

Singapore

ADD (no change)

Consensus ratings*: Buy 5 Hold 0 Sell 0

Current price:	S\$4.38
Target price:	S\$6.54
Previous target:	S\$6.85
Up/downside:	49.4%
CGS-CIMB / Consensus:	4.8%
Reuters:	AEM.SI
Bloomberg:	AEM SP
Market cap:	US\$987.1m
	S\$1,354m
Average daily turnover:	US\$4.50m
	S\$6.24m
Current shares o/s:	309.1m
Free float:	88.3%

*Source: Bloomberg

Key changes in this note

- FY22F EPS raised by 0.2%.
- FY23F EPS raised by 0.2%.
- FY24F EPS raised by 0.3%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.7	-2.5	7.4
Relative (%)	4.8	-5.8	4.7

Major shareholders	% held
Venezio Investments	12.1
abrnd	6.1

Analyst(s)



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AEM Holdings Ltd

What happens in FY24F?

- 1H22 revenue of S\$540.5m was 3.0% above our S\$525.0m forecast. 1H22 revenue formed 72% of our/Bloomberg consensus full-year forecast.
- 1H22 net profit of S\$82.8m was 3.0% above our S\$80.4m forecast. 1H22 net profit accounted for 70% of our/Bloomberg consensus full-year forecast.
- Reiterate Add. TP is reduced to S\$6.54 as we use a lower target P/E multiple given the higher interest rate environment and slowing economic growth.

1H22 results: slightly above expectation

1H22 revenue rose 181% yoy to S\$540.5m driven by the volume ramp up for its new generation System Level Test Handlers, Burn-In Test Handlers and the consolidation of its CEI acquisition. 1H22 revenue was 3% above our S\$525.0m forecast and formed 72% of our/Bloomberg consensus full-year forecast. 1H22 net profit jumped 180% yoy to S\$82.8m and was similarly 3% above our S\$80.4m forecast. 1H22 net profit formed 70% of our/Bloomberg consensus full-year forecast. Gross profit margin fell 3% pts yoy from 34% in 1H21 to 31% in 1H22 due to increased cost pressure from supply chain challenges. AEM managed to defend its profit before tax (PBT) margin of 18.8% in 2Q22, just 0.2% pt lower than the 19% achieved in 1Q22. Legal costs spiked from S\$3.4m in 1H21 to S\$10.8m in 1H22 due to an ongoing confidential arbitration. Removing legal costs, 1H22 PBT margin was 20.9% in 1H22 vs. 20.2% in 1H21. An interim DPS of 6.7 Sct (25% payout policy) was declared.

Outlook: Raised revenue guidance but expects weaker 2H

AEM revised its FY22F revenue guidance from S\$700m-750m previously to S\$750m-800m and guided that it expects 2H22F revenue to be lower than 1H22. On new customer wins, AEM also announced that it was recently selected as a supplier for a leading High-Performance Computing (HPC)/Artificial Intelligence (AI) company and consequently, received orders for its customised test handling solutions and another customer that supplies chips used in mobile applications. The group also acquired an initial 53.3% stake in a South Korean company, Nestek Korea Co Ltd (Unlisted) that specialises in the design and manufacture of pins and sockets.

Recommendation: reiterate Add with a TP of S6.54

We raise our FY22-24F EPS slightly by 0.2-0.3% as we think higher operating costs many be required to support our increased revenue forecasts. We reiterate our Add call with a TP of S\$6.54, based on 14.9x (2 s.d. above its Jan 17 to Aug 22 average forward P/E multiple) our FY23F EPS forecast of S\$0.44. Previously we used a 15.62x (10% premium to AEM's 2 s.d. above its FY17-21 average forward P/E multiple). We removed the 10% premium to factor in the risk of slowing economic growth. Re-rating catalysts are stronger-than-expected orders from its major customer and earlier-than-expected success in securing orders from other potential customers. Downside risks are delivery delays and the loss of its sole supplier status.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	519.0	565.5	800.0	845.9	894.2
Net Profit (S\$m)	97.6	92.0	118.3	135.8	141.5
Core EPS (S\$)	0.35	0.30	0.38	0.44	0.46
Core EPS Growth	81.0%	(16.1%)	28.9%	14.8%	4.2%
FD Core P/E (x)	12.24	13.94	11.46	9.97	9.57
Price To Sales (x)	2.33	2.40	1.69	1.60	1.51
DPS (S\$)	0.09	0.08	0.10	0.11	0.11
Dividend Yield	2.05%	1.74%	2.18%	2.51%	2.61%
EV/EBITDA (x)	8.87	9.54	6.89	5.32	4.52
P/FCFE (x)	22.84	71.43	15.92	7.44	8.83
Net Gearing	(58.4%)	(33.5%)	(38.4%)	(56.5%)	(64.5%)
P/BV (x)	5.71	3.37	2.76	2.28	1.94
ROE	56.4%	30.0%	26.5%	25.0%	21.9%
% Change In Core EPS Estimates			0.182%	0.178%	0.320%
CGS-CIMB/Consensus EPS (x)			1.00	0.97	0.89

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

What happens in FY24F?

AEM is an order book driven company as revenue depends on orders placed by a major global semicon company. Hence, there exists the risk of a slowdown in orders leading to an earnings decline. However, we think that AEM is better prepared today to address this situation and that its major customer's capex plans are more spread out this cycle. Over the years, AEM has done the following to better diversify its revenue and net profit:

- Continued early engagement with its major global semicon customer and involvement in the latter's product pipeline plans. AEM continues to retain its sole supplier status and has recently announced capacity expansion plans to support this customer and prepare for growth opportunities from potential new customers.
- Opportunity to win a share of the growing System Level Test market. AEM is now able to offer complete test solutions versus only test handlers previously.
- Progress in engaging with other new customers. In FY21, AEM announced that an industry-leading memory integrated device manufacturer (identity not disclosed) selected AEM as its System Level Test Solution supplier. In the 1H22 results release, AEM announced further wins. These include being recently selected as a supplier for a leading High-Performance Computing Artificial Intelligence company and consequently, received orders for customised, innovative test handling solutions from this customer and another customer that supplies application processors used in mobility solutions.
- The company continues to build on its consumables offerings with another acquisition (Nestek) being announced in its 1H22 results release. Nestek is an unlisted South Korean company that designs and manufacture semicon consumables such as pins and sockets. This builds on another acquisition in FY20 (Unlisted DB Design, based in California, US) that supplies automation fixtures, device kits, and other test-related products.
- Cash balance of S\$180.9m (end-Jun 22) available for M&A growth. Net gearing (based on bank borrowings) as at end-Jun 22 was 0.178x, providing AEM with debt headroom if further cash resources are required for larger size M&A.
- AEM has also revealed its expectations of the Serviceable Available Market (SAM) that the company can partake in (Figure 2).

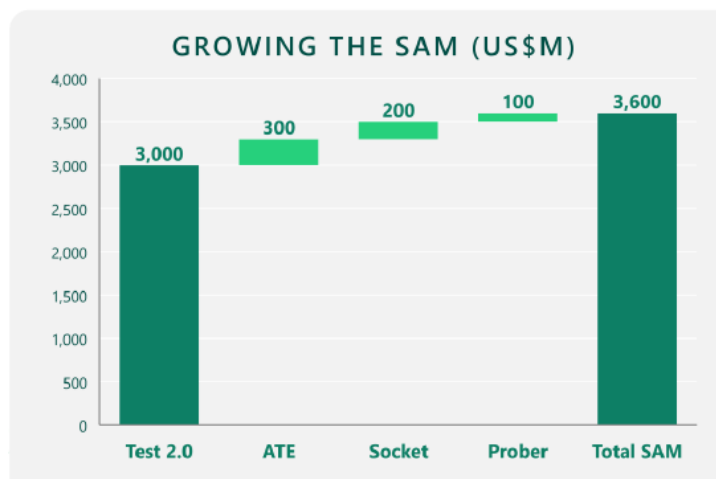
Figure 1: M&A history

Date	Company	Comments
30 Sep 2017	InspiRain Technologies Pte Ltd (Unlisted)	Provides network infrastructure test and measurement solutions.
1 Feb 2018	Afore Oy (Unlisted)	Micro-Electro-Mechanical Systems (MEMS) test solutions provider based in Finland.
22 Feb 2018	Iris Solution Pte Ltd (Unlisted)	Provides machine vision solutions.
28 Dec 2019	Mu-TEST (Unlisted)	French company that provides full test solutions for medium and high-end integrated circuits.
22 Jul 2020	DB Design Inc (Unlisted)	California based supplier of automation fixtures, device kits, and other test-related products.
11 Jan 2021	CEI Limited (CEI SP, NR) CEI was delisted after the completion of the acquisition	CEI is a contract manufacturer offering services such as assemblies of printed circuit board, box-build, prototype and equipment, and engineering works such as circuit layout and functional design.
25 Feb 2021	Lattice Innovation Inc (Unlisted)	US company that provides proprietary technology solutions in active thermal control for use in laser diode and semiconductor integrated chip (IC) thermal management.
22 Apr 2021	ATECO Inc (Unlisted)	South Korean company that specialises in the design and development of memory test handler solutions targeted at the memory market.
12 Aug 2022	Nestek Korea Co Ltd (Unlisted)	South Korean Company that specialises in the design and manufacture of pins and sockets.

SOURCES: COMPANY REPORTS

Figure 2: AEM's estimates of its total SAM (released in its 1H22 results)

- ✓ **AEM's SAM for Test 2.0: US\$3.0B**
- ✓ **Growing the SAM by expanding capabilities**
 - ATE: US\$300M out of total US\$5,400M market
 - Socket: US\$200M out of total US\$1,500M market
 - Prober: US\$100m out of total US\$1,100M market



SOURCES: COMPANY REPORTS

Figure 3: Results comparison

FYE Dec (S\$ m)	1H22	1H21	yoy % chg	2H21	hoh % chg	Prev Comments FY22F
Revenue	540.5	192.3	181.1	373.2	44.8	750.0 1H22 revenue of S\$540.5m was 3.0% above our S\$525.0m forecast. 1H22 revenue formed 72% of our/Bloomberg consensus full-year forecast.
Operating costs	(426.6)	(150.0)	184.4	(290.2)	47.0	(590.5)
EBITDA	113.8	42.3	169.4	83.0	37.1	159.5
EBITDA margin (%)	21.1	22.0	-0.9% pts	22.2	-1.2% pts	21.3 Slight margin decline yoy despite inflationary cost pressures.
Depn & amort.	(10.8)	(5.8)	86.6	(8.7)	23.9	(16.4) Expanded production capacity.
EBIT	103.1	36.5	182.6	74.3	38.7	143.1
Interest income	0.3	0.1	179.8	0.3	3.4	0.5
Interest exp	(0.9)	(0.9)	(1.2)	(0.9)	(0.6)	(1.7)
Associates' contrib	(0.5)	(0.2)	128.1	0.8	(154.7)	0.6
Exceptionals	0.0	0.0	na	0.0	na	0.0
Pretax profit	102.0	35.5	187.4	75.6	34.9	142.5
Tax	(19.0)	(5.8)	226.4	(13.2)	43.4	(24.2)
Tax rate (%)	18.6	16.4	13.6	17.5	6.3	17.0
Minority interests	0.2	0.2	36.3	0.0	na	0.0
Net profit	82.8	29.5	180.5	62.4	32.8	118.3 1H22 net profit of S\$82.8m was 3.0% above our S\$80.4m forecast. 1H22 net profit was 70% of our/Bloomberg consensus full-year forecast.
Core net profit	82.8	29.5	180.5	62.4	32.8	118.3
EPS (cts)	26.8	10.6	152.4	20.8	28.9	38.2
Core EPS (cts)	26.8	10.6	152.4	20.8	28.9	38.2

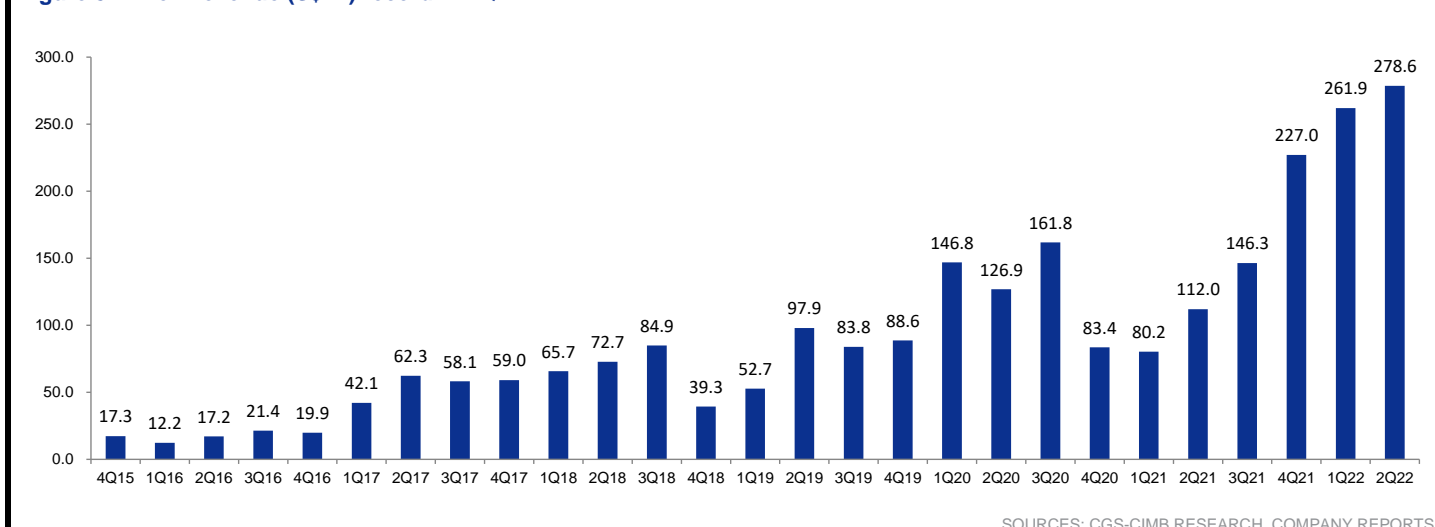
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Earnings revisions

(S\$m)	Old			New			% chg		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	750.0	816.6	840.3	800.0	845.9	894.2	6.7	3.6	6.4
Operating expenses	85.0	85.9	83.7	114.7	124.4	124.0	34.9	44.9	48.2
Net profit	118.3	135.8	141.3	118.3	135.8	141.5	0.0	(0.0)	0.1
EPS (S\$)	0.382	0.438	0.456	0.383	0.439	0.458	0.2	0.2	0.3

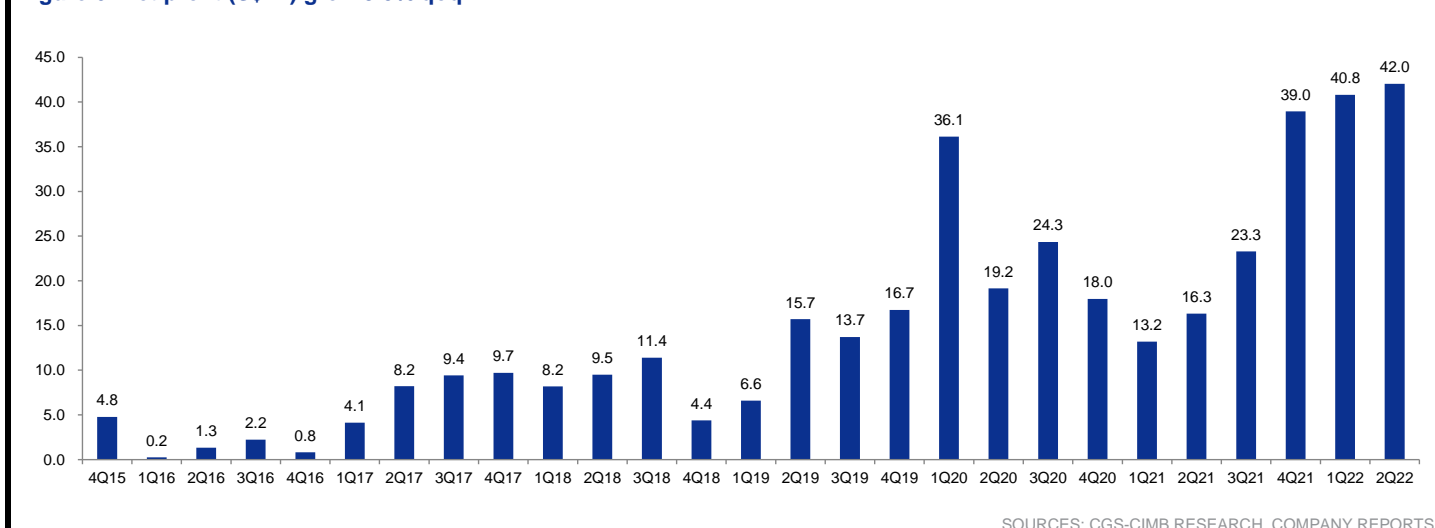
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: A new revenue (S\$ m) record in 2Q22



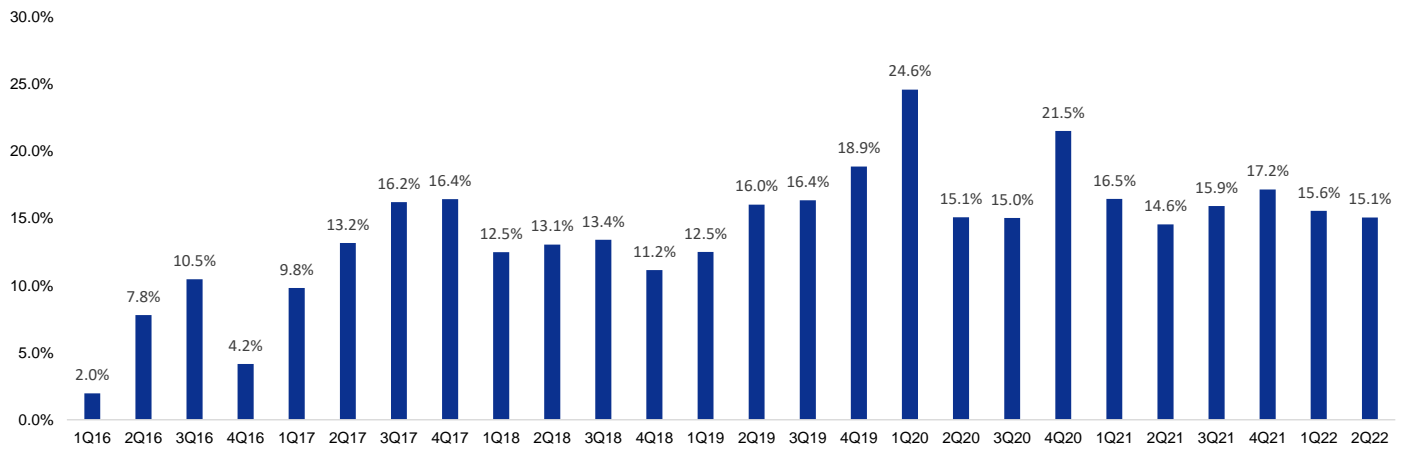
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 6: Net profit (S\$ m) grew 3.0% qoq



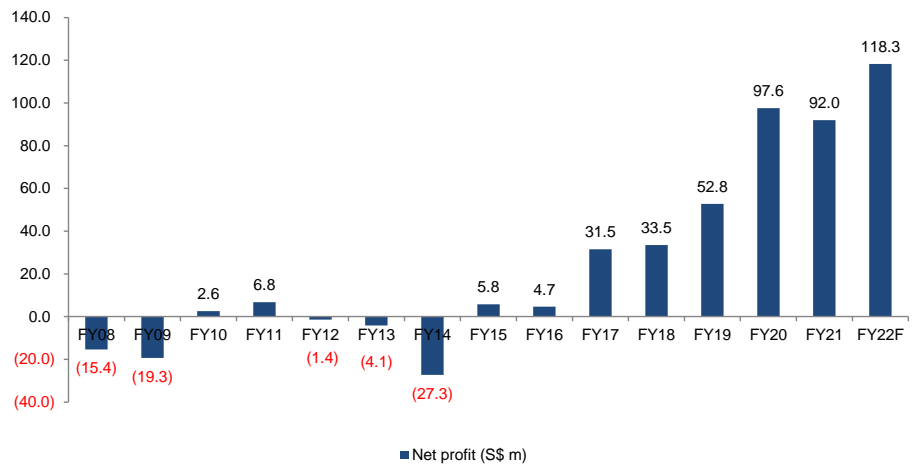
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 7: Net profit margin held above 15.0% in 2Q22



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 8: On track for a record net profit in FY22F



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Peer comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY22F	P/E (x) CY23F	3-year EPS CAGR (%)	P/BV (x) CY22F	Recurring ROE (%) CY22F	Dividend Yield (%) CY22F
AEM Holdings Ltd	AEM SP	ADD	4.38	6.54	987.1	11.4	10.0	15.5%	2.76	26.7%	2.2%
Advantest Corp	6857 JP	NR	8,450	NA	12636.8	18.8	11.4	15.9%	4.62	36.2%	2.0%
Teradyne Inc	TER US	NR	104.3	NA	16358.6	26.6	21.0	2.2%	7.77	26.8%	0.4%
Simple average excluding AEM						22.7	16.2	15.9%	6.19	31.5%	1.2%

Key customer valuation											
Intel Corp	INTC US	NR	36.11	NA	148267.7	15.8	14.2	-17.4%	1.43	8.1%	4.0%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG
NOTE: FORECASTS FOR NOT RATED COMPANIES ARE BLOOMBERG CONSENSUS ESTIMATES
DATA AS AT 15 AUG 2022

Figure 9: 12-month forward rolling P/E (x)

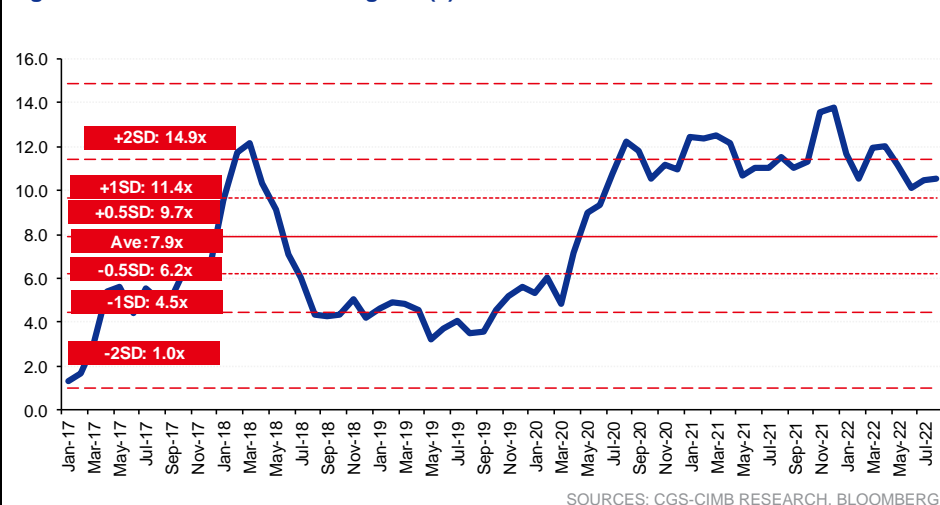
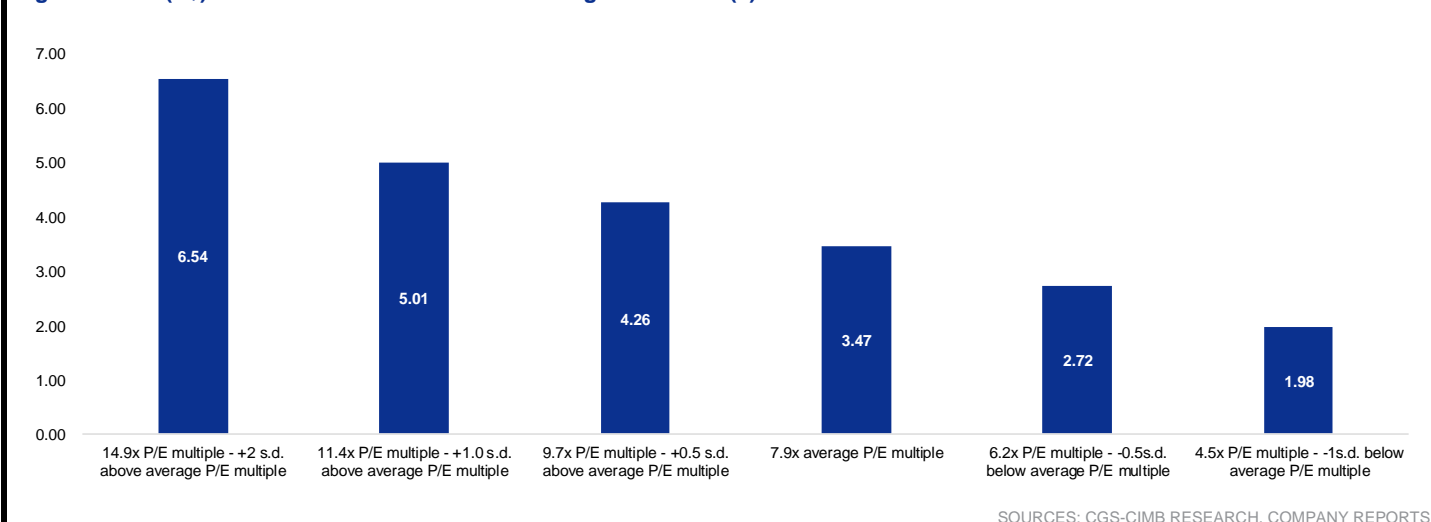


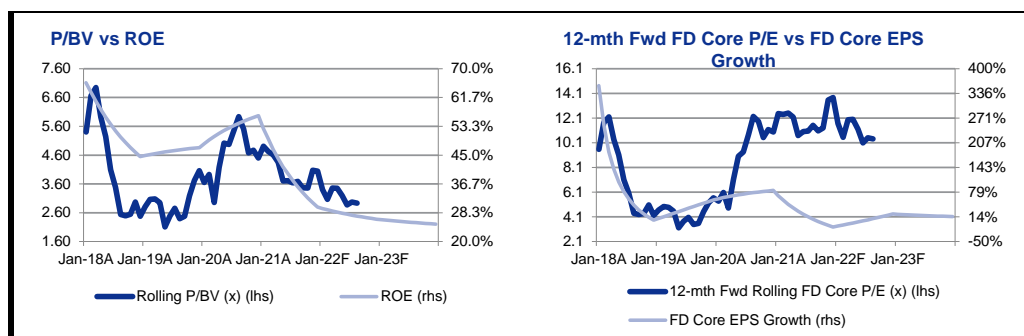


Figure 10: TP (\$\$) scenario based on 12-month rolling forward P/E(x)



Refinitiv ESG Scores	
	
ESG in a nutshell	
<p>AEM Holdings Ltd is a semiconductor equipment company headquartered in Singapore. AEM received an ESG grade of C- from Refinitiv. Refinitiv noted that AEM scored well in the social pillar of ESG. In the environment pillar, Refinitiv noted that there was room for improvement.</p>	
<p>Keep your eye on</p> <p>Customer concentration risk.</p>	<p>Implications</p> <p>Intel (INTC US, NR) is AEM’s major customer. Our forecasts assume that AEM will retain its status as the sole supplier for its products to Intel. Management has indicated that it hopes to have meaningful revenue from other customers in 2022. We note progress on this front with AEM’s announcement on 31 Aug 2021 that a major memory company has selected AEM as its System Level Test provider.</p>
<p>ESG highlights</p> <p>AEM believes that its staff are its greatest asset. We note that technological and engineering skills and knowledge are key success factors in AEM’s business.</p>	<p>Implications</p> <p>In 2020, each employee received an average of 8.6 hours of training. While training hours were affected by the Covid-19 pandemic, AEM has adopted digital tools and new ways of working to ensure that its employees are equipped with the right skills. The firm’s commitment is to help employees develop professionally and personally to advance their career in the company.</p>
<p>Trends</p> <p>AEM’s business involves the use of water-glycol mixtures that must be disposed of properly.</p>	<p>Implications</p> <p>We note that AEM transports water-glycol mixtures used in cooling systems to recycling centers for safe disposal. The company has also complied with environmental protection and management regulations in the past 11 years. AEM also engages qualified vendors to perform audits and tests on its environmental compliance on a yearly basis. As such, our forecasts assume that AEM will not incur any regulatory cost relating to breach of environmental regulations.</p>
<small>SOURCES: CGS-CIMB RESEARCH, REFINITIV</small>	

BY THE NUMBERS

Profit & Loss

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	519.0	565.5	800.0	845.9	894.2
Gross Profit	175.9	201.1	281.6	313.0	320.5
Operating EBITDA	121.6	126.3	166.9	188.7	196.5
Depreciation And Amortisation	(8.4)	(14.5)	(22.4)	(23.4)	(24.4)
Operating EBIT	113.2	111.8	144.5	165.3	172.1
Financial Income/(Expense)	0.4	(1.3)	(1.2)	(1.2)	(1.2)
Pretax Income/(Loss) from Assoc.	0.2	0.6	(0.8)	(0.5)	(0.5)
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	113.8	111.1	142.5	163.6	170.4
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	113.8	111.1	142.5	163.6	170.4
Taxation	(16.2)	(19.1)	(24.2)	(27.8)	(29.0)
Exceptional Income - post-tax	0.0	0.0	0.0	0.0	0.0
Profit After Tax	97.6	92.1	118.3	135.8	141.5
Minority Interests	0.0	(0.1)	0.0	0.0	0.0
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax	0.0	0.0	0.0	0.0	0.0
Other Adjustments - post-tax	0.0	0.0	0.0	0.0	0.0
Net Profit	97.6	92.0	118.3	135.8	141.5
Recurring Net Profit	97.6	92.0	118.3	135.8	141.5
Fully Diluted Recurring Net Profit	97.6	92.0	118.3	135.8	141.5

Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	121.6	126.3	166.9	188.7	196.5
Cash Flow from Inv. & Assoc.	0.0	0.0	0.0	0.0	0.0
Change In Working Capital	(29.2)	(55.1)	(48.1)	28.5	(9.7)
(Incr)/Decr in Total Provisions	0.0	0.0	0.0	0.0	0.0
Other Non-Cash (Income)/Expense	0.0	0.0	0.0	0.0	0.0
Other Operating Cashflow	3.8	1.1	0.0	0.0	0.0
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0	0.0
Tax Paid	(9.8)	(20.2)	(24.2)	(27.8)	(29.0)
Cashflow From Operations	86.3	52.1	94.6	189.4	157.9
Capex	(3.2)	(4.3)	(10.0)	(8.0)	(5.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	(26.5)	(80.9)	0.5	0.5	0.5
Cash Flow From Investing	(29.8)	(85.2)	(9.5)	(7.5)	(4.5)
Debt Raised/(repaid)	(4.2)	51.1	0.0	0.0	0.0
Proceeds From Issue Of Shares	3.4	(15.8)	0.0	0.0	0.0
Shares Repurchased	(2.9)	(4.6)	0.0	0.0	0.0
Dividends Paid	(22.2)	(18.6)	(29.6)	(33.9)	(35.4)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Other Financing Cashflow	(0.0)	(1.7)	(1.7)	(1.7)	(1.7)
Cash Flow From Financing	(25.9)	10.3	(31.3)	(35.6)	(37.1)
Total Cash Generated	30.6	(22.8)	53.8	146.2	116.3
Free Cashflow To Equity	52.3	17.9	85.1	181.9	153.4
Free Cashflow To Firm	56.5	(33.1)	85.1	181.9	153.4

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	134.8	216.2	270.0	416.2	532.5
Total Debtors	47.6	127.9	175.3	185.4	196.0
Inventories	79.7	204.9	221.8	194.6	205.6
Total Other Current Assets	4.4	1.1	1.1	1.1	1.1
Total Current Assets	266.4	550.1	668.2	797.3	935.2
Fixed Assets	17.6	43.9	36.9	26.9	12.9
Total Investments	4.7	15.9	15.1	14.6	14.1
Intangible Assets	46.6	96.9	91.5	86.1	80.7
Total Other Non-Current Assets	0.2	3.7	3.7	3.7	3.7
Total Non-current Assets	69.1	160.4	147.2	131.3	111.4
Short-term Debt	5.0	20.5	20.5	20.5	20.5
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0	0.0
Total Creditors	83.7	181.0	197.3	208.6	220.5
Other Current Liabilities	23.0	35.1	35.1	35.1	35.1
Total Current Liabilities	111.7	236.6	252.9	264.2	276.1
Total Long-term Debt	6.3	60.8	60.8	60.8	60.8
Hybrid Debt - Debt Component	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Liabilities	6.1	10.6	10.6	10.6	10.6
Total Non-current Liabilities	12.4	71.3	71.3	71.3	71.3
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	124.1	308.0	324.2	335.5	347.4
Shareholders' Equity	211.4	402.5	491.2	593.0	699.1
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	211.4	402.5	491.2	593.0	699.1

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	60.6%	9.0%	41.5%	5.7%	5.7%
Operating EBITDA Growth	76.7%	3.9%	32.1%	13.0%	4.2%
Operating EBITDA Margin	23.4%	22.3%	20.9%	22.3%	22.0%
Net Cash Per Share (S\$)	0.45	0.44	0.61	1.08	1.46
BVPS (S\$)	0.77	1.30	1.59	1.92	2.26
Gross Interest Cover	505.2	64.7	85.0	97.2	101.2
Effective Tax Rate	14.3%	17.1%	17.0%	17.0%	17.0%
Net Dividend Payout Ratio	22.8%	17.0%	25.0%	25.0%	25.0%
Accounts Receivables Days	26.64	56.65	69.19	77.83	78.05
Inventory Days	73.2	142.6	150.2	142.6	127.6
Accounts Payables Days	83.6	132.6	133.2	139.0	136.9
ROIC (%)	532%	125%	55%	55%	68%
ROCE (%)	63.0%	31.8%	27.5%	26.6%	23.7%
Return On Average Assets	34.5%	17.9%	15.7%	15.7%	14.4%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Equipment revenue growth (%)	64.7%	-14.4%	39.8%	4.5%	4.4%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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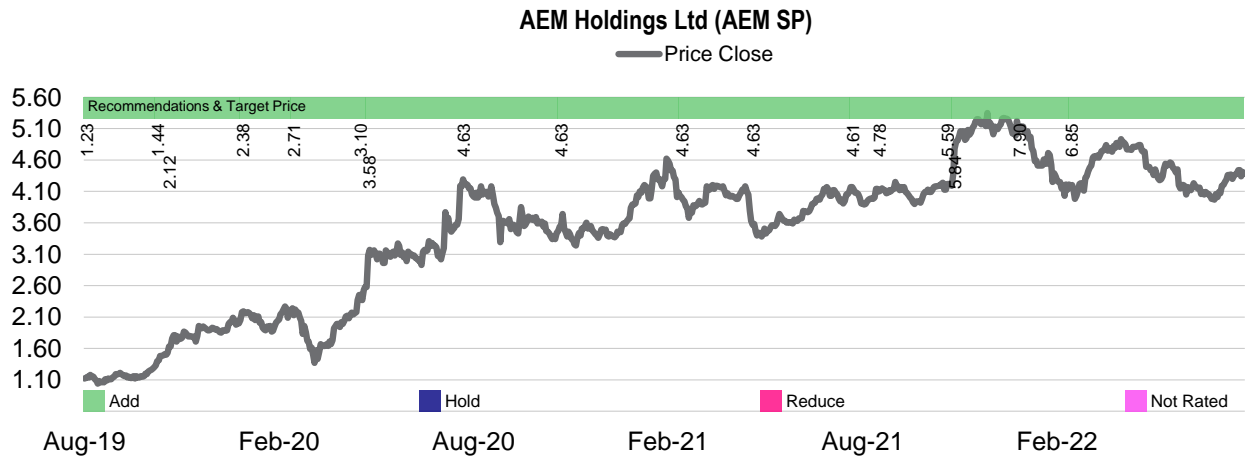
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	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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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.