

AEM Holdings (AEM SP)

Another record quarter

1Q22 beat; TP trimmed on lower margin assumption

1Q22 PATMI of SGD40.8m (+205.6%) beat our and street expectations, at 33-34% of respective FY22E. This was driven by strong momentum in the new generation equipment ramp up. We trim FY22E PATMI by 4% to factor in a lower net margin assumption (15.7% vs. 17.0% previously). Our TP is cut 4% to SGD6.06 (16x FY22E P/E). Maintain BUY as we see AEM as a structural beneficiary of system level test (SLT) adoption on rising chip complexity.

New generation equipment drives 1Q22 surge

Revenue rose 226% YoY to SGD262m, driven by i) ramp of new generation equipment for Intel; and ii) full quarter contribution of CEI (CEI merged in late 1Q21). Net profit margin fell 1ppt YoY to 15.6%, on a slight drop in PBT margin (19%, -0.8ppt YoY) and a higher effective tax rate (18.3%, +1.2ppt YoY).

FY22 revenue guidance raised

FY22 revenue guidance was raised to SGD700-750m from SGD670-720m. Management expressed a high degree of confidence in achieving the updated guidance based on the current operating environment and inventory. Inventory levels are 25% higher than in Dec-21 and stood at SGD256m, largely for production in upcoming quarters, although some is for next year. AEM is working closely with suppliers to mitigate supply chain challenges.

Risks of short-term profit taking

While we do not rule out further revenue guidance raises, we expect 2H22 to be seasonally softer than 1H22. Moreover, we expect difficult YoY comparisons in 4Q22. As AEM has been an outperformer vs. the STI in the past 3 months, we see risk of profit-taking in the near term. We remain steadfast in our positive view that AEM is early in the current earnings cycle, as management reaffirms multi-year growth prospects from i) new customers, and ii) ongoing capacity expansion from existing customer(s).

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	519	565	749	854	1,072
EBITDA	122	126	158	192	238
Core net profit	98	92	117	145	182
Core FDEPS (cts)	35.1	29.5	37.6	46.5	58.5
Core FDEPS growth(%)	80.9	(16.0)	27.6	23.6	25.8
Net DPS (cts)	9.0	7.6	9.5	11.7	14.7
Core FD P/E (x)	9.8	17.8	12.9	10.4	8.3
P/BV (x)	4.5	4.0	3.1	2.5	2.0
Net dividend yield (%)	2.6	1.4	2.0	2.4	3.0
ROAE (%)	56.4	30.0	26.3	26.6	27.3
ROAA (%)	34.6	17.6	15.6	16.9	17.8
EV/EBITDA (x)	6.7	11.0	8.3	6.0	4.4
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	123	137	156
MKE vs. Consensus (%)	-	-	(4.4)	5.4	16.9

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BUY

Share Price	SGD 4.84
12m Price Target	SGD 6.06 (+27%)
Previous Price Target	SGD 6.34

Company Description

AEM manufactures equipment used in the semiconductor back-end process

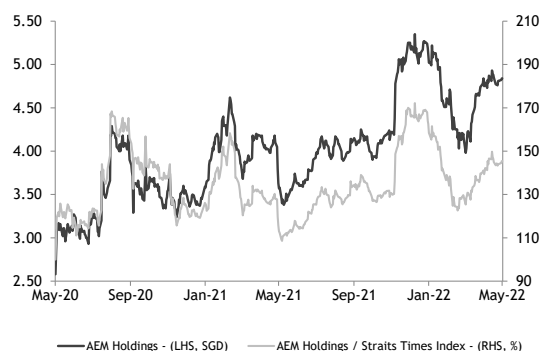
Statistics

52w high/low (SGD)	5.35/3.38
3m avg turnover (USDm)	8.7
Free float (%)	86.4
Issued shares (m)	312
Market capitalisation	SGD1.5B
	USD1.1B

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Ma	12.0%
Aberdeen Standard Investments (Asia) Ltd	6.0%
Employees Provident Fund	4.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	5	36
Relative to index (%)	4	5	29

Source: FactSet

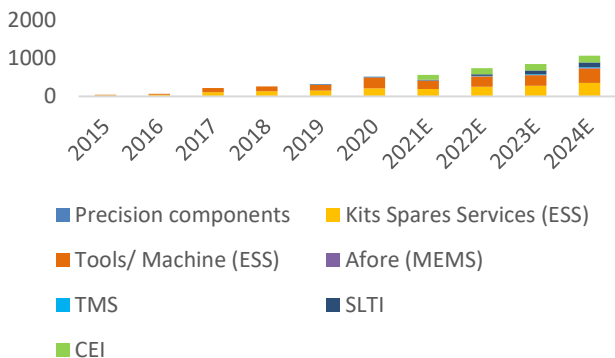
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Tear Sheet Insert

Value Proposition

- Back-end test-equipment manufacturer that has co-developed the HDMT handler for Intel.
- Leading-edge HDMT technology has helped its core customer achieve 2x savings in chip-testing costs.
- AEM provides strong synergies like field-service capabilities and manufacturing scale for the high-tech companies that it acquires.
- High single-customer and product risks.

Share of new revenue sources progressively growing



Note: FY21E split is our estimation.
Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



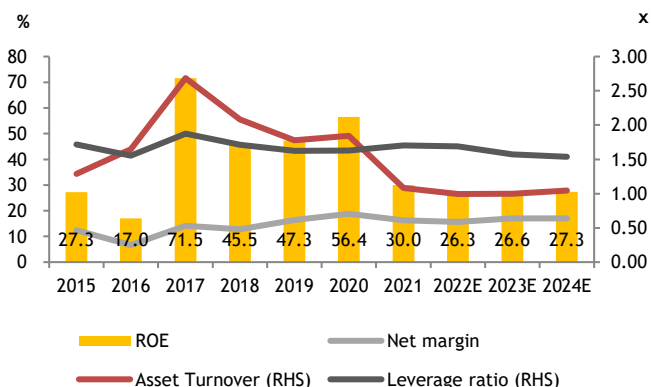
Source: Company, Maybank IBG Research

1. Novo Tellus distributes AEM shares in-specie to investors; Core customer announces 10nm delay.
2. AEM's core customer denies rumours from tech-blog SemiAccurate that its 10nm process was cancelled.
3. Through 2020, AEM announced several positive guidance revisions, catalysing rallies
4. Announced FY21 revenue guidance of SGD460-520m, which the market perceived as a disappointment.
5. Announced placement to Temasek.

Financial Metrics

- Over time, we expect increasing contributions from non-Intel revenue sources.
- AEM is not a capex-intensive company. Improved cash-flow from 2016 levels has allowed AEM to pursue highly synergistic acquisitions.
- Training a batch of engineers during pre-production ramp up could take 5-6 months. During such time, staff costs could be elevated and profitability could temporarily decline.
- Adopted 25% dividend payout ratio policy in 2017.

DuPont ROE



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Revenue expansion from securing new customers or wallet expansion/increased orders from existing customers.
- Synergistic and accretive acquisitions.
- Positive customer-related news flow that could catalyse improved orders for AEM, such as capacity expansion or launch of new chips.

Downside

- Order cancellation, delays and earnings misses.
 - Emerging technology from rivals that could erode AEM's competitive position with customer(s).
- Erosion in the competitive advantages of the core customer as a result of company specific or industry related developments.

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Risk Rating & Score ¹	23.1 (Medium)
Score Momentum ²	na
Last Updated	11 November 2020
Controversy Score ³	0 - No Reported Incident

Business Model & Industry Issues

- As an equipment maker, AEM is inherently exposed to environmental, workplace safety, and socio-economic risks. AEM has had zero incidences of environmental non-compliance, as well as zero substantiated cases of corruption and legal compliance issues in 2021.
- From an environmental and social perspective, AEM screens all of its suppliers. AEM constantly strives to be more efficient with electricity usage, and ensures employees are well trained and remunerated fairly.
- AEM is recognised for good transparency with shareholders, while still being able to balance business requirements (e.g. respecting non-disclosure agreements).
- AEM has several new products in the pipeline and it is engaging customers for more. In our view, this is the key for economic sustainability, as well as for development of its own employees.

Material E issues

- AEM's environmental exposure is through energy, water and inputs (fabricated parts and electronics).
- AEM adheres to all National Environment Agency laws and regulations and has not had incidences of environmental non-compliance over the past 10 years.
- Emissions intensity ratio rose to 0.0014318MT/SGD'000 in 2021 (FY19: 0.007588), due to the consolidation of CEI.
- AEM screens suppliers for negative environmental and social impacts, including pollution, biodiversity loss, global warming, incidences of child labour, breaches of customer privacy, and more. All suppliers were found to have no negative environmental or social impacts.

Material S issues

- AEM adheres to minimum wage laws of the countries it operates in. There is no difference in pay between male and female employees at the entry-level across all countries with minimum wage laws.
- Workforce diversity. AEM is an equal-opportunities employer. Management are hired from local communities and consists of various nationalities. >90% of management are local across AEM's footprint globally.
- Workplace safety. AEM trains its employees on health and safety work practices. In 2018, there was 1 minor injury.
- In 2021, average training per employee was 18.4 hours, to equip staff with skills across technical, project management and software domains (FY20: 7.8 hours).
- Females comprise 34% of the total work force in FY21, higher than 24% in FY20, due to the inclusion of CEI.
- Turnover rate rose to 23% vs. 10% in FY20.

Key G metrics and issues

- The board has seven directors, of which one is the executive chairman, four are independent directors (57%), and three are non-independent, non-executive. All the directors are male.
 - The audit & risk management, remuneration, and nominating committees are chaired by independent directors. The strategy committee, which works with management on long-term strategic planning, is chaired by the executive chairman.
 - Key management compensation (comprising the Board and senior management) accounted for 7.1% of staff costs in 2021 (2020: 13.6%).
 - In 2019, AEM won "Most Transparent Company Award, Technology" and was runner up for the "Singapore Corporate Governance Award" by SIAS. AEM regularly updates on its sales guidance and orders received and it's active in engaging with the investment community.
 - Zero substantiated cases of corruption or legal compliance issues in 2021. There was one case of whistleblowing in 2020, but upon investigation, it was concluded to be unsubstantiated.
- AEM was granted two patents in 2019, and the staff involved were rewarded. AEM views its considerable engineering development revenue as a positive sign of customer satisfaction and relationship.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: Forecast changes

	FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (SGDm)	749.0	720.6	3.9	853.7	853.7	0.0
Gross profit (SGDm)	239.7	237.8	0.8	281.7	281.7	0.0
EBIT (SGDm)	142.8	147.6	-3.2	174.4	174.4	0.0
EBITDA (SGDm)	158.3	163.1	-2.9	191.6	191.6	0.0
Core net profit (SGDm)	117.3	122.7	-4.4	144.9	144.9	0.0
EPS (SGD)	0.38	0.40	-4.4	0.47	0.47	0.0
			Chg (ppt)			Chg (ppt)
EBIT margin	19.1%	20.5%	-1.4	20.4%	20.4%	0.0
Net margin	15.7%	17.0%	-1.4	17.0%	17.0%	0.0

Source: Maybank IBG Research

Fig 2: 1Q22 summary

	1Q22	1Q21	4Q21	YoY Chg	QoQ Chg	FYE	as a % of
	SGDm	SGDm	SGDm	(%)	(%)	SGDm	FY22E
							(%)
Revenue	261.9	80.2	227.0	226.4	15.4	720.6	36%
PBT	49.7	15.9	47.8	212.1	3.9	147.8	34%
Net profit	40.8	13.2	39.1	209.0	4.4	122.7	33%
PBT margin	19.0%	19.8%	21.1%	-0.9	-2.1		
Net margin	15.6%	16.5%	17.2%	-0.9	-1.6		

Source: Company, Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	8.4	13.0	12.8	10.3	8.2
Core P/E (x)	9.7	16.6	12.8	10.3	8.2
Core FD P/E (x)	9.8	17.8	12.9	10.4	8.3
P/BV (x)	4.5	4.0	3.1	2.5	2.0
P/NTA (x)	4.5	4.0	3.1	2.5	2.0
Net dividend yield (%)	2.6	1.4	2.0	2.4	3.0
FCF yield (%)	8.0	nm	5.3	13.2	10.6
EV/EBITDA (x)	6.7	11.0	8.3	6.0	4.4
EV/EBIT (x)	7.2	12.4	9.2	6.6	4.7
INCOME STATEMENT (SGD m)					
Revenue	519.0	565.5	749.0	853.7	1,072.1
EBITDA	121.6	126.3	158.3	191.6	238.3
Depreciation	(8.4)	(14.5)	(15.5)	(17.1)	(18.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	113.2	111.8	142.8	174.4	219.6
Net interest income / (exp)	0.4	(1.3)	(0.8)	(0.8)	(0.9)
Associates & JV	0.2	0.6	1.0	1.0	1.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	113.8	111.1	143.0	174.6	219.7
Income tax	(16.2)	(19.1)	(25.7)	(29.7)	(37.4)
Minorities	0.0	(0.1)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	97.6	92.0	117.3	144.9	182.4
Core net profit	97.6	92.0	117.3	144.9	182.4
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	134.8	216.2	266.6	427.7	541.8
Accounts receivable	47.6	127.9	159.3	144.7	178.4
Inventory	79.7	204.9	213.7	193.7	278.6
Property, Plant & Equip (net)	8.1	26.1	20.6	11.5	0.8
Intangible assets	56.2	96.9	96.9	96.9	96.9
Investment in Associates & JVs	4.7	15.9	16.9	17.9	18.9
Other assets	4.5	22.6	22.6	22.6	22.6
Total assets	335.5	710.5	796.6	915.0	1,137.8
ST interest bearing debt	0.0	20.5	20.5	20.5	20.5
Accounts payable	83.7	181.0	195.7	205.5	290.5
LT interest bearing debt	0.0	60.8	60.5	60.5	61.5
Other liabilities	40.0	46.0	29.0	29.0	29.0
Total Liabilities	124.1	308.0	306.1	315.8	401.8
Shareholders Equity	211.4	402.5	490.5	599.2	736.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	211.4	402.5	490.5	599.2	736.0
Total liabilities and equity	335.5	710.5	796.6	915.0	1,137.8
CASH FLOW (SGD m)					
Pretax profit	113.8	111.1	143.0	174.6	219.7
Depreciation & amortisation	8.4	14.5	15.5	17.1	18.7
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(27.2)	(98.8)	(41.8)	44.3	(33.5)
Cash taxes paid	(8.8)	(14.1)	(25.7)	(29.7)	(37.4)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	86.0	12.1	90.0	205.4	166.6
Capex	(10.2)	(32.5)	(10.0)	(8.0)	(8.0)
Free cash flow	75.9	(20.4)	80.0	197.4	158.6
Dividends paid	(22.2)	(23.5)	(29.3)	(36.2)	(45.6)
Equity raised / (purchased)	4.9	136.5	0.0	0.0	0.0
Change in Debt	0.0	81.3	(0.3)	0.0	1.0
Other invest/financing cash flow	(31.5)	(97.5)	0.0	0.0	0.0
Effect of exch rate changes	0.0	5.1	0.0	0.0	0.0
Net cash flow	27.1	81.4	50.4	161.1	114.0

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	60.6	9.0	32.5	14.0	25.6
EBITDA growth	74.9	3.9	25.3	21.0	24.4
EBIT growth	77.9	(1.2)	27.7	22.2	25.9
Pretax growth	78.1	(2.3)	28.7	22.1	25.8
Reported net profit growth	84.3	(5.8)	27.6	23.6	25.8
Core net profit growth	84.3	(5.8)	27.6	23.6	25.8
Profitability ratios (%)					
EBITDA margin	23.4	22.3	21.1	22.4	22.2
EBIT margin	21.8	19.8	19.1	20.4	20.5
Pretax profit margin	21.9	19.7	19.1	20.5	20.5
Payout ratio	25.4	23.9	25.0	25.0	25.0
DuPont analysis					
Net profit margin (%)	18.8	16.3	15.7	17.0	17.0
Revenue/Assets (x)	1.5	0.8	0.9	0.9	0.9
Assets/Equity (x)	1.6	1.8	1.6	1.5	1.5
ROAE (%)	56.4	30.0	26.3	26.6	27.3
ROAA (%)	34.6	17.6	15.6	16.9	17.8
Liquidity & Efficiency					
Cash conversion cycle	16.2	65.3	83.8	66.1	48.3
Days receivable outstanding	26.2	55.9	69.0	64.1	54.2
Days inventory outstanding	70.2	135.2	147.9	128.2	118.4
Days payables outstanding	80.3	125.8	133.2	126.2	124.3
Dividend cover (x)	3.9	4.2	4.0	4.0	4.0
Current ratio (x)	2.4	2.3	2.7	3.1	3.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	2.3	2.6	2.9	2.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	84.4	nm	nm	nm
Debt/EBITDA (x)	0.0	0.6	0.5	0.4	0.3
Capex/revenue (%)	2.0	5.7	1.3	0.9	0.7
Net debt/ (net cash)	(134.8)	(134.9)	(185.6)	(346.7)	(459.7)

Source: Company; Maybank IBG Research

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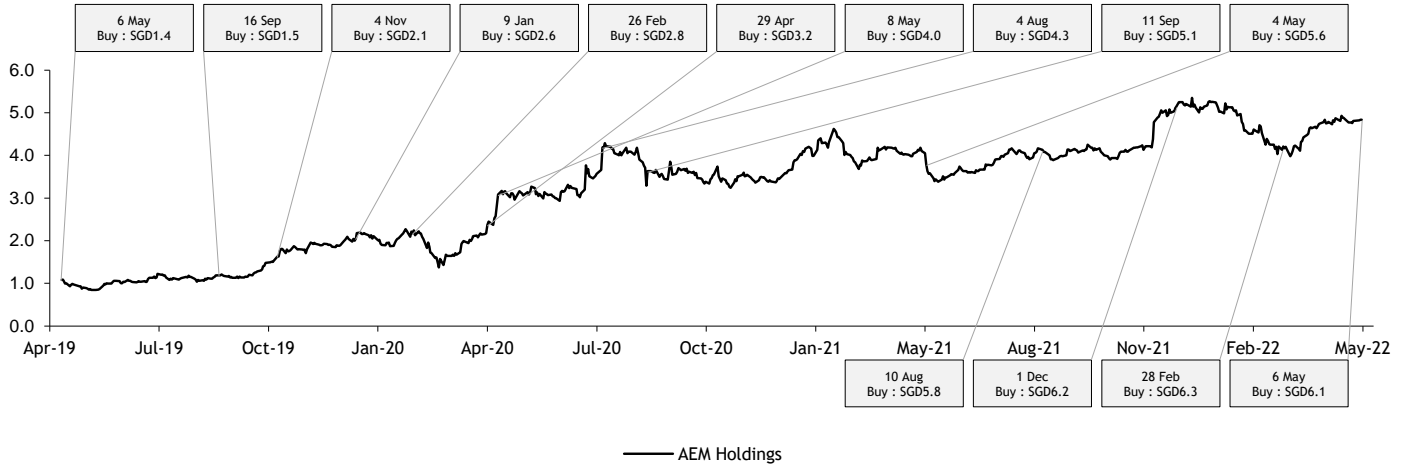
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