

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

5 Nov 2020

DBS is supported by the Research Talent Development Grant Scheme which aims to groom research talent to expand research coverage of small-mid cap SGX listed companies

BUY

Last Traded Price (4 Nov 2020): S\$3.47 (STI : 2,515.98)
Price Target 12-mth: S\$5.16 (49% upside) (Prev S\$4.96)

Analyst

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What's New

- 3Q20 net profit above expectations, increased 77.4% y-o-y to S\$24.3m
- 3Q20 revenue increased 93.0% to S\$161.8m
- Management raised FY20F sales guidance by 4% to S\$500-520m
- Maintain BUY with a higher TP of S\$5.16

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2019A	2020F	2021F	2022F
Revenue	323	530	580	593
EBITDA	69.5	118	129	132
Pre-tax Profit	63.7	112	122	126
Net Profit	52.8	92.9	102	104
Net Pft (Pre Ex.)	52.8	92.9	102	104
Net Pft Gth (Pre-ex) (%)	57.5	76.2	9.2	2.7
EPS (S cts)	19.6	34.5	37.6	38.7
EPS Pre Ex. (S cts)	19.6	34.5	37.6	38.7
EPS Gth Pre Ex (%)	57	76	9	3
Diluted EPS (S cts)	19.6	34.5	37.6	38.7
Net DPS (S cts)	5.10	8.99	9.82	10.1
BV Per Share (S cts)	49.8	75.3	103	132
PE (X)	17.7	10.1	9.2	9.0
PE Pre Ex. (X)	17.7	10.1	9.2	9.0
P/Cash Flow (X)	13.8	7.5	7.8	8.1
EV/EBITDA (X)	11.9	6.2	5.0	4.2
Net Div Yield (%)	1.5	2.6	2.8	2.9
P/Book Value (X)	7.0	4.6	3.4	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	47.1	55.1	42.2	32.9
Earnings Rev (%):		4	4	NEW
Consensus EPS (S cts):		33.5	36.2	37.0
Other Broker Recs:		B: 4	S: 0	H: 0

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



Brain Box

(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBS Institutional Sales contact for a demonstration.

Stellar as ever

Investment Thesis:

Undemanding valuations for a fundamentally strong company. AEM is in a strategic position to benefit from its key customer and industry uptrend. It is trading at 9.2x FY21F PE, which is undemanding to its peer average of 19.9x.

Semiconductor industry momentum remains strong. Industry associations are forecasting an accelerated growth for semiconductors in 2021. The US semiconductor equipment billings continued to increase 40.4% y-o-y in September.

Mission-critical applications to drive longer test times and system-level tests. The complexity and shrinking nodes used in mission-critical applications such as 5G, EV, and AI, are driving longer test times and require system-level tests to ensure compatibility and interconnection between components.

Valuation:

Maintain BUY and TP of S\$5.16. We have raised FY20F/21F earnings by 4/4% on a strong set of 3Q20 results and higher FY20F revenue guidance. We maintain our valuation peg at 13.7x FY21F earnings, which is at a discount to its international peer market cap-weighted average of c.19.9x.

Where we differ:

We are more optimistic on AEM's earnings and the pick-up in momentum in the industry.

Key Risks to Our View:

Single-customer concentration risk, escalation of geopolitical events, protraction of the COVID-19 pandemic, and FX risk.

At A Glance

Issued Capital (m shrs)	275
Mkt. Cap (S\$m/US\$m)	954 / 702
Major Shareholders (%)	
Toh Ban Leng	5.2
UBS AG	5.0
Standard Life Aberdeen PLC	5.0
Free Float (%)	79.8
3m Avg. Daily Val (US\$m)	12.6
GIC Industry : Information Technology / Technology Hardware &	



Live more, Bank less

WHAT'S NEW

3Q20 net profit above expectations, higher sales guidance

3Q20 Business Update

3Q20 net profit was above expectations, increasing 77.4% y-o-y to S\$24.3m on higher revenue. AEM's 9M20 net profit accounted for 89.3% of our FY20F earnings. 3Q20 net profit margins decreased 1.4ppts to 15.0%, from 16.4% in 3Q19.

- We believe the decline in margins is due to the higher T&M product mix, which generally has lower margins.

3Q20 revenue jumped 93.0% y-o-y to S\$161.8m on the back of increased orders for tools, consumables, and services. 3Q20 revenue split from Tools & Machines ("T&M") and Consumables & Services ("C&S") was 74-26 respectively. Revenue from T&M increased 171.7% y-o-y to S\$119.8m while C&S increased 5.8% to S\$42.0m.

- The typical revenue mix is 50-50 and we believe Intel increased its orders of test handlers from AEM to support the ramp up of its 10-nm chips.

AEM raised its FY20F revenue guidance to S\$500-520m. This is a 4% increase from its previous guidance of S\$460-480m in September and is the fifth time management has raised its FY20F revenue guidance this year.

AEM's Sales Guidance Revisions in FY19 and FY20

Revision for that Period	Guidance Period	Sales Guidance (S\$m)	Increase from Previous (%)
	FY19	180-210	N.A.
1	FY19	225-250	19-25
2	FY19	265-280	12-18
3	FY19	285-305	8-9
4	FY19	305-315	3-7
	FY20	330-350	N.A.
1	FY20	360-380	9-9
2	FY20	430-445	17-19
3	FY20	460-480	7-8
4	FY20	480-500	4-4
5	FY20	500-520	4-4

Source: Company, DBS Bank

Intel's 3Q20 Key Developments

Data Center Group ("DCG") revenue declined 7.5% y-o-y as macroeconomic conditions deteriorated due to COVID-19. A weaker macroeconomic environment weighed on its enterprise and government segment. We also noted a slowdown in growth in its cloud service providers and communications service providers segment. However, we think that this is also partially attributable to a "digestion

period" following two consecutive strong quarters of y-o-y growth.

- Enterprise and government:** Revenue from Intel's enterprise and government segment declined 47% y-o-y in 3Q20 on weaker macroeconomic conditions.
- Cloud service providers:** Revenue from cloud service providers increased 15% y-o-y on continued demand to support a work-from-home and study-from-home environment.
- Communications service providers:** Revenue from communications service providers increased 4% y-o-y as they upgraded their infrastructure to support the rollout of 5G networks.

PC-centric revenue was up 1.4% y-o-y as work-from-home and study-from-home drove strong notebook demand.

Intel's notebook volumes increased 25% y-o-y on strong demand from the consumer and education segments as work-from-home and study-from-home increased. Meanwhile, desktop volumes continued to decline, contracting 18% y-o-y in 3Q20.

Reduced FY20 expected capex by 4% to US\$14.2-14.5bn, from its US\$15bn guidance in 2Q20. This is the second time Intel has reduced its FY20 capex guidance. We believe that this is to conserve capital amid the weakened economic growth prospects.

Divestment of NAND business allows Intel to focus on its core processor business. On 19 October 2020, Intel divested its NAND memory business to SK Hynix to focus on its core processor business. We believe that this will benefit AEM as most of AEM's focus is on Intel's logic chips.

Ramp up of 10-nm chips is going faster than anticipated.

Despite less-than-ideal margins, Intel's ramp up on its 10-nm volume is up north of 30%, faster than the initial 20% projected at the beginning of the year. Intel has expanded its capacity by more than 25% in FY20 and currently have three high volume manufacturing fabs producing 10-nm chips.

Industry Developments

The US semiconductor equipment billings passed its previous peak (May 2018) in September 2020, momentum in the industry remains strong. The US 3-month semiconductor equipment billings increased 40.3% y-o-y in September to US\$2.7bn. September also marked the 12th consecutive y-o-y increase.

AEM Holdings Ltd

US semiconductor equipment sales passes previous peak



Source: CEIC, SEMI, DBS Bank

The World Semiconductor Trade Statistics (“WSTS”) and SEMI are projecting a stronger semiconductor industry in 2021. WSTS is expecting the world semiconductor market to expand by 6.2% y-o-y to US\$452M, accelerating from a 3.3% y-o-y increase in 2020. Similarly, SEMI is projecting the global sales of semiconductor manufacturing equipment to increase by 10.8% y-o-y to US\$70bn in 2021, up from a 6.0% y-o-y increase in 2020.

Our Thoughts, Earnings and Recommendation

Raise FY20F/21 earnings by 4/4% on strong 3Q20 results and higher revenue guidance. Management has a track record of beating its sales guidance in its previous years and we think this year is no different. We are raising our FY20F revenue by 4% to S\$530.4m, which is above management’s guidance on a strong set of 3Q20 results. We are also raising our FY21F revenue by 4% to S\$101.5m on a better-than-expected FY20F performance.

Look beyond near-term weakness for AEM as Intel’s business weakens and capex decreases. Intel’s management believes the weaker macroeconomic conditions and “digestion period” for Intel could continue into 4Q20 and moderate demand from its cloud demand. In addition, Intel has further reduced its capex guidance for FY20. Both imply potentially lower spending on AEM’s test handlers, consumables and services in the near-term. Furthermore, with 1Q and 4Q being typically seasonally weaker quarters for AEM (4Q19 and 1Q20 were exceptions), we are forecasting a weaker 4Q20 y-o-y and q-o-q. But we believe investors should look beyond this slight bump given the still rosy longer-term outlook and accumulate on weakness.

Maintain BUY with a higher TP of S\$5.16 as we remain positive on the longer-term trend. In the longer term, we are positive on AEM’s key customer, Intel’s focus and developments. We believe that its ramp up of its 10-nm semiconductor chips will continue to be driven by 1) the development of new technology (5G, IoT, autonomous driving, AI and quantum computing) and 2) pandemic-induced structural changes (cloud computing and notebook). The pandemic has increased work-from-home and study-from-home arrangements and we believe that this is a structural change. Companies are considering remote working arrangements as they will be able to save on rent. Given the limited visibility but strong industry momentum, we do not rule out a potential series of further earnings upgrade which was what happened in FY20F.

We maintain our valuation peg at 13.7x FY21F earnings (same as its previous peak in 2018), which is at a discount to its international peer market cap-weighted average of c.19.9x.

Company Background

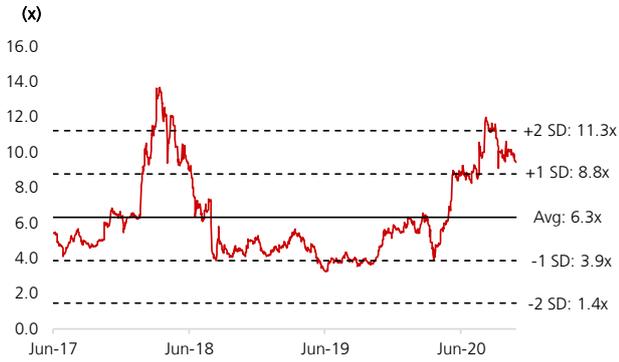
AEM is a solutions provider for the back-end testing of the semiconductor manufacturing process. It works closely with its key customer, Intel, to design, engineer, and manufacture the test handlers. AEM then provides field support and post-sales replacements.

Peer Comparison Table

Bloomberg Ticker	Company Name	Market Data		Financial Data				Valuation				
		Primary Exchange	Market Cap (US\$m)	Sales (US\$m)	Net Profit (US\$m)	Net Profit Margin (%)	Debt (US\$m)	EV/EBITDA			P/E	
								FY19A	FY20F	TTM	FY20F	FY21F
Singapore												
AEM SP Equity	AEM Holdings Ltd	Singapore	704.6	236.9	38.7	16.3%	1.6	7.1x	6.5x	9.9x	10.1x	9.3x
COHU US Equity	Cohu Inc	NASDAQ GS	961.2	583.3	-69.7	-11.9%	389.9	14.5x	8.8x	N/A	24.4x	11.5x
6857 JP Equity	Advantest Corp	Tokyo	11,541.3	2,537.9	492.4	19.4%	104.7	17.5x	13.8x	23.5x	28.5x	21.7x
522 HK Equity	ASM Pacific Technology Ltd	Hong Kong	4,117.1	2,027.2	79.0	3.9%	614.0	15.3x	10.0x	38.4x	33.0x	17.0x
Market Cap-Weighted Average			4,331.0	1,346.3	135.1	6.9%	277.6	13.6x	9.7x	26.7x	28.6x	19.5x
Market Cap-Weighted Peer Average (Excluding AEM)			5,539.9	1,716.1	167.3	3.8%	369.6	15.8x	10.8x	27.4x	29.3x	19.9x

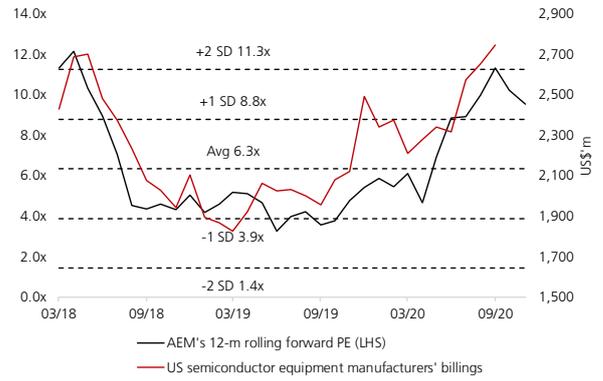
Source: Bloomberg Finance L.P., DBS Bank

PE Band Forward PE band (x)



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

AEM's 12-month Forward PE vs US 3-month Semiconductor Equipment Billings (Monthly)



AEM Holdings Ltd
Income Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	262	323	530	580	593
Cost of Goods Sold	(173)	(192)	(318)	(348)	(356)
Gross Profit	89.1	131	212	232	237
Other Opng (Exp)/Inc	(49.4)	(67.9)	(101)	(110)	(113)
Operating Profit	39.8	62.9	111	122	124
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.46	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.26	0.36	0.60	0.60	1.27
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	40.0	63.7	112	122	126
Tax	(6.5)	(11.0)	(19.0)	(20.8)	(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	33.5	52.8	92.9	102	104
Net Profit before Except.	33.5	52.8	92.9	102	104
EBITDA	41.6	69.5	118	129	132
Growth					
Revenue Gth (%)	18.4	23.2	64.1	9.4	2.2
EBITDA Gth (%)	8.9	67.0	69.8	9.4	2.7
Opg Profit Gth (%)	5.7	58.3	77.0	9.3	2.2
Net Profit Gth (Pre-ex) (%)	4.1	57.5	76.2	9.2	2.7
Margins & Ratio					
Gross Margins (%)	34.0	40.5	40.0	40.0	40.0
Opg Profit Margin (%)	15.2	19.5	21.0	21.0	21.0
Net Profit Margin (%)	12.8	16.3	17.5	17.5	17.6
ROAE (%)	45.5	47.1	55.1	42.2	32.9
ROA (%)	26.5	29.0	35.1	29.0	23.6
ROCE (%)	44.7	46.3	54.7	42.1	33.1
Div Payout Ratio (%)	27.4	26.1	26.1	26.1	26.1
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

Interim Income Statement (\$m)

FY Dec	1H2018	2H2018	1H2019	2H2019	1H2020
Revenue	138	124	151	173	274
Cost of Goods Sold	(93.0)	(80.2)	(95.3)	(97.0)	(166)
Gross Profit	45.3	43.8	55.3	75.5	107
Other Oper. (Exp)/Inc	(23.7)	(25.8)	(28.6)	(39.2)	(40.5)
Operating Profit	21.6	18.0	26.7	36.2	66.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.2)	0.24	0.13	0.33	0.26
Net Interest (Exp)/Inc	0.10	0.16	0.14	0.21	0.28
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	21.5	18.4	27.0	36.8	67.3
Tax	(3.8)	(2.7)	(4.7)	(6.3)	(12.0)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	17.7	15.8	22.3	30.5	55.3
Net profit bef Except.	17.7	15.8	22.3	30.5	55.3
EBITDA	21.4	18.3	26.8	36.6	67.0
Growth					
Revenue Gth (%)	18.0	(10.3)	21.5	14.5	58.7
EBITDA Gth (%)	(3.6)	(14.7)	46.8	36.3	83.3
Opg Profit Gth (%)	(3.3)	(16.6)	48.0	35.8	84.2
Net Profit Gth (%)	(7.5)	(10.9)	41.3	36.6	81.5
Margins					
Gross Margins (%)	32.8	35.3	36.7	43.7	39.2
Opg Profit Margins (%)	15.6	14.5	17.7	21.0	24.4
Net Profit Margins (%)	12.8	12.7	14.8	17.7	20.2

Source: Company, DBS Bank

AEM Holdings Ltd
Balance Sheet (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	5.73	8.44	7.01	4.90	2.09
Invts in Associates & JVs	4.15	4.57	4.57	4.57	4.57
Other LT Assets	17.8	17.0	16.1	15.2	14.2
Cash & ST Invts	58.9	108	203	292	376
Inventory	27.4	57.5	35.2	38.5	39.4
Debtors	18.0	28.0	30.3	39.5	41.7
Other Current Assets	4.49	4.86	4.86	4.86	4.86
Total Assets	136	228	301	400	483
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	33.1	73.1	70.5	92.0	97.2
Other Current Liab	10.6	18.2	25.6	27.3	27.9
LT Debt	0.05	0.05	0.05	0.05	0.05
Other LT Liabilities	3.21	2.30	2.30	2.30	2.30
Shareholder's Equity	89.5	134	203	278	355
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	136	228	301	400	483
Non-Cash Wkg. Capital	6.22	(1.0)	(25.6)	(36.5)	(39.1)
Net Cash/(Debt)	58.8	108	203	292	376
Debtors Turn (avg days)	28.9	25.9	20.1	22.0	25.0
Creditors Turn (avg days)	90.9	104.1	84.1	87.0	99.3
Inventory Turn (avg days)	67.4	83.2	54.3	39.5	40.9
Asset Turnover (x)	2.1	1.8	2.0	1.7	1.3
Current Ratio (x)	2.5	2.2	2.8	3.1	3.7
Quick Ratio (x)	1.8	1.5	2.4	2.8	3.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	27,632.7	6,751.0	8,646.9	8,646.9	8,646.9

Source: Company, DBS Bank

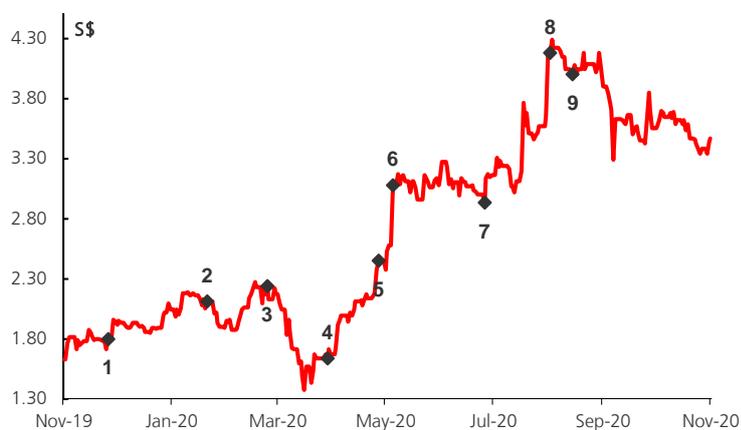
Cash Flow Statement (\$m)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	40.0	63.7	112	122	126
Dep. & Amort.	1.87	6.08	6.53	7.28	8.04
Tax Paid	(5.2)	(6.7)	(11.6)	(19.0)	(20.8)
Assoc. & JV Inc/(loss)	0.04	(0.5)	0.0	0.0	0.0
Chg in Wkg.Cap.	(4.7)	(2.2)	17.3	9.07	2.11
Other Operating CF	2.02	7.20	0.0	0.0	0.0
Net Operating CF	34.1	67.7	124	120	115
Capital Exp.(net)	(13.5)	(3.3)	(4.2)	(4.2)	(4.2)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts 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	0.30	0.52	0.0	0.0	0.0
Net Investing CF	(13.2)	(2.8)	(4.2)	(4.2)	(4.2)
Div Paid	(8.4)	(10.5)	(24.3)	(26.5)	(27.2)
Chg in Gross Debt	(0.3)	(0.2)	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(0.6)	(4.5)	0.0	0.0	0.0
Net Financing CF	(9.2)	(15.2)	(24.3)	(26.5)	(27.2)
Currency Adjustments	1.17	(0.9)	0.0	0.0	0.0
Chg in Cash	12.8	48.8	95.7	88.9	83.6
Opg CFPS (\$ cts)	14.4	25.9	39.6	41.0	41.9
Free CFPS (\$ cts)	7.64	23.9	44.5	42.8	41.1

Source: Company, DBS Bank

AEM Holdings Ltd

Target Price & Ratings History



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
6:	08 May 20	3.08	2.87	HOLD
7:	29 Jun 20	2.93	3.53	BUY
8:	05 Aug 20	4.18	4.96	BUY
9:	18 Aug 20	4.00	4.96	BUY

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

Source: DBS Bank

Analyst: Wei Le CHUNG
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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