

Singapore Company Guide

AEM Holdings Ltd

Version 5 | Bloomberg: AEM SP | Reuters: AEM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 May 2020

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HOLD

Last Traded Price (6 May 2020): S\$2.58 (STI : 2,591.60)

Price Target 12-mth: S\$2.87 (11% upside) (Prev S\$2.47)

Analyst

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What's New

- Higher FY2020F sales guidance of S\$430-445m
- Orders on hand of S\$416m for delivery in FY2020F
- Potential upward revision in sales guidance; but we choose to remain cautious
- Maintain HOLD with a higher TP of S\$2.87

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2018A	2019A	2020F	2021F
Revenue	262	323	449	463
EBITDA	41.6	69.5	96.2	94.7
Pre-tax Profit	40.0	63.7	93.9	92.2
Net Profit	33.5	52.8	77.9	76.5
Net Pft (Pre Ex.)	33.5	52.8	77.9	76.5
Net Pft Gth (Pre-ex) (%)	4.1	57.5	47.7	(1.8)
EPS (S cts)	12.4	19.6	28.9	28.4
EPS Pre Ex. (S cts)	12.4	19.6	28.9	28.4
EPS Gth Pre Ex (%)	(75)	57	48	(2)
Diluted EPS (S cts)	12.4	19.6	28.9	28.4
Net DPS (S cts)	3.41	5.10	7.54	7.40
BV Per Share (S cts)	33.3	49.8	71.1	92.1
PE (X)	20.7	13.2	8.9	9.1
PE Pre Ex. (X)	20.7	13.2	8.9	9.1
P/Cash Flow (X)	20.4	10.3	6.7	8.2
EV/EBITDA (X)	15.3	8.5	5.3	4.7
Net Div Yield (%)	1.3	2.0	2.9	2.9
P/Book Value (X)	7.8	5.2	3.6	2.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	45.5	47.1	47.8	34.7
Earnings Rev (%):			18	12
Consensus EPS (S cts):			24.8	26.0
Other Broker Recs:		B: 3	S: 0	H: 1

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

Higher sales guidance

FY2020F sales guidance raised by 17-19%. AEM has raised its FY2020F sales guidance from S\$360-380m (on 25 February) to S\$430-445m (+17-19%). As of 4 May 2020, it has received orders worth S\$416m for delivery in FY2020F (+23% from its previous update of S\$338m).

Maintain HOLD with a higher TP of S\$2.87. We have observed favourable developments in the industry (spike in demand for server chips and notebooks) and its key customer (improvement in yields in its 10-nm chips and capacity expansion plan of 20%). However, we maintain our HOLD recommendation on limited upside and uncertain economic backdrop.

Potential to revise sales guidance upwards. Given its track record of four upward revisions in sales guidance last year, there is a possibility that AEM could further raise its current FY2020F sales guidance. However, we prefer to err on the side of caution amid the weak economic backdrop caused by the COVID-19 pandemic.

Where we differ: We are cautious on AEM's outlook given the uncertainty surrounding the COVID-19 pandemic.

Potential catalysts: Stronger semiconductor equipment billings, increased sales guidance, acquisitions, new revenue streams.

Valuation:

Maintain HOLD with a higher TP of S\$2.87. We have raised our FY20F/21F earnings by 18/12% on the back of the higher sales guidance. We derived a higher TP of S\$2.87, still based on 10.0x (+1.5 SD) its 12-month rolling forward PE.

Key Risks to Our View:

Single-customer concentration risk, escalation or continued protraction of geopolitical events, and FX risk.

At A Glance

Issued Capital (m shrs)	274
Mkt. Cap (S\$m/US\$m)	706 / 499
Major Shareholders (%)	
Toh Ban Leng	7.6
Morgan Stanley	6.9
Standard Life Aberdeen PLC	6.7
Free Float (%)	78.8
3m Avg. Daily Val (US\$m)	15.4
GIC Industry : Information Technology / Tech Hardware & Equipment	



Live more, Bank less

CRITICAL DATA POINTS TO WATCH

Critical Factors

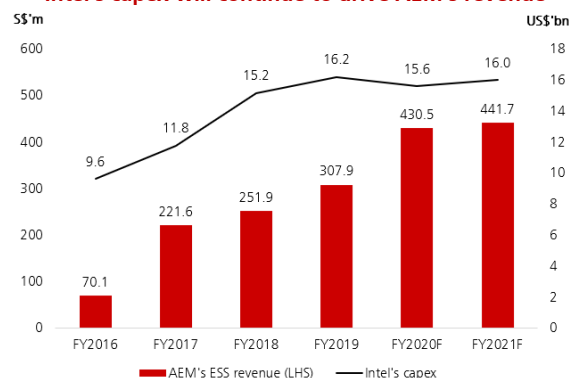
Intel's capital expenditure guidance. More than 90% of its revenue is currently derived from its key customer, Intel, and is captured in Intel's capex. Most of its revenue from Intel is classified under revenue from Equipment Systems Solutions (ESS). In its 4Q19 earnings presentation, Intel had guided for higher capex to increase the company's fab space and purchase 7-nm and 5-nm equipment. While it has hinted of a possible pushback in capex in the near term due to the weak economy and various regulations, it remains very bullish on the fast-growing total addressable market (TAM). Working closely as a sticky key supplier to Intel, we believe AEM's ESS revenue will continue to grow in FY20F.

US semiconductor equipment billings. AEM's 12-month rolling forward PE correlates closely to the 3-month rolling US semiconductor equipment billings. We remain positive on the industry's recovery and expect equipment billings to trend upwards in the near term on the back of higher demand for server chips, notebooks, medical equipment, and 5G. We believe this will continue re-rate AEM's forward PE.

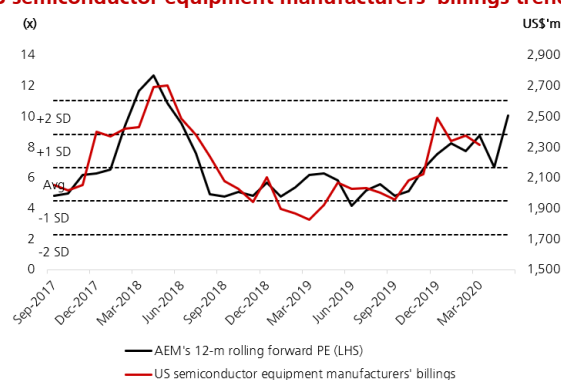
AEM's sales mix. While AEM's Consumables and Services segment generally has slightly higher margins as compared to Tools and Machines, it is shifting its focus to higher-margin machines. Intel has guided that it will be increasing the production capacities of its 14-nm and 10-nm chips by 25% each in 2020. We expect gross profit margins to improve slightly due to marginally higher revenue mix from higher-margin products in Tools and Machines in FY20F/21F.

Inventory levels of top chip makers as well as equipment suppliers in the US. Inventory levels of chip makers and equipment suppliers are a function of anticipated and current demand. Chip makers and equipment suppliers have built up their inventory levels ahead of the anticipated recovery in the semiconductor cycle. As the US-China trade situation improved from aggressive tariffs to a trade-deal standstill, inventory levels have fallen from 3Q19. This is likely due to an overall recovery in the sector as well as an uplift in business activity following the slight easing of the US-China trade war. We believe inventory levels will decline slightly or remain at the same level as demand for server chips picks up in FY20F.

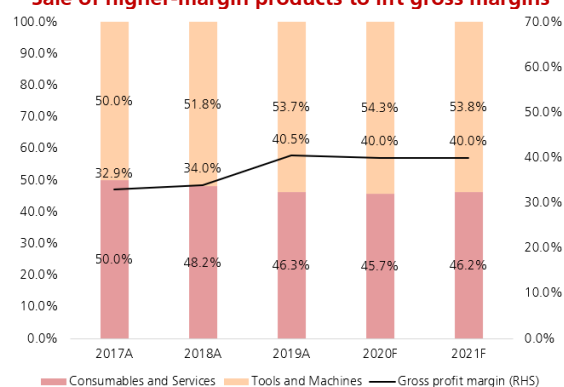
Intel's capex will continue to drive AEM's revenue



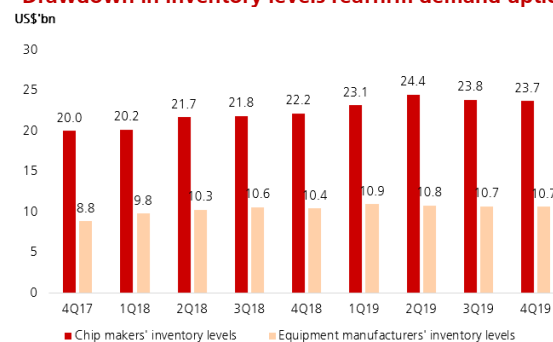
US semiconductor equipment manufacturers' billings trend up



Sale of higher-margin products to lift gross margins



Drawdown in inventory levels reaffirm demand uptick



Source: Company, DBS Bank

AEM Holdings Ltd

Balance Sheet:

Net cash position with minimal debt. As of 1Q20, AEM had a cash balance of S\$100.2m and minimal debt. In the last five years, AEM had close to negligible debt levels and had been financing its operations and acquisitions through its own cashflow. It is on the lookout for potential acquisitions that could create synergies with its existing business.

Share Price Drivers:

US 3-month semiconductor billings. AEM's share price and forward PE correlate closely to the US 3-month semiconductor billings. We believe that the recovery and end-demand driven by server chips in the near term will drive semiconductor billings and re-rate AEM's forward PE.

Order book and sales guidance. Management provides guidance on its revenue which is estimated from its order book. In FY19, AEM raised its sales guidance four times, which resulted in its share price increasing by an average of 4.0% on each announcement day.

Key Risks:

Single-customer concentration risk. Around 90% of AEM's revenue is derived from Intel. Of this, c.50% is from sales of equipment, which is lumpy in nature and dependent on Intel's need to replace existing machines or increase its production capacity.

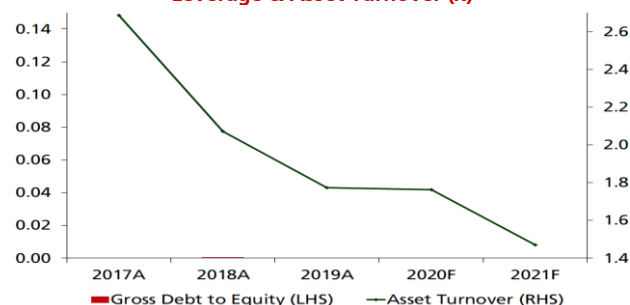
Prolonged COVID-19 situation. The COVID-19 pandemic has disrupted global supply chains in China and dampened the economic outlook. If the COVID-19 situation is prolonged, it may weigh on the recovery of the semiconductor cycle.

Re-escalation of the US-China trade war. The US-China trade war weighed heavily on the global manufacturing cycle, reducing the demand for semiconductor end-products as well as disrupting the supply chain. A re-escalation of the trade war could hamper the recovery of the semiconductor industry.

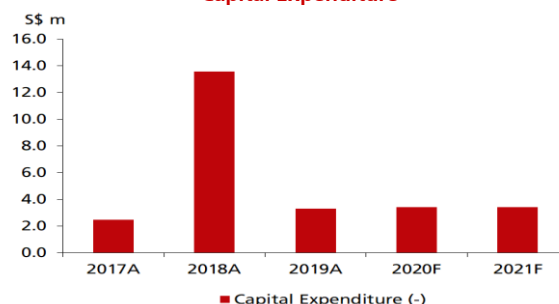
Company Background

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.

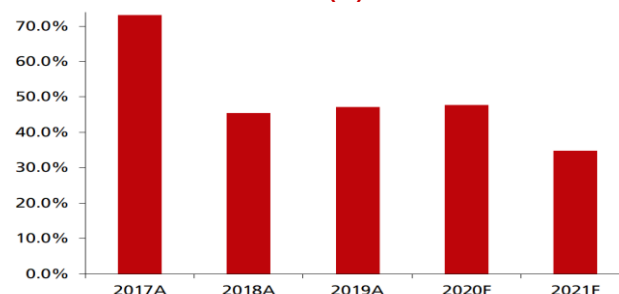
Leverage & Asset Turnover (x)



Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Income Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Revenue	222	262	323	449	463
Cost of Goods Sold	(149)	(173)	(192)	(269)	(278)
Gross Profit	73.0	89.1	131	179	185
Other Opng (Exp)/Inc	(35.4)	(49.4)	(67.9)	(86.1)	(93.5)
Operating Profit	37.6	39.8	62.9	93.3	91.6
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.1)	0.0	0.46	0.0	0.0
Net Interest (Exp)/Inc	0.04	0.26	0.36	0.60	0.60
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	37.5	40.0	63.7	93.9	92.2
Tax	(5.4)	(6.5)	(11.0)	(16.0)	(15.7)
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	32.2	33.5	52.8	77.9	76.5
Net Profit before Except.	32.2	33.5	52.8	77.9	76.5
EBITDA	38.2	41.6	69.5	96.2	94.7
Growth					
Revenue Gth (%)	216.0	18.4	23.2	38.8	3.1
EBITDA Gth (%)	449.5	8.9	67.0	38.5	(1.6)
Opg Profit Gth (%)	474.5	5.7	58.3	48.3	(1.8)
Net Profit Gth (Pre-ex) (%)	575.3	4.1	57.5	47.7	(1.8)
Margins & Ratio					
Gross Margins (%)	32.9	34.0	40.5	40.0	40.0
Opg Profit Margin (%)	17.0	15.2	19.5	20.8	19.8
Net Profit Margin (%)	14.5	12.8	16.3	17.4	16.5
ROAE (%)	73.1	45.5	47.1	47.8	34.7
ROA (%)	39.0	26.5	29.0	30.7	24.3
ROCE (%)	72.4	44.7	46.3	47.5	34.7
Div Payout Ratio (%)	24.9	27.4	26.1	26.1	26.1
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Revenue	52.7	97.9	83.9	88.7	147
Cost of Goods Sold	(32.6)	(62.8)	(52.2)	(44.9)	(86.5)
Gross Profit	20.2	35.2	31.7	43.8	60.4
Other Oper. (Exp)/Inc	(12.3)	(16.3)	(15.3)	(24.0)	(16.5)
Operating Profit	7.82	18.9	16.4	19.8	43.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.09	0.05	0.08	0.25	0.0
Net Interest (Exp)/Inc	0.08	0.07	0.07	0.14	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	7.98	19.0	16.6	20.2	43.8
Tax	(1.4)	(3.3)	(2.9)	(3.5)	(7.7)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	6.60	15.7	13.7	16.7	36.1
Net profit bef Except.	6.60	15.7	13.7	16.7	36.1
EBITDA	7.91	18.9	16.5	20.1	43.8

Growth

Revenue Gth (%)	34.0	85.7	(14.4)	5.7	65.6
EBITDA Gth (%)	72.1	139.3	(12.8)	21.5	118.6
Opg Profit Gth (%)	79.8	141.4	(13.0)	20.6	121.3
Net Profit Gth (Pre-ex) (%)	50.2	138.1	(12.7)	22.0	115.8

Margins

Gross Margins (%)	38.2	35.9	37.8	49.4	41.1
Opg Profit Margins (%)	14.8	19.3	19.6	22.3	29.9
Net Profit Margins (%)	12.5	16.0	16.4	18.9	24.6

Balance Sheet (\$\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Fixed Assets	3.62	5.73	6.27	8.48	10.5
Invts in Associates & JVs	4.13	4.15	4.57	4.57	4.57
Other LT Assets	3.45	17.8	19.1	17.5	15.8
Cash & ST Invts	46.1	58.9	108	188	250
Inventory	35.8	27.4	57.5	29.8	30.7
Debtors	23.6	18.0	28.0	27.4	32.4
Other Current Assets	0.0	4.49	4.86	4.86	4.86
Total Assets	117	136	228	280	349
ST Debt	0.01	0.0	0.0	0.0	0.0
Creditor	52.2	33.1	73.1	63.7	75.5
Other Current Liab	6.04	10.6	18.2	22.5	22.2
LT Debt	0.0	0.05	0.05	0.05	0.05
Other LT Liabilities	0.59	3.21	2.30	2.30	2.30
Shareholder's Equity	57.8	89.5	134	192	248
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	117	136	228	280	349
Non-Cash Wkg. Capital	1.10	6.22	(1.0)	(24.1)	(29.7)
Net Cash/(Debt)	46.1	58.8	108	188	250
Debtors Turn (avg days)	34.0	28.9	25.9	22.5	23.6
Creditors Turn (avg days)	85.1	90.9	104.1	93.8	92.5
Inventory Turn (avg days)	65.7	67.4	83.2	59.8	40.3
Asset Turnover (x)	2.7	2.1	1.8	1.8	1.5
Current Ratio (x)	1.8	2.5	2.2	2.9	3.3
Quick Ratio (x)	1.2	1.8	1.5	2.5	2.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	34,971.4	27,632.7	6,751.0	6,975.5	6,975.5

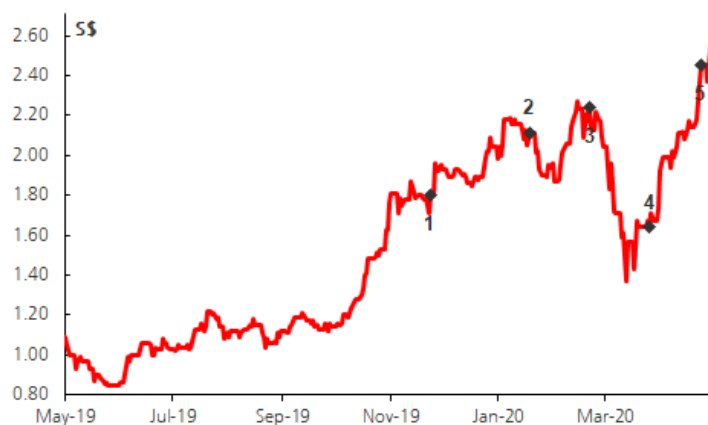
Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Profit	37.5	40.0	63.7	93.9	92.2
Dep. & Amort.	0.70	1.87	6.08	2.89	3.08
Tax Paid	(0.3)	(5.2)	(6.7)	(11.6)	(16.0)
Assoc. & JV Inc/(loss)	0.11	0.04	(0.5)	0.0	0.0
Chg in Wkg.Cap.	10.1	(4.7)	(2.2)	18.8	5.87
Other Operating CF	1.74	2.02	7.20	0.0	0.0
Net Operating CF	49.9	34.1	67.7	104	85.2
Capital Exp.(net)	(2.5)	(13.5)	(3.3)	(3.4)	(3.4)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	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	0.07	0.30	0.52	0.0	0.0
Net Investing CF	(2.4)	(13.2)	(2.8)	(3.4)	(3.4)
Div Paid	(4.5)	(8.4)	(10.5)	(20.3)	(20.0)
Chg in Gross Debt	(0.1)	(0.3)	(0.2)	0.0	0.0
Capital Issues	0.15	0.0	0.0	0.0	0.0
Other Financing CF	(2.0)	(0.6)	(4.5)	0.0	0.0
Net Financing CF	(6.4)	(9.2)	(15.2)	(20.3)	(20.0)
Currency Adjustments	(1.4)	1.17	(0.9)	0.0	0.0
Chg in Cash	39.8	12.8	48.8	80.2	61.8
Opg CFPS (\$ cts)	60.7	14.4	25.9	31.6	29.4
Free CFPS (\$ cts)	72.4	7.64	23.9	37.3	30.3

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	29 Nov 19	1.80	2.38	BUY
2:	24 Jan 20	2.11	2.38	BUY
3:	27 Feb 20	2.24	2.52	BUY
4:	01 Apr 20	1.64	2.29	BUY
5:	30 Apr 20	2.45	2.47	HOLD

Source: DBS Bank

Analyst: Lee Keng LING

Singapore Research Team

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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