

Singapore

ADD (no change)

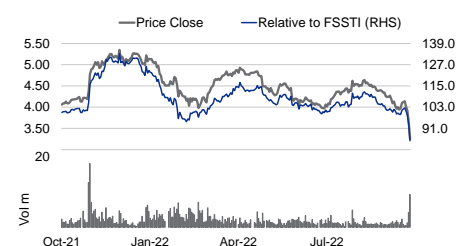
Consensus ratings*: Buy 4 Hold 2 Sell 0

Current price:	S\$3.25
Target price:	S\$3.76
Previous target:	S\$6.54
Up/downside:	15.6%
CGS-CIMB / Consensus:	-32.5%
Reuters:	AEM.SI
Bloomberg:	AEM SP
Market cap:	US\$698.7m
	S\$1,004m
Average daily turnover:	US\$4.19m
	S\$5.88m
Current shares o/s:	309.1m
Free float:	88.3%

*Source: Bloomberg

Key changes in this note

- FY23F EPS reduced by 11.8%.
- FY24F EPS reduced by 11.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-26.1	-18.4	-18.4
Relative (%)	-18.5	-15.6	-14.7

Major shareholders

	% held
Venezio Investments	12.1
abrdrn	6.1

Analyst(s)



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AEM Holdings Ltd

Fears of order deferments

- AEM share price reacted negatively to news of US restricting exports of chips to China and media reports of possible job cuts at its major customer, Intel.
- Investor focus has shifted to capex cuts by Intel affecting AEM; a view we do not share. We think there is a risk of order deferment instead, over FY23-24F.
- Reflecting this view, we cut our FY23-24F sales forecasts and P/E multiple to factor in an earnings slowdown, leading to a lower TP of S\$3.76.

Negative newsflow affecting AEM share price

AEM share price fell 21.5% from S\$4.14 on 7 Oct 2022 to S\$3.25 on 13 Oct 2022, reacting to new US restrictions on chip-related exports to China and media reports (Yahoo news, 12 October 2022) of possible job cuts at Intel (INTC US, Not Rated, CP: US\$ 26.42).

Potential loss of China market a concern

Based on Intel's FY21 annual report, the personal computer related chip business for Intel was US\$37.4bn while the data centre (DC)-related chip products segment was a US\$37.4bn in sales. While Intel does not supply chip manufacturing equipment, the industry concern is how much of Intel's DC-related chips could be affected by the sales ban to China.

AEM expansion plan on track – order deferment a risk

AEM also remains on track with its Penang plant expansion expected to come online between end-Oct to early-Nov 2022. According to New Straits Times (17 Dec 2021), Intel's new multi-phased expansion in Penang is expected to begin production in early 2024. In our view, Intel has leeway to defer its orders for test handlers (THs) from AEM and we assume that such a deferment could occur over FY23-24F and hence cut our sales assumptions for AEM by 6.7-7.1%, leading to 11.2-11.8% decrease in our EPS forecasts.

Addressing growing uncertainties

We think AEM's strength in system level test (handlers and complete testing solutions) remains intact, hence long-term prospects remains strong – reiterate Add. If the semicon industry is headed for a 2023F decline, AEM's valuations could revert to its 6-year (FY17-22F) average P/E multiple of 8.0x. However, we opine that AEM's patented TH technology warrants some premium. Hence, we now value AEM at 9.7x (0.5 s.d. above its 6-year average) on our reduced FY23F EPS forecast given possible order deferments. Previously we used 14.9x (+2 s.d. above its 6-year average). 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 which will negatively affect AEM's profitability.

Financial Summary

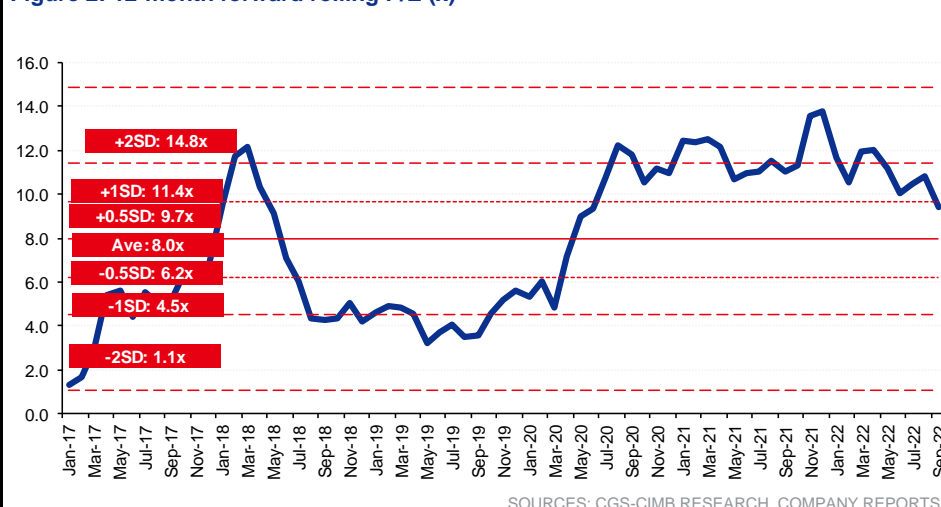
	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	519.0	565.5	800.0	785.9	834.2
Net Profit (S\$m)	97.6	92.0	118.3	119.7	125.6
Core EPS (S\$)	0.35	0.30	0.38	0.39	0.41
Core EPS Growth	81.0%	(16.1%)	28.9%	1.2%	4.9%
FD Core P/E (x)	9.08	10.34	8.50	8.39	8.00
Price To Sales (x)	1.73	1.78	1.26	1.28	1.20
DPS (S\$)	0.09	0.08	0.10	0.10	0.10
Dividend Yield	2.77%	2.34%	2.94%	2.98%	3.13%
EV/EBITDA (x)	6.31	6.77	4.80	3.87	3.11
P/FCFE (x)	16.95	53.00	11.82	5.66	7.31
Net Gearing	(58.4%)	(33.5%)	(38.4%)	(57.6%)	(65.0%)
P/BV (x)	4.24	2.50	2.05	1.73	1.49
ROE	56.4%	30.0%	26.5%	22.3%	20.0%
% Change In Core EPS Estimates			0.0%	(11.8%)	(11.2%)
CGS-CIMB/Consensus EPS (x)			0.98	0.90	0.82

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revisions

(S\$m)	Old			New			% chg		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	800.0	845.9	894.2	800.0	785.9	834.2	0.0	(7.1)	(6.7)
Operating expenses	114.7	124.4	124.0	114.7	123.2	123.3	0.0	(1.0)	(0.6)
Net profit	118.3	135.8	141.5	118.3	119.7	125.6	0.0	(11.8)	(11.2)
EPS (S\$)	0.383	0.439	0.458	0.383	0.387	0.406	0.0	(11.8)	(11.2)

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: 12-month forward rolling P/E (x)


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: 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	3.25	3.76	698.7	8.5	8.4	8.5%	2.05	27.3%	2.9%
Advantest Corp	6857 JP	NR	7,000	NA	9095.1	15.6	11.2	15.2%	3.87	36.3%	2.4%
Teradyne Inc	TER US	NR	75.11	NA	11775.9	19.1	15.2	1.8%	5.59	26.7%	0.6%
Simple average excluding AEM						17.3	13.2	15.2%	4.73	31.5%	1.5%
Key customer valuation											
Intel Corp	INTC US	NR	26.42	NA	108480.5	12.0	11.1	-19.9%	1.05	8.0%	5.5%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

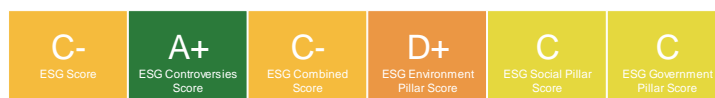
NOTE: FORECASTS FOR NOT RATED COMPANIES ARE BLOOMBERG CONSENSUS ESTIMATES

DATA AS AT 14 OCT 2022

ESG in a nutshell



Refinitiv ESG Scores



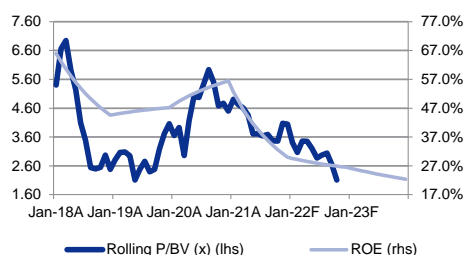
AEM Holdings Ltd is a semiconductor equipment company headquartered in Singapore. AEM received an ESG grade of C- from Refinitiv. Refinitiv noted that AEM scored well in the social pillar of ESG. In the environment pillar, Refinitiv noted that there was room for improvement.

Keep your eye on	Implications
Customer concentration risk.	Intel (INTC US, NR) is AEM's major customer. Our forecasts assumes 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.
ESG highlights	Implications
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.	In 2021, each employee received an average of 18.4 hours of training (2020:7.8 hours). 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.
Trends	Implications
AEM's business involves the use of water-glycol mixtures that must be disposed of properly.	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 assumes that AEM will not incur any regulatory cost relating to breach of environmental regulations.

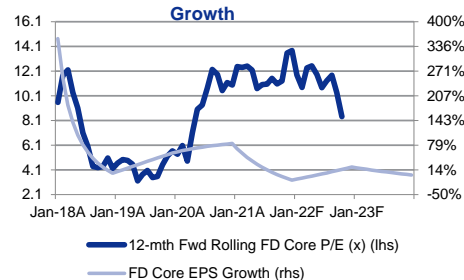
SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	519.0	565.5	800.0	785.9	834.2
Gross Profit	175.9	201.1	281.6	292.5	300.7
Operating EBITDA	121.6	126.3	166.9	169.3	177.4
Depreciation And Amortisation	(8.4)	(14.5)	(22.4)	(23.4)	(24.4)
Operating EBIT	113.2	111.8	144.5	145.9	153.0
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	144.2	151.3
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	113.8	111.1	142.5	144.2	151.3
Taxation	(16.2)	(19.1)	(24.2)	(24.5)	(25.7)
Exceptional Income - post-tax	0.0	0.0	0.0	0.0	0.0
Profit After Tax	97.6	92.1	118.3	119.7	125.6
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	119.7	125.6
Recurring Net Profit	97.6	92.0	118.3	119.7	125.6
Fully Diluted Recurring Net Profit	97.6	92.0	118.3	119.7	125.6

Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	121.6	126.3	166.9	169.3	177.4
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)	40.1	(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)	(24.5)	(25.7)
Cashflow From Operations	86.3	52.1	94.6	184.9	142.0
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)	(29.9)	(31.4)
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)	(31.6)	(33.1)
Total Cash Generated	30.6	(22.8)	53.8	145.8	104.4
Free Cashflow To Equity	52.3	17.9	85.1	177.4	137.5
Free Cashflow To Firm	56.5	(33.1)	85.1	177.4	137.5

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	134.8	216.2	270.0	415.8	520.2
Total Debtors	47.6	127.9	175.3	172.2	182.8
Inventories	79.7	204.9	221.8	181.3	192.3
Total Other Current Assets	4.4	1.1	1.1	1.1	1.1
Total Current Assets	266.4	550.1	668.2	770.4	896.4
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	193.8	205.7
Other Current Liabilities	23.0	35.1	35.1	35.1	35.1
Total Current Liabilities	111.7	236.6	252.9	249.4	261.3
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	320.7	332.6
Shareholders' Equity	211.4	402.5	491.2	581.0	675.2
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	211.4	402.5	491.2	581.0	675.2

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	60.6%	9.0%	41.5%	(1.8%)	6.2%
Operating EBITDA Growth	76.7%	3.9%	32.1%	1.4%	4.8%
Operating EBITDA Margin	23.4%	22.3%	20.9%	21.5%	21.3%
Net Cash Per Share (\$)	0.45	0.44	0.61	1.08	1.42
BVPS (\$)	0.77	1.30	1.59	1.88	2.18
Gross Interest Cover	505.2	64.7	85.0	85.8	90.0
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	80.72	77.89
Inventory Days	73.2	142.6	150.2	149.1	128.2
Accounts Payables Days	83.6	132.6	133.2	144.6	137.0
ROIC (%)	532%	125%	55%	49%	63%
ROCE (%)	63.0%	31.8%	27.5%	23.7%	21.6%
Return On Average Assets	34.5%	17.9%	15.7%	14.1%	13.3%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Equipment revenue growth (%)	64.7%	-14.4%	39.8%	-5.4%	4.9%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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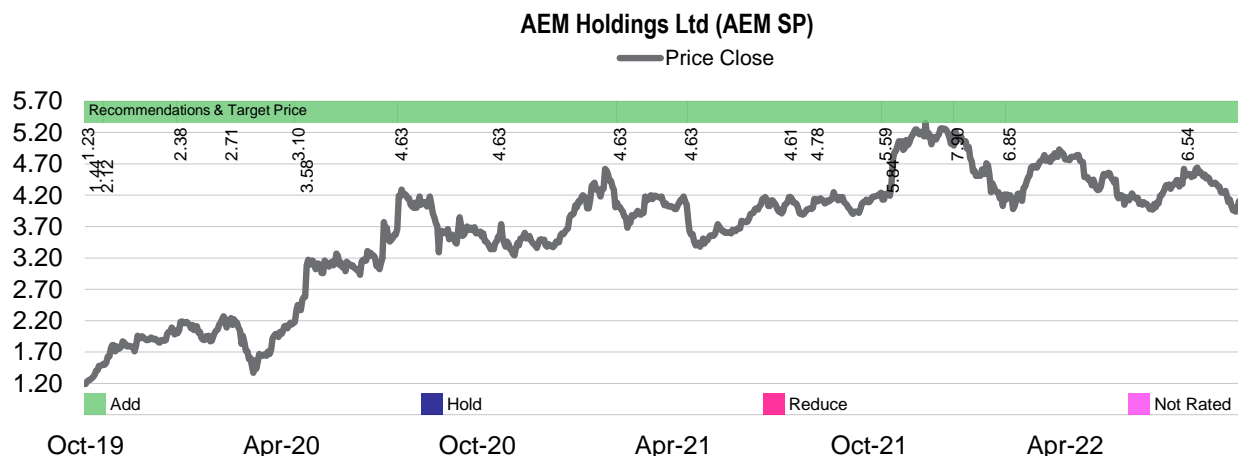
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022		
643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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.

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.

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

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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.