

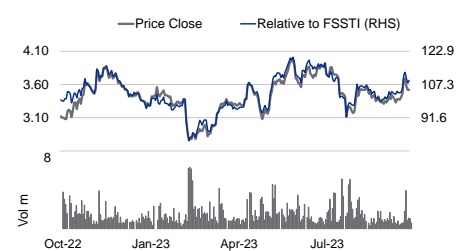
Singapore

ADD (previously REDUCE)

Consensus ratings*:	Buy 5	Hold 1	Sell 1
Current price:	S\$3.52		
Target price:	S\$4.11 ▲		
Previous target:	S\$2.92		
Up/downside:	16.8%		
CGS-CIMB / Consensus:	14.7%		
Reuters:	AEM.SI		
Bloomberg:	AEM SP		
Market cap:	US\$793.4m		
	S\$1,087m		
Average daily turnover:	US\$4.12m		
	S\$5.56m		
Current shares o/s:	308.8m		
Free float:	83.7%		
*Source: Bloomberg			

Key changes in this note

- Roll over to FY25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.1	-9.3	12.8
Relative (%)	9	-5.7	9.1

Major shareholders

	% held
Venezio Investments	12.1
EPF	9.4
abrdn	8.2

Analyst(s)



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AEM Holdings Ltd

Awaiting return of customer demand over FY24-25F

- We expect AEM to issue its 3Q23F business update on 10 Nov 2023. We see 3Q23F revenue possibly declining 55.1% yoy to S\$92.5m.
- 3Q23F could possibly see a headline net loss of S\$20.4m (in our view) due to S\$26.7m expense relating to its arbitration settlement with Advantest.
- Our FY23-25F forecasts are unchanged for now. On rollover to FY25F, our TP increases to S\$4.11, and we upgrade our call to Add (Reduce previously).

We expect AEM to report S\$20.4m headline net loss for 3Q23F

We think AEM Holdings will issue its 3Q23F business update after market closes on 10 Nov 2023. In our view, 3Q23F revenue could decline 55.1% yoy and 24.6% qoq to S\$92.5m. We also expect AEM to expense off c.S\$26.7m in relation to the settlement of its arbitration with Advantest in its 3Q23F results, leading to a possible headline net loss of S\$20.4m.

Preparing for the return of customer demand over FY24-25F

AEM has taken the opportunity arising from the current lull in demand from its customer to improve operating efficiencies and further reduce its cost structure. In our view, AEM should not require any further capex over FY24-25F as the new 365,000 sq ft plant in Penang is sufficient to meet customers' needs. Its key customer, Intel, has announced further expansion plans in 2023. On 16 Jun 2023, Intel announced that it intends to invest US\$4.6b in Poland for a new semiconductor assembly and test facility to meet demand that the company is anticipating by 2027. According to a 31 Aug 2023 report by Reuters, Intel will invest US\$1.2bn in Costa Rica (where the company has test and assembly facilities) over the next two years. Also, on 17 Dec 2021, Intel held a groundbreaking ceremony to mark the construction of its new production facility at Penang as part of its US\$7bn expansion plan in Malaysia. This multi-phased expansion project consists of several buildings and is expected to begin production in early-2024F. We believe Intel could possibly place orders for these facilities by FY24F.

Higher S\$4.11 TP on rollover; upgrade to Add from Reduce

We maintain our FY23-25F forecasts but roll over our valuation to FY25F. Our TP increases to S\$4.11 based on 11.3x P/E multiple, its 5-year (FY19-23F) average. (previously 10.2x). We upgrade our call on AEM to Add from Reduce as we look forward to net profit recovery for AEM in FY25F as demand from its key customer returns. Downside risks include a further pushback in delivery timeline for customers' testing equipment, weaker-than-expected recovery for the semiconductor industry, and slower global economic growth reducing customer demand for AEM's contract manufacturing subsidiary. Re-rating catalysts include stronger-than-expected orders from its major customer, and new customers issuing meaningful purchase orders to AEM.

Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (S\$m)	565.5	870.5	460.0	670.9	757.8
Net Profit (S\$m)	92.0	127.3	5.6	88.5	112.3
Core EPS (S\$)	0.30	0.41	0.10	0.29	0.36
Core EPS Growth	(16%)	39%	(75%)	174%	27%
FD Core P/E (x)	11.20	8.55	33.62	12.28	9.67
Price To Sales (x)	1.93	1.25	2.36	1.62	1.43
DPS (S\$)	0.08	0.10	0.00	0.07	0.09
Dividend Yield	2.16%	2.93%	0.13%	2.04%	2.58%
EV/EBITDA (x)	7.44	5.96	11.91	5.73	4.29
P/FCFE (x)	57.40	NA	3.99	17.50	9.93
Net Gearing	(33.5%)	3.1%	(49.8%)	(49.7%)	(54.7%)
P/BV (x)	2.71	2.24	2.22	1.96	1.70
ROE	30.0%	28.7%	6.6%	16.9%	18.8%
% Change In Core EPS Estimates			0%	0%	0%
EPS/Consensus EPS (x)			0.40	0.98	1.01

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Peer comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	P/E (x) CY23F	P/E (x) CY24F	3-year EPS CAGR (%)	P/BV (x) CY23F	Recurring ROE (%) CY23F	Dividend Yield (%) CY23F
AEM Holdings Ltd	AEM SP	ADD	3.52	4.11	793.4	33.6	12.3	-3.9%	2.22	6.7%	0.1%
Advantest Corp	6857 JP	NR	4,398	NA	22514.3	25.2	27.3	5.8%	8.73	25.5%	0.7%
Teradyne Inc	TER US	NR	96.52	NA	14865.4	33.9	21.2	11.2%	6.04	18.5%	0.5%
Simple average excluding AEM						29.6	24.3	5.8%	7.39	22.0%	0.6%

Key customer valuation

Intel Corp	INTC US	NR	36.06	NA	151019.3	64.4	21.0	3.4%	1.47	2.1%	2.1%
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DATA AS AT 18 OCT 2023

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

Note: Estimates for Not Rated (NR) companies are based on Bloomberg consensus

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

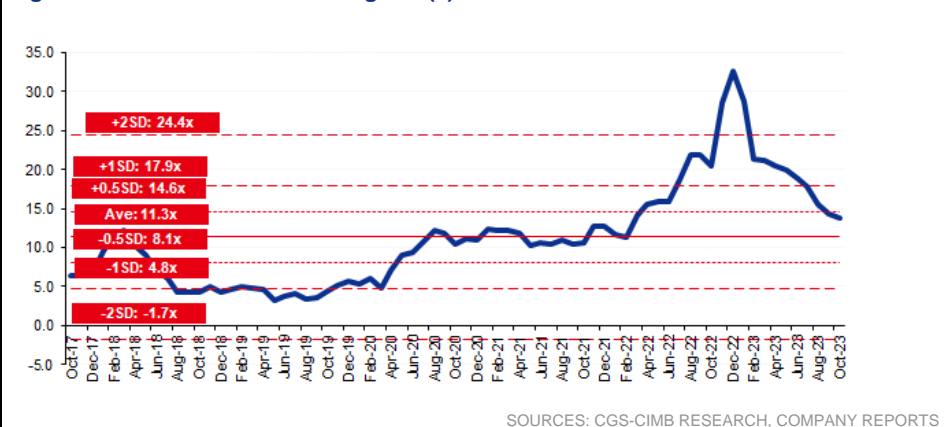
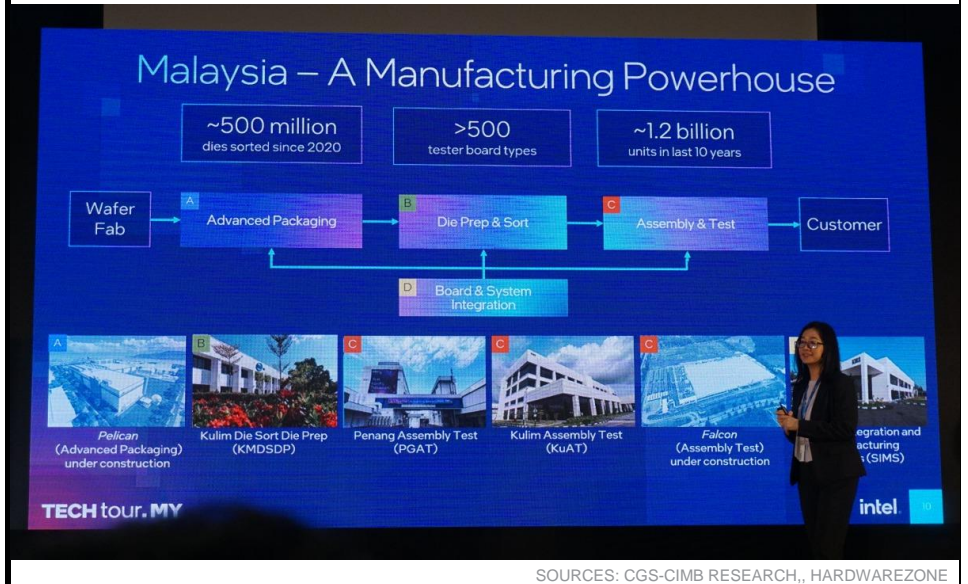

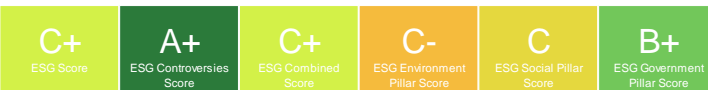


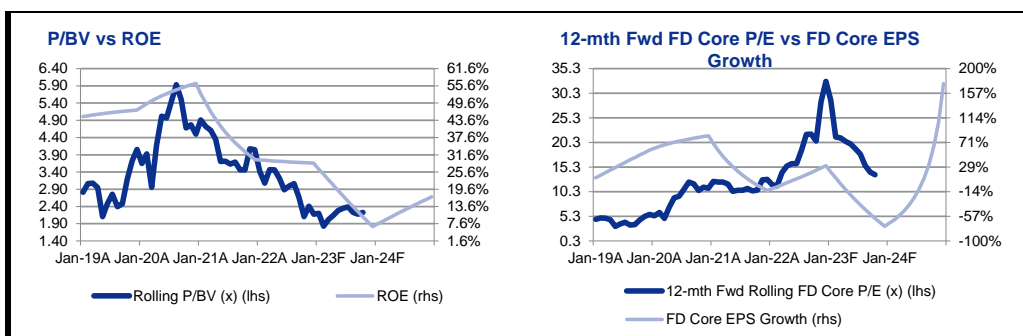
Figure 3: Rendering of planned Poland facility



Figure 4: Intel in Malaysia



Refinitiv ESG Scores	
	
<h2>ESG in a nutshell</h2>	
<p>AEM Holdings Ltd is a semiconductor equipment company headquartered in Singapore. AEM improved its Refinitiv ESG score from a C- in FY20 to a C+ in FY22. Refinitiv noted that AEM improved its score across all E, S, and G categories, especially Environment.</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 2023F.</p>
<p>ESG highlights</p> <p>AEM believes that its staff are its greatest assets. We note that technological and engineering skills and knowledge are key success factors in AEM’s business.</p>	<p>Implications</p> <p>In 2022, each employee received an average of 30.0 hours of training (2021: 11.0 hours). AEM implemented the Learning Management System (LMS) in Jun 21, giving employees the flexibility of attending both physical and remote training programmes.</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 centres 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 costs relating to a breach of environmental regulations.</p>
<p><small>SOURCES: CGS-CIMB RESEARCH, REFINITIV</small></p>	

BY THE NUMBERS

Profit & Loss

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	565.5	870.5	460.0	670.9	757.8
Gross Profit	201.1	297.2	164.9	231.8	263.1
Operating EBITDA	126.3	183.8	69.8	139.4	169.1
Depreciation And Amortisation	(14.5)	(23.5)	(26.1)	(27.1)	(28.1)
Operating EBIT	111.8	160.3	43.6	112.2	140.9
Financial Income/(Expense)	(1.3)	(1.3)	(5.6)	(5.3)	(5.3)
Pretax Income/(Loss) from Assoc.	0.6	(0.3)	1.1	(0.3)	(0.3)
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	111.1	158.7	39.1	106.7	135.4
Exceptional Items	0.0	0.0	(26.7)	0.0	0.0
Pre-tax Profit	111.1	158.7	12.4	106.7	135.4
Taxation	(19.1)	(31.4)	(6.6)	(18.1)	(23.0)
Exceptional Income - post-tax	0.0	0.0	0.0	0.0	0.0
Profit After Tax	92.1	127.3	5.7	88.5	112.3
Minority Interests	(0.1)	0.0	(0.1)	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	92.0	127.3	5.6	88.5	112.3
Recurring Net Profit	92.0	127.3	32.3	88.5	112.3
Fully Diluted Recurring Net Profit	92.0	127.3	32.3	88.5	112.3

Cash Flow

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	126.3	183.8	69.8	139.4	169.1
Cash Flow from Inv. & Assoc.	0.0	0.0	0.0	0.0	0.0
Change In Working Capital	(55.1)	(197.6)	244.1	(41.1)	(16.6)
(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	1.1	3.3	(26.7)	0.0	0.0
Net Interest (Paid)/Received	0.0	0.0	0.0	0.0	0.0
Tax Paid	(20.2)	(21.6)	(6.6)	(18.1)	(23.0)
Cashflow From Operations	52.1	(32.1)	280.5	80.1	129.4
Capex	(4.3)	(12.8)	(10.0)	(20.0)	(22.0)
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	(80.9)	(25.6)	1.7	2.0	2.0
Cash Flow From Investing	(85.2)	(38.4)	(8.3)	(18.0)	(20.0)
Debt Raised/(repaid)	51.1	24.5	0.0	0.0	0.0
Proceeds From Issue Of Shares	(15.8)	0.3	0.0	0.0	0.0
Shares Repurchased	(4.6)	(5.3)	0.0	0.0	0.0
Dividends Paid	(18.6)	(36.2)	(1.4)	(22.1)	(28.1)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Other Financing Cashflow	(1.7)	(1.9)	(7.3)	(7.3)	(7.3)
Cash Flow From Financing	10.3	(18.6)	(8.7)	(29.4)	(35.4)
Total Cash Generated	(22.8)	(89.1)	263.5	32.7	74.1
Free Cashflow To Equity	17.9	(46.0)	272.2	62.1	109.4
Free Cashflow To Firm	(33.1)	(70.5)	272.2	62.1	109.4

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	216.2	127.8	391.2	423.9	498.0
Total Debtors	127.9	92.9	100.8	147.1	166.1
Inventories	204.9	367.7	110.2	157.2	176.2
Total Other Current Assets	1.1	2.2	2.2	2.2	2.2
Total Current Assets	550.1	590.6	604.4	730.3	842.4
Fixed Assets	43.9	75.1	67.1	68.1	70.1
Total Investments	15.9	15.2	16.3	16.0	15.7
Intangible Assets	96.9	115.9	107.7	99.6	91.4
Total Other Non-Current Assets	3.7	8.9	8.9	8.9	8.9
Total Non-current Assets	160.4	215.0	200.0	192.6	186.1
Short-term Debt	20.5	13.7	13.7	13.7	13.7
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0	0.0
Total Creditors	181.0	118.9	113.4	165.4	186.8
Other Current Liabilities	35.1	35.6	35.6	35.6	35.6
Total Current Liabilities	236.6	168.2	162.7	214.7	236.1
Total Long-term Debt	60.8	129.7	129.7	129.7	129.7
Hybrid Debt - Debt Component	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Liabilities	10.6	14.3	14.3	14.3	14.3
Total Non-current Liabilities	71.3	144.0	144.0	144.0	144.0
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	308.0	312.1	306.6	358.7	380.1
Shareholders' Equity	402.5	485.0	489.3	555.7	639.9
Minority Interests	0.0	8.4	8.5	8.5	8.5
Total Equity	402.5	493.5	497.8	564.2	648.4

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	9.0%	53.9%	(47.2%)	45.9%	12.9%
Operating EBITDA Growth	3.9%	45.5%	(62.0%)	99.8%	21.3%
Operating EBITDA Margin	22.3%	21.1%	15.2%	20.8%	22.3%
Net Cash Per Share (S\$)	0.44	(0.05)	0.80	0.91	1.15
BVPS (S\$)	1.30	1.57	1.58	1.80	2.07
Gross Interest Cover	64.67	59.50	5.97	15.37	19.30
Effective Tax Rate	17.1%	19.8%	53.6%	17.0%	17.0%
Net Dividend Payout Ratio	25.6%	25.0%	4.4%	25.0%	25.0%
Accounts Receivables Days	56.65	46.30	76.86	67.61	75.42
Inventory Days	142.6	182.3	295.5	111.4	123.0
Accounts Payables Days	132.6	95.5	143.7	116.2	130.0
ROIC (%)	125%	61%	9%	45%	50%
ROCE (%)	31.8%	28.9%	7.1%	16.9%	19.1%
Return On Average Assets	17.9%	17.0%	4.7%	10.9%	12.1%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Equipment revenue growth (%)	-14.4%	57.2%	-64.1%	73.0%	17.7%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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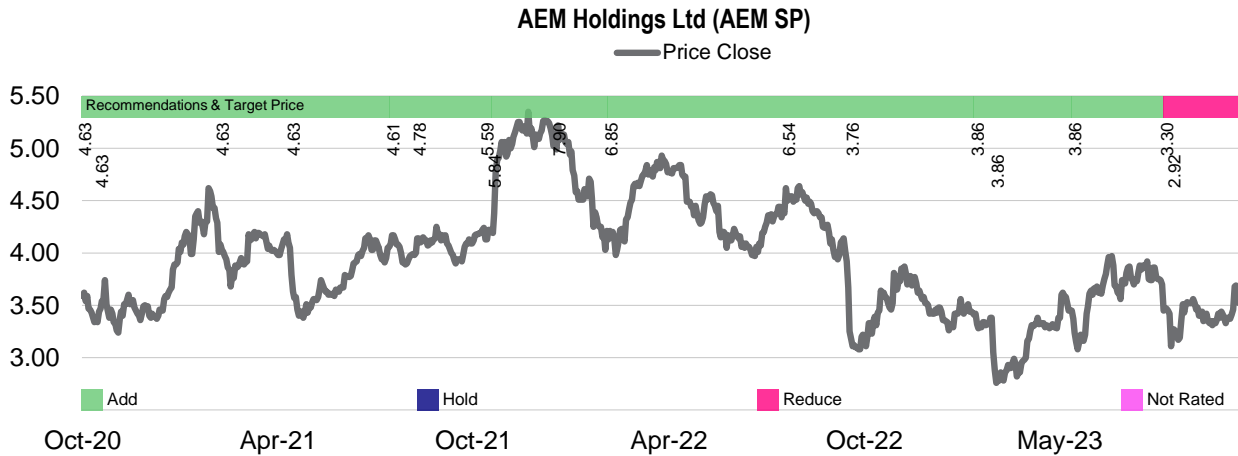
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2023		
634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	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.
<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>	
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