacturers such as AEM. INTC has guided for large increases in capex for 2022 (+32.5% y-o-y) despite growing substantially in 2021 (+40.7% y-o-y). We believe that these large increases in

AEM Holdings Ltd

spending by its key customer, Intel, will flow through to AEM.

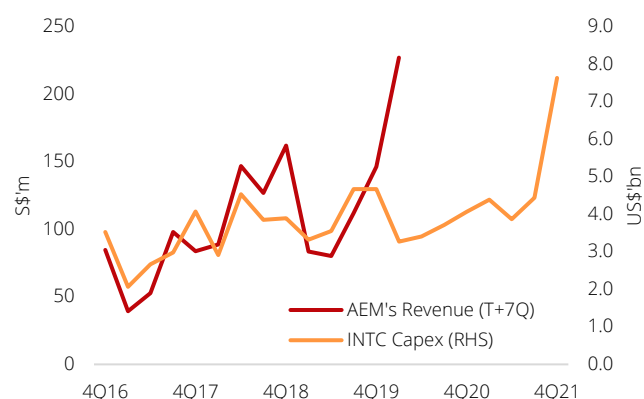
Intel's Capex



Source: Bloomberg Finance L.P., DBS Bank

Intel's spending to flow through to AEM is the next few years. In the semiconductor industry, investments in front-end equipment typically leads the back-end by several quarters. Based on our analysis, AEM's revenue has historically lagged Intel's capex by about seven quarters. Hence, we believe that this will be a key driver of AEM's growth from FY22 and beyond.

AEM's revenue lags Intel's capex by c.7 quarters



Source: Bloomberg Finance L.P., DBS Bank

Earnings and Recommendation

No change in our earnings estimate; maintain BUY and TP of S\$6.04. Our TP is still pegged to 15x, c. +2SD of its 4-year average PE, on FY22F earnings. We continue to expect AEM to ride on the increasing demand for SLT given the complexity of mission critical applications, along with the increased adoption of advanced heterogenous packaging. The increase in capex spending from front-end players in the semiconductor value chain will also lead to additional investments in back-end test. AEM is well-positioned to ride on this trend.

Company Background

AEM is a solutions provider for the back-end testing of the semiconductor manufacturing process. It works closely with its key customer, Intel, to design, engineer, and manufacture the test handlers. AEM then provides field support and post-sales replacements.

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Interim Income Statement (S\$m)

FY Dec	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Revenue	245	192	373	52.2	94.1
Cost of Goods Sold	(149)	(107)	(252)	69.1	135.7
Gross Profit	96	85	121	26.0	42.0
Other Oper. (Exp)/Inc	(50)	(49)	(46)	(7.9)	(6.2)
Operating Profit	46	36	75	62.3	106.6
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	0	0	1	nm	nm
Net Interest (Exp)/Inc	0	(1)	(1)	nm	25.2
Exceptional Gain/(Loss)	0	0	0	-	-
Pre-tax Profit	47	36	76	62.6	113.0
Tax	(4)	(6)	(13)	213.5	127.7
Minority Interest	0	0	0	-	-
Net Profit	42	30	62	47.5	110.1
Net profit bef Except.	42	30	62	47.5	110.1
EBITDA	51	41	85	68.0	109.6
Margins (%)					
Gross Margins	39.2	44.4	32.5		
Opg Profit Margins	18.9	19.0	20.2		
Net Profit Margins	17.2	15.4	16.7		

Source of all data: Company, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

AEM Holdings Ltd

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	323	519	565	777	855
Cost of Goods Sold	(192)	(315)	(359)	(498)	(541)
Gross Profit	131	203	207	279	315
Other Opng (Exp)/Inc	(67.9)	(90.3)	(94.8)	(134)	(155)
Operating Profit	62.9	113	112	145	160
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.46	0.20	0.64	0.0	0.0
Net Interest (Exp)/Inc	0.36	0.45	(1.3)	1.16	1.76
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	63.7	114	111	146	162
Tax	(11.0)	(16.2)	(19.1)	(21.9)	(24.3)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	52.8	97.6	92.1	124	137
Net Profit before Except.	52.8	97.6	92.1	124	137
EBITDA	69.5	122	128	161	178
Growth					
Revenue Gth (%)	23.2	60.6	9.0	37.4	10.1
EBITDA Gth (%)	67.0	75.3	5.4	25.9	10.2
Opg Profit Gth (%)	58.3	79.8	(1.2)	29.3	10.7
Net Profit Gth (Pre-ex) (%)	57.5	85.0	(5.6)	34.5	11.0
Margins & Ratio					
Gross Margins (%)	40.5	39.2	36.5	35.9	36.8
Opg Profit Margin (%)	19.5	21.8	19.8	18.6	18.7
Net Profit Margin (%)	16.3	18.8	16.3	15.9	16.1
ROAE (%)	47.1	56.4	30.0	27.6	25.2
ROA (%)	29.0	34.6	17.6	16.8	16.6
ROCE (%)	46.3	54.4	26.0	24.0	22.5
Div Payout Ratio (%)	26.4	25.4	25.4	25.4	25.4
Net Interest Cover (x)	NM	NM	84.4	NM	NM

Source: Company, DBS Bank

AEM Holdings Ltd

Interim Income Statement (\$\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	173	274	245	192	373
Cost of Goods Sold	(97.0)	(166)	(149)	(107)	(252)
Gross Profit	75.5	107	96.2	85.4	121
Other Oper. (Exp)/Inc	(39.2)	(40.5)	(49.8)	(48.9)	(45.9)
Operating Profit	36.2	66.7	46.4	36.5	75.4
Other Non Op (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & IV Inc	0.33	0.26	(0.1)	(0.2)	0.85
Net Interest (Exp)/Inc	0.21	0.28	0.17	(0.8)	(0.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	36.8	67.3	46.5	35.5	75.6
Tax	(6.3)	(12.0)	(4.2)	(5.8)	(13.2)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	30.5	55.3	42.3	29.7	62.4
Net profit bef Except.	30.5	55.3	42.3	29.7	62.4
EBITDA	39.7	71.3	50.5	40.5	84.9

Growth

Revenue Gth (%)	14.5	58.7	(10.4)	(21.6)	94.1
EBITDA Gth (%)	33.7	79.3	(29.1)	(19.8)	109.6
Opp Profit Gth (%)	35.7	84.2	(30.5)	(21.4)	106.6
Net Profit Gth (%)	36.6	81.5	(23.5)	(29.8)	110.1

Margins

Gross Margins (%)	43.7	39.2	39.2	44.4	32.5
Opp Profit Margins (%)	21.0	24.4	18.9	19.0	20.2
Net Profit Margins (%)	17.7	20.2	17.2	15.4	16.7

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	8.44	17.6	26.1	17.3	14.4
Invts in Associates & JVs	4.57	4.68	15.9	15.9	15.9
Other LT Assets	17.0	46.8	118	118	111
Cash & ST Invts	108	135	216	392	502
Inventory	57.5	79.7	205	140	149
Debtors	28.0	47.6	128	83.9	89.7
Other Current Assets	4.86	4.36	1.06	1.06	1.06
Total Assets	228	336	711	768	884
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	71.6	83.7	181	143	154
Other Current Liab	19.7	28.0	55.6	58.7	61.1
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	2.35	12.4	71.3	71.3	71.3
Shareholder's Equity	134	211	403	495	598
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	228	336	711	768	884
Non-Cash Wkg. Capital	(1.0)	20.0	97.3	23.0	25.2
Net Cash/(Debt)	108	135	216	392	502
Debtors Turn (avg days)	25.9	26.6	56.6	49.8	37.0
Creditors Turn (avg days)	102.5	92.3	140.8	123.1	103.8
Inventory Turn (avg days)	83.2	81.5	151.4	130.9	101.1
Asset Turnover (x)	1.8	1.8	1.1	1.1	1.0
Current Ratio (x)	2.2	2.4	2.3	3.1	3.5
Quick Ratio (x)	1.5	1.6	1.5	2.4	2.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A

Source: Company, DBS Bank

AEM Holdings Ltd

Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	63.7	114	111	146	162
Dep. & Amort.	6.08	8.42	15.8	16.9	17.9
Tax Paid	(6.7)	(9.8)	(20.2)	(18.8)	(21.9)
Assoc. & JV Inc/(loss)	(0.5)	(0.2)	(0.6)	0.0	0.0
Chg in Wkg.Cap.	(2.2)	(29.2)	(55.1)	71.3	(4.6)
Other Operating CF	7.18	3.33	1.07	0.0	0.0
Net Operating CF	67.7	86.3	52.1	215	153
Capital Exp.(net)	(3.3)	(30.4)	(72.9)	(8.0)	(8.0)
Other Invs.(net)	0.0	0.0	(2.6)	0.0	0.0
Invs in Assoc. & JV	0.0	0.0	(8.5)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.52	0.67	(1.2)	0.0	0.0
Net Investing CF	(2.8)	(29.8)	(85.2)	(8.0)	(8.0)
Div Paid	(10.5)	(22.2)	(18.6)	(31.5)	(34.9)
Chg in Gross Debt	(0.2)	(0.6)	56.7	0.0	0.0
Capital Issues	0.0	0.0	103	0.0	0.0
Other Financing CF	(4.5)	(3.1)	(27.8)	0.0	0.0
Net Financing CF	(15.2)	(25.9)	113	(31.5)	(34.9)
Currency Adjustments	(0.9)	(3.5)	1.11	0.0	0.0
Chg in Cash	48.8	27.1	81.4	176	110
Opg CFPS (S cts)	25.9	41.9	34.8	46.7	51.3
Free CFPS (S cts)	23.9	20.3	(6.8)	67.3	47.2

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	02 Mar 21	3.97	5.36	BUY
2:	05 May 21	3.63	4.73	BUY
3:	10 Aug 21	4.13	4.98	BUY
4:	25 Nov 21	5.08	6.04	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 25 Feb 2022 07:14:33 (SGT)

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