

Singapore

March 15, 2022 - 9:23 PM

ADD (no change)

Consensus ratings*: Buy 4 Hold 0 Sell 0

Current price:	S\$4.11
Target price:	S\$6.85
Previous target:	S\$6.85
Up/downside:	66.7%
CGS-CIMB / Consensus:	6.9%
Reuters:	AEM.SI
Bloomberg:	AEM SP
Market cap:	US\$931.1m
	S\$1,271m
Average daily turnover:	US\$9.73m
	S\$13.15m
Current shares o/s	309.6m
Free float:	88.1%

*Source: Bloomberg

Key financial forecasts

	Dec-22F	Dec-23F	Dec-24F
Net Profit (S\$m)	123.6	135.8	141.4
Core EPS (S\$)	0.40	0.44	0.46
Core EPS Growth	34.4%	9.9%	4.2%
FD Core P/E (x)	10.30	9.37	9.00
Recurring ROE	27.5%	24.9%	21.8%
P/BV (x)	2.57	2.13	1.81
DPS (S\$)	0.10	0.11	0.11
Dividend Yield	2.43%	2.67%	2.78%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-6.4	-20	6.2
Relative (%)	-1	-23.9	2

Major shareholders	% held
Venezio Investments	9.0
abrdrn	5.1

AEM Holdings Ltd

To benefit from Intel's investment in Europe

- Intel continues its expansion plan and on 15 Mar 2022 announced possibly up to €80bn investment in Europe over the next decade.
- We expect AEM to benefit from Intel's expansion, as the latter should translate into demand for its test handler (TH) products.
- We assume AEM will remain the sole TH supplier for Intel's current testing methodology. Reiterate Add; TP unchanged at S\$6.85.

Possibly up to €80bn investment over the next decade

- Intel Corp (INTC US, Not Rated) today (15 Mar 2022) announced the first phase of its plan to possibly invest up to €80bn in the European Union over the next decade.
- The investment includes research and development (R&D), chip manufacturing and packaging technologies.
- Intel's current plans includes an initial €17bn investment for a leading-edge semiconductor fab mega-site in Magdeburg, Germany. It plans to build two fabs at Magdeburg. Intel expects construction of these fabs to begin in the first half of 2023 and production to come online in 2027. These new fabs will feature its most advanced Angstrom-era transistor technologies, serving the needs of its foundry customers.
- Intel is also continuing to invest in its manufacturing plant in Leixlip, Ireland with an expansion project and intends to spend €12bn to double its manufacturing space there.
- In Italy, Intel has entered into negotiations with the Italian authorities to set up a back-end manufacturing facility which could potentially cost up to €4.5bn.

Reiterate Add

- We reiterate our Add call on AEM and TP of S\$6.85.
- Our TP is based on CY23F P/E of 15.62x, 10% premium (given our FY21-24F EPS CAGR expectation of 15.4%) to AEM's 2 s.d. above FY17-21 historical average (7.4x) forward P/E multiple of 14.2x. We project FY23F EPS of S\$0.4384.
- Potential re-rating catalysts are stronger-than-expected orders from its major customer and earlier-than-expected success in securing orders from other prospective customers.
- Downside risks are delivery delays, aggressive competitive response, and loss of sole supplier status or emergence of a new supplier for Intel's test handler product needs.
- Higher raw material and logistics cost could also pressure AEM's profit margins, leading to lower profitability for FY22F.
- AEM has also on 24 Feb 2022 announced that the company and two of its subsidiaries are respondents in a confidential arbitration in the US (hearing expected to be concluded in 2023). The outcome of this arbitration is currently uncertain though we note that AEM has received legal advice from its lawyers in the US, and has been advised that based on a preliminary analysis, the claims appear to lack factual and/or legal support.

Analyst(s)

William TNG, CFA
T (65) 6210 8676
E william.tng@cgs-cimb.com

Figure 1: Peer comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x)		3-year EPS CAGR (%)	P/BV (x)	Recurring ROE (%)	Dividend Yield (%)
						CY22F	CY23F		CY22F	CY22F	CY22F
AEM Holdings Ltd	AEM SP	ADD	4.11	6.85	931.1	10.3	9.4	15.4%	2.57	27.7%	2.4%
Advantest Corp	6857 JP	NR	8,340	NA	14085.3	15.5	14.2	-29.6%	4.82	35.4%	2.0%
Teradyne Inc	TER US	NR	109.3	NA	17755.4	22.3	16.2	9.2%	6.73	30.6%	0.4%
Simple average excluding AEM						18.9	15.2	-29.6%	5.78	33.0%	1.2%

Key customer valuation

Intel Corp	INTC US	NR	44.66	NA	181855.5	12.9	12.3	-6.0%	1.75	14.7%	3.2%
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SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
NOTE: FORECASTS FOR NOT RATED COMPANIES ARE BLOOMBERG CONSENSUS ESTIMATES
DATA AS AT 15 MAR 2022

Figure 2: Proposed Magdeburg campus



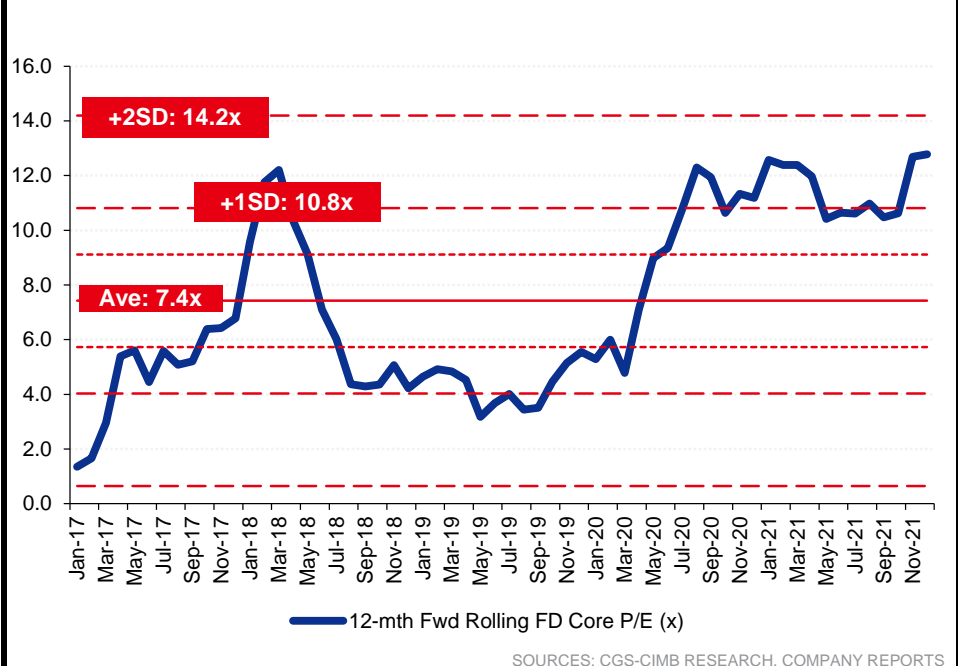
SOURCES: INTEL CORP

Figure 3: Capacity expansion in Leixlip, Ireland



SOURCES: INTEL CORP

Figure 4: AEM Holdings Ltd's 12-mth forward rolling P/E (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	565.5	720.0	764.8	785.9
Gross Profit	201.1	250.0	266.3	272.4
Operating EBITDA	126.3	165.8	181.5	189.4
Depreciation And Amortisation	(14.5)	(16.4)	(17.4)	(18.4)
Operating EBIT	111.8	149.4	164.1	171.0
Financial Income/(Expense)	(1.3)	(1.2)	(1.2)	(1.2)
Pretax Income/(Loss) from Assoc.	0.6	0.6	0.6	0.6
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	111.1	148.9	163.6	170.4
Exceptional Items	0.0	0.0	0.0	0.0
Pre-tax Profit	111.1	148.9	163.6	170.4
Taxation	(19.1)	(25.3)	(27.8)	(29.0)
Exceptional Income - post-tax	0.0	0.0	0.0	0.0
Profit After Tax	92.1	123.6	135.8	141.4
Minority Interests	(0.1)	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax	0.0	0.0	0.0	0.0
Other Adjustments - post-tax	0.0	0.0	0.0	0.0
Net Profit	92.0	123.6	135.8	141.4
Recurring Net Profit	92.0	123.6	135.8	141.4
Fully Diluted Recurring Net Profit	92.0	123.6	135.8	141.4

Balance Sheet

(\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	216.2	299.4	434.1	548.6
Total Debtors	127.9	157.8	167.6	172.2
Inventories	204.9	186.7	163.9	168.8
Total Other Current Assets	1.1	1.1	1.1	1.1
Total Current Assets	550.1	645.0	766.6	890.7
Fixed Assets	43.9	42.9	38.9	30.9
Total Investments	15.9	16.5	17.2	17.8
Intangible Assets	96.9	91.5	86.1	80.7
Total Other Non-Current Assets	3.7	3.7	3.7	3.7
Total Non-current Assets	160.4	154.6	145.9	133.1
Short-term Debt	20.5	20.5	20.5	20.5
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0
Total Creditors	181.0	177.5	188.6	193.8
Other Current Liabilities	35.1	35.1	35.1	35.1
Total Current Liabilities	236.6	233.1	244.2	249.4
Total Long-term Debt	60.8	60.8	60.8	60.8
Hybrid Debt - Debt Component	0.0	0.0	0.0	0.0
Total Other Non-Current Liabilities	10.6	10.6	10.6	10.6
Total Non-current Liabilities	71.3	71.3	71.3	71.3
Total Provisions	0.0	0.0	0.0	0.0
Total Liabilities	308.0	304.5	315.5	320.7
Shareholders' Equity	402.5	495.2	597.0	703.1
Minority Interests	0.0	0.0	0.0	0.0
Total Equity	402.5	495.2	597.0	703.1

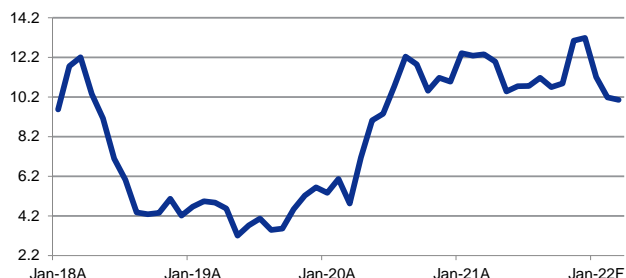
Cash Flow

(\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	126.3	165.8	181.5	189.4
Cash Flow from Inv. & Assoc.	0.0	0.0	0.0	0.0
Change In Working Capital	(55.1)	(15.2)	24.1	(4.4)
(Incr)/Decr in Total Provisions	0.0	0.0	0.0	0.0
Other Non-Cash (Income)/Expense	0.0	0.0	0.0	0.0
Other Operating Cashflow	1.1	0.0	0.0	0.0
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0
Tax Paid	(20.2)	(25.3)	(27.8)	(29.0)
Cashflow From Operations	52.1	125.4	177.8	156.0
Capex	(4.3)	(10.0)	(8.0)	(5.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/Investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	(80.9)	0.5	0.5	0.5
Cash Flow From Investing	(85.2)	(9.5)	(7.5)	(4.5)
Debt Raised/(repaid)	51.1	0.0	0.0	0.0
Proceeds From Issue Of Shares	(15.8)	0.0	0.0	0.0
Shares Repurchased	(4.6)	0.0	0.0	0.0
Dividends Paid	(18.6)	(30.9)	(33.9)	(35.4)
Preferred Dividends	0.0	0.0	0.0	0.0
Other Financing Cashflow	(1.7)	(1.7)	(1.7)	(1.7)
Cash Flow From Financing	10.3	(32.6)	(35.6)	(37.1)
Total Cash Generated	(22.8)	83.3	134.6	114.5
Free Cashflow To Equity	17.9	115.9	170.3	151.5
Free Cashflow To Firm	(33.1)	115.9	170.3	151.5

Key Ratios

	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	9.0%	27.3%	6.2%	2.8%
Operating EBITDA Growth	3.9%	31.3%	9.5%	4.3%
Operating EBITDA Margin	22.3%	23.0%	23.7%	24.1%
Net Cash Per Share (S\$)	0.44	0.70	1.14	1.51
BVPS (S\$)	1.30	1.60	1.93	2.27
Gross Interest Cover	64.7	87.9	96.5	100.6
Effective Tax Rate	17.1%	17.0%	17.0%	17.0%
Net Dividend Payout Ratio	17.0%	25.0%	25.0%	25.0%
Accounts Receivables Days	56.65	72.43	77.66	79.14
Inventory Days	142.6	152.1	128.4	118.6
Accounts Payables Days	132.6	139.2	134.0	136.3
ROIC (%)	125%	57%	61%	72%
ROCE (%)	31.8%	28.3%	26.2%	23.4%
Return On Average Assets	17.9%	16.5%	16.0%	14.7%

12-mth Fwd FD P/E (x) - AEM Holdings Ltd



Key Drivers

	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Equipment revenue growth (%)	-14.4%	19.9%	4.9%	0.0%

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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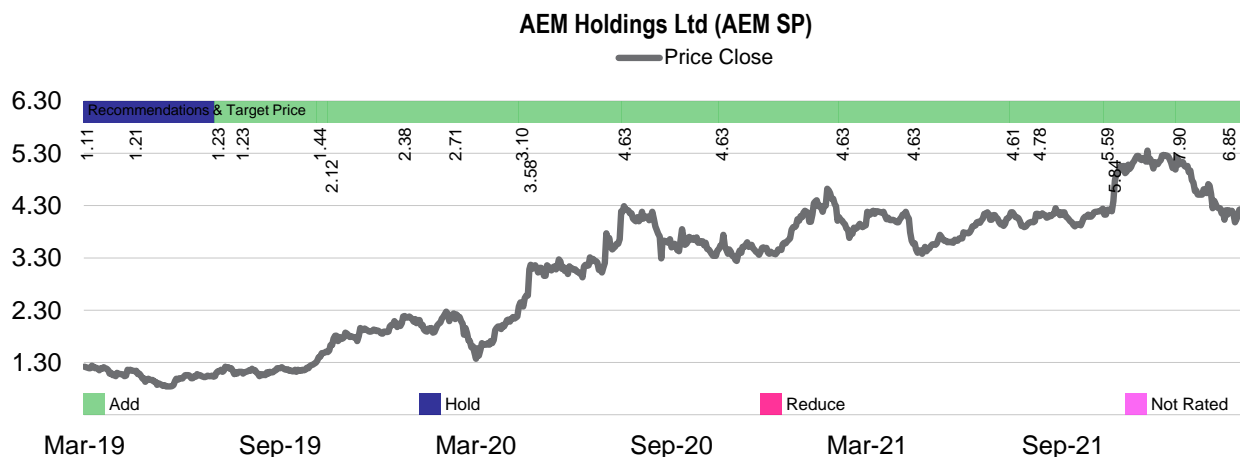
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2021		
619 companies under coverage for quarter ended on 31 December 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Recommendation Framework	
Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

