

### COMPANY RESULTS

#### AEM Holdings (AEM SP)

1H22: Record 1H22 On Strong Momentum; Revenue Guidance Raised

**1H22 earnings of S\$83m (+180% yoy) are above our expectations, forming 75% of our full-year estimate. Growth was driven by volume ramp-up for the new generation System Level Testing handlers, Burn-In Test handlers, related consumables and peripheral tools. Management raised 2022 revenue guidance marginally from S\$700m-750m to S\$750m-800m, indicating a softer 2H22, which will form around 33% of 2022 revenue. Downgrade to HOLD with a 10%-lower target price of S\$5.02.**

#### 1H22 RESULTS

Year to 31 Dec (S\$m)	1H22	1H21	yoy % chg
Revenue	540.5	192.3	+181
Pretax profit	102.0	35.5	+187
Pretax margin (%)	18.9	18.5	+0.4ppt
Net profit	83.1	29.7	+180
Net margin (%)	15.4	15.4	-

Source: AEM

#### RESULTS

- 1H22 above expectations.** AEM Holdings' (AEM) 1H22 earnings of S\$83m (+180% yoy) are above our expectations, forming 75% of our full-year estimate. Revenue grew 181% yoy to reach a record level of S\$541m, driven by volume ramp-up for the new generation System Level Testing handlers, Burn-In Test handlers, related consumables and peripheral tools, and contributions from CEI Pte Ltd which AEM acquired in Mar 21.
- 2022 revenue guidance raised.** Management is now targeting to achieve full-year revenue of S\$750m-800m, from S\$700m-750m previously. This implies a revenue growth rate of around 37%, after the S\$565.5m achieved in 2021. AEM's revised target remains strong despite the more bearish guidance of Intel (INTC US) in late-July. Intel slashed its 2022 revenue guidance by around 12% to US\$67b after reporting a weaker-than-expected result, indicating an 11% yoy decline. Intel highlighted that the sudden and rapid decline in economic activity was the largest driver of the shortfall but 2Q22 also reflected its own execution issues in areas like product design and the ramp-up of Accelerated Computing Systems and Graphics Group offerings.
- Won two new customers.** AEM was recently selected as a supplier for a leading High-Performance Computing/Artificial Intelligence company and consequently received orders for its customised, innovative test handling solutions. In addition, AEM also received orders from a leading mobile device company for its application processors.

#### KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	519	565	792	828	853
EBITDA	122	126	162	177	182
Operating profit	113	112	150	165	170
Net profit (rep./act.)	98	92	123	136	141
Net profit (adj.)	98	92	123	136	141
EPS (S\$ cents)	36.2	33.5	39.5	43.7	45.3
PE (x)	12.8	13.8	11.7	10.6	10.2
P/B (x)	5.9	3.2	3.0	2.5	2.1
EV/EBITDA (x)	10.7	10.3	8.1	7.4	7.2
Dividend yield (%)	1.9	1.6	2.1	2.4	2.5
Net margin (%)	18.8	16.3	15.5	16.4	16.5
Net debt/(cash) to equity (%)	(58.4)	(33.5)	(25.5)	(37.9)	(47.3)
Interest cover (x)	n.a.	95.3	67.8	102.9	251.7
ROE (%)	n.a.	30.0	27.9	25.7	22.2
Consensus net profit	-	-	118	139	160
UOBKH/Consensus (x)	-	-	1.04	0.98	0.88

Source: AEM, Bloomberg, UOB Kay Hian

### HOLD

(Downgraded)

Share Price	S\$4.62
Target Price	S\$5.02
Upside	+8.7%
(Previous TP)	S\$5.60

#### COMPANY DESCRIPTION

AEM prides itself on being a global leader in test innovation and provides comprehensive test solutions for the semiconductor and electronics industries, spanning test handlers, testers, consumables and data analytics.

#### STOCK DATA

GICS sector	Semiconductor Equipment
Bloomberg ticker:	AEM SP
Shares issued (m):	309.1
Market cap (S\$m):	1,428.0
Market cap (US\$m):	1,037.8
3-mth avg daily t'over (US\$m):	4.8

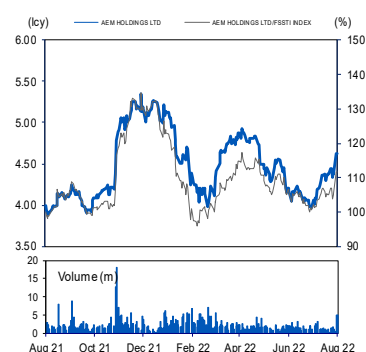
#### Price Performance (%)

52-week high/low	S\$ 5.35/S\$ 3.89			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
16.4	2.9	5.2	13.8	(12.2)

#### Major Shareholders

Temasek Hldgs	11.3
FY22 NAV/Share (S\$)	1.54
FY22 Net Cash/Share (S\$)	0.39

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- **Our positive view remains unchanged.** We believe Intel's IDM 2.0 strategy would benefit AEM. Driving towards that strategy, Intel's new fabrication plants (fabs) would drive demand for AEM on new back-end testing equipment, while older fabs would contribute to steady demand for AEM's consumables and services as well as equipment upgrades.
- **AEM is set to continue investing in its R&D and engineering capabilities** as it believes that longer-horizon trends such as 5G, edge computing, AI, and electric vehicles will drive the need for more semiconductors and the integrated testing solutions that AEM is pioneering. AEM has embarked on expansion, with new R&D labs and better manufacturing facilities in its key geographies like Singapore, Malaysia and the US. This will also bring AEM's operations closer to its existing and potential customers.

### EARNINGS REVISION/RISK

- To account for AEM's upward revision of its 2022 revenue guidance to S\$750-800m, we raise our 2022/23/24 revenue by 10%/2%/2% to S\$792m/828m/853m. As a result, our earnings estimate increased in tandem with our revenue revision, rising by 10%/2%/2%.

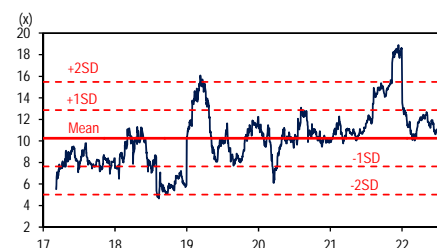
### VALUATION/RECOMMENDATION

- **Downgrade to HOLD with a 10% lower target price of S\$5.02 (S\$5.60 previously).** We roll over our valuation base year to 2023F and peg it to a lower PE multiple of 10.5x, or +0.5 SD of its historical mean (down from 15.6x, or +2SD to its historical five-year mean). The reduction in our PE multiple peg is to capture the potential weaker sentiment in the semiconductor industry as more global players, including Intel, are cautioning for a weaker near-term outlook.

### SHARE PRICE CATALYST

- Higher-than-expected revenue growth rates.
- Better-than-expected cost management.
- Earlier-than-expected integration synergies with CEI.

### HISTORICAL PE RANGE



Source: Bloomberg, UOB Kay Hian

### HISTORICAL EV/EBITDA RANGE



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	565.5	791.5	828.0	852.9
EBITDA	126.3	162.0	177.2	182.2
Deprec. & amort.	14.5	12.1	12.1	12.1
EBIT	111.8	149.8	165.1	170.0
Associate contributions	0.6	0.6	0.6	0.6
Net interest income/(expense)	(1.3)	(2.4)	(1.7)	(0.7)
<b>Pre-tax profit</b>	<b>111.1</b>	<b>148.1</b>	<b>164.0</b>	<b>170.0</b>
Tax	(19.1)	(25.2)	(27.9)	(28.9)
Minorities	0.1	0.0	0.0	0.0
<b>Net profit</b>	<b>92.2</b>	<b>122.9</b>	<b>136.1</b>	<b>141.1</b>
Net profit (adj.)	92.2	122.9	136.1	141.1

### BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	43.9	46.9	45.0	43.0
Other LT assets	116.5	112.0	107.4	102.9
Cash/ST investment	216.2	182.9	260.4	344.6
Other current assets	333.9	378.3	393.0	404.8
<b>Total assets</b>	<b>710.5</b>	<b>720.1</b>	<b>805.8</b>	<b>895.3</b>
ST debt	20.5	20.5	20.5	19.8
Other current liabilities	216.1	169.7	173.8	178.0
LT debt	60.8	40.3	19.8	0.0
Other LT liabilities	10.6	10.6	10.6	10.6
Shareholders' equity	402.5	479.1	581.2	687.0
<b>Total liabilities &amp; equity</b>	<b>710.5</b>	<b>720.1</b>	<b>805.8</b>	<b>895.3</b>

### CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>52.1</b>	<b>45.9</b>	<b>138.8</b>	<b>145.7</b>
Pre-tax profit	92.1	122.9	136.1	141.1
Tax	19.1	25.2	27.9	28.9
Deprec. & amort.	14.5	12.1	12.1	12.1
Associates	(1.3)	(0.6)	(0.6)	(0.6)
Working capital changes	(55.1)	(90.9)	(10.5)	(7.6)
Other operating cashflows	(17.2)	(22.8)	(26.2)	(28.2)
<b>Investing</b>	<b>(85.2)</b>	<b>(9.4)</b>	<b>(4.5)</b>	<b>(4.2)</b>
Capex (growth)	(4.3)	(10.0)	(5.0)	(5.0)
Investments	(2.6)	0.0	0.0	0.0
Proceeds from sale of assets	1.9	0.0	0.0	0.0
Others	(80.2)	0.6	0.5	0.8
<b>Financing</b>	<b>113.4</b>	<b>(69.8)</b>	<b>(56.8)</b>	<b>(57.3)</b>
Dividend payments	(18.6)	(46.3)	(34.0)	(35.3)
Issue of shares	103.1	0.0	0.0	0.0
Proceeds from borrowings	57.1	0.0	0.0	0.0
Loan repayment	(0.5)	(20.5)	(20.5)	(20.5)
Others/interest paid	(27.8)	(3.0)	(2.3)	(1.5)
<b>Net cash inflow (outflow)</b>	<b>80.3</b>	<b>(33.3)</b>	<b>77.6</b>	<b>84.2</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>134.8</b>	<b>216.2</b>	<b>182.9</b>	<b>260.4</b>
Changes due to forex impact	1.1	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>216.2</b>	<b>182.9</b>	<b>260.4</b>	<b>344.6</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	22.3	20.5	21.4	21.4
Pre-tax margin	19.7	18.7	19.8	19.9
Net margin	16.3	15.5	16.4	16.5
ROA	17.6	17.2	17.8	16.6
ROE	30.0	27.9	25.7	22.2
<b>Growth</b>				
Turnover	9.0	40.0	4.6	3.0
EBITDA	3.9	28.2	9.4	2.8
Pre-tax profit	(2.3)	33.3	10.7	3.6
Net profit	(5.5)	33.3	10.7	3.6
Net profit (adj.)	(5.5)	33.3	10.7	3.6
EPS	(7.5)	17.9	10.7	3.6
<b>Leverage</b>				
Debt to total capital	16.8	11.3	6.5	2.8
Debt to equity	20.2	12.7	6.9	2.9
Net debt/(cash) to equity	(33.5)	(25.5)	(37.9)	(47.3)
Interest cover (x)	95.3	67.8	102.9	251.7

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