

Singapore Company Update

AEM Holdings Ltd

Bloomberg: AEM SP | Reuters: AEM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Nov 2023

HOLD

Last Traded Price (10 Nov 2023): S\$3.34 (STI : 3,106.68)
 Price Target 12-mth: S\$3.00 (10% downside) (Prev S\$3.11)

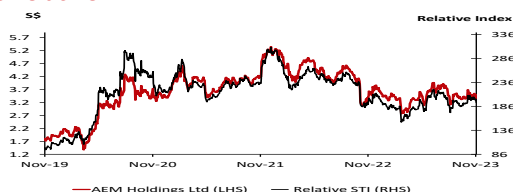
Analysts

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What's New

- 9M23 earnings of S\$3.5m (-96.9% y-o-y), below our estimates even after accounting for one-off arbitration expenses of S\$26.7m
- Worst is likely over, but recovery could be delayed till late 2024
- We lower FY23F earnings by 33% and FY24F revenue/earnings by 19%/23%
- Maintain HOLD with lower TP S\$3.00 (vs. S\$3.11 previously)

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2022A	2023F	2024F	2025F
Revenue	870	487	555	704
EBITDA	184	80.3	121	160
Pre-tax Profit	159	22.2	89.0	126
Net Profit	127	13.6	73.8	104
Net Pft (Pre Ex.)	127	40.3	73.8	104
Net Pft Gth (Pre-ex) (%)	38.2	(68.4)	83.4	41.2
EPS (S cts)	41.2	4.39	23.9	33.7
EPS Pre Ex. (S cts)	41.2	13.0	23.9	33.7
EPS Gth Pre Ex (%)	30	(68)	83	41
Diluted EPS (S cts)	41.2	4.39	23.9	33.7
Net DPS (S cts)	10.3	1.10	5.97	8.43
BV Per Share (S cts)	157	160	178	204
PE (X)	8.1	76.1	14.0	9.9
PE Pre Ex. (X)	8.1	25.6	14.0	9.9
P/Cash Flow (X)	nm	35.5	5.9	5.8
EV/EBITDA (X)	5.8	13.0	7.5	4.8
Net Div Yield (%)	3.1	0.3	1.8	2.5
P/Book Value (X)	2.1	2.1	1.9	1.6
Net Debt/Equity (X)	0.0	0.0	CASH	CASH
ROAE (%)	28.7	2.8	14.1	17.7
Earnings Rev (%):		(33)	(23)	-
Consensus EPS (S cts):		5.6	26.9	35.0
Other Broker Recs:		B: 6	S: 2	H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Stand on the sidelines for now

Investment Thesis:

Retains technological superiority in system-level test. AEM is a pioneer in providing SLT (system-level test) solutions and is currently around one generation ahead of its competitors. Given its technological superiority, we believe AEM is well positioned to ride on the growing SLT market that has benefitted from the increased complexity of chips and increased test coverage requirements, alongside the need for advanced heterogeneous packaging.

New technology drives growth in test spend, leading to higher demand for AEM's offerings in the long term. Notwithstanding near-term volatility, the semiconductor industry is well poised for growth owing to the push towards digitalisation. McKinsey projects that the semiconductor industry will become a trillion-dollar industry by 2030. Industry megatrends such as artificial intelligence, 5G, and Internet of Things will pave the way for growth in test spend, owing to higher test volumes and test times. Longer test times would also require more of AEM's consumables due to wear and tear.

Worst is likely over, but recovery could be delayed till late 2024.

Macros continue to be uncertain, and consensus estimates for Intel show capex flattish at +1.0% y-o-y in 2024. Our views are largely congruent with AEM's expectations of a protracted period of lower tester utilisation rates, which pushes out capex spend into late 2024. As yet, we also do not expect a ramp-up in new generation equipment for the key customer in the next two years, as the capability requirements for the next two to three years have been met. Meanwhile, engagements with new customers continue to progress with ramp-ups expected in 2H24.

Maintain HOLD with lower TP of S\$3.00 (vs S\$3.11 previously). Our target price is pegged to 12.5x FY24F earnings, 0.2SD below the historical mean on a delay in the earnings recovery. We ascribe a higher valuation multiple to AEM in anticipation of a ramp-up towards late 2024 and into 2025, notwithstanding near-term challenges. We lower our FY23F earnings estimates by 33% on weaker-than-expected 9M23 earnings and adjust FY24F revenue/earnings estimates by -19%/-23% on a delayed recovery.

Key Risks

Single-customer concentration risk, geopolitical events, and a prolonged slowdown in the macroeconomy.

At A Glance

Issued Capital (m shrs)	309
Mkt. Cap (S\$m/US\$m)	1,032 / 758
Major Shareholders (%)	
Venezio Investments	12.5
Employees Provident	10.1
abrdn plc	9.1
Free Float (%)	68.3
3m Avg. Daily Val (US\$m)	3.5

GIC Industry : Information Technology / Semiconductors & Semiconductor Equipment



Watchlist the stock on Insights Direct to receive prompt updates

AEM Holdings Ltd

WHAT'S NEW

9M23 earnings miss; recovery likely deferred till late 2024

Key Highlights

9M23 revenue of S\$387.0m (-48.2% y-o-y), largely in line with expectations. 9M23 revenue weakness is largely attributed to customers pushing out their test-related capex to 2024 and beyond, amid an industry downturn along with an absence of a ramp-up in products vs. 9M22. 3Q23 and 9M23 revenue account for 22.9% and 79.5% of our estimates, respectively. For 9M23, services (+18.3% y-o-y), which primarily consist of contract manufacturing, were more resilient compared to consumables (-60.6% y-o-y) and equipment (-80.6% y-o-y). AEM also maintains its revenue guidance of S\$460-S\$490m.

9M23 earnings of S\$3.5m (-96.9% y-o-y), below our estimates even after accounting for one-off arbitration expenses of S\$26.7m.

9M23 earnings account for 17.4% of our estimates. 9M23 net profit margin of 0.9% took a hit, as AEM fully recognised the arbitration expenses in 3Q23. Excluding this significant one-off, the profit before tax (PBT) margin would have been 11.0% vs. 2.6% after exceptionals. Based on our current estimates, AEM would have to deliver S\$16.8m in earnings in 4Q23 on revenue of S\$100.0m, implying net margins of 16.8%, which could be challenging to attain, in our view.

S\$m	9M23 core	9M23	9M22	Y-o-y change (%)
Revenue	387.0	387.0	746.6	-48.2
PBT	42.6	10.1	141.4	-92.8
Net profit	Undisclosed	3.5	115.3	-96.9
PBT margin	11.0%	2.6%	18.9%	-16.3 ppts
Net profit margin	Undisclosed	0.9%	15.4%	-14.5 ppts

Source: Company, DBS Bank

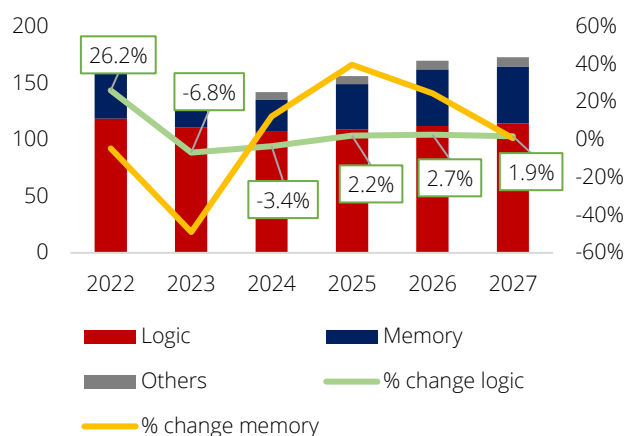
S\$m	3Q23	3Q22	2Q23	Y-o-y change (%)	Q-o-q change (%)
Revenue	111.7	206.1	122.6	-45.8	-8.8
PBT	-13.7	39.4	4.8	NM	NM
Net profit	-16.2	32.2	4.2	NM	NM
Net profit margin	NM	15.6%	3.4%		

Source: Company, DBS Bank

Our Thoughts

Worst is likely over in terms of earnings, but recovery could be delayed till late 2024. Macros continue to be uncertain and overall industry capex in 2024 is likely to stay conservative (-0.1%) – logic-related capex, where AEM's key customer will be down slightly (-3.4% y-o-y), whereas memory-related capex will rebound (+12.4% y-o-y). Consensus estimates for Intel are not too far from the general narrative, with capex set to fall 6.7% y-o-y in 2023 and stay flattish at +1.0% y-o-y in 2024. Our views are largely congruent with AEM's expectations of a protracted period of lower tester utilisation rates, which pushes out capex spend into late 2024. Nonetheless, Intel's capex, while key, is not the only consideration. AEM is also driven by product cycles such as the ramp-up of new-generation equipment. As yet, we do not expect a ramp-up in new-generation equipment for the key customer in the next two years, as the capability requirements for the next two to three years have been met. Meanwhile, engagements with new customers continue to progress with ramp-ups expected in 2H24.

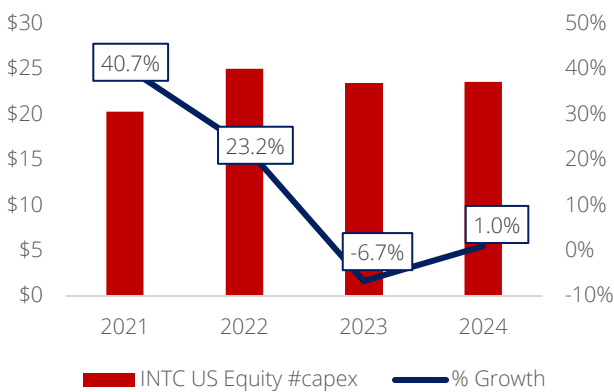
Capital spending by device application (US\$b)



Source: Gartner, Inc., Forecast: Semiconductor Capital Spending, Wafer Fab Equipment and Capacity Worldwide, 3Q23 Update Bob Johnson, et al., 5 October 2023. GARTNER is a registered trademark and service mark of Gartner, Inc. and/or its affiliates in the U.S. and internationally and is used herein with permission. All rights reserved.

AEM Holdings Ltd

Intel's Capex (US\$bn)



Source: Bloomberg Finance L.P., DBS Bank

Many moving parts with some bright spots, but no strong catalyst in the near term. AEM has longer-dated non-cancellable purchase orders amounting to c.\$280.0m that are expected to be converted to revenue in the next 1-1.5 years and possibly skew its top lines in FY24/FY25. While new customer ramp-ups could be expected from 2H24, we do not have much visibility as to the magnitude of it. We also do not expect a ramp-up of new generation equipment for the key customer in the next two years as the latest generation of products should be able to meet Intel's capability needs for the next two to three years.

Reiterate long-term positive view on AEM. We continue to like AEM for its technological superiority in the systems-level test segment and unique Test 2.0 approach. AEM has also been awarded three new patents in 3Q for its thermal capabilities, reinforcing its competitive advantage. The long-term secular drivers of semiconductor tests such as artificial intelligence, Internet of Things, and 5G remain intact.

Maintain HOLD with lower TP S\$3.00 (vs. S\$3.11 previously). Our target price is pegged to 12.5x FY24F earnings, 0.2SD below the historical mean on a delay in the recovery of earnings (vs. 10x at c.0.5SD of the historical mean previously). We ascribe a higher valuation multiple to AEM in anticipation of a ramp-up towards late 2024 and into 2025, notwithstanding near-term challenges. We lower our FY23F earnings estimates by 33% on weaker-than-expected 9M23 earnings and adjust our FY24F revenue/earnings estimates by -19%/-23%, as its recovery is deferred to late FY24.

Company Background

AEM is a solutions provider for the back-end testing of the semiconductor manufacturing process. It works closely with its key customer Intel, to design, engineer, and manufacture the test handlers. AEM then provides field support and post-sales replacements.

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

AEM Holdings Ltd

Income Statement (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	565	870	487	555	704
Cost of Goods Sold	(379)	(597)	(338)	(380)	(483)
Gross Profit	187	274	149	175	222
Other Opng (Exp)/Inc	(74.8)	(113)	(95.2)	(83.7)	(95.2)
Operating Profit	112	160	53.4	91.1	127
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.64	(0.3)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.3)	(1.3)	(4.5)	(2.2)	(1.2)
Exceptional Gain/(Loss)	0.0	0.0	(26.7)	0.0	0.0
Pre-tax Profit	111	159	22.2	89.0	126
Tax	(19.1)	(31.4)	(8.7)	(15.1)	(21.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	92.1	127	13.6	73.8	104
Net Profit before Except.	92.1	127	40.3	73.8	104
EBITDA	125	184	80.3	121	160
Growth					
Revenue Gth (%)	9.0	53.9	(44.1)	13.9	27.0
EBITDA Gth (%)	3.0	46.4	(56.3)	51.0	32.0
Opg Profit Gth (%)	(1.2)	43.3	(66.7)	70.7	39.1
Net Profit Gth (Pre-ex) (%)	(5.6)	38.2	(68.4)	83.4	41.2
Margins & Ratio					
Gross Margins (%)	33.0	31.4	30.5	31.5	31.5
Opg Profit Margin (%)	19.8	18.4	11.0	16.4	18.0
Net Profit Margin (%)	16.3	14.6	2.8	13.3	14.8
ROAE (%)	30.0	28.7	2.8	14.1	17.7
ROA (%)	17.6	16.8	1.7	9.3	12.0
ROCE (%)	25.1	22.0	5.5	10.6	14.2
Div Payout Ratio (%)	23.9	25.0	25.0	25.0	25.0
Net Interest Cover (x)	84.4	122.2	12.0	42.1	110.0

Source: Company, DBS Bank

Interim Income Statement (\$m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	192	373	540	330	275
Cost of Goods Sold	(127)	(252)	(374)	(223)	(192)
Gross Profit	65.4	121	166	107	83.0
Other Oper. (Exp)/Inc	(29.0)	(45.9)	(63.2)	(50.2)	(57.5)
Operating Profit	36.5	75.4	103	57.2	25.6
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.2)	0.85	(0.5)	0.18	1.11
Net Interest (Exp)/Inc	(0.8)	(0.6)	(0.6)	(0.8)	(2.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	35.5	75.6	102	56.7	23.9
Tax	(5.8)	(13.2)	(19.0)	(12.4)	(4.1)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	29.7	62.4	83.1	44.3	19.7
Net profit bef Except.	29.7	62.4	83.1	44.3	19.7
EBITDA	40.5	84.9	113	70.2	39.9
Growth					
Revenue Gth (%)	(21.6)	94.1	44.8	(38.9)	(16.6)
EBITDA Gth (%)	(19.8)	109.6	33.5	(38.1)	(43.1)
Opg Profit Gth (%)	(21.4)	106.6	36.8	(44.5)	(55.3)
Net Profit Gth (%)	(29.8)	110.1	33.1	(46.7)	(55.4)
Margins					
Gross Margins (%)	34.0	32.5	30.8	32.5	30.2
Opg Profit Margins (%)	19.0	20.2	19.1	17.3	9.3
Net Profit Margins (%)	15.4	16.7	15.4	13.4	7.2

Source: Company, DBS Bank

AEM Holdings Ltd

Balance Sheet (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	26.1	40.1	31.9	23.8	12.7
Invts in Associates & JVs	15.9	15.2	15.2	15.2	15.2
Other LT Assets	118	160	156	152	148
Cash & ST Invts	216	128	138	247	379
Inventory	205	368	357	292	264
Debtors	128	92.9	80.1	83.6	106
Other Current Assets	1.06	2.15	2.15	2.15	2.15
Total Assets	711	806	781	815	928
ST Debt	20.5	13.7	13.7	13.7	13.7
Creditor	181	119	102	104	132
Other Current Liab	35.1	35.6	17.6	24.1	30.3
LT Debt	60.8	130	130	100	100
Other LT Liabilities	10.6	14.3	14.3	14.3	14.3
Shareholder's Equity	403	485	495	551	629
Minority Interests	0.0	8.40	8.40	8.40	8.40
Total Cap. & Liab.	711	806	781	815	928
Non-Cash Wkg. Capital	118	308	320	249	210
Net Cash/(Debt)	135	(15.5)	(4.8)	133	265
Debtors Turn (avg days)	56.6	46.3	64.8	53.8	49.2
Creditors Turn (avg days)	132.0	95.5	129.4	107.5	96.0
Inventory Turn (avg days)	142.0	182.3	424.5	338.1	225.8
Asset Turnover (x)	1.1	1.1	0.6	0.7	0.8
Current Ratio (x)	2.3	3.5	4.3	4.4	4.3
Quick Ratio (x)	1.5	1.3	1.6	2.3	2.8
Net Debt/Equity (X)	CASH	0.0	0.0	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	0.0	0.0	CASH	CASH
Capex to Debt (%)	89.7	24.9	10.5	15.8	15.8

Source: Company, DBS Bank

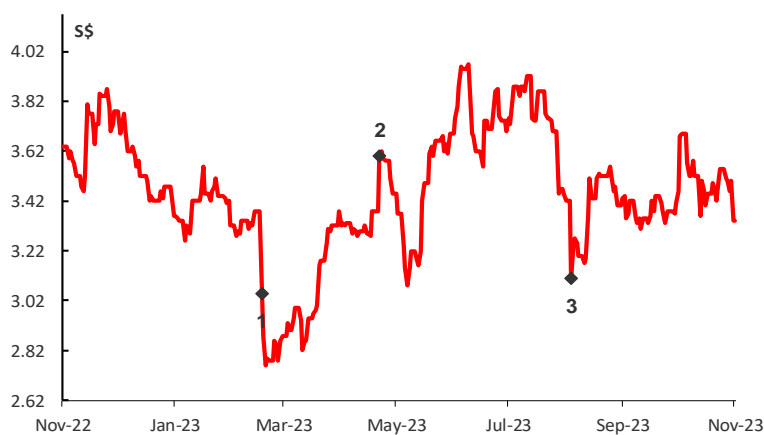
Cash Flow Statement (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	111	159	22.2	89.0	126
Dep. & Amort.	13.0	23.5	26.9	30.0	33.2
Tax Paid	(20.2)	(21.6)	(26.7)	(8.7)	(15.1)
Assoc. & JV Inc/(loss)	(0.6)	0.28	0.0	0.0	0.0
Chg in Wkg.Cap.	(55.1)	(198)	6.67	64.0	32.7
Other Operating CF	3.96	5.30	0.0	0.0	0.0
Net Operating CF	52.1	(32.1)	29.1	174	176
Capital Exp.(net)	(72.9)	(35.6)	(15.0)	(18.0)	(18.0)
Other Invts.(net)	(2.6)	(1.6)	0.0	0.0	0.0
Invts in Assoc. & JV	(8.5)	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(1.2)	(1.2)	0.0	0.0	0.0
Net Investing CF	(85.2)	(38.4)	(15.0)	(18.0)	(18.0)
Div Paid	(18.6)	(36.2)	(3.4)	(18.5)	(26.0)
Chg in Gross Debt	56.7	34.7	0.0	(29.7)	0.0
Capital Issues	103	0.0	0.0	0.0	0.0
Other Financing CF	(27.8)	(17.1)	0.0	0.0	0.0
Net Financing CF	113	(18.6)	(3.4)	(48.1)	(26.0)
Currency Adjustments	1.11	0.74	0.0	0.0	0.0
Chg in Cash	81.4	(88.4)	10.7	108	132
Opg CFPS (S cts)	37.0	53.8	7.26	35.7	46.5
Free CFPS (S cts)	(7.2)	(21.9)	4.56	50.6	51.3

Source: Company, DBS Bank

AEM Holdings Ltd

Target Price & Ratings 12-mth History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Feb 23	3.05	2.00	SELL
2:	02 May 23	3.60	3.35	HOLD
3:	14 Aug 23	3.11	3.11	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Amanda Tan

Lee Keng LING

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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